CNMV
Comisión Nacional del Mercado de Valores

Annual Report 2007
regarding its actions and the securities markets

Annual Report regarding its actions and the securities markets 2007

Comisión Nacional del Mercado de Valores
Serrano, 47
28001 Madrid.

Passeig de Grácia, 19
08007 Barcelona.

La CNMV difunde sus informes y publicaciones a través de la red Internet en la dirección www.cnmv.es

Maquetación: ARTEGRAF, S.A.
Traducción: Versalia, S.L.
ISBN: 978-84-87870-81-1
Depósito Legal:
Imprime: Gráficas Palermo, S.A.

Acronyms

ABS	Asset Backed Securities
AIAF	Asociación de Intermediarios de Activos Financieros
ANCV	Agencia nacional de codificación de valores
ASCRI	Asociación española de entidades de capital-riesgo
AV	Broker (Agencia de valores)
AVB	Broker and market member (Agencia de valores y bolsa)
BME	Bolsas y Mercados Españoles
BTA	Asset-backed bond (Bono de titulización de activos)
BTH	Mortgage-backed bond (Bono de titulización hipotecaria)
CADE	Public debt book-entry trading system (Central de Anotaciones de Deuda del Estado)
CDS	Credit Default Swap
CESR	Committee of European Securities Regulators
CMVM	Portugal's National Securities Market Commission (Comissão do Mercado de Valores Mobiliários)
CNMV	Spain's National Securities Market Commission (Comisión Nacional del Mercado de Valores)
CSD	Central Securities Depository
EAFI	Financial advisory firm (Empresa de Asesoramiento Financiero)
EC	European Commission
ECB	European Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
ECR	Venture capital firm (entidades de capital-riesgo)
EMU	Economic and Monetary Union (euro area)
ETF	Exchange traded funds
EU	European Union
FI	Mutual fund (Fondo de inversión de carácter financiero)
FIAMM	Money market fund (Fondo de inversión en activos del mercado monetario)
FII	Real estate investment funds (Fondo de inversión inmobiliaria)
FIM	Securities investment fund (Fondo de inversión mobiliaria)
FTA	Asset securitisation trust (Fondo de titulización de activos)
FTH	Mortgage securitisation trust (Fondo de titulización hipotecaria)
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIMV	Instituto iberoamericano del mercado de valores
IOSCO	Intenational Organization of Securities Commissions
ISIN	International Securities Identification Number
LATIBEX	Market in Latin American securities, based in Madrid
MAB	Alternative stock market (Mercado Alternativo Bursátil)
MEFF	Spanish financial futures and options market
MFAO	Olive oil futures market (Mercado de Futuros del Aceite de Oliva)
MIBEL	Iberian Electricity Market (Mercado Ibérico de Electricidad)
MiFID	Markets in Financial Instruments Directive
MMU	CNMV Market Monitoring Unit
MoU	Memorandum of Understanding
MTS	Market for treasury securities
OECD	Organisation for Economic Co-operation and Development
OMIP	Operator of the Iberian energy derivatives market (Operador do Mercado Ibérico de Energía)
P/E	Price earnings ratio

RENADE	Spain's national register of greenhouse gas emission permits (Registro Nacional de los Derechos de Emisión de Gases de Efectos Invernadero)
ROE	Return on equity
SCLV	Spain's securities clearing and settlement system (Servicio de Compensación y Liquidación de Valores)
SCR	Venture capital company (Sociedad de capital-riesgo)
SENAF	Electronic trading platform in Spanish government bonds (Sistema Electrónico de Negociación de Activos Financieros)
SEPBLAC	Bank of Spain unit to combat money laundering (Servicio ejecutivo de la comisión de prevención del blanqueo de capitales e infracciones monetarias)
SGC	Portfolio management company (Sociedad gestora de carteras)
SGECR	Venture capital firm operator (Sociedad gestora de entidades de capital-riesgo)
SGIIC	UCITS operator (Sociedad gestora de instituciones de inversión colectiva)
SIBE	Spain's electronic market in securities (Sistema de Interconexión Bursátil Español)
SICAV	Open-end investment company (Sociedad de inversión de carácter financiero)
SII	Real estate investment company (Sociedad de inversión inmobiliaria)
SIM	Securities investment company (Sociedad de inversión mobiliaria)
SME	Small and medium-sized enterprise
SON	Multilateral trading facility (Sistema organizado de negociación)
SV	Broker-dealer (Sociedad de valores)
SVB	Broker-dealer and market member (Sociedad de valores y bolsa)
TER	Total expense ratio
UCITS	Undertaking for Collective Investment in Tradable Securities

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I Economic and financial situation

1 Economic and financial situation

This chapter analyses the main characteristics of the economic and financial context in which the securities markets operated in 2007. The goal is not to provide a detailed description of how the world, European or Spanish economy performed but, rather, to review the necessary aspects to put the subsequent chapters into context.

The world economy expanded appreciably in 2007, although it was affected by major negative factors during the year, most notably the deterioration in financial conditions from the summer onwards as a result of the subprime mortgage crisis in the US. The industrialised economies decelerated gently. In contrast, the emerging economies proved more resilient than expected in the face of the financial situation and continued to expand vigorously. The Spanish economy continued to outstrip the European average but the deceleration in the real estate market and the adverse performance by the financial markets from August onwards attenuated growth towards year-end.

As has occurred in other periods of difficulty in the financial markets, the US subprime mortgage crisis led to a sweeping repricing of the risk in financial assets and triggered episodes of very intense turbulence in the markets. However, the most characteristic feature of the crisis that commenced in 2007 was its impact on the markets that provide funding to banks, where liquidity shrank drastically because of the uncertainty about the banking industry's exposure to instruments affected by the US mortgage crisis. The nationalisation of UK bank Northern Rock and the acquisition of US investment bank Bear Stearns by JPMorgan Chase, both of which occurred in 2008, are a sign of the severity of the problems experienced by some banks.

The worsening of financial conditions was felt with particular intensity in fixed-income issues by banks, the main issuers in the private sector bond market. Primary placements and secondary market trading declined notably. The world's equity markets remained very liquid throughout the year. After what was predominantly a bull market in the first half of the year, they entered a period of high volatility interspersed with frequent episodes of turbulence. Losses were initially concentrated in the financial sector, but they then spilled over into the broader economy. The indices ended the year slightly higher in most industrialised countries, but yields in emerging markets remained high.

In Spain, financial sector fixed-income issues expanded strongly once again, but there was a substantial reduction in issuing in the fourth quarter. And in view of the difficulties of placing asset-backed securities, most issues were retained by their originators. This provided the originators with a larger volume of assets for sale or use as collateral in Eurosystem liquidity transactions. The equity markets followed basically the same pattern in the industrialised countries. Spain's Ibex 35 gained notably less than in previous years, in a context of higher volatility. The turbulence that affected the market from August onwards triggered severe corrections in financial and real estate stocks, and the correction also spread to other sectors in Spain in January and February 2008.

The current problems of liquidity in the financial markets and the trend in the US economy are the main risk factors for the world economy and Spain's financial markets in the coming months. The property market is probably the main risk factor for the Spanish economy. However, Spain is in a sound position from which to face these risks because of its solid public finances, which gives government room for manoeuvre in the event of negative performance by the world economy, and thanks to the solid capitalisation of the banks.

1.1. International economic and financial situation

1.1.1 The world economy

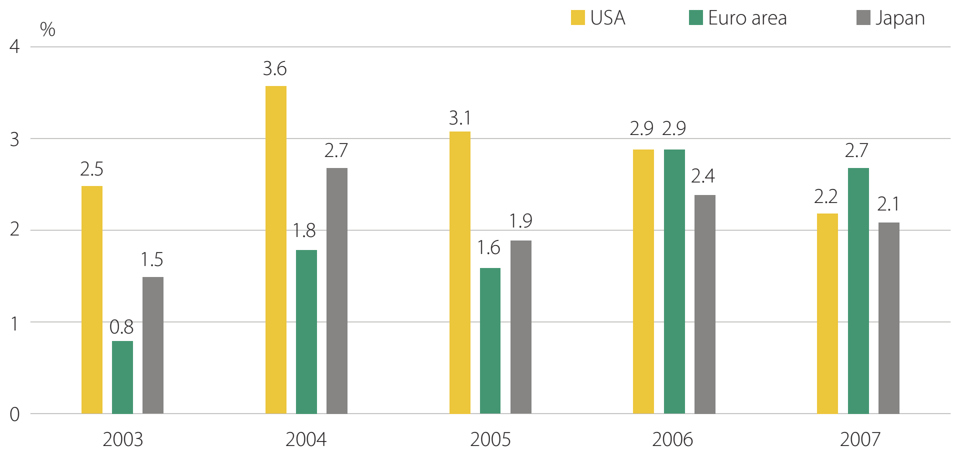
The world economy continued to grow strongly in 2007, although it was affected by major negative factors such as the sharp increase in energy and food prices, the sharp adjustment in the US property market, and tighter lending standards as a result of the US subprime mortgage crisis. The International Monetary Fund estimates that the world economy grew 4.9% in 2007, 0.1 point less than in 2006. The main industrialised economies were particularly affected by the aforementioned difficulties and most of them decelerated slightly. The developing economies in Asia and Latin America weathered the crisis better than on other occasions and continued to grow at a rapid rate.

The United States attained 2.2% growth, 0.7 points less than in 2006. The contribution to growth by domestic demand was considerably lower than in 2006 as a result of the sharp decline in residential investment and less expansive performance by consumption expenditure and private non-residential investment. The dollar's depreciation improved the US foreign sector, although its trade balance is still very high. The performance of the US economy varied during the year. After weak growth in the first quarter suggested that the deceleration observed in the previous year was accelerating, GDP grew faster than expected in the second and third quarters due to good industrial performance and an improvement in the foreign sector. Year-on-year growth was still notable in the fourth quarter (around 2.5%) but the impact of the subprime mortgage crisis was evident in a deterioration of a number of confidence indices (including consumer and construction sentiment) and an incipient weakening of the labour market.

Japan achieved 2.1% growth, 0.3 points less than in 2006. This lower growth came as a result of a reduction in investment that could not be offset by somewhat more expansive performance by consumption expenditure and the foreign sector. The Japanese economy also performed irregularly during the year. After 3% year-on-year growth in the first quarter, there was significant deceleration in the second and third quarters, followed by a slight upswing in the fourth. Nevertheless, consumer and business confidence indicators in the fourth quarter reflected a less favourable perception of the economic climate.

Annual GDP growth rates

FIGURE 1.1



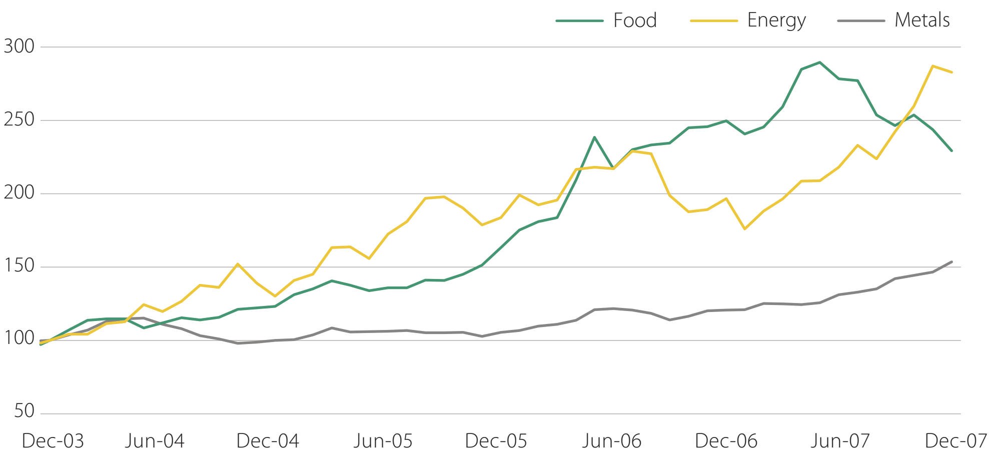
Source: Ministry of Economy and Finance.

The emerging economies proved to be very dynamic. Latin America attained over 5% growth in the first three quarters, culminating with 5.8% growth in the third quarter. The foreign sector continued to contribute positively due to rising export prices, although domestic demand was the most dynamic component in all countries. In Asia, the Chinese economy stood out once again, attaining 11.4% growth, 0.3 points more than in 2006. Both domestic demand and the foreign sector contributed to this vigorous expansion. China's trade surplus increased by 47.4%. The Chinese economy was also affected in the fourth quarter by the international economic deceleration, although the impact was more subdued than in the Western countries.

The euro area registered 2.7% growth, 0.2 points less than in 2006. Within a general pattern of moderate deceleration with respect to 2006, the main economies of the area expanded at varying rates. Whereas Spain continued a long-running growth pattern and attained 3.8% growth, France and Italy attained less than 2% growth on the back of a weaker track record in recent years. And following signs of a solid recovery in 2006, the German economy expanded by 2.6%, 0.5 points less than that year. Domestic demand generally remained strong and was again the region's main growth driver. The foreign sector contributed to economic growth to a greater extent while the trade balance was in equilibrium. The public accounts improved generally. The economy decelerated steadily during the year in all those countries apart from France, which exhibited faster growth in the last two quarters.

Inflation increased in many countries in 2007, driven mainly by rising energy and food prices. Consumer prices increased significantly in the US, where average annual inflation went from 1.9% in the fourth quarter of 2006 to 4% in the same quarter of 2007. In the euro area, that rate went from 1.8% to 3.1% and, in Japan, inflation increased slightly but was still low. China and other developing countries also experienced inflationary tensions which were likewise attributable to rapid economic growth. Energy prices increased during most of the year, and more intensely in the second half, despite prospects of easing demand. The price of Brent crude increased by 58% during the year. Agricultural commodity prices have been rising steadily since the end of 2005, and increased by over 50% mainly as a result of adverse weather conditions and rising demand for non-food applications. They increased by 33% in 2007. In contrast with energy and food prices, metal prices corrected downwards due to a reduction in demand.

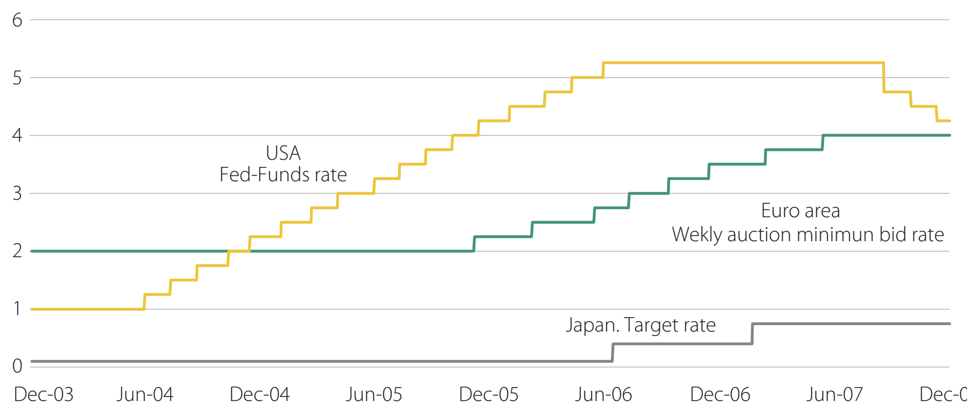
Commodity price indices[1] FIGURE 1.2



Source: Datastream.
1. Baseline 100: December 2003.

Fear of inflation shaped monetary policy in the first half of the year, particularly in the United States, where the adjustment in the real estate market created uncertainty about economic growth. During this period, the Federal Reserve maintained its intervention rate at 5.25%, while the European Central Bank raised its rate by a quarter point, to 4%, in March. From August onwards, the subprime mortgage crisis drove central bank decisions, and clearly modified the Federal Reserve's priorities. Both the Federal Reserve and the European Central Bank increased the frequency and range of terms of their liquidity auctions. The Federal Reserve also reduced official interest rates between August and December, to 4.25% at year-end. In January 2008, the Fed cut rates again twice at times of intense market turbulence, to 3%. In contrast, the ECB emphasised the risk of inflation on several occasions and kept official rates unchanged.

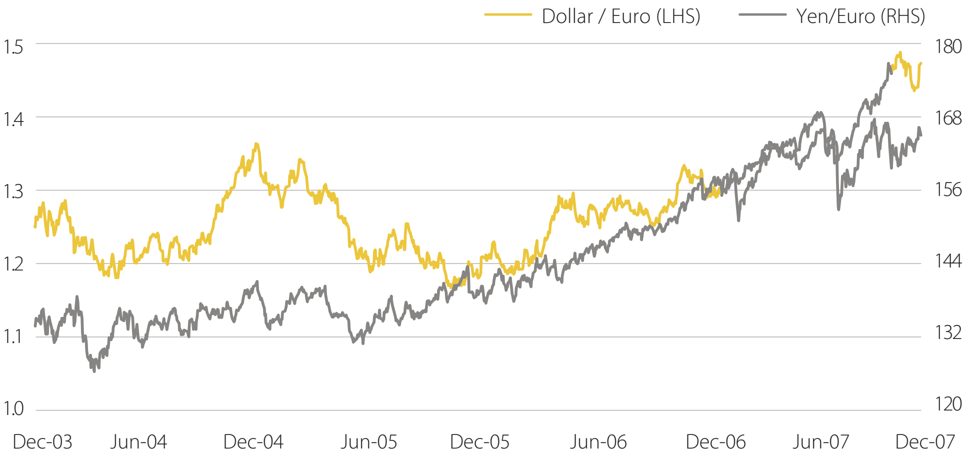
Central bank base rates FIGURE 1.3



Source: Datastream.

The euro appreciated significantly against the other main currencies for the second consecutive year. At year-end, the dollar/euro rate had increased by 11.8% since 2006 year-end and by 24.8% since 2005 year-end. The sizeable US trade deficit and more favourable medium-term economic prospects for the euro area have boosted the euro against the dollar. The euro continued to gain ground against the dollar in the early months of 2008, fuelled also by a short-term interest rate differential that was favourable to the euro area. The euro also appreciated against the Japanese yen, though more moderately than in 2006. The yen/euro rate increased by 5.1% in 2007. The increase was 18.7% since 2005 year-end.

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



Source: Datastream.

1.1.2 Performance by the world's financial markets

Last year was considerably more complicated than 2006 in the financial markets, particularly in the developed countries. In the first half, rising oil prices, uncertainties about US economic growth and a stream of negative news about the US mortgage market led to a notable increase in volatility in the equity markets. The situation worsened considerably in the second half, particularly from August onwards. The US subprime mortgage crisis and the uncertainties about its impact on banks triggered a substantial generalised increase in investors' risk perception. Financial asset prices behaved more erratically, with episodes of turbulence in equities and an appreciable increase in volatility in the government bond markets. Activity in the interbank and private sector bond markets was substantially curtailed, while spreads over sovereign debt and premiums in the credit derivatives markets increased notably.

The mortgage and financial crisis: origin and impact on the markets

The increase in defaults on subprime mortgages in the US in the central months of 2007 unleashed a period of considerable turbulence in the world's financial markets. The crisis was initially manifested as a loss in the value of mortgage-backed securities, and sizeable losses for investors holding them.

The turbulence also led to significant downgrades of certain structured products by the rating agencies and solvency problems at the companies that insure these products (monoline insurers). Market players questioned the credit quality of securitised bank assets and remained wary of financial institutions in view of the uncertainty about their exposure to the financial products most affected by the crisis. As a result, there was a slump in trading volumes in the interbank market and in liquidity in the fixed-income markets (particularly in structured products), coupled with a significant increase in credit spreads. And market turbulence led to a re-rating of the risk of financial instruments. After holding relatively firm throughout 2007, equities slipped notably in the first weeks of 2008, coupled with a notable increase in volatility.

The central banks responded with numerous injections of liquidity into the interbank markets, and many adopted a looser monetary policy in case the financial instability impaired economic growth. The dollar's depreciation against the world's main currencies assisted the Federal Reserve's laxer monetary policy but complicated monetary policies in economies more dependent on dollar-denominated imports.

Financial market performance was mixed in the first two months of 2008. Although some signs of normalisation were visible in the interbank markets, such as a reduction in the spread between interest rates on non-transferable deposits and repos, trading in structured products remained very low. And risk premiums on new fixed-income issues attained record highs, against a background of strong volatility in equities. Persisting financial difficulties plus the deterioration in indicators of the real economy led the Federal Reserve and the European Central Bank to announce further liquidity injections in March.

The impact of the crisis on the Spanish economy needs to be considered from two standpoints, direct and indirect. The direct impact was minimal because of the low exposure to subprime mortgage-related assets on the part of Spanish financial institutions and investors. However, the global economic uncertainty and the general tightening of lending conditions will lead to a sharper-than-expected slowdown in consumer spending and domestic investment, as evidenced in the downward revisions of Spain's GDP projections for 2008. The risks are concentrated mainly in the most leveraged companies and those most exposed to property. Nevertheless, the Spanish economy has major sources of support. In particular, Spanish banks are solidly capitalised, with high returns, comfortable levels of capital adequacy, and low loan-loss ratios.

Regarding exposure on the part of firms directly under the CNMV's supervision, the following should be noted:

1) In the area of collective investment, only 14 products (nine investment funds and five SICAV[1]) held assets that were affected by the US mortgage crisis; they accounted for 0.0162% of total UCITS assets in August

[1] Financial investment companies.

2007. These funds had investments in three French institutions which suspended reimbursements temporarily because they held bonds backed by subprime mortgage assets. Of the Spanish UCITS that were affected, only one was forced to make partial reimbursements[2] since more than 5% of its assets were invested in a foreign UCITS that suspended subscriptions and reimbursements. In cases where the investment was under 5%, the CNMV urged the UCITS operator to issue a regulatory disclosure, thus ensuring maximum transparency for investors, both current and potential.

Preliminary analysis of investment funds' private sector fixed-income portfolio (potentially where the least liquid products are held) revealed that the percentage of illiquid assets was still relatively low (just over 6% in August 2007), based on the frequency with which reference price disseminators publish prices for such instruments. This low general exposure to illiquid assets, coupled with a very large proportion of highly liquid assets, such as deposits and repos (15%-18% of total assets) gave Spanish UCITS as a whole considerable room for manoeuvre to weather the situation of illiquidity in the fixed-income markets.

2) Investment firms have not been directly affected by the crisis because they did not hold subprime-related assets in their trading portfolios. Their primary activity is still the provision of investment services, which is a business performed for third parties, and order processing fees, their main source of revenues, have not been affected by the financial market turbulence as yet. The proper working of investment firms' risk control systems, particularly with regard to credit and liquidity risk, is particularly relevant in this context.

[2] In the terms of article 48.7 of the UCITS Regulation.

Activities related to market performance

The number of mergers and acquisitions has increased notably in recent years as a result of good economic performance and ready access to finance. These transactions are generally highly leveraged, and the financial industry plays a prominent role in designing and financing them. In 2007, mergers and acquisitions worldwide amounted to a record 4.4 trillion dollars, having risen by 16% with respect to 2006. However, performance was not uniform throughout the year. After expanding rapidly in the first quarter, M&A activity was curtailed sharply because of the increased risk perception and the greater difficulties encountered in raising finance in the credit and debt markets after the summer, when deals decreased in both size and number.

Europe accounted for over 40% of M&A deals worldwide, having experienced a 26% increase with respect to 2006. As in 2006, Europe outstripped the USA in this regard. The largest M&A targets were in the financial, materials, energy and power industries.

Much of the funding for M&A is from private equity, especially in Europe. Whereas private equity investments in the US focus mainly on venture capital, in Europe they are concentrated in leveraged buyouts (LBOs). Therefore, it is unsurprising that the worsening financing conditions and increased risk perception created a less favourable climate of mergers and acquisitions after the summer. This is indicated, for example, in LBOs as a percentage of total M&A deals: from over 20% in 2006 and the first half of 2007, the percentage fell to 13% in the third quarter and to 8% in the fourth quarter (Dealogic figures).

The hedge fund industry competes, to an extent, with the private equity sector. Unlike the latter, which focuses primarily on equities, hedge funds adopt a very broad range of strategies that affect all types of financial instruments. Figures on the size of this segment vary widely depending on the source, but it is generally agreed that hedge funds reached a new high in 2007 (2.7 trillion dollars, according to HedgeFund.net; 1.7 trillion dollars according to LipperTass). As for yields, a comparison of global indices for the sector, based on combinations of strategies, using equity indices, suggests that hedge funds generally surpassed private equity, though not by a clear margin. [1]

The subprime mortgage crisis had a particularly severe impact on hedge funds. The impact was felt not only through direct investment in asset backed securities (ABS) and other complex securities, but also as a result of their high leverage, which makes them particularly sensitive to an increase in risk premiums or liquidity. To rapidly reduce leverage or exposure to the assets most directly affected by the mortgage crisis, many vehicles resorted to massive sell-offs of assets in August, at considerable losses. Many funds, including some large ones, were liquidated.

The events of 2007 brought the debate about hedge funds' impact on systemic risk back to the fore. About 20% of the segment's investments are in illiquid instruments. Moreover, hedge funds are major investors in structured products, such as CDOs[2] and CLOs[3], which were severely penalised after the August crisis. These features of their investment behaviour plus their high leverage are very relevant factors for their counterparties in the financial markets. For that reason, in May 2007 the Financial Stability Forum called on banks to demand that hedge funds disclose the necessary information to ensure proper management of counterparty risk in dealing with them. The sector was also accused of having contributed to exacerbating fire sales during the periods of market turbulence by behaving as a herd rather than displaying the diversity of strategies normally attributed to them.

Money markets

The money markets were particularly affected by the subprime mortgage crisis. Up to the end of July, US short-term yields were relatively stable and euro area yields had risen slightly, in line with the tone of monetary policy. As a result of the subprime crisis, there was a sharp reduction in liquidity in the interbank markets from August onwards, leading to a sharp increase in short-term interest rates in both the US and Europe. The cuts in the base rate by the Federal Reserve were reflected in the US money markets. In Europe, injections of liquidity by the European Central Bank helped to moderate interbank interest rates to an extent. However, by year-end

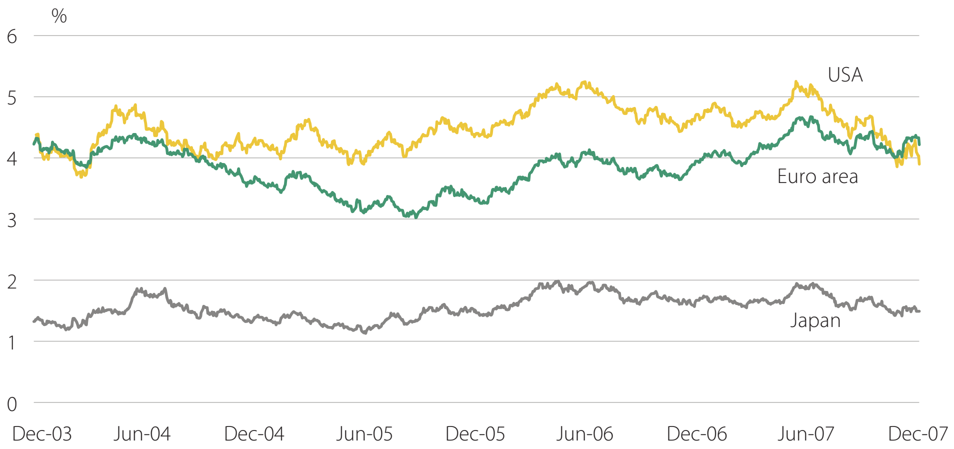
1. For example, the HFR Global Hedge Fund Index increased by 4.2%, while the Hennessee Hedge Fund Index increased by 11.6%.
2. Collateralised debt obligations.
3. Collateralised loan obligations.

the 1-year Euribor was 4.7%, 72 basis points higher than at the end of 2006, and the yield curve slope was positive. In the US, the 1-year rate was 4.2% at year-end, similar to the rate at the beginning of the year, while the yield curve slope was markedly negative. Liquidity problems were still patent in the interbank market in the first two months of 2008, although more favourable performance by volumes and yields was in evidence.

Debt markets

The government bond markets remained very liquid throughout the year, although the beginning of the US mortgage crisis triggered a turnaround in yields and an increase in volatility. Until the end of July, yields had mainly risen in the US and the euro area, while the yield curves had flattened to a great extent. After August, yields began to fall in all maturities, and more sharply in the short terms, reflecting the

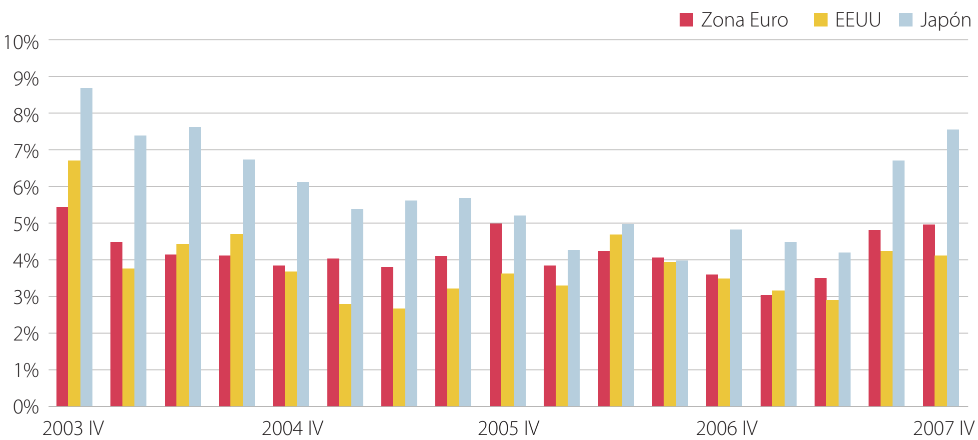
Long-term government bond interest rates[1] FIGURE 1.5



Source: Datastream.

1. Central government 10-year bonds: USA and Japan. Germany is used as the reference for the euro area.

Fixed-income market volatility[1] FIGURE 1.6



Source: Datastream.

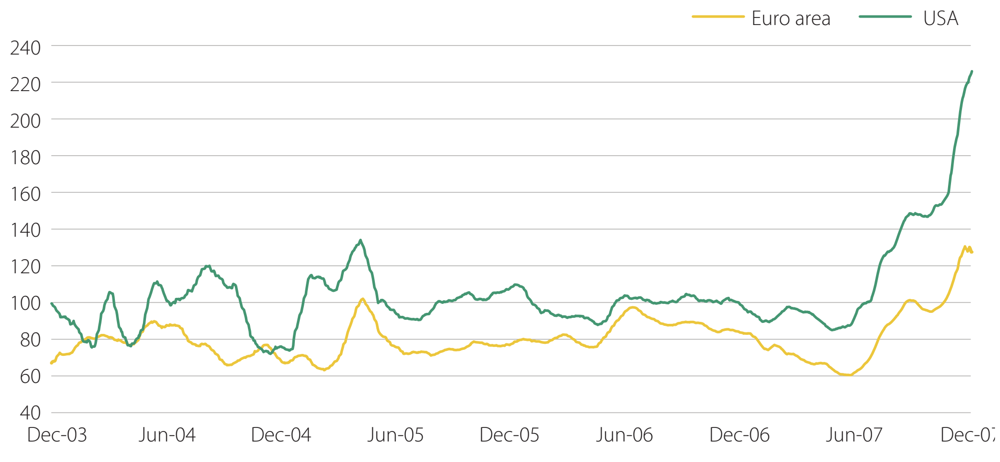
1. Quarterly average of annualised daily volatility (standard deviation of last 20 days).

less optimistic outlook for the real economy in the short term. The change in trend was particularly pronounced in the US. At year-end, the US 10-year bond yield was 4.2%, 60bp less than at the end of 2006, and the yield curve slope was clearly positive. In contrast, the German 10-year bond yield ended the year at 4.4%, up 46 basis points on 2006 year-end. The European yield curve slope was slightly positive at the end of the year.

The US subprime mortgage crisis had a greater impact on the private sector bond market, the bulk of which is made up of financial sector issues. Those markets had expanded vigorously in recent years, although issuing had been decelerating in the US since 2006. The August 2007 crisis exacerbated deceleration in the US and spread it to the euro area, where outstanding balances had been rising steadily until that point.[4]

The US subprime crisis triggered an increase in credit risk premiums and a broad process of re-rating, explicit (by the agencies) in some cases and implicit (by the markets) in other cases. From August onwards, private sector bond issues found they had to offer substantially higher spreads over government bonds. The upward pressure was particularly severe for high-yield issues, but the lower tiers of investment grade were also affected.[5] The process of implicit re-rating in the market came as a result of investors' lower confidence in rating agencies, whose ratings of ABSs had been harshly criticized in the USA. In Europe, there were significant implicit re-ratings in ABSs and also in asset-backed bonds, particularly in the case of some UK, Italian and Spanish issuers.

Credit risk premium of private sector debt (BBB-AAA)[1] FIGURE 1.7



Source: Reuters.

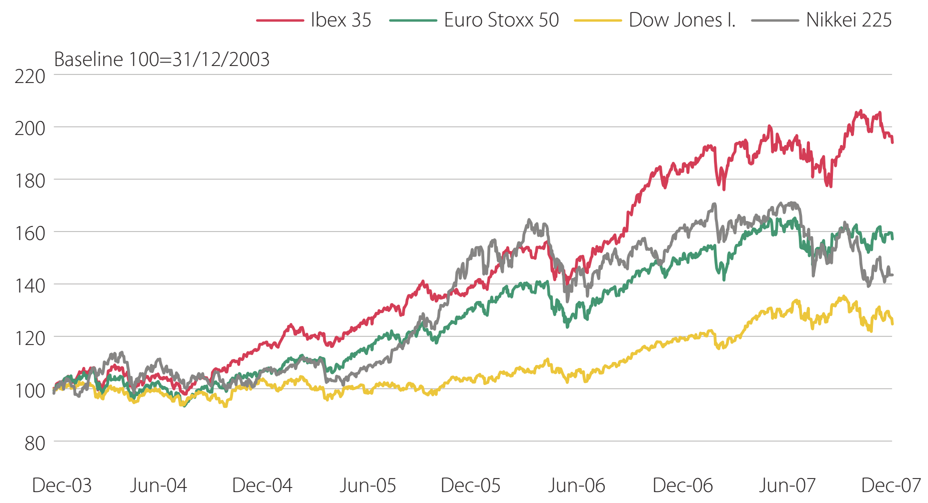
1. 20-session moving average of the yield spread between 10-year issues rated BBB (bottom rung of investment grade) and AAA (generally sovereign debt).

4. Around 10% of issues by monetary financial institutions and over 20% of issues by non-monetary institutions.
5. Rated BBB or higher by Moody's.

Equity markets

Despite the difficulties, most of the world's equity markets appreciated in 2007, though by less than in 2006. The main exceptions were Japan, whose reference index fell by 11.1% in 2007, and Italy where the index declined by 6.5%. The New York and euro area selective indices appreciated by similar percentages: 6.4% and 6.8%, respectively. However, there was considerable dispersion in Europe, ranging from Italy's depreciation to a 19.2% gain by the German stock market. Spain's Ibex 35 appreciated by 7.3%. Emerging markets proved very resilient in the face of worsening economic and financial conditions worldwide, and they appreciated significantly in 2007, though not by as much as in 2006.

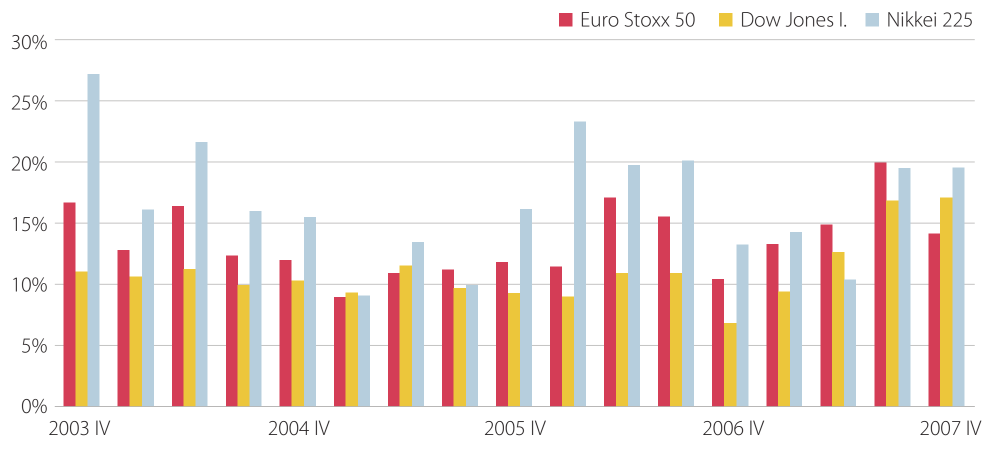
Performance by the world's main stock indexes FIGURE 1.8



Source: Datastream.

Considering the year as a whole, the indices of the industrialised countries were more volatile in 2007 than in 2006, and volatility peaked in the last four months of the year. Although there were massive sell-offs worldwide at the end of February, better-than-

Equity market volatility[1] FIGURE 1.9



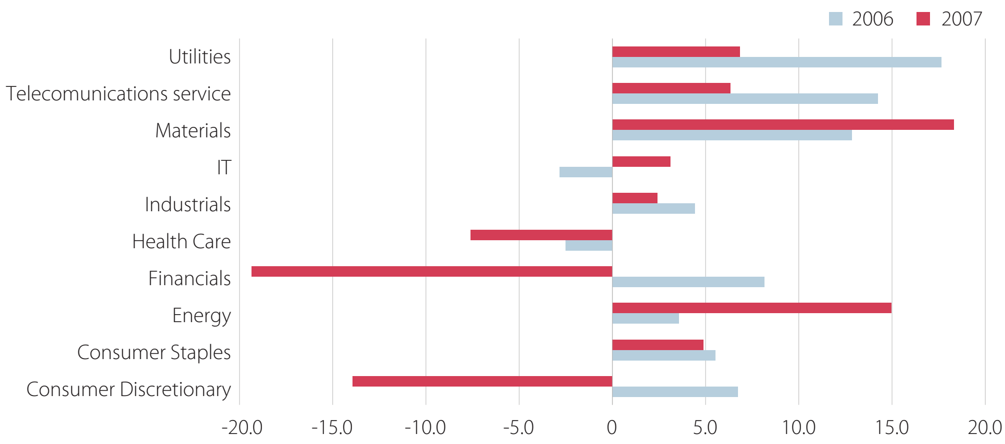
Source: Datastream.

1. Quarterly average of annualised daily volatility (standard deviation of last 20 sessions).

expected corporate earnings and other positive data from the US economy fuelled mainly positive stock performance in the first half of the year. In the summer, negative news about US subprime mortgages began to impact the market, truncating the uptrend. Prices were much more volatile from August onwards, and there were two phases of notable losses (August and November) in which financial institutions were penalised in particular, with an intermediate intense recovery by share prices (between late September and mid-October) following central bank intervention (cutting base rates and performing open market transactions). Volatility increased in the first two months of 2008, including several episodes of massive sell-offs.

Sector indices performed worse than in 2006, with a few exceptions. According to the MSCI world indices, the sectors hit hardest were financial and consumer discretionary (which, unlike consumer staples, is basically cyclical). Those two sector indices depreciated sharply. One of the sector indices that appreciated with respect to 2006 was energy, where there was intense merger and acquisition activity. However, most sectors depreciated between August and December, and all sectors depreciated in the first two months of 2008.

World sector equity index performance[1] FIGURE 1.10



Source: Datastream.
1. MSCI All Country Sectors (World) indices.

Equity trading volume increased considerably once again in 2007. Equity trading expressed in euro registered double-digit growth in practically all the industrialised countries. The main exception was Japan, where trading rose by 1.6%. Some emerging markets were particularly dynamic, particularly the Chinese bourses (Shanghai and Shenzhen), whose combined trading volume in 2007 was comparable to that of the world's leading markets, according to information published by the International Federation of Stock Exchanges.

The volume of initial public offerings was high in Europe, although it tailed off after the summer. A total of 801 IPOs in Europe raised a total of 80.3 billion euro in 2007[6]. Although those figures represent declines of 2.2% and 9%, respectively, with respect to 2006, the latter was an exceptional year for transactions of this type. As occurred in 2006, Europe outstripped the US, where there were 275 deals for a total

6. PriceWaterhouse IPO Watch Europe Survey.

Equity markets: indices and returns

TABLE 1.1

		Index		Trading	
		Change (%)		Billion	Change
		2006	2007	euro	(%)[1]
Developed countries					
USA	Dow Jones Ind. A.	16.3	6.4	21,176.8	23.0
USA	Nasdaq Composite	9.5	9.8	11,095.8	18.7
Japan[2]	Nikkei	6.9	-11.1	4,904.7	1.6
UK	FTSE 100	10.7	3.8	7,545.5	26.0
Euro area[3]	Euro Stoxx 50	15.1	6.8	12,766.3	38.3
Euronext	Euronext 100	18.8	3.4	4,102.1	36.5
Germany	Dax 30	22	19.2	3,144.2	45.2
Italy	Mib 30	17.5	-6.5	1,681.2	33.6
Spain	Ibex 35	31.8	7.3	2,158.8	41.1
Latin America and Asia					
Argentina	Merval	35.5	2.9	5.3	26.7
Brazil	Bovespa	32.9	43.7	437.4	100.7
Chile	IGPA	34.4	13.8	36.0	54.8
Mexico	CPI	48.6	11.7	90.0	18.4
Peru	IGBL	168.3	36.0	8.2	89.5
South Korea	Korea Cmp Ex	4	30.1	1,453.1	36.4
Hong Kong	Hang Seng	34.2	39.3	1,536.5	134.2
China[4]	Shangai Composite	130.4	96.7	4,488.6	394.4

Source: International Federation of Stock Exchanges. Reuters and CNMV.

1. In local currency.
2. Tokyo and Osaka bourses.
3. Volume traded in euro area stock exchanges. Includes all OMX trading, though some markets do not trade in euro.
4. Shanghai and Shenzhen bourses.

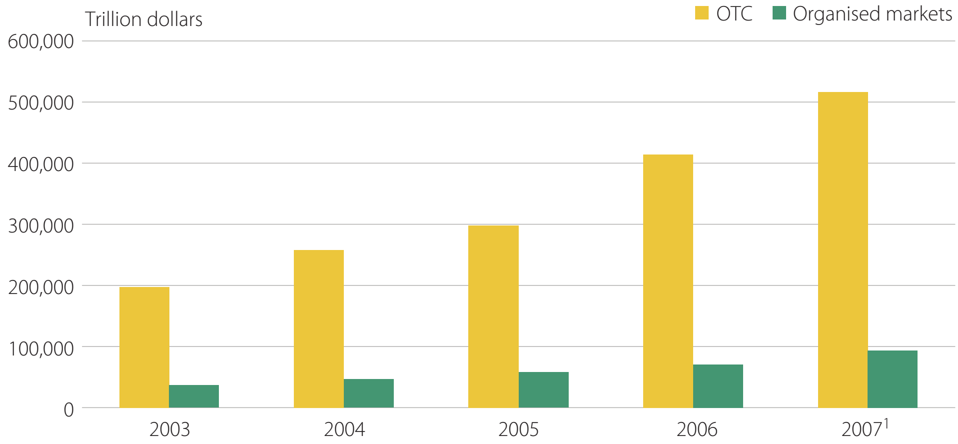
of 46.7 billion euro. The Asian markets were also very dynamic, particularly the two Chinese bourses and the Hong Kong bourse, where 78 billion euro were raised in 211 deals.

Markets in financial derivatives

The available data suggest there was a sharp increase in trading in financial derivatives in 2007, both over-the-counter (OTC) and in organised markets. At the end of the first half, open interest OTC amounted to a notional amount of 516.4 trillion dollars, a 25% increase on December 2006 and a 40% increase year-on-year. The corresponding figure in organised markets was 93.6 trillion dollars in September, 33% more than at 2006 year-end and 27% more than at the same time in 2006.

The OTC market is heavily concentrated in interest rate contracts, which account for around 67% of the total notional amount. Other major segments are exchange rate contracts and credit default swaps (CDS), which account for 9.4% and 8.2%, respectively, of the total notional value. The most dynamic segment was CDS, where notional open interest practically doubled with respect to June 2006. The spectacu-

Derivatives: notional amount of open interest FIGURE 1.11



Source: Bank for International Settlements (BIS).
1. In 2007, OTC figure is for June, organised market figure is for September.

lar growth in these contracts for transferring credit risk was related to the boom in structured products, particularly ABSs, and was favoured by record low premiums. The upswing in premiums and reduction in trading in ABS markets after the subprime crisis may lead to a deceleration in trading in this segment in the short term.

As for financial derivatives traded on organised markets, options accounted for around 70% of the notional amount, and futures for the remainder. While futures trading seems to have stagnated in recent years, options trading increased by a notable 33% year-on-year. In terms of underlyings, the bulk of the notional amount is in contracts on interest rates (both futures and options).

Strategic movements in the area of trading infrastructures

There were several major strategic moves in the area of trading infrastructures in 2007. Two mergers stand out, in particular: London Stock Exchange with Borsa Italia, and Nasdaq with OMX. The LSE-Borsa Italia deal was the largest purely European deal since the creation of Euronext (now merged with the New York Stock Exchange). Based on trading volumes, the resulting conglomerate is Europe's largest provider of equity trading services and one of its largest venues for government bond trading since, in an almost simultaneous move, Borsa Italia obtained control of MTS, Europe's operator of the largest multilateral trading facilities in that market.

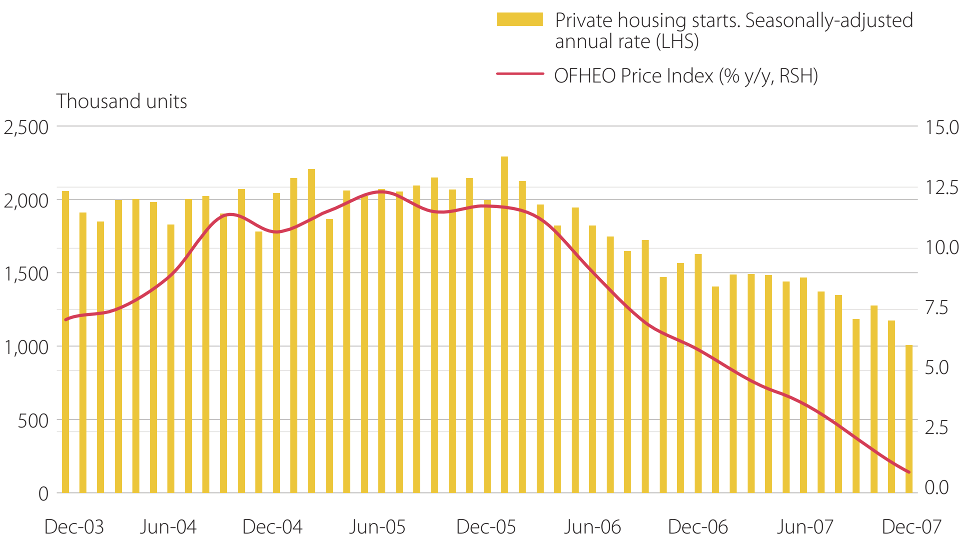
The Nasdaq-OMX merger was a notable departure from Nasdaq's previous strategy, as its primary target in Europe in recent years had been to gain control of the London Stock Exchange. After it failed to achieve that goal, the merger with OMX gives Nasdaq control of the Scandinavian trading infrastructures plus platforms in other countries that are specialised in commodities.

1.1.3 Risks to the international economic and financial situation

Problems with financial institutions' access to liquidity via the markets and the performance of the US economy are the main short-term risks to the economic and financial situation. Regarding the former, CDS spreads declined in the first quarter of 2008 in comparison with the fourth quarter of 2007, but activity in the interbank and ABS markets is still slack and, therefore, financial institutions still have difficulties raising funds by this avenue. The financial sector's 2007 earnings, released in the first quarter of 2008, reveal the general negative impact of the US subprime mortgage crisis, but they were quite diverse. There have been few extremely negative cases, such as Northern Rock and Bear Stearns.

As for the US economy, whose performance has a strong impact on expectations worldwide, the greatest threat lies in the property market. Further deterioration in this market could lead to a faster and deeper deceleration by the US economy and a reduction in international trade, which would have a particularly harsh impact on China and other exporting emerging economies. Additionally, a sharp deterioration by the US economy would probably worsen general economic expectations worldwide.

US housing market[1] FIGURE 1.12



Source: Datastream.

1. The prices are from the house price index produced by the Office of Federal Housing Enterprise Oversight (OFHEO).

In addition to those two risks, a further underlying risk lies in energy prices. In particular, the price of crude oil rose steadily in the first quarter of 2008. If this trend is maintained, it could create inflationary pressure that would hamper the implementation of monetary policy. Nevertheless, energy prices can be expected to ease in the context of lower economic growth that is projected in the short term.

Overall, the European economy appears to be better placed to face these risks than on other occasions in the past. In particular, the euro area's core countries have showed signs of greater strength in the last two years, supported by both domestic and foreign demand. The improvement in public accounts gives these economies greater leeway for the automatic stabilisers to operate or for the implementation of compensatory strategies if the situation requires them. One of the main specific risks that may affect the euro area is excessive appreciation by the euro, which could notably curtail the foreign sector's capacity to expand and maintain activity and employment in the event of a deceleration in domestic demand.

1.2. The economic and financial situation in Spain

1.2.1 The Spanish economy

The difficulties in the world economy did not prevent Spain from registering 3.8% growth in 2007, clearly exceeding the average for the euro area and the European Union as a whole. GDP growth was 0.1 points less than in 2006, sustained by strong domestic demand. The most dynamic private component of expenditure was gross investment in capital goods, which increased faster than in 2006, while consumption expenditure and construction investment attained lower (though still high) growth rates. The foreign sector's contribution to growth was still negative, but its impact was significantly lower than in 2006 (0.7 points of growth, vs. 1.2) due to slower growth in imports and more intense growth in exports. On the supply side, industry, energy and the primary sector were the most dynamic, and their gross added value accelerated with respect to 2006. In contrast, services and construction decelerated (the former, gently, the latter, more intensely). Economic growth enabled the creation of 475,000 jobs, although the unemployment rate increased by 0.3 points to 8.6%.

Spain's economic indicators TABLE 1.2

Rate of change, unless indicated otherwise

	2003	2004	2005	2006	2007
GDP (at constant prices)[1]					
GDP	3.0	3.2	3.5	3.9	3.8
Domestic demand[2]	3.8	4.9	5.3	5.1	4.6
Household spending	2.8	4.2	4.2	3.7	3.1
Government spending	4.8	6.3	4.8	4.8	5.1
Gross fixed capital formation	5.3	5.1	6.9	6.8	5.9
Net external demand[2]	-0.8	-1.7	-1.7	-1.2	-0.7
Exports	3.7	4.1	1.5	5.1	5.3
Imports	6.2	9.6	7	8.3	6.6
Other indicators					
CPI. Year-on-year to December	2.6	3.2	3.7	2.7	4.2
Employment growth [3]	4.4	4.1	5.6	3.6	2.4
Unemployment rate[3]	11.4	10.6	8.7	8.3	8.6
Current account balance (% of GDP)	-3.5	-5.3	-7.4	-8.6	-9.2
Government lending/borrowing (% of GDP)	0.0	-0.2	1.1	1.8	2.2

Sources: National Institute of Statistics (INE), Bank of Spain and Ministry of Economy and Finance.
1. INE. National Accounting, baseline 2000.
2. Contribution to GDP growth.
3. EPA (Labour Force Survey). 4th quarter.

The Spanish economy continued to decelerate gently from the second quarter onwards, fuelled by more cautious household spending and a slowdown in construction. Investment in capital goods continued to grow for another quarter, and maintained double-digit year-on-year growth until the third quarter. The deceleration became somewhat more intense in the fourth quarter, but was nonetheless moderate, as shown in the year-on-year growth rates in that period: 2.7% in consumption expenditure, 8.9% in investment in capital goods, and 2.9% in construction investment. Employment generally replicated the general pattern of economic growth: a gentle deceleration until the third quarter, and slightly more intense in the fourth. Only in the fourth quarter did unemployment increase.

Consumer prices performed less favourably than in 2006. The year-on-year variation in the CPI was 4.2% in December, 1.5 percentage points more than in December 2006. The increase took place exclusively in the energy and processed foods components. The harmonised CPI gap between Spain and the euro area, which had narrowed notably in 2006, widened by 0.3 points to 1.1%, close to its historical average. The current account deficit increased by 0.9 points to 5.8% of GDP.

1.2.2 Financial decisions by economic agents

The economic agents' performance in the financial context marked a departure from the pattern observed in previous years. Companies were observed to be resorting more to the capital markets for funding, contrasting with the financial sector's recourse to its traditional funding source: deposits. Non-resident investors continued to invest significantly in Spanish assets, though with less concentration in fixed-income. Households' financial performance was affected by the change in tax treatment of investment yields, which made UCITS less attractive and made equities and bank deposits more attractive.

Net acquisition of financial liabilities by non-financial companies TABLE 1.3

Million euro

	2003	2004	2005	2006	2007 [1]	% change 07/06 [2]
Securities other than shares	-1,271	-154	-242	1,212	1,668	108.5
Short-term securities	-799	418	-422	1,272	-405	-145.3
Long-term securities	-473	-572	180	-316	2,180	-
Financial derivatives	0	0	0	255	-107	-
Loans	69,520	77,179	140,928	223,285	144,888	-10.9
Short-term loans	3,185	21,120	40,342	37,859	16,790	-43.1
Long-term loans	66,335	56,059	100,586	185,426	128,098	-3.7
Shares and other equities	38,680	35,721	30,655	20,713	38,468	118.2
Listed shares	1,220	934	2,252	4,545	15,266	281.1
Unlisted shares	24,318	15,732	14,351	5,417	14,054	159.0
Other equities (excluding funds)	13,143	19,055	14,052	10,751	9,149	11.6
Insurance underwriting reserves	-25	-81	532	4	3	0.0
Other accounts receivable	18,331	29,053	47,864	64,238	18,278	-52.3
Total	**125,236**	**141,718**	**219,738**	**309,451**	**203,306**	**-7.3**

Source: Bank of Spain, «Financial Accounts of the Spanish Economy»,
1. Figures for 9M07.
2. Percentage change in 9M07 vs. 9M06.

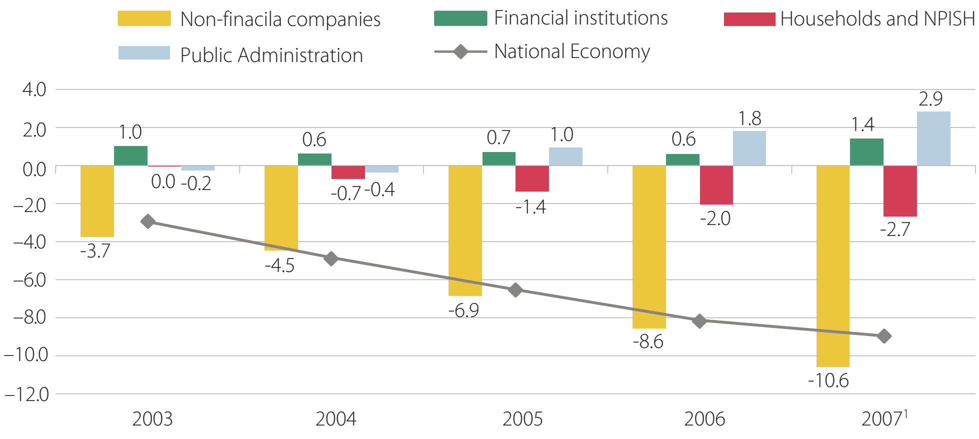
Between January and September 2007, external fund-raising by non-financial companies fell by 7.3% with respect to the same period of 2006, and the figure for the year as a whole was in line with that of 2005 (Table 1.3). There has been a notable change in the composition of fundraising in recent years. After declining substantially in relative terms as a source of funding, capital markets recovered notably in

2007 as a result of the increased number of share issues (listed and unlisted). Fixed-income issues also increased, albeit more moderately, and accounted for less than 1% of funds raised by non-financial companies. Bank loans continued to be the main source of funding for non-financial companies, accounting for 71% of the total (though less than in 2006). There was also a sharp decline in funding from other non-financial companies.

Considering financial institutions as a whole[7], the figures for the first three quarters reveal strong growth in funding to this sector (22.1% more than in the same period of 2006) due to a substantial increase in deposits, which accounted for around 53% of funds raised by the sector in the period. The tightening of bank lending standards as a result of the mortgage and financial crisis had a greater impact towards the end of the year[8], leading to stepped-up efforts to capture deposits and a significant increase in the issuance of asset-backed bonds, as indicated in chapter 3. Credit institutions can use ABSs as collateral to obtain funding from the Bank of Spain. In fact, their use of this funding source has increased notably in recent months, although it still represents a small proportion of credit institutions' total liabilities.

The non-resident segment continues to play an essential role in funding the Spanish economy as a result of the growing mismatch between saving and investment by residents. The Spanish economy's external borrowing (necessarily equal to net investment by non-residents) reached 9% of GDP in the third quarter of 2007[9], and has been rising steadily since 2002, when it amounted to 2.7% of GDP (Figure 1.13).

Surplus (+) / Borrowing (-) of the Spanish economy (% of GDP) FIGURE 1.13



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

1. The figures for 2007 are calculated as the sum of the first three quarters of 2007 and the last quarter of 2006.

7. Both monetary (Bank of Spain, credit institutions and money-market funds) and non-monetary (UCITS, broker-dealers and brokers, ABS trusts, venture capital companies and funds, and other financial intermediaries).
8. For which no data is yet available in the financial accounts.
9. Last 12 months (LTM).

The net acquisition of domestic financial assets by non-residents increased at a similar pace to 2006 (5.7%, vs. 6.4%) but its composition was quite different (Table 1.4). Between January and September 2007, investment in fixed-income continued to predominate, but it declined considerably in absolute terms and as a percentage of the total (from 87% in 2006 to 52% in 2007). In contrast, investment in deposits and listed shares increased significantly with respect to 2006, and together they accounted for almost one-third of investment by non-residents (vs. a net negative investment in 2006). Non-residents continue to play a major role in Spain's financial markets (Figure 1.14 and Annex I.3).

Net acquisition of financial assets by non-residents

TABLE 1.4

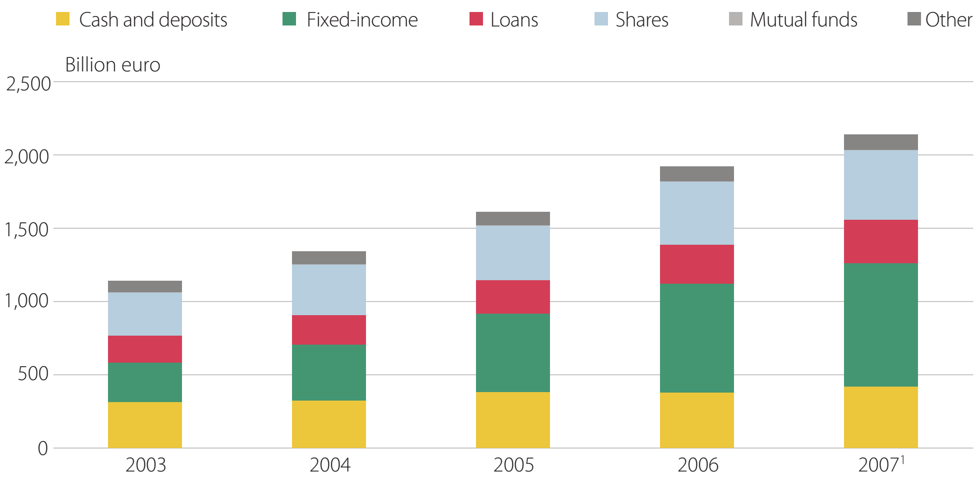
Million euro

	2003	2004	2005	2006	2007[2]	% change 07/06[3]
Cash and deposits[1]	54,135	14,140	51,282	3,069	44,460	-
Securities other than shares	41,383	104,055	143,478	208,978	101,621	-36.7
Loans	22,163	10,593	20,809	34,186	21,337	-22.0
Shares and other equities	8,613	22,866	7,870	-7,338	26,440	1,236
Listed shares	-7,220	6,110	-6,556	-19,815	18,030	-
Unlisted shares	8,325	9,473	11,984	6,810	4,027	-29.3
Other equities (excluding funds)	7,013	6,672	5,926	5,016	4,379	19.1
Mutual fund units	495	612	-3,485	652	4	-99
Other accounts receivable	-911	925	2,697	1,707	-266	-
Total	**125,383**	**152,580**	**226,136**	**240,602**	**193,593**	**5.7**

Source: Bank of Spain. «Financial Accounts of the Spanish Economy».
1. Includes monetary gold and SDRs.
2. Figures for 9M07.
3. Percentage change in 9M07 vs. 9M06.

Spanish assets held by non-residents

FIGURE 1.14



Source: Bank of Spain, «Financial Accounts of the Spanish Economy».
1. Balances in 2007 refer to third quarter.

The figures for January to September 2007 reveal a sharp decline in net acquisition of financial assets by households with respect to the same period of 2006 (Table

1.5). Investment in real estate remained high, but tended to stabilise[10]. Although household saving was lower for the third consecutive year, borrowing (mainly long-term loans) declined as a result of the lower acquisition of financial assets.

Despite the overall decline in net financial investment, households considerably increased their net acquisitions of shares in the period of reference, contrasting with the sharp divestment of this class of asset in 2006 to avoid the less favourable treatment of capital gains under the new tax system that came into force in 2007. Net investment in fixed-income assets also increased significantly due to rising market interest rates and greater investor uncertainty as a result of the mortgage and financial crisis. The main declines include the major divestment of investment fund shares by households, replaced mainly by bank deposits. Investments in deposits fell with respect to 2006 but still predominated, accounting for close to 70% of total acquisitions of financial assets.

Net acquisition of financial assets by households[1] TABLE 1.5

Million euro

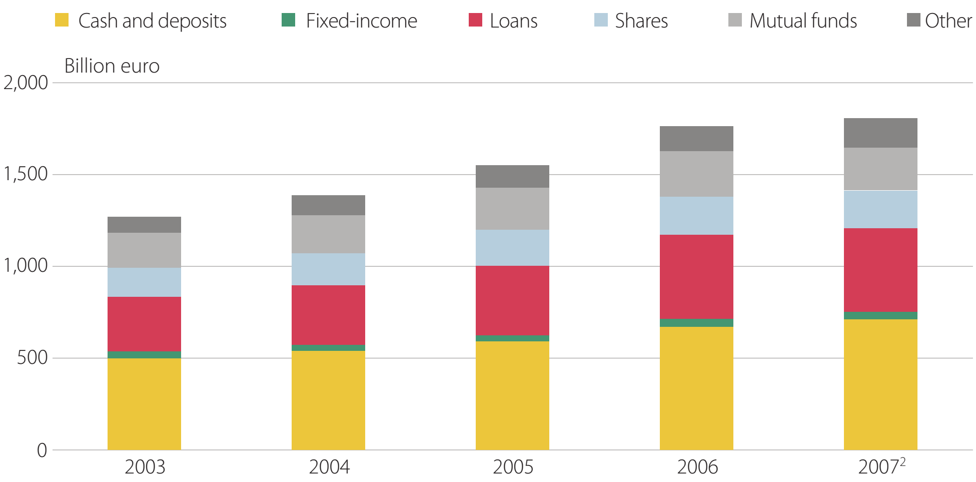
	2003	2004	2005	2006	2007[2]	% change 07/06[3]
Cash and deposits	29,098	42,497	50,152	81,097	39,019	-20.6
Securities other than shares	853	929	1,331	9,288	8,198	10.0
Shares and other equities	22,166	15,383	18,422	-5,716	1,602	914.0
Listed shares	-635	-268	2,044	-5,188	790	-
Unlisted shares	4,095	642	-1,518	-2,536	2,295	-
Other equities (excluding funds)	816	2,395	1,181	289	1,142	419.2
Mutual fund units	17,890	12,850	17,016	1,783	-2,813	-
Shares issued by investment companies	0	-237	-300	-64	187	-5.7
Insurance underwriting reserves[4]	14,308	15,426	17,638	15,705	7,023	-8.9
Other accounts receivable	886	5,086	5,116	13,269	40	-99.5
Total	**67,311**	**79,321**	**92,660**	**113,644**	**55,883**	**-22.9**

Source: Bank of Spain, «Financial Accounts of the Spanish Economy».
1. Includes NPISH (Non-Profit Institutions Serving Households).
2. Figures for 9M07.
3. Percentage change in 9M07 vs. 9M06.
4. Includes pension plans.

Households' financial assets increased by a modest 2.5% up to the third quarter of 2007 as a result of falling prices of equities and fixed-income securities. The composition remained broadly the same (Figure 1.15)[11]: holdings of cash and deposits accounted for 39.3% of the total, fixed-income securities for 2.4%, and shares for 25.2%. UCITS accounted for 11.4%, and insurance underweight reserves and pension funds for 14.1%.

10. It stood at 9.8% of GDP in the first three quarters of 2007, the same as in the fourth quarter of 2006.
11. See Annex I.2 for more details.

Households' Spanish financial assets[1] FIGURE 1.15



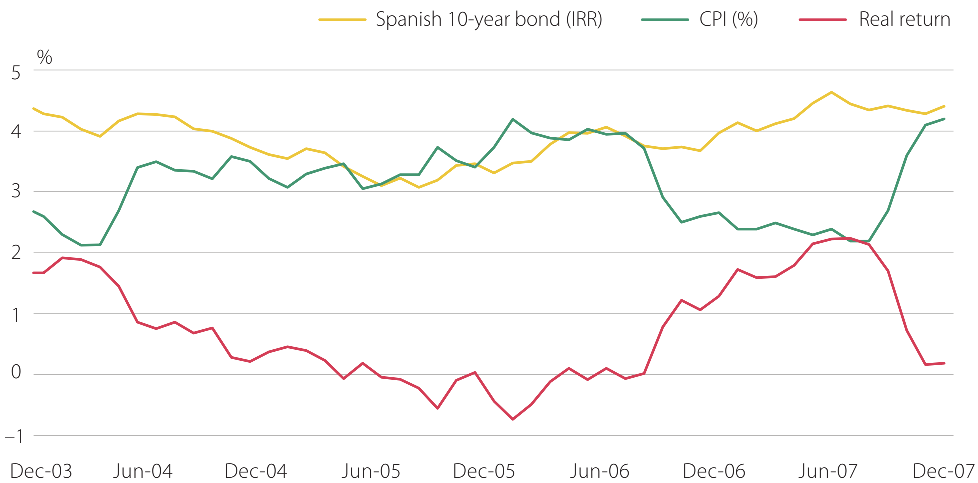
Source: Bank of Spain, «Financial Accounts of the Spanish Economy».
1 Includes NPISH (Non-Profit Institutions Serving Households).
2 Balances for 2007 are for the third quarter.

1.2.3 Spanish capital market performance

In 2007, Spain's financial markets followed a similar pattern to the world's main markets. Fixed-income yields and share prices increased in the first half of the year (the former, moderately but smoothly, the latter, more irregularly). Starting in July, the deterioration in international financial conditions depressed government bond yields and substantially increased the credit risk premium demanded of private sector issuers, mainly in the financial sector. The equity markets entered a period of much greater volatility, although liquidity remained high at all times.

Nominal Spanish government bond yields remained higher than their 2006 closing level throughout the year, even after the correction during the second half (as described in Chapter 3). At year-end, the spread against German government debt had widened slightly with respect to 2006 year-end. In real terms, yields increased

Long-term debt yields FIGURE 1.16



Source: Datastream and CNMV.

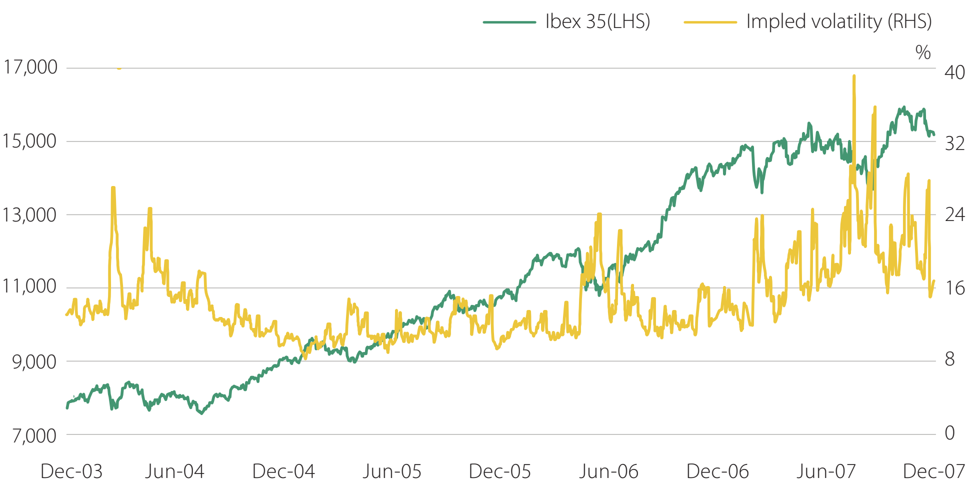
substantially in the first half, but the upswing in inflation from September eroded the gains considerably. Nevertheless, and despite the further decline in gross and net issuing by government entities, cash trading in the secondary market in government debt increased moderately, driven by investors' desire to increase exposure to more liquid, higher quality assets.

Gross private sector fixed-income issues attained a new high despite the difficulties. The increase in issuing was concentrated solely in the ABS and commercial paper segments, where financial institutions play a dominant role (see Chapter 3). In the fourth quarter, the decline in liquidity in the major markets that fund financial institutions led to a reduction in the placement of commercial paper, but ABS issuing remained high. During this period, the originators retained most ABS issues, thus accumulating assets that could be discounted in the Eurosystem. Trading on AIAF, Spain's main secondary market in government debt, increased in the year as a whole, reflecting primarily an increase in the repos through which financial institutions gain access to Bank of Spain funding.

Spanish private sector issuers of fixed-income securities faced a substantial upswing in the credit risk of their issues from the summer onwards, as evidenced in premiums traded in the CDS market. That increase, which intensified early in 2008, was clearly disproportionate in the case of cédulas hipotecarias and ABSs given the low delinquency observed in home mortgages (which constitute the bulk of collateral for these securities). Also, no excessively complex structures are issued in the Spanish market and the riskiest tranches of asset-backed issuers are generally not sold to investors but are bought by the originators and held on their balance sheets. As a result, the bulk of paper placed with investors has high credit quality. For example, 95% of the total amount placed in 2007 was rated AAA by S&P, while high-yield issues accounted for just 0.6% of the total.

The Ibex 35 appreciated by 7.3% in 2007, which is notable though clearly lower than in 2006. However, this index, which represents the most liquid stocks on Spain's bourses, does not reflect the performance of most listed equities. As occurs at times when there is a general increase in uncertainty, small and mid-cap stocks suffered more than large caps as the international situation worsened. Whereas

Ibex 35 performance and implied volatility[1] FIGURE 1.17



Source: MEFF.

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

nearly 79% of the stocks in the Madrid Stock Exchange General Index (IGBM) appreciated in the first quarter, most registered depreciation from the second quarter onwards.

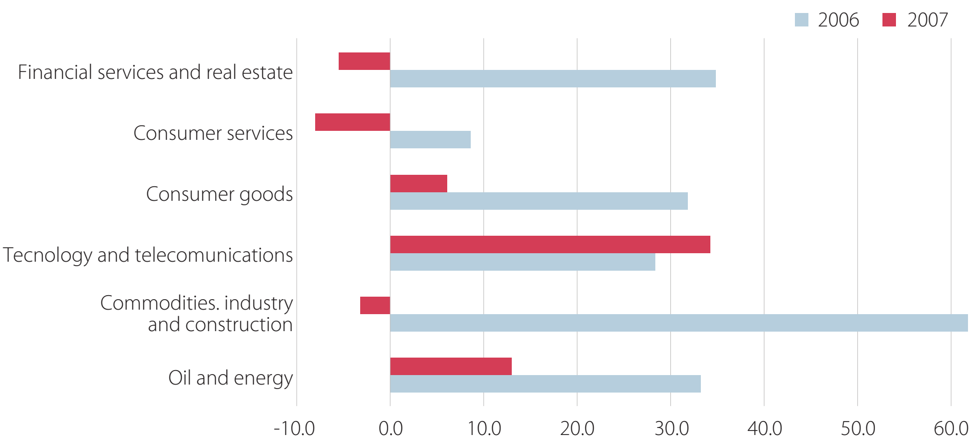
Yield of Spain's stock market indices (%) TABLE 1.6

	2006	2007	2007 (% qtr.)			
			I	II	III	IV
Ibex 35	31.8	7.3	3.5	1.7	-2.1	4.2
IGBM[1]	34.5	5.6	4.3	1.1	-2.4	2.6
Barcelona	29.3	5.2	2.2	0.2	-0.5	3.3
Bilbao	34.1	1.9	3.7	0.4	-3.6	1.5
Valencia	35.3	7.0	3.9	1.8	-1.1	2.4
Ibex with dividends	36.0	10.6	4.2	2.6	-1.2	4.9
Ibex-NM	34.0	-6,0*	7.5	-6.9	-2.3	-3.8*
Ibex Medium Cap	42.1	-10.4	13.1	-0.1	-11.4	-10.4
Ibex Small Cap	54.4	-5.4	14.1	-1.8	-5.2	-11.0
BCN-Mid 50[2]	51.0	-11.7	14.4	-3.3	-8.3	-13.0
FTSE Latibex All-share	23.8	57.8	6.0	22.0	11.4	9.5
FTSE Latibex Top	18.2	33.7	6.4	20.8	2.0	2.0
FTSE Latibex Brazil	24.3**	64.0	6.5	23.0	43.4	7.3

Source: Thomson Datastream, Reuters, Madrid Stock Exchange and Sociedad de Bolsas.
1. Madrid Stock Exchange General Index.
2. Index of the middle segment of the Spanish equities market, produced by the Barcelona Stock Exchange.
* Up to 30 November, the last day for which the index was calculated.
** Since 26 September, date on which the index commenced.

By sector, yields generally declined with respect to 2006, the main exception being technology and telecommunications, where the increase in yields basically reflects appreciation by Telefónica. The main sector that lost ground (because of its weighting in the IGBM) was financial and real estate services. The main component of that sector, banking, lost 3.6% overall (less than in other markets). Losses were particularly severe in the real estate subsegment, which depreciated by 40.6% overall.

Sector yields (Madrid Stock Exchange) FIGURE 1.18



Source: Datastream and Madrid Stock Exchange.

Most listed companies experienced an improvement in their economic and financial position in 2007. The large companies in the Ibex 35 index experienced an aggregate 15% increase in earnings. Most of the other companies listed in the electronic market obtained earnings in line with 2006. Only a small number of companies reported losses. As for the financial situation, the proportion of debt to equity declined generally at listed non-financial companies, although it remained high in historical terms in some sectors, such as construction and real estate. Despite the increase in the interest rates to which corporate debt is referenced, the interest burden remained moderate in comparison with EBIT (with the exception of construction and real estate).

In this context of good earnings and financial solvency, but with poorer short-term prospects for economic performance, listed companies applied a more cautious dividend policy than in 2006. Dividends distributed in the year increased by 7% (vs. 51% in 2006). If they had been reinvested, the dividends distributed by the Ibex 35

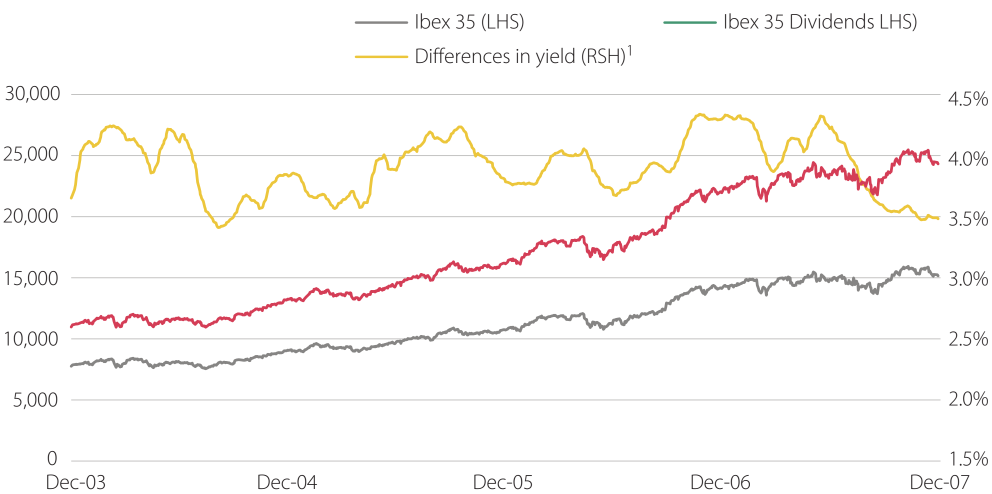
Shareholder remuneration[1] TABLE 1.7

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	14,435.7	4,463.8	224.0	19,123.5	3.4
2006	21,809.7	513.0	761.2	23,084.0	3.5
2007	23,338.9	126.6	-	23,465.5	2.8

1. Data for companies listed on the Madrid Stock Exchange.
Source: Bolsas y Mercados Españoles. Revista de Bolsa de Madrid, January 2008.

Dividends of Ibex 35 stocks FIGURE 1.19



Source: Sociedad de Bolsas.
1. Difference in annual yield between the Ibex 35 with dividends and the Ibex 35. Monthly moving average.

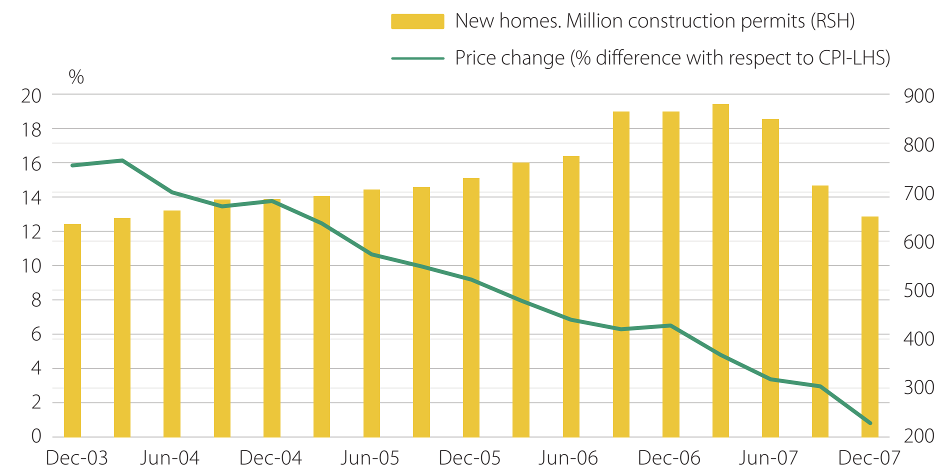
companies would have given the index an additional 3.5% yield (one point less than in 2006). As for the price/earnings ratio, since prices appreciated by less than earnings, the P/E of the Ibex 35 stocks declined. An international comparison of P/E ratios indicates that, at year-end, the Spanish market was still more expensive than the other European bourses but cheaper than the US and Japan, in the case of the most liquid stocks.

As indicated in Chapter 2, stock market trading increased considerably in 2007. On this occasion, order-driven trading increased by more than block trades, and the average deal size declined. On a limited scale, though considerably higher than in 2006, takeover bids and public offerings contributed to the increase in stock market trading. Particularly notable was the takeover bid for Endesa by Acciona and Enel, which was completed in 2007, and the initial public offerings of Iberdrola Renovables and Criteria Caixa Corp. Those two IPOs were among the largest in Europe in 2007. There was also a notable increase in rights issues, mainly for M&A.

1.2.4 Risks facing the economic and financial situation in Spain

The Spanish economy is exposed to the international risks discussed above. The main internal macroeconomic risk lies in the performance of the real estate sector, which has played a key role in the vigorous economic growth experienced in previous years. The figures for 2007 reveal that this sector decelerated considerably, whereas industry proved to be more dynamic after making only a weak contribution to growth and employment in recent years. On the demand side, exports improved and may play an offsetting role if domestic demand decelerates more intensely.

The Spanish housing market. Production and prices FIGURE 1.20



Source: INE and Datastream.

The main risk in the financial area is due to the international uncertainty about the situation of financial institutions and the scant activity in the main wholesale markets where they raise funds; if this situation persists, the negative impact on financing the private sector could be greater than that observed to date. Nevertheless, Spain's banks are solidly capitalised and very profitable, with comfortable capital adequacy ratios and low delinquency. In the area of the securities markets, the fact that most UCITS have a conservative investment policy limits their exposure to liquidity and credit risk, although price risk could be relevant for investors if there are more episodes of market turbulence. In any event, because of their specific focus, real estate UCITS are more exposed to the risks of the real estate sector. The main risk for investment firms in the coming months is of a decline in trading in the securities markets, especially equities, if the current uncertainty persists.

II Markets and issuers

2. Equity markets

In 2007, equity markets were overshadowed by the US mortgage market crisis that started at the beginning of the year, causing sharp falls in share prices during the summer and an ebbing of confidence in the financial markets which continued until the end of the year and into the early months of 2008. In Spain this was accompanied by a downturn in the construction industry which had a particularly strong impact on listed companies in the property sector.

Returns on stock market indices of the Spanish bourses showed a considerable decline after four consecutive years of strong growth. This impacted on market capitalisation values which, while continuing to increase in 2007, did so at a rate that was well below those of previous years.

Merger and acquisition activity continued at a high level during the year. This resulted in increased equity issuance to provide new shares with which to pay for target companies, and a number of companies left the market after being acquired in takeover bids. The year also saw a considerable increase in the market values of initial public offerings caused by large cap companies listing on the market.

Trading volumes rose substantially, well above the increase in market prices, bringing improved liquidity to a market that remained highly concentrated while continuing to broaden the range of securities available to investors, such as exchange traded funds (ETFs).

2.1. Market size

2.1.1 Market capitalisation

The aggregate market value of companies listed on the Spanish stock exchanges rose by 5.2% in 2007 to 766,763.3 million euro (see Table 2.1). Of this total, 98.8% was accounted for by Spanish-registered companies traded on the electronic market. Overall market capitalisation increased by slightly less than share prices. This was due to the fact that the fall in the value of the market resulting from the delisting of a number of companies and the large number of open-ended investment companies (SICAVs) transferring to the Alternative Stock Market (MAB) exceeded the increases in market capitalisation due to new listings and share issues. Further details are given in the sections that follow.

Changes in market capitalisation (see Table 2.2) showed divergences among different sectors, reflecting changes in companies' share prices and the effect of companies entering and leaving the market. In the energy and water sectors, market capitalisation was pushed up by the strong performance of Iberdrola during the year and the flotation of Iberdrola Renovables. There was also a significant increase in market value in the transport and communications sectors thanks to strong growth in the Telefónica share price (see Annex II.7). The listing of Laboratorios Almirall in chemicals and Criteria CaixaCorp in portfolio companies was responsible for the large increases in market capitalisation in these two sectors.

In contrast, market capitalisation fell dramatically in the real estate sector and, to a lesser extent, in construction and construction materials and cement as share prices in these sectors weakened sharply during 2007. Lower market values in mining and base metals were caused mainly by the delisting of Arcelor Mittal and Mittal Steel as a result of the merger.

Market capitalisation[1] in Spanish stock markets TABLE 2.1

Million euro

	2004	2005	2006	2007	% change 07/06
Total, all markets	**506,716.6**	**595,353.1**	**728,698.5**	**766,763.3**	**5.2**
Electronic market	**472,901.6**	**554,863.1**	**711,116.4**	**758,786.2**	**6.7**
Spanish	470,940.7	552,346.8	708,164.2	757,285.2	6.9
Foreign[2]	1,960.9	2,516.3	2,952.2	1,501.0	-49.2
Open outcry[3]	**33,409.7**	**40,045.9**	**17,189.4**	**7,690.3**	**-55.3**
of which SICAV	27,366.2	33,171.1	9,284.1	245.4	-97.4
Madrid	21,062.0	25,458.2	9,665.3	2,016.7	-79.1
Barcelona	7,850.8	9,573.2	6,285.8	4,666.4	-25.8
Bilbao	2,371.0	2,876.7	511.4	108.2	-78.8
Valencia	4,877.8	4,772.1	1,653.6	1,237.1	-25.2
2nd market	**405.2**	**444.2**	**392.7**	**286.8**	**-26.9**

Source: CNMV.

1. Includes only capitalisation of companies that were traded at some time during the year. Excludes Latibex, MAB and ETFs.
2. The capitalisation of foreign companies listed on the Spanish exchanges is based on the number of shares registered by Iberclear.
3. The market capitalisations of companies traded by open outcry in more than one market have been included in the figures for each market at the price for that market. In the 'open outcry' total they have been included only once.

Concentration in the Spanish equities market became more pronounced in 2007 (see Table 2.3), mainly as a result of substantial increases in the market values of Telefónica and Iberdrola. Telefónica was the largest stock by value, with a market capitalisation of 106,067.1 million euros, 13.8% of the aggregate value of the Spanish exchanges. In second place was Banco de Santander, with a market capitalisation of 92,501.1 million euros, 12.1% of the total (see Annex II.6). These two companies together accounted for more than 25% of the aggregate value of the market at the close of 2007. In 2006 this proportion was exceeded by three companies (Santander, Telefónica and BBVA). In 2007 just seven companies[1], out of a total of 193, exceeded 50% of the total. At the end of 2006 it took eight companies to attain this percentage[2].

1. These seven companies, in descending order by market capitalisation, were: Telefónica, Santander, BBVA, Iberdrola, Endesa, Repsol YPF and Inditex.
2. These eight companies, in descending order by market capitalisation, were: Santander, Telefónica, BBVA, Iberdrola, Endesa, Repsol YPF, Inditex and Gas Natural.

No. of listed companies and capitalisation by sector[1]

TABLE 2.2

Million euro

Sector	2006	2007	2006	2007	% change 07/06
Oil	2	2	47,881	48,762	1.8
Energy & water	11	12	105,749	140,260	32.6
Mining & base metals	11	9	11,249	8,429	-25.1
Cement and construction materials	5	5	6,093	5,139	-15.7
Chemicals	4	6	3,394	5,993	76.6
Textiles and paper	20	21	33,189	36,595	10.3
Metal-mechanical	16	17	14,989	16,528	10.3
Food	17	16	21,093	22,217	5.3
Construction	7	7	59,518	51,368	-13.7
Real estate	29	31	46,485	23,949	-48.5
Transport and communications	7	6	103,727	129,733	25.1
Other non-financial	22	24	42,601	41,153	-3.4
Total non-financial sector	**151**	**156**	**495,968**	**530,127**	**6.9**
Banks	15	14	210,900	204,851	-2.9
Insurance	2	2	7,379	9,598	30.1
Portfolio companies	15	12	5,137	21,913	326.5
SICAVs[2]	747	8	9,312	274	-97.1
Finance houses	1	0	2	0	-100.0
Total financial sector	**780**	**36**	**232,731**	**236,637**	**1.7**
Total	**931**	**192**	**728,698**	**766,763**	**5.2**

Source: CNMV.

1. Market capitalisation at end of year. Excludes Latibex, MAB and ETFs. The capitalisation of foreign companies is based on the number of shares registered by Iberclear.
2. Includes only the SICAVs listed on the Spanish exchanges.

Concentration of equity market capitalisation[1]

TABLE 2.3

No. of companies required to attain a given percentage

	2006				2007			
	25%	50%	75%	100%	25%	50%	75%	100%
Total, all markets	**3**	**8**	**24**	**931**	**2**	**7**	**20**	**193**
Electronic market	**3**	**7**	**22**	**135**	**2**	**6**	**19**	**143**
Spanish	3	7	21	129	2	6	19	138
Foreign[2]	1	1	2	6	1	2	2	5
Open outcry	**3**	**15**	**115**	**783**	**1**	**2**	**5**	**39**
Second market	**1**	**2**	**2**	**12**	**2**	**3**	**5**	**11**

Source: CNMV.

1. Market capitalisation at end of year. Excludes Latibex, MAB and ETFs.
2. The market capitalisation of foreign companies is based on the number of share registered by Iberclear.

Ibex 35 companies accounted for 80.5% of the aggregate value of shares traded on the market. Telefónica and Banco de Santander made up 32.2% of the market value of that index.

The market capitalisation of companies listed on the Spanish stock exchanges at the end of 2007 amounted to 73% of nominal GDP for that year (see Table 2.4). In the case of the London stock exchange, the EU's largest relative to GDP, the proportion was 139.7%. For the Euronext exchanges, the market value/GDP ratio was somewhat lower, in the region of 100%. The figures for the German and Italian markets, at 59.3% and 47.4% respectively, were considerably below the proportion for the Spanish market.

Market capitalisation and trading volumes relative to GDP TABLE 2.4

% of GDP

	Market capitalisation[1]		Trading volume	
	2006	2007	2006	2007
USA[2]	146.1	141.5	255.4	320.9
New York	115.1	111.1	162.7	207.4
Tokyo	107.0	93.8	131.9	147.4
London	148.7	139.7	313.4	372.0
Euronext[3]	101.4	99.9	108.3	141.9
Germany	53.5	59.3	93.2	129.5
Italy	52.7	47.4	85.2	108.7
Spain	74.3	73.0	117.2	157.6

Source: International Federation of Stock Exchanges, Datastream, ECB and CNMV.
1. End of year figures.
2. The numerator is the combined total value of the NYSE, Nasdaq and American Stock Exchange.
3. The denominator is the combined total of the nominal GDP of France, Holland, Belgium and Portugal.

2.1.2 Listed companies

At the end of 2007, a total of 185 companies, excluding SICAVs, were listed on the Spanish exchanges, the same number as at the end of the previous year. Of these, 143 stocks were listed on the electronic market, eight more than at the end of 2006. This was due to the fact that 17 new companies entered the market and nine were delisted (see Table 2.5).

The most significant new entrants, in market capitalisation terms, were Iberdrola Renovables, Criteria CaixaCorp, Realia Business and Laboratorios Almirall. Noteworthy exits from the market included TPI, following its takeover by Yell; Telepizza delisted after a majority of its shares were bought up by Carbal and venture capital firm Permira; Tafisa was delisted upon settlement of a takeover bid by Sonae (see Annex II.2). The complex merger of Arcelor, Arcelor Mittal and Mittal Steel resulted in a new foreign company (ArcelorMittal, known as Arcelor until the end of the merger process) listing on the electronic market, and two companies (the former Arcelor Mittal and Mittal Steel) being delisted.

The transfer of SICAVs from the open outcry market to the MAB continued in 2007. A total of 718 companies made the transition, with the result that at the end of the year there were just eight SICAVs still being traded on the main market (seven in the open outcry section and one on the electronic market). This explains the sharp reduction in the total number of companies traded on the Spanish stock exchanges, from 930 at the end of 2006 to 192 at the close of 2007.

Companies listed on the Spanish stock exchanges[1]								TABLE 2.5
			Electronic market			Open outcry		
	Total market	Total market ex SICAVs[2]	Total	Spanish	Foreign	Ex SICAVs	SICAV	Second market
Total no. of companies								
Listed at 29/12/06	930	185	135	129	6	38	745	12
Listed at 28/12/07	192	185	143	138	5	31	7	11
Additions in 2007	**18**	**18**	**17**	**16**	**1**	**0**	**0**	**1**
New listings	12	12	11	11	0	0	0	1
Listed due to mergers	3	3	3	2	1	0	0	0
Change of market	3	3	3	3	0	0	0	0
Delisted in 2007	**757**	**18**	**9**	**7**	**2**	**7**	**739**	**2**
Delistings	21	8	3	3	0	5	13	0
Delisted due to mergers	15	7	6	4	2	0	8	1
Change of market[3]	721	3	0	0	0	2	718	1
Net change in 2007	**-739**	**0**	**8**	**9**	**-1**	**-7**	**-739**	**-1**

Source: CNMV.

1. Excludes Latibex, MAB and ETFs.

2. Excludes SICAVs traded on the open outcry market.

3. The 718 SICAVs shown as having delisted due to a change of market were transfers to the MAB.

2.2 Listings, share issues and public offerings

Stock market capital-raising operations by listed companies increased considerably in 2007 (see Tables 2.6 and 2.7, and Annex II.1). The market value of capital increases (rights issues) was 67,581.8 million euros, 152.5% up on the figure for 2006. A total of 71 issues were carried out (17 more than the previous year) by 40 companies (seven more than in 2006).

A large part of the capital raised was used to pay for mergers and acquisitions. Where this was the case, the preferential subscription rights of existing shareholders were suspended so that newly-issued shares could be allotted to shareholders of the target companies. In 2007, 10 companies increased capital in exchange for payment other than in cash. The market value of these issues was 48,901.5 million euros, 72.4% of the total amount of capital increases. Two transactions of this kind were especially significant in value terms: the Arcelor, Arcelor Mittal and Mittal Steel merger (34,957.8 million euros) and the Iberdrola issue (9,741 million euros) to pay for the takeover of Scottish Power.

Issues of new shares for cash amounted to 9,970.1 million euro and were carried out by 12 companies, most of them in the oil and energy, financial services and real estate sectors. The issues by Mapfre and Iberdrola were the largest of this type, amounting to 3,447.8 and 3,374.5 million euro respectively. A further 17 companies carried out bonus issues as a way of remunerating their shareholders (see Annex II.1).

During the year, ten companies were listed through public offerings of existing shares (secondary offerings) or new shares (primary offerings) or a combination of the two, the same number as in 2006[3]. Although the number of flotations was

3. For further details of market flotations through primary or secondary offerings or a combination of both methods, see Annex II.1.

the same in both years, the market capitalisation was much higher than in 2006, increasing from 3,103.7 million euro overall in 2006 to 10,571.2 million euro in 2007. This was due principally to two very large primary offerings: by Iberdrola Renovables (4,070.5 million euros) and Criteria CaixaCorp (3,848.3 million euros).

New share issues and public offerings by number[1] TABLE 2.6

	No. of issuers			Number of issues		
	2006	2007	Change 07/06	2006	2007	Change 07/06
Capital increases	**33**	**40**	**7**	**54**	**71**	**17**
of which primary offerings[2]	5	6	1	7	8	1
With Spanish tranche	5	6	1	6	8	2
With international tranche	3	2	-1	4	2	-2
Secondary offerings	**9**	**7**	**-2**	**13**	**11**	**-2**
Of Spanish tranche	9	7	-2	13	11	-2
Of international tranche	6	2	-4	6	2	-4
Total	**38**	**44**	**6**	**67**	**82**	**15**
Pro memoria: IPOs						
Primary or secondary offering[2]	10	10	0	20	19	-1
Other[3]	1	4	3	1	4	3

Source: CNMV.

1. Includes only public offerings that were succeeded, excluding those that were not completed. Bonus issues are not counted.
2. Public offering of warrants after shareholders waived their preferential subscription rights.
3. In 2006 this category included the listing of Mittal Steel. In 2007 it included new listings resulting from the ArcelorMittal (formerly Arcelor), Reyal Urbis, Martinsa-Fadesa, and Vértice 360 mergers.

Capital increases and secondary offerings[1]: cash amount TABLE 2.7

Million euro

	2006	2007	% change 07/06
Capital increases[2]	**26,760.2**	**67,581.8**	**152.5**
Of which primary offerings [3]	644.9	8,502.7	1,218.5
With Spanish tranche	302.9	4,821.3	1,491.7
With international tranche	342.0	3,681.4	976.4
Secondary offerings	**2,458.7**	**2,068.5**	**-15.9**
Of Spanish tranche	1,568.0	1,517.1	-3.2
Of international tranche	890.7	551.4	-38.1
Total	**29,218.9**	**69,650.3**	**138.4**
Pro memoria: IPOs			
By public or secondary offering[3]	3,103.7	10,571.2	240.6
Other[4]	6,620.0	74,207.1	1,021.0

Source: CNMV.

1. Includes only public offerings that were succeeded, excluding those that were not completed.
2. Issues of new shares not paid for in cash have been valued at market prices.
3. Public offering of warrants after shareholders waived their preferential subscription rights.
4. In 2006 this category included the listing of Mittal Steel. In 2007 it included new listings resulting from the ArcelorMittal (formerly Arcelor), Reyal Urbis, Martinsa-Fadesa, and Vértice 360 mergers.

2.3 Trading

2.3.1 Spot trading

The trading volume on Spanish stock exchanges in 2007 was very large. The value of trades surged by 43.9% year-on-year to over 1.6 trillion euro. This increase is particularly noteworthy considering that it followed three consecutive years of 30%-35% annual volume growth. It is also significant that in 2007 the effect of rising share prices on trading volumes was less than in the three preceding years.

Most of this trading was done on the electronic market (see Table 2.8). The average value of trading per session increased from 4.506 billion euro in 2006 to 6.535 billion euro in 2007. The total number of trades reached 34.5 million, up 49% on the figure for 2006. This increase was slightly higher than the volume of trading by value (45%), which shows that the average size of trades[4] was slightly lower (3%).

Trading in open outcry sessions (as opposed to the electronic market) declined considerably as SICAVs transferred to the MAB (see Section 2.5.2).

Equities trading[1] TABLE 2.8

Million euro

	2004	2005	2006	2007	% change 07/06
Total, all markets	**641,742.4**	**853,588.1**	**1,149,930.3**	**1,654,702.1**	**43.9**
Electronic market	**636,527.4**	**847,663.7**	**1,144,562.9**	**1,653,354.8**	**44.5**
Spanish	630,361.7	832,548.6	1,133,012.6	1,645,855.5	45.3
Foreign	6,165.7	15,115.1	11,550.3	7,499.3	-35.1
Open outcry	**5,193.7**	**5,898.5**	**5,318.1**	**1,154.4**	**-78.3**
of which SICAV	4,717.4	5,022.8	4,580.6	361.7	-92.10
Madrid	3,316.0	3,671.1	3,231.5	515.5	-84.1
Barcelona	1,123.6	1,560.2	1,192.3	444.4	-62.7
Bilbao	212.7	241.7	403.1	5.2	-98.7
Valencia	541.4	425.5	491.3	189.3	-61.5
Second market	**21.3**	**25.9**	**49.3**	**192.9**	**291.4**

Source: CNMV.
1. Excludes Latibex, MAB and ETFs.

The trading method most commonly used on the electronic market continued to be order-based trades in the regular session, followed by block-trading, which tends to be used by large foreign institutional investors (see Table 2.9). There was a significant increase in trading of secondary public offerings; two such offerings (Iberdrola Renovables and Criteria CaixaCorp), were particularly large and together accounted for 75% of all share offering-based trading.

Trading in the shares of particular companies clearly reflect the high degree of concentration of trading on the Spanish stock exchanges. The three most-traded stocks

4. The average cash value per trade was 47,866 euro in 2007, down from 49,455 euro in 2006.

Trading on the electronic market by type[1]

TABLE 2.9

Million euro

	2004	2005	2006	2007	% change 07/06
Regular trading	599,874.2	798,934.52	1,080,120.5	1,577,249.5	46.0
Order-based	353,532.0	488,416.30	658,891.1	985,087.6	49.5
Put-throughs	71,360.1	82,403.14	105,899.4	155,085.1	46.4
Block trades	174,982.0	228,115.08	315,330.0	437,076.8	38.6
Off-hours	26,037.3	27,863.00	11,648.8	18,301.5	57.1
Authorised trades	1,367.2	4,773.43	4,052.1	4,189.6	3.4
Art 36.4 SMA trades[2]	826.0	1.33	6,439.7	0.0	-100.0
Takeover bids	1,698.8	6,682.77	18,094.5	26,284.3	45.3
Secondary offerings	3,057.2	226.35	3,264.0	11,177.5	242.4
Pre-registered off-market	278.5	2,298.89	10,347.9	2,954.4	-71.4
Exercise of options	3,388.3	5,268.01	8,279.8	10,240.4	23.7
Hedging	—-	1,615.44	2,315.6	2,957.8	27.7
Total trading	**636,527.4**	**847,663.7**	**1,144,562.9**	**1,653,354.8**	**44.5**

Source: CNMV.

1. Does not include figures for Latibex, MAB or ETFs.
2. Other, non-standard deals not subject to official secondary market regulations but reported to the markets.

in 2007 (Santander, Telefónica and BBVA) made up 49.4% of the total. Nine stocks[5] accounted for 75% (see Table 2.10). For the second year in a row, Santander was the most highly traded stock with a turnover of 301,115.9 million euro, 18.2% of the

Concentration of equity trading in the Spanish exchanges[1]

TABLE 2.10

No. of companies required to attain a given percentage[2]

	2006				2007			
	25%	50%	75%	100%	25%	50%	75%	100%
All markets[3]	**2**	**4**	**11**	**3.252**	**2**	**4**	**9**	**560**
Electronic market	**2**	**4**	**10**	**137**	**2**	**4**	**9**	**151**
Spanish	2	4	10	131	2	4	9	144
Foreign[1]	1	2	2	6	1	1	2	7
Open outcry	**18**	**86**	**274**	**3.105**	**2**	**4**	**13**	**399**
Second market	**1**	**1**	**2**	**11**	**1**	**2**	**4**	**10**

Source: CNMV.

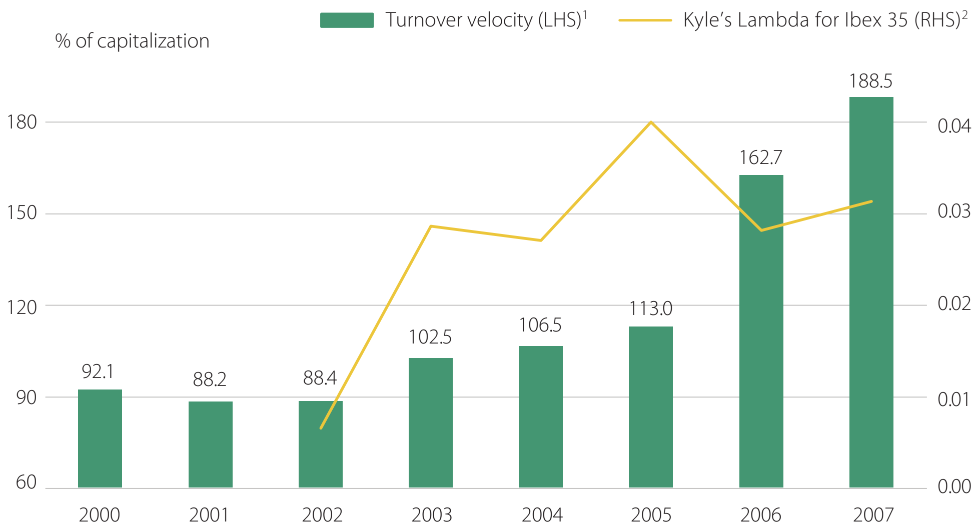
1. Excludes Latibex, MAB and ETFs.
2. The total number of companies in which trading actually took place in the relevant market during the year. Thus: (i) listed companies in which no trading occurred have been excluded; (ii) companies that delisted during the year but in which some trading took place have been included, and (iii) companies that moved from one market to another and were traded in both are included for each market at the trading volume in each case.
3. The number of companies in "All markets" may be smaller than the total amount of companies in each single market, due to the changes of market by some of these companies..

5. These were, in order of trading volume: Santander, Telefónica, BBVA, Endesa, Iberdrola, Repsol YPF, Altadis, Banco Popular and Inditex.

total volume of the market as a whole. Second came Telefónica, with a trading volume of 286,907.1 million euro, 17.3% of the total. Some way below this was BBVA, at 229,852 million euro, or 13.9% of the total (see Annex II.6).

Higher levels of activity on the electronic market resulted in improved liquidity. Turnover velocity, i.e. the ratio of the cumulative volume traded in the year to average monthly market capitalization, increased further in 2007 on top of the sharp rise in 2006. The ratio reached 188.5%, up from 162.7% in 2006. There was also an improvement in market depth as measured by Kyle's Lambda, the proportion of market value needed to change the Ibex 35 index by 1% (see Figure 2.1).

Liquidity – electronic market FIGURE 2.1



Source: Sociedad de Bolsas and CNMV.
1. Percentage of total annual trading volume / average monthly market capitalization.
2. Percentage of market capitalization needed to change the Ibex 35 index by 1%.

2.3.2 Margin trading and securities lending

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

These kinds of transaction have shown significant growth in recent years. This is especially true of securities lending (*crédito* and *préstamo* systems), which allows borrowers to adopt a range of investment strategies, including the use of derivatives for hedging purposes or shorting stocks to profit from a bear market. In 2007, high levels of volatility and the sharp decline in equity prices from mid-year onwards resulted in increased levels of short selling and a cutback in margin trading.

The volume of short selling using the *crédito* system rose by 46.2% compared with 2006 (see Table 2.11). However, volumes remained at a very low level in comparison with securities lending (*préstamo* system), which increased by 51.6% to 835,326.9 million euro, i.e. 99.9% of all short sales in 2007. The main stock borrowed in 2007 was Banco Santander, accounting for 23% of the total, followed by

Securities lending (crédito and préstamo systems) TABLE 2.11

Million euro

	Securities lending (*crédito* system)[1]		Securities lending (*préstamo* system)[2]	
	Outstanding balance	Trading volume	Outstanding balance[3]	Trading volume
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
2006	73.6	379.9	62,058.2	550,850.4
2007	112.4	555.4	79,532.9	835,326.9

Source: CNMV.

1. Trades performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions. The outstanding balance is the end-of-year figure.
2. Regulated by Article 36.3 of the Securities Market Act and Order ECO/764/2004.
3. The total balance less any amount re-lending. Figures are end-of-year data.

BBVA (17.1%) and Telefónica (16.5%). Overall, the outstanding balance of loaned securities grew by 28.2% to reach a year-end total of 79,532.9 million euro. The stock with the largest outstanding value of loaned securities was Telefónica: 18.7% of the total.

In contrast, the volume of securities purchased on credit (margin trading) fell by 19.7%, with the outstanding balance declining by 15.2% to 59.4 million euro (see Table 2.12).

Margin trading[1] TABLE 2.12

Million euro

	Outstanding balance[2]	Trading volume
2002	31.5	382.9
2003	32.8	346.1
2004	46.7	401.8
2005	52.3	465.0
2006	70.1	511.9
2007	59.4	411.3

Source: CNMV.

1. Trades performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions.
2. Figures are end-of-year data.

2.4. Takeover bids

In 2007, authorisation was given for 16 takeover bids[6]; in three cases, the deadline for acceptance is in 2008. Of these 16 bids, 11 were authorised under the now repealed Royal Decree 1197/1991 of 26 July, and five were made under the new

6. See Annex II.8.

Royal Decree 1066/2007 of 27 July on takeover bids, which came into effect on 13 August 2007.

Takeover bids TABLE 2.13

Million euro

	2003	2004	2005	2006	2007[1]
Authorised[2]					
Number	13	9	13	21	16
Potential value[3]	7,535	2,048	7,511	62,615	48,939
Completed[4]					
Number	12	9	9	14	16
Amount	4,335	1,973	6,822	18,997	43,179

Source: CNMV.

1. Figures for this year do not include two bids made in 2007 which were not completed during the year. The target companies of these bids were Compañía Española para la Fabricación Mecánica del Vidrio, Procedimientos Libbey-Owens (authorised in 2008) and Sogecable (currently being considered).
2. Authorised during the year.
3. This does not include the potential value of bids that were withdrawn. The bid by E.ON for Endesa is included in the figure for 2006 at the value that resulted from the modification to the bid that was approved in February 2007. A final modification to the bid was subsequently approved in March 2007; this resulted in a final potential value for 2006 of 63.938 billion euro.
4. All bids authorised during the year including those completed the following year, except where the bid was unsuccessful or was withdrawn.

Of the 11 bids that were authorised before the new rules came into effect, seven were made with the aim of gaining control of the target company, that is, securing a holding of more than 50%, either from a previous nil holding (three bids), or from a smaller holding (four bids). Of the remaining four bids, all were made with the intention of taking the company private, three of them having been made by the majority shareholder.

Five bids were made after the new rules came into effect. Three of these had the aim of securing or strengthening the bidder's control over a target company, and two were buyback offers involving a capital reduction.

The introduction of new rules means that there are now two basic types of takeover bid: compulsory and voluntary. Of the five bids authorised under the new regulations, three were compulsory. Two of these, directed at Metrovacesa and Tubos Reunidos, were of the capital reduction type. In the case of the bid for Aguas de Barcelona, which was made under the terms of the Additional Provision to Act 6/2007, the bidders had secured more than 50% of Aguas de Barcelona's shares after presenting the bid but before the bid was authorised; as a result, the bid, which had initially been voluntary, then became compulsory under the terms of that Act.

The other two bids authorised under the new rules were voluntary. At the time of the bid for Altadis, the bidder did not already hold an interest in the target company, while in the case of the bid for Uralita the bidder was subject to the Additional Provision of Act 6/2007 since, at the time of the bid, it already possessed a shareholding of between 30% and 50% in the target company.

The year's largest transactions included cash offers by Enel Energy and Acciona for Endesa, and the bid for Altadis by Imperial Tobacco, whose potential market values amounted to 22.957 and 12.622 million euro, respectively. Authorisation was given for a further four bids, each with a potential market value of over 1.5 billion euro (Fadesa, Riofisa, Aguas de Barcelona and Metrovacesa, although in the latter case the consideration was payable in shares).

All bids were for cash with the exception of the Metrovacesa capital reduction offer, payment for which was in the form of pre-existing shares of that company's subsidiary, Gecina.

The new regulations introduced the concept of a fair price: the bids for Uralita and Aguas de Barcelona were made at a fair price according to the terms of Article 9 of the new Takeover Regulation. In the case of the bid for Uralita, the offer price was raised after the bid had been made but before it had been authorised, with a view to meeting Article 9 requirements.

Four bids included a provision that the offer price would be automatically adjusted if a dividend was paid or a share split or bonus issue was carried out. Only in the Endesa bid did the bidders adjust their offer price as a result of the payment of a dividend by Endesa. The adjustment was made before authorisation of the bid was given.

Six bids were made conditional on a certain minimum number of shares being acquired to ensure that, after the bid, the bidder would own not less than 50% of the target company. In four cases, the bidder had entered into agreements with shareholders of the target company for the transfer of their holdings. In three of these four cases, the agreements ensured that the bidder's minimum shareholding condition was met simply through the acceptance of the offer by the shareholders involved.

In the case of the Endesa and Altadis bids, in addition to being conditional on a minimum number of shares being acquired, the bids were also made conditional upon the General Meeting of the target company making changes to the limits on voting rights and other restrictions. The relevant amendments to the articles of association were approved by the General Meeting in both cases. In all bids that were subject to such conditions, the bidders' conditions were fulfilled.

Three of the bids authorised in 2007 were to merge the bidder with the target and for the resulting entity to continue in existence as a publicly listed company. In the bid for Inmofiban, the aim was to bring about a reverse merger where the bidder would be absorbed by the target company, while in the Fadesa and Riofisa bids the intention was that the bidder would be the absorbing company (although Riofisa was eventually delisted).

Along with the bid for Endesa in Spain, a bid was simultaneously launched in the USA, directed at holders of Endesa American Depository Shares (ADSs). The bid for Altadis was conducted both in Spain and in France since Altadis shares were also listed on Euronext Paris.

Of the five bids authorised after the new takeover regulations came into effect, only in one case, the Altadis bid, did the bidder state its intention of performing a squeeze-out if the conditions foreseen by the regulations occurred. These conditions were that, at the time the bid was settled, at least 90% of the Altadis share capital should be in the hands of the bidder and that the bid should have been accepted by shareholders holding not less than 90% of the voting rights. As these conditions had been satisfied, the bidder exercised its squeeze-out right in Altadis, and the operation was settled on 21 February 2008. The shares were then delisted. This was the first time that the squeeze-out procedure had been used on the Spanish stock market.

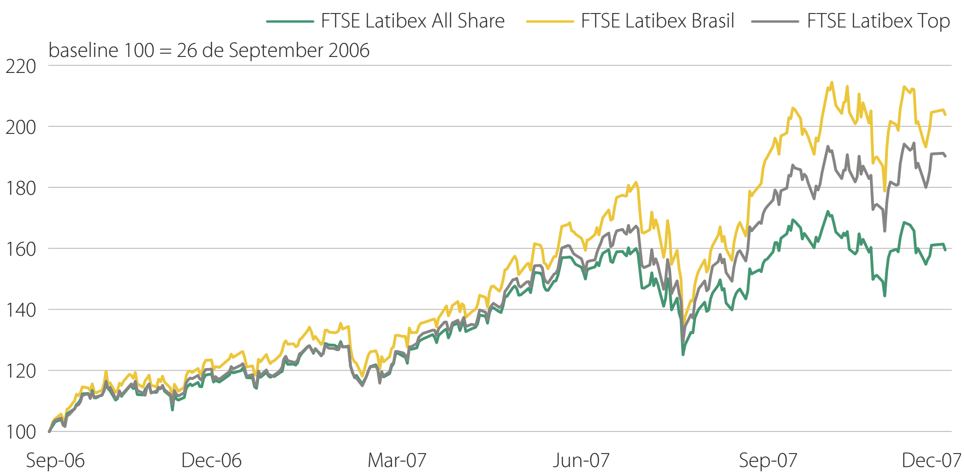
2.5. Multilateral trading facilities

2.5.1 Latibex

Since it was set up in late 1999, Latibex has allowed shares listed on Latin American stock markets to be traded in euro. Since then it has continued to grow and develop at a steady pace. This trend was maintained in 2007.

Latibex market indices showed high returns despite a setback during the summer caused by turbulence surrounding the US subprime mortgage market (see Figure 2.2), and notwithstanding the adverse effect of certain Latin American currencies weakening against the euro. The market's strong performance was driven by solid economic progress in the region both in terms of growth and financial stability. The FTSE Latibex Brazil index showed an annual return of 64% thanks to the strength of the Brazilian economy and the 7.6% appreciation of the Brazilian real against the euro in 2007. The FTSE Latibex All Share index also showed very strong gains of 57.8%, with the FTSE Latibex Top index showing a somewhat lower increase of 33.7%.

FTSE Latibex All Share index performance FIGURE 2.2



Source: Madrid Stock Exchange.

The number of companies traded on Latibex remained unchanged at 34, with the addition of the Mexican telecommunications company Lusacell being offset by the exit of Banistmo, a Panamanian company. One already listed company, Brazil's Usiminas, also listed the series of ordinary shares. A further development was the July launch by BBVA of ETFs tracking the FTSE Latibex Top and FTSE Latibex Brazil indexes[7].

7. For further information on these ETFs, see Annex II.10.

Companies traded in Latibex by country TABLE 2.14

Million euro

	Number		Market capitalization			Trading volume		
Country	2006	2007	2006	2007	% change 07/06	2006	2007	% change 07/06
Argentina	2	2	912.7	1,141.4	25.1	2.7	3.7	38.6
Brazil	15	15	178,013.1	324,889.5	82.5	422.1	555.6	31.6
Chile	4	4	21,647.0	20,395.9	-5.8	55.0	72.9	32.5
Costa Rica[1]	1	1	98.0	0.0	-100.0	5.5	0.0	-100.0
Mexico	8	9	67,277.4	79,697.6	18.5	173.7	174.7	0.6
Panama	1	0	1,340.5	0.0	-100.0	15.7	0.0	-100.0
Peru	1	1	1,138.4	987.0	-13.3	21.7	36.0	66.2
Puerto Rico	1	1	688.8	283.6	-58.8	23.9	25.0	4.7
Venezuela	1	1	525.8	378.6	-28.0	3.1	0.3	-91.3
Total	**34**	**34**	**271,641.8**	**427,773.6**	**57.5**	**723.3**	**868.2**	**20.0**

Source: CNMV.
1. Market capitalisation is zero as there was no trading in this stock throughout the year.

The growth of Latibex continued in 2007, both in terms of market capitalization and trading volumes. The market value of Latibex listed companies saw a substantial increase in 2007 (see Table 2.14) thanks in large measure to the effect of appreciation by Brazilian shares and, to a lesser extent, issues of new shares. By year-end, the aggregate value of the market had reached 427,773.6 million euro, a year-on-year rise of 57.5%. The total volume of trading in 2007 was 868.2 million euro, 20% higher than the figure for 2006.

The predominance of Brazilian and Mexican stocks on the Latibex market increased in 2007. These stocks accounted for 94.6% of the total market capitalisation (90.3% in 2006) and 84.1% of the total trading volume (82.4% in 2006).

2.5.2 The Alternative Stock Market

The Alternative Stock Market (MAB) saw considerable development in 2007. The first sector of this market was established as a forum for trading in the shares of open-ended investment companies (SICAVs). Trading commenced on 29 May 2006 with a total of 2,348 listed companies that had formerly been traded on open outcry markets and 57 newly-listed companies. In 2007, the movement of SICAVs from the open outcry system to MAB continued, increasing the number of new listings. In all, 718 companies transferred to MAB and 191 new companies were listed. By the end of 2007, a total of 3,283 SICAVs were being traded on MAB, with only seven still being traded by open outcry.

On 22 May 2007, to broaden the range of securities traded on the market, approval was given to a new section of the market on which venture capital companies and funds would be traded. On 27 June, BBVA Capital Privado, a venture capital fund, joined this section. There are plans to create another two sections in this market, for growth stocks and hedge funds. The main purpose of these additions is to facilitate capital-raising for investment by expanding companies and broaden the investor base of hedge funds.

Market capitalization and trading volume figures for SICAVs on the MAB market show the increase in size and activity during the year. The market capitalisation of SICAVs at the close of the year amounted to 41,576.8 million euro, 39.2% more than at the end of 2006. The market capitalisation of SICAVs traded on the open outcry market fell to 245.4 million euros (see Table 2.1). The total trading volume in 2007 was 6,985.2 million euro. This is an increase of 132.8% in the average daily trading volume compared to 2006.

2.6. Exchange-traded funds

The year 2007 saw strong growth in the demand for, and trading of, exchange-traded funds (ETF). This product is a hybrid between index tracker funds and equity shares. ETFs are especially attractive to retail investors as they provide an opportunity to invest in a wide range of assets and markets for a modest outlay, while providing better liquidity and lower costs than traditional mutual funds. The ETF market is expanding rapidly all over the world, and it is significant that ETFs are some of the most heavily-traded stocks on US markets.

In Spain, the first ETFs began to be traded on the electronic market in mid-2006. In 2007, the market continued to develop rapidly. Sixteen new ETFs were added to the five launched in 2006. The range of underlying indices was greatly expanded, increasing from two (Ibex 35 and DJ Euro Stoxx 50) to 18, thus allowing investors to invest in small and medium caps on the Spanish market, fixed-income indices or emerging markets (see Annex II.10).

There were again three issuers of ETFs: BBVA, Santander and Lyxor (part of the Société Générale group). The value of assets managed by these institutions increased from 376.8 million euro at the end of 2006 to 885.8 million euro at the end of 2007. This figure is still very low when compared with the assets of traditional investment funds, which amount to 225,040.9 million euro. ETF assets were highly concentrated, with 83.4% of the total being under the management of BBVA, and 75% being held in three BBVA-issued ETFs[8].

The volume of trading in ETFs grew 155.3% to 4,664.5 million euro. The most heavily traded ETFs were the three Ibex 35-based funds, which made up 63.8% of the total. Next came the two ETFs with the DJ Euro Stoxx 50 as their underlying, which accounted for 18.6% of the total trading volume. Returns of these five ETFs, which were traded throughout the year, were 7.4% in the case of the Ibex 35 funds and 6.6% for the DJ Euro Stoxx 50 funds.

8. AFI Monetario Euro ETF, Acción Ibex 35 ETF and Acción DJ Euro Stoxx 50.

3. Fixed-income markets

Activity in the fixed-income markets was severely affected by the crisis that originated in the US subprime mortgage market. Issuance fell sharply in the second half of the year, with the exception of commercial paper and issues of mortgage- and asset-backed securities (MBS and ABS respectively). Issues of MBSs and ABSs reached very high levels in the last quarter of the year as banks increasingly came to rely on them for funding in the ensuing liquidity crisis, either by selling them in the marketplace or by using them as collateral to borrow cash from the European Central Bank.

Mortgage market dislocation caused money market interest rates to move sharply upwards in the second half of 2007, showing a cumulative increase of more than 100 basis points for the year as a whole on both deposits and commercial paper.

Uncertainty in the equity markets prompted a flight to quality by investors. This, added to downward revisions of economic growth expectations, helped to bring down government bond yields and caused credit spreads to widen considerably. Government bond yields rose until July but started to fall again in the second half of the year. The overall result was that yields at year-end were up on December 2006, with rises of 23 basis points on three-year bonds, 30 basis points on five-year bonds, and 53 basis points on ten-year bonds. Credit spreads for ten-year debt climbed from a low of 30 basis points in October to end the year at 60 basis points.

As in preceding years, financial institutions were the main issuers of fixed-income securities, accounting for more than 90% of gross issuance in 2007. Of the three main categories of issuer (financial institutions, non-financial companies and government), financial institutions were alone in issuing more than in 2006, although the percentage increase was smaller (see Table 3.1).

In the case of the public sector, a lower level of gross issuance in 2007 was due to a reduced need for finance. This resulted in a further widening of the gap between the amount of outstanding public sector and private sector issues, with the result that in 2007 the value of private sector bonds outstanding reached almost three times that of public debt (see Figure 3.1).

The pattern of issuance on the Spanish primary fixed-income market was at variance with that in the euro zone as a whole. First, not only did gross and net issuance by public sector bodies in Spain represent a smaller proportion of the total than in the euro area, but it actually declined, contrasting with an increase in Europe. Second, issues by non-financial companies made up 10% of the total in the euro area, but only 1% in Spain. One area of similarity was the proportion of total issues accounted for by financial institutions; in the euro zone, as in Spain, these were the largest issuers in 2007, accounting for 78% of the total.

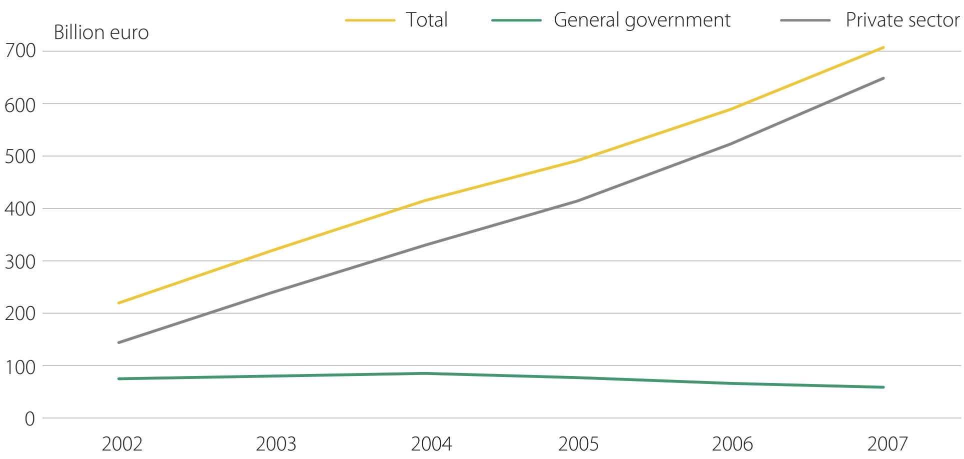
Gross issues and outstanding balances by type of issuer TABLE 3.1

Nominal amounts in million euro

	Amount[1]		% change		Pro memoria: EMU	
	2006	2007	2006	2007	2007	% chg. 07/06
Gross issuance	**676,520**	**784,677**	**24.2**	**16.0**	**13,571,200**	**19.7**
Public sector	68,006	59,979	-13.0	-11.8	1,530,400	7.5
Private fixed-income	608,515	724,699	30.5	19.1	12,040,800	21.5
Financial institutions	597,592	715,004	30.9	19.6	10,582,800	20.3
Non-financial companies	10,923	9,694	12.4	-11.2	1,458,000	30.9
Net issuance	**223,998**	**219,193**	**24.3**	**-2.1**	**999,100**	**23.6**
Public sector	-2,734	-4,362	-	-59.5	131,200	16.4
Private fixed-income	226,732	223,555	30.7	-1.4	867,900	24.8
Financial institutions	225,734	221,531	30.0	-1.9	811,000	22.3
Non-financial companies	998	2,023	-	102.7	56,900	75.1
Outstanding balance	**1,076,309**	**1,288,321**	**25.9**	**19.7**	**12,043,300**	**8.7**
Public sector	342,882	337,995	-1.0	-1.4	4,835,000	2.6
Private fixed-income	733,427	950,326	44.2	29.6	7,208,300	13.1
Financial institutions	721,815	936,701	45.0	29.8	6,521,300	13.7
Non-financial companies	11,612	13,625	9.4	17.3	687,000	8.1

Source: Bank of Spain, CNMV and ECB.
1. Includes issues in Spain and other countries.

Fixed-income issuance in Spain FIGURE 3.1



Source: Bank of Spain and CNMV.

3.1 Public debt

3.1.1 Issues

Gross issuance by public sector bodies totalled 59.979 billion euro, down from 68.006 billion euro the previous year. The decrease reflected a fall in issuing activity by all public sector bodies: central government, regional governments and local authorities (see Annex II.11). Gross issuance of securities in foreign markets remained very low (falling by nearly half from the previous year's figure to 1.152 billion euro compared with 2.143 billion in 2006) and consisted almost exclusively of issues by regional governments.

The year 2007 saw a change in the composition of fixed-income issues by type of instrument. Issuance of short/medium and long-dated government bonds was lower than expected (25.120 billion euro compared with a forecast total of 30.700 billion), while redemptions exceeded expectations (30.980 billion euro compared with a forecast of 28.500 billion). In the case of Letras del Tesoro (Treasury bills), however, net issuance in 2007 exceeded forecasts (1.144 billion euro against an initially forecast 600 million). Overall, the year-end figure for net issuance by central government was negative, at 4.716 billion euro, compared with a forecast (positive) net issuance of 1.200 billion euro[1].

In terms of outstanding balances, Letras were up by 1.143 billion euro, while Bonos and Obligaciones fell back by 3.154 billion euro. This reduction was not evenly distributed among different classes of investor: while financial and monetary institutions increased their portfolios by more than 4.624 billion euro, foreign-domiciled investors reduced their exposure by more than 9.940 billion euro.

For further details of changes in gross and net issuance during the year, see Annexes II.11 and II.12, respectively.

3.1.2 Trading

The Public Debt Book-Entry Market continued to be Spain's largest organised securities market[2] by trading volume.

This market comprises two main areas of trading: trading between account-holding market members and trading between registered dealers and third parties. There are two methods of trading between account-holding members: trading on electronic platforms (such as Senaf, MTS-España, EuroMTS and Brokertec)[3], and bilateral trading.

Trading between market members and trading with third parties may be either outright (for both spot and forward transactions) or temporary (repos and sell-buybacks/buy-sellbacks). With regard to electronic trading platforms, Senaf provides spot trading in Bonos and Obligaciones and Letras and also in sell-buybacks/buy-sellbacks in Obligaciones and Bonos. EuroMTS, Brokertec and MTS-España operate mainly as platforms for trading in the main Bono and Obligación references. Until March 2007, sell-buybacks/buy-sellbacks could also be traded on the MTS-España platform, but this facility has now been closed.

1. «Estrategia de emisión de los valores del Tesoro 2007», Directorate-General of the Treasury.
2. Equity or fixed-income.
3. Senaf and MTS-España are recognised as multilateral trading facilities and are subject to special regulation under the Securities Market Act, subject to the supervision of the CNMV. EuroMTS and Brokertec are domiciled in the United Kingdom and are subject to the authorisation and supervision regime applicable in that country.

Trading in central government debt. Total market TABLE 3.2

Million euro

	2003	2004	2005	2006	2007	% chg. 07/06
Letras	**2,607,855**	**2,273,364**	**2,230,370**	**1,695,552**	**1,594,556**	**-6.0**
Outright	90,195	115,549	116,478	93,332	57,925	-37.9
Spot	89,751	114,951	116,087	92,831	57,363	-38.2
Forward	444	598	390	501	561	12.0
Repos	2,076,928	1,770,719	1,709,753	1,185,339	1,230,166	3.8
Sell-buybacks/buy-sellbacks	440,732	387,095	404,139	416,881	306,466	-26.5
Bonos and Obligaciones	**18,682,471**	**20,560,318**	**19,989,574**	**20,919,806**	**21,069,771**	**0.7**
Outright	2,220,233	2,133,892	2,531,614	3,137,244	3,413,112	8.8
Spot	2,157,130	2,021,747	2,222,121	2,810,314	3,120,022	11.0
Forward	63,103	112,145	309,494	326,931	293,090	-10.4
Repos	9,100,744	10,707,375	9,700,501	9,850,419	9,741,672	-1.1
Sell-buybacks/buy-sellbacks	7,361,493	7,719,051	7,757,459	7,932,144	7,914,986	-0.2
Total	**21,290,326**	**22,833,682**	**22,219,944**	**22,615,358**	**22,664,327**	**0.2**

Source: Bank of Spain.

Trading in central government securities, including repos, showed a slight increase (0.2%) in 2007 compared with 2006. If outright trades (both spot and forward) are considered in isolation, however, the increase is larger (7.4%). The higher trading levels were due to increased trading activity in Bonos and Obligaciones (up 8.8%), given that trading in Letras fell by 37.9%.

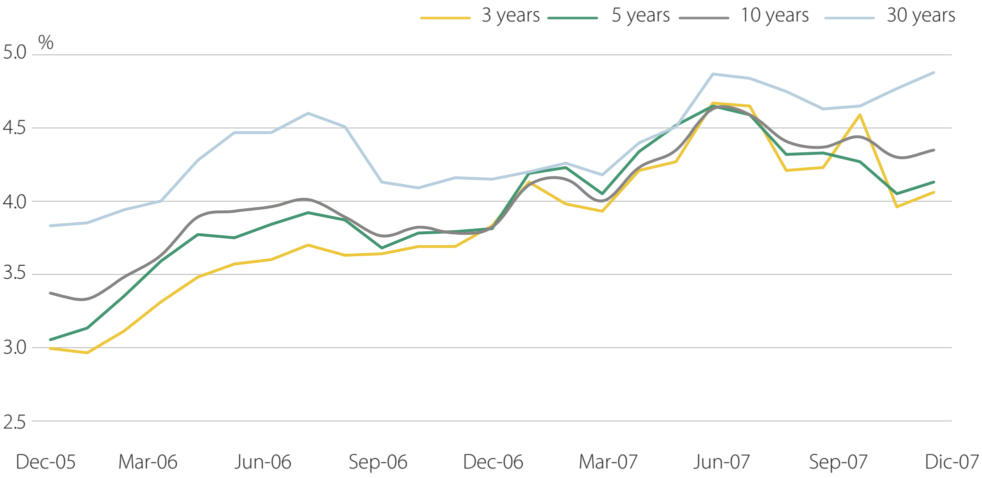
The volume of trading in Spanish public sector debt remained fairly stable throughout the year, although monthly figures show that activity was higher in the July-September period. The increased levels of trading in this period were fuelled by a strong demand for assets with the highest credit ratings, a consequence of the US subprime mortgage crisis (see Chapter 1). In these months, turnover velocity rates[4] for outright spot trades in Bonos and Obligaciones (debt strips) reached peak levels with values rising to over 130. Average turnover velocities also showed significant increases, rising from 92 in 2006 to 101 in 2007, suggesting a growing shortage of bonds available for trading.

Outright trading between market members fell by 11.1%[5] overall. If repo trades are included, this decrease is reduced to just 0.8%. The fall in the number of outright trades is explained to a large extent by a further decline[6] in the volume of trading on electronic platforms, which fell by 25.0%. On the other hand, trading by market members with third parties went up by 10.9% in outright trades and 0.7% overall, though this was due solely to increased trading in medium- and long-term debt.

Further details of trading on the Public Debt Book-Entry Market can be found in Annexes II.13 to II.16.

4. A ratio calculated by the Bank of Spain for non-stripped debt as: (value traded / value in circulation) * 100. By the standards of previous years, velocity rates for the whole of 2007 can be regarded as high.
5. Due to falls of 44.1% in Letras and 6.4% in Bonos and Obligaciones.
6. The volume of government debt traded on electronic trading platforms has shown a decline in every year since 2003, when it amounted to 13.8% of the total; in 2007 it was just 2.5%.

Medium- and long-term public sector debt yields FIGURE 3.2



Source: Bank of Spain.

Interest rates on Letras and yields on Bonos and Obligaciones were higher than in December 2006. However, the direction of movement did not remain constant throughout the year. Yields increased from January to June, then fell between July and December. There were two reasons for this: a downward revision in both short and longer term growth forecasts for the economy, and the appeal of government securities as a safe haven for investors.

Yields on 12-month Letras ended the year at 4.11%, 33 basis points higher than in December 2006, although in July they were showing a rise of 65 basis points.

Yields on Bonos and Obligaciones continued to rise until June, when they reached a peak across all maturities. Increases in rates ranged between 81 basis points for ten-year bonds and 84 basis points for three-year bonds. Thereafter, fears of worsening economic growth prospects caused yields to fall back. At the end of the year, three-year yields had reached 4.06% (23 basis points higher than in December 2006), while five-year yields stood at 4.13% (up 32 basis points), and ten-year yields at 4.35% (up 53 basis points).

3.2 Private fixed-income

The mortgage and financial market crisis impacted heavily on the Spanish private fixed-income markets, just as it did on the global bond markets. Credit spreads increased significantly for Spanish bond issuers and resulted in lower levels of issuance, especially in the last quarter of the year (except for commercial paper and asset- and mortgage-backed securities). As explained at the beginning of the chapter, the high levels of ABS and MBS issuance are due to the fact that, in many cases, dislocation in the interbank market drove the banks that originated these securities to retain them for use as collateral to obtain funding from the Central European Bank.

3.2.1 Primary market

The aggregate nominal gross issuance of private fixed-income securities by Spanish issuers in 2007 was 723,075 billion euro, an increase of 18.8% on 2006 (see Table

3.1). This figure was the result of a 24% increase in issuance on the domestic market and a 13% fall in issues on foreign markets that were not registered with the CNMV.

Gross issues registered with the CNMV[7] rose to a total of 648.757 billion euro (see Table 3.3). A noteworthy development during the year was the decline in issues of mortgage covered bonds, territorial covered bonds and corporate bonds and debentures. This downward movement started in the third quarter of the year and became more pronounced in the fourth quarter. Mortgage covered bond issuance, for example, declined from a total of 15.646 billion euro in the first half of the year to 9.050 billion in the second half. Issues of non-convertible bonds, which had exceeded 9 billion euro in the first and the second quarters, fell to just 257 million euro in the fourth quarter.

Gross issues registered with the CNMV by type of instrument TABLE 3.3

Nominal amounts in million euro

						2007			
	2003	2004	2005	2006	2007	Q I	Q II	Q III	Q IV
Long-term issues	**83,841**	**115,359**	**149,894**	**188,674**	**206,323**	**59,304**	**49,990**	**41,318**	**55,711**
Non-convertible bonds & debentures	17,943	38,124	41,907	46,688	27,416	9,982	9,427	7,750	257
of which: subordinated debt	4,101	4,395	1,905	6,555	2,381	937	342	1,095	7
Convertible bonds & debentures	187	67	163	68	0	0	0	0	0
Mortgage covered bonds	17,864	19,074	35,560	44,250	24,696	8,400	7,246	6,525	2,525
Territorial covered bonds	4,200	1,600	1,775	5,150	5,060	1,450	1,500	2,000	110
Securitisation bonds	36,740	50,525	69,044	91,608	141,627	39,392	31,518	17,898	52,819
asset-backed (ABS)	31,710	45,635	62,194	87,308	136,887	38,428	30,468	17,898	50,094
mortgage-backed (MBS)	5,030	4,890	6,850	4,300	4,740	964	1,050	0	2,726
Preference shares	3,760	5,542	1,356	911	225	80	75	70	0
Other issues	3,146	428	89	0	7,300	0	225	7,075	0
Short-term	**155,767**	**214,603**	**264,360**	**334,457**	**442,433**	**114,144**	**106,967**	**122,465**	**98,857**
Commercial paper	155,767	214,603	264,360	334,457	442,433	114,144	106,967	122,465	98,857
of which: asset-backed	3,870	3,724	2,765	1,993	465	156	139	85	85
Total	**239,608**	**329,962**	**414,254**	**523,131**	**648,757**	**173,448**	**156,957**	**163,783**	**154,568**

Source: CNMV.

These developments added impetus to the trend observed in the last few years for new issues to be mainly ABS, MBS and commercial paper. Between 2004 and 2006, issues of these instruments accounted for roughly 81% of the total value of issues registered with the CNMV. In 2007, the proportion increased to 90%, primarily as a result of the higher relative share of ABS and MBS issues, which increased from 17.5% in 2006 to 21.8% in 2007.

Commercial paper continued to be the main source of finance for Spanish issuers[8]. The volume of paper outstanding remained slightly above 221.000 billion euro in both the first and the second halves of 2007.

7. For details of the main issues registered with the CNMV, see Annexes II.18 to II.21.
8. For details of the principal issuers and types of instrument, see Annexes II.19 and II.21.

In Spain, private fixed-income instruments are traded on two markets, AIAF and the stock exchanges. Assets of all types can be listed on AIAF, except for convertible bonds and debentures, which can only be traded on stock exchanges. Details of the number of issuers and issues and outstanding values of the different types of security for the two markets on which private fixed-income securities are traded are shown in Tables 3.4 and 3.5.

Issuers, issues and outstanding balances for fixed-income on AIAF TABLE 3.4

Nominal amounts in million euro

	No. of issuers		No. of issues		Outstanding balance		% chg.
	2006	2007	2006	2007	2006	2007	06/07
Commercial paper	69	73	2,242	2,493	70,779	98,468	39.1
Bonds and Obligaciones	390	456	1,319	1,673	377,090	491,574	30.4
ABS and MBS	257	316	856	1,157	222,866	328,925	47.6
Mortgage covered bonds	13	14	83	111	129,710	150,906	16.3
Territorial covered bonds	5	7	11	19	9,525	16,375	71.9
Matador bonds	19	15	26	18	1,839	1,238	-32.7
Total	**433**	**492**	**3,681**	**4,314**	**588,942**	**758,560**	**28.8**

Source: AIAF and CNMV.

Issuers, issues and outstanding balances for fixed-income on the stock exchanges TABLE 3.5

Nominal amounts in million euro

	No. of issuers		No. of issues		Outstanding balance		% chg.
	2006	2007	2006	2007	2006	2007	06/07
Total[1]	**57**	**53**	**264**	**249**	**17,105**	**25,655**	**50.0**
Regional governments	3	3	89	83	8,320	8,863	6.5
Other issuers	54	50	175	166	8,786	16,792	91.1
Barcelona Stock Exchange	46	44	201	188	15,198	16,726	10.1
Bilbao Stock Exchange	40	33	108	84	3,290	2,457	-25.3
Madrid Stock Exchange	32	28	94	74	2,678	8,965	234.7
Valencia Stock Exchange	36	32	144	125	3,796	3,233	-14.8

Source: Stock exchanges and CNMV.
1. Does not include book-entry government debt securities.

As the tables show, the bulk of fixed-income issues are traded on AIAF. AIAF-traded securities made up 97% of the total traded on AIAF and stock exchanges at the end of 2007. The outstanding nominal value of securities listed on AIAF at the end of the year stood at 758.560 billion euro, up 28.8% on the figure for 2006.

On the stock exchanges, the outstanding balance (excluding book-entry government debt) at the close of 2007 totalled 25.655 billion euro, a year-on-year increase of 50%. This was mainly due to a 7.000 billion euro issue of exchangeable bonds by Santander Emisora 150 which was listed on the Madrid Stock Exchange. There were also 57 new debt issues by Spanish regional governments, with the government of Catalonia being the largest issuer.

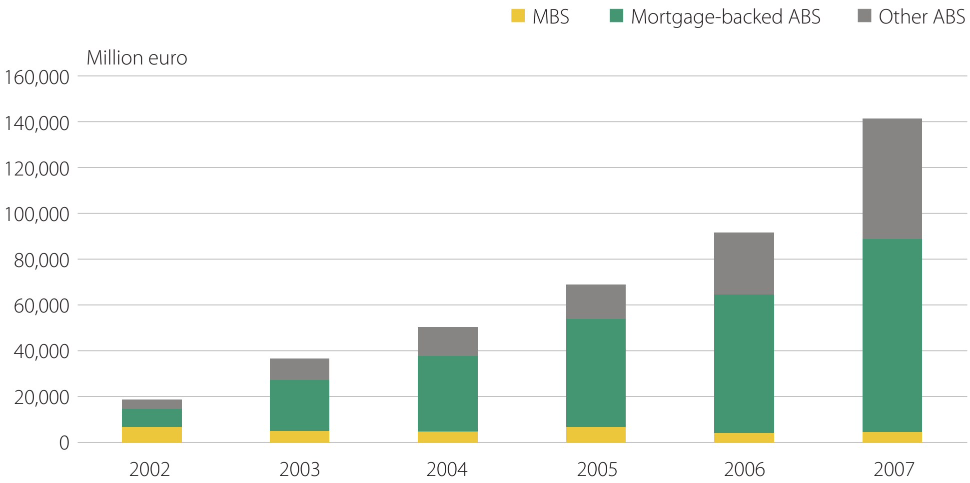
ABS and MBS issues

Securitisation bonds were another key area of activity in the Spanish fixed-income markets in 2007. In contrast to the declining pattern of issues of other types of instruments described above, issues of ABSs and MBSs in the domestic market grew by 55% in 2007 to a record figure of 141.627 billion euro. Asset-backed securities (ABSs) made up the bulk of these issues, totalling 136.887 billion euro, up 55% on 2006. Mortgage-backed securities (MBS) grew at a slower rate of 10% to reach a total of 4.740 billion euro.

The way these issues were distributed over the year shows that the bulk of growth in issues for the year as a whole took place in the fourth quarter (see Table 3.3 above and the box below). In the first quarter, issuing of ABSs and MBSs was at a high level; it then fell back to more modest levels and sank even lower in the third quarter as the mortgage market collapse brought about a general reduction in activity in the primary markets. In the fourth quarter, however, issuance surged to an all-time high. ABS/MBS issuance in the last three months of 2007 amounted to 52.819 billion euro, well above the quarterly average for the first half of 2007 (35.455 billion euro) and the quarterly average for the period 2004 to 2006 (17.598 billion euro).

Mortgage-backed securities continued to predominate, although the relative share of MBSs fell in 2007 due to the strong increase in ABS issues backed by corporate loans (see Annex II.22 and Figure 3.3).

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



Source: CNMV.

The strong growth in issues of ABS/MBS was due not only to the increase in the number of issues but also in their average size. Thirty-three issues amounted to more than 1.500 billion euro, which made up 72.5% of the total value of ABS/MBS issues. In 2006, only 21 issues exceeded this amount and their share of the total value was 61.5%.

The Spanish securitisation market in 2007

In 2007, the Spanish securitisation market reached a figure of 142.092 billion euro in publicly-traded securitisation bonds (ABSs and MBSs) and listed asset-backed commercial paper, an increase of 51.8% on 2006. Although these figures show very substantial growth, surpassing the already high rates (in the region of 30%) achieved in preceding years, 2007 showed an uneven progression with two contrasting tendencies.

In the first half of the year, the securitisation market showed a positive evolution, in line with preceding years. A significant proportion of Spanish AAA-rated bonds were sold in foreign markets during this period, as had been the case in the past.

In the second half of the year, however, the crisis unleashed by the problems in the US mortgage market impacted on the European securitisation market and, hence, the Spanish market. A lack of interest on the part of foreign investors in Spanish securitisation issues, combined with liquidity problems, indicated that investors were demanding higher premiums on securitisation bonds. With the market at a virtual standstill, numerous issuers used securitisation as a source of collateral to borrow from the European Central Bank. At the CNMV's recommendation, this intention was clearly stated in issue prospectuses. In these cases, the originators retained 100% of the bonds they had issued at low spreads. This procedure made it possible for the volume of securitisation issues to be maintained during the last few months of 2007. In this latter part of the year, along with mortgage assets, loans to SMEs and other businesses were a predominant collateral class, increasing by 64.9% over the year compared with 2006.

Key themes and developments in the setting up of securitisation funds during the year include the strong growth of "compartmentalised" funds set up to act as securitisation bond issue programmes, thus ensuring that new issues can proceed more rapidly. In addition to the consolidation of covered bond programmes (a new programme was established), two new collateral-generating programmes were launched, one for mortgage loans and one for loans to businesses. The most innovative types of asset used as collateral for securitisation during the year were receivables arising from drawdowns on 'mediation facilities' granted to banks by the Official Credit Institute for a total of 13.169 billion euro, as well as finance lease receivables, subordinated loans of covered bond securitisation trusts and future receivables, although in the latter case the trust was set up as part of a private transaction.

The year 2007 saw two further developments on the regulatory front which are of importance to securitisation funds. The first of these, Act 41/2007 of 7 December amending the Mortgage Market Regulation Act (Act 2/1981), makes it easier for mortgage bonds to be issued in series since registration with the property register is no longer required, introduces the concept of '«replacement assets», and lowers the limit for issues of mortgage covered bonds from 90% to 80% of the collateral pool. The second is Order PRE/3/2007, of 10 January, on Agreements for the Promotion of Asset Securitisation Trusts, which aims to provide new ways for businesses to raise money.

Issues in foreign markets

In 2007, issues in foreign markets by Spanish issuers totalled 74.318 billion euro, down from 85.383 billion euro the previous year. This was a break with the rising trend seen in previous years which in 2006 had resulted in more bonds being issued abroad than in the domestic market (see Table 3.6). In 2007, issues of bonds and debentures fell by 49.1% year on year. There was also a sharp fall in securitisation issues, both of commercial paper and bonds.

Gross private fixed-income issues by Spanish issuers in other countries TABLE 3.6

Nominal amounts in million euro

	2003	2004	2005	2006	2007	% chg. 07/06
Long-term issues	**842**	**7,320**	**36,886**	**59,719**	**37,469**	**-37.3**
Total	400	7,047	35,687	58,314	36,944	-36.6
Preference shares	400	905	1,915	1,004	1,537	53.1
Subordinated bonds	0	2,250	1,487	5,633	9,086	61.3
Bonds and debentures	0	3,891	32,285	51,677	26,322	-49.1
Securitisation bonds	442	274	1,199	1,405	525	-62.6
Short-term	**11,562**	**13,701**	**15,204**	**25,664**	**38,472**	**49.9**
Commercial paper	11,562	13,701	15,204	25,664	38,472	49.9
of which: asset-backed	10,422	13,045	12,367	16,517	12,088	-26.8
Total	**12,404**	**21,021**	**52,090**	**85,383**	**75,942**	**-11.1**

Source: Bank of Spain.

Financial institutions accounted for almost 90% of all gross issues in foreign markets. In particular, Santander group subsidiaries were responsible for almost 50% of the total and, in the non-financial sector, the Telefónica group accounted for a further 10%. The most frequently used financial centres were London (50% of the total), and Luxembourg (46%).

Sixty per cent of issues were in euro, 26% in US dollars, 10% in sterling and the remaining 4% in other currencies (yen, Mexican pesos, Canadian dollars and Czech koruny). All foreign issues of commercial paper, ABSs and MBSs outside Spain were in euro.

3.2.2 Secondary market

In 2007, private fixed-income securities traded on the AIAF and stock exchanges once again topped the 1 trillion euro mark (1,218.194 billion euro). Most of this trading was done on the AIAF market, which accounted for 92.6% of all trading in private fixed-income securities (see Tables 3.7 and 3.8).

In 2007, for the first time, volumes traded on AIAF topped the one trillion euro mark (1,127.478 billion euro). From the start of the year trading activity was above 2006 levels, rising to a peak in July when it reached an all-time high.

Trades on the AIAF market may be between market members (own account trading) or between members and their clients. Own account trading showed the largest increase in 2007, rising by 39.6% (see Annex II.23).

Total trading on AIAF

TABLE 3.7

Nominal amounts in million euro

	2003	2004	2005	2006	2007	% chg. 07/06
Total	**384,089**	**572,030**	**877,812**	**910,494**	**1,127,478**	**23.8**
By type of asset						
Commercial paper	265,604	291,903	408,185	489,069	568,010	16.1
Bonds and debentures	94,694	227,127	404,410	344,698	469,533	36.2
ABS and MBS	70,037	171,725	313,778	257,629	378,005	46.7
Mortgage covered bonds	16,745	46,014	60,061	70,113	80,811	15.3
Territorial covered bonds	3,939	3,357	2,740	3,659	7,750	111.8
Matador bonds	3,107	3,629	2,416	2,954	1,374	-53.5
By type of transaction						
Outright	142,861	242,333	322,819	386,369	416,478	7.8
Repos	191,866	197,778	284,520	330,840	441,363	33.4
Sell-buybacks/buy-sellbacks	49,362	131,919	270,473	193,285	269,637	39.5

Source: AIAF and CNMV.

Fixed-income trading on stock exchanges

TABLE 3.8

Nominal amounts in million euro

	2003	2004	2005	2006	2007	% chg. 07/06
Total	**66,566**	**77,017**	**87,998**	**89,758**	**90,716**	**1.1**
Regional governments[1]	64,758	76,259	83,204	84,261	83,866	- 0.7
Other issuers	1,753	717	4,758	5,462	6,816	29.4
Public debt book-entry securities	55	41	36	36	34	- 5.7

Source: Stock exchanges and CNMV.

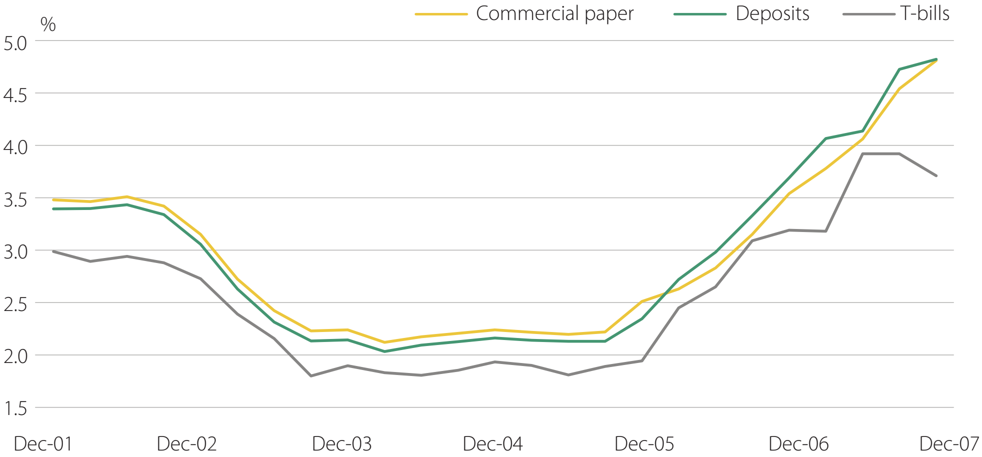
1. The regional governments of Catalonia, Valencia and the Basque Country. Does not include: Instituto Catalán de Finanzas, Diputación Foral de Vizcaya and Consorcio de Transportes de Vizcaya.

Of the total volume traded on AIAF in 2007, however, 50% was in commercial paper. Commercial paper trades were transacted mainly between market members and their clients (526.767 billion euro). Most of the trading in securitisation bonds, on the other hand, was between market members (205.044 billion euro).

A noteworthy development was the growth in non-outright trades (i.e. repos, which were the most common type of transaction in 2007, and sale-buybacks/buy-sellbacks). The bulk of outright trades was in commercial paper and asset- and mortgage-backed securities, each of which made up 30% of the total.

With regard to fixed-income trading on the stock exchanges, trading volumes on the Barcelona Stock Exchange reached a total of 86.669 billion euro, 95.5% of the total traded on Spanish exchanges. Of this total, 80.434 billion euro consisted of open outcry trading in debt securities issued by the Regional Government of Catalonia and another 6.022 billion was made up of trading in asset-backed securities (a 24% increase on 2006), which takes place only in open outcry sessions on that exchange.

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



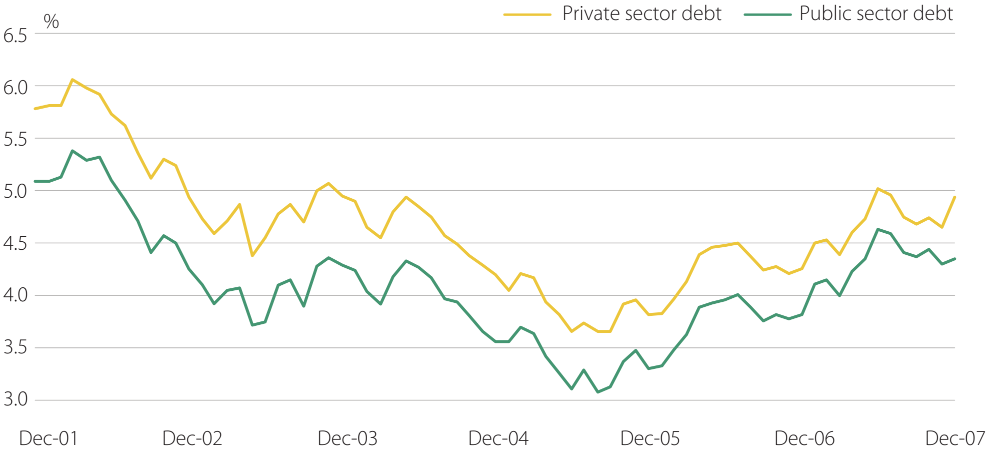
Source: Bank of Spain.

Credit spreads on corporate debt changed drastically in 2007. In the short term, the lack of liquidity associated with uncertainty in the money market propelled yields on commercial paper sharply upwards (by 127 basis points), higher even than the increase in rates on deposits (113 basis points). Both rates ended the year at close to 4.80%.

However, instability and changing expectations in the money markets were also reflected in interest rates on the Letra del Tesoro three-month repos, which reached 3.70% at the end of 2007, a rise of 52 basis points on 2006. The spread between commercial paper and Letras was over 100 basis points by the end of the year, a high not seen for 15 years.

Yields on ten-year corporate bonds stood at 4.94% at the end of 2007, 68 basis points higher than at the end of 2006. Credit spreads changed significantly in the last two months of the year. Until October spreads had followed a declining path in line with the trend of recent years, reaching a low of 30 basis points in that month. Yields on corporate debt then rebounded, increasing the spread to 60 basis points (see Figure 3.5).

Long-term fixed-income yields: private and public sector debt FIGURE 3.5



Source: Bank of Spain.

4. Registration, counterparty, clearing and settlement services

Spain has five platforms for the clearing and settlement of trades in securities on the country's spot markets. These five platforms are managed by four central securities depositories: Iberclear (with its two platforms: Iberclear–CADE for securities traded on the AIAF fixed-income market and the Public Debt Book-Entry market, and Iberclear-SCLV for securities traded on Spain's MAB and Latibex stock exchanges), SCLBarcelona, SCLBilbao and SCLValencia. Iberclear handles securities traded on a nationwide basis and the other platforms handle securities traded only on their respective stock exchanges. Iberclear is also the central registry for securities traded on Spain's national-level spot markets although the Bilbao, Barcelona and Valencia stock exchanges keep records of securities settled at those exchanges.

As for counterparty services, until November 2002 when the Law on Measures to Reform the Financial System was passed, these were confined to the realm of official derivatives markets and were provided by the futures market (MEFF) itself. Since 2003, however, a counterparty service has been provided by MeffClear, which makes it available to other trading areas, specifically trades in debt repos traded on SENAF and some bilateral debt transactions on other platforms[1].

Iberclear is supervised by the CNMV, while the other three central depository systems, SCLBarcelona, SCLBilbao and SCLValencia, are monitored by the regional governments of Catalonia, the Basque Country and Valencia respectively. The CNMV is also responsible for supervising MeffClear.

4.1 Iberclear

Iberclear is the trade name of the company "*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal*«, which is responsible for registering, clearing and settling securities traded on a nationwide basis. Iberclear is wholly owned by Bolsas y Mercados Españoles (BME) and its principal business is related to securities traded on Spain's stock exchanges and public debt and AIAF markets. At the end of 2007 Iberclear had a total of 216 members, 15 less than in 2006 (see Table 4.1). It lost a total of 16 members from its public debt clearing and settlement service during the year.

Generally speaking, activity indicators for the two platforms managed by Iberclear (Iberclear–CADE and Iberclear-SCLV) reflected trends in trading in the main securities markets (see Chapters 2 and 3).

1. In bilateral agreements for debt traded outside the SENAF platform it is left up to the parties to decide whether the trade is done through MeffClear or not.

Iberclear members TABLE 4.1

	2006	2007
Total Iberclear[1]	**231**	**216**
Members of:		
Stock exchanges	93	93
Latibex	79	79
AIAF	73	74
Public Debt	190	174

Source: Iberclear.

1. The total is lower than the sum of the clearing members in the different markets since many members operate in more than one market.

4.1.1. Iberclear–CADE

At the end of the year a total of 4,838 issues were registered on the Iberclear-CADE platform with a nominal value of 1,130,303 million euro. Issues admitted to trading on AIAF accounted for 92.8% of the total number and 69.0% of the total value of registered securities. AIAF-traded issues showed substantial increases on the previous year, both in number and in nominal value. Issues traded on the public debt market showed more modest growth (see Table 4.2).

Iberclear-CADE - Registration TABLE 4.2

Million euro

	Public Debt		AIAF		Total		
Registered Securities	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**% chg.**
Number of issues	331	345	3,801	4,493	4,132	4,838	17.1
Nominal value	343,914	350,350	610,531	779,953	954,445	1,130,303	18.4

Source: CNMV.

In 2007 Iberclear–CADE settled a total of 8,740,385 trades, of which 84% were done on the Book-Entry Debt Market and the remainder on AIAF. The number and amount of trades in public sector debt increased with respect to the year before. The value of corporate debt traded on AIAF also increased (up 31.1%), but the number of trades declined (see Tables 4.3 and 4.4). This represents a break with the tendency of the last few years in which trading in corporate debt, as measured by number of trades, was growing at a fast pace and trading in public debt was falling. As usual, the most numerous trades on the Public Debt Book Entry Market were in repos and sell-buybacks/buy-sellbacks.

On the AIAF market ordinary (outright) spot transactions were the most common type. Other types of transaction increased in volume with the exception of outright transfers, which were down by 44%.

In 2007 the number of failed settlements was higher than normal. There were two main reasons for this: the need to make systems compatible with the platform's new communication system, known as the "single matching system" (*Sistema Unificado de*

Iberclear-CADE - Trades settled, by number

TABLE 4.3

	Public Debt		AIAF		Total		
Type of transaction	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**% chg.**
Outright trades	233,814	242,656	788,343	919,277	1,022,157	1,161,933	13.7
Repos, sell-buybacks and buy-sellbacks	6,303,971	6,392,623	108,470	174,366	6,412,441	6,566,989	2.4
Outright transfers	483,166	543,726	488,187	273,088	971,353	816,814	-15.9
Temporary transfers	185,759	160,242	0	0	185,759	160,242	-13.7
Financial collateral transfers	1,278	1,454	18,848	32,953	20,126	34,407	71.0
Total	**7,207,988**	**7,340,701**	**1,403,848**	**1,399,684**	**8,611,836**	**8,740,385**	**1.5**

Source: CNMV.

Iberclear-CADE - Trades settled, by value[1]

TABLE 4.4

Million euro

	Public Debt		AIAF		Total		
Type of transaction	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**% chg.**
Outright trades	3,960,190	3,964,073	474,810	511,888	4,435,000	4,475,961	0.9
RRepos, sell-buybacks and buy-sellbacks	45,487,738	47,506,147	1,026,220	1,374,130	46,513,958	48,880,277	5.1
Outright transfers	13,459,453	14,190,191	2,859,383	3,449,720	16,318,836	17,639,911	8.1
Temporary transfers	579,540	740,198	0	0	579,540	740,198	27.7
Financial collateral transfers	49,618	40,147	437,411	955,171	487,029	995,318	104.4
Total	**63,536,539**	**66,440,756**	**4,797,824**	**6,290,909**	**68,334,363**	**72,731,665**	**6.4**

Source: CNMV.

1. Market values for outright trades, repos and sell-buybacks/buy-sellbacks; nominal values for outright and temporary transfers.

Case, SUC)[2], and the scarcity of securities, especially from public sector issuers, which on occasions resulted in dealers being unable to cover their end-of-day short positions. The number of failed settlements caused by insufficient availability of securities on the settlement date increased by 158%, with a 329% rise in uncovered short positions.

Despite the significant increase in the number of failed settlements on the platform, these incidents affected only a tiny proportion of settled trades (0.01% by number and 0.03% by value).

4.1.2 Iberclear-SCLV

At the close of the year a total of 6,005 issues were registered with Iberclear-SCLV, with a nominal value of 106.589 billion euro. Issues were up in both number and nominal value compared with the previous year (see Table 4.5).

2. The Single Matching System (SUC-Renta Fija) is part of a strategic project known as the Iberclear Single Communication Interface. SUC-Renta Fija is designed to provide a unified system for matching bilateral transactions. The new procedure will allow members to report and match their orders more flexibly and efficiently as among its new features is a new mechanism to hold back and release orders which will make it possible to cut out telephone-based pre-matching.

Iberclear-SCLV - Registration

TABLE 4.5

Million euro

	Stock exchanges			Latibex		
Registered securities	**2006**	**2007**	**% chg.**	**2006**	**2007**	**% chg.**
Number of issues	4,846	6,005	23.9	38	39	2.6
Registered value[1]	89,151	106,589	19.6	202	258	27.7

Source: CNMV.

1. Nominal values for stock exchange issues and market values for Latibex issues.

On the four stock exchanges and Latibex combined, a total of 30,095,914 trades with a market value of 3,998.667 billion euro were settled in 2007. The number of settled transactions was up by 37.5% on 2006, with the market value increasing by 47.6%. In the case of Latibex, although the value of settlements showed an increase, the number of transactions was down, breaking the trend of the last few years. These results are consistent with recent market developments (see Chapter 2).

In addition to settling buy and sell trades on the securities market, Iberclear handles transfers between market members where there is no change of ownership. Such transfers may be free of payment or versus payment. Transfers free of payment on the stock exchanges decreased in 2007, while transfers versus payment showed an increase both in number and market value terms. In the case of Latibex, the situation was the reverse, with free of payment transfers increasing and versus payment transfers declining both in number and market value terms (see Table 4.6).

Iberclear-SCLV – Trades settled

TABLE 4.6

Million euro

	Stock exchanges				Latibex			
	No. of transactions		Amount		No. of transactions		Amount	
Transactions	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
Purchases and sales	20,738,244	28,820,285	2,281,955	3,311,862	87,180	84,836	1,454	1,731
Failed settlements	52,926	77,233	11,332	19,724	2,942	2,363	128	99
Buy-ins	600	898	152	113	6	31	0	1
Transfers f.o.p.	297,948	228,384	0	0	1,542	1,720	0	0
Transfers v.p.	756,087	957,025	424,672	684,904	3,827	3,664	172	170
Total	**21,792,279**	**30,005,694**	**2,706,627**	**3,996,766**	**92,549**	**90,220**	**1,626**	**1,901**

Source: CNMV.

Transfers f.o.p. = transfers free of payment. Transfers v.p. = transfers versus payment.

The year 2007 saw a decline in operational efficiency compared with the year before. The value of failed settlements[3] as a proportion of the total value for settlement was 1.19%, a considerable worsening of the 0.75% failure rate in 2006. The number of sales that were not settled on their settlement dates was 0.55% of the total number of trades, up from 0.34% the previous year. This decline in platform

3. A settlement is deemed to have failed if the Iberclear member responsible for the sale does not deliver securities pledged on the settlement date T+3, where T is the date of the trade.

efficiency can be explained by high levels of activity, the large number of corporate actions undertaken and the high level of participation by non-Spanish domiciled investors.

4.1.3. Innovations and enhancements

During the year a number of regulatory changes took place that will require changes in the way Iberclear operates and even in the way it is structured. In some of these areas changes are already being made, but in other areas the necessary timeframe for Iberclear to adjust may be fairly lengthy.

A. Pan-European integration of clearing and settlement platforms

In 2007 a number of private and public initiatives were underway to further financial market integration in Europe, with implications for Iberclear. The first of these related to the domestic market and was the transposition of MiFID to Spanish law. Secondly, in the European arena, further progress was made in implementing the measures set out in the Code of Conduct for clearing and settlement systems being promoted by European Commissioner McCreevy, and also in the planning of the Target2-Securities project.

1. MiFID:

The transposition of MiFID will affect the post-trade services being provided by Iberclear in two areas. The first is that it makes a break with the principle of all aspects of equity trading being conducted by and through stock exchanges. This will require Iberclear to develop clearing and settlement procedures for transactions that may be carried out in other trading venues. The other innovation brought in by MiFID is to establish the principle that persons engaging in securities trading should be free to choose the clearing and settlement system on which their trades are processed. These are two challenges that will have to be faced by Iberclear and will involve significant changes in the relations between trading and settlement of stock market transactions in Spain.

2. Code of Conduct:

The Code of Conduct is a private initiative, although it is supported by the EU authorities, and aims to promote competition and complete interoperability between trading and post-trading infrastructures, and by those infrastructures with each other. The Code of Conduct was drawn up in 2006 by the Federation of European Stock Exchanges (FESE), the European Association of Central Counterparty Clearing Houses (EACH) and the European Central Securities Depository Association (ECSDA). Although the Code is limited to post-trading activities for equities, it is expected that in due course it will be extended to other types of financial instrument. The Code consists of a set of voluntary measures to improve three aspects of clearing and settlement, implementation of which began in 2007:

– Price transparency: Iberclear's scale of charges is now published on its website along with a number of typical examples of how those charges are applied.

– Access and interoperability conditions: a guide has been drawn up by the Code's signatories setting out a regulatory system for access and inter-operability between post-trading platforms. Iberclear confirmed its acceptance of the Code by signing a letter of intent on 3 July 2007.

– Service unbundling and accounting separation: agreement was reached by all ECSDA members with regard to the range of services to be unbundled in accordance with the Code. The Iberclear Rates Circular[4], which became effective on 1 January 2008, is now structured according to the format agreed by ECSDA.

3. Target2-Securities:

The Target2-Securities project aims to offer Central Securities Depositories (CSDs) a clearing service for both domestic and cross-border transactions in securities. The project aims are: to establish a secure and harmonised settlement procedure; to ensure that cross-border settlements cost the same as domestic ones; to ensure that platforms are interoperable, and to reduce financing costs and the need for financing[5].

A document on user requirements and a methodology for an economic analysis of the project has currently been released for public consultation. This stage should be complete by the spring of 2008. Once responses have been evaluated and a final version of user requirements prepared, probably in the summer of 2008, the European Central Bank will decide whether to move on to the next stage of the project, the development of the platform[6]. The implications for Iberclear therefore still lie some way into the future.

B. Introduction of new transactions

In its Circular 2/2007 of 13 March, Iberclear established criteria for the settlement of trades in the shares of venture capital funds or companies quoted on the MAB market. Only one venture capital fund, BBVA Capital Privado F.C.R., has so far listed on the MAB.

C. Technical enhancements

In 2007 Iberclear completed the roll-out of its "single matching system" (*Sistema Unificado de Case, SUC*) which has been in progress since 2005. SUC is part of a strategic project known as the "single communications interface" (*Ventana Unificada de Comunicaciones*) which started in 2003 and has the following aims: to improve connectivity by unifying information exchange systems between the two platforms (Iberclear-SCLV and Iberclear-CADE); to make progress in standardisa-

4. Iberclear Circular 6/2007 of 30 November.
5. A more detailed description of the Target2-Securities project can be found in the CNMV annual report for 2006.
6. The construction of a platform has raised a number of key issues: the future governance structure, the review of the initial economic analysis carried out as part of the viability study; how far the platform will enable CSDs to reduce their existing settlement structures; and the options to be offered to users whose CSDs decide not to participate in Target2-Securities.

tion through the use of the ISO 15022 international standard; and to unify matching procedures for bilateral trading. It is this last aim which SUC is intended to further.

On 12 March 2007 SUC-Fixed Income (*SUC-Renta Fija*) went into operation. This part of the system is designed to match orders by fixed-income market participants and to service securities registered and settled on the Iberclear-CADE platform. The new procedure will allow clearing members to confirm and match their orders more flexibly and efficiently and will include a new mechanism for holding back and releasing orders. This will make it possible to cut out telephone-based prematching. With the SUC-Renta Fija system in place, Iberclear considers the single communications interface project to have been completed.

D. Risk management

To reduce the risk of trades not being settled, at the request of the CNMV and the Bank of Spain, on 31 May 2006 Iberclear presented an Action Programme for Managing Stock Market Settlement Risk (2006-2007). The programme comprises the following actions:

- Making all special trades bilateral.

- Introducing an algorithm for matching buys and sells so as to minimise the likelihood of a chain of failed settlements.

- Stepping up the number of daily multilateral cycles.

- Promoting securities lending facilities as required to support delivery of stock certificates.

- Reviewing the criteria governing the provision of market security deposits.

On 28 February 2007 Iberclear began to implement its Circular 5/2006 of 25 October on Market Security Deposits[7]. The Circular changes the criteria for working out the amount to be deposited by members as security for the discharge of obligations arising from unsettled trades. The aim of the Circular is to provide improved protection against the risk of such occurrences given that, since the last changes were made, settlement volumes have greatly increased and there have been changes in clearing and settlement processes.

The Circular made a number of specific changes to the way security deposits are calculated. Deposits are now based on the amount or amounts to be settled. The minimum amount that members would be required to deposit was increased. Changes were also made to the way in which the risk of market trades would be calculated: from now on, the risk would be counted as from the contract date and the risk in trades yet to be settled would be borne by whoever was entering it on the system at any given moment. The Circular was based on the premise that the member who first enters the risk is the one that brokers the trade on the market and can only be

7. Further changes in the way security deposits are calculated will be made in a new circular. This is expected to come into effect in May 2008.

relieved of the risk when a settlement entity other than that member emerges and agrees to settle the trade. Lastly, the Circular makes it possible for participating members to appoint another member to arrange for and lodge their deposit, and for another participating member to accept liability in advance (under certain circumstances) for trades done by other market members.

E. Royal Decree 363/2007 of 16 March

The Decree makes changes to Royal Decree 116/92 of 14 February regulating Iberclear's activities.

One of the aims of this Royal Decree is to counteract the effects of short-term security price inflation that can affect certain types of trade settlements. The new rules make provision for time limits and special settlement requirements to be imposed for certain types of transaction and security. They also allow different rules to be used for own account trading and for trading for the account of clients, and provide for the offering of "substitute benefits" where settlement of a trade finally proves to be impossible. The Royal Decree also makes changes to the rules on the management of risk and defaults, and gives Iberclear new supervision and reporting responsibilities in the area of system efficiency.

F. RENADE

In addition to its securities market activities, Iberclear manages the National Register of Greenhouse Gas Emission Allowances ("RENADE"). In 2007 the Register won United Nations approval. This is a vital precondition for Spain to participate in the flexibility mechanisms set up under the Kyoto Protocol. These mechanisms permit industrialised countries to fulfil their targets under the Kyoto Protocol by trading with each other in emission rights and earning credits for projects to reduce emissions in third countries.

Iberclear also replaced the computer system it had been using to maintain the register with new software sponsored by the European Commission. The "EU Emission Trading System" software and is likely to become the standard for trading systems in the global marketplace.

Clearing and settlement challenges

European post-trading infrastructures are highly fragmented, with most of them operating under their national laws and, in many cases, acting as monopolies in their local markets. Consequently, cross-border transaction costs in Europe are much higher than for domestic transactions or in US infrastructures.

The need to increase competition and reduce the cost of cross-border transactions has led to a number of initiatives. The most immediate aims of these initiatives are to increase price transparency and achieve full interoperability among different market infrastructures. These initiatives are the Markets in Financial Instruments Directive (MiFID), the Code of Conduct for the industry being promoted by Internal Market Commissioner Charles McCreevy, and the Target2-Securities (T2S) project sponsored by the Eurosystem.

The impact of these initiatives on post-trading activities throughout Europe will be considerable. In 2007 the CNMV and the Bank of Spain set up a working group to study the challenges faced by Spain in this area, the conclusions of which were published in December 2007 in a report entitled "Securities Clearing, Settlement and Registry Systems in Europe. Current Situation, Ongoing Initiatives and Recommendations".

The area identified by the report as most affected by changes resulting from the European initiatives is post-trading services for equities, owing to the special features of the Spanish approach to stock market trading. The most notable difference with respect to other systems has to do with the finality of securities transactions: in Spain, trades become final at the time they are done, whereas in other countries finality is attained upon settlement. Another Spanish peculiarity, related to the first, is that the entering of debits in securities accounts is conditional on the presentation of "registration references" (*Referencia de Registro*) covering the balance of each security. These special features could be an obstacle to the Spanish system achieving full interoperability with those of other European countries and could adversely affect its competitiveness. The CNMV/Bank of Spain report proposes four specific initiatives for detailed study:

1. The transfer of transaction and owner identification processes from stock exchanges to Iberclear.

2. A change in the numerical tracking of ownership, which is currently based on the registration reference.

3. A change in the time at which equity market trades attain finality.

4. Establishment of a Spanish central counterparty (CCP) service for equities.

Finally, the report points to the need for a European regulation on securities clearing, settlement and registry which would provide a common regulatory structure, at least at a minimum level, that would cover organisation, permitted risks, ways in which securities can be held and rules for the safekeeping and custody of securities.

4.2 MeffClear

MeffClear provides central counterparty services for trades in public debt instruments, mainly those done on the SENAF platform. It acts as a single counterparty for market members trading in securities and other financial instruments. When a trade is registered with MeffClear, MeffClear acts as the seller as against the buyer, and as the buyer as against the seller, thereby taking on the counterparty risk. Participants have the obligation to settle their net position vis-à-vis the counterparty institution.

In 2007 MeffClear registered 233 trades with a total market value of 38.385 billion euro. Compared with 2006, this meant a significant fall both in the number of transactions and in the amount actually settled (see Table 4.7), and was consistent with the downturn in activity on the SENAF platform. The total volume of transactions cleared on MeffClear (in number and value terms) consisted of SENAF trades. The number of MeffClear members in 2007 remained unchanged at 19.

MeffClear. Trades cleared TABLE 4.7

	2006	2007
SENAF platform: trades cleared, by value	84,065	38,385
Bilateral trading: trades cleared, by value	0	0
Total (million euro)	**84,065**	**38,385**
SENAF platform: number of trades cleared[1]	552	233
Bilateral trading: number of trades cleared[2]	0	0
Total	**552**	**233**
No. of members	**19**	**19**

Source: MeffClear.
1. Start date: 15 September 2003.
2. Start date: 2 October 2003.

5. Derivatives markets

Trading in Spain's derivatives markets increased by 8.3% in 2007. Spanish equity derivatives trading was boosted by the sharp increase in volatility in the second half of the year, after the subprime crisis commenced in August. Trading was also

Trading on Spain's derivatives markets* TABLE 5.1

No. of contracts, except where otherwise stated

	2004	2005	2006	2007	Change (%) 2007/06
MEFF RF	**98**	**46**	**15**	**13**	**-13.3**
Debt futures	98	46	15	13	-13.3
Debt options	-	-	-	-	-
MIBOR futures and options	-	-	-	-	-
Euribor futures	-	-	-	-	-
MEFF RV	**25,022,984**	**35,219,874**	**40,775,643**	**44,176,717**	**8.3**
Ibex 35 futures	4,473,118	5,050,211	6,568,791	8,721,832	32.8
Ibex 35 Plus	4,354,868	4,935,648	6,408,961	8,435,258	31.6
Ibex 35 Mini [1]	118,250	114,563	159,830	286,574	79.3
Ibex 35 options	**294,753**	**440,747**	**551,062**	**567,077**	**2.9**
Stock futures	**12,054,799**	**18,813,689**	**21,229,811**	**21,294,315**	**0.3**
Stock options	**8,200,314**	**10,915,227**	**12,425,979**	**13,593,493**	**9.4**
S&P contracts [2]	-	-	-	-	-
Total MEFF	**25,023,082**	**35,219,920**	**40,775,658**	**44,176,730**	**8.3**
Electronic market	**1,825,468**	**2,129,643**	**2,852,348**	**5,085,503**	**78.3**
Warrants [3]	1,825,468	2,129,643	2,852,348	5,085,503	78.3
Pro-memoria:					
Total EuroMEFF	**4,600,701**	**2,521,171**	**2,541,397**	**2,430,363**	**-4.4**
European debt futures [4]	2,815,703	1,440,370	1,117,956	1,059,113	-5.3
European index contracts [5]	1,784,965	1,080,801	1,423,441	1,371,250	-3.7
Other [6]	33	-	-	-	-

Source: MEFF.

* Trading volume on MEFF and EuroMEFF is expressed in number of contracts. Differences in the value of the underlying instruments prevent direct comparisons between products, but 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 thousand 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).

favoured by growing liquidity contributed by new entrants into the market, an increasing range of products, standardisation of procedures and the steady improvement in technology in the supporting systems. Although derivatives expanded in general, trading in warrants experienced unprecedented growth in terms of both the number traded and the premiums paid.

5.1 MEFF

Trading on MEFF increased once again in 2007, although at a slower pace than in Europe's main derivatives markets, in contrast with the trend since 2004 (table 5.2). Eurex was again Europe's most active market in financial derivatives, followed by Euronext.

Trading on Europe's derivatives markets* TABLE 5.2

Thousand contracts

	2004	2005	2006	2007	Change (%) 2007/06
Eurex[1]	1,064,731	1,248,748	1,526,752	1,899,862	24.4
Euronext[2]	788,227	766,715	710,205	907,584	27.8
Euronext,Liffe[3]	386,959	416,689	497,354	656,134	31.9
Euronext Paris	318,513	232,334	86,017	91,622	6.5
Euronext Amsterdam	82,755	117,692	126,834	159,828	26.0
OM[4]	99,642	113,705	139,233	161,509	16.0
MEFF	25,023	35,219	40,775	44,177	8.3
IDEM/MIF[5]	18,273	25,871	31,591	37,125	17.5

Source: Eurex and CNMV.

* Trading volume is expressed in number of contracts. Differences in the value of the underlying instruments traded on the various markets prevent direct comparisons between markets, but inter-year comparisons are meaningful.

1. Deutsche Terminbörse (DTB) and Swiss Options & Futures Exchange.
2. Comprising the Paris, Amsterdam and Brussels spot markets and the Liffe, Lisbon and Porto derivatives markets.
3. Formerly Liffe: London International Financial Futures Exchange.
4. Nordic & Baltic Exchange: Stockholm, Helsinki, Copenhagen, Iceland, Tallin, Vilnius and Riga stock exchanges.
5. Italian Derivatives Market/Mercato Italiano Futures.

Once again, Spanish equity futures were the most-traded product on MEFF, in terms of the number of contracts. However, trading increased by just 0.3% with respect to 2006. This is significant as MEFF competes with other European markets (Eurex and Euronext) in trading Spanish equity futures. Trading peaked in December (5 million contracts), while open interest was highest at the end of October (2.7 million), reflecting the uncertainty in the financial sector.

Table 5.3 shows that the bulk of trading was concentrated in equity futures on Telefónica (6.8 million contracts), Banco de Santander (6.4 million) and BBVA (4.0 million), while volume increased only in the case of Banco de Santander. Trading in Endesa slumped by 55.2% as a result of the conclusion of the takeover process, while there was a sharp 29.8% increase in trading in Iberdrola derivatives.

Trading in futures and options on individual stocks in MEFF RV

TABLE 5.3

No. of contracts

	Options			Futures		
	2006	2007	Change (%) 2007/06	2006	2007	Change (%) 2007/06
Abertis	35,250	86,596	145.7	0	50,041	-
Acciona	0	1,578	-	0	4,799	-
Acerinox	585,155	212,939	-63.6	0	29,331	-
ACS	0	25,825	-	0	11,911	-
Altadis	475,673	300,946	-36.7	100,873	120,098	19.1
Antena 3TV	0	710	-	0	21,865	-
Banco Popular	271,694	415,405	52.9	634,835	270,861	-57.3
Banco Sabadell	0	103,978	-	0	76,746	-
Banesto	0	10,813	-	0	9,327	-
Bankinter	40,148	73,593	83.3	0	22,801	-
BBVA	1,619,752	2,500,745	54.4	4,204,356	4,077,451	-3.0
BME	0	200	-	0	813	-
BSCH	2,419,980	3,972,744	64.2	6,034,050	6,431,387	6.6
Cintra	0	7,107	-	0	8,694	-
Enagas	0	34,740	-	0	53,082	-
Endesa	911,146	101,501	-88.9	987,558	441,661	-55.3
FCC	0	21,439	-	0	27,527	-
Ferrovial	0	1,996	-	0	5,960	-
Gamesa	0	3,467	-	0	9,782	-
Gas Natural	79,579	104,001	30.7	80,113	31,654	-60.5
Iberdrola	458,335	1,650,628	260.1	881,088	1,143,885	29.8
Iberia	0	77,887	-	0	40,906	-
Inditex	83,819	124,372	48.4	134,992	90,952	-32.6
Indra	78,762	32,749	-58.4	0	2,005	-
Mapfre	0	997	-	0	21,612	-
Metrovacesa	0	6	-	0	357	-
NH Hoteles	0	56	-	0	5,483	-
Prisa	0	71,612	-	0	31,220	-
Red Eléctrica	0	15,186	-	0	28,300	-
Repsol	1,398,275	944,762	-32.4	953,408	1,110,222	16.4
Sacyr Vallehermoso	0	4,972	-	0	16,454	-
Sogecable	31,231	43,388	38.9	0	3,793	-
Telecinco	0	132	-	0	9,645	-
Telefónica	3,766,212	2,475,688	-34.3	7,177,083	6,826,659	-4.9
Telefónica Móviles	42,585	0	-100.0	41,455	0	-100.0
TPI	23,137	0	-100.0	-	-	-
Unión Fenosa	105,246	170,735	62.2	0	201,672	-
Total	**12,425,979**	**13,593,493**	**9.4**	**21,229,811**	**21,238,956**	**0.04**

Source: MEFF.

Trading in equity options increased by 9.4% to over 13.5 million contracts. Open interest in equity options was 4.3 million at 2007 year-end, up from 2.7 million the year before. The increased volatility in the cash price of the underlyings increased the use of options to hedge risk.

As in the case of equity futures, the most traded options (Table 5.3) were those on Banco de Santander (over 3.9 million), BBVA (over 2.5 million), Telefónica (over 2.4 million), and Iberdrola (over 2.4 million).

Trading in Ibex 35 options and futures was higher than in 2006. Trading in Ibex 35 futures increased by 32.8% to over 8.7 million contracts (Table 5.1). However, open interest at year-end—69,247 contracts—was lower than at the end of 2006 (86,067 contracts). Trading in the Ibex 35 Plus future, the principal derivative in Spain's securities market, increased by 31.6% with respect to 2006. Trading in the Ibex 35 Mini futures, which have a multiplier of one euro (compared with 10 in the case of Ibex 35 Plus) and are aimed more at retail investors, increased by 79.3%.

Ibex 35 options trading rose by just 2.9%, after a 25.0% increase in 2006.

In line with the trend of previous years (2005 and 2006), non-resident market members increased in number and also expanded their trading volume (Table 5.4). This contributed to improving liquidity in MEFF RV products.

MEFF membership figures TABLE 5.4

	2006	2007
MEFF renta variable	**102**	**110**
Settling custodian members	31	30
Settling members	29	30
Trading members	31	33
Proprietary Trading members	11	17
MEFF renta fija	**55**	**52**
Settling custodian members	32	31
Settling members	12	10
Trading members	11	11

Source: MEFF and CNMV.

Trading by MEFF members via EuroMEFF declined once again in 2007 (albeit slightly), as it had done in 2006 and 2005. EuroMEFF is a securities company through which MEFF members and their clients can trade in some Eurex products. This company's purpose is to channel trading in foreign derivatives markets. Total trading via EuroMEFF fell by 4.4%, resulting from a 3.7% decline in trading on index derivatives and a 5.3% decline in trading on German bond futures (Bund, Böbl and Schatz).

5.1.1 New developments in MEFF

The main new feature in MEFF in 2007 was an expansion in its range of products. On 22 January 2007, MEFF began trading futures and options on all the Ibex 35 stocks plus Prisa. This meant the addition of 26 new equity future contracts and 20 new option contracts, with the result that investors had access to derivatives on a total of 36 underlyings with which to manage their portfolios.

On 18 April 2007, MEFF began to offer new monthly maturities of its equity futures. Accordingly, at all times there are two monthly maturities available which do not coincide with the quarterly maturities, together with four quarterly maturities (March, June, September and December), settled by delivery.

And responding to strong competition from other European markets offering derivatives on Spanish stocks, on 13 November MEFF began offering 50 new futures, settled by differences, on the most liquid European stocks (non-Spanish)[1]. Coinciding with the launch of these new futures contracts that are settled by differences, MEFF also expanded the range of futures on Spanish stocks to offer settlement by differences in addition to the traditional settlement by delivery.

As part of its business diversification and growth strategy, in 2007 MEFF expanded to the Canary Islands, Balearic Islands, Ceuta and Melilla the 2006 agreement with Red Eléctrica Española to provide settlement functions on certain electricity grid services for producers, distributors, marketers and other players in the wholesale electricity market. MEFF also began providing settlement and counterparty services in virtual power plant auctions. The auctions, regulated by the Secretariat-General of Energy resolution dated 19 April 2007, are for call options on power settled by physical delivery at a strike price and for a volume that are pre-set by the Secretariat; the premium is established by auction.

And MEFF's trading and settlement systems upgraded to version 8 of the S/MART electronic platform, which provided significant improvements. The upgrade improved functionality in general and also introduced enhancements designed specifically for market makers.

5.2 Warrants and certificates

5.2.1 Issues

In 2007, the primary market in warrants continued to grow, as it had in 2006, in terms of the amount of premiums and the number of issues. Premiums increased by 73.4% with respect to 2006, to 8.92 billion euro, mainly warrants on shares. In the case of warrants on indices, premiums more than doubled, while commodity warrant premiums more than quadrupled (Table 5.5). A total of 7,005 warrants were issued, 72.2% more than in 2006. The number of issuers declined to seven[2].

The main new feature in the warrant market in 2007 was the introduction of a new type of product: turbo warrants. Technically, a turbo warrant is a knock-out option. The warrant expires worthless if the price of the underlying reaches the knock-out barrier. The first issue of turbo warrants was on 10 April; between that date and

1. 22 equities on Euronext, 11 on Deutsche Börse, six on Borsa Italiana and one on OMX.
2. In 2007, the seven issuers of warrants (amounts issued shown in parentheses, in million euro), were as follows: Société Générale Acceptance (4,596), Banco Santander Central Hispano (1,468), Commerzbank (1,420), BNP Paribas Arbitrage Issuance (636, of which 97.6 were turbo warrants), Bankinter (451), BBVA (194) and La Caja de Ahorros y Pensiones de Barcelona (155).

Warrant issues registered with the CNMV[1] TABLE 5.5

Thousand euro

	No. of		Amount of premium				
	Issuers	Issues	Total	Shares	Indices[2]	Currencies	Commodities
2003	7	1,051	1,327,166	753,984	511,919	49,164	12,100
2004	7	1,600	1,525,250	929,005	554,887	31,710	9,648
2005 [3]	6	1,720	1,840,016	1,180,845	562,258	96,913	0
2006 [3]	8	4,063	5,144,333	3,697,600	1,070,119	320,015	56,600
2007 [3]	7	7,005	8,920,269	6,215,075	2,313,222	163,201	228,772

Source: CNMV.

1. The 2007 figures include turbo warrants.
2. Includes baskets of securities and of indices.
3. Includes issues that do not require a prospectus, in accordance with the prospectus regulations.

year-end, there were 105 issues, with premiums totalling 97.6 million euro. All the turbo options were on the Ibex 35 and were issued by BNP Paribas.

And certificates were issued in 2007 for the second consecutive year since 2002. The amount of premiums increased significantly, from 95.6 million euro in 2006 to 418.4 million euro in 2007. There were two types of underlying: indices (92.0% of premiums issued) and commodities.

Certificate issues registered with the CNMV TABLE 5.6

Thousand euro

	No. of		Amount of premium				
	Issuers	Issues	Total	Shares	Indices[1]	Currencies	Commoditiess
2003	0	0	0	0	0	0	0
2004	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2006 [2]	1	2	95,650	75,650	20,000	0	0
2007 [2]	2	8	418,390	0	385,000	0	33,390

Source: CNMV.

1. Includes baskets of securities and of indices.
2. Includes issues that do not require a prospectus, in accordance with the prospectus regulations.

5.2.2 Trading

The secondary market in warrants expanded faster in 2007 than in preceding years. Warrant premiums traded in the stock exchange increased by 76.4% overall, i.e. more than double the 2006 growth rate (35.7%). The number of warrants traded in the year also increased with respect to 2006: by 83.6%, compared with 58.2% in 2006.

Growth in the volume of warrant trading was due to expansion of trading in warrants with financial underlyings: individual stocks, indices and currencies. Individual stock warrants expanded the most, followed by index warrants (Table 5.7). The most heavily-traded warrants continue to be those on the shares of the Spanish mar-

Trading in warrants on the electronic market TABLE 5.7

Premiums traded, in thousand euro

	Number of issues [1]	Premiums traded, by type of underlying				Total premiums
		Indices[2]	Shares	Currencies[3]	Commodities	
2003	1,811	480,502	1,094,551	34,627	160	1,609,839
2004	2,207	550,716	1,236,832	37,919	1,408	1,826,875
2005	2,698	516,788	1,587,593	25,262	12,734	2,142,377
2006	4,268	727,918	2,098,613	25,817	55,046	2,907,394
2007	7,837	1,378,286	3,674,848	32,369	44,123	5,129,626

Source: CNMV.

1. The number refers to the number of issues which were traded in each period.
2. Includes baskets of securities and of indices.
3. Includes fixed-income warrants in the years when there was trading in those products.

ket's large-cap companies, although they declined notably as a percentage of total equity trading (shares and indices)[3], continuing the trend of recent years. Warrants on foreign equities declined to 9.4% of total trading in warrants on equities and indices, compared with 10.7% in 2006. Once again, warrants on telecommunications stocks took the lead[4]. In the area of equity index warrants, trading became more concentrated in Ibex 35 warrants[5]. These warrants accounted for 88.3% of total trading in warrant indices in 2007, up from 66.3% in 2006.

Trading in commodity warrants declined in 2007. The only increase was in petroleum warrants, which increased from 34.3 million euro to 36.7 million euro. One of the reasons for this performance was the steady increase in oil prices during much of the year. In contrast, trading in gold and silver warrants slumped. Premiums in gold warrants amounted to 6.8 million euro, significantly less than the figure of 18.2 million euro registered in 2006. And silver warrant premiums fell from 2.4 million euro in 2006 to 0.1 million euro in 2007. The main new feature in this area was the introduction of warrants on copper, in which premiums totalled 0.6 million euro.

Certificates fell 17.4% in terms of premiums, in line with the trend since 2004, although the number of issues which were traded increased to four (Table 5.8). The decline in premiums was the result of lower trading in certificates whose underlying is a basket of stocks or an index. In contrast, trading on stock certificates increased notably because of a certificate issued on Telefónica in 2006. And trading in certificates on the gold price also commenced trading, although for a minor amount.

3. Trading in warrants on Telefónica, BBVA, Banco Santander, Iberdrola and Repsol accounted for 36.7% of total trading in equity warrants (46.9% in 2006).
4. The most-traded options on foreign equities were, in descending order: Alcatel, France Telecom, Apple, Nokia, ABN Amro, BNP Paribas and Deutsche Telecom.
5. Of the most heavily-traded index warrants, Ibex 35 warrants accounted for 24.1% of equity warrant premiums, Eurostoxx 50 warrants for 1.1%, and Dax warrants for 0.8%.

Trading in certificates on the electronic market TABLE 5.8

Premiums traded, in thousand euro

		Premiums traded, by type of underlying				
	Number of issues [1]	Indices[2]	Shares	Currencies	Materias Commodities	Total premiums
2003	16	85,859.8	0	0	0	85,859.8
2004	16	78,556.9	0	0	0	78,556.9
2005	15	69,760.1	0	0	0	69,760.1
2006	14	58,725.0	87.2	0	0	58,812.2
2007	18	48,494.6	1,299.0	0	0.1	49,793.7

Source: CNMV.
1. The number refers to the number of issues which were traded in each period.
2. Includes baskets of securities and of indices.

5.3 Other financial contracts

The CNMV's register of option purchase/sale contracts (formerly called «atypical financial contracts») declined by 37.0% in 2007, after an upswing in 2006. The nominal amount issued was 151.0 million euro (Table 5.9), which was nonetheless higher than the 2005 low. In 2007, three issuers[6] registered this type of contract with the CNMV (four issuers in 2006), supporting the idea that there are very few issuers of this type of product.

Issues of option purchase/sale contracts registered with the CNMV TABLE 5.9

Thousand euro

	No. of		Amount of premium				
	Issuers	Issues	Total	Shares	Indices[1]	Currencies	Commodities
2003	8	41	500,837	474,510	26,327	0	0
2004	8	31	247,717	195,305	52,412	0	0
2005	4	13	112,200	87,800	16,400	8,000	0
2006	4	12	206,840	196,240	10,600	0	0
2007	3	9	151,000	145,000	6,000	0	0

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

5.4 Olive Oil Futures Market (MFAO)

In 2007, the olive oil futures market[7] (MFAO) saw an increase in trading. A total of 58,870 olive oil futures[8] were traded, a 16.3% increase. However, open interest at

6. The three issuers of this category of contracts in 2007 (amount issued, expressed in million euro, shown in parentheses) were as follows: Banco Guipuzcoano (130), Banco Popular Español (15) and Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián (6).
7. Mercado de Futuros sobre Aceite de Oliva (MFAO), the olive oil futures market, commenced operations on 6 February 2004. It is the second commodities market to be authorised in Spain (the first was the Citrus Futures Market, FC&M) and the world's first market in olive oil derivatives.
8. Each olive oil future contract represents one tonne.

year-end fell from 9,375 contracts in 2006 to 5,170 contracts in 2007. This is due to the few contracts traded with open interest beyond July 2008.

Liquidity increased during the year. The number of contracts traded increased, as did the number of market members (to 208, from 166 at the end of 2006). Three new industrial members joined the market: Sovena Ibérica de Aceites, Miguel Gallego and San Sebastián. Another new feature was that oil-producing countries and foreign oil marketing companies began to participate in the market through non-resident accounts.

MFAO membership figures TABLE 5.10

	2006	2007
Settling custodian members	5	5
Settling members	7	7
Trading members	2	2
Industrial members	2	5
Total	**16**	**19**

Source: MFAO.

III Financial institutions and investment services

6. Collective investment

In 2007, Spanish UCITS continued to suffer the competition from bank deposits that had commenced in 2006 as a result of the change in the taxation to tax all forms of saving in the same way, a trend exacerbated by rising interest rates. In this context, the reduction in liquidity in the interbank market as a result of the subprime crisis led banks to step up commercial efforts to attract deposits with which to finance their assets, to the detriment of mutual funds. The uncertainty about the securities in UCITS portfolios also reduced investor interest in these products.

This explains the increase in reimbursements that commenced in the third quarter of 2007. Reimbursements rose across the board, in both securities and real estate funds, as well as in foreign UCITS marketed in Spain, which ended the year with a lower asset balance than in 2006, thus marking a downturn after years of growth. As for hedge funds and funds of hedge funds, though the first such instruments were registered in Spain in 2006, it was not until 2007 that they actually became active. Their assets increased sharply in 2007 but they still account for a very small proportion of UCITS assets in Spain: 0.4%.

The credit crisis has had only a minimal direct impact on Spanish UCITS. Only five investment companies and nine funds had investments in foreign UCITS that were forced to temporarily suspend subscriptions and reimbursements in August 2007. The assets involved amounted to less than 0.2% of total Spanish UCITS assets[1]. As occurred in Spain, the mortgage crisis led to a reduction in assets managed by UCITS throughout Europe in the third quarter of the year. This was unprecedented.

As for the new legislation affecting the industry, money-market UCITS were regulated in 2007 by Circular 1/2007[2]. Although Act 35/2003 establishes that UCITS must take the form of either a fund (*fondo de inversión* - FI) or an open-ended investment company (SICAV), thus eliminating the FIAMM and SIM, the aforementioned Circular regulated money-market UCITS, defined as those whose average portfolio duration is less than one year and which meet a number of other conditions.

6.1. Mutual funds[3]

Fund assets declined in 2007, after a steady increase since 2003, when the markets began to recover from the tech bubble. In 2006, assets had grown by considerably

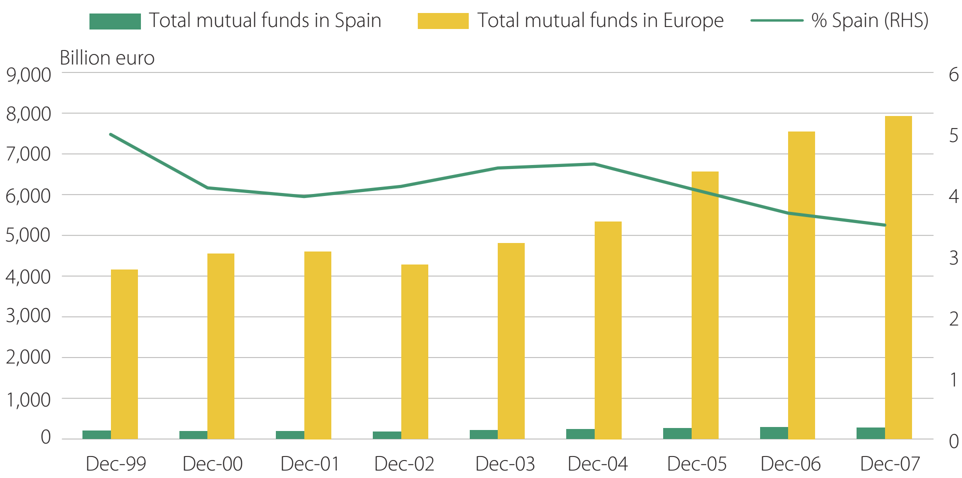
1. See CNMV press release: "*Información sobre el seguimiento de la CNMV de las IIC afectadas por la situación del mercado hipotecario americano*", 23 August 2007.
2. CNMV Circular 1/2007, of 11 July, on the requirements regarding statistical information of European Union UCITS.
3. The figures on mutual funds do not contain any reference to foreign UCITS or real estate UCITS, which are covered in specific sections, with just one exception for real estate UCITS: they are included in the ratios of mutual fund assets to GDP and to household financial assets.

less than in previous years, and that growth was due to appreciation rather than subscriptions (which had been outstripped by reimbursements). In 2007, despite positive market performance, appreciation failed to offset the effect of negative net subscriptions.

Assets in traditional mutual funds fell by 5.6% in 2007 with respect to 2006, to 255.041 billion euro, although most reimbursements took place after August. Net appreciation increased assets by 2.4%, while net subscriptions reduced the balance by 8.1% (see Annex III.1). In contrast, net subscriptions in 2006 had detracted 1.7% from the 4.9% increase due to net appreciation. These calculations do not include hedge funds or funds of hedge funds; because they have only recently been regulated in Spain, they were negligible in 2006 and had 1.445 billion euro in assets at 2007 year-end.

In 2007, assets in mutual funds represented 25.3% of GDP, down from 28.4% in 2006. And at 30 September 2007, mutual funds represented 11.4% of households' total financial assets (11.7% in December 2006). The balance of household financial assets increased in the first half of 2007 but declined in the third quarter[4]. This decline was caused by a reduction in the balance of mutual funds and of equities, since the balance of cash and deposits continued to increase.

Mutual fund assets in Spain and in Europe FIGURE 6.1



Source: EFAMA.

At the end of 2007, Spain ranked seventh in terms of asset volume, as in 2006, with 3.5% of total managed assets[5] (see Figure 6.1). Luxembourg ranks first, with 26%, followed by France (19%), Germany (13.1%), Ireland (10.2%), the United Kingdom (10.1%) and Italy (4.3%).

The net balance of mutual fund assets in Europe declined for the first time ever in the third and fourth quarters of 2007. The main declines in the second half of the year, according to EFAMA figures, were in the United Kingdom (10.9%), France (7.9%), Italy (7.2%) and Spain (5.5%).

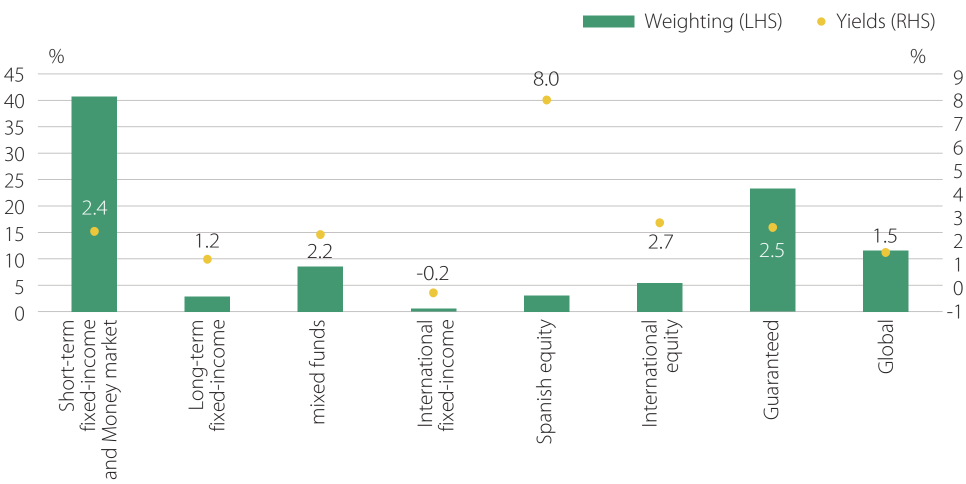
4. Bank of Spain, «Financial Accounts of the Spanish Economy».
5. Source: EFAMA (European Fund and Asset Management Association). Data through September 2007.

6.1.1. Assets and yields

The breakdown of investments in the various classes of funds in 2007 showed that the conservative trend of previous years persisted. Whereas money market funds (FIAMM) disappeared under the new UCITS regulations, they were replaced by money market UCITS in 2007[6]. At 31 December 2007, there were 47 money market funds, 39 of them being former FIAMM and 8 newly created, with close to 25 billion euro in total managed assets.

Figure 6.2 shows the distribution of fund assets at year-end and their accumulated yields. Investment continues to be concentrated in short-term fixed-income funds (including money market funds), guaranteed equity funds, and global funds. Domestic equity funds attained the highest yields in 2007 as a result of appreciation by the Spanish stock market.

Breakdown[1] and yields of securities mutual funds FIGURE 6.2



Source: CNMV.

1. Assets in each category as a percentage of total securities mutual fund assets at 31 December 2007.

For past performance of yields and net subscriptions in the various categories of mutual funds, see Annex III.5. Figure 6.3 plots those trends by aggregating funds into four categories.

The new money market funds are included under fixed-income funds. All the fixed-income, equity and mixed funds[7] experienced negative net subscriptions in 2007. The only funds to experience net positive subscriptions were those in the guaranteed fixed-income category, although that effect was overshadowed by the reimbursements in the guaranteed equity fund category, leading to a net negative trend in the chart.

6. See footnote 2.
7. In figure 6.3, the global funds are included under «mixed». Hedge funds and funds of hedge fund are not included.

Net subscriptions and yields of securities mutual funds FIGURE 6.3

Source: CNMV.

Real estate UCITS

Growth of assets in real estate UCITS slowed sharply, to just 0.8% in 2007 (after growth of up to 50% in previous years). It had decelerated to around 35% in 2006.

Real estate mutual funds (rather than companies) continued to account for the bulk of investment in this segment (96%). However, they represent a very small proportion of the industry: barely 3.4% of the assets in financial mutual funds (see Annex III.1).

Net negative subscriptions in real estate mutual funds almost entirely offset the gain in size due to appreciation. The aggregated annual yield of real estate mutual funds was 5.3% in 2007, slightly lower than the 6% attained in 2006. Yields since 2002 are shown in Annex III.5.

Only four of the nine real estate mutual funds had positive net subscriptions in 2007. However, the Santander Banif Inmobiliario and BBVA Propiedad funds continued to account for the bulk of assets (73% of the total) despite negative net subscriptions in the year. The Sabadell BS Inmobiliario and Caixa Catalunya Propietat funds gained considerably in size within this segment.

6.1.2. Investors and institutions

The number of investors in Spanish mutual funds fell by 6.7% to 8.1 million in 2007 (see Annex III.1). Investor numbers continue to be concentrated in short-term fixed-income funds, money market funds, guaranteed equity funds and global funds, which together account for 61% of the total. Nevertheless, investor numbers increased in emerging international equity funds and guaranteed fixed-income funds. Average assets per investor in the funds industry amounted to 31,800 euro. Natural persons accounted for 97% of investor numbers and 74% of assets, the same as in 2006. A total of 2,978 funds were registered with the CNMV in 2007, with average assets amounting to 86 million euro.

There is some overlap in these figures as some funds invest in other funds. This means that assets are being counted twice: once at the fund which has the investors, and again at the funds in which the latter fund invests. In most cases, these funds invest in other funds managed by the same operator. This overlap amounted to 18.670 billion euro in December 2007.

Registrations and removals in 2007 TABLE 6.1

Type of entity	Entities registered at 31/12/06	Registrations	Removals	Entities registered at 31/12/07
Total financial UCITS	**6,006**	**445**	**155**	**6,296**
Mutual funds	2,850	218	114	2,954
Investment companies	3,149	182	41	3,290
Funds of hedge funds	2	29	0	31
Hedge funds	5	16	0	21
Total real estate UCITS	**17**	**2**	**1**	**18**
Real estate mutual funds	9	1	1	9
Real estate investment companies	8	1	0	9
Total foreign UCITS marketed in Spain	**340**	**107**	**7**	**440**
Foreign funds	164	66	5	225
Foreign companies	176	41	2	215
UCITS operators	**114**	**9**	**3**	**120**
Depositories	**132**	**1**	**7**	**126**

Source: CNMV.

Exchange Traded Funds

At the end of 2007, there were 21 Exchange Traded Funds (ETF) on the CNMV's books, 16 more than at 2006 year-end; 10 were Spanish and 11 were foreign (all operated by LYXOR). The Spanish ETFs had 816 million euro in assets (364 million euro in 2006) and the foreign ETFs had 69 million euro. Most Spanish ETFs replicate equity indices, and only two replicate fixed-income indices.

At the end of 2007, there were 321 ETFs in Europe with 70.724 billion euro in total assets (excluding Spanish ETFs)[8].

Hedge funds

Royal Decree 362/2007 of 16 March amended the Regulation under Act 35/2003 on UCITS to loosen the rules on hedge funds in Spain with a view to encouraging growth by this market segment. The main new features of the Royal Decree were in the rules on subscription and reimbursement (making it possible to establish longer periods of advance notice and payment of reimbursements than under ordinary funds, and minimum retention times for investors). It also clarified the caps on fees for ordinary funds, stating that they did not apply to hedge funds (either in their form of calculation or their amount). And for the first time in Spain, feeder funds of hedge funds, of funds of hedge funds and of foreign hedge funds were regulated.

As could be expected, the entry into force of the new regulations greatly expanded the hedge fund industry in 2007. Annex III.1 reveals the sharp increase with respect to 2006 in number of registered hedge funds, the number of investors and the amount of managed assets. Funds of hedge funds expanded much more rapidly (in terms of assets and investor numbers) than did hedge funds themselves, mainly because they are open to retail investors.

The main investment strategies of the 21 hedge funds and 31 funds of hedge funds registered with the CNMV at the end of 2007, are as follows:

1. Hedge funds: An initial classification splits the funds on the basis of whether or not they have an absolute return target (not market correlated).

   a) The 12 funds with an absolute return target apply a range of strategies: five adopt a long-short strategy, three are multi-strategy (a range of strategies), one uses a directional and volatility strategy, another applies a quant strategy based on mathematical models, another specialises in the real estate market, and one focuses on currency arbitrage. Two of these funds (the quant fund and one of the multi-strategy funds) invest mainly in another two specific hedge funds, i.e. they represent an intermediate position between a fund of funds and a feeder fund.

   b) As for the nine funds that do not pursue an absolute return, four are specialised in real estate, another four in a long-only strategy, and the last one specialises in unlisted securities issued by micro-finance institutions.

2. Funds of hedge funds (IICIICIL): All of them are global and multi-strategy, i.e. they diversify by investing in funds that apply both alternative strategies as well as relative value, directional, event-driven, global macro and long-short strategies, among others. Three of these funds are feeder funds, i.e. they invest over 80% in a single multi-strategy fund.

8. Source: Lipper-Reuters.

6.1.3. Investment policy and significant holdings of mutual funds in listed companies

In 2007, mutual funds increased their exposure to domestic assets with respect to 2006, while reducing exposure to foreign assets to 41.2% of the total (the bulk in euro). Within the domestic portfolio, private sector fixed-income assets increased their weighting (as occurred in 2006) to 24.1%, while exposure to government fixed-income securities shrank to 4.3%. Following fixed-income assets, in descending order of importance, are equities and mutual fund shares (11.9%) and repos (12.2%); see Annex III.4.

Significant holdings of UCITS operators TABLE 6.2

		Range of holdings* (%)	
Operator	Number of companies traded in the electronic market	Largest	Smallest
Bestinver Gestión	22	10.1	1.0
Santander Asset Management	13	3.2	1.3
Barclays Fondos	5	1.4	1.0
Bansabadell Inversión	4	2.0	1.0
Ibercaja Gestión	2	1.4	1.4
Popular Gestión	2	1.3	1.0
BBVA Gestión	1	3.5	3.5
Morgan Stanley Gestión	1	3.5	3.5
Privat Bank Patrimonio	1	1.7	1.7
Gescooperativo	1	1.5	1.5
Gaesco Gestión	1	1.3	1.3

* Largest and smallest holdings of funds managed by the operator in the capital of companies listed on the electronic market.
Source: CNMV.

The importance that mutual funds have attained in the financial markets led to one of the main new features in the new UCITS Regulation[9] with regard to UCITS operators' obligations. Article 81 of that Regulation establishes that, in their annual report, UCITS operators must disclose their policy with regard to the exercise of the voting rights of the shares held by funds which they manage.

At the end of 2007, eleven UCITS operators managed funds which together owned over 1% of certain Spanish listed companies. Bestinver Gestión and Santander Asset Management stand out because of the number of electronic market stocks in which they had significant holdings (see Table 6.2).

UCITS had significant holdings in a total of 37 companies at 2007 year-end. Of these, only three were in the Ibex 35 (Corporación MAPFRE, Altadis and BME), so that the bulk of their significant holdings were in small and mid-cap companies. In the case of five companies[10], the aggregate holdings by UCITS amounted to over 10% of total capital.

9. Royal Decree 1309/2005, of 4 November, approving the Regulation under Act 35/2003, of 4 November, on UCITS and adapting the tax system for UCITS.
10. Viscofán, Miquel Costas & Miquel, Azkoyen, Barón de Ley and Papeles y Cartones de Europa –Europa & C.

6.1.4. Commissions

Commissions charged by financial UCITS (excluding ETFs and hedge funds) increased from 0.98% of average daily assets in 2006 to 1.02% in 2007 (see Annex III.3).

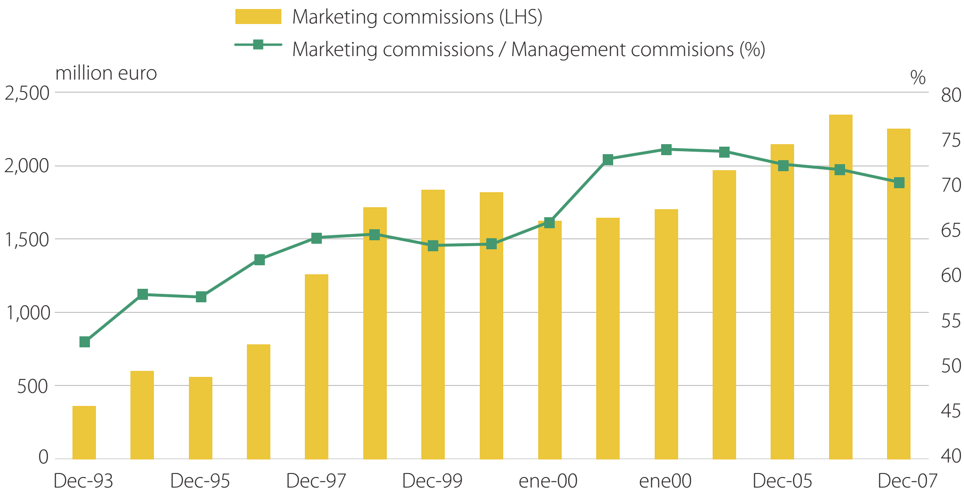
The number of operators that charge commissions as a percentage of yields rather than a percentage of assets increased in 2007. Investors in 375 securities funds pay a combined commission, i.e. based partly on assets and partly on yields. Only four funds pay commissions purely on the basis of yields. Most of them are global funds. Although there are not many hedge funds or funds of hedge funds, most of them pay a combined commission. At the end of 2006, 297 funds applied a combined commission and just four applied a yield-based commission.

The deposit commission remained stable at 0.09% of average daily assets.

ETFs charged an average management commission of 0.18% of average daily assets. These funds' management commission is logically lower than that of traditional mutual funds but they are subject to the expenses of buying and selling shares on the stock market, as well as being subject to the same taxation system as investments in equities.

Management commissions still represent a large part of the cost of distributing funds, although they declined in 2007 as a percentage of total management commissions (see Figure 6.4). This means that funds are still sold mainly through group banks' branch networks.

UCITS marketing commissions FIGURE 6.4



Source: CNMV.

6.2. Investment companies

SICAVs are the investment vehicle used by wealthy investors seeking quasi-exclusive management of their portfolio while retaining the advantages of the tax system that applies to UCITS.

The number of registered SICAVs increased greatly in 2007, in contrast with what had happened in 2006. This may be due partly to the fact that SICAVs won a number of court cases which had questioned their definition as UCITS for tax purposes. At the end of 2007, there were 3,209 SICAVs, i.e. 141 more than in 2006, as additions outstripped removals four-fold.

Since 2002, the number of SICAVs and the volume of managed assets have increased steadily. In 2007, assets managed by SICAVs amounted to over 31.4 billion euro (around 3% of Spain's GDP), i.e. 4.4% more than in 2006, and investor numbers increased by nearly 6% (see Table 6.3).

SICAV asset breakdown TABLE 6.3

Thousand euro

	2006	2007	Change (%)
Cash	**802,209**	**1,182,202**	**47.4**
Portfolio investments	**29,294,103**	**30,037,446**	**2.5**
Spanish securities	**15,553,811**	**17,075,290**	**9.8**
Shares	6,727,296	6,173,642	-8.2
Mutual fund shares	1,095,026	1,362,260	24.4
Public money market assets	463,412	382,820	-17.4
Other public fixed-income	678,176	710,212	4.7
Private money market assets	555,449	1,568,556	182.4
Other private fixed-income	554,840	620,793	11.9
Spanish warrants and options	19,740	22,146	12.2
Repos	5,459,108	6,234,107	14.2
Unlisted securities	764	754	-1.3
Foreign securities	**13,740,292**	**12,962,156**	**-5.7**
Euro	9,847,688	9,413,677	-4.4
Other	3,892,604	3,548,479	-8.8
Net balance (debtors - creditors)	**56,412**	**261,810**	**364.1**
Assets	**30,152,724**	**31,481,458**	**4.4**
Pro-memoria: No. of shareholders	**410,403**	**434,157**	**5.8**

Source: CNMV.

Although SICAVs outnumber funds (3,290 vs. 2,954), funds greatly outstrip SICAVs in terms of assets and investor numbers: in 2007, SICAV assets represented just 12.3% of fund assets, and SICAV investors numbered less than 5.4% of fund investors.

The average assets of a SICAV investor fell by 1.3% on 2006 to slightly over 72,500 euro at 2007 year-end, while each SICAV's assets averaged 9.5 million euro (similar to 2006).

In 2007, SICAVs increased their balance of cash by 47% with respect to 2006 (see Table 6.3) And the trend towards investing solely in the domestic market was accentuated (56.9%, vs. 43.2% in foreign assets). Within the domestic portfolio, investment in equities and public money market assets declined and investment in fund shares increased with respect to 2006. However, the main development was a significant increase in investment in private money market assets. Since SICAV investments in this asset class increased by 115% in the second half of the year, this trend may be attributed to the subprime crisis that broke out in August 2007.

As for the system of liquidity chosen for the shares, at the end of 2007 practically all the SICAVs were listed on the Alternative Stock Exchange (MAB), which was inaugurated in June 2006, seven were listed on the stock market (six by open outcry and one on the electronic market) and there were just two unlisted SICAVs (providing liquidity via subscriptions and reimbursements).

6.3. Foreign UCITS marketed in Spain

Marketing of foreign UCITS in Spain has been stepped up considerably in recent years, and the number of foreign UCITS and the volume marketed have increased steadily (except for 2007, as described below). Specifically, the volume marketed increased 5.6-fold between the end of 2002 and the end of 2007, while the number of foreign UCITS registered in Spain more than doubled.

Reasons for this surge by foreign UCITS marketed in Spain may be that they offer a broader range of certain products that are in demand (hedge funds, high-risk products, etc.) or that they are sold through large marketing networks or trading platforms created ad hoc, thus making it easier for investors to access these products.

The steady growth in the volume of foreign UCITS marketed in Spain was truncated in 2007, when it suffered a significant decrease (almost 16%) with respect to the previous year despite an increase of almost 30% in the number of UCITS registered and a 9.2% increase in the number of investors to over 850,000 (see Table 6.4). This reduction in the volume of assets was due primarily to the large number of reimbursements and, to a much lesser extent, to a reduction in asset values due to losses. Reimbursements were due mainly to the sizeable divestment of foreign UCITS by domestic funds in the second half of 2007.

Foreign UCITS marketed in Spain TABLE 6.4

	31/12/2006	31/12/2007	Change (%)
No. of institutions	**340**	**440**	**29.41**
Number of investors	**779,165**	**850,931**	**9.21**
Investment volume (million euro)	**44,102.90**	**37,092.70**	**-15.90**
Breakdown by home country			
Germany	12	15	25
Austria	1	5	400
Belgium	1	3	200
France	83	122	47
Netherlands	1	1	0
Ireland	46	52	13
Luxembourg	189	229	21
Malta	1	1	0
UK	6	12	100

Source: CNMV.

As Table 6.4 shows, the bulk of foreign UCITS registered in Spain are domiciled in Luxembourg. During 2007, French UCITS increased significantly (47%); several French ETFs were registered, in line with the boom in this type of UCITS in Spain.

Table 6.5 shows that foreign UCITS are marketed mainly via the large banks: two of them Spanish (Santander and BBVA) and two European (BNP and Deutsche Bank). Together, those four banks account for 44% of total investment in foreign UCITS marketed in Spain. However, because of the decline in the volume of investment in foreign UCITS in 2007, practically all the banks experienced a decline in the volume marketed, mainly All Funds Bank (Santander), BNP Paribas España and BBVA.

Top ten marketers of foreign UCITS in Spain

TABLE 6.5

Million euro

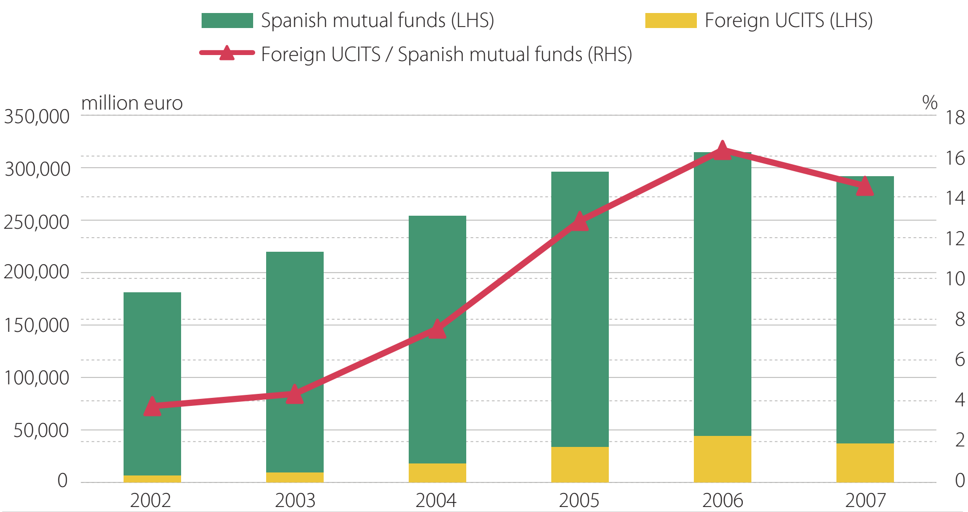
		Volume of investment		
Marketer	**Financial group**	**Amount**	**Change**	**Share (%)**
All Funds Bank	Santander	4,935	-43.7	13.3
Banco Banif	Santander	3,089	-6.2	8.3
BBVA	BBVA	2,830	-33.7	7.6
Deutsche Bank	Deutsche Bank	2,354	-10.2	6.3
BNP PARIBAS ESPAÑA, S.A.	Banque Nationale de Paris	2,062	-40.0	5.6
UBS Bank	UBS	1,586	-7.2	4.3
Morgan Stanley Wealth Management	Morgan Stanley	1,302	-	3.5
Popular Banca Privada	Banco Popular	1,270	-22.8	3.4
Banco Español de Crédito	Santander	1,235	1.7	3.3
Credit Suisse	Credit Suisse	1,222	-12.4	3.3
Subtotal top 10		**21,885**		**59.0**
Total volume of investment		**37,093**	**-15.9**	**100**

Source: CNMV.

Annex III.5 shows the net amount of foreign UCITS marketed by Spanish entities and foreign residents (-5.846 billion euro) and net subscription in European funds (-20.388 billion euro). The fact that both figures are negative reveals that reimbursements outstripped subscriptions in 2007 in both domestic and foreign UCITS, although foreign funds were affected much more than domestic funds in proportional terms.

Assets and weighting of foreign UCITS marketed in Spain

FIGURE 6.5



Source: CNMV.

There was a turning point in 2007 in the sustained trend of growth observed in previous years in the volume of foreign UCITS marketed in Spain: after rising from 4% in 2002-2003 to 16.3% of the volume of Spanish mutual funds in 2006, foreign UCITS shrank to 14.5% in 2007 (see Figure 6.5). Also, the number of investors in these UCITS has been increasing steadily in recent years and represented 10.6% of the number of investors in domestic funds in 2007.

6.4. UCITS operators (SGIIC)

The number of UCITS operators increased in 2007. Nine new operators registered with the CNMV during the year, bringing the total at year-end to 120[11] and three operators deregistered during the year.[12]

The large number of newly-registered operators in 2007 was due mainly to the surge in the hedge fund industry in Spain. Of the nine operators that registered, six are specialised in managing hedge funds and/or funds of hedge funds. Also, during 2007 a total of 19 existing operators were authorised to expand their programme of activities (i.e. operators already authorised to manage standard UCITS applied for authorisation to manage hedge fund and similar). Consequently, at 2007 year-end there were 39 operators authorised to manage hedge funds (32.5% of the total number of registered UCITS operators).

6.4.1. Assets and yields

SGIICs manage all of the mutual funds and 96.7% of the SICAVs that are registered. The number of UCITS under management increased by nearly 5% with respect to 2006. Each entity managed an average of 2.465 billion euro, i.e. considerably less than the 2.705 billion euro in 2006; this was due, among other factors, to the large volume of mutual fund reimbursements during the year.

UCITS operators continued to improve profitability in 2007, though very moderately. Pre-tax earnings have been rising steadily since 2003, but they are still far below the highs attained in 1999-2000 (see Figure 6.6).

Net commission revenues continued to rise, but much more slowly than in 2006. However, in contrast with previous years, UCITS management commissions declined because of the reduction in the volume of managed assets. There was a substantial increase in commissions under the «Other» heading, which includes commissions for other activities of UCITS operators such as portfolio management, venture capital, hedge funds and foreign UCITS, as well as advisory services.

Total net revenues also increased, but much more slowly than in 2006, due to a sizeable increase in operating expenses. As a result, pre-tax earnings just barely increased in 2007.

The top ten operators in terms of assets accounted for 64.9% of total assets at year-

11. See Annex III.6.
12. The operators that deregistered were: Afina Gestión (Commerzbank group), Gesdinco Gestión (Renta 4 group) and Aguilar y de la Fuente Gestión.

UCITS operators. Number of companies and assets managed or under advice

TABLE 6.6

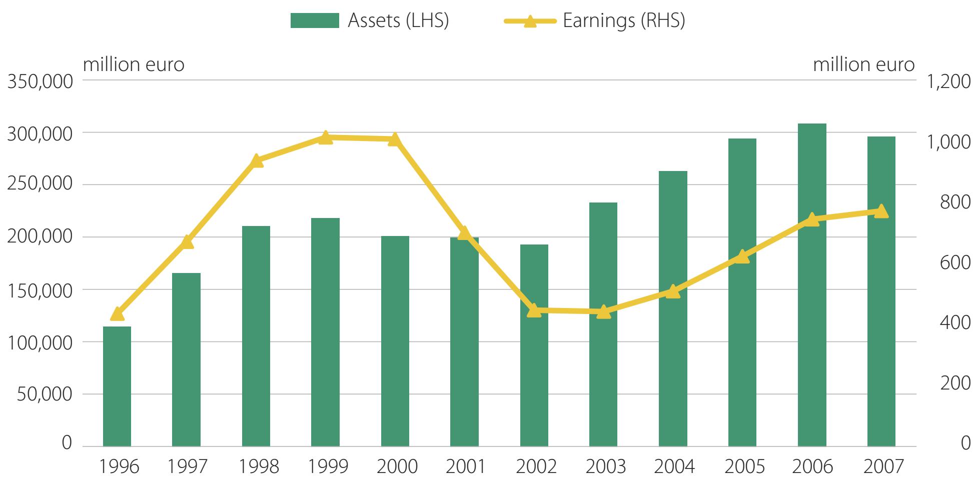
Thousand euro

	31/12/2006	31/12/2007	Change (%)
Number of companies	**114**	**120**	**5.3**
Number of UCITS under management	**5,923**	**6,205**	**4.8**
Assets	**308,476,093**	**295,907,382**	**-4.1**
Breakdown by type of UCITS			
Mutual funds			
Number	2,850	2,954	3.6
Assets	270,406,307	255,040,934	-5.7
Funds of hedge funds			
Number	2	31	1450.0
Assets	599	999,286	-
Hedge funds			
Number	5	21	320.0
Assets	24,420	445,802	1725.6
Investment companies			
Number	3,049	3,181	4.3
Assets	28,992,727	30,299,960	4.5
Real estate UCITS			
Number	17	18	5.9
Assets	9,052,040	9,121,400	0.8

Source: CNMV.

UCITS operators: managed assets and earnings

FIGURE 6.6



Source: CNMV.

end, and 59% of total income before taxes[13]. The top two operators (Santander Asset Management and BBVA Gestión) obtained 29.9% of the total income before taxes and managed 33.9% of total assets.

13. The top five UCITS operators by asset volume are: Santander Asset Management, S.A., SGIIC, BBVA Gestión, S.A., SGIIC, Invercaixa Gestión, S.A., SGIIC, Bansabadell Inversión, S.A., SGIIC and Ahorro Corporación Gestión, S.A., SGIIC.

UCITS operators: income statement TABLE 6.7

Thousand euro

	2006	2007	Change (%)
FINANCIAL INCOME	42,673	63,404	48.58
NET INCOME FROM SECURITIES	9,355	10,372	10.87
NET COMMISSION REVENUES	1,040,344	1,088,458	4.62
Commission revenues	3,387,723	3,339,894	-1.41
UCITS management	3,280,953	3,193,738	-2.66
Front-end and back-end fees	75,853	78,796	3.88
Other	30,917	67,360	117.87
Commission expenses	2,347,379	2,251,436	-4.09
TOTAL NET REVENUES	1,092,372	1,162,234	6.40
OPERATING EXPENSES	335,388	396,533	18.23
OPERATING INCOME	756,984	765,701	1.15
DEPRECIATION AND AMORTISATION AND OTHER PROVISIONS	16,934	15,892	-6.15
OTHER INCOME	3,911	21,340	445.64
INCOME BEFORE TAXES	**743,961**	**771,149**	**3.65**
CORPORATE INCOME TAX	**255,384**	**247,275**	**-3.18**
INCOME AFTER TAXES	**488,577**	**523,766**	**7.200**

Source: CNMV.

6.4.2. Return on equity

UCITS operators' return on equity (ROE) was 61% in 2007, i.e. less than in 2006. Despite the positive overall figure, many operators have had very low or negative ROE over the last five years[14]. In contrast with previous years, the number of loss-making operators increased from 12 to 19 (although the share of assets managed by these firms continued to decline, falling from 1% to 0.6%). Nevertheless, the larger number of loss-making operators is explained almost entirely by the large number of new operators registered during the year, five of which ended the year in the red.

Income before taxes, ROE and number of loss-making firms TABLE 6.8

Million euro

	Income before taxes	ROE before taxes	No. of loss-making firms
2000	1,005,766	84	17
2001	701,725	63	20
2002	457,091	44	31
2003	445,318	44	23
2004	512,288	49	17
2005	622,779	53	16
2006	743,961	69	12
2007	771,149	61	19

Source: CNMV.

14. Forty operators have less than 10% ROE, and ROE is negative in 19 cases.

6.5. UCITS depositories

Depositories are entrusted with the deposit and custody of the securities, cash and other assets of UCITS, and with monitoring the actions of UCITS operators and other administrators[15]. Depositories guard and custody the assets, performing an essential function of investor protection. Banks, savings banks, credit cooperatives, broker-dealers and brokers may operate as depositories. This activity is registered at the CNMV.

There were 126 UCITS depositories at 2007 year-end, six less than in 2006. The number of depositories has been declining for some years, mainly due to mergers and acquisitions and the subsequent restructurings of financial groups.

The banks predominate in the depository business, with 66.7% of UCITS assets at the end of 2007. Next in importance are the savings banks (28.5%), credit cooperatives (1.8%) and broker-dealers and dealers (3%). The market shares of the various segments did not change significantly with respect to 2006.

15. Article 57 of UCITS Act 35/2003, dated 4 November.

7. Provision of investment services

Several types of entity can provide investment services: broker-dealers, brokers, portfolio management companies, UCITS management companies, and credit institutions. Under the current legislation, the first four categories are authorised and supervised entirely by the CNMV. The CNMV is also entrusted with supervising the provision of investment services by credit institutions[1]. Credit institutions are the main providers of investment services in Spain, since their extensive branch networks guarantee them access to retail investors throughout the country. In fact, they have a relatively stable 75% market share of the revenues generated from investment services. Next in importance are the broker-dealers, with 20%, and the brokers, with 5%. Some classes of entity have been observed to specialise in certain services. For example, credit institutions have a larger market share in securities administration and custody and in mutual fund marketing because of their distribution networks. In contrast, broker-dealers and brokers have a larger market share of securities trading.

The crisis in the financial markets in the second half of 2007 did not have a significant impact on the profitability and solvency of the companies under the CNMV's prudential supervision, which remained high. Earnings increased generally at all classes of entity and the main category of commission revenues (securities trading) actually increased as a result of the surge in trading triggered by higher market volatility. Other revenues, such as those related to UCITS and to the primary market, did feel the effect.

The ongoing process of European integration and the recently-approved regulations pose major challenges to investment firms, which must: (i) strengthen their risk control systems (mainly risks deriving from transactions with clients), (ii) face rising competition in the European market in investment services, whose effects are beginning to be felt, and (iii) adapt to Act 47/2007[2,3] which transposes the Market in Financial Instruments Directive (MiFID), among other matters. The main new features in the area of investment services are as follows: expansion of the catalogue of investment services, creation of a new category of investment firm («investment advisory firm») and the establishment of a number of requirements with regard to internal organisation and rules of conduct applicable to relations with clients.

1. The Bank of Spain is entrusted with prudential supervision of credit institutions.
2. Act 47/2007, of 19 December, amending Act 24/1988, of 28 July, on the Securities Market, which incorporated the following European Directives into Spanish law: Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments, Directive 2006/73/EC, of 10 August 2006, implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive, and Directive 2006/49/EC of the European Parliament and the Council, of 14 June 2006, on the capital adequacy of investment firms and credit institutions.
3. For greater detail, see the legislation annex.

7.1. Credit institutions

7.1.1 Authorisation and registration

Credit institutions are allowed to provide all the investment services referred to in the Securities Market Act[4], including ancillary services, provided that their legislation, articles of association and specific authorisation allow. The Bank of Spain is the body in charge of authorising them and of informing the CNMV about the credit institutions that are authorised to provide investment services.

At 31 December 2007, the CNMV's Official Register of domestic credit institutions that provide investment services contained 201 names of domestic credit institutions (banks, savings banks and cooperatives), three less than in 2006.

Foreign credit institutions authorised to operate in Spain may also supply investment services provided that the rules governing their authorisation allow it[5]. They may operate with or without a physical establishment (branch). At the end of 2007, there were 372 foreign credit institutions operating in Spain (with or without a branch) that were registered with the CNMV and in a position to provide investment services (24 more than in 2006). The entire increase was due to foreign credit institutions authorised in other EU Member States, whose number rose from 339 to 363. They account for almost 98% of the foreign credit institutions authorised to operate in Spain. There was a notable increase in the number of institutions from Luxembourg and the United Kingdom (free provision of services) and from Portugal and Ireland (with branch).

Regarding the mode of providing services, 312 credit institutions had registered their intention to provide investment services without a physical establishment (16 more than in 2006) and 60 had a branch in Spain (8 more than in 2006).

7.1.2. Securities business at credit institutions

Investment services are an important source of revenues for credit institutions. Commissions for investment services accounted for close to 11% of credit institutions' total fee revenues in 2007 (see Table 7.1). Adding the fees for marketing UCITS (16% of the total), it is clear that activities related to the securities market accounted for over one-quarter of credit institutions fee revenues in 2007 (slightly less than in 2006 due to the slowdown in the mutual fund industry in 2007).

Investment services are provided mainly by banks. In the last five years, credit institutions obtained between 73% and 77% of the total revenues generated by this activity, while broker-dealers obtained 17%-21% and brokers 5%-6%.

4. Article 63.
5. Foreign credit institutions intending to provide investment services in Spain must comply with Royal Decree 1245/1995, dated 14 July, on the creation of banks, cross-border activity and other matters relating to credit institutions' legal regime.

Credit institutions' revenues from the provision of securities services and marketing of non-banking financial products TABLE 7.1

Million euro

	2004	2005	2006	2007	% of credit institutions' total fees
Securities services	**1,074**	**1,172**	**1,394**	**1,751**	**10.8**
Placement and underwriting	123	97	143	340	2.1
Securities trading	305	365	472	608	3.7
Administration and custody	588	634	681	675	4.2
Asset management	58	76	98	128	0.8
Marketing of non-banking financial products	**2,813**	**3,273**	**3,923**	**4,237**	**26.1**
Mutual funds	1,977	2,179	2,498	2,530	15.6
Pension funds	231	371	433	483	3.0
Insurance	574	676	935	1,131	7.0
Other	31	47	57	93	0.6

Source: Bank of Spain and CNMV.

In contrast, securities trading is more concentrated at broker-dealers, which obtain over half of the fees for this item. Portfolio management is more broadly distributed among the various classes of entity.

The main recent changes in market share are as follows: (i) credit institutions have maintained a relatively stable share of two activities which they dominate (securities deposit, and mutual fund marketing); (ii) the credit institutions have taken nearly three percentage points of the market in securities trading from the brokers; and (iii) the credit institutions have lost over eight percentage points of the asset management business (and the brokers over five percentage points), to portfolio management companies[6].

Investment services commission revenues. 2007 TABLE 7.2

Million euro

	Broker-dealers and brokers	Portfolio management companies	Credit institutions	Total	Credit institutions as % of Total
Placement and underwriting	65	-	340	405	84.0
Securities trading	907	-	608	1,515	40.1
Asset management	57	23	128	208	61.5
Administration and custody	27	-	675	702	96.2
Mutual fund marketing	213	2	2,530	2,745	92.2

Source: Bank of Spain and CNMV.

6. Although this is not reflected in the calculation, the UCITS Regulation allows UCITS operators (SGIIC) to provide portfolio management services, an area where they have a small but growing market share.

Securities deposited[1] at credit institutions at 31 December TABLE 7.3

Billion euro

	2004	2005	2006	2007[2]	% chg. 07/06
Fixed-income	**896.4**	**1,071.0**	**1,126.6**	**1,185.3**	**5.2**
Debt securities	812.7	982.1	1,026.3	1,083.2	5.5
Commercial paper and notes discounted	83.7	88.9	100.3	102.1	1.8
Equities	**649.2**	**749.5**	**964.7**	**1,002.4**	**3.9**
Listed shares	607.9	702.1	918.5	952.3	3.7
Unlisted shares	41.3	47.4	46.2	50.1	8.4
Total credit institutions	**1,545.6**	**1,820.5**	**2,091.3**	**2,187.7**	**4.6**
Total broker-dealers and dealers	**46.7**	**61.9**	**78.3**	**91.9**	**17.4**

Source: Bank of Spain and CNMV.

1. Listed securities are counted at their market value and unlisted securities at their nominal value.
2. Figures for credit institutions at 30 June 2007, and for brokers-dealers and brokers at 31 December 2007.

7.2 Broker-dealers and brokers

A total of 99 broker-dealers and brokers were registered with the CNMV at the end of 2007, i.e. five less than at the end of 2006, basically due to a reduction in the number of brokers (see Table 7.4). As in previous years, the slight downward trend in the number of Spanish investment firms contrasts with the growth in the number of entities authorised in other EU Member States that notified the CNMV of their intention to provide investment services in Spain, a trend that intensified in 2007 as a result of the entry into force of MiFID. The number of foreign institutions availing themselves of the free provision of services system rose from 951 to 1,365, while the number of foreign institutions with a branch increased from 22 to 29.

Registrations and removals in the register of firms TABLE 7.4

Type of firm	Firms at 31/12/06	Registrations	Removals	Firms at 31/12/07
Domestic firms	**104**	**5**	**10**	**99**
Broker-dealers	47	4	5	46
Stock exchange members	37	3	4	36
Non-members	10	1	1	10
Brokers	57	1	5	53
Stock exchange members	10	0	2	8
Non-members	47	1	3	45
Foreign firms	**973**	**453**	**32**	**1,394**
With a branch	22	7	0	29
Free provision of services	951	446	32	1,365
Pro memoria:				
Representatives	**7,205**	**1,007**	**925**	**7,287**

Source: CNMV.

Regarding newly-registered domestic firms (four broker-dealers and one dealer), three of them were independent in that no other financial firm controls a majority of their capital (see annex III.8). The other two (both broker-dealers) are the result of the split of a broker-dealer[7].

There were 10 deregistrations (double the 2006 figure); four were due to absorption by Spanish or European Union credit institutions as part of the ongoing process of restructuring in the investment services industry. Banks' growing capacity to provide investment services coupled with a drive to cut costs has led banks to absorb broker-dealers and brokers; consequently, interest in creating subsidiaries of broker-dealers and brokers is declining. It is also noteworthy that two brokers deregistered due to being converted or absorbed into a UCITS operator. UCITS operators' increased powers to operate in portfolio management and UCITS marketing has led to several mergers and acquisitions in recent years.

There were also two changes of control at brokers. In one case, a broker was bought by its employees; the other was acquired by a foreign financial institution.

The number of agents or representatives of broker-dealers and brokers remains large: 7,287 in 2007, up from 7,205 in 2006. Nevertheless, not all firms have representatives, and the vast majority of agents represent a single firm. Only 45 firms had representatives, and those with the greatest number were related to insurance companies. In fact, just one of them (Mapfre Inversión, SV) accounted for 78% of the total number of representatives.

Spanish firms are not making much use of the European passport in any of its forms (branch or free provision of services). At 31 December 2007, only two Spanish firms had branches in other European Union countries (the UK and Portugal), the same number as in 2006. Moreover, the number of Spanish investment firms that used or intended to use the European passport under the free provision of services (i.e. without a branch) fell from 32 at 2006 year-end to 29 in 2007. The host countries where Spanish firms had notified their intention to provide investment services in this way (see Annex III.10) were: Portugal (17), Germany (16), France (12), Belgium (12), The Netherlands (11) and Italy (11).

Among the non-bank firms authorised to provide investment services in Spain, there is a predominance of UK firms in both modes (branch and free provision of services). Of the 29 branches of foreign investment firms in Spain, 24 are of UK firms (six more than in 2006) and of the 414 net new notices of intent to provide investment services in Spain without a branch that were received in 2007, 389 were from the UK. There was also an increase in the number of German and Norwegian firms giving notice of intent to operate in Spain under the free provision of services (see Annex III.7).

7.2.1 The industry's profitability and solvency

Spanish investment firms are quite heterogeneous. They differ not only in size and earnings but also in the composition of their commission revenues. Broker-dealers are more specialised in order processing, which provided nearly 66% of their fee revenues in 2007. Dealers are also heavily dependent on order processing (42% of

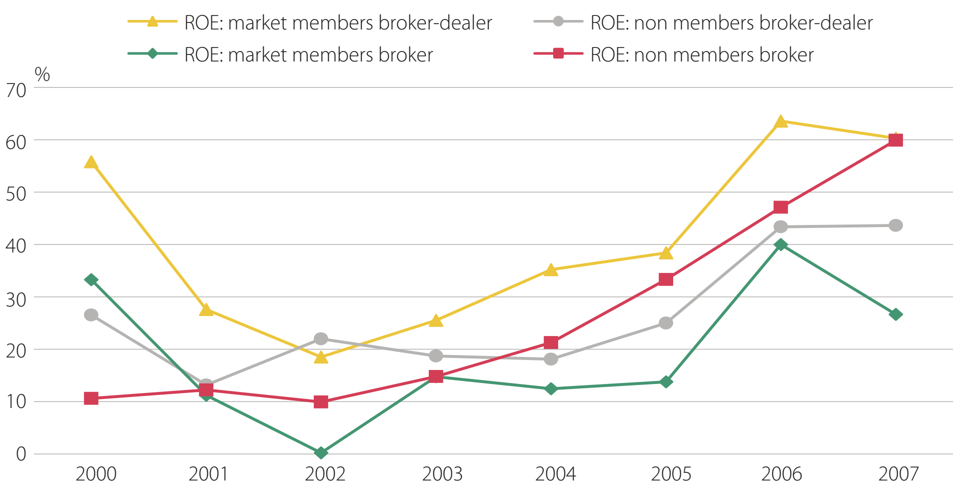
7. Morgan Stanley, Sociedad de Valores (deregistered) split into Morgan Stanley Wealth Management, Sociedad de Valores, S.A. and Morgan Stanley, Sociedad de Valores, S.A.

total fees) but some are specialised in other areas (24% of fees from UCITS subscription and reimbursement, and 9% from portfolio management).

Overall, the sector's pre-tax income amounted to 886 million euro in 2007, 23.3% more than the previous year. Income increased notably among both broker-dealers (22.6%) and brokers (27.6%), The increase in earnings was more balanced in the case of broker-dealers, since it was due mainly to growth in ordinary activities (both proprietary and for third parties), while the improvement in the case of brokers was due to extraordinary or non-recurring sources. The subprime financial crisis did not erode the investment services industry, which in some cases actually benefited from the increase in trading that resulted from higher uncertainty in the market.

The sector's good revenue performance enabled ROE to remain high (see Figure 7.1) apart from the case of brokers that are market members, whose ROE fell sharply due to an increase in provisions at one such firm. In aggregate terms, ROE of broker-dealers that are market members and brokers that are not market members was close to 60%, whereas that of non-member broker-dealers was close to 44%.

ROE before taxes of broker-dealers and brokers FIGURE 7.1



Source: CNMV.

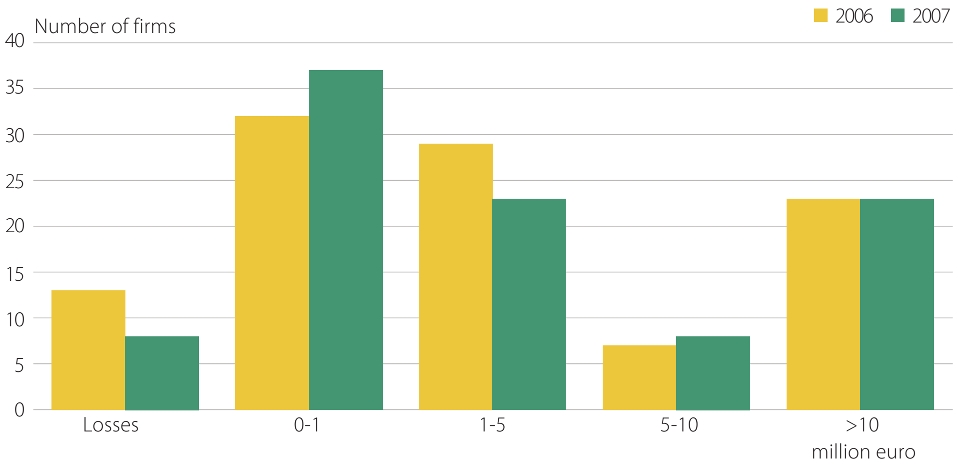
A breakdown of the industry's performance shows that earnings improved across the board (62% of firms increased earnings). There was a considerable increase in the number of firms with earnings in the lower brackets (under 1 million euro) and in the higher brackets (over 5 million euro). The number of loss-making firms also declined notably, from 13 in 2006 to 8 in 2007. Nevertheless, the total volume of losses was higher than in 2006 as a result of losses at one broker-dealer[8], although they still represent only a small proportion of the industry's overall earnings.

An examination of individual firms' profitability and a comparison with other market benchmarks reveals that the industry is healthy in this regard. Over 77% of broker-dealers and brokers obtained ROE (pre-tax) in 2007 that was greater than the Ibex-35's appreciation, and over 83% beat the yield on 10-year government bonds.

8. Gaesco Bolsa, SV.

Histogram of income before taxes of broker-dealers and brokers

FIGURE 7.2



Source: CNMV.

Loss-making firms: number and amount*

TABLE 7.5

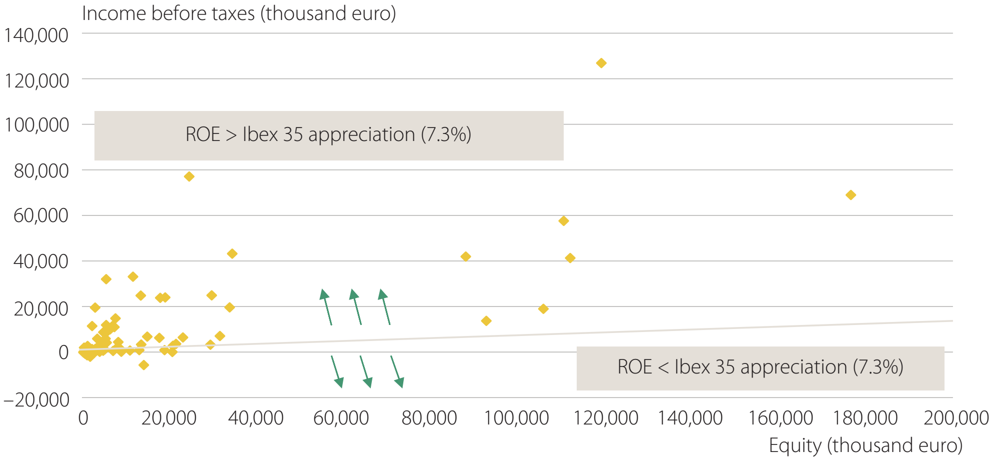
Thousand euro

	No. of firms		Amount	
	2006	**2007**	**2006**	**2007**
Broker-dealers that are market members	2	1	1,449	5,631
Broker-dealers	0	1	0	1,984
Brokers that are market members	3	0	1,170	0
Brokers	8	6	3,690	3,035
Total	**13**	**8**	**6,309**	**10,650**

Source: CNMV.
* Before taxes.

Income and equity of broker-dealers and brokers

FIGURE 7.3

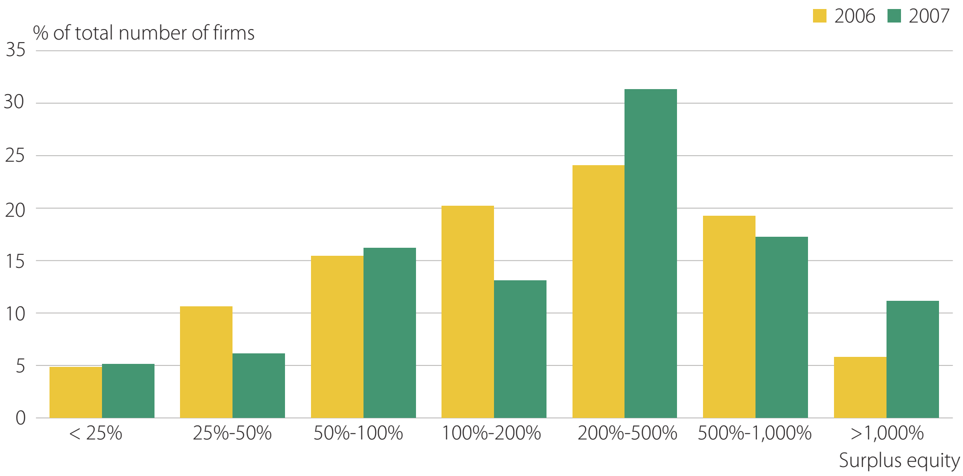


Source: CNMV.

Broker-dealers are generally well capitalised. Their equity surplus was practically stable in 2007 with respect to 2006. Broker-dealers' equity was 4.2 times the required level (the same as in 2006) and brokers' equity was double the requirements (210%

in 2006). The number of firms with little spare equity (under 50% of required equity) fell from 16 to 11. Two of them were broker-dealers and nine were brokers.

Surplus equity over requirements FIGURE 7.4



Source: CNMV.

7.2.2 Broker-dealers

Broker-dealers that are stock exchange members (SVB)

Of all the types of investment firm[9], broker-dealers that are market members (*Sociedades de Valores y Bolsa* - SVB) predominate in size, equity and earnings. Under the Securities Market Act, they can perform all investment services and can trade for their own account as well as for that of third parties. They are normally specialised in securities trading. These firms accounted for 77% of the total equity and 79% of the pre-tax income of broker-dealers and brokers combined.

Aggregate income before taxes of SVB amounted to over 632 million euro, 26.8% more than in 2006 (see Table 7.6)[10]. Although the sector is very concentrated, as the five firms with the largest profits accounted for 53% of aggregated income, firms in this category experienced an improvement across the board (67% of them increased earnings). Only one firm in this category reported losses in 2007 (two in 2006) due to the credit risk arising from client trades. Its losses amounted to over 5.6 million euro (0.8% of the aggregate income of all SVB).

SVB increased income as a result of both recurring and non-recurring activities and containment of operating expenses, which increased by just 0.6% in 2007. With regard to their core business, total net revenues increased by close to 20% (over 911 million euro[11]). In the case of non-recurring activities, the other gains and losses

9. Broker-dealers (market members and non-members), brokers (market members and non-members), and portfolio management companies.
10. The figures in the table exclude the information on one broker-dealer which books part of its proprietary trading under «other gains and losses», thus substantially distorting the aggregate income statement.
11. Including the figures for the firm referred to in the preceding footnote, aggregate total net revenues of the SVB would have amounted to 523 million euro (29.5% less than in 2006) and the aggregate EBITDA would have been 121 million euro (64.6% less than in 2006).

Broker-dealers: income statement[1] TABLE 7.6

Thousand euro

	Stock exchange members[2]		Non-members	
	2007	% chg. 07/06	2007	% chg. 07/06
Financial income	114,170	26.26	12,118	123.79
Net income from securities	110,032	89.67	5,552	32.82
Net commission revenues	**687,182**	**12.12**	**98,533**	**10.55**
Commission revenues	939,396	16.75	129,189	9.93
Order processing and execution	637,209	20.66	47,321	21.39
Placement and underwriting	62,092	-15.27	53	-
UCITS subscription and reimbursement	85,580	-1.86	52,901	-2.24
Portfolio management	21,724	16.63	7,925	50.78
Other	132,791	36.33	20,989	9.53
Commission expenses	252,214	31.58	30,656	7.99
Total net revenues	**911,384**	**19.70**	**116,203**	**17.71**
Operating expenses	362,664	0.56	56,760	21.89
Personnel	221,978	-0.67	42,813	26.34
General	140,686	2.58	13,947	9.99
Operating income	**548,720**	**36.93**	**59,443**	**13.98**
Depreciation and other charges	86,120	463.47	1,079	-24.17
Other gains and losses	170,142	49.77	9,006	-27.03
Income before taxes	**632,742**	**26.79**	**67,370**	**6.81**
Taxes	189,510	24.79	16,801	-24.15
Income after taxes	**443,232**	**27.66**	**50,569**	**23.57**

Source: CNMV.

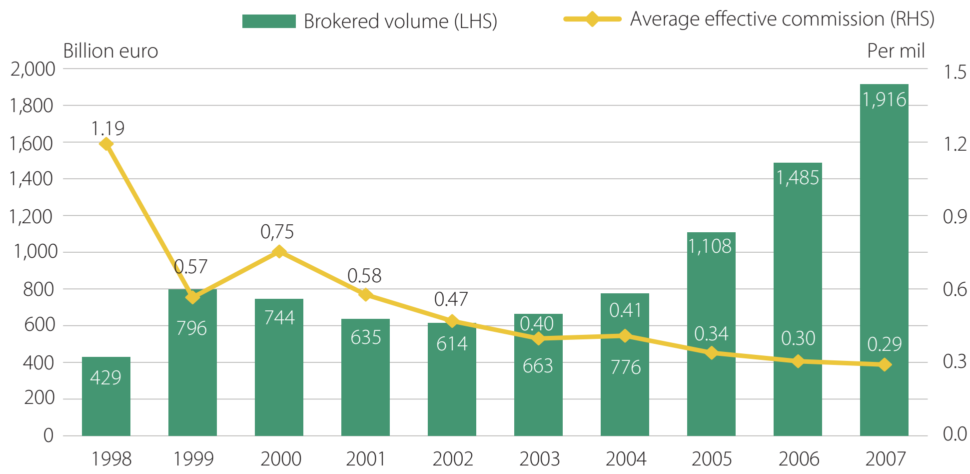
1. Includes information on all the firms that were on the CNMV's books at any time during the year, not just at year-end.
2. See footnote 10.

item increased by almost 50%, although it is much smaller in size than the preceding items.

Within total net revenues, the bulk of revenues come from trading for third parties, i.e. net commission revenues (vs. proprietary trading, i.e. financial income and net income from securities). SVB are highly specialised in order processing and execution, an activity that provided them with over 637 million euro in fees in 2007 (21% more than in 2006) due to the strong growth in domestic equity trading (see Figure 7.5). This area benefited from the increase in trading driven by rising uncertainty in the financial markets. Average brokerage fees were practically the same as in 2006.

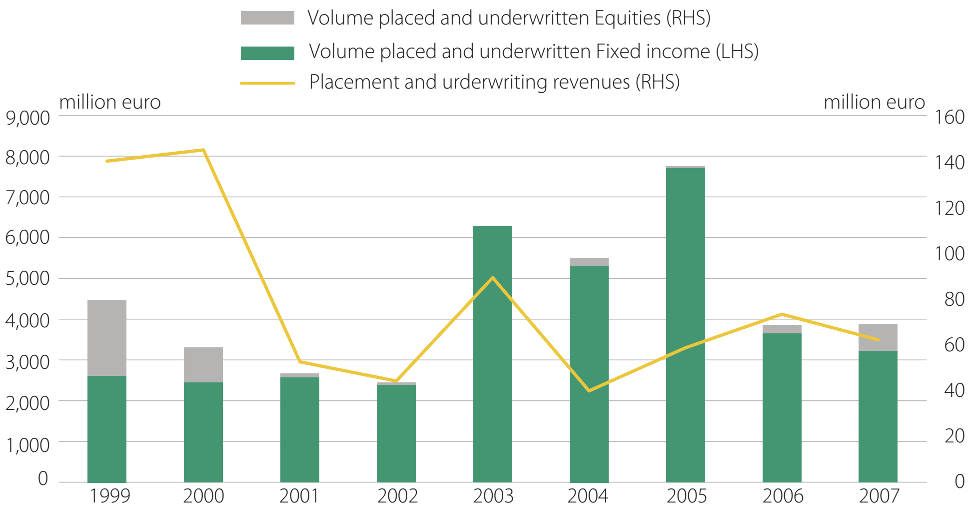
Other activities of the SVB did not perform so well, although they represent a smaller proportion of their commission revenues. UCITS subscription and reimbursement fees fell 1.9% in 2007 to 85 million euro. This was due to the stagnation of the collective investment industry last year. Issue placement and underwriting fees fell 15% to 62.1 million euro.

Broker-dealers that are stock exchange members: brokered volume and average effective brokerage fees in Spanish equities FIGURE 7.5



Source: CNMV.

Broker-dealers that are stock exchange members: revenues and volumes placed and underwritten FIGURE 7.6



Source: CNMV.

Broker-dealers that are not market members (SV)

The broker-dealers that do not have a seat on any exchange (*Sociedades de Valores* - SV) had a good year in 2007, with pre-tax income rising 6.8% to 67.4 million euro (see Table 7.6). SV, which represent a much smaller sector than the SVB, accounted for 7.6% of the aggregate income of broker-dealers and brokers[12]. Income was concentrated strongly at one firm[13], which accounted for 62% of the total. One SV ended the year with losses (none in 2006) due to a sharp increase in operating expenses.

Growth in income at SV came basically from recurring revenues (trading for third parties and proprietary trading). These firms' aggregate total net revenues amount-

12. SV accounted for 8.6% of total equity of broker-dealers and brokers.
13. Mapfre Inversión, SV.

ed to over 116 million euro in 2007, 17.7% more than in 2006, while revenues from extraordinary activities («other gains and losses») fell by 27% to 9 million euro.

The predominance of trading for third parties over proprietary trading explains why net commission revenues, which increased by 10.6% with respect to 2006, accounted for close to 85% of total net revenues. Although proprietary trading revenues also increased notably, this item remained small in relative terms.

UCITS subscription and reimbursement fees and order processing and execution fees together accounted for 78% of these firms' total commissions (see Table 7.6). However, their performance in 2007 was disparate. As in the case of the SVB, UCITS-related fees fell 2.2% while trading commissions increased notably (21.4%).

7.2.3 Brokers

Brokers that are market members (AVB)

Brokers, like portfolio management companies, are investment firms that are confined by law to a limited range of services. As Table 7.7 shows, the bulk of revenues

Brokers: income statement[1] TABLE 7.7

Thousand euro

	Stock exchange members		Non-members	
	2007	% chg. 07/06	2007	% chg. 07/06
Financial income	2,293	-16.37	12,102	18.74
Net income from securities	-348	-110.24	928	82.32
Net commission revenues	**29,345**	**24.72**	**208,058**	**-0.89**
Commission revenues	36,195	22.07	274,697	2.74
Order processing and execution	30,127	27.26	101,849	12.62
Placement and underwriting	23	-45.24	2,478	-21.11
UCITS subscription and reimbursement	1,023	29.33	73,895	9.12
Portfolio management	2,028	79.15	25,429	-7.67
Other	2,994	-25.41	71,046	-9.54
Commission expenses	6,850	11.85	66,639	15.98
Total net revenues	**31,290**	**5.47**	**221,088**	**0.21**
Operating expenses	21,427	2.31	132,355	-1.46
Personnel	11,543	-3.97	84,181	-2.43
General	9,884	10.76	48,174	0.27
Operating income	**9,863**	**13.07**	**88,733**	**2.82**
Depreciation and other charges	5,519	237.97	7,247	-1.63
Other gains and losses	3,342	21.75	28,062	797.70
Income before taxes	**7,686**	**-21.85**	**109,548**	**33.49**
Taxes	1,875	-42.71	29,342	12.10
Income after taxes	**5,811**	**-11.44**	**80,206**	**43.51**

Source: CNMV.

1. Includes information on all the firms that were on the CNMV's books at any time during the year, not just at year-end.

obtained by brokers that are market members (*Agencias de Valores y Bolsa* - AVB) are related to trading for third parties, since net commissions accounted for 84% of total net revenues in 2007.

In 2007, these firms' aggregate income amounted to 7.7 million euro, i.e. 21% less than in 2006[14]. This was due not to the AVBs' core business (since net commissions increased by 24.7%) but, rather, to the sharp increase in depreciation and other charges at a single firm[15], which amounted to over five million euro in 2007.

Brokers that are not market members (AV)

Brokers that are not market members (*Agencias de Valores* - AV) represent the largest category of investment firms in terms of numbers. AV are normally small in size and generally specialise in some of the services envisaged in the Securities Market Act. Their aggregate pre-tax income amounted to over 109 million euro in 2007 (12.4% of total income of broker-dealers and brokers), having increased by 33.5% with respect to 2006.

However, not all firms increased income. In fact, only 36% of the AV increased income (or reduced losses) with respect to 2006. However, the number of loss-making AV did decline, from 8 to 6, as did the volume of losses (from 4.6% of aggregate AV income to 2.8%). Income was also observed to be highly concentrated: the five AV with the greatest income together accounted for 72% of the AV total.

Practically all the growth in AVs' pre-tax income in 2007 was due to growth in revenues from extraordinary activities (see Table 7.7). Net commissions for services provided to third parties fell slightly (-0.9% with respect to 2006) due to the sharp increase in commission expenses. Commission revenues increased by 2.7% as a result of good performance by the main categories (order processing and execution, and UCITS subscription and reimbursement), which accounted for 64% of the total.

7.3 Portfolio management companies

Portfolio management companies provide discretionary management of portfolios of securities, although they may also engage partly in other investment services (e.g. UCITS marketing) which have grown in importance recently. Portfolio management is an activity that can be carried out by all investment firms covered by the Securities Market Act (except for the recently-created category of financial advisory firms), credit institutions and also UCITS operators (since the entry into force of the UCITS Regulation). Consequently, the number of portfolio management companies has declined sharply in recent years as a result of the process of restructuring financial groups' subsidiaries and also of growing competition from other categories of investment firm. Last year was no exception: four portfolio management companies were deregistered in 2007[16], leaving a total of eleven on the books at year-end.

14. Of the 8 AVB on the books at year-end, half increased pre-tax income and half experienced a decline.
15. Mercados y Gestión, AV.
16. One was absorbed by a UCITS operator, another was acquired by a financial institution, and the other two were converted into limited companies.

Assets managed by portfolio management companies

TABLE 7.8

Thousand euro

	31/12/2006	31/12/2007	% change 07/06
Total			
Number of portfolios	4,071	4,120	1.2
Assets	4,246,329	4,647,319	9.4
Breakdown by portfolio type			
SICAV			
Number	35	38	8.6
Assets	282,165	290,610	3.0
Other managed portfolios			
Number	4,036	4,082	1.1
Assets	3,964,164	4,356,709	9.9

Source: CNMV.

Portfolio management companies: income statement[1]

TABLE 7.9

Thousand euro

	2006	2007	% change 07/06
Financial income	895	1,442	61.12
Net income from securities	6	21	250.00
Net commission revenues	**15,195**	**15,501**	**2.01**
Commission revenues	27,625	27,340	-1.03
Portfolio management	22,068	22,545	2.16
UCITS subscription and reimbursement	261	1,728	562.07
Other	5,296	3,067	-42.09
Commission expenses	12,430	11,839	-4.75
Total net revenues	**16,096**	**16,964**	**5.39**
Operating expenses	9,744	9,736	-0.08
Personnel expenses	5,535	5,548	0.23
General expenses	4,209	4,188	-0.50
Operating income	**6,352**	**7,228**	**13.79**
Depreciation and other charges	401	293	-26.93
Other gains and losses	359	171	-52.37
Income before taxes	**6,310**	**7,106**	**12.61**
Taxes	2,198	2,267	3.14
Income after taxes	**4,112**	**4,839**	**17.68**

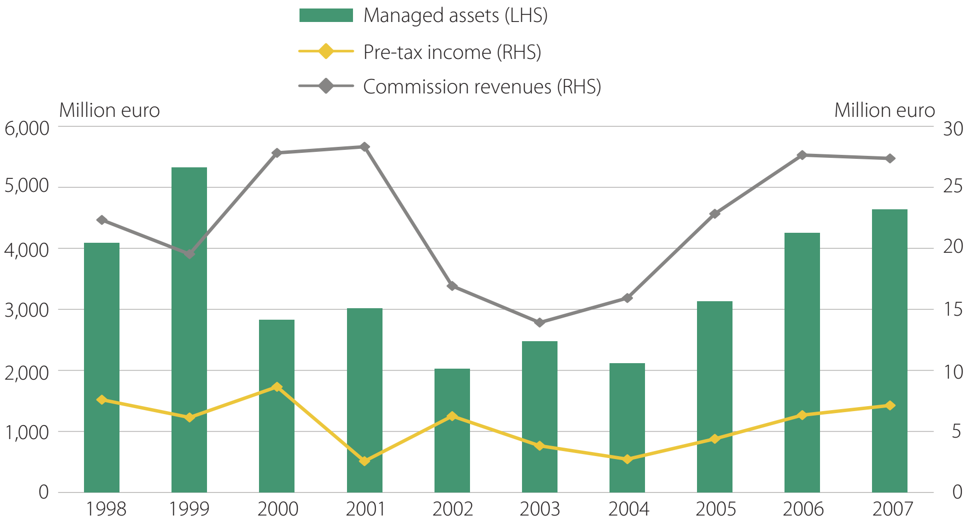
Source: CNMV.

1. Includes information on all the firms that were on the CNMV's books at any time during the year, not just at year-end.

The assets under management by these firms increased by over 9% in 2007, leading to somewhat lower growth in portfolio management fees (2.2%). These firms' aggregate net revenues amounted to close to 17 million euro in 2007 (a 5.4% increase) due to an increase in net commission revenues and in financial income (see Table 7.9). Also, containment of operating expenses and provisions led to a 12.6% increase in pre-tax income to 7.1 million euro despite the decrease in the number of firms. The sector's pre-tax ROE increased from 19.1% in 2006 to 21.1% in 2007.

At 2007 year-end, portfolio management companies had a 61.2% surplus over the minimum equity requirements, although the individual surpluses varied considerably.

Assets under management, commission revenues and income before taxes of portfolio management companies FIGURE 7.7



Source: CNMV.

8. Venture capital firms

8.1. Venture capital firms registered with the CNMV

In 2007, Act 25/2005 of 24 November regulating venture capital firms was in force for its second year. There are three types of venture capital firm: funds, companies and management companies. Venture capital management companies (SGECR) are corporations whose sole purpose is the administration and management of venture capital funds (FCR) and venture capital companies (SCR). Apart from the venture capital management companies, venture capital funds and companies may be managed by UCITS management companies and by investment firms. Venture capital funds are separate estates without legal personality whose management and representation is undertaken by a managing company. Venture capital companies are corporations whose sole purpose is to provide venture capital. Venture capital companies may be self-managed or managed by a management firm. Venture capital companies usually have a small number of shareholders.

In 2007, the number of venture capital firms registered with the CNMV continued to grow, to 276 at year-end, 55 more than in 2006. In 2007, 16 venture capital funds and 33 venture capital companies were registered[1], so there were 76 funds and 134 companies at year-end (see Table 8.1). The number of registered management firms also increased by 12 to a total of 66[2]. The absolute increase since the Act entered into force is 66%, 25% of which took place in 2007.

In 2007, there was a notable increase in the number of venture capital funds, with a total of 11 entities registering by year-end.

With respect to the entities registered in 2007, the possibility offered by the new regulations of establishing entities under the simplified system was of particular interest. Almost 90% of the venture capital firms established in 2007 used this system. The principal advantage of registering a venture capital firm under the simplified system is the ability to grant the promoters shares or special rights. For a majority of these entities, the carried interest is instrumented through special rights. However, this advantage usually requires that the promoter subscribe close to 1% of the entity's equity with a view to aligning the manager's objectives with those of the entity.

With respect to investment policy, there has been a revival of venture capital firms investing in the technological sector, especially in renewable energies. The sector is

1. At 31 December 2007, 17 venture capital firms were pending registration by the CNMV, and 10 were in the authorisation process.
2. At 31 December 2007, there were three management firms pending registration and four in the authorisation process.

also moving towards larger deals, investing primarily in entities that are expanding or already well-established, while funding of start-ups is still quite limited. Geographically speaking, investments remain concentrated on the Iberian Peninsula, although there are also investments throughout Europe.

Registration and removal of venture capital firms in 2007 TABLE 8.1

	Situation at 31/12/2006	Registrations	Removals	Situation at 31/12/2007
Entities	**221**	**61**	**6**	**276**
Venture capital funds	64	16	4	76
Venture capital companies	102	33	1	134
Venture capital firm operators	55	12	1	66

Source: CNMV.

The registration of venture capital firm operators with the CNMV is voluntary and, therefore, the CNMV's data does not provide a complete picture of this sector.

However, the ASCRI database[3], which includes a majority of the international venture capital firms that operate in Spain, indicates that venture capital firms invested 4.298 billion euro in 2007, i.e. 52.7% more than in 2006. Venture capital investment in Spain reached a new high in 2007.

According to ASCRI, the 776 deals completed in 2007 set a new record, 9% more than in 2006. Medium-sized deals (between 10 and 100 million euro) predominated, to the detriment of large leveraged deals.

In 2007, another record was set: 4.764 billion euro were raised, i.e. 31.7% more than in 2006.

Divestments registered a record high of 1,547.5 million euro, i.e. 15% more than in 2006.

3. Asociación Española de Entidades de Capital Riesgo (Spanish Venture Capital Association).

IV Regulation and supervision of the securities markets

9. Issuers' financial and corporate governance disclosures

9.1 Financial disclosures

Information to be provided by issuers of securities should be organised into three blocks: (i) periodic financial information, (ii) regulatory disclosures of significant events, with no established schedule, and (iii) information regarding significant holdings by shareholders and directors and financial contracts which allow for the acquisition of shares and own shares by directors.

9.1.1 Auditors' reports and financial statements: actions and statistics[1]

All issuers of securities listed in any official secondary market that are not subject to public law are required to submit an auditor's report to the CNMV, in addition to the financial statements and the directors' report[2].

In 2007, the CNMV received 845 auditors' reports on individual and consolidated financial statements and 30 special auditors' reports[3]. This 9.3% rise in auditors' reports with respect to the previous year is the result of the increase in the number of securitisation trusts. The number of entities that applied for listing in the securities markets was similar to the number of delistings.

The percentage of unqualified auditors' reports on financial statements in 2006 (95.5%) is the highest since the creation of the CNMV's Official Register of Auditors in 1989 (Fig. 9.1).

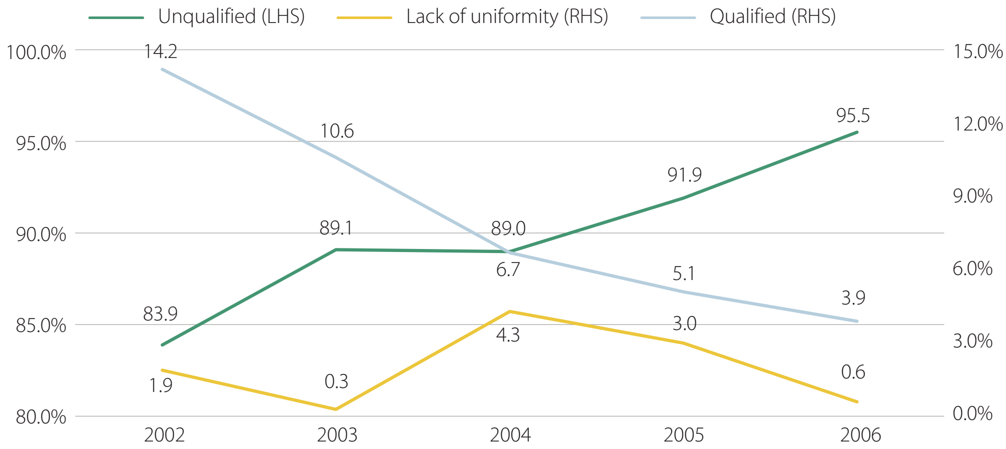
Exceptions due to lack of uniformity in general do not reflect regulatory non-compliance and tend to be due to changes in accounting policies, the effects of which, in accordance with international accounting standards, should be registered retroactively by restating the comparative information for the previous year.

Figure 9.2 shows the trend in qualified auditors' reports in the period 2002-2006, grouped by type.

1. This information is available in the Spanish area of the CNMV website (www.cnmv.es) in the section «Registro Oficial de las Cuentas Anuales Auditadas», under «Entidades emisoras", "Informes de Auditorías y Cuentas Anuales".
2. Article 35 of Act 24/1988 on the Securities Market. Entities not required to do so include «[...] the State, Autonomous Regions and International Organisations of which Spain is a member, and other public law entities as determined by the Government [...]».
3. The purpose of special auditors' reports is to update the information in qualified auditors' reports. The update is done as of the end of the first half of the year after the one to which the qualified auditors' report refers.

Opinions in the auditors' report (% of total)

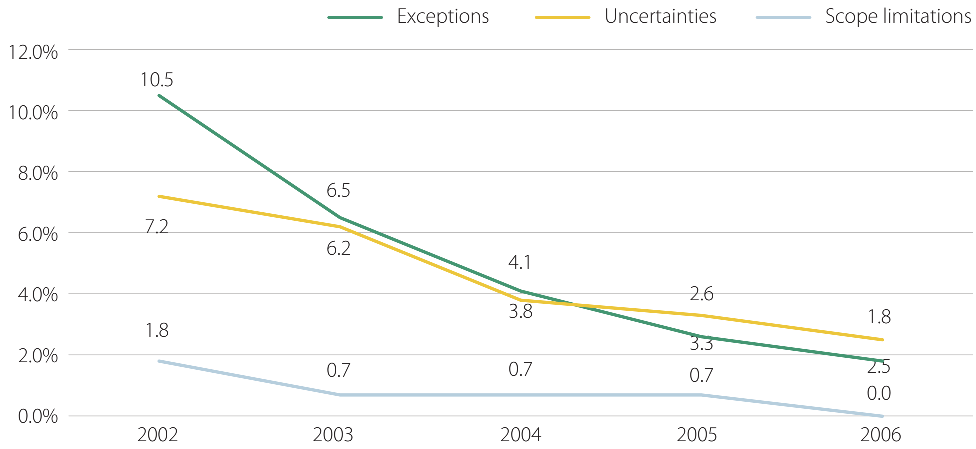
FIGURE 9.1



Source: CNMV.

Types of qualifications

FIGURE 9.2



Source: CNMV.

Scope limitations are the type of qualification that is of greatest concern since the auditor is stating that he/she was unable to apply the Audit Technical Standards because the reporting entity failed to supply sufficient information for a solid opinion to be formed. In these cases, the CNMV immediately issues a written subpoena demanding that the issue be resolved immediately.

Initially, six auditors' reports from 2006 registered with the CNMV contained scope limitations. However, in response to demands issued by the CNMV, and once the procedures required by the Audit Technical Standards were applied, explicit communiqués were received from the auditors eliminating those limitations.

The CNMV checks and publishes all auditors' reports.

As regards reviewing financial statements and directors' reports of listed companies, the CNMV follows Standard No. 1 of the *Committee of European Securities*

Audits of issuers filed with the CNMV

TABLE 9.1

	2004		2005		2006	
	No.	%	No.	%	No.	%
1. Audits filed with the CNMV	715	100.0	766	100.0	845	100.0
Individual financial statements	506	70.8	553	72.2	621	73.5
Consolidated financial statements	209	29.2	213	27.8	224	26.5
Special reports under Ministerial Order 30/09/92	34		35		30	
2. Auditors' report						
Unqualified opinion	636	89.0	704	91.9	807	95.5
Opinion with uniformity exception	31	4.3	23	3.0	5	0.6
Opinion with other qualifications	48	6.7	39	5.1	33	3.9
3. Types of qualifications						
Reports with exceptions	29	4.1	20	2.6	15	1.8
Reports with uncertainties, etc.	27	3.8	25	3.3	21	2.5
Reports with limitations	5	0.7	5	0.7	0	0
4. Effects of exceptions						
4.1 Effects of exceptions on earnings						
Reports with positive effects	12	1.7	2	0.3	0	0
Reports with negative effects	13	1.8	16	2.1	14	1.7
4.2 Effects of exceptions on equity						
Reports with positive effects	3	0.4	5	0.7	8	0.9
Reports with negative effects	3	0.4	5	0.7	2	0.2
5. Nature of uncertainties, etc.						
Going concern	7	1.0	6	0.8	4	0.5
Tax contingencies	4	0.6	4	0.5	3	0.4
Asset recovery	10	1.4	13	1.7	11	1.3
Litigation	11	1.5	9	1.2	8	0.9
Other uncertainties	11	1.5	5	0.7	2	0.2
Denial of opinion or adverse opinion	0	0.0	1	0.1	1	0.1

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

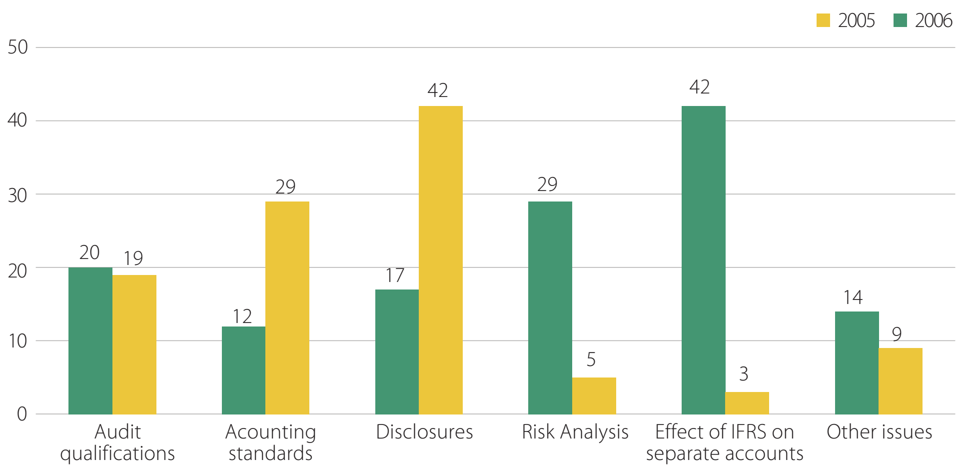
Regulators (CESR), which recommends beginning the process by applying a mixed selection model based on risk and the random rotation of companies under review. Accordingly, financial information from issuers identified as having greater risk and those entities that have been selected using the random rotation system are reviewed in detail with substantive tests. This guarantees that the financial information of all issuers is reviewed within a reasonable time period.

Actions taken by the CNMV as regards audited financial statements include a review of accounting principles and valuation standards used, and checking that they contain sufficient information for comprehension, and that they are published by the deadline established by current legislation. As a result, 139 entities (174 in 2006) were subpoenaed in 2007.

There were fewer subpoenas than in 2006 because in that year 36 notices were sent regarding the description of risks and uncertainties in the directors' report[4] and the obligation to report in the notes to the individual financial statements[5] on the main changes in equity and earnings that would arise if IFRS, as adopted by the European Commission, were applied[6].

However, the number of questions about the 2006 financial statements that were raised in subpoenas increased, especially regarding the accounting standards and the disclosures in the notes.

Reasons for subpoenas FIGURE 9.3



Source: CNMV.

To facilitate the dissemination of financial information, the following information was made available to the public on the CNMV's web site: the full text of issuers' financial statements, directors' reports and auditors' reports, both individual and consolidated, a summary of audit qualifications, the response to requests for subpoenas, and special auditors' reports. In accordance with CESR recommendations, an annual report is published on the content of the auditors' reports received by the CNMV and the main issues detected in the audit of annual and interim financial statements.

Some of the CNMV's actions are the result of complaints from third parties. In 2007, seven issuers were subpoenaed to expand upon the information in their audited financial statements or clarify certain issues raised by complainants.

The complaints were based mainly on the following matters: consolidation scope, ongoing litigation, provisions for possible present obligations and disclosure of contingent liabilities, and stock option plans provided to executives and directors.

Meetings were also held with listed companies (47) and with the principal auditors, ranked by the number of auditors' reports received by the CNMV, which represent 92.8% of the total auditors' reports received.

4. Article 202 of the Spanish Corporations Act.
5. In the event that listed companies are not obliged to produce consolidated financial statements.
6. Article 200 of the Spanish Corporations Act.

As a result of the review of audited financial statements, the subpoenas issued and the meetings with listed companies and their auditors, recommendations for improving financial content were made, including most notably the following:

- To avoid misunderstandings, the notes to the financial statements should describe the accounting principles and valuation standards that were applied to the financial statements, eliminating all references to items, transactions and economic events that were not reflected in the accounts or that did not occur during the reporting period.

- Regarding the fair value of real estate investments, companies should disclose sufficient information to help investors make substantiated decisions. They should also disclose:

  - The methods and significant assumptions applied in determining the fair value of real estate investments.

  - A statement indicating if the fair value was determined using market data or if other factors where considered (which must be disclosed) due to the nature of the property and the lack of comparable market data. This information should also be disclosed when the entity bases it valuation on the report provided by an independent external appraiser.

- Criteria for recognition of revenues established in the accounting standards should be rigorously applied, especially for contracts subject to milestones or conditions precedent or subsequent. This situation is more frequent in the real estate and pharmaceutical sectors.

- The use of financial instruments exposes entities to different types of risk (market, credit, and liquidity). IFRS 7 is obligatory in the preparation of 2007 financial statements and requires entities to report impairment losses on financial assets, exposure to various types of concentration risk, the nature and fair value of financial assets, and the methodology and main assumptions used to determine the fair value, among other matters.

- Entities must disclose all information that enables users of the financial statements to evaluate the objectives, policies and processes applied in managing capital.

- As regards provisions for liabilities, the report should include a brief description of the nature of the obligation and the expected schedule for the cash flow, indicating uncertainties related to the amount and the schedule. Similar information should be provided for contingent liabilities, unless the probability of cash outflow is remote.

- In business combinations, companies must provide the following information, inter alia: the cost of the combination and a description of the components; the recognised amount of assets, liabilities and contingent liabilities; a description of the factors that justify recognition of goodwill, revenues and period income for the resulting entity as if the combination had taken place at the beginning of the year.

- The regulation requires quantitative and qualitative disclosures about the calculation of possible asset impairment, including any purchased goodwill. This information is especially important when it refers to the following:

- An entity granting stock options to employees must disclose, for example, the method for measuring the value of the options and the variables used; expected volatility and how it was calculated; expected dividends and the risk-free interest rate.

- Also, if there is an equity swap or other derivatives contracts related to a stock option plan, the instrument's main characteristics must be described, including its method of settlement and its exchange flows.

– The report should include a note detailing the main figures set out in the cash flow statement and at least a reconciliation of the cash and cash equivalent balances with the corresponding items on the balance sheet.

– The note on income tax should include, among other information: the changes in deferred tax assets and liabilities; current and deferred taxes in relation to items that are charged or credited directly against equity; the amount and validity date of deductible timing differences, losses and tax credits.

– Entities should report on all transactions and outstanding balances with third parties, separating items when necessary for an understanding of the effects of related-party transactions on the financial statements.

– The report should include information about the key assumptions made to estimate uncertainties, making appropriate quantifications, the expected outcome of an uncertainty and the range of consequences that are reasonably possible in the next year.

9.1.2. Half-yearly and quarterly reports: actions and statistics

Pursuant to the Ministerial Order of 18 January 1991 on periodic public information, issuers of securities listed in the securities market must disclose quarterly and half-yearly financial information. Reporting requirements were amended by the Transparency Directive and its implementing regulations, transposed into Spanish legislation in 2007, as indicated in the following section.

Prior to the reception and analysis of financial statements, interim financial information is continuously monitored to identify any items that may give rise to doubts regarding the application of accounting standards. However, the periodic public information has a smaller scope than the annual financial statements because the interim financial statements contain abridged information.

As a result of these reviews, the CNMV requested additional information regarding 20% of the interim reports received in 2007 and a total of 26 entities were subpoenaed for various reasons.

9.1.3. New regulatory features under the Transparency Directive

Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (hereafter, Transparency Directive) and its implementing regulations were transposed into Spanish legislation through Act 6/2007 of 12 April[7], amending Act 24/1998 of 28 July on the Securities Market.

Royal Decree 1362/2007 of 19 October regarding regulated information was published on 20 October 2007; among other aspects, it details the content, periods and deadlines for delivery of half-yearly financial information and interim management disclosures, the main accounting principles that must be applied, and the authorisation to the CNMV to establish forms for quarterly and half-yearly reporting.

By virtue of the authorisation contained in Royal Decree 1362/2007, on 30 January 2008 the Board of the CNMV established forms for half-yearly and quarterly disclosures in Circular 1/2008 on periodic disclosures by issuers of securities listed in the regulated markets, interim management disclosures and quarterly financial reports.

The main new features in this regulation are as follows:

- Annual and half-yearly financial reports must include a declaration of liability for the content, which must be signed by the directors.

- The period in which issuers can publish their annual financial reports has been shortened to four months from year-end.

- Issuers of shares and debt securities, listed on stock exchanges and on the AIAF, must publish a preliminary half-yearly financial report that will include, among other information, summarised financial statements drafted on a consolidated basis in accordance with the International Financial Reporting Standards adopted by the European Commission (IAS 34: Interim Financial Reporting) and an interim directors' report.

- Issuers of shares must also publish a second half-yearly financial report and interim directors' reports to replace the current quarterly information. The publication of a second half-yearly report will not be obligatory when the issuer publishes the annual financial report in the two months following the end of the year in question.

- Issuers of shares which publish their annual financial report in the two months following the end of the year in question and issuers of debt must submit to the CNMV, for statistics purposes, the following financial information regarding the second half of the year: (i) main financial statements; (ii) dividends paid; (iii) average workforce; and (iv) net revenues by geographic area.

Recommendations of the CNMV to parties that participate in appraising real estate assets of listed companies

To analyse the problems of appraising real estate in Spain, the CNMV held a number of meetings in 2007 with the leading parties that draw up, review and use appraisals.

7. Published on 13 April 2007.

The CNMV's goal with this initiative was to gain greater insight into the professional appraisal business and its impact on the financial and non-financial information published by listed real estate companies, with the potential goal of proposing measures to improve existing procedures.

After completing the series of meetings, the CNMV sent the parties involved in appraising real estate a number of recommendations; those for appraisal companies involved the implementation of internal procedures to ensure independence and detect conflicts of interest, the establishment of fees and compensation without considering the value of the property, and the application of International Valuation Standards (IVS[1]) and International Financial Reporting Standards (IFRS) when the report is for external use, while establishing review and internal control procedures to ensure that appraisals are used properly in practice.

The CNMV also sent the main listed real estate companies a number of recommendations, including: development of internal procedures for choosing and engaging appraisal firms to ensure their independence; avoidance of excessive concentration of appraisals from a single firm; fulfilment of the IFRS disclosure requirements; and greater involvement by the Audit Committee in engaging appraisal firms and assessing their performance.

1. International Valuation Standards, approved by the London-based International Valuation Standards Committee (IVSC)

9.2 Information about ownership structure: actions and statistics

9.2.1 Communiqués filed with the official registers of the CNMV in 2007

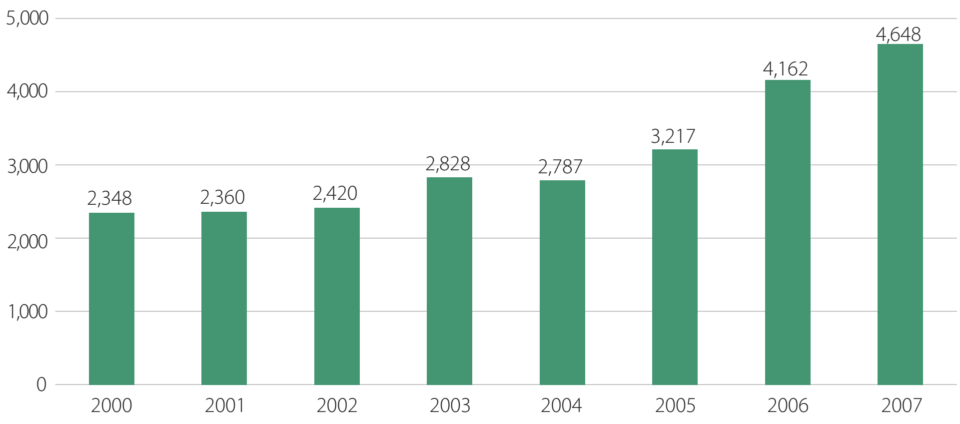
In 2007, the CNMV added to its official register 4,648 communiqués regarding significant holdings, transactions by directors, executives and significant shareholders, stock options and transactions with own securities. 84.7% of these communiqués were filed by directors or significant shareholders.

The number of communiqués increased by 11.7% with respect to 2006. Of special note is the number of communiqués filed by executives in application of Royal Decree 1333/2005 on market abuse (275, compared with 125 in 2006). Figure 9.4 illustrates the number of communiqués registered each year since 2000.

Significant shareholders

Until 2007, significant shareholders were obliged to file a communiqué whenever their stake in a listed company went over or under 5% or multiples of 5% of capital. The entry into force of Royal Decree 1362/2007 of 20 December reduced that percentage to 3% of voting rights. When the holder is domiciled in a tax haven, the corresponding percentage is 1%. Unlike directors, significant shareholders are only required to disclose the transaction as a result of which they attain, cross or fall below the aforementioned thresholds (see box).

Registered communiqués FIGURE 9.4



Source: CNMV.

In 2007, significant shareholders filed 1,193 communiqués (relating to 147 companies), compared with 1,077 communiqués (131 companies) filed in 2006. Eight companies accounted for 20.1% of the communiqués. Excluding those companies, the average number of communiqués per company was 7.1. Annex IV.1 lists the significant shareholders of Ibex 35 companies as of the end of 2007, grouped into brackets.

Directors' disclosures: shares and stock options

Directors are obliged to disclose all the transactions they perform with shares of the company where they hold a directorship. In 2007, 882 directors (51.5% of the total) filed 2,690 disclosures, i.e. 9.7% more than in 2006.

In 2007, under Royal Decree 1370/2000, of 19 July, directors of listed companies were also obliged to disclose the acquisition or disposal of stock options. For these purposes, stock options, warrants, convertible or exchangeable bonds and other securities which grant their owners the right to subscribe to or acquire shares are considered to be equivalent to stock options. With the entry into force of Royal Decree 1362/2007, of 20 December, directors must disclose any financial instrument that entitles them to acquire or transfer voting stock.

A total of 181 communiqués were received in 2007 from 69 directors relating to the acquisition or transfer of stock options in 28 listed companies, i.e. an 11.7% increase on 2006.

Table 9.2 lists companies whose directors had stock options or similar rights at 2007 year-end (mostly under remuneration systems established by the companies themselves).

Disclosures of own securities

In 2007, 215 disclosures about own securities were received from 55 companies, a 4.7% increase with respect to 2006. Table 9.3 details disclosures about own securities, grouping companies by market capitalisation.

Stock options valid at 31/12/2007 TABLE 9.2

Securities Market Participants	Index/Market	Number of directors in 2007	Number of directors in 2006
Abertis	Ibex 35	1	-
ACS	Ibex 35	4	4
AISA	Electronic market	1	-
Altadis	Ibex 35	2	2
BBVA	Ibex 35	3	3
Banesto	Ibex 35	6	-
Bankinter	Ibex 35	8	10
Banco Santander	Ibex 35	6	5
Campofrío	Electronic market	-	4
Cintra	Ibex 35	2	2
Dogi	Electronic market	1	1
Fluidra	Electronic market	7	-
GAM	Electronic market	1	-
Gestevisión Tele5	Ibex 35	3	3
Grupo empresarial Ence	Electronic market	1	1
Ferrovial	Ibex 35	3	3
Prisa	Electronic market	6	7
Iberia	Ibex 35	-	1
Indra	Ibex 35	3	3
Inditex	Ibex 35	2	2
Jazztel	Electronic market	7	9
Martinsa Fadesa	Electronic market	1	-
Natra	Electronic market	4	4
Natraceutical	Electronic market	4	4
NH hoteles	Electronic market	1	1
Service Point	Electronic market	2	2
Sogecable	Ibex 35	1	1
Sos Cuétara	Electronic market	2	-
Telefónica	Ibex 35	6	-
TOTAL (27 companies in 2007)		**88**	**72**

Source: CNMV.

Disclosures about own securities in 2007 TABLE 9.3

	Total		Number of issuers		
	Issuers	Disclosures	1 to 5	5 to 15	Over 15
Ibex 35	21	109	13	7	1
Over 1 billion euro	10	32	9	1	-
Under 1 billion euro	24	74	21	**2**	**1**
Total	**55**	**215**	**43**	**10**	**2**

Source: CNMV.

Financial swap contracts

In 2007, some issuers and significant shareholders entered into financial swap contracts with credit institutions. These transactions were analysed individually to ascertain whether the financial institution was acting as a straw man, the aim being to establish who was obliged to file a disclosure.

The CNMV generally analysed the form of settlement, whether or not there was physical delivery of the shares, the exercise of voting rights, and the party that bore the financial risks of the transaction. The financial swap contracts analysed had the shares of seven listed companies as underlyings and most of them were arranged to hedge remuneration plans.

Shareholder agreements

Under article 112 of the Securities Market Act, shareholder agreements are defined as those that regulate the exercise of voting rights in shareholders' meetings or restrict the free transfer of shares or convertible or exchangeable bonds of listed companies.

The Securities Market Act requires that shareholder agreements and other agreements that affect the companies or entities that control a listed company be made public. The signature, extension or amendment of shareholder agreements must be notified to the company in question and to the CNMV and be published as a regulatory disclosure. The agreement must also be filed with the Mercantile Register.

In 2007, 16 shareholder agreements relating to 14 listed companies were disclosed; they can be grouped into three large categories based on the nature of the agreement:

– Concerted action (13).

– Agreement to transfer a significant holding (2).

– Agreement to give right of first refusal on a significant holding (1).

Six regulatory disclosures were received announcing the cancellation of shareholder agreements and three announcing changes in the persons who were party to agreements.

9.2.2 Delays in filing communiqués, and actions taken

A total of 190 communiqués about shares by directors and significant shareholders were filed late, i.e. 4.9% of the total (slightly less than the 6.1% registered in 2006). Figure 9.5 shows the breakdown of late filings by quarter since 2000.

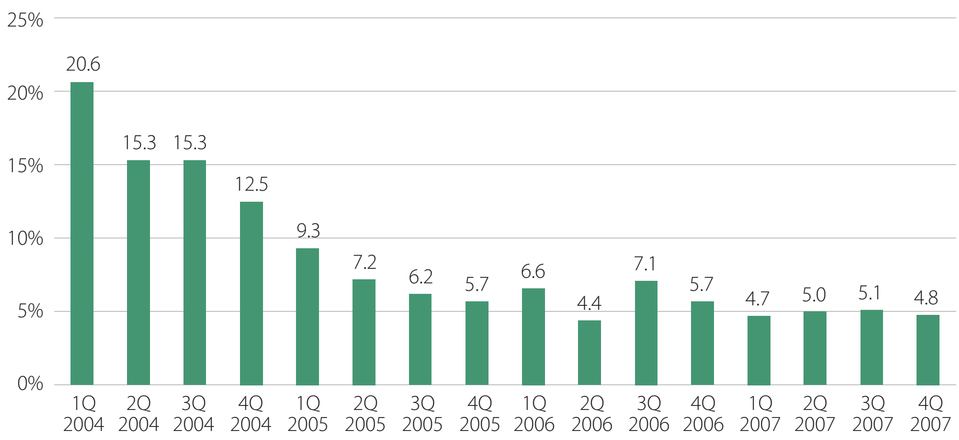
The figure shows a sharp decline in the percentage of late filings, contrasting with the significant increase in the number of communiqués in the last three years.

Directors' communiqués accounted for 70% of the late filings (of which 28.6% were first filings by newly-appointed directors). A total of 70 companies (21 in the Ibex 35) presented communiqués beyond the deadline.

The reasons cited for late filings can be grouped in five categories:

– 75% were due to errors in interpreting the legislation or weaknesses in administrative or internal control systems.

Quarterly figures for late filings FIGURE 9.5



Source: CNMV.

– 12% were attributed to corporate transactions arising from mergers, takeover bids or similar.

– 6% were due to temporary absence on the part of the person who had to sign the communiqué.

– 5% were due to problems with postal mail.

– 2% were due to the fact that the reporting party had assumed that Saturday was not a business day for administrative purposes, when in fact it is.

9.2.3 New regulatory features arising from the Transparency Directive

Royal Decree 1362/2007, of 19 October, transposing the Transparency Directive into Spanish law, came into force on 20 December 2007. Among the new features, the Royal Decree introduces different thresholds for disclosing voting rights and shorter periods for filing and disclosure. These changes made it necessary to amend the disclosure forms and the mechanisms for processing them and making them public by electronic means. As a result, in December 2007, the CNMV published Circular 2/2007, which defines the various forms for disclosure and the corresponding technical specifications, depending on the nature of the disclosure: voting rights, financial instruments, transactions with shares, own securities, concerted action, and remuneration systems at issuers.

CNMV Circular 2/2007, of 19 December, on the disclosure of significant holdings and own securities

CNMV Circular 2/2007, of 19 December, implements Royal Decree 1362/2007, of 19 October, on the disclosure of significant holdings and own securities and article 9 of Royal Decree 1333/2005, of 11 November, on market abuse. This Circular approved the standardised forms of disclosure to be used for the constant updating of information about issuers with securities listed on an official secondary market or other regulated market in the European Union. The forms were drawn up while taking account of the different parties obliged to make the disclosures and the specific features of the information to be disclosed.

Significant shareholders that are not directors must disclose the percentage of voting rights and the date on which they attained or crossed the established disclosure thresholds. Financial instruments giving entitlement to acquire outstanding voting shares must also be disclosed provided that the ultimate decision to exercise the financial instrument lies solely and exclusively with its holder. Agreements for the concerted exercise of voting rights must be disclosed jointly by all parties to the agreement, identifying the parties and the percentage of voting rights held individually by each one.

The nature of the position held by directors and executives of an issuer justifies the establishment of specific disclosure requirements in order to take account of the obligations under article 9 of Royal Decree 1333/2005, of 11 November. Hence the need for specific disclosure forms for such persons. Directors must disclose any transaction they perform with shares, whether voting or non-voting, and financial instruments linked to shares, and whether they perform the transaction personally or indirectly. They must also disclose the price and the market where the transaction was conducted. And they must declare their final position in voting rights, regardless of the percentages, to the extent that they can exercise those voting rights at their discretion. Executives must disclose any transaction they perform with shares, whether voting or non-voting, and with financial instruments linked to the shares of the listed company where they work but need not disclose their final position in voting rights.

The issuer must disclose transactions with own securities, both purchases and sales, whenever the acquisitions amount to 1%.

Remuneration systems must be disclosed by the directors or executives who are beneficiaries or by the company itself.

A form was also created for market makers to apply for the disclosure exemption provided in Royal Decree 1362/2007.

Considering technological progress and the need to process information properly and quickly so as to disseminate it promptly, the new Circular establishes the possibility of filing the disclosure forms by electronic means (obligatory in the case of disclosures of transactions with own securities).

9.3 Corporate governance

In 2007, a total of 173 listed companies filed their 2006 annual corporate governance report. In general, there were no significant incidents in the process of receiving the annual corporate governance reports by electronic channels, and all the listed companies' corporate governance reports were approved unanimously by their Boards of Directors.

Using the companies' corporate governance reports, the CNMV draws up and publishes an annual analysis of aggregated data containing a range of statistics. In publishing reports of this type, the CNMV is in the vanguard of the world's securities supervisors.

The analysis of listed companies' corporate governance practices in this report is based on the recommendations in the Olivencia Code and Aldama Report, the codes in force for 2006, which is the reporting year of the corporate governance reports filed in 2007. Since 2007 will be the first year of application of the recommendations and binding definitions contained in the Unified Code of corporate governance for listed companies, the analysis below contains comments about the degree to which some of the recommendations and binding definitions of the Unified Code are applied.

9.3.1 Main aspects of companies' governance structures

Below are summarised the main features of companies' corporate governance structures and practices, based on the 2006 corporate governance reports analysed in 2007.

Ownership structure

At the end of 2006, the capital stock of listed companies was 3.5% lower than the previous year, although their market capitalisation had increased by 29.8%.

There were few changes in the distribution of listed companies' capital stock with respect to 2005. In aggregated average terms, 27.5% of the capital is owned by the Boards of Directors, while significant shareholders who are not directors own 33.7%, and free float amounts to 38.3%. Own shares remained around 0.5%.

At 33.1% of listed companies (32.4% in 2005), there is a natural or legal person who owns a majority of capital or is in a position to exercise control.

A total of 20 companies have caps on voting rights established in their Articles of Association. Two companies eliminated such caps in 2006.

Board of Directors

Boards of Directors comprise 9.9 members on average, slightly more than in the previous year. A total of 20.2% of companies have a number of directors that is outside the range recommended by the Unified Code (5-15 members).

The percentage of companies where independent directors represented less then one-third of the Board of Directors increased in the last year. The presence of women directors also increased, from 95 in 2005 (5.6% of the total) to 118 in 2006 (6.9% of the total).

Average directors' remuneration was 253 thousand euro (24.6% more than in 2005). Average executive remuneration increased by 33.3%, mainly as a result of the exercise of stock options and of variable remuneration linked to objectives, while remuneration of other director categories increased by 4.5% on average.

Despite the increase in directors' remuneration, it did not increase notably as a percentage of listed companies' earnings (3.8%).

Only 28 companies (9 in the Ibex 35) publish an itemised breakdown of remuneration by type for each director. Except where it is required by law (remuneration linked to the share price and stock options), companies still do not submit Board and senior executive remuneration to the Shareholders' Meeting, not even on a consultative basis.

Board Committees

The number of companies where the Audit Committee did not include any independent directors declined considerably in 2006. However, in 72 cases the Chairman of the Audit Committee is not an independent director.

The number of companies that had not created an Appointment and Remuneration Committee also declined. Most listed companies comply with the corporate governance recommendation that all members of this committee should be non-executive directors.

In 55.3% of cases, new director appointments were based on a proposal by the Appointment Committee. That percentage was 88.6% in the case of Ibex 35 companies, and all appointments of independent directors were based on proposals by the Appointment Committee.

Related-party transactions

The aggregate amount of related-party transactions by listed companies with significant shareholders was 30.839 billion euro in the first half of 2007. That represents a 43% reduction with respect to 2006. The decline is due primarily to the delisting of a company that accounted for 29.1% of the aggregate amount in the first half of 2006.

Related-party transactions by listed companies[1] TABLE 9.4

Million euro

	No. of companies		Type of transaction[2]		No. of transactions[4]		Amount	
	2006	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
Transactions with:								
Significant shareholders	99	81	30	33	774	637	54,514	30,839
Directors and executives	174	170	27	25	505	606	2,885	2,480
Persons or entities in the group	52	53	27	26	254	271	11,559	6,970
Other related parties	39	94	21	22	189	207	5,367	5,740
Total	**192**	**185**	**33**	**33**[3]	**1,722**	**1,721**	**74,325**	**46,030**
% of total								
Significant shareholders	51.6	43.8	90.9	100.0	44.9	37.0	73.3	67.0
Directors and executives	90.6	91.9	81.8	75.8	29.3	35.2	3.9	5.4
Persons or entities in the group	27.1	28.6	81.8	78.8	14.8	15.7	15.6	15.1
Other related parties	20.3	50.8	63.6	66.7	11.0	12.0	7.2	12.5

Fource: CNMV.

1. Figures for the first half of each year.
2. Number of types of transactions by each category of related party.
3. Total number of types of transaction contained in the half-yearly public disclosure form.
4. Number of transactions in each category.

Most of the transactions are ordinary financial transactions with credit institutions that are significant shareholders.

Risk control systems

Listed companies have generally adopted the COSO (Committee of Sponsoring Organisations of the Tradeway Commission) report, which establishes a number of criteria for defining and managing corporate risks by creating a control environment, setting goals, evaluating risks, and developing control, reporting, communication and supervision activities. Financial institutions also describe the risk control systems resulting from the application of the Basel II Accord.

A total of 35.3% of companies fulfil the Unified Code's recommendation with regard to the designation of the Audit Committee as the body in charge of regularly reviewing the internal control and risk management systems.

In their annual corporate governance reports, listed companies generally identify the main risks they face and normally classify them into four major groups: financial (credit, market and liquidity) risks, operational risks, regulatory risks, and environmental risks.

A total of 57% of listed companies expressly stated that no risk had materialised such as to have a significant impact on the company's equity or its normal course of business; 30% of the sample did not report on the occurrence of risks in the year and the other 13% stated that some of the risks had materialised but that the established control systems had worked properly.

Shareholders' Meeting

Average shareholder participation in Shareholders' Meetings increased slightly in 2007. Average participation was 73.4% for listed companies overall and 64.4% for Ibex 35 companies.

Shareholders' Meeting attendance data reveal that attendance by minority shareholders is still low. Attendance is generally higher at companies with a smaller free float.

The «comply or explain» principle

Spanish listed companies are obliged, under the provisions of article 116 of the Securities Market Act, to disclose in their corporate governance report the degree to which they apply the corporate governance recommendations or to explain why they do not apply them.

The law allows each company to decide whether or not to follow the corporate governance recommendations, but it requires them to explain their decisions so that shareholders, investors and the market are in a position to judge.

The «comply or explain» principle is one of the basic pillars of transparency with regard to corporate governance at listed companies. The Unified Code establishes that listed companies are free to decide whether or not to follow the corporate governance recommendations but, when disclosing whether or not they follow them, they must respect the meanings of the concepts and definitions in the Code so that the market can form a proper opinion of their corporate governance structures and practices.

Some companies reported in their corporate governance reports that the coexistence of two corporate governance codes, the Olivencia Code and the Aldama Report, raised problems when reporting on the degree to which the recommendations were applied. The main practices observed in the corporate governance reports under the «comply or explain» principle are as follows:

- 58% of companies (66% of the Ibex 35) give a detailed, itemised explanation of the degree to which they comply with the two codes in force in 2006.

- The other listed companies give a general commentary that in some cases is not sufficient to allow the reader to make an accurate assessment of the degree to which the recommendations are applied.

- Non-compliance with the regulations regarding the structure of the Board (size, balance between proprietary and independent directors, and between the composition of the Board and the Executive Committee) is normally justified on the basis of the company's specific characteristics.

- Most companies where there is a clear imbalance between proprietary and independent directors do not explain why they do not follow the Codes' recommendations about the proportion of the two director categories as a function of the distribution of the capital stock.

- 35% of companies that have an Executive Committee comply with the recommendation that its composition have the same balance as the Board of Directors. Most of the remainder disclose the imbalance in the composition of the two bodies but fail to fully detail the reasons for which this recommendation is not applied.

- 84% of companies (74% of the Ibex 35) do not apply the Aldama Report's recommendation that the notes to financial statements disclose the remuneration collected by each director under each item of compensation. The reasons given for non-compliance in this case generally refer to the non-existence of a Remuneration Committee or to prudence and the directors' right to privacy.

- The Aldama Report recommended that remuneration consisting of the delivery of shares or stock options should be confined to executive directors. None of the eight companies that have given stock options to directors as part of a remuneration plan gave an adequate explanation of why they did not follow this recommendation.

Classification of directors as independent, and constitution of the Appointments Committee

Listed companies' corporate governance reports for 2007 must be based on the Unified Code. The analysis of the corporate governance reports for 2006 included an assessment of the definition used by the Unified Code for classifying directors as independent.

The cases where independent directors do not conform to the requirements of the Unified Code will be examined specifically in the review of the 2007 corporate governance reports. Nevertheless, subpoenas were issued and other action was taken last year in cases where companies did not fulfil the definitions contained in their own internal regulations.

One of the requirements of the Unified Code to classify a director as independent is that he/she must have been proposed by the Appointments Committee:

– As a result of the review of the corporate governance reports, companies that did not have an Appointments Committee were sent a letter reminding them of the definition in the Unified Code with regard to the proposal for the appointment or re-appointment of directors classified as independent. In 2007, ten companies created Appointments Committees after receiving the letter from the CNMV. In one case, the Audit Committee assumed the functions of the Appointments Committee.

– Additionally, the companies that did not have an Appointments Committee and appointed directors classified as independent in 2007 were reminded that, in order to maintain that classification, they must establish an Appointments Committee to ratify that the status of independent, and that the director in question could not participate in the debate or vote on the subject.

9.3.2 Constitution and composition of the Audit Committee

Compliance by all listed companies with the legal requirements established in additional provision eighteen of the Securities Market Act regarding the constitution and composition of the Audit Committee was reviewed. The requirements that were examined and the conclusions are set out below:

– In 2007, all issuers of securities listed on official secondary markets had constituted an Audit Committee.

– A majority of the members of the Audit Committee must be non-executive directors or members of the equivalent body without managerial or executive functions in the company, and without any contractual relationship with the company other than that of director.

– The vast majority of listed companies have adapted the composition of their Audit Committee to the provisions of current legislation. However, eight companies are still in the process of adapting to the requirements.

– The chair of the Audit Committee must be replaced every four years and must be appointed from among the non-executive directors or members who do not have managerial or executive functions or any contractual relationship with the company other than that of director.

In 2007, at 42 companies the chair of the Audit Committee had been in office for four years, and they were sent a letter reminding them of the regulations on term limits and the need to initiate the process of replacement.

9.3.3 Companies' internal regulations

The Transparency Act requires listed companies to have a specific Regulation for the Shareholders' Meeting and a Regulation for the Board of Directors. Those regulations must be notified to and filed with the CNMV. Companies also disclose amendments to those regulations in their corporate governance reports.

In 2006 and the first half of 2007, a large number of companies amended their Shareholders' Meeting and Board of Directors Regulations. In most cases, the amendments were aimed at including the Unified Code's recommendations in companies' internal regulations.

The main amendments to Board of Directors Regulations were as follows:

– Binding definitions for the various categories of directors as set out in the Unified Code.

– The Audit Committee must consist solely of external directors and its chair must be an independent director.

– The Appointments and Remuneration Committee must consist solely of external directors or have a majority of independent directors, and its chair must be independent.

– At least one-third of the Board must be independent.

– A mechanism must be established so that the Board evaluates its own quality and efficiency at least once per year.

The main amendments to the Shareholders' Meeting Regulations were as follows:

– Sixty-six companies provided for the possibility of voting by electronic means when the technology permits. Nearly all of them leave the details of implementing this right of shareholders to subsequent internal rule-making or the terms of the notice of Shareholders' Meetings.

– Of the 79 companies that amended their Shareholders' Meeting Regulation, seven still have some form of limitation in their Articles of Association on the exercise of voting rights, although in two cases the restrictions arise by law and have been incorporated into their Articles of Association and/or Regulations.

9.3.4 New regulations: application of the Unified Code and new form for the corporate governance report

The entry into force of the Unified Code of Good Governance in 2007 made it necessary to adapt the form of the annual corporate governance report that listed companies must disseminate and file with the CNMV in the first half of 2008.

The new form, approved by CNMV Circular 4/2007, of 27 December, broadly maintained the structure of its predecessor, with the necessary changes and new sections to adapt to the recommendations of the Unified Code.

9.4 Regulatory disclosures and other communiqués filed with the CNMV

Act 6/2007, of 12 April, adapting the Securities Market Act to the provisions of Directive 2004/109/EC of the European Parliament and of the Council on minimum transparency requirements for listed companies, came into force on 13 August 2007. From that date, the amended wording of article 82 of the Securities Market Act requires that regulatory disclosures by issuers must be filed with the CNMV at the same time as the information is disclosed by any other means and as soon as the fact becomes known, the decision is adopted or the relevant agreement or contract with third parties is signed.

The new wording of article 82 of the Securities Market Act requires issuers to be more actively involved in the process of disseminating price-sensitive information. To facilitate this task, the CNMV introduced new procedures for filing regulatory disclosures and other communiqués that enable issuers to disseminate them to the market automatically via the CNMV's web site. Since the introduction of this new feature, it has been used for 39% of regulatory disclosures.

In 2007, the CNMV received 9,708 regulatory disclosures from issuers, 13.1% more than in 2006 (see Table 9.5).

The increase in the volume of regulatory disclosures was due mainly to communiqués of: (i) other disclosures, which increased by 277.8%; (ii) other communiqués (+124.3%) due to the increase in the number of earnings presentations by listed companies; (iii) periodic disclosures by asset securitisation trusts (32.6%); and (iv) delistings, which increased by 27.3% due to the larger number of delisting takeover bids presented in 2007.

Regulatory disclosures and other communiqués received by the CNMV TABLE 9.5

Type	2006	2007	% change 07/06
Regulatory disclosures	**6,854**	**7,779**	**13.5**
Acquisitions or sales of holdings	802	814	1.5
Notices and resolutions of shareholders' meetings	548	584	6.6
Issuers' advance results	890	865	-2.8
Changes in the Board or other governing bodies	308	357	15.9
Audit Committee (Act 44/2002)	3	9	200.0
Periodical disclosure by asset securitisation trusts	1,847	2,475	32.6
Periodical disclosure by mortgage securitisation trusts	843	779	-7.6
Annual corporate governance report	259	234	-9.7
Suspensions and resumption of trading	117	119	1.7
Delistings (including prior agreements)	22	28	27.3
Other	401	1,515	277.8
Other disclosures	**1,731**	**1,929**	**11.4**
Announcement of coupon and dividend payments	257	264	2.7
Meetings with analysts and investors. Notices of meetings	194	184	-5.2
Information about issuers' results	258	377	46.1
Presentations about companies	348	200	-42.5
Other	403	904	124.3
Total	**8,585**	**9,708**	**13.1**

Fuente: CNMV.

10. Market supervision

In exercising its market supervisory functions, the CNMV analyses transactions where there may be signals that the market is not functioning properly. In 2007 the CNMV analysed approximately 92,600 transactions (1.2 out of every 1,000 market transactions), i.e. 44.5% more than in 2006. Most of the transactions reviewed were in the equities market (Table 10.1).

Summary of market supervisory activity. 2007 TABLE 10.1

	Equities	Fixed-income	Derivatives	Settlement	Total
No. of transactions	34,541,667	693,699	4,249,093	36,634,043	76,118,502
Supervisory signals [1]	51,471	4,145	18,063	18,927	92,606
Information requests	508	16	8	21	553
Supervisory reports	180	13	14	9	216
Reports sent to other Directorates or bodies	10	3	4	1	18
Periodic reports	13	24	24	21	82

Source: CNMV.

1. Signals that identify transactions or groups of transactions in which there have been unusual movements in certain parameters, flagging them for analysis for supervisory purposes.

CNMV supervisory policy

In accordance with the functions established by Act, the CNMV supervises over 8,000 companies, firms and agents, as a result of either their direct activity or their trading in securities markets, involving millions of transactions on the markets. The CNMV has no supervisory competencies over solvency, except with respect to investment firms; accordingly, the systemic component of its supervisory activity is very small. Consequently, exhaustive reviews of individual companies are much less important than in the case of a solvency supervisor. As a result of these two factors, the CNMV's supervisory strategy must be selective and risk-driven.

In this connection, the CNMV regularly prepares a risk map of the entities it supervises, taking into account financial information (resources, indebtedness, business plan, etc.) and macroeconomic and industry variables relating to them, on the basis of which it prepares a semi-annual inspection plan. Also, in the securities market trading area, there are automatic alert systems that detect unusual variations in stock prices, which are then examined exhaustively. Additionally, the CNMV performs systematic reviews of all transactions carried out in connection with mergers and acquisitions in order to detect insider dealing and price manipulation. With regard to the information disclosed to the public and following the change in the regulation of regulatory disclosures, the CNMV is being extremely vigilant of disclosures that are later denied, as they may be signals of market manipulation.

The CNMV's supervisory and disciplinary strategy can be summarised as the pursuit of behaviour that represents a high risk for market operations and has a significant impact in terms of the amount and the number of investors involved, the goal being to have a significant dissuasive effect on all other market participants: such behaviour includes insider dealing, market manipulation, financial product marketing practices, transparency in prospectuses on issues and M&A transactions, among others.

In discharging these duties, the CNMV is encountering certain difficulties arising from the regulatory framework, such as the lack of instruments for gathering data beyond the mere questioning of suspects, the penalisation system for serious infringements, and the fact that it is not possible to require restitution of the harm caused, suggesting the advisability of reforming the inspection and penalisation system of the current Securities Market Act in the near future in line with the recently-approved Competition Act.

The public perception of the CNMV's penalising activity can only be properly appreciated in the medium term because it is legally prohibited to disclose information on inspection and penalisation actions until such time as the decision becomes final. Thus, the public information available at any given time always refers to actions initiated months earlier.

10.1 Salient actions by the CNMV in the various markets

10.1.1 Equities

As a mechanism to prevent insider dealing, the CNMV may suspend trading in a security. This helps to avoid asymmetries in information dissemination by giving time for all participants to become aware of such information. Suspension is applied particularly in the case of takeover bids. The CNMV analyses such transactions during the bid announcement, presentation and execution phases for the purpose of detecting signals of insider dealing. The takeovers executed in 2007 are described in chapter 2 of this report.

Also, the CNMV carries out initiatives to preserve market integrity and thus prevent the manipulation of trading in listed securities. On 19 December 2007, the CNMV Board approved a number of criteria on transactions involving the placement or purchase of large blocks of shares. It also approved Circular 3/2007 on liquidity contracts for the purpose of their acceptance as a market practice.

Initiative against Market Abuse (ICAM)

On 29 January 2007, the CNMV submitted to public consultation a set of preventative measures against market abuse which make up the Initiative against Market Abuse (ICAM). With the launch of the ICAM, the CNMV sought to galvanise and channel a joint public and private effort to improve market integrity on an ongoing basis.

At the end of the ICAM consultation period, and in light of the comments received, this initiative started to materialise with the formation of two working groups, one relating to price-sensitive information and the other to treasury shares and block trades. The former group drew up a document of conclusions which will serve as a basis for implementing regulations on price-sensitive information, once the CNMV obtains the required authorisations. The conclusions of the treasury shares and block trades working group were included in the following documents approved by the CNMV Board on 19 December 2007:

Circular 3/2007, of 19 December, on liquidity contracts for the purpose of their acceptance as a market practice.

This is the first "accepted market practice" to be acknowledged by the CNMV, since it considers that liquidity contracts are a very useful tool for listed companies with a small trading volume in order to make it easier for investors to purchase and sell shares on the markets, provided they meet certain requirements and operate within certain limits, such as never holding a dominant position in trading, being extremely cautious during auction periods, not giving rise to artificial deviations in the share price with respect to market trends, etc.

The purpose of recognising this accepted market practice (in the terms set out by the Market Abuse Directive and Royal Decree 1333/2005 on market abuse) is to define as non-manipulative the practice of providing securities with liquidity through an independent intermediary (which is not always evident beforehand with respect to other transactions with treasury shares directly performed by the issuer).

Criteria relating to the placement or purchase of large blocks of shares

The CNMV Board approved a list of measures for transactions in which a financial intermediary executes a client's order by purchasing or selling a large batch or block of shares in a short period of time (block trade) among a range of investors. The purpose of these criteria is to minimise the possible impact of block trades on the market and to prevent insider dealing.

Content of the ICAM that has yet to be approved

In addition to the aforementioned implementing regulations on price-sensitive information, other content of the ICAM pending approval includes rules on the notifying suspicious transactions, the CNMV's protocol for action in the event of price distortions, and the preparation of an action guide for the disclosure to third parties of price-sensitive information.

Suspension of trading due to disclosure of information

Act 47/2007, which was published on 19 December 2007, transposed EU regulations on markets in financial instruments into Spanish legislation. Article 11[1] of this Act includes changes to the rules on suspension of trading in financial instruments which adapt domestic regulations to the new classification of securities trading segments (regulated markets, multilateral trading facilities and systematic internalisers), strengthens requirements relating to the disclosure of decisions to suspend trading in securities, and allows supervisory authorities to notify each other of decisions to suspend trading when they may affect the markets they supervise.

The new wording of Article 33 of the Securities Market Act gives market governing companies greater responsibility with respect to trading suspensions by empowering them, subject to certain requirements, to suspend trading in financial instruments no longer in compliance with the market regulations.

Since the entry into force of the MiFID on 1 November 2007, the European regulators have notified each other of decisions on suspension and resumption of trading in financial instruments. Also, when deemed appropriate, these actions have been reported to the relevant authorities of non-EU member states whose markets might be affected by the decision.

Transposition of the MiFID and amendment of the Securities Market Act with respect to secondary markets

Act 47/2007, which was published in the Official State Gazette on 20 December 2007, incorporates Directive 2004/39/EC on markets in financial instruments (MiFID) into Spain's Securities Market Act. That Directive aims to modernise the securities markets and improve investor protection.

This is the most important amendment to the Securities Market Act since its enactment and it required the rewording or amendment of numerous articles. These include most notably the new conceptual framework for alternative trading venues and innovations regarding market structure, organisation and operation. The principle of concentrating share trading in the official markets was eliminated and three alternative trading segments are recognised: regulated markets, multilateral trading facilities (MTF) and systematic internalisers (SI).

There are no substantial changes in the regulation of regulated markets, traditionally known as "official secondary markets", and they are granted special authorisation, regulation and supervision regimes. MTFs are defined as any type of systems that permits multiple purchase and sale interests in assets traded in them to be matched. Systematic internalisers are defined as investment firms that execute customer orders against their own account, independently of regulated markets and MTFs, in an organised, systematic and frequent manner.

1. Amending Article 33 of Securities Market Act.

The elimination of the principle of concentration in securities markets aims to boost competition among the various trading systems. This is an important change in the structure and operation of certain securities markets as they have been understood to date.

Another notable new feature arising from the transposition of the MiFID is the strengthening of investor protection, particularly the proposed transparency rules, which aim to provide investors with an appropriate level of information on buy and sell interests (pre-trade transparency) and on transactions carried out (post-trade transparency) with respect to securities listed on the regulated markets, regardless of the venue in which they are traded. Investment firms are also required to achieve the best possible execution of their clients' orders, considering price, cost, speed, possibility of execution and settlement, size and any other relevant features of the order.

There are also important new rules on the disclosure of transactions and exchange of information between authorities to ensure appropriate supervision. Similar disclosure obligations for investment firms are established in all EU member states. In Spain, these disclosure obligations cover a broader range of financial instruments than the minimum required under the MiFID and also include the obligation to report the identity of clients for each transaction. These obligations came into force in December 2007.

In 2007 the CNMV continued to make every effort to ensure that trading suspension periods were as short as possible, which always depends on how soon the entity giving rise to the suspension submits the relevant information for publication in order to put all investors on an equal footing.

The CNMV also sought, as far as possible, to avoid suspensions arising from price movements based on the dissemination of false information or unfounded rumours, by trying to ascertain the veracity, even if partial, of news or rumours affecting a given security prior to taking the decision to suspend trading. No suspensions were adopted where price movements in a security were observed as a result of the acquisition of a significant block of shares by a shareholder through orders executed in several market sessions.

The number of suspensions remained practically stable in 2007 as compared with 2006, in terms of both the number of affected issuers and the number of suspensions (Table 10.2). Considering that the number of issuers listed on the stock

Temporary suspensions of trading TABLE 10.2

	2006	2007
No. of issuers suspended	50	54
No. of suspensions	82	83
Due to presentation of takeover bids	22	23
Due to dissemination of price-sensitive information	56	56
Due to expiry of acceptance period for delisting offers	2	4
Others	2	0

Source: CNMV.

exchange increased in 2007, it can be concluded that the ratio of suspensions to total issuers has decreased.

The types of suspensions were similar to those of 2006. The dissemination of price-sensitive information continued to be the main reason for suspension in 2007, and takeovers or mergers were also numerous. Securities in the energy sector accounted for 19% of the total, real estate for 13% and manufacturing for 9%.

The 23 suspensions due to takeover bids affected 15 issuers. The number of suspensions exceeds the number of issuers because there were competing bids.

Analysis to detect insider dealing in connection with takeovers

Takeovers may give rise to valuable inside information from the early stages of their conception, due to the financial and corporate implications they can have for participant companies and the economic benefit they entail for shareholders as a result of the premium the bidder must offer to obtain control over the company. The risk of inappropriate use of such information increases as a result of the increasingly frequent practice of joint bids by consortia of companies, which consequently increases the number of insiders (already large when there is only one bidder).

The CNMV investigates trading in all the shares involved in transactions of this kind for the purpose of detecting signs of insider dealing. In addition to these ex-post actions, the CNMV carried out other ex-ante actions within the framework of its supervisory activity.

Situations involving an extraordinary trading volume or where significant transactions are carried out are also monitored closely. This supervisory activity aims to warn about potential signs of front-running prior to the announcement of imminent transactions and to ensure that they do not arise from leaks or from rumours or deceitful opinions which might constitute price manipulation.

Supervision of large buy and sell transactions

In 2007 the CNMV closely monitored placement transactions involving large blocks of shares, which have a potential distorting effect on the market due to the significant amounts and speed of execution.

In addition to its market supervisory tasks, the CNMV has concurrently remained in close contact with the major market participants, within the context of the ICAM, for the purpose of becoming familiar with problems relating to these transactions and with a view to drawing up and publishing recommendations on good practices for placements of significant blocks of share, from the viewpoint of both transparency and proper channelling, to minimise any possible impact on the normal operation of the order-driven market.

In 2007 the number of notifications of private placements was considerably higher than in 2006. The suspension of official trading of the related security was necessary in five cases (always for less than two hours) because the placement had not been completed by the time of market opening. In transactions of this kind, the

CNMV only suspends trading when it considers that this will prevent an impact on securities market prices as a result of leaks of the price range offered during the placement process.

Monitoring and supervision of the stabilisation of primary and secondary offerings

In 2007 the CNMV made a special effort to enhance efficiency in the battle against market abuse during the period immediately following significant distributions of securities, which is known as the stabilisation period. There were many primary and secondary public offerings of equities in 2007. Accordingly, a special effort was made to closely monitor compliance with Commission Regulation 2273/2003 implementing Directive 2003/6/EC as regards stabilisation of financial instruments.

The CNMV focused on two aspects. It checked compliance with the transparency requirements stipulated by the aforementioned Regulation regarding public disclosures about stabilisation transactions decided by the issuer. And it analysed in depth the stabilisation transactions carried out by stabilisation agents to check that they were executed in accordance with the EC Regulation and that they qualified for the exemptions under Directive 2003/6/EC.

The CNMV's supervisory tasks extended to all primary and secondary public offerings carried out in 2007. Where there were signs of potential non-compliance or partial compliance, the issuer was reminded of its obligation to comply with the Regulation in respect of public disclosures, correction of errors or improvement of the quality of the information disclosed.

Comprehensive study of securities added to and relegated from the Ibex 35 index

Measures taken by the CNMV to monitor market activity included the continuation of a comprehensive analysis of securities added to and relegated from the Ibex 35 during the various revisions of the index that occurred in 2007.

Inclusion in the Ibex 35 index is very important for companies; advantages include enhanced visibility and reputation and increased share liquidity, with the result that the shares can be included in the portfolios of many institutional investors (mainly index trackers). In short, inclusion in the index gives a company an edge that translates into a share price premium.

Analysis of each change in the composition of the index focused on checking whether trading in shares of companies viewed as candidates for addition or removal and those actually added or removed was orderly and legitimate, without distortions that might reveal artificial trading aimed at ensuring that a share remained in or was added to the index, to the detriment of other candidate securities.

The study concluded that the changes in the Ibex 35 index were reasonable and no empirical evidence was found of possible manipulations with a significant effect on the changes in the composition of the index.

10.1.2 Fixed-income

The supervision of fixed-income markets is largely shaped by the method of trading and the information flow relating to these transactions. In contrast with equity markets, where buy and sell interests are centralised in the system and the information on matched transactions is available once they are executed, the prices of fixed-income instruments reflect both the market situation of each specific asset and the bargaining power of their counterparties. Also, these prices are not available until settlement.

In this connection, supervisory actions in 2007 included monitoring of practices applied by entities acting as liquidity agents for certain issues. A twofold objective was thus sought: (i) check whether there was discrimination against clients, particularly retailer clients, and (ii) consider potential measures that would enhance market transparency and, accordingly, limit the risk of such discriminatory actions.

As a result of the listing in AIAF of structured bonds aimed at retail investors, where the problems are particularly relevant, the possibility of expanding the information offered by this market's governing body through its web page is being considered.

Following the financial turmoil arising from the subprime mortgage crisis in August and the consequent tension in the credit market, trading of asset-backed securities (ABS) is being monitored continuously for the purpose of verifying proper price formation and market transparency.

The CNMV is also focusing on verifying that the benchmark prices used to identify transactions whose prices are deemed to depart from market conditions are representative, and on identifying the criteria used by firms to establish transaction conditions. However, the situation of uncertainty about the market's credit risk in general, and the composition of collateral pools (in the case of ABSs) in particular, make it difficult to establish objective criteria to analyse the evolution of these securities prices.

10.1.3 Derivatives

On-site supervision of MEFF

In the first two weeks of 2007 the CNMV visited MEFF's market supervision department to conduct an on-site analysis of the type of supervision performed by MEFF. The purpose of this visit was twofold and included a review of the principles and methods used by the department and an analysis of potential improvements and of synergies with the CNMV's own supervisory activity. The visit was particularly timely because of the transposition at 2007 year-end of MiFID into Spanish law, specifying markets' supervisory obligations. On the basis of the findings of this visit, MEFF and the CNMV are cooperating to implement measures in 2008 that will help to improve their supervision procedures.

MEFF Renta variable

Supervision of aspects relating to trading in equity derivatives on MEFF continued in 2007, focusing specifically on the transfer of cash among securities-holders and the discretionary allotment of transactions among various managed accounts for tax purposes.

Also, specific analyses were conducted of MEFF activity on dates prior to the disclosure of significant mergers and acquisitions where there had been an impact on the prices of contracts traded in MEFF. The increase in the number of underlyings for contracts due to the inclusion in MEFF of non-resident companies gave rise to additional supervisory work. And changes in open interest of holders during the weeks of maturity of futures and options contracts and the potential impact of these transactions on the spot markets for the underlying shares were also monitored specifically.

Olive Oil Futures Market (MFAO)

MFAO supervision focused particularly on analysing positions in the weeks prior to maturity and on monitoring settlement through physical delivery. There were no failures of settlement by physical delivery, which is an indication that the market has consolidated. Also, there were a significant number of deliveries independent of the clearing house under the procedure established in the regulations, which, once again, reinforces the market's consolidation among spot traders.

Warrants

The supervision of this segment was characterised by the substantial increase in trading volume in 2007 and by the introduction of major new features regarding both issuers and the range of underlyings offered as well as new products listed in the segment.

The increase in trading volume was due in part to the broader range of underlyings, which required an effort to monitor corporate actions (giving rise to numerous adjustments and, in many instances, to early redemptions), which made it necessary to ascertain on a case-by-case basis whether disclosure of information to the market had been appropriate.

Since there were several abnormally large put-throughs in this segment in 2007, they were analysed individually to check that they related to actual transactions performed by clients in the market.

Trading in turbowarrants commenced on this platform in April 2007 and special attention was devoted to two aspects: on the one hand, market price performance, in order to detect possible price asymmetry in comparison with equivalent traditional warrants and, on the other, compliance with obligations by market makers, in view of the high volume of intraday trading in these warrants.

Additionally, in 2007 more complex exotic structured products (called "certificates") were listed; their yields do not only replicate an underlying asset, but have different levels of risk and of protection of the initial principal. Their trading was also monitored so as to avoid undesirable situations, particularly in cases where the different functions of issuer, calculation agent, broker and market maker were performed by the same firm or group.

10.1.4 Registry, counterparties, clearing and settlement

Iberclear-SCLV

The CNMV has been paying special attention to the quality of the special register of bilateral loans. In order to identify problems and decide on potential improvements, in May 2007 a working group on security loans was set up under the initiative of the CNMV[2]. Progress was made during the year in establishing the basis for an action plan to ensure the transparency and accuracy of the special register of security loans. These measures focus on achieving appropriate disclosure of the cancellation of loans, and especially re-loans, so as to ensure that the balances of outstanding transactions are not artificially inflated.

With respect to settlement, in 2007 special emphasis was placed on the settlement of large corporate transactions, due to the potential impact on share prices of any failure to deliver securities which would have to be resolved through the buyback procedure. However, this case never arose and the number of incidents was minimal.

Iberclear-CADE

With regard to the CADE platform, special attention was paid to incidents arising from the start-up of the SUC Renta Fija communications system and to how they were resolved.

Monitoring of bilateral transactions with incidents in the delivery of securities continued and supervision of the activities of management entities was strengthened, analysing in greater depth any delays and cancellations in communications to Iberclear of third-party transactions.

10.2 Market Monitoring Unit (MMU)

The MMU investigates situations which may involve market abuse (mainly insider dealing: the use of inside information and the degree of compliance with codes of conduct applicable to these situations by issuers and firms providing investment services or investment advisory services) and market manipulation (via transactions or disclosures).

Table 10.3 details MMU interventions arising from investigations in 2006 and 2007:

As a result of the growing presence of foreign investors in Spain's markets, generally financial institutions operating on behalf of numerous final beneficiaries, the MMU has increased the number of requests for assistance from foreign supervisors and regulators. These requests are generally based on multilateral or bilateral memoranda of understanding for consultation, cooperation and exchange of information and usually relate to the identification of final beneficiaries and the investigation of actions by foreign-resident entities or individuals. Two situations which arose in 2007 in connection with such international cooperation are worth mentioning:

2. This working group is comprised of Iberclear, certain of its member firms, issuers, ISLA, Sociedad de Bolsas and the CNMV.

Market Monitoring Unit's Actions TABLE 10.3

	2006	2007
Parties investigated	**415**	**639**
Natural persons	236	359
Legal persons	179	280
Actions during the investigations	**2,227**	**1,848**
Demands for information	2,128	1,763
Requests to foreign institutions for assistance	29	46
Depositions	48	23
Visits	22	16
Subsequent actions	**5**	**9**
Prior notifications and warnings	2	5
Initiation of disciplinary proceedings	3	4

Source: CNMV.

- Two of the final beneficiaries of transactions carried out nominally by foreign financial institutions involving shares traded in Spain's securities market, who were identified thanks to the assistance of a foreign supervisor, were in possession of inside information regarding such shares.

- One such instance of cooperation with foreign supervisors disclosed the existence of possible non-compliance with the rules of conduct of a foreign-resident investment firm; consequently, the MMU sent the documentation and information obtained as a result of the investigation to the competent authority.

The MMU's investigations may lead to subsequent actions by the CNMV if it is considered that the parties investigated have engaged in practices that are partly or wholly in breach of current regulations. In 2007, these actions were as follows:

- Warnings: the Executive Committee of the CNMV decided to send five warnings to entities which rendered services in corporate transactions, urging them, in situations where information had not been made public, to improve compliance or fully comply with the rules of conduct established in their own Internal Codes of Conduct.

- Disciplinary proceedings[3]: the Executive Committee of the CNMV decided to initiate four disciplinary proceedings, against five parties, for possible use or disclosure to third parties of inside information.

10.3 Supervision of takeover bids

As regards takeover bids, the CNMV analyses compliance with the applicable regulations and the information which the bidder must furnish to shareholders and oversees the proper execution of the bid process.

Salient issues in 2007 include the following:

3. See chapter 13.

10.3.1 New regulation

Act 6/2007, of April 12, amending Securities Market Act 24/1988, of 28 July, came into force on 13 August 2007. One of the objectives of this Act was to introduce the changes required by the transposition of Directive 2004/25/EC of the European Parliament and of the Council, dated 21 April 2004, on takeover bids.

Act 6/2007 was implemented by Royal Decree 1066/2007, of 27 July, on takeover bids involving securities, which also came into force on 13 August 2007. Both include important changes to Spain's takeover regulations, which are summarised below.

A major new feature is that the traditional prior intentional takeover bid system was replaced by an «a posteriori» system, where the obligation to make a takeover bid arises when a controlling interest is obtained in a listed company, i.e. the percentage of voting stock owned is 30% or more. The new legislation also links the ownership interest and, therefore, the obligation to prepare a takeover bid, to the appointment of the majority of the company's Board members, even if the aforementioned 30% of voting rights is not reached.

The obligatory takeover bid triggered as a result of the acquisition of a controlling interest is structured as an offer:

– aimed at all the company's shares (i.e. obligatory partial takeover bids have been abolished);

– made at a fair price, i.e. not less than the highest amount paid or pacted by the bidder or by parties acting in concert with the bidder in the 12 months prior to the announcement of the bid, which, however, may be modified by the CNMV under certain circumstances, and

– without conditions, except those relating to the authorisation or lack of opposition by the competition authorities.

The new regulations have introduced a special system for certain increases in ownership interest in the case of parties owning between 30% and 50% of listed companies at the time the new Act came into force. In these cases, a takeover bid is mandatory if: (i) the holding is increased by at least 5% in 12 months, (ii) the percentage of voting rights held exceeds 50%, or (iii) an additional holding is acquired and the shareholder appoints more than half of the company's directors.

Under the new system, voluntary takeover bids, whether partial or total, are maintained, their price need not be fair and they may be conditional. Partial bids may be made by parties that will not reach a controlling interest as a result of the takeover or which, since they already have control, may increase their holding without being subject to the obligation to submit a takeover bid. Total bids will give rise to an obligatory takeover bid if the voluntary bid gives the bidder control of the company, unless the voluntary bid was submitted at fair price or was accepted by more than 50% of the targeted voting stock.

With regard to defence mechanisms against takeover bids, in line with the provisions of the Directive, Act 6/2007 requires the target company's governing bodies to be passive, and they must obtain prior authorisation from the Shareholders' Meeting before initiating any action that might jeopardise the bid's chances of success, except for the search for other bids.

In contrast, under the new regulations, listed companies are not required to apply neutralisation measures against defence mechanisms in connection with takeover bids, but the Shareholders' Meeting of the target company may adopt such measures, in which case compensation must be provided for the holders of the affected rights.

In any event, the rule of reciprocity will be applicable, as provided for by the Directive and as transposed into Spanish legislation, which exempts target companies from the passivity rule and, if appropriate, the neutralisation rule if the bidder does not apply the same or equivalent rules and the Shareholders' Meeting gives its authorisation.

A major new feature was the introduction of squeeze-outs and sell-outs. A squeeze out is the right of a party that has made a takeover bid to require that the remaining holders of the shares sell out at a fair price. In contrast, a sell-out is the right of any such shareholder to demand that the bidder purchase their shares at that same price.

In order for squeeze-outs and sell-outs to be applicable, the takeover bid must have targeted 100% of share capital and the bidder must have attained shares representing at least 90% of voting rights and, additionally, the bid must have been accepted by at least 90% of the targeted voting rights. The price of squeeze-outs and sell-outs shall be that of the preceding takeover bid and the right must be exercised within 3 months from the deadline for acceptance of the takeover bid.

There were also notable new rules with regard to indirect or supervening situations of control, delisting bids, actions of the bidder once the bid is announced, competing takeover bids, and disclosure obligations.

10.3.2 Supervision of takeover bids

As a result of the entry into force of new legislation, it became necessary to adapt supervisory work on takeover bids to the new regulations.

Salient supervision issues in 2007 included most notably the following:

Bids authorised following the entry into force of the new regulations

After the entry into force of the new regulations on takeover bids, bidders in authorised offers were required to adapt the content of the prospectus to comply with the new requirements, which are more stringent with respect to disclosures.

Also, the takeover bid prospectus served to emphasize or clarify certain provisions of the new regulations. For example, the takeover bid presented for Altadis was voluntary and the offerer did not certify that the bid price complied with the fair price rules. Consequently, it was stated in the "Introduction and Warnings" section of the prospectus that if the bidder acquired a controlling interest in Altadis (i.e. 30% or more of the voting rights), but it was accepted by less than 50% of the share capital, then Imperial Tobacco would be required to make an unconditional takeover bid at fair price.

It was also stated in that section that, under article 7.1 of Royal Decree 1066/2007, if Imperial Tobacco finally acquired a controlling interest in Altadis, it would be required to present a takeover bid for its listed subsidiary Logista within three months, unless its ownership interest were reduced to less than 30% in that period.

Other new features regarding takeover bid processing include most notably that in the time between the presentation and the authorisation of the bid, after the CNMV reviews the application for authorisation and the documentation filed, it must declare its acceptance for processing within seven business days following the date of completion of the supplementary documentation for the bid. The CNMV may declare its non-acceptance when documentation is lacking or it contains essential errors which the bidder fails to remedy within the established time period.

The introduction of the fair price concept (article 9 of the Royal Decree on takeover bids) made it necessary to place special emphasis on the analysis of acquisitions of shares of the targeted company by the bidder and parties in concert with it in the 12 months prior to the announcement of the bid. This was the case in the takeover bids for Uralita and Aguas de Barcelona, where the fair price rules were met.

A major feature of the new regulations was the introduction of squeeze-outs and sell-outs. Following the takeover bid for Altadis, since the necessary conditions were met, Imperial Tobacco decided, as set out in the takeover bid prospectus, to squeeze out the remaining shareholders; this was done on 21 February 2008. For the purpose of notifying the market and Altadis' shareholders of the procedure and timetable, several regulatory disclosures were published and it became necessary to coordinate the actions of the CNMV, the Madrid Stock Exchange, Iberclear, Imperial Tobacco and the entities involved in the transaction for the account of the latter.

In application of the new regulations on takeover bids, the CNMV exempted Suez Environnement from presenting a takeover bid for Aguas de Valencia, after it attained a 33.02% stake in the share capital, since there was another shareholder with a higher ownership interest in the company.

The conditions established for this exemption are that the other shareholder must continue to have a holding in the capital of Aguas de Valencia greater than that owned by Suez Environnement and that Suez Environnement may not appoint more than one half of the members of the Board of Directors of Aguas de Valencia.

Delisting offers

Four delisting offers were authorised in 2007, three of which were presented by the controlling shareholder of the company to be delisted. The delisting offers for Tele Pizza, Yell Publicidad (formerly TPI) and Hullas del Coto Cortés were made following a takeover bid for acquisition of control. In all cases, a thorough examination was performed of the valuation reports and of opinions issued by independent experts, and their compliance with the takeover valuation regulations was verified.

Also, as a result of the high level of acceptance of the takeovers bids for Riofisa and Industrias del Curtido, the two companies were delisted without an additional bid being necessary. An additional bid was not required either in the case of Altadis, which was delisted after Imperial Tobacco exercised its squeeze-out right, as mentioned above.

During the processing period, particularly of delisting offers, claims have been received from shareholders who were dissatisfied with the price offered. These claims were analysed and, in many cases, referred to the bidders for them to furnish any information and comments that they might deem appropriate.

Bids presented in several markets

At the same time as the takeover bid was presented by Enel Energy and Acciona for Endesa common stock in the Spanish stock exchanges, a bid was presented in the United States aimed at the owners of Endesa ADS (American Depositary Shares) and the US shareholders of Endesa. The bid was subject to US regulations and the competent authority was the Securities and Exchange Commission (SEC).

The existence of two simultaneous bids involved an additional effort in the processing of the offer and the need to include certain information about the US bid in the prospectus for the takeover bid authorised by the CNMV. It was also necessary to coordinate with the US regulator with regard to the commencement and termination of the acceptance period for the US bid in order to determine the outcome of the takeover.

With respect to Altadis, since its shares were listed on the Spanish stock exchanges and in Euronext Paris, the bid was made in Spain and in France. As stipulated by the Directive on takeover bids and the new Spanish regulations, since the registered offices of Altadis are located in Spain, the competent authority for the purpose of reviewing the related prospectus and for authorising the offer was the CNMV, rather than the Autorité des Marchés Financiers (AMF).

However, the bid prospectus, a translation of which was filed with the AMF, set out the formalities to be followed in France in order to accept the takeover bid and receive the related compensation, and in connection with the tax consequences for residents in France who accepted the offer.

CNMV notifications

In 2007 the CNMV issued notifications for the purpose of informing the market about takeover bids that had been filed and of regulating their execution.

In this connection, as a result of the agreement for corporate and business separation entered into by Metrovacesa's major shareholders for the purpose of separating their shareholdings in the Company and in its subsidiary Gecina through different corporate transactions affecting the two companies in Spain and France, the CNMV resolved, and reported its decision by means of a communiqué, that the agreement between Metrovacesa's shareholders was in conformity with the takeover bid regulations. Also, under that agreement, two takeover bids were made for Metrovacesa, one involving a capital reduction through the exchange for shares of Gecina in 2007 and the other by the major shareholder and involving cash in 2008.

11. Supervision of entities

In 2007, the CNMV undertook an in-depth review of institution supervision systems to adapt them to the regulatory context arising from the transposition of MiFID and the Capital Adequacy Directive through Act 47/2007, dated 19 December, amending Securities Market Act 24/1988, of 28 July. Also noteworthy is the adaptation to the new Spanish Accounting Plan of sectoral accounting plans for the supervised entities and the related disclosures (which is expected to come into force at 2008 year-end for all supervised entities).

The transposition of MiFID covers level 1 and, partially, level 2 EC regulations. The rest will be covered by secondary legislation. The purpose of the new regulations is to strengthen protection of investors, especially retail investors. Under Act 47/2007, the rules of conduct which institutions must adhere to in providing investment services are broader and more stringent, new organisational requirements are established, and the number of supervised entities is increased significantly as a result of the inclusion of a new category of investment firm: financial advisory firms. Also, domestic and international cooperation between supervisors is reinforced.

The new provisions based on MiFID are applicable to credit institutions that provide investment services. UCITS operators that have been authorised to provide discretionary portfolio management services, investment advice or custody and management of mutual funds units or investment firm shares are also subject to MiFID provisions on internal organisation requirements, conflicts of interest and codes of conduct.

The transposition of the Capital Adequacy Directive covers the relevant aspects of the Directive for investment firms and credit institutions providing investment services. The new regulation involves a change in the solvency rules for investment firms based on the Basel II recommendations. The rules for supervision, inspection and penalisation of these institutions have also been modified, although to a lesser extent.

The CNMV has revised its supervision processes and procedures to adapt them to those regulatory reforms. This adaptation process placed special emphasis on the preventative supervision and self-discipline of these institutions. The risk map, a basic tool for defining the risk profile of the various institutions and for establishing the supervision strategy applicable to each one, was reviewed. The review led to the improvement of the methodology used by explicitly including an assessment of the measures adopted by the firm itself to mitigate the risk, through indicators of the quality of the firms' compliance, risk control and internal audit functions.

With respect to its supervisory actions in the year, the CNMV's priorities were: 1) assessment of internal control procedures and mechanisms at entities, 2) detection of potential conflicts of interest in operations, 3) monitoring of processes concerning marketing of financial instruments among retail investors, 4) controls concerning sufficiency of human and material resources at institutions and 5) verification of the existence of appropriate client asset protection mechanisms. As a result of the CNMV's actions in this connection, several supervised entities have disclosed significant events remedying deficient practices during the year.

Summary of issues detected at entities providing investment services TABLE 11.1

Area analysed	Main issues detected
Organisational structure, resources and procedures	– Insufficient organisation, resources and procedures necessary for appropriate control of activities and risks. – Insufficient separation of areas to avoid conflicts of interest. – Deficiencies concerning the establishment of measures to prevent information flows between separate areas of activity.
Product / client suitability	– Deficiencies regarding criteria used for product and client segmentation and establishment and updating of the related procedures manuals. – Failure to comply with existing restrictions on the marketing of certain products that are inappropriate for the clients' profile. – Deficiencies in compliance with the criteria agreed with clients concerning portfolio management services.
Advertising activity	– Discrepancies between the information contained in prospectuses, advertising and internal notifications or circulars sent to the commercial network regarding client and product risk profiles and their main features.
Diligence and transparency obligations	– Insufficient measures to ensure that the activities performed are effectively managed for the exclusive interest of clients, regardless of the entity's or its group's interests, affecting the composition of the assets managed and the structure of sources of revenues. – Charging of fees for investment services provided to clients without properly disclosing such fees. Deficiencies in procedures established to prevent potential conflicts of interest between the placement activity, the recommendations drawn up by the entity as a result of its financial research distribution activity and investment decisions adopted for managed portfolios.
Disclosure requirements	– Failure to comply with provisions on information to be sent periodically to clients in connection with the service provided.
Client order management	– Deficiencies concerning established procedures to seek counterparties for client orders relating to own issues with scant liquidity. – Insufficient procedures for certifying that investment decisions in favour of certain clients are taken prior to transfer to the intermediary, and the existence of valid distribution or breakdown criteria to ensure that no client is adversely affected when transactions are carried out for several of them.
Documentation and custody	– Deficiencies concerning formalisation and safekeeping of client identification documentation, client profiling documents, contractual documentation or supporting documentation for transactions ordered by clients.
Internal code of conduct	– Non-compliance with provisions of the internal code of conduct or existence of deficiencies in its contents because it is not in line with the nature of the activities carried on by the entity or group.

11.1 Supervision of codes of conduct in the provision of financial services

MiFID transposition process

The approval of secondary legislation completing MiFID's transposition as provided under the CNMV's 2007-2008 Activity Plan will be addressed in 2008. The portion pending following the enactment of Act 47/2007 relates to Directive

2006/73/EC, which implements MiFID with regard to organisational requirements and operating conditions for investment firms and details the principles contained in MiFID.

Since many of the principles and rules contained in MiFID, particularly with regard to codes of conduct, are already addressed by our internal regulations, its impact in the case of Spain, which already has high standards of codes of conduct and investment client protection, will be minor in comparison with its effect on other Member States.

In line with this situation, the CNMV has engaged in numerous activities concerning the transposition and adaptation to MiFID, encompassing different aspects:

– Advice to the Directorate-General of the Treasury and Finance Policy in connection with the regulatory process.

– Since MiFID was published, active participation in drawing up level 3 measures (basically general recommendations or principles for the uniform and accurate application of certain aspects of the Directive and harmonisation of supervisory practices) through the Committee of European Securities Regulators (CESR).

– Continuation of the cooperation with entities that commenced in 2006. In 2007, the CNMV sent a document to all Spanish financial institutions describing the changes due to MiFID and suggesting that they prepare a plan to adapt. As a result, more than twenty institutions sent their adaptation plans to the CNMV, disclosing their main challenges and uncertainties.

Also, in cooperation with the Bank of Spain and for the purpose of becoming familiar with the opinions and problems which the adaptation of Spanish financial institutions to the new regulations entails, the CNMV has promoted the formation of a Group of Experts on Financial Intermediation (GEIF) comprised of representatives appointed by the market associations (AEB, CECA, Asociación Española de Cajas Rurales, Unión de Cooperativas de Crédito, Sociedad Gestora de FOGAIN and INVERCO).

In the last quarter of 2007, the CNMV posted some documents on its web site for public consultation containing general guidelines for the practical application of MiFID in connection with several issues: scope of application, incentives, passports, organisational requirements and suitability and advisability tests. These documents were addressed by the CNMV's Activity Plan and aim to facilitate the implementation and adaptation of institutions to MiFID and its secondary legislation, but they are not regulatory. They are the result of an extensive debate conducted not only within the CNMV but also in the industry, represented by the GEIF. Close cooperation has been maintained with the Bank of Spain during this process. The first set of documents will be supplemented in the future if deemed necessary, considering both the pending transposition of the level 2 Directive and the initiatives and agreements reached within CESR.

Cooperation with other supervisors in supervising investment firms

The MiFID establishes a new supervision regime for investment firms' cross-border activities in other EU Member States. Thus, in the case of the free provision of services regime, the home supervisor is responsible for the supervision of conditions for authorisation and operation. In the case of services provided through the establishment of branches, the competent authority of the host member State is entrusted with the supervision of certain conditions for operation (code of conduct, best execution and management of client orders, registration and disclosure of transactions and pre- and post-trading transparency) in connection with the activities carried out by the branch in the territory where it is located.

The double supervision regime for branches has given rise to numerous queries and debates within the European Commission on the operational aspects of supervising codes of conduct. Particularly noteworthy were the queries relating to those situations where clients are not established in the territory where the branch or the parent company is located or when the service is provided partly in one territory and partly in another.

In July 2006, the CESR Intermediaries Subgroup received a mandate from the European Commission to draw up a Multilateral Memorandum of Understanding (MOU) containing practical agreements among CESR members for the supervision of obligations defined by MiFID in connection with foreign branches. The CNMV participated in drafting the document, which adopted the legal form of a Protocol of CESR's current MoU and was published in October. The Protocol addresses three types of cooperation: information exchange, joint supervision programmes, and requests for assistance among supervisors. Cooperation based on the exchange of information is established as a minimum which all supervisors signing the Protocol must comply with, whereas the other two cooperation mechanisms are subject to bilateral negotiations among the supervisors. The CNMV has established contacts with certain European supervisors[1] for the purpose of reaching practical agreements on the supervision of branch activity.

11.1.1 Supervision of codes of conduct in the provision of financial services by credit institutions

Supervision of compliance by credit institutions with codes of conduct in securities markets has focused to date on the marketing of financial instruments among retail investors, although reviews of compliance with these rules in other areas have already commenced. The medium-term objective is the implementation of an integral supervision system for investment and ancillary services provided by these entities within the framework of MiFID. For this purpose, a major effort is being made in the on-site inspections area to adapt the working procedures and programmes to the new regulatory framework.

Supervision of credit institutions' actions in the securities market is founded on two pillars: compliance with certain organisational requirements, the supervision of which is shared with the Bank of Spain, and compliance with codes of conduct for the provision of investment services.

With respect to codes of conduct, MiFID addresses certain items which were not expressly included, or were treated differently, in Spanish regulations, such as client classification and the best execution principle. In other cases, it strengthens the protection which the former regulations guaranteed to investors in matters such as the

1. FSA (United Kingdom), CBFA (Belgium) and BaFin (Germany).

establishment of new general and specific disclosure requirements for products offered and the need to gather certain information from clients on the basis of the service and product in question in order to determine whether it is appropriate for them.

These new provisions reinforce one of the principal recommendations made to entities supervised in the last few years, namely: profiling retail clients on the basis of investment targets and classifying the products marketed by taking into account the inherent risks. In this last case, the aim is to match the risks of the product with the client's investor profile.

In accordance with the supervision methodology applied to other entities, the supervision system for codes of conduct in the provision of investment services by credit institutions is based on an industry or risk map (the methodology was detailed in previous Annual Reports).

In the past year, the credit institutions supervision unit was strengthened by providing it with more resources and by setting up an additional remote supervision unit. In this line, specific remote supervision actions were initiated based on investor complaints that were accepted for consideration by the CNMV and on actions by other CNMV departments or on information arising from the coordination with other supervisory bodies, such as the Bank of Spain. Also, in the short term, the outcome of these individual actions will foreseeably promote the performance of horizontal thematic analyses.

New products: Contracts for Differences (CFD)

As a result of the launch in Spain of contracts for differences (CFDs) and the queries received by the CNMV about this product both from the industry and from investors, the CNMV considered it necessary to conduct a study on the nature of this instrument and its applicable regulations. In September, the CNMV published in its website and sent to the industry and investor associations the main criteria/considerations in connection with CFD operation: legal nature, possible need for an offer prospectus, implications on the basis of listing, trading and settlement systems used, applicable codes of conduct, advertising criteria, etc.

Act 47/2007, which transposes MiFID, dispelled all the uncertainties about the legal nature of these financial instruments. Consequently, they are now covered by the Securities Market Act since the regulation expressly refers to this product as a complex financial instrument. As a result, for marketing purposes, entities must assess the suitability or advisability of the product for retail investors and, in any event, must provide clients with detailed information on the instrument's risks and other features. The question as to whether a prospectus is required is defined in the document published by the CNMV. The rest are considerations to be taken into account in connection with financial instruments of this kind.

Marketing of financial instruments issued by the entity itself to retail investors: preference shares, subordinated debt, mortgage covered bonds

In line with the supervision tasks carried out in prior years, actions in this field focused on specific reviews of the marketing of products issued by the entity itself which led to client complaints to the CNMV.

The main incidents detected in processes performed by entities relate to the following matters: (i) deficiencies in procedures used to assign risks to marketed products and, in certain cases, distribution of high-risk financial products among a target public at which such issues were not aimed; (ii) deficient disclosure to the distribution network of risks inherent to the issue of reference; (iii) incidents in client sale order counterparty procedures; (iv) deficiencies relating to contractual documentation or supporting documentation for transactions ordered by clients; and (v) in certain cases, dissemination of advertising prior to approval of the issue prospectus without mentioning that a prospectus would be published subsequently, and acceptance of client orders prior to the subscription period established in the prospectus without subsequent confirmation.

Certain changes introduced by the Securities Market Act as a result of the transposition of MiFID and its secondary legislation have a direct impact on the deficiencies mentioned above.

11.1.2 Supervision of codes of conduct in the provision of financial services by investment firms

Supervisory work performed in 2007 disclosed that certain investment firms, or the financial groups to which they belonged, were offering their clients, aside from their customary services, certain services not subject to supervision by the CNMV or by other financial supervisors. Such is the case with the marketing to clients of several kinds of investments whose common feature is that they are connected to the real estate industry. Since financial and real estate investments are subject to different client protection controls, guarantees and mechanisms, in these cases, the CNMV considers that entities must clearly separate the two activities and explain to clients what services are not protected by the securities market regulations.

In accordance with MiFID's approach, special emphasis has been placed on the marketing of products or services to non-professional clients, in order to ensure that the interests of these investors are appropriately protected. On-site supervision work revealed cases where investment firms marketed structured products issued, marketed or originated by other (generally foreign) financial intermediaries where the intermediary was the owner of record. This practice seemingly involves a record-keeping system based on an omnibus account, which may lead to non-compliance with the restrictions in the prospectus regarding marketing among non-professional investors (in terms of both the minimum investment requirements and the establishment of express limitations to acquisitions by them).

Also, in the same line of achieving adequate protection for non-professional investors, the CNMV addressed cases of marketing of venture capital institutions under the simplified regime among retail clients that did not meet the individual minimum investment or personal qualification requirements to be able to acquire them, through schemes where an investor whose sole shareholder falls under the category of institutional investor and subsequently transfers its holding to the final retail investors was interposed as a direct acquirer.

In the cases described, firms were asked to discontinue transactions of this type, in line with the goal of the regulation.

11.2. Prudential supervision of investment firms

At 31 December 2007, 111 investment firms were subject to CNMV supervision (99 broker-dealers and brokers and 12 portfolio management companies). Also, the CNMV has supervisory responsibilities over 52 consolidable groups of investment firms.

As indicated above, the supervision process is based on the risk profile of each entity. All of these entities have a monitoring team assigned to them which conducts remote or on-site reviews of the information that is filed: balance sheet, income statements, supplementary information, risk information, reports of external auditors, reports on the degree of compliance with internal control regulations, investor complaints, etc. The analysis is performed both at individual scale, and, if appropriate, at consolidable group level, on an ongoing basis which provides systematic and updated knowledge of each entity and its consolidable group.

Supervision of investment firms: CNMV subpoenas in 2007 TABLE 11.2

	Actions		
Type of subpoena	**Remote**	**On-site**	**Total**
For filing information late	136	-	136
Requesting information	67	67	134
Corrective measures or recommendations	79	54	133
Other communications	48	18	66
Total	**330**	**139**	**469**

Source: CNMV.

The number of subpoenas sent to institutions was 39% lower than in 2006. This decline can be explained in part by the work performed by the Management Company of the Investment Guarantee Fund (Fogain), which helped to disseminate the CNMV's criteria throughout the industry. Particularly noteworthy were the documents sent by Fogain to the various entities in connection with the following matters:

1. Considerations relating to issues regulated by Ministerial Order EHA/848/2005, of 18 March, which establishes the rules for investing credit balances in clients' favour in instrumental and transitory accounts held by broker-dealers and brokers.

2. Approaches and terms for adaptation to the New Spanish Chart of Accounts of the CNMV's accounting Circulars affecting the supervised entities.

3. Consideration of the share portfolio of Sociedad Holding de Mercados y Sistemas Financieros, S.A. for accounting purposes and for the purpose of calculating minimum equity requirements for investment firms.

4. Joint assessment process at European level by the S&P, Fitch and Moody's rating agencies for investment firms capital requirement calculation purposes.

5. Publication of the CNMV draft Solvency Circular for consultation.

Investment services firms earnings increased by 27% on 2006 (see Chapter 7). Also, the number of entities incurring losses continues to decrease. Thus, at 2007 year-end, 9 out of 110 entities in the industry had incurred losses, as compared with 14 out of 119 in 2006.

Additionally, the firms had comfortable equity surplus, 18% more than in 2006 (see Table 11.3).

Surplus equity over solvency coefficient at investment firms[1] TABLE 11.3

	Surplus		Number of firms, in terms of percentage of surplus equity									
	Amount[2]	%[3]	< 50%[4]	<100%	<150%	<200%	<300%	<400%	<500%	<750%	<1000%	>1000%
Broker-dealers	1,033,622	418.27	2	5	3	0	8	5	5	7	4	7
Stock exchange members	929,954	418.76	1	3	2	0	4	5	4	6	4	7
Non-members	103,668	413.91	1	2	1	0	4	0	1	1	0	0
Brokers	125,097	202.59	10	11	6	4	9	2	2	5	1	3
Stock exchange members	23,445	368.63	1	1	0	1	1	2	0	1	0	1
Non-members	101,652	183.53	9	10	6	3	8	0	2	4	1	2
Portfolio management companies	14,167	61.18	3	2	2	2	1	0	0	0	0	1
Total	**1,172,886**	**353.25**	**15**	**18**	**11**	**6**	**18**	**7**	**7**	**12**	**5**	**11**

Source: CNMV.
1. Data at 31 December 2007.
2. Thousand euro.
3. Average percentage obtained based on average weighted by each firm's required equity. This is the ratio of surplus equity to average equity.
4. Includes registered broker-dealers and brokers which did not provide information.

New solvency rules for portfolio management companies

Royal Decree 364/2007 for the purpose of adapting the minimum equity requirements of portfolio management companies was published on 17 March 2007. This Royal Decree amended, among others, Royal Decree 1343/92, of 6 November, implementing Act 13/1992, of 1 June, on the equity and supervision of financial institutions on a consolidated basis, and Royal Decree 867/2001, of 20 July, on the legal system applicable to investment firms.

As a result of the amendment of article 15.2 of Royal Decree 867/2001, of 20 July, on the legal system applicable to investment firms, the equity requirements for maintaining managed portfolios were established as follows: "*when, in accordance with its activity programme, an investment firm provides discretionary portfolio management services, its minimum computable equity may at no time fall below 5 per 1,000 of the managed portfolio's asset volume*".

Also, a new final fourth provision was included in RD 1343/92, whereby "*any reference in this Royal Decree and in its implementing regulations to broker-dealers and brokers should be deemed to refer to investment firms as defined by article 64 of Securities Market Act 24/1988, of 28 July*".

This entails the application of a new method to measure computable equity, different from that applied to date (on the basis of the definition of equity under the Corporations Act), and the calculation of equity requirements in accordance with article 43 of Royal Decree 1343/92.

Prudential supervision particularly emphasises compliance with solvency, risk diversification and liquidity requirements. The number of cases of non-compliance has declined for two consecutive years. Several portfolio management companies failed to comply with the solvency requirement due to the change in the applicable regulation.

The application of Iberclear Circular 5/2006, of 25 October (see Chapter 4) involved increasing the guarantee to be deposited by certain entities, with the consequent repercussion on their operating costs. The CNMV closely monitored the presentation of such guarantees by broker-dealers and brokers, how they were accounted for, and the risks that they assumed.

With regard to prudential supervision, the review of activity control procedures at supervised entities is in line with the current solvency supervision principles. The availability of appropriate control procedures is particularly relevant in times of turmoil in the financial markets, such as the subprime mortgage crisis in the US.

As discussed in chapter 1, Spanish investment firms were not directly affected by that crisis, due to the absence of structured products related to the US mortgage market in their trading portfolios. However, in one particular case, some of one firm's clients did have significant exposure at the peak of the crisis, an issue that the firm failed to consider appropriately. Since the risk materialised, losses were incurred which were borne by the firm since the clients were unable to assume them because of their size.

11.2.1. Supervision of solvency

The amended Securities Market Act approved on 30 November 2007 transposes into Spanish law the Capital Adequacy Directive (CAD II) regarding investment firms. The Royal Decree on the equity of financial institutions[2], which was approved in 2008, implements the Securities Market Act with regard to this Directive and empowers the CNMV to specify or expand its contents. The CNMV prepared a draft Circular on equity and released it for public consultation on its webpage up to 31 January 2008. However, the Ministerial Order necessary for implementation of the Circular is still pending.

The draft prepared by the CNMV is inspired by the criteria adopted by the Bank of Spain and refers in certain chapters to the latter's regulations. Such is the case with regard to the use of internal models. The draft tries to maintain or raise the current solvency level of the entities. Thus, in addition to the requirements of the Directive, the current requirement whereby computable equity may not fall below 5 per 1,000 of the portfolios managed has also been included. Likewise, the option offered by the Directive to exempt broker-dealers and brokers from calculating operating risk requirements will not be used, which will entail an increase in the equity requirements to be complied with by numerous entities.

In addition to the change in minimum capital requirements (Pillar I), there are new obligations: supervisory review (Pillar II) and the disclosure of information or market discipline (Pillar III). The Securities Market Act regulates these obligations.

2. Royal Decree 216/2008, of 15 February, on the equity of financial institutions.

Firstly, under article 70 bis, both consolidable groups and investment firms not belonging to any such groups are subject to the obligation to make public, at least annually, certain data on their solvency situation. Secondly, under article 87 bis, the CNMV will be responsible for reviewing the systems used by entities to apply the solvency regulations, assess the risks to which they may be exposed and determine, in Light of the foregoing controls, whether the investment firms can guarantee sound management and risk coverage.

Lastly, under article 91b, the CNMV is required to furnish to the competent authorities of other EU Member States any information that is essential for the performance of their supervisory tasks.

Transposition of CAD II. Supervision of investment firm solvency

CAD II is very extensive with regard to its content and articles and has numerous annexes that include technical details for application. It is thus one of the EU's texts with the greatest degree of implementing regulations and detail. This is responsive to the Directive's main purpose: guaranteeing the stability of the world's financial markets by preventing the systemic risk arising from situations of crisis at large intermediaries (mainly large international banks). In order to attain this objective, a uniform risk measurement is established together with a system for calculating the capital needs on the basis of those risks.

This explains the very significant participation in the entire process by the large financial groups, particularly banks, and by bank solvency supervisors in the context of the Basel Committee. However, participation by companies and securities market supervisors was less notable.

In this context, it is important to note that Spain, Greece and Cyprus are the only EU Member States whose prudential supervision system (authorisation and solvency) involves separate authorities for credit institutions and securities firms. This is the case even where substantially all the activity in the securities markets and the retail market is concentrated in credit institutions directly or captured indirectly through subsidiaries.

The coexistence of two solvency supervisors (credit institutions and investment firms) generates clear inefficiencies regarding both the regulatory adaptation process and its practical application.

In the first place, regulatory implementation is redundant since, for a given Directive, two sets of implementing regulations must be developed: one for credit institutions by the Bank of Spain and one for investment firms by the CNMV. This entails the loss of scale economies.

Moreover, the fact that the total equity of investment firms is small in relative terms only exacerbates the inefficiencies arising from the existence of two supervisors in this context. The aggregate equity of all broker-dealers and brokers, excluding those belonging to bank groups, amounted to 595 million euro at 31 December 2007, i.e. barely 0.41% of the total equity of credit institutions. The investment firm with the largest equity would rank 48th among the financial institutions.

Consequently, it is inefficient to have a solvency supervisor solely for investment firms (the CNMV) since its scope is restricted to a segment of the financial system that is marginal in solvency terms (though not in operating terms) but it must still address regulatory implementation equivalent to that applied by the primary solvency supervisor (the Bank of Spain).

In this context, it is appropriate to consider possible changes to the supervision model that would make better use of the synergies between the supervisory functions in the fields of solvency and conduct. It would be useful to consider the effects of this model and the potential alternatives for reducing its inefficiencies.

11.3 Supervision of UCITS

In the field of UCITS, the main supervision objectives, regardless of the manner in which such objectives are supervised (remote or on-site) are: verification of compliance with legal coefficients and investment suitability, sufficiency of resources and suitability of entities' internal controls, prevention of conflicts of interest, adequacy of information furnished to the investor and compliance with the control functions assigned to the depository.

UCITS regulations establish minimum portfolio diversification requirements, restrict the types of assets in which these entities can invest and establish minimum liquidity ratios to cater for reimbursements without the need to make divestments not based on management criteria. Additionally, the regulations require institutions of this kind to maintain minimum assets and a minimum number of investors to ensure their collective nature. Checking compliance with these restrictions is one of the main objectives of the supervision of these institutions.

Additionally, due to the present structure of Spain's financial system, with the predominance of large financial groups, it is relatively common for the UCITS operator and the depository of funds to belong to the same financial group that renders all kinds of services relating to securities markets. Accordingly, many supervisory actions aim to prevent potential conflicts of interest between entities, so as to ensure that the decisions of management companies are taken only in the best interest of the shareholders or participants.

Actions during the year also focused on checking the sufficiency of internal resources and controls available at management and depository institutions, since most potential risk situations identified in the course of supervisory tasks arise from the lack of sufficient resources for the proper discharge of the functions and obligations attributed by the regulations to institutions of this kind. Noteworthy in this connection was the supervision of solvency requirements at management institutions and compliance with the diversification limits of their own investments.

The regulations also permit UCITS to carry out certain transactions, such as using derivatives or investing in less liquid securities, provided appropriate information is furnished to investors. Accordingly, it is very important to supervise that the information provided to investors in this connection is accurate, sufficient and timely in order to guarantee that they are effectively protected.

Finally, we underscore the importance of checking compliance with the functions assigned to depository entities, not only with regard to their standard asset safekeeping function, but also with regard to the function of supervising and monitoring the actions of management companies in connection with certain particularly sensitive areas, such as the review of net asset value calculation procedures, flows of funds linked to subscription and reimbursement transactions, performance of transactions at market prices, ratio compliance, and accurateness of information furnished to the CNMV and investors.

To check proper compliance with the aforementioned objectives, the CNMV has established two complementary supervisory approaches (remote and on-site) based on the risk profiles for each entity. In 2007, as a result of the supervisory activities, 690 documents were sent to the supervised entities (see Table 11.4), 175 were subpoenas for information filed late. Considering the number of entities registered and their numerous obligations to disclose to the CNMV (e.g. periodic reports, audits and confidential filings), the degree of compliance with the established deadlines was high.

A total of 320 requests for additional information necessary for the supervisory task, different from that generally available, were sent to entities. The bulk (300) were issued by the Remote Oversight area, since the analyses are conducted away from the entities' registered offices and, therefore, the requests for information must always be formalised in writing, in contrast with the situation where work is carried out on-site, since the process for receipt of information requested is usually brisker.

And 176 requests for the adoption of improvements were sent. Although most of these related to Remote Control area subpoenas, they usually refer to one single aspect (normally the object of the analysis), whereas subpoenas in the On-site Control area usually reflect all the issues detected during the entity's inspection.

Supervision of allocation of fee retrocessions

In 2006, the CNMV supervised the appropriate application of UCITS regulations on the allocation of fee retrocessions by UCITS investing in other UCITS, to ensure that such retrocessions were being allocated to the investor UCITS where they were funds. With respect to SICAVs, the CNMV checked that, where the retroceded fees were not allocated to the company itself, investors were being informed appropriately.

The CNMV also examined investments in institutional classes of holdings (which involve lower fees) rather than retail classes (higher fees), where the volume of investment exceeded the threshold for investing in the former.

Compliance by UCITS was further enhanced as the supervisory activities led in 2007 to the payment of compensation to investors for the harm caused by deficient practices identified by the CNMV (failure in previous years to allocate fee retrocessions from investments in other UCITS to the investing UCITS).

These compensations were performed by eight entities in compliance with the CNMV, and the aggregate amount relating to the harm compensated was

€ 9,937,958.48, which was paid to the affected funds or investors, as appropriate. The compensation payments were accompanied by a regulatory disclosure describing the improper practices and the corrective measures adopted. One firm was also penalised with a fine of 1,000,000 for committing a serious infringement of the aforementioned regulations.

Supervision of UCITS: subpoenas sent by the CNMV in 2007 TABLE 11.4

	Actions		
Type of subpoena	**Remote**	**On-site**	**Total**
For filing information late	175	-	175
Requesting information	300	20	320
Corrective measures or recommendations	119	57	176
Other notifications	15	4	19
Total	**609**	**81**	**690**

Source: CNMV.

The main supervision actions performed in 2007 are set out below.

11.3.1 Supervision of prudential requirements regarding UCITS and their management companies (SGIIC)

Legality

Checking compliance with the legal coefficients continues to be one of the basic objectives of UCITS supervision.

In 2007, the CNMV focused specifically on compliance with minimum capital requirements and the rules governing participants in investment and capital funds and shareholders of SICAVs, which included verifying treasury share transaction limits. At the same time, it reviewed compliance with liquidity ratios (which ensure the availability of sufficient liquidity to cater for reimbursements without forcing the UCITS to make unplanned divestments), with diversification ratios and with legal restrictions on transactions with derivatives.

Simultaneously, by reviewing the notifications of incidents periodically received from depository entities, compliance with such depository entities' obligations to supervise and monitor UCITS operator actions was also checked.

UCITS operator solvency

The CNMV continued to explicitly monitor firms' economic and financial position in order to anticipate potential solvency problems or to request plans to remedy such any breaches that are detected. Several parameters are used to conduct such analysis, particularly: equity shortfall or lack of equity surplus, decrease in the ratio of book equity to share capital, valuation of income statement (amount of losses, source of losses, income obtained from activities other than those customarily pertaining to

UCITS operators), how long the UCITS operator would take to reach an equity deficiency or net worth imbalance as a result of losses incurred or of a significant increase in regulatory equity requirements and, finally, analysis of any decline in the firm's activity arising from the decrease in the volume of assets managed.

Compliance with the legal coefficients and the sufficiency of organisational resources to fulfil their functions were also analysed.

11.3.2 Corporate governance, resources, procedures, internal control and conflicts of interest

Yields analysis

The procedure used to detect atypical yields consists of creating a daily benchmark index for each UCITS, on the basis of which its theoretical yield is obtained. Outliers that deviate by more than a specific number of standard variations are chosen for analysis.

The benchmark index is based on the distribution of assets and the modified duration of each UCITS' cash portfolio. These data are obtained from confidential filings and from the daily performance of market indexes related to the portfolio composition. The daily theoretical yields for each institution are obtained by regression between the index and the fund's actual yield.

The purpose of this analysis is to detect deficiencies in the internal procedures and controls of UCITS operators. A specific procedure or control is classified as deficient when atypical yields are detected repeatedly as a result of the same error (e.g. an accounting error or incorrect valuation of a specific type of asset or allocation of expenses). However, atypical yields may also be obtained as a result of the composition of the portfolio or the transactions performed that day, or they may be due to a one-time error in the accounts or in the valuation of an asset. In this last case, the impact on assets is quantified and, if it is material or affects investors in the UCITS, the operator is requested to indicate what measures it plans to adopt to remedy the situation.

This analysis also makes it possible to detect regulatory infringements, since an atypical yield may also arise from an investment in unsuitable assets or from non-compliance with the institution's investment policy. The findings of this analysis are one of the main factors to be considered in preparing the risk map for management companies.

Valuation of fixed-income assets

The current financial crisis, which arose from the increase in subprime mortgage loan defaults in the USA and which became manifest in August 2007, led to a significant decrease in the liquidity of certain markets, mainly the private fixed-income market, and a general increase in credit spreads due to uncertainty about the magnitude of the financial institutions' exposure to the crisis.

On the basis of the situation of UCITS portfolios prior to the crisis, an analysis was conducted of the impact which the events stemming from the credit crisis could have on such UCITS in subsequent months. The valuations which the management companies were applying to private fixed-income investments in the second half of the year were also analysed to check their reasonableness.

An analysis was also performed to quantify UCITS investments in relatively illiquid products. The analysis of the distribution of assets in investment funds revealed that 37% were invested in private fixed-income instruments, where the volume of potentially less liquid products is greater. However, a large portion (84%) of those funds were invested in assets for which market prices were available. In accordance with the applicable regulations, alternative valuation methods must be used in all other cases.

Investments in asset-backed securities (classified as private fixed-income) accounted for 11% of the mutual funds, and non-subordinated tranches (i.e. those with better credit ratings) accounted for 68% of investments in assets of this kind.

Together with the analyses described above, all purchase and sale transactions performed by UCITS in the second half of 2007 were reviewed, particularly focusing on related-party transactions for the purpose of checking whether the transactions were carried out on an arm's-length and in the interest of the institutions themselves.

Investments in other UCITS

A specific analysis was performed of the Spanish UCITS that might be affected by the suspension of subscriptions and reimbursements of certain foreign UCITS in the aftermath of the US subprime mortgage crisis.

This analysis disclosed that only one UCITS operator was required to make partial reimbursements as provided by article 48.7 of the UCITS Regulation since more than 5% of its assets were invested in a foreign UCITS that suspended subscriptions and reimbursements. In such cases where the investment was found to account for less than 5% of the institutions' assets, the UCITS operators were urged to issue a regulatory disclosure, in accordance with the provisions of article 19 of the UCITS Act and article 28.1 of the UCITS Regulation so as to ensure maximum transparency for current and potential investors.

Analysis of liquidity of equity securities in mutual fund portfolios

In addition to checking compliance with the investment policies defined in the prospectuses of these institutions, the CNMV analysed the appropriateness of the internal systems used by management companies to monitor market depth for UCITS more exposed to mid- and small-cap stocks in order to achieve an orderly liquidation of positions through the normal trading mechanisms.

The analysis concluded that the operators generally had appropriate control systems to monitor normal trading volumes in each stock in which they invested n proportion to the volume invested by all the institutions they managed, in order to achieve an orderly liquidation of positions (generally within at most one day).

Analysis of placements and takeover bids

In 2007, several analyses were performed of securities placements to detect possible conflicts of interest where a company belonging to the management company's group had participated as underwriter or broker.

Analysis of net asset values applied at expiration of the guarantee period

Although there are mechanisms for guaranteed funds that significantly reduce the risk of erroneous settlements, such as the requirement that there be a calculation agent and the publication of a regulatory disclosure if the guarantee must be executed because the fund does not achieve its guaranteed performance target, the net asset values at maturity were analysed to confirm that there were no problems.

The analysis focused on guaranteed equity funds, which are the most complex at the time of calculating the net asset value at maturity since they generally depend on several underlying assets (shares, stock exchange indexes, foreign currencies or other UCITS). Fixed-income guaranteed funds, which guarantee a fixed return at maturity together with the invested capital, do not pose these problems since investors can calculate the yields on the basis of the annual percentage rate detailed in the fund prospectus.

All the factors necessary to calculate the appreciation of the various indexes, shares, etc. were found to be correct and the guaranteed net asset value was recalculated, checking that it coincided with that provided by the management company. No incidents were detected with regard to the calculation of the final guaranteed net asset value at any of the funds analysed.

11.3.3 Investor information

Under UCITS regulations, UCITS are required to send to the CNMV their auditors' reports and financial statements, and this information must be delivered to the investors as part of the annual report. That information is supplemented with the recommendations of the auditors and the report on the degree of compliance with the internal control memorandum. All of these documents are essential in order for the CNMV to discharge its supervisory functions and, accordingly, special emphasis was placed on reviewing their form and content, as well as compliance with the established submission deadlines.

11.3.4 Supervision of operators of hedge funds and of funds of hedge funds

In order to adapt the supervision techniques to the demands of the new forms of UCITS and based on the commitment undertaken by the CNMV in its Activity Plan for 2007–2008, the Commission commenced on-site supervision of hedge funds in the fourth quarter of 2007.

The following issues were subject to this special review:

– Due diligence procedures. The CNMV checked that the due diligence procedures for assessment and analysis of investments made by funds of hedge funds, which aim to determine the operating risks that the investment would entail, addressed all the matters required by the regulations (rule 10 of CNMV Circular 1/2006 on hedge funds), that they had been agreed with the depository and were approved by the Board of Directors of the management company and that they were effectively complied with in the selected UCITS in which investments were made.

– Board experience. Management companies must have Board members or managers or persons of similar rank with experience that is appropriate for the type of investment that is planned.

– Risk measurement and control systems. Management companies must have appropriate risk measurement and control systems for the specific investments to be made. These systems should measure current and potential exposure to risks, particularly in the case of hedge funds when transactions involve leveraging or unlisted securities, illiquid or derivative financial instruments whose valuation is complex, or short sales.

– Calculation of net asset value. The basic principles and general criteria for valuation established for financial UCITS should be applied, while complying in all cases with the specific rules established by CNMV Circular 1/2006 on hedge funds.

– Consent document. Investors are required to sign a consent document stating that they are aware of the risks inherent to the investment in schemes of this kind.

11.3.5 Supervision of UCITS depositories

In 2007 the CNMV continued to visit UCITS depositories on site. The main purpose of these visits, which are made in conjunction with the Bank of Spain when the targets are credit institutions, was to check whether the depositories have adequate resources to carry out the functions of supervising and overseeing UCITS operators which are attributed to them by the regulations.

The CNMV also analysed whether depositories properly discharged their duties in connection with the deposit and administration of securities belonging to the UCITS and, especially, whether appropriate mechanisms and procedures were established in conjunction with the management company to ensure that the UCITS' assets were not disposed of without its consent and authorisation.

Additionally, the CNMV continued to perform remote reviews of procedures for proper performance of the tasks assigned by the UCITS regulations to UCITS depositories and of the existence of suitable material and human resources available to carry out their activities. These reviews, which were initiated in 2002, supplement the on-site supervision conducted at these entities.

The reviews focused on three issues: firstly, appropriateness of the depository entity's organisational structure vis-à-vis the location of the UCITS depository unit within the entity's organisation chart, with respect to its structure, organisation, resources and effective application of the rules relating to the separation of the UCITS operator and the depository; secondly, the degree of oversight with respect to deposit and custody of the securities held by the UCITS and the effective control of attributed cash movements; and, thirdly, adequacy of general procedures used by UCITS depositories in order to fulfil the monitoring and supervision tasks assigned to them by the UCITS regulations.

11.3.6 Supervision of real estate UCITS

In 2007, periodic supervision of real estate UCITS focused on the regulatory ratios that must be complied with by these institutions and on yields analyses based on the confidential filings sent by the real estate investment funds and the information contained in appraisal certificates.

Real estate UCITS are required to meet several investment ratios which limit the risks arising from certain investments (leverage in the acquisition of purchase options, future payout obligations arising from real estate purchases via commitments or still under construction, concentration in certain properties, purchases from group entities) or define the features inherent to these institutions (minimum investment ratio in real estate). Additionally, their obligations to third parties are restricted, as is the percentage of properties they may lease to shareholders, or to a given group, and, in the case of real estate funds (FII), in the months when redemption rights may be exercised, a liquidity ratio of 10% of the assets must be met. Substantially all of these entities complied with the foregoing ratios.

With respect to the yields analysis, supervision is based on the appraisal certificates of each property in a fund's portfolio. In 2007, emphasis continued to be placed on analysing significant variations in appraisal values between years, consistency of valuation methods with the applicable regulations, existence of possible provisos or caveats in such certificates, and appropriate fulfilment of confidential filings and accurate calculation of the net asset values of these institutions.

11.4 Supervision of venture capital firms

In view of the characteristics of investors in venture capital firms, supervision was limited to reviewing their financial statements and compliance with legal coefficients through the information provided by them in confidential filings, (although this latter task is hampered by the absence of lower-level regulations governing the method for calculating such coefficients), and to analysing the solvency of the management companies.

11.5 Supervision of securitisation trust management companies

Reviews of securitisation fund management companies (SGFT) continued in 2007 and focused on checking whether the control weaknesses detected as a result of prior years' visits had been remedied.

These inspections revealed the high degree of commitment undertaken by the SGFTs to ensure a high standard of oversight in the industry.

Seven of the eight SGFTs registered were inspected on-site in 2007.

11.6 Assistance in the prevention of money laundering

Under the Cooperation Agreement entered into by the CNMV and the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (SEPBLAC), seven notifications were sent to that agency in 2007 communicating the findings of the review of anti-money laundering procedures and bodies at entities subject to CNMV supervision. Also, in accordance with the provisions of article 16 of Act 19/1993 on certain anti-money laundering measures and article 90.4.g) of Securities Market Act 24/1988, information was sent to the SEPBLAC that was obtained as a result of the performance of supervisory tasks at three entities because there were signs of transactions suspected to involve money laundering.

That Cooperation Agreement is pending an update for the purpose of adapting it to the new anti-money laundering legislation.

12 Investor assistance

Investor protection is one of the CNMV's primary goals, underlying its supervision of markets and intermediaries and of disclosures.

The Commission's informational and training activities are part of its investor protection initiative. Accordingly, the CNMV attends individually to queries and complaints and engages in training and informational activities in an effort to provide investors with the necessary practical knowledge to operate with confidence in the securities markets.

Intense regulatory activity in the area of financial markets in recent years has required all market participants to make major efforts to adapt and has created a new approach to investor protection. In this context, as part of its Activity Plan 2007-08, the CNMV undertook, with the Bank of Spain, to design a training plan for users of financial services.

12.1 New regulatory framework for investor protection

A number of legislative initiatives were taken in 2007 that evidence the importance attached to the protection of retail investors, at both European and domestic level. Of particular importance are the amendments to the Securities Market Act to transpose three major EU Directives: MiFID[1], the Takeover Director, and the Transparency Directive[2].

Specifically, Act 47/2007, of 19 December, amended the Securities Market Act to transpose MiFID and Directive 2006/73/EC as regards organisational requirements and operating conditions for investment firms. Its main goals are to improve financial markets' transparency and efficiency while strengthening mechanisms to protect retail investors. It states expressly that investment firms must act honestly, impartially and professionally in the best interests of their clients, whose personal circumstances they must take into account when providing services. Information provided must be impartial and clear and not misleading.

In addition to imposing obligations on intermediaries, the new regulations require investors to play a much more active role. Hence, for firms to provide clients with the best possible service, the latter must provide some information about their knowledge and experience of the markets and, occasionally, of their financial goals

1. Directive 2004/39/CE on markets in financial instruments.
2. Directive 2004/25/CE and Directive 2004/109/CE, respectively.

and situation. This enables the financial intermediary to take account of investors' profiles in order to offer them the products and services that are best suited to their needs at any given time.

A basic feature of MiFID is that it distinguishes between types of investors, each requiring a different level of protection. Most individual investors are classified as retail investors (rather than professional investors). Because of their lower experience and knowledge of the financial markets, retail investors enjoy a higher level of protection.

Act 6/2007, of 12 April, incorporated into the Securities Market Act the rules on takeovers established by Directive 2004/25/EC and the transparency requirements imposed on issuers of securities listed in a regulated market (the Transparency Directive, 2004/109/EC). Among other aspects, the former seeks to enhance the protection of minority shareholders in listed companies, while the latter highlights the importance of investors being provided with sufficient truthful information on a punctual basis.

Finally, Act 22/2007, of 11 July, on distance selling of financial services to consumers, incorporates the provisions of Directive 2002/65/EC in this area into Spanish law. The Internet has established itself as a very powerful vehicle for the transmission and exchange of information, but it has also raised some legal uncertainties, particularly with regard to user protection. Hence the need to pay special attention to transactions conducted via the Internet.

12.2 Investor Assistance Office

The main purpose of the Investor Assistance Office (IAO) is to handle queries, complaints and claims by investors. The IAO aims to respond to issues raised by retail investors, although many of them lead to other action being taken by the CNMV. Complains and claims are a source of information to the CNMV about improper practices and the practical difficulties that investors face, serving as a guide to make the Commission's supervisory, regulatory, informative and training activities more efficient.

The number of claims received by the IAO declined slightly in 2007, coupled with a large increase in the number of queries (see Table 12.1).

Total number of issues handled by the IAO TABLE 12.1

	2006		2007		% change
	Number	% of total	Number	% of total	07/06
Queries	9,985	92.1	10,945	92.7	9.6
Claims	823	7.6	809	6.9	-1.7
Other written communications[1]	34	0.3	55	0.5	61.8
Total	**10,842**	**100.0**	**11,809**	**100.0**	**8.9**

Source: CNMV.

1. In addition to claims and queries, the IAO fields other queries for information, notifications, initiatives and suggests relating to retail investors. It also informs on the degree to which the customer care and ombudsperson regulations at supervised entities conform to the applicable legislation.

12.2.1 Queries

Queries refer most often to the functions and organisation of the CNMV, the regulations, investment products and services, and investors' rights and interests recognised by law. They can be submitted in any way: e-mail, postal mail, fax or telephone. The IAO has a hotline (902 149 200) to provide general information in response to queries from the public. The call centre is capable of responding to the simplest queries, and more complex issues are escalated to specialists.

Amount and type of queries

In 2007, the IAO received 10,945 queries, a 10% increase with respect to 2006 (see Table 12.2). Seven per cent of queries were received at Bolsalia and Borsadiner, two fairs dealing with the stock exchange and financial markets, held in Madrid and Barcelona, respectively, at which the CNMV had a stand.

Telephone is still the primary channel by which investors contact the CNMV to present queries, although the number of queries presented in writing and in person increased in 2007.

The call centre operators handled 74% of telephone queries and half of all queries attended to in the year. The other half, almost 5,500 queries, were handled by IAO specialists. The bulk of these queries were made by e-mail (43%) and phone (35%). Fifteen per cent of queries were presented in person, and 6% in writing.

Breakdown of queries in 2007 according to the channel by which they were received TABLE 12.2

	2006		2007		% change
	Number	% of total	Number	% of total	07/06
Telephone	6,836	68.5	7,414	67.7	8.5
E-mail	2,228	22.3	2,373	21.7	6.5
Written	239	2.4	312	2.9	30.5
In person	682	6.8	846	7.7	24.0
Total	**9,985**	**100.0**	**10,945**	**100.0**	**9.6**

Source: CNMV.

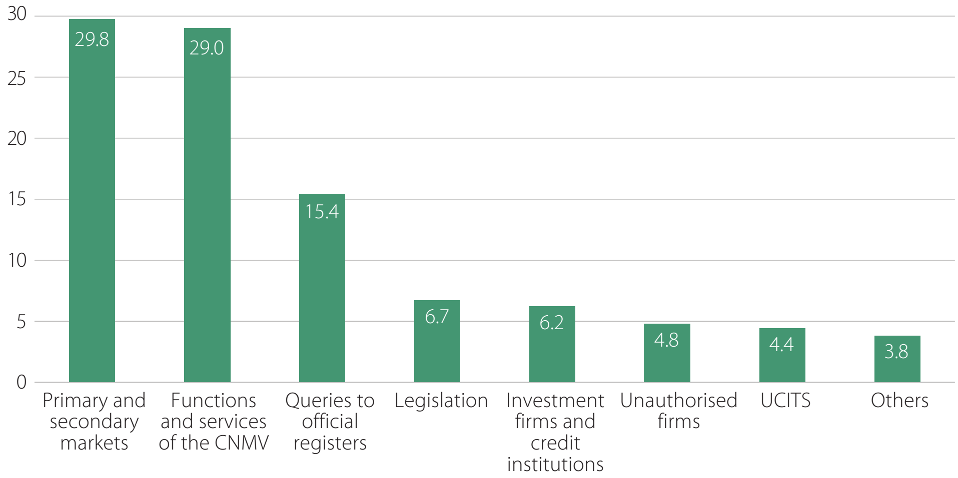
Main issues addressed in queries

The bulk of queries continue to relate to corporate and market transactions. In particular, the main matters addressed in queries in 2007 were takeovers, new issues aimed at retail investors, and the market performance of certain securities. Figure 12.1 shows a breakdown of queries by subject matter in 2007.

The main queries raised in 2007 included most notably the following:

– Issues of new securities raised doubts and questions about the process of marketing among retail investors. Investors requested clarifications or expressed objections to the actions of intermediaries with regard to fees, the allotment of shares, delays in obtaining the shares, and advice received at the time of purchasing securities.

Subject matter of queries in 2007 FIGURE 12.1



Source: CNMV.

– As in 2006, takeovers accounted for a significant proportion, particularly the bids for Endesa. Queries related to the deadlines for the various administrative processes, the phases of the transaction and the actions by the parties involved.

– In November, the IAO began to receive many queries from investors about the letters they had received from financial institutions about MiFID. The most common doubts referred to the impact of the new regulations on their relationship with their financial institution. Frequent queries referred to the consequences of being treated as a retail investor, the possibility that costs might increase, the obligation to provide personal information to the financial institution, and the meaning of «best execution». The CNMV recently published "Qué debe saber de sus derechos como inversor. Descubra la protección que le da la MiFID", which is an adaptation of CESR's «A Consumer's Guide to MiFID. Investing in Financial Products»; it can be viewed in the «Investor's Corner» section of the CNMV's web site.

– Queries about unauthorised firms are important in a qualitative sense. The CNMV firstly points out that investment services may only be provided by firms that are authorised and registered in the CNMV's official registers.

  The information obtained from queries of this type, and any documentation provided by investors, is referred to the Litigation Department to investigate and potentially issue a public warning or commence disciplinary proceedings.

  In this connection, it is important to note the new features introduced by Act 47/2007, of 19 December, which amended the Securities Market Act to adopt MiFID. Before that Act, any person or firm could provide investment advice without the need for authorisation by the CNMV. Now, investment advice, understood as the professional remunerated provision of personalised recommendations to clients about financial instruments, is a service restricted to the parties who are authorised to provide it. Parties who were providing investment advice prior to the new Act have until February 2009 to request authorisation and inscription in the CNMV's registers.

– As regards queries about UCITS, notable issues were exchange-traded funds (ETF) and transfers between mutual funds.

   - Queries about ETFs led to the re-publication of the CNMV's factsheet on this subject in order to provide more comprehensive information about the inherent fees and expenses.

   - Transfers between UCITS, redemption value dates, deadlines and taxation also continue to generate a large number of queries from investors.

- In the case of financial contracts by differences (FCD), the CNMV issued a communiqué to firms setting out the criteria under which they may be marketed to retail investors; it also drew up a factsheet on this product, setting out its main features and risks in a clear, simple way.

- A case of good corporate governance practices in 2007 was the almost simultaneous transmission, in summary form and in Spanish, of a Shareholders' Meeting held in another country. This measure, adopted at the initiative of a group of retail investors who contact the IAO, made it possible for Spanish-resident shareholders to follow the meeting. The CNMV can only make recommendations in this respect, and it is up to the company to make the final decision.

- As in previous years, there were queries from owners of shares in companies that had been delisted who wished to know how to stop paying fees for the administration of those shares. The solution to stop paying fees is for the shareholder to initiate a voluntary waiver of maintenance of the registration of the shares of the delisted company in the book-entry register, provided that this is possible. To that end, they must contact the securities depository, which will inform them of the process and the related costs.

  Queries were also received about how to sell shares in unlisted companies, an area outside the competence of the CNMV; to sell them, the investor must find a buyer or contact the issuer to ascertain if it is interested in buying them.

12.2.2 Claims

The IAO handles claims by users of financial services in connection with malfunction, delays or lack of service, or if they feel their interests have been impaired by a financial institution's actions.

Prior to making a claim to the CNMV, investors must contact the institution's Customer Care Unit or Ombudsperson. If they do not receive a response within two months, or the response is unsatisfactory, they may contact the CNMV's IAO.

Although the replies and reports on claims are not binding on the parties, and although the IAO cannot propose specific indemnities, in its decisions the IAO tries to guide financial institutions as to the criteria and interpretations proposed by the CNMV in connection with the issues that are raised.

Key data for the year

A total of 809 investor claims were received in 2007, 1.7% less than in 2006 (see Table 12.3). Sixty-six per cent of claims were resolved within four months of their presentation to the CNMV; the 788 claims analysed were resolved in an average of 99 days.

Outcome of complaints TABLE 12.3

	2006		2007		% change
	Number	% of total	Number	% of total	07/06
Resolved	**549**	**71.7**	**610**	**77.4**	**11.1**
CNMV report favourable to complainant	171	22.3	176	22.3	2.9
CNMV report not favourable to complainant	298	38.9	342	43.4	14.8
CNMV report without decision	5	0.7	7	0.9	40.0
Resolved by mutual agreement	64	8.4	76	9.6	18.8
Claim withdrawn	11	1.4	9	1.1	-18.1
Unresolved	**217**	**28.3**	**178**	**22.6**	**-18.0**
Under jurisdiction of another body	28	3.7	39	4.9	39.3
Claim not accepted	189	24.7	139	17.6	-26.5
Total claims processed	**766**	**100.0**	**788**	**100.0**	**2.9**
Total presented	**823**	—	**80**	**9—**	**-1.7**

Source: CNMV.

In 2007, the number of claims resolved with a report by the IAO increased by 3% with respect to 2006 and by 5% with respect to 2005.

At the same time, greater compliance with the formal requirements for presenting claims led to a sharp decline in the percentage of claims that were not accepted. Three awareness-raising activities contributed to this improvement:

– Publication of the guide «Investor protection: making a complaint».

– The factsheet «How to make a complaint concerning financial services» published jointly by the CNMV, the Bank of Spain, Spain's Directorate-General of Insurance and Pension Funds, and the National Institute for Consumer Affairs.

– The publication of a standard form for presenting claims, available in the Investor's Corner section of the CNMV's web site.

In the line of formal improvements in the process of receiving investor claims, there was a decline in the number of claims reaching the IAO from the Bank of Spain Complaints Office, from 58% in 2006 to 53% in 2007.

And the number of complaints resolved against the complainant increased by 14.8% (see Table 12.3). There was also an increase, albeit smaller (7.2%), in the number of complaints resolved by mutual agreement and where the CNMV found for the complainant.

The number of complaints referred to other supervisors, such as the Bank of Spain and the Directorate-General of Insurance and Pension Funds, under the principle of administrative one-stop shop and on the grounds that the complaints referred to matters under those bodies' competence, increased by 39.3%.

Once again, the bulk of claims referred to credit institutions, since their commercial networks are the predominant channel for retail investors to acquire financial products and services (see Table 12.4).

Class of firm against which claims were made and type of outcome in 2007

TABLE 12.4

	Favourable		Unfavourable		Mut. agr. + Withdraw.		No opinion		Total	
	No.	% change 07/06	No.	%	No.	%	No.	%	No.	%
Credit insts.	**162**	**26.5**	**320**	**52.5**	**80**	**13.1**	**6**	**0.9**	**568**	**93.1**
Banks	125	20.5	233	38.2	56	9.2	5	0.7	419	68.7
Savings banks	31	5.1	84	13.8	22	3.6	0	0.0	137	22.5
Credit coops.	6	0.9	3	0.5	2	0.4	1	0.2	12	2.0
Investment firms	**13**	**2.1**	**16**	**2.6**	**4**	**0.7**	**0**	**0.0**	**33**	**5.4**
UCITS operators	**1**	**0.2**	**6**	**0.9**	**0**	**0.0**	**1**	**0.2**	**8**	**1.3**
Other	**0**	**0.0**	**0**	**0.0**	**1**	**0.2**	**0**	**0.0**	**1**	**0.2**
Total	**176**	**28.8**	**342**	**56.0**	**85**	**14.1**	**7**	**1.1**	**610**	**100.0**

Source: CNMV.

Of the 94 firms against which claims were made, 77 were credit institutions, 11 were investment firms and 6 were UCITS operators. Nevertheless, just 33 firms were the object of five or more claims, and ten of them were the object of 15 or more claims.

Monitoring firms' responses

In 2007, the CNMV began tracking firms' responses when the final outcome was in favour of the complainant. After each complaint process is concluded, the firm in question is asked for information and documentation on its actions.

Improper action is considered to have been remedied when the firm proves that it attended to the matter at issue, either by paying indemnity to the complainant (whose amount is not addressed by the CNMV in any way) or when it accepts the position adopted by the CNMV in its report and takes measures to avoid a repetition of the improper conduct in the future.

Overall, of the 176 complaints that led to conclusions in favour of the complainant, the firms rectified their approach in line with the aforementioned criteria in 52% of cases, and there was partial rectification in just 3% of cases. In contrast, the firms did not modify their behaviour in 45% of cases: in just 3% the firms rejected the conclusions of the CNMV report, and 42% failed to respond (classified as failure to rectify, for the purpose of the statistics). The Complaints Unit initiated actions to reduce this percentage, considering that 2007 was the first year in which this monitoring process was applied.

The process made it possible to assess the efficacy of the complaints handling system and the degree to which firms accept the positions and recommendations arising from the analysis of the complaints. It is also a means of preventing improper behaviour and ensuring that firms do not repeat it.

Most common claims

The claims on which the CNMV issued a decision in 2007 can be classified into two broad groups: 55.6% related to incidents in the provision of investment services (i.e.

orders, fees, securities administration), and 44.4% related to incidents with UCITS (i.e. information, application of net asset values, transfers, exercise of rights, etc.) (see Table 12.5).

Breakdown of issues in claims resolved in 2007 TABLE 12.5

	2006		2007	
	Number	% of total	Number	% of total
Provision of investment services	**322**	**58.8**	**338**	**55.6**
Order reception, transmission and execution	145	26.4	173	28.5
Information to clients	106	19.3	96	15.8
Fees and expenses	71	12.9	59	9.7
Other	—	—	10	1.6
Mutual funds and other UCITS	**227**	**41.2**	**272**	**44.4**
Information supplied	85	15.5	114	18.7
Subscription and reimbursement	64	11.7	65	10.4
Transfers	46	8.4	54	8.9
Fees and expenses	32	5.8	39	6.4
Total claims resolved	**549**	**100.0**	**610**	**100.0**

Source: CNMV.

Claim resolution: criteria used

In 2007, the first claims were received in connection with the new regulations on public offerings and the acquisition of financial products linked to mortgage loans. More recurring issues were the information supplied to clients in transfers between UCITS and order processing and execution. As regards the criteria applied in handling claims:

– The new regulations on secondary public offerings and listings affect the rules on information supplied to retail investors. The new European rules on issues seek to simplify and eliminate barriers to the free commercialisation of financial instruments throughout Europe under the single passport, the aim being to enhance market efficiency and competition. In parallel, investor protection is no longer based so much on vetting and registration of the information on products prior to commercialisation and more on rules of conduct imposed on financial institutions that commercialise them.

  In this new situation, it is important to fulfil the rules of conduct relating to commercialisation, which were strengthened under MiFID. In particular, it is obligatory to provide information about risks and costs; accordingly, when considering claims in this area, the CNMV assesses whether the information available to the client was sufficient to enable him/her to make a proper investment decision.

– The obligation on credit institutions to offer hedging products when granting floating-rate mortgage loans led to complaints, which are attended to by the IAO where the hedge is an interest rate swap, provided that it is not linked to the mortgage loan. If it is linked to the loan, the claim is handled by the Bank of Spain.

  These claims were basically due to deficiencies in formalising the order (clients signed an initial provisional document, from which point the product took effect, but later signed a final contract with different clauses from the first) or lack of relevant information that would enable the client to know the features and related costs of early cancellation.

– Information supplied to clients about their investments is an enduring source of complaints. Mutual fund managers are obliged to keep a record of investors, calculate and publish the net asset value, issue statements of account and provide tax information to investors and to the firm to which a transfer is being made. Securities depositories must provide prompt and proper statements of transaction settlements, information on how to give instructions in the case of corporate transactions, regular information about the composition and value of the portfolio that they administer/manage, and supporting document for transactions within the deadlines established by regulation. Complaints often arise due to breach of these information obligations.

– Investors make extensive use of the facility of transferring investments between UCITS, because transfers are tax neutral and afford flexibility when managing portfolios. However, there continue to be large number of incidents in this area, such as those described below, which are generally related to deficiencies in the information supplied to investors:

  i. Rejections of transfer due to defects in the application or other circumstances envisaged in the regulations (e.g. failure to attain the minimum number of investors). The CNMV understands that such rejections may be justified, but the firms involved should follow up on the issue in order to give clients the opportunity to file another request for transfer.

  ii. Errors in the information supplied by the source firm regarding the time during which the position has been held.

  iii. Unjustified delays in executing transfers, which may lead to improper net asset values.

  iv. Collection of back-end fees by the source fund. Contrary to what some investors may think, tax neutrality is not equivalent to exemption from the fees charged by the source and target funds.

  Nevertheless, as a general principle, the CNMV considers that UCITS operators and marketers should treat transfers as exempt from back-end fees provided that the «fund's liquidity window» (dates set out in the prospectus when reimbursement is exempt from fees) falls within the periods established by regulation for transfers.

– Securities order processing and execution, in connection with mutual funds and other asset classes, is another recurring source of complaints. A number of situations may arise in which the firm does not follow a client's specific instructions. They include:

  i. Breach of validity periods or of the price established as a condition for execution of the order.

  ii. Delays in execution. These complaints are particularly relevant when they relate to preference shares and other assets traded on AIAF. The CNMV considers that firms are responsible for processing these orders by finding an appropriate counterparty within a reasonable time period and without discriminating between clients.

iii. Incidents with regard to investors' access to their securities accounts.

iv. Incidents with regard to pre-emptive subscription rights in the context of capital increases by listed companies.

v. Procedure when there is an overdraft in a current account.

vi. Commissions. Complainants rarely succeed with complaints of this type since commissions are generally within the maximum limits set out in the prospectuses.

– Internet trading, which is growing in popularity, is also leading to an increasing number of complaints. Complainants are generally investors who are familiar with how the market works and who trade regularly; they use the internet as a means of lowering costs, gaining in autonomy, handling orders more rapidly, and having more information to make investment decisions.

  Complaints generally refer to:

  i. Interruptions in the service or in updates of prices and charts which fall outside the cases where there is contractual exoneration of liability.

  ii. Improper and potentially fraudulent use of passwords.

  iii. Impossibility of performing certain transactions via the Internet, such as exercising pre-emptive subscription rights and transferring between UCITS.

  iv. Difficulties in understanding the scope and effects of the various types of orders that firms offer their Internet clients (e.g. conditional stop orders).

12.2.3 Accusations

A total of 15 accusations were presented to the CNMV in 2007 by private investors, five of which referred to banks (in connection with their securities market activities), five to investment firms and five to issuers or listed companies (see Table 12.6).

A majority of accusations (eight) alleged breach of codes of conduct (process of executing orders, commission schedules, obligations to inform clients, and commercialisation of financial products). Five accusations referred to accounting standards, reporting to the CNMV and the dissemination of regulatory disclosures about the accounting of the accused entities. And there was one accusation of market abuse and another referring to a listed company's Audit Committee.

At 31 December 2007, 12 of the 15 accusations had been resolved, none of them leading to disciplinary proceedings.

Accusations made in 2007 TABLE 12.6

Accused parties	No. of accusations
Banks	5
Broker-dealers and brokers	5
Securities issuers/listed companies	5
Total	15
Subject matter of accusations	**No. of accusations**
Codes of conduct	8
Accounting regulations	5
Market abuse	1
Audit Committee	1
Total	15
Status of the accusations at 31-12-2007	**No. of accusations**
Under consideration	3
Dismissed	12
Total	15

Source: CNMV.

12.3 Investor education and information

The CNMV engages in numerous activities to improve investor training and knowledge.

Firstly, it seeks to raise investors' awareness and use of the information sources at their disposal (the CNMV, listed companies' web sites, etc.).

It also devotes particular attention to training activities since proper financial knowledge is one of the best forms of investor protection. In this connection, it continues to publish investor guides and factsheets and also participates in courses, seminars and fairs, focusing particularly on small investors.

Financial education

Demographic, economic and financial development in recent decades has resulted in individuals and households bearing more responsibility for the financial decisions that affect their future. However, it often becomes evident that people need more specific training in order to make those decisions appropriately.

Financial education helps households and individuals to consume financial products and services more responsibly, in line with their risk profile, needs and expectations. To that end, the CNMV and the Bank of Spain together drafted a training plan for consumers of financial products and services that is designed to foster their interest in financial training (see section 12.3.1). This initiative is in line with those taken by other regulators, such as the FSA, and with the principles and recommendations of the OECD and the European Commission.

Financial education should be viewed as complementary to regulation and prudential supervision, rather than as a replacement. Regulation and supervision provide protection mechanisms since they guarantee honest, impartial, professional behaviour by solvent financial intermediaries and they eliminate information asymmetries between consumers and suppliers of the products and services.

The OECD defines financial education as «the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being».

The more skilled are the users of financial products and services, the better will be the quality of the offering, the better it will adapt to their preferences, and the lower will be the risk of people buying products that are inappropriate or not in line with their risk profile. Both clients and firms will benefit from this re-balancing of forces.

The financial training project is particularly timely because of the new framework of relations between market professionals and investors as defined by MiFID, which grants small investors a much more active role in the process of investment decision-making, for which they require proper financial training.

12.3.1 Bank of Spain-CNMV financial training plan

Financial education helps households to invest more responsibly, in line with their risk profile, needs and expectations. It is therefore a key factor in maintaining confidence in the financial system and in contributing to its stability.

For that reason, in 2007 the CNMV and the Bank of Spain launched a broad-reaching project aimed at enhancing the Spanish public's financial education. To that end, the two bodies created a Working Group to define, develop and execute the plan. Additionally, to guarantee coordination and institutional commitment and support, they signed a cooperation agreement to implement the Plan. This initiative is similar to ones implemented by other regulators such as the FSA and is in line with the principles and recommendations of the OECD and the European Commission.

This framework of cooperation reflects the two institutions' commitment to providing the Working Group with the necessary material and human resources to fulfil its brief. Although the term of the agreement is indefinite, it envisages a budget between 2008 and 2011 in order to address the aspects of the training plan which, by their nature or for reasons of operational efficiency, must be carried out by third parties, and the communication activities considered necessary to ensure proper dissemination of the project.

Based on the identification of economic behaviours and of training shortfalls in the various segments of the population, the policies judged most likely to arouse citizens' interest in the need for proper financial education will be adopted within the framework of the Plan.

The project is broad-reaching in terms of the issues it addresses (all financial products and services, in the sphere of banking, investment and insurance) and of the target audience: young people still receiving education (secondary schools and universities), adults at various stages (young adults, parents with young children, employed workers, retirees, etc.) and groups with specific needs as regards content or communication channels (immigrants, people with disabilities, etc.).

The first visible milestone of the Plan will be the launch of a web site that aims to be the first port of call for anyone seeking to improve their financial knowledge. Adopting a practical approach, the web site will illustrate a broad range of situations in daily life that are affected by financial decisions and the different implications of the investment or funding decisions that can be adopted. They will include buying a home, investing for retirement, and the advisability of arranging a personal loan.

12.3.2 Educational activities

Publications for investors

The CNMV's publications seek to provide simple practical advice about a range of issues related to the markets and investment products. At the end of 2007, over 10,000 people had subscribed to receive the publications (nearly 2,000 new subscribers in the year); they automatically receive all new publications by mail. It is also possible to request specific titles. These services are free of charge to individuals.

The guides and factsheets are also available in the *Investor's Corner* section of the CNMV's web site (www.cnmv.es), where they can be downloaded as PDFs (in Spanish and English).

The following factsheets are available:

– Guaranteed investment funds (2007).

– New kinds of mutual funds (2007).

– Warrants and turbowarrants (2007).

– Investment Guarantee Fund (FOGAIN) (2007).

– Investment service fees and charges (2007).

– Takeover bids: What they are and how to proceed (2007).

– Exchange-traded fund (ETFs) (2006).

– Public share offerings/Rights offerings (2006).

– Transfers between mutual funds (2005).

– CNMV investor services (2005).

In 2007, the CNMV published a factsheet entitled «How to make a complaint concerning financial services», drafted jointly by the CNMV, the Bank of Spain, Spain's Directorate-General of Insurance and Pension Funds, and the National Institute of Consumer Affairs.

A number of information guides were updated and re-issued during the year, since changes in regulations make it necessary to constantly revise their content. The available titles are as follows:

– Fly-by-Night Operations (2007).

– Investor protection: Making a complaint (2007).

– Fixed-Income Products (updated in 2007).

– Mutual Funds and Collective Investment Schemes (2006).

– Futures and options (2004).

– Securities orders (2004).

– Investment service companies (2002).

The publications are free of charge and have been highly rated by investors, although much needs to be done to increase their circulation. In addition to taking any opportunity to contact the public (courses, seminars, fairs, etc.) to publicise the guides and factsheets, the CNMV also arranges agreements with interested bodies to distribute the publications on condition that they are free of charge to investors. The number of cooperation agreements was expanded from

Investor factsheets and guides: number of cooperation agreements and copies distributed TABLE 12.7

	Cooperation agreements		Copies distributed			
			Factsheets		Guides	
	2006	2007	2006	2007	2006	2007
Markets: Stock exchanges and MEFF	5	5	28,700	46,180	5,900	5,775
Investors (direct request to the Investor Attention Office)			55,294	128,111	25,207	32,206
Consumer associations	9	11	4,950	3,550	5,330	500
Securities market institutions	179	187	51,507	20,423	28,844	11,528
Broker-dealers	30	30	9,518	3,240	8,145	1,495
Brokers	40	44	4,148	4,315	2,576	1,390
Portfolio management companies	18	18	3,171	4,678	3,392	1,564
UCITS operators	86	89	34,016	7,992	14,713	7,005
Branches of foreign investment firms	5	6	654	198	18	74
Credit institutions	49	88	31,934	88,218	29,097	19,066
Universities and other education institutions	37	38	5,620	3,025	12,744	4,120
Other			150	0	418	828
Total	**279**	**329**	**178,155**	**289,507**	**107,540**	**74,023**

Source: CNMV.

279 to 329 in 2007, an 18% increase (see Table 12.7). Particularly notable was the increase in the number of agreements with credit institutions, mainly farmers' savings banks.

Since 2002, close to one million copies have been distributed (360,000 in 2007), an indication of the efforts made by the CNMV to publicise its services.

Meetings with investors

In 2007, the CNMV participated in 26 events for private individuals throughout Spain. These are generally talks and conferences organised in cooperation with other institutions: municipal information offices, public and private educational institutions, professional associations, financial institutions, etc. The following were of particular interest:

– Seminar organised by the Barcelona Consumer Information Office to orient consumer advice personnel on handling financial complaints.

– Participation in a series of conferences entitled «Estrategias de Inversión para 2008: cuáles serán los activos financieros y los mercados más rentables», in León.

– Cooperation with seminars organised by the Madrid Notaries' Association and the Bank of Spain on problems in arranging mortgages.

– Participation in a course entitled "Protección de consumidores y usuarios en el marco jurídico actual", organised by Madrid Autonomous University and in the summer courses organised by Spain's National Distance University.

– Cooperation in a seminar about the stock exchange organised by Pompeu Fabra University, which dealt with the CNMV's functions, takeover bids and trading.

– The CNMV also participated again in the Bolsalia (Madrid) and Borsadiner (Barcelona) fairs on the securities markets.

Media appearances

The CNMV worked with Radio Nacional de España, Radio 5, to create a series of informative programmes for investors under the title «Cuadernos del inversor» which discussed practical issues such as how to respond to boiler rooms, mechanism and implications of transfers between funds, expenses and fees for investment services, types of securities orders and their effects, courses of action in the event of a takeover bid, how to read financial advertising, etc. It also held a special programme on Radio Nacional to coincide with the entry into force of MiFID.

Informative articles are also part of the Commission's educational activities. In 2007, a range of articles were published in several media (provincial newspapers, business newspapers and specialised magazines) on aspects related to the level of financial training among retail investors and the importance of this issue for the system's solidity, the CNMV Investor Attention Office, the implications of MiFID, and the introduction of hedge funds in Spain.

Cooperation with other bodies

In 2007, the CNMV initiated contacts with the Spanish Committee of Representatives of People with Disabilities (CERMI). The goal is to reach a cooperation agreement focused on the following:

– Cooperation to make the CNMV web site more accessible to people with disabilities.

– Cooperation in educational and training activities, such as courses, seminars and conferences on financial issues for people with disabilities.

– Any other activity that can improve these citizens' access to the securities markets. The industry will be informed of the importance of taking the necessary measures to improve the level of service provided to people with disabilities.

A line of dialogue was initiated with the National Institute of Consumer Affairs under which the CNMV will participate in training sessions for consumer advice staff, and an on-line link will be established to enable the municipal consumer attention offices to send queries about financial complaints to the CNMV.

The CNMV-CERMI cooperation agreement was signed early in April 2008.

12.3.3 The Investor's Corner on the CNMV's web site

The Investor's Corner is the section of the CNMV web site designed for individual investors. The Corner has been expanded steadily since its introduction in 2003. One of the main new developments in 2007 was the inclusion of a search feature enabling users to ascertain rapidly whether a specific firm is authorised to operate. This feature is designed to help identify possible fly-by-night operators.

And an interactive tool for finding and comparing mutual funds was added. The comparison feature provides all the available information about a fund, based on a search for its name, and can also find a range of funds that meet user-established criteria (financial group, investment policy and volatility).

Also in 2007, development work commenced on a number of tutorials, based on a practical approach and using examples and self-tests, to enhance investors' knowledge of financial products and services. The first tutorials, dealing with mutual funds, trading (forms, costs and effects of different types of securities orders) and investment decision-making, will be released in 2008.

12.3.4 International cooperation

A notable development in 2007 was the launch of the *Consumers' Guide to MiFID*, developed by CESR's subgroup on intermediaries. And within CESR, an agreement between supervisors was established to cooperate in supervising branches of firms providing investment services under MiFID.

EU-wide integration of financial markets makes it necessary to establish mechanisms to channel and resolve complaints in this new context. Aware of the importance of cross-border cooperation, the CNMV is currently integrating into the *FIN-NET*[3]. In 2007, the CNMV attended this cross-border network's annual meeting with guest status.

The CNMV also participates actively in CESR's Consumer Task Force, which is about to launch a new section for investors on its web site. At the Retail Investor Workshop in Paris, associations of consumers from all over Europe had the occasion to discuss and rate the project.

In October 2007, a number of talks and round table discussions were held in Madrid under the auspices of the International Forum for Investor Education (IFIE) and the International Organization of Securities Commissions (IOSCO) to discuss a range of international experiences in the field of investor education. The CNMV presented a talk on the need to educate investors about high-risk investments.

12.4 Advertising of investment products and services

Advertising indisputably influences investment decisions. However, investors need to be aware that commercial communications, by their very nature, may not contain all the necessary information about an investment product or service. Consequently, the CNMV insists on conveying the message that it is essential to consult the official sources of information before committing capital to an investment.

Europe-wide integration of markets and products makes it even more necessary to regulate and supervise advertising messages. In this connection, MiFID regulates aspects to be considered by firms when informing investors about their investment products or services. The central principle is that information in general and commercial communications in particular must be impartial and clear and not be misleading.

Additionally, marketing of sophisticated products under the European passport is proliferating in Spain; the result is that often there is no official reference documentation in Spanish. In those cases, advertising messages may be the sole source of information for potential investors, making a review by the CNMV particularly important.

As in previous years, the CNMV continues to offer firms a voluntary prior vetting of advertising campaigns; this facility is growing in acceptance in the industry (see Table 12.8).

12.5 Investment Guarantee Fund

The number of firms attached to the Investment Guarantee Fund (FOGAIN) increased notably in 2007 to a total of 136, including 99 broker-dealers and brokers, 11 portfolio management companies, one branch of a foreign investment firm, and 25 UCITS operators. The increase was due fundamentally to growth in the number of member UCITS operators due to the expansion in the range of investment services that they can provide.

3. FIN-NET is a network providing easy access to out-of-court legal procedures in disputes between investors and investment services providers in the context of the European Economic Area. It was established by the European Commission in 2001.

Review of advertising campaigns by the CNMV

TABLE 12.8

	Prior vetting		Subsequent oversight		Total	
	2006	2007	2006	2007	2006	2007
UCITS	207	217	6	6	213	223
Foreign UCITS	16	2	3	0	19	2
Primary and secondary offerings	104	136	4	4	108	140
Financial services	25	29	2	0	27	29
Total	**352**	**384**	**15**	**10**	**367**	**394**

Source: CNMV.

Number of member firms

TABLE 12.9

	2001	2002	2003	2004	2005	2006	2007
Broker-dealers and brokers	109	112	104	103	101	101	99
Portfolio management companies	-	-	24	24	21	17	11
UCITS operators	-	-	-	-	-	2	25
Branches of foreign investment firms	-	-	-	-	1	1	1
Total	**109**	**112**	**128**	**127**	**123**	**121**	**136**

Source: CNMV.

In order to accommodate the firms that joined this year and the departure of firms that ceased to be members, as well as changes in the percentage participation by member firms, the Board of Directors of the FOGAIN Management Company made the necessary adjustments to capital stock. The capital was established at 165,015 euro. Also, the 2008 budget, drawn up in November, envisages 764,669 euro in contributions by member firms. In 2007, FOGAIN continued to liaise with claimants who had not presented all the necessary documentation to claim indemnity, and it attended to the small number of new claims.

As a result, the number of claims pending payment was reduced considerably, from 226 at the end of 2006 to 35 at the end of 2007, out of the total of over 9,500 claims received as a result of breaches by AVA Asesores de Valores, A.V., S.A., Gescartera Dinero, A.V., S.A., Broker Balear, A.V., S.A., X.M. Patrimonios, A.V., S.A. and Bolsa 8, A.V.B., S.A.

Also during 2007, FOGAIN's management company continued to exercise the rights acquired through subrogation when FOGAIN paid out indemnities. In this connection, hearings were held in September and December in the trial of the persons in charge of Gescartera Dinero A.V., S.A.

And the FOGAIN management company was actively represented on the CNMV Advisory Board in the person of its General Manager, who attended with guest status. This attendance served to convey the concerns and interests of the sector in a year in which many new regulations were issued.

As in previous years, FOGAIN continued to foster dialogue and communication among its members through working groups and by submitting comments and proposals to the regulators. In 2007, it focused on issues related to the application of MiFID, and participated in groups established by CNMV experts in these fields and, more recently, on the new regulations on accounting and own funds of investment firms.

The FOGAIN management company also keeps an up-to-date web site containing the information that may be of interest to investors in connection with the coverage system it manages. The web site describes the cases that are covered by FOGAIN and the list of firms that are covered and those that have ceased to be covered; there is also an indemnity application form that can be downloaded and completed directly. The web also has a restricted area for member firms and shareholders which provides them with information about the management company's activities.

13. Disciplinary action

The CNMV has the power to impose penalties for breaches of the securities market regulations. Those regulations empower it to initiate and pursue investigations and disciplinary proceedings. It can also apply penalties directly for minor and serious violations. Penalties for very serious violations are imposed by the Minister of Economy and Finance at the proposal of the CNMV, following consultation with its Advisory Board.

Fewer disciplinary proceedings were initiated in 2007 than in 2006 although, as occurred in 2006, most of them were particularly complex and important as they involved alleged market abuse, which is always difficult to investigate. Proceedings were also initiated for obstruction of the CNMV inspection activity due to failure by a person under investigation for insider dealing to respond to demands for information and documentation.

Nine disciplinary proceedings were completed in 2007, resulting in penalties of varying severity, principally relating to insider dealing, provision of investment services without authorisation, filing of accounting information containing irregularities, and breach of the regulations governing UCITS.

Two disciplinary proceedings that had commenced in previous years and been suspended because the matters were *sub judice* were resumed in 2007 following final judgements by the courts.

All the penalties imposed in 2007 were monetary, apart from three cases of disqualification from holding directorships or executive positions in financial institutions.

13.1 Disciplinary proceedings

13.1.1 Statistics

In 2007, the CNMV Executive Committee initiated four new disciplinary proceedings, investigating a total of six possible violations. The CNMV also completed nine proceedings, covering a total of 15 violations.

A total of 17 penalties were imposed. Three consisted of disqualification from holding directorships or executive positions in financial institutions for a total of 18 years, and 14 involved fines totalling 18,630.4 thousand euro (see Table 13.3).

The main characteristics of the violations investigated and the proceedings concluded in 2007 are as follows (see Table 13.4):

- Proceedings that commenced: five cases of insider dealing, and one case of obstruction of the CNMV inspectorate.

- Proceedings that were concluded: penalties were imposed in three cases of insider dealing, two cases of unauthorised provision of investment services, and three cases of breach of the UCITS regulations; the remainder involved the provision of accounting and other information containing irregularities.

Proceedings initiated and completed in 2007 TABLE 13.1

	2006	2007
Number of proceedings initiated	**10**	**4**
Number of proceedings concluded	**14**	**9**
Of which:		
- Initiated in 2006	4	4
- Initiated in 2005	10	4
- Initiated in 2003	-	1

Source: CNMV.

Violations addressed in disciplinary proceedings TABLE 13.2

	2006	2007
1. Violations leading to the initiation of proceedings	**13**	**6**
- Very serious	9	4
- Serious	4	2
2. Violations on which proceedings concluded	**22**	**15**
Very serious violations	11	10
- proceedings initiated in 2006	1	5
- proceedings initiated in 2005	10	4
- proceedings initiated in 2003	-	1
Serious violations	11	5
- proceedings initiated in 2006	3	1
- proceedings initiated in 2005	8	4

Source: CNMV.

Penalties imposed TABLE 13.3

	2006			2007		
	No.	**Amount[1]**	**Period[2]**	**No.**	**Amount[1]**	**Period[2]**
Fines	29	2,366.6	-	14	18,630.4	-
Suspension / limitation of activities	1	-	0.25	-	-	-
Removal / General disqualification	-	-	-	3	-	18

Source: CNMV.
1. Thousand euro.
2. Years.

Number of each type of violation pursued TABLE 13.4

	Opened		Closed	
	2006	2007	2006	2007
VERY SERIOUS VIOLATIONS	**9**	**4**	**11**	**10**
Failure to disclose/incorrect disclosure of significant holdings	3	-	1	2
Forbidden activities	2	-	1	2
Market manipulation	-	-	1	-
Breach of coefficients	-	-	-	-
Failure to disclose significant events/provision of misleading, incorrect or materially incomplete information	-	-	-	1
Violation of general securities market regulations	-	-	3	-
Violation of general UCITS regulations	-	-	-	-
Accounting irregularities	1	-	-	3
Unregistered issues	-	-	-	-
Insider dealing	3	3	5	2
Obstruction of inspection	-	1	-	-
SERIOUS VIOLATIONS	**4**	**2**	**11**	**5**
Accounting irregularities	-	-	-	-
Forbidden activities	-	-	1	-
Breach of coefficients	-	-	-	-
Violation of general securities market regulations	-	-	-	-
Violation of general UCITS regulations	-	-	-	3
Breach of rules of conduct	-	-	3	-
Market manipulation	-	-	1	-
Insider dealing	1	2	-	1
Failure to draft / publish / file mandatory reports by the deadlines	3	-	6	1

Source: CNMV.

13.1.2 Public register of penalties for serious and very serious violations

The following penalties for serious and very serious violations were incorporated into the public register of penalties in 2007:

– CNMV Resolution of 12 February 2007 publicly disclosing the imposition of penalties for a very serious violation by as provided by article 102 of Act 24/1998, of 28 July, on the Securities Market.

– CNMV Resolution of 12 February 2007, publicly disclosing the imposition of penalties for a serious violation by as provided by article 103 of Act 24/1998, of 28 July, on the Securities Market.

– CNMV Resolution of 12 February 2007, publicly disclosing the imposition of penalties for a very serious violation by as provided by article 102 of Act 24/1998, of 28 July, on the Securities Market.

- CNMV Resolution of 12 February 2007, publicly disclosing the imposition of penalties for a very serious violation by as provided by article 102 of Act 24/1998, of 28 July, on the Securities Market.

- CNMV Resolution of 12 February 2007, publicly disclosing the imposition of penalties for a very serious violation by as provided by article 102 of Act 24/1998, of 28 July, on the Securities Market.

- CNMV Resolution of 28 June 2007, publicly disclosing the imposition of penalties for serious violations by as provided by article 103 of Act 24/1998, of 28 July, on the Securities Market.

- CNMV Resolution of 28 June 2007, publicly disclosing the imposition of penalties for a very serious violation by and its Sole Administrator, as provided by article 102 of Act 24/1998, of 28 July, on the Securities Market.

- CNMV Resolution of 28 June 2007, publicly disclosing the imposition of penalties for a very serious violation by as provided by article 102 of Act 24/1998, of 28 July, on the Securities Market.

- CNMV Resolution of 28 June 2007, publicly disclosing the imposition of penalties for a serious violation by as provided by article 103 of Act 24/1998, of 28 July, on the Securities Market.

- CNMV Resolution of 28 June 2007, publicly disclosing the imposition of penalties for a serious violation by as provided by article 103 of Act 24/1998, of 28 July, on the Securities Market.

- CNMV Resolution of 28 June 2007, publicly disclosing the imposition of penalties for a serious violation by as provided by article 103 of Act 24/1998, of 28 July, on the Securities Market.

- CNMV Resolution of 12 July 2007, publicly disclosing the imposition of penalties for serious violations by as provided by article 94 of Act 35/2003, of 4 November, on UCITS.

- CNMV Resolution of 27 September 2007, publicly disclosing the imposition of penalties for very serious violations by as provided by article 102 of Act 24/1998, of 28 July, on the Securities Market.

- CNMV Resolution of 8 November 2007, publicly disclosing the imposition of penalties for a serious violation by as provided by article 103 of Act 24/1998, of 28 July, on the Securities Market.

13.1.3 Criteria of interest

Revenues, fees, and expenses chargeable to UCITS. UCITS investment in other UCITS. Fee retrocession

Act 35/2003[1] on UCITS, which came into force on 5 February 2004, revoked Act 46/1984[2] and is currently the basic legislation governing UCITS. This legal framework was implemented firstly by Royal Decree 1393/1990, of 2 November (hereafter Old UCITS Regulation), which remained in force until 9 November 2005, insofar as it did not clash with Act 35/2003, and secondly by Royal Decree 1309/2005[3] (hereafter New UCITS Regulation). That framework is completed by the provisions of the Securities Market Act that are applicable to UCITS.

This set of regulations on UCITS requires that UCITS operators (SGIIC) fulfil strict rules of conduct for their functions and responsibilities.

Thus, as regards these rules of conduct, Act 35/2003 confined itself to reiterating their applicability, without making any changes in this respect. UCITS operators are bound by a number of rules of conduct and a system of penalties for breaches, under the provisions of article 65 (since its entry into force, and by reference to Title VII of the Securities Market Act) and articles 78 and 79 (Title VII) of the Securities Market Act, for as long as Act 46/1984 is valid. Specifically, those articles state that UCITS operators must adhere to the following rules, principles and requirements:

a) Standards (article 78 of the Securities Market Act):

   – The standards of conduct envisaged in Title VII of the Securities Market Act.

   – The standards of conduct which, in the implementation of the standards envisaged in the preceding paragraph, are approved by the Government or, with the latter's express authorisation, by the Minister of Economy, at the suggestion of the CNMV.

   – Their own internal codes of conduct.

b) Principles and requirements:

   – Organisation so as to minimise the risk of conflicts of interest and, in situations of conflict, give priority to the interests of their clients, without favouring any of them (article 79.b of the Securities Market Act).

   – Establishment of the necessary measures to ensure that there are no conflicts of interest in decision-making within the firm itself and between the various firms belonging to the same group[4].

1. Act 35/2003, dated 4 November, on UCITS
2. Act 46/1984, of 26 December, on Collective Investment Institutions
3. Royal Decree 1309/2005, of 4 November, approving the Regulation under Act 35/2003 on UCITS
4. Article 3.4 of the General Code of Conduct for the Securities Markets, Annex to Royal Decree 629/1993, of 3 May, on Rules of Action in the Securities Markets and Obligatory Registers.

– In the course of their activities, acting with impartiality and without putting their own interests before those of their clients, to the benefit of the latter and of the good functioning of the market[5].

Because of the peculiar features of UCITS, the application of these principles and requirements to UCITS operators is covered in article 46.2 of Act 35/2003, which requires UCITS operators to act in the benefit and interests of the owners of units in the UCITS whose assets they administer. That same obligation is enshrined in article 29.1 of Act 46/1984.

For these disciplinary purposes, articles 32.4.m and 32.3.j of Act 46/1984, respectively, classified as a serious or very serious violation *«the breach of the other obligations and prohibitions established in this Act (...)»*, having regard to the seriousness of the danger or damage to investors' interests.

Also, articles 80.n and 81.h, respectively, classify as a serious or very serious violation *«the breach by management companies of the other obligations and prohibitions established in article 46...»*, depending on whether or not there was serious danger to investors' interests.

Compliance by UCITS operators with these obligations, principles and rules of conduct requires a teleological and systematic interpretation of same. That is, the companies that are affected must interpret and, primarily, apply the rules governing them as a harmonious whole, respecting both their letter and spirit, particularly those referring to the rights and interests of investors and shareholders of UCITS whose assets they administer. UCITS operators must also act autonomously in the course of their activities, with independence and neutrality with respect to other entities in the groups to which they belong, so as not to create conflicts of interest within the groups or submit to the interests of those entities.

In this context, the rules governing the revenues, fees and chargeable expenses of the UCITS they manage are particularly important, as are those governing the earnings and yields on the third-party assets that they manage. Given the nature of collective investment, the investor's position vis-à-vis the UCITS operator requires particular protection in this connection.

This protection is regulated in articles 21.2 and 22 of Act 46/1984, and currently by article 8 of Act 35/2003. Additionally, by articles 35.1, 44.1 and 45 of the Old UCITS Regulation and currently by article 5 of the New UCITS Regulation. Both regulations expressly state that the rules are established *to safeguard investors' interests* and, therefore, their proper application by UCITS operators is an essential component of their obligation to act accordingly, as set out in article 29.1 of Act 46/1984 and article 46.2 of Act 35/2003.

In accordance with those rules, all of the revenues or yields associated with or obtained by a mutual fund must be allocated to it as the investment of a distinct estate. Also, only the proper fees and expenses (specified under Spanish law) may be subtracted. Specifically, they are confined to management and deposit fees, which are capped, and other expenses envisaged in the Management Regulation

5. Article 1 of the General Code of Conduct for the Securities Markets, Annex to Royal Decree 629/1993, of 3 May, on Rules of Action in the Securities Markets and Obligatory Registers.

that are necessary to comply with current legislation (particularly audit and custody fees).

This is stated in article 21.2 of Act 46/1984: «*The results shall be the consequence of deducting, from the total yields obtained by the Fund, the management company's fee and other fees envisaged in each fund's Regulation, which include custody and audit fees».*

And Article 6 of Act 35/2003 establishes that: «*The assets of mutual funds shall consist of their investors' contributions and their yields»* and article 8 enumerates the commissions and fees that may be charged to mutual funds, which include the management fee. In any event, the fees and expenses envisaged in their prospectuses and duly notified to investors, such that they are in a position to exercise the other rights granted to them under the regulations.

As the CNMV reminded UCITS operators in a communiqué to them on 20 February 2006« *(...) in order to foster general compliance with the rules on expenses chargeable to mutual funds - contained in article 8 of the UCITS Act and article 5 of the UCITS Regulation - and on the defence by management companies of investors' interests - set out particularly in articles 46.2 and 65 of the UCITS Act and articles 78 and 79 of the Securities Market Act, the CNMV wishes to remind UCITS management companies of some of the basic rules that arise from those precepts:*

- *They may only charge a mutual fund the fees and expenses expressly set out in its prospectus, provided also that they relate to services actually provided to the fund, are essential for its working and do not respond to services inherent to the function of manager or depository.*

- *The retrocession of management fees on the basis of the volume invested by a Spanish UCITS in another UCITS is a legitimate market practice provided that the amount retroceded is paid to the fund and, consequently, reduces its cost of investment. Otherwise (e.g. if the retroceded amount is paid to the manager), the fund would be bearing an unjustified extra cost unrelated to any actual service.*

- *The acquisition by a mutual fund of classes or series of shares or units in foreign UCITS with higher fees (i.e. more expensive series) where the amount could have been invested in other classes with lower fees is contrary to the interests of the fund and its investors. An exception to this rule is if the fee is susceptible to retrocession, such that the net amount is the same as or less than the net fee that the fund would have borne by investing in cheaper series.*

- *Expenses and fees charged to a SICAV must conform to the agreement between the SICAV and its manager. Nevertheless, collection by the manager or another entity in its group of retrocessions arising from the SICAV's investments generates a conflict of interest and must be disclosed in detail by the manager to the SICAV Board of Directors, which must report it to the Shareholders' Meeting, and quantify the amount retroceded periodically».*

In 2007, the CNMV fined a UCITS operator one million euro for a serious violation under article 81.h of Act 35/2003 in connection with article 46.2 of that same Act for continuing violation, from 2001 until August 2005, of the rules on fees and expenses chargeable to mutual funds (in this case funds and SICAV of funds) when investing in foreign funds.

The conduct that was punished consisted of charging the funds and SICAV of funds that it administered, when they invested in foreign funds, a system of fees and expenses as follows:

– Investment in classes of shares that carried higher fees. The management company invested the portfolio of the UCITS it managed in other foreign UCITS in accordance with the investment policy set out in their prospectuses. However, those investments were systematically made in classes of shares earmarked for private investors (expensive series or classes of shares, occasionally the most expensive available) instead of the classes earmarked for institutional investors (cheap series or classes of shares), which carry lower management fees, even when the amounts invested exceeded the threshold to qualify for access to the institutional classes.

– Retrocession of fees to the group's broker-dealer. The UCITS managed by the management company did not receive any amount from the retrocessions, by the managers of the foreign funds or by the platform through which the investments were made, of part of the fees on the basis of the amount invested. The broker-dealer collected the retrocessions in their entirety.

13.2 New features introduced by Act 47/2007, of 19 December, in connection with the violations and penalties in Act 24/1998, of 28 July, on the Securities Market

Act 47/2007, of 19 December, amending Act 24/1988, of 28 July, on the Securities Market, was published in the Official State Gazette on 20 December 2007. In accordance with its Final Provision Six, the Act came into force on the day following publication.

The Act introduced a number of new features into the pre-existing catalogue of violations and penalties.

The main new developments in the area of violations (articles 99 and 100 of the Securities Market Act) are as follows:

– In connection with the obligations envisaged in Chapter II of Title VII, with respect to market abuse. The new Act introduced a new type of very serious violation (article 99.o.bis) of the obligation to adopt preventive measures, set out in articles 81.4, 83 and 83.bis of the Act, when breach of the obligation arose in the context of a specific case of insider dealing, and a new type of serious violation was introduced (article 100.x.ter) for cases where the preventive measures adopted are insufficient.

  Article 100.x also includes, as a serious violation, the breach of the obligations contained in article 82 (regulatory disclosures) when this does not cause serious harm to the market, as provided in the first sub-item of article 99.ñ.

  And article 100.x.bis classified as a serious violation the breach of the obligation set out in article 83.quater to disclose suspicious transactions.

– Article 100.t classified as a serious violation (in contrast with the text in force until the end of 2007) not just the breach of the rules of conduct contained in the Chapter of that name (post-reform: articles 79 to 79.sexies) but also the breach of articles 70.ter.2 and 70.ter.3 in connection with the internal organisation requirements that must be met by firms providing investment services, and article 70.quater in connection with conflicts of interest.

In this connection, and in relation to breaches of article 70.ter, article 99.l classifies as a very serious violation the lack of procedures, policies and measures of internal organisation envisaged in article 70.ter.1 and 70.ter.2 or the breach, other than on a merely occasional or isolated basis, of the record-keeping obligation established in article 70.ter.1.e), or the keeping of such records with essential defects, and breach of the effective separation obligation set out in article 70.ter.1.f) and article 70.ter.2.c).

And article 99.z.bis classifies as a very serious violation the lack of the means or policies for handling conflicts of interest envisaged in article 70.quater, or failure to apply them, other than on an occasional or isolated basis, and breach of the reporting obligations set out in article 79.bis, or lack of the register of contracts regulated in article 79.ter, where the outcome is detrimental to clients.

Finally, article 99.z.ter classifies as a very serious violation the lack of policies for managing and executing client orders, or failure to apply them, other than on an occasional or isolated basis, or their application without the clients' consent, where the outcome is detrimental to clients.

– In connection with the obligation to disclose transactions set out in Chapter IV BIS of Title IV of the Act (Official Secondary Markets in Securities) and established in article 59.bis, the sole article in that Chapter, Act 47/2007 introduced a dual classification of the obligation to disclose by obliged parties: (i) as a very serious violation when the failure to disclose is reiterated (article 99.ll), and (ii) as a serious violation (article 100.j.bis) where the failure to disclose is not reiterated or where the disclosures are defective on a repeated basis.

– With regard to corporate governance, article 100.b.bis was expanded to classify, as a violation, the breach of the obligations set out in articles 113 (Shareholders' Meeting), 114 (directors' duties), and 115 (Board of Directors), as well as the lack of an Audit Committee on the part of issuers of listed securities.

– In connection with investment firms, under the new Act, the breach of the specific policies required directly by the CNMV of an investment firm or consolidated group with regard to provisions, dividend distribution, treatment of assets or reduction of the risks inherent to its activities, products or systems, where such breach consists of failure to adopt such policies in the time and conditions established by the CNMV and such breach jeopardises the solvency or viability of the investment firm or group, is classified as a very serious violation of article 99.e.ter. If that violation does not jeopardise the solvency or viability of the entity or group, it is classified as a serious violation under article 100.ñ.

Also, Act 47/2007 introduced a new very serious violation under article 99.e.quater: breach of the restrictions or limitations imposed by the National Securities Market Commission with respect to the businesses, transactions or network of a given investment firm or consolidated group.

And the literal text of article 99.u was expanded since it classifies as a very serious violation not just the acquisition or increase of a significant holding in an investment firm in breach of the legal requirements but also the reduction of same, as well as the breach of the rules on holdings in the capital of companies that administer official secondary markets (article 31.6) and holdings in the capital of the Systems Company (article 44.bis.3).

And, under article 99.u, the breach of investment firms' obligation to disclose their ownership structure and changes in same (article 69.bis) was classified as a serious violation when not reiterated (article 100.k).

Finally, article 100.g.bis classifies, as a serious violation, the breach of the disclosure obligations contained in article 70.bis, and publication of information that is incomplete, false, misleading or untruthful.

Notable new features regarding penalties that were introduced by Act 47/2007 (articles 102 to 106):

– Articles 102.a and 103.a were amended. The fine is no longer based mainly on the gross gain and the remainder is no longer used subsidiarily where the gain cannot be quantified. Under the new wording, neither criterion takes precedence, and the fine is larger of the amounts obtained using the criteria provided. In this respect, under article 102 (penalties for very serious violations) and article 103 (penalties for serious violations), the generic fine is 600,000 euro and 300,000 euro, respectively.

  And a final paragraph was added to paragraph 102; in the event of violation of the restriction of activities under article 99.q, the paragraph clarifies what should be understood as gross gain for quantifying the penalty in these cases, and it sets the minimum fine at 600,000 euro.

– Articles 105 and 106, which set out the penalties for serious and very serious violations by natural persons who are directors or executives of a violator that is a legal person, now allow more than one penalty to be imposed.

  Finally, in line with the same approach adopted in the final paragraphs of articles 102, 103 and 105, article 106 envisages a minimum penalty in cases of a serious violation under article 100.x due to breach of the obligations set out in article 81.

13.3 Litigation department: judicial review of disciplinary proceedings and other actions

The corollary of a penalty in our legal system is the possibility of a review by the administrative tribunals (the Ministry of Economy and Finance) and by the administrative appeals courts; the CNMV has standing to defend the general interests entrusted to its care before such instances.

Among these functions, the Litigation Department is in charge of taking the steps envisaged by the Act Governing the Administrative Appeals Jurisdiction and in cooperating in the defence of penalties that have been challenged and of the other decisions made by the CNMV in the scope of its powers.

In 2007, the Ministry of Economy and Finance decided on six appeals for review by a higher instance and one appeal for reconsideration against decisions by the

CNMV, four of which involved penalties (see Table 13.5). The appealed decisions were upheld in all cases.

Thirty-six administrative appeals against acts or decisions of the CNMV were upheld by the courts, including 21 penalties imposed by the CNMV or the Ministry of Economy and Finance (see Table 13.5 and Annex IV.4). The penalties were upheld in all but one case.

Also, in compliance with the general imperative principle that the CNMV must provide any assistance requested by the judges and the courts, the Litigation Department provided such assistance, particularly in civil and criminal cases. The criminal cases basically involved alleged fraud, embezzlement and insider dealing.

A total of 81 such requests for assistance were handled in 2007.

Trials in which the CNMV participated in 2007 TABLE 13.5

	Presented	Decided
Administrative appeals	**4**	**7**
Appeals to a higher instance	3	6
Appeals for reconsideration	1	1
Appeals to the courts against administrative decisions	12	36
	Requests for assistance received	
Assistance to the courts	**81**	

Source: CNMV.

13.4 Warnings about unregistered firms

Through its web site, the CNMV issues warnings to investors about unauthorised firms that have been detected by it or by other supervisors.

In 2007, the front page of «Public warnings» section of the CNMV web site was amended to give a simpler, faster overview of the published warnings. As a result of this amendment, the «Public warnings issued by foreign securities regulators» section is broken down into «Non-authorised entities» and «Other warnings», which refers to other irregular conduct or action detected by foreign supervisors.

Users can now search among public warnings and there is also a link enabling them to search among authorised entities.

The following warnings were issued in 2007 (see Annex IV.5):

– Eleven warnings under article 13 of the Securities Market Act, which entrusts the CNMV with protecting investors by disseminating any information that may be necessary to that end,

– In the field of international cooperation, 178 communiqués from other countries relating to unauthorised entities and 16 under the category of «other warnings».

14. International activities

14.1 Introduction

Cooperation between supervisors both domestically and internationally is vital to ensure the efficacy of their actions, particularly in a context of growing integration in the financial markets. This need became particularly evident in 2007 as a result of the turbulence in the world markets caused by the subprime mortgage crisis in the USA. The crisis crossed national borders and the dividing lines between industries, highlighting the advisability of perfecting the existing mechanisms for cooperation and of revising the relevant rules and practices for the global finance business.

In this context, the CNMV's actions in the international area concentrated on participating in groupings of securities regulators, such as the Committee of European Securities Regulators (CESR) and the International Organisation of Securities Commissions (IOSCO), and intersectoral working groups: Joint Forum and 3L3, which group banking, securities and insurance regulators at worldwide and European level, respectively.

And, as in prior years, the CNMV also provided assistance and advice to the Spanish authorities in their participation in the institutions of the European Union. As an advisor to Spain's Directorate-General of the Treasury and Finance Policy, the CNMV regularly attended meetings of the European Securities Committee, with the Directorate-General of the Treasury and the Ministry of Justice, to review EU company law.

The CNMV also continued to provide technical assistance to the European Commission in evaluating the financial sectors of countries which are candidates for accession to the EU, and it worked intensely with Latin American countries and their financial authorities.

The table below shows the CNMV's participation in international meetings and the technical assistance provided in 2007 in comparison with 2006.

Attendance at international meetings and technical assistance TABLE 14.1

	Number of meetings	
	2006	**2007**
CESR	73	84
IOSCO	59	42
European Union	26	18
OECD	7	6
Other forums	34	30
Total	**199**	**180**
Technical assistance missions	4	4

Source: CNMV.

The main activities performed in 2007 by the principal international forums in which the CNMV participates are described in the following sections.

14.2 Committee of European Securities Regulators

The review of the Lamfalussy process or system represented a sizeable amount of the CNMV's agenda in 2007 and will continue to do so in 2008. The Lamfalussy process, conceived by the European Commission in 2001 as a means of introducing greater agility into regulation of the securities markets (initially), was subsequently extended to banking and insurance. This procedure is now the mainstay of rule-making and monitoring in the financial sector.

Since the process was implemented, the creation, implementation and monitoring of financial regulation is divided into four levels: the first comprises the drafting of framework or general Directives via the co-decision process between the Council and Parliament; the second level relates to the implementing regulations drafted by the European Commission in consultation with industry committees (CESR, in the case of securities). The third level refers to convergence in the application of the regulations via standards or guides; this activity is reserved for the industry committees. The fourth and final level is reserved for the European Commission and consists of monitoring and overseeing the application of the rules.

In the framework of this process, CESR (and the industry committees in banking and insurance) was configured as an advisory committee to the European Commission, helping it to establish the technical details of securities legislation while, at the same time, working on convergence in the technical implementation of the regulations.

Despite the progress made with this process, in terms of legislation and financial supervision, certain deficiencies have been detected in its functioning. They lie primarily in the fact that the industry committees do not have legal standing in the framework of European regulation, with the result that their decisions are not binding. Also, the fact that decisions must be unanimous hampers normal operation.

In 2007, CESR contributed, with other working groups and committees, to a review of the Lamfalussy process, for which purpose a working group of Presidents was established.

In December 2007, after analysing the contributions, Ecofin established a roadmap for a review of the Lamfalussy process that assigns different tasks to the financial sector committees in the areas of common mandates, qualified majorities in voting, and strengthening of the recommendations and guides issued by the committees (see box at the end of the chapter).

In addition to working on the review of the Lamfalussy process, CESR also continued to work on advice and convergence in the application of the technical standards. The main areas of action are described below:

Financial information

As in previous years, CESR continued in 2007 to work on the uniform application of the International Financial Reporting Standards (IFRS) in order to strengthen convergence within the European Union. To that end, CESR analysed the accounting decisions adopted by its members (securities commissions and other competent authorities) in order to promote common approaches. Some of these decisions are published regularly in order to inform the financial community of the criteria applied by the authorities.

In 2007 and the first half of 2008, CESR advised the European Commission on the equivalence of generally accepted accounting principles (GAAP) in third countries. A report was published on the accounting principles applied in the USA, Japan and China, and a second report dealing with South Korea, Canada and India is planned. On the basis of these reports, the European authorities must make decisions before year-end to authorise issuers to produce financial information in line with the accounting principles of third countries that are considered to be equivalent to those in force in the European Union.

In 2007, CESR's activities in the area of financial disclosure included issuing documents on the disclosure of retroactive adjustments in the 2006 financial statements, a study of direct communication between auditors and the public via auditors' reports, and a report on the application of IFRS in the European Union after they became obligatory in 2005.

In January 2008, Mr Fernando Restoy, a member of the CNMV Board, was appointed to chair the CESR-Fin group (which focuses on financial disclosures) for a two-year term.

Convergence of International Financial Reporting Standards[1]

In June 1973, the accounting regulators of a number of countries created the International Accounting Standards Committee (IASC), which in 2001 was renamed the International Accounting Standards Board (IASB). The IASB draws up the International Financial Reporting Standards (IFRS), which aim to be a single set of accounting standards applied worldwide.

Since the creation of the IASB, the number of countries that have adopted the IFRS has increased substantially, and is now over one hundred. The European Union joined the process by means of Regulation 1606/2002, of the Parliament and the Council, dated 19 July, which requires the application of IFRS for the consolidated financial statements of all issuers of securities listed in regulated markets in the EU from 2005 onwards.

The process of implementing IFRS is less advanced in the USA. In September 2002, the IASB and the Financial Accounting Standards Board (FASB)[2] signed the Norwalk Agreement in which they undertook to achieve compatibility between their accounting standards as soon as possible. In 2005, the SEC[3] published the Roadmap that must be followed in order to attain recog-

1. International Financial Reporting Standards. Until April 2001, they were referred to as International Accounting Standards (IAS). Hereafter, we refer to the IFRS, which comprise the accounting standards and interpretations issued by the IASB.
2. Financial Accounting Standards Board, the US accounting regulator.
3. Securities and Exchange Commission.

nition of IFRS in the USA by EU issuers of securities in US markets (thereby eliminating the need for reconciliation). And on 27 February 2006, the IASB and the FASB signed a Memorandum of Understanding (MoU) to step up the process of convergence. As a result of the work envisaged in the Roadmap, on 15 November 2007 the SEC announced that the financial statements of third-country issuers registered in the USA would be accepted without the need for reconciliation to US GAAP[4] provided that they were drawn up in accordance with IFRS. The SEC is also studying the possibility of allowing local US issuers to choose between US GAAP and IFRS from 2011.

In parallel to the promising process of global adoption of IFRS, the EU is preparing decisions about the use of third-country accounting principles by foreign issuers that are listed or apply to be listed in regulated markets in the European Union. Following a transition period, a third country's GAAP will only be accepted on a permanent basis if the European Commission (EC) determines that they are equivalent to IFRS. In December 2007, the EC approved a Regulation[5] that defines equivalence, establishes a mechanism for determining equivalence and establishes transitional conditions for the acceptance of third countries' GAAP in the period 2009-2011. The EC requested assistance from CESR in drafting the Regulation and making specific decisions as to equivalences.

In March 2008, following a period of consultation, CESR released its advice to the EC (CESR/08-179) on the equivalence of US, Japanese and Chinese GAAP. Specifically, CESR proposed: (I) declare US GAAP to be equivalent; (ii) declare Japanese GAAP to be equivalent, subject to completion of the official convergence programme; and (iii) postpone the final decision on Chinese GAAP until more information is available about their application in practice. At the request of the EC, CESR is currently performing a similar exercise regarding the equivalence of South Korean, Canadian and Indian GAAP. Final decisions must be adopted in this area by the end of 2008.

4. US Generally Accepted Accounting Principles.
5. Regulation (EC) 1569/2007 of 21 December establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council.

Market integrity

Another of CESR's primary goals is to facilitate the exchange of information in an efficient, effective, pro-active way so as to coordinate the activities of supervision, inspection and discipline between the Member States of the European Union. To that end, CESR established a permanent working group which, in addition to the foregoing, has drawn up measures for implementing the Market Abuse Directive. These measures cover the definition of inside information in the context of the Directive, legitimate reasons for delaying the publication of price-sensitive information, the degree to which client orders pending execution constitute inside information, and drafting the list of insiders.

At the request of the European Commission, CESR drew up a compilation of the administrative measures and penalties that exist in the European Union Member State deriving from the application of the Market Abuse Directive.

Review of CESR standards and guides

In 2007, CESR worked to review the standard and guides that it and its predecessor, FESCO, have produced in recent years. Much of the content of these standards and guides about rules of conduct, regulated markets and multilateral trading facilities has been incorporated into the new legislation produced under the Financial Services Action Plan. For that reason, CESR analysed the utility of maintaining them within the new legislative situation and concluded that a very significant number of the standards and guides could be eliminated.

In 2007, CESR also analysed the powers of European regulators and supervisors in the practical application of the various financial directives. CESR published a protocol and methodology for regulator self-assessment with regard to the implementation of the Directives, CESR recommendations, and powers of supervision. In 2007, self-assessments were performed with regard to the Prospectus and Market Abuse Directives. These activities will continue in 2008.

MiFID

CESR made considerable efforts to prepare for the entry into force of the Directive on Markets in Financial Instruments (MiFID) on 1 November 2007.

Before that date, CESR's members signed a commitment to respect the continuity of the businesses of branches of investment firms in the countries that had not transposed the Directive in time. This gave continuity to the activities of investment firms that had obtained the European passport under the preceding Investment Services Directive.

And a protocol was drawn up for the supervision of branches in the legal framework of MiFID. This protocol strengthens cooperation between competent authorities in supervising transnational firms. Specifically, the protocol favours joint supervision through common inspection programmes and applications for assistance based on the efficient assignment of supervisors' resources.

Another notable event in 2007 was the implementation by CESR of a mechanism for the exchange of information on trades in regulated markets. This Transaction Exchange Mechanism (TREM) is a centralised system for the exchange of files between supervisors that fulfils the requirements of MiFID with regard to the exchange of transaction data between supervisors. Although in the first phase only data on financial instruments with ISIN codes may be exchanged, subsequent stages will expand TREM's capacity to handle all types of financial instruments traded in the European Union's securities markets.

CESR also published a document containing recommendations and examples which clarified the content with regard to client protection and the information that must be received with respect to potential conflicts of interest at providers of financial services.

And two level 3 working subgroups were created to work on markets and intermediaries. The latter has been chaired by the CNMV since July 2007.

Undertakings for Collective Investment in Tradable Securities (UCITS)

CESR's actions in the field of UCITS were aimed basically at finalising the guidelines on assets that qualify for investment by UCITS, including specific guidelines for treating indices of hedge funds as financial indices.

CESR also worked under a mandate from the European Commission regarding the requirements for the information distributed to investors in place of the current simplified prospectus.

Finally, CESR compiled the supervision practices of the competent authorities in the European Union Member States and tracked the European Commission's recommendations about the use of derivatives and risk control by UCITS.

Other actions

CESR performed work in a number of other fields: issue prospectuses (particularly with regard to setting common criteria); post-trade services (monitoring firms' codes of conduct and working on the Target2 Securities project); and transparency (setting criteria for the development of a network of mechanisms for the storage and distribution of information about listed companies).

In 2007, CESR also established informal contact networks between supervisors with regard to takeover bids and corporate governance.

And as a result of the market turbulence and financial crisis, the European Commission asked CESR to evaluate the role of the rating agencies in connection with structured financial products; this work is ongoing.

14.3 International Organization of Securities Commissions (IOSCO)

The CNMV is an ordinary member of IOSCO and participates actively in its Executive, Technical and European Region committees. The CNMV also participates in the working groups organised by those committees, both the permanent groups and those established ad hoc for specific issues. IOSCO's main activities in 2007 were as follows:

Market turbulence and financial crisis

Some of IOSCO's actions in 2007 were driven by the market turbulence that originated in the USA following the subprime mortgage crisis. IOSCO's reaction to the crisis was coordinated with other international regulators, in particular the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors and the Joint Forum, which participated in an *ad hoc* working group created by the Financial Stability Forum. The group analysed the causes, drew lessons from the crisis and issued a number of recommendations, to the industry and to regulators, to strengthen the markets and financial institutions.

IOSCO's contribution to this group organised by the Financial Stability Forum, whose results will be published in the first half of 2008, focused on analysing the role of the rating agencies in connection with structured financial products and on reviewing the IOSCO Code of Conduct signed by those agencies. In a subsequent phase, IOSCO will examine other issues related to the crisis, such as financial intermediaries' risk control and the transparency and valuation of complex financial instruments.

After examining the activity of the rating agencies, IOSCO promoted an initiative to strengthen some areas of their activity. Specifically, it is considering amendments to their Code of Conduct to enhance transparency vis-à-vis users of ratings of complex financial instruments, to strengthen internal control measures so as to avoid potential conflicts of interest, to reform the methodology used, and to give a better explanation of ratings' real scope.

Accounting, auditing and dissemination of information

In the area of accounting, a data base was established about the application of IFRS with the aim of providing issuers with information to assist the proper drafting of financial statements and to enable supervisors to know and exchange criteria for the interpretation and application of IFRS.

In the area of auditing, the new international standards issued by the International Auditing and Assurance Standards Board (IAASB) were tracked on a continuous basis to enhance clarity and uniformity. And the activities of the International Federation of Accounting Experts' Ethics Committee were monitored, including aspects such as rotation of audit firms and conflicts of interest with clients.

Two documents were published in this field. The first established a number of principles about the minimum information content of the prospectus for fixed-income securities from foreign issuers. The second describes the action of special purpose vehicles in financing raised by industrial or financial companies.

Secondary markets

The main event in 2007 was the publication of a document on the exchange of information between jurisdictions for the supervision of markets, which established a number of recommendations for promoting and strengthening information exchange. The document also covers specific issues relating to remote electronic access by third-country firms, and dual listing of a given issuer in different jurisdictions.

Intermediaries

Arising out of the *Parmalat Report*, which dealt with strengthening capital markets against financial fraud, a document was published in 2007 containing a detailed analysis of how financial intermediaries handle conflicts of interest arising in public offerings of securities. The document concluded that prior agreements between the issuer and the intermediary may contribute to overcoming some of the identified problems. Intermediaries are also recommended to establish Chinese walls between departments, effective procedures for protecting their information systems, and non-disclosure agreements.

Exchange of information. IOSCO Multilateral MoU

In line with the decision adopted by IOSCO in its strategic plan, all its members must be signatories of the Multilateral Memorandum concerning Consultation and Cooperation and the Exchange of Information by 2010. A total of 47 jurisdictions had signed by the end of 2007.

This deadline forces all IOSCO members to review their legislation regarding cooperation and exchange of information. To that end, they can call on technical assistance from other IOSCO members. In 2007, the CNMV continued to provide technical assistance in this area, particularly to Latin American countries.

UCITS

IOSCO's work in this area led to the publication of the following documents in 2007:

Agreements on soft commission arrangements in collective investment schemes. This document examines the regulation in the various jurisdictions on soft commission arrangements in UCITS. The document highlights the variety of domestic regulations and establishes the general principle that soft commissions may be permitted provided that the UCITS operators ensure best execution, the rules are set out in writing, and they are notified to the investors and depositories in the prospectus.

Principles of governance in collective investment schemes. This document is the continuation of another document published in 2006 which detailed the various legal structures that collective investment schemes may adopt in each jurisdiction. The second document addressed criteria for independence and the powers and functions of the entities entrusted with supervision, among other issues.

Principles for the valuation and administration of hedge funds. This report, which complements others about hedge funds published by IOSCO in previous years, established nine principles regarding the implementation by fund managers of systems and procedures to properly value illiquid or complex financial instruments. The goal is to mitigate conflicts of interest arising from the fact that the fund operator itself is the primary source of the information for a proper evaluation, by establishing rules that reinforce its independence and transparency.

Other actions

During 2007, IOSCO reviewed the activities of private equity firms. In the report on this work, IOSCO identified the risks to financial markets arising from the operations of private equity firms. They include the increased leverage in financial transactions, conflicts of interest, and insider dealing.

In 2007, IOSCO continued to review the actions of audit firms as reviewers of financial statements and as providers of other supplementary services. In the first case, the implications of the high degree of concentration in the profession were analysed; in the second case, IOSCO considered the relationship between non-audit services and auditor independence.

IOSCO also completed a study, headed by the CNMV, into the independence of the directors of listed companies, and a second study commenced on the subject of the protection of minority shareholders, which will continue in 2008.

Moreover, there were two IOSCO initiatives linked to its internal workings and its external image. The first consisted of an action plan, to be implemented in the coming years, to review and update IOSCO's regulation principles and objectives, and the methodology used by regulators for self-assessment of their degree of compliance. The second initiative involves the beginning of an ongoing dialogue with the industry to ascertain its opinions of the work that is performed and receive suggestions for potential inclusion in the activities plan in the medium and long term.

14.4 Intersectoral international forums

In 2007, the CNMV continued to participate actively in a number of international forums of an intersectoral nature, in which it worked with other Spanish supervisors such as the Bank of Spain and the Directorate-General of Insurance and Pension Funds.

Joint Forum

The CNMV is a founder member of the Joint Forum, which groups supervisors in the three financial sectors: banking, securities and insurance. The Joint Forum focuses on analysing large, complex diversified financial groups and their potential influence on financial stability. The Joint Forum also issues high-level principles (outsourcing, business continuity) aimed at both the industry and regulators.

The Joint Forum bases its actions on mandates from the international associations of regulators: the Basel Committee on Banking Supervision, IOSCO, the International Association of Insurance Supervisors (IAIS) and, increasingly, the Financial Stability Forum. Following the turbulence that commenced in the summer of 2007, the latter commissioned the Joint Forum to update a previous report on the transfer of credit risk as a contribution to the examination of the credit crisis.

Other significant actions by the Joint Forum in 2007 relate to the following areas:

Supervision of financial conglomerates: The outcome of the Joint Forum's examination of the principles of conglomerate supervision is as follows: within each jurisdiction, financial conglomerates are not supervised by just one regulator; there is a diversity of regulatory approaches to supervising conglomerates and it is increasingly difficult to establish an optimum level of capital; finally, supervisors face challenges arising from the fact that some conglomerates include unregulated entities (e.g. hedge funds).

Identification and management of concentration risk. This study focused on the use of stress tests by financial institutions and on supervisors' practices in the supervision of concentration risk. Though the report was completed at the end of 2007, it was updated again in the first quarter of 2008 to include the responses of supervisors and the industry in view of the recent turbulence in the financial markets.

Customer suitability. This report includes an extensive review of industry practices in marketing financial products to retail clients, and risk management (legal, reputation and operational) when marketing those products. The report also reviews practices and rules applied by regulators.

Credit risk transfer. In 2007, the Financial Stability Forum commissioned the Joint Forum to update the March 2005 report on Credit Risk Transfer in view of the sharp increase in the range of financial instruments and the arrival of new participants in the financial markets (basically hedge funds and special investment vehicles). The financial turbulence in the second half of 2008 highlighted the importance of the 2005 report, which had identified some of the risks faced by the industry and supervisors. The final outcome of the review, which updated the 2005 recommendations, will be included in the overall analysis of the credit crisis by the Financial Stability Forum.

3L3

In November 2005, three financial sector committees (Committee of European Banking Supervisors–CEBS, Committee of European Insurance and Occupational Pensions Supervisors-CEIOPS, and CESR) signed a joint protocol to coordinate their activities in areas of common interest, particularly in the regulation and supervision of entities operating in the three financial sectors: banking, securities and insurance. The protocol marked the beginning of work by the 3L3 working group, comprised of the presidents and general secretaries of these three level-3 committees.

The main activity in 2007 was the drafting of a medium-term work schedule for the activities to be performed in the three major lines of action: cooperation between national authorities, progress towards convergence of supervisory practices, and development of common tools and working procedures.

Four priority thematic areas were also identified:

Home-host/delegation of tasks. In particular, work may be performed in the area of codes of conduct and related issues, such as resources use, cost of delegation, legal problems, and liability assumed by the parties.

Uniformity in regulation. This refers particularly to the requirements for financial institutions, depending on whether they are set out in different directives, e.g. MiFID and the Capital Adequacy Directive. Work will be done to harmonise and foster coherence between the two texts.

Competing products. There will be an in-depth study into the legal differences, basically as regards codes of conduct and investor protection, between products that may be considered as rivals or substitutes, e.g. unit links and mutual funds.

Financial conglomerates. This work will be coordinated and performed by the Interim Working Committee on Financial Conglomerates (IWCFC), in which CESR has observer status.

And the 3L3 training platform was developed, consisting of promoting inter-sectoral courses for supervisors. The goal of these courses is to strengthen a common supervisory culture. In 2007, courses were organised on impact assessment and operational risk, which were attended by the CNMV.

14.5 Instituto Iberoamericano del Mercado de Valores (IIMV)

The IIMV is a legal person with full functional independence. The CNMV works closely with the IIMV to foster progress and modernisation of Latin America's securities markets through training and cooperation programmes.

The CNMV also channels a major part of its work with Latin American supervisors through the IIMV, such as receiving visits, providing training courses and giving direct assistance to supervisors.

The IIMV is structured as a Trust advised by a Board. The CNMV was appointed to chair the Trust in 2007. At the end of 2007, the chair of the Board was transferred to the Panamanian Securities Commission.

In the area of training, the IIMV organised courses for Latin American supervisors on the following areas: application of the XBRL standard in the transmission of financial information; organisation of markets in public and private fixed-income securities within the Central American securities markets; transparency and investor protection; market abuse; compliance, prevention of money laundering, and disciplinary proceedings in Latin America.

The IIMV focused particularly on asset-backed securities, organising two specific sessions on this issue, and publishing a report on the subject: *La titulización de créditos a PYMES en Iberoamérica*.

14.6 Other forums and activities

Mercado Ibérico de la Electricidad

The CNMV and its Portuguese counterpart, the CMVM, with the Spanish and Portuguese energy regulators, the CNE and ERSE, respectively, form part of the Board of Regulators of the Iberian Electricity Market (MIBEL). This market was established by means of an international convention between the Kingdom of Spain and the Republic of Portugal.

The Convention establishes that the markets within MIBEL (spot and forward) are to be supervised by the energy and securities regulators of the countries where they are established (i.e. Spain and Portugal). The forward or derivatives market (OMIP) was established in Portugal, and the competent authority in charge of supervision is Portugal's CMVM. The CNMV cooperates on a permanent basis with the CMVM.

The strictly financial matters addressed by MIBEL in 2007 included the following:

Liquidity in OMIP. During 2007, liquidity in the forward market was very low, and the bulk of activity was concentrated in the members' obligatory participation in the auction mechanisms. To remedy this situation, the market created two new categories of participant: market maker (instituted on 1 September) and intermediary in bilateral trades (end of 2007). The market regulations and the clearing and settlement system were also reviewed. The fact that these measures are very recent makes it impossible as yet to assess their impact on trading volume.

Organisational aspects of the forward market. Portugal's Securities Commission informed the Board of Regulators of OMIP's intention to acquire the status of a regulated market under MiFID. This change does not entail any change in the current supervisory regime.

Organisation for Economic Cooperation and Development (OECD)

The CNMV has been providing regular assistance to Spain's Directorate-General of the Treasury and Finance Policy in the OECD working groups and committees to review the OECD Principles of Corporate Governance. In 2007, the Steering Group on corporate governance approved a new work methodology for examining the application of these principles in the various national jurisdictions.

The CNMV also cooperated actively in the preparation and execution of the annual Latin American seminar on implementing good corporate governance practices in collective investment institutions. Spain will also participate in the working group on issues of company law and corporate governance for new members of the Organisation.

Other activities

The CNMV works closely with other securities supervisors in investigating illicit practices. In 2007, it made 55 requests for assistance to foreign regulators (39 in 2006) and received 44 such requests from foreign regulators (46 in 2006). Approximately two-thirds of incoming requests for assistance related to investigations of market abuse and the remainder to investigations of securities activities being performed by unauthorised parties. More than half of the outgoing requests for assistance referred to investigations of market abuse.

As it has done since the process of expanding the European Union commenced, the CNMV provided technical assistance to the European Commission in evaluating candidate countries' financial sectors. In 2007, the CNMV contributed to the evaluation of the financial sectors of Macedonia (FYROM) and Croatia.

Review of the Lamfalussy system

Once drafting of the European financial directives had been completed, Ecofin asked the various European bodies to review the Lamfalussy system to detect areas for improvement. In December 2007, after analysing the responses from each of the level 3 committees, the Financial Services Committee and the Inter-Institutional Monitoring Group, Ecofin established a number of analyses to be performed in 2008 and 2009 by the Financial Services Committee, the European Commission and the level 3 committees. Ecofin's requests relate to the following:

1. The FSC (Financial Services Committee) must examine the possibility of including a new objective among the functions normally entrusted to national supervisors (market transparency, proper price discovery and investor protection). The new objective involves strengthening convergence and coordination in practices between EU supervisors.

2. In April 2008, the Member State, with the contribution of the level 3 committees as appropriate, will report to Ecofin on how to adopt common formats, where appropriate, to disclose national transposition and implementation of EU legislation.

3. The European Commission must:

   a. Explore the possibilities to strengthen the national application of guidelines, recommendations and standards of Level 3 Committees, without changing their legally non-binding nature.

   b. Analyse, in 2008, how to finance the Community-wide projects proposed by the level 3 committees.

   c. Analyse, in 2008, the scope for the EU to finance the development of tools to assist the level 3 committees in building a common supervisory culture.

   d. In mid-2009, the Commission will conduct cross-sectoral consistency checks, where still necessary, to foster coherence of terminology and effect across all EU financial services law.

4. The Commission, with the assistance of the level 3 committees, must do the following in 2008:

   a. Suggest a calendar for the introduction of a common format for reporting the required data.

   b. Conduct a cross-sectoral stock taking exercise of the coherence, equivalence and actual use of sanctioning powers among Member States and variance of sanctioning regimes.

   c. Revise the Directives on financial services to include provisions to enable the use of the voluntary delegation of task, and to analyse the options for the voluntary delegation of supervisory competences.

   d. Review the financial services Directives with a view to ensuring that provisions underpinning supervisory cooperation and the exchange of information between competent authorities are satisfactory.

   e. Study the differences in supervisory powers and objectives between national supervisors and, where (still) necessary and appropriate, define an adequate set of powers in the relevant Directives.

5. By mid-2008, the level 3 committees must:

   a. Transmit to the Commission, the European Parliament and the Council work programmes; and thereafter start reporting annually on progress.

   b. Explore the possibilities to strengthen the national application of their guidelines, recommendations and standards, without changing their legally non-binding nature.

   c. Introduce in their charters the possibility to apply qualified majority voting coupled with a comply or explain procedure.

   d. Study the possibilities to introduce a common set of operational guidelines for the operation of colleges of supervisors and monitor the coherence of the practices of the different colleges of supervisors.

V CNMV: organisation, finance and institutional aspects

15. Organisation

15.1 Human resources

The CNMV had 351 employees at the end of 2007 (4.5% less than at 2006 year-end) because the Public Sector Hiring Process of 2007, which included 37 positions, began in October; as a result, the selected candidates were not inducted until the first half of 2008. As a result, vacancies due to CNMV technicians leaving to work at private sector companies were not filled in the year.

Significant changes were made to the CNMV's organisation chart in 2007: the Market Monitoring Unit, previously part of the Legal Counsel Directorate, was transferred to the Directorate-General of Markets, and the Directorate of Investors was

CNMV staff: composition by professional category TABLE 15.1

Number of employees at 31 December

	2006	2007		
	Total	Total	Men	Women
Services	10	9	8	1
Clerical/Computer operators	65	63	12	51
Technical	271	258	122	136
Management	21	21	14	7
Total	**367**	**351**	**156**	**195**

Source: CNMV.

Breakdown of CNMV staff by division TABLE 15.2

Number of employees at 31 December 2007

	2006	2007				
	Total	Total	Men	Women	Positions announced	Total projected staff[1]
Line Directorates-General	251	219	92	127	27	246
Securities Market Participants	113	97	39	58	13	110
Markets	98	90	40	50	14	104
Legal Counsel	40	32	13	19	0	32
Directorates	100	116	60	56	10	126
Board	16	16	4	12	0	16
Total	**367**	**351**	**156**	**195**	**37**	**388**

1. Projected number of employees at 31 December 2007, including the 37 positions offered in the Public Sector Hiring Process.

Source: CNMV.

transferred from the Directorate-General of Markets to the group of Directorates assigned to the President.

A wide range of human resources policy initiatives were carried out in 2007, including:

- A project analysing positions at the CNMV in which the Commission's current organisational structure was used as a springboard to identify the typology of current positions and their primary functions and responsibilities. This analysis will enable the definition and implementation of short- and medium-term human resources policies.

- In 2007, negotiation began with the Works Committee on the first Collective Agreement for CNMV employees.

- A specific Training Programme was launched to improve English-language comprehension and communication skills among CNMV personnel. The programme includes classes, training materials and assistance in translating texts and presentations.

- Through the Medycsa Work Safety service, an Emergency, Evacuation, and First Aid Plan was drafted which includes safety measures to be implemented in the event of an emergency at CNMV offices at Calle Serrano 47, Madrid. The Plan has been adapted to the procedures and guidelines established in that building's Safety and Emergency Plan.

The CNMV participated in the CESR expert group on human resources, which established a programme to encourage professional exchanges between the European organisations through short study visits and temporary secondments. The goal is to facilitate convergence among CESR members in the areas of training and operations.

15.2 Continuity plan

The CNMV must be prepared to quickly and efficiently resolve contingency situations and ensure continuity of its activities. The Commission must be able to recover any critical operating processes that may be affected by a contingency in an adequate time period so that it has a minimal impact on the CNMV, the markets, and the participants.

To that end, the Commission developed a Continuity Plan. This plan identifies critical activities, establishes maximum recovery periods for each of them, and defines the exact resources to be used so as not to exceed the recovery periods and to organise management of the crisis.

The preparatory phase prior to implementation of the Plan began in the last quarter of 2007 with tenders for the backup data processing centre, which mirrors the main data processing centre, and an alternative location for users, which would provide services in the event that the CNMV was unable to carry out its activities from its usual facilities. The tender process was completed in January 2008.

Competitive procurement procedures were also held to outfit the backup data processing centre with computers, equipment and communications; the backup centre will be connected on-line with the main centre.

15.3 Information systems

In 2007, the CNMV upgraded its IT networks, replacing hardware and also improving its facilities to receive and disseminate information electronically.

The most important events were:

- In the CNMV's electronic registry, new electronic procedures were included within the CIFRADOC/CNMV service for supervised entities; the goal was to decrease paperwork and automate the reception of information.

- The Transparency Directive and MiFID required software upgrades in some cases, and new software, in others.

- The Commission also developed and implemented new software to receive and disseminate regulatory disclosures from entities.

- An XBRL report viewer was incorporated into the CNMV website. Periodic public disclosures by listed companies are based on the XBRL standard of financial information.

- For the *TREM* project, which exchanges market transaction reports between European supervisory organisations, high-capacity mechanisms for sending data to and from CESR's central service were implemented.

- A programme for the electronic reception of market transactions by investment firms and credit institutions was implemented, in accordance with the mandate of article 59 bis of the Securities Market Act.

- A pilot project was successfully developed and implemented on venture capital files as part of the project for end-to-end management of documents as images. This project is being extended to include other types of proceedings.

- Some informational aspects of the website were reorganised, and new search engines and tools to compare mutual funds were added.

CNMV Activities Plan 2007/2008: revision and update

Last October, the CNMV presented its first Activities Plan, which runs from the fourth quarter of 2007 until the end of 2008. This initiative required great strides in transparency, accountability and improved communications standards at the CNMV, leading it to rank among the most advanced organisations in the European Union. The periodic publication of the Plan is an efficient instrument to improve communication with industry, investors and securities market participants, and facilitate understanding of the activities carried out by the CNMV in its efforts to fulfil the objectives established by Law. It extends accountability of the CNMV, going beyond the requirements established in the regulatory framework.

In a context of increasingly complex internationalised market activity, the CNMV establishes priorities and plans future actions which enable it to adequately respond to new challenges within its limits, in terms of both human and material resources. The Plan falls within the budgetary provisions for 2008. Among the CNMV's multiple activities, the Plan includes only those objectives where compliance can be verified publicly, with fixed quarterly dates. It therefore does not include the majority of CNMV activities, which are discussed in detail in this Annual Report. The Plan is flexible and can be modified to handle changes not envisaged when it was drafted; accordingly, it can be extended.

The Plan's specific objectives fall under the four strategic lines stemming from the goals established by law: complete detailed rule-making after the new regulations from the last few years, ensure more efficient and transparent markets, focus on training and protection for investors, and improve internal functioning of the CNMV.

Those goals set out for the fourth quarter of 2007 were satisfactorily achieved. Almost half of the established goals aimed to focus efforts on completing the intense detailed rule-making process of the last few years, streamlining the drafting of the corresponding regulations for which the CNMV is responsible, and advising the Government on processes such as transposing MiFID into Spanish law. The only task that remains in this block is the publication of the Regulatory Disclosure Circular[1], the final approval of which depends on the receiving authorisation from the government. In the last quarter of 2007, a series of initiatives were carried out to improve market functioning and transparency, with a special focus on the dissemination of interpretative criteria and recommendations. Some measures were also implemented to improve internal functioning at the CNMV (e.g. coordinating asset valuation activity). The creation of a financial analysis unit is pending the necessary resource distribution.

With regard to goals set for 2008, which will be evaluated in great detail in the next Activities Plan, the following matters should be taken into consideration. New tasks have been set out, such as detailed rule-making via CNMV Circulars under the Royal Decree on Investment Firms, to establish the necessary details in regard to financial advisory firms, agents, and criteria for delegations, among others. Also, some of the established requirements have been modified due to the deterioration of the financial markets in the last few months, which required a special focus on supervision and transparency.

1. Within the framework of the Market Abuse Directive and as a result of the dialogue that took place with the sector via the Initiative Against Market Abuse.

16 Finances

16.1 Revenues and expenses

In 2007, the CNMV obtained 59.5 million euro in revenues and incurred 36.8 million euro in expenses; therefore, the surplus for the year amounted to 22.7 million euro. The bulk of revenues were from fees: 54.9 million euro, 18.5% more than in 2006.

The other revenues were mainly from interest and, to a lesser extent, from the sale of publications and other sources (professional information disseminators, recovery of BOE publication expenses for notices of exclusion from trading, administrative tenders, etc.).

Total expenses increased by 2.7% with respect to 2006. Personnel expenses, which account for 61.9% of the total, increased by 2.3% with respect to 2006, and the average workforce shrank by 3.5%.

Other expenses increased by 3.3%. This increase was due to other management expenses (up 1.8% year-on-year) as a result of higher spending on leases and independent professional services. Increased lease expenses are due to new office rentals in the last quarter of 2007 in order to relocate staff during the scheduled renovation work at the headquarters building. Independent professional services expenses increased due to the drafting of a continuity plan for CNMV operations to address contingency situations (see chapter 15), and to an increase in software development services.

On 28 September 2007, at the request of the CNMV, the government agreed to allocate the 2006 surplus to the CNMV's reserves.

16.2 Fee structure

Table 16.1 shows the fees for the various services that the CNMV performs; revenue from those fees rose by 18.5% in 2007.

This increase is due, in large part, to the growing pace of revenues from stock exchange member supervision fees (54.4%) and Sociedad de Sistemas member supervision fees (23.6%). Fees from issue prospectus registrations also contributed significantly (14.3%).

CNMV fee revenues

TABLE 16.1

Thousand euro

Activity or service	2006	2007	% Chg. 07/06
Registration of prospectuses and market participants	**10,905.5**	**11,449.1**	**5.0%**
Prospectus registration	8,693.5	9,535.3	9.7%
Issue prospectuses	6,528.2	7,461.7	14.3%
Listing prospectuses	526.7	590.9	12.2%
Vetting of AIAF listing requirements	1,638.6	1,482.6	-9.5%
Market participant registration	1,093.1	1,166.1	6.7%
Authorisation of takeover bids	1,119.0	747.8	-33.2%
Market supervision	**22,037.8**	**29,549.3**	**34.1%**
Members of AIAF	184.5	237.3	28.7%
Members of the Sociedad de Sistemas	13,942.1	17,237.4	23.6%
Stock exchange members	7,544.5	11,650.6	54.4%
MEFF RF members	2.7	2.5	-7.2%
MEFF RV members	363.0	420.2	15.8%
MFAO members	1.0	1.1	12.2%
Market participant supervision	**13,357.0**	**13,874.9**	**3.9%**
UCITS supervision	12,350.4	12,766.7	3.4%
Mutual funds	10,751.0	10,922.3	1.6%
Investment companies	1,291.7	1,471.8	13.9%
Real estate investment funds	292.9	352.1	20.2%
Securities investment companies	14.8	20.4	38.1%
Supervision of UCITS and mortgage securitisation trust operators	239.4	260.7	8.9%
UCITS management companies	227.6	246.7	8.4%
Securitisation trust operators	11.9	14.0	17.7%
Supervision of investment firms	767.2	847.5	10.5%
Portfolio management companies	15.9	17.0	7.2%
Broker-dealers and brokers	751.3	830.5	10.5%
Issuance of certificates	**6.8**	**3.5**	**-48.8%**
Total	**46,307.1**	**54,876.7**	**18.5%**

Source: CNMV.

17 National Securities Numbering Agency

The CNMV discharges the functions of the Spanish National Securities Numbering Agency (ANCV), whose main goal is to assign and administer International Securities Identification Numbers (ISIN) and Classification of Financial Instruments (CFI) codes, to facilitate their dissemination and use. In Spain, the ISIN code is used as a primary identifier in the trading, clearing and settlement of securities. The CNMV is a founder and full member of the International Association of National Numbering Agencies (ANNA); in 2007, the agency celebrated its 15th anniversary, with a total of 73 full member countries and 19 associates representing 30 countries.

In 2007, there were new developments in securities numbering and related matters. The ANCV implemented the ISO 18773 standard (Abbreviations) and ISO 18774 (Financial Instrument Short Description). These standards aim to harmonise financial instrument abbreviations to enable better communication, exchange and processing of data worldwide.

In December 2007, the Markets in Financial Instruments Directive (MiFID) was transposed into Spanish law, introducing important new features in the internal processes of investment firms. For example, investment firms must now inform supervisors of all operations with any financial instrument trading on a regulated market. This information must include the financial instrument's ISIN code, reaffirming the importance of the code as the primary identifier of securities and financial instruments on a global level.

European Commission Regulation 1287/2006, implementing MiFID, establishes the need to classify financial instruments in a harmonised way, citing the uniform classification of ISO 10962: CFI code as an example.

In 2007, the ANCV data base increased by 20% in relation to 2006, to 33,064 references. This increase affected all types of securities, especially fixed-income, warrants, and futures contracts.

The fixed-income primary market was very dynamic, especially in asset-backed securities, mortgage covered bonds and corporate commercial paper, contributing to a significant increase in the number of ISIN codes assigned to these types of securities. The number of warrant issues also increased, confirming the trend from previous years. There was also a significant increase in the volume of futures contracts with ISINs within the financial derivatives market.

At year-end, there were 22,308 financial instruments with a current ISIN, i.e. 5.5% more than in 2006. Listed securities and instruments accounted for 53% of the total.

Number of securities and other financial instruments with an ISIN[1]

TABLE 17.1

	Listed			Total		
	2006	2007	% chg.	2006	2007	% chg.
Public debt[2]	256	257	0.40%	260	261	0.40%
Equities[3]	3,377	3,531	4.60%	13,677	13,483	-1.40%
Debentures	394	387	-1.80%	473	452	-4.40%
Bonds	1,049	1,386	32.10%	1,100	1,468	33.50%
Covered bonds	112	144	28.60%	151	185	22.50%
Commercial paper	2,315	2,562	10.70%	2,315	2,562	10.70%
Warrants	1,167	1,407	20.60%	1,208	1,753	45.10%
Treasury Bills	9	11	22.20%	9	11	22.20%
Options	1,905	2,051	7.70%	1,905	2,051	7.70%
Futures	45	82	82.20%	45	82	82.20%
Total	**10,629**	**11,818**	**11.20%**	**21,143**	**22,308**	**5.50%**

1. ANCV data base. ISIN code.
2. Except Treasury Bills.
3. Shares, mutual fund shares and other equities.

In 2007, the number of queries to the ANCV increased by 43.9% with respect to 2006. A total of 1,101 direct queries were received in 2007, compared with 765 in 2006. Of the total, 77% of queries referred to domestic codes, and the remainder to foreign codes.

Queries handled directly by the ANCV

TABLE 17.2

	2006	2007	% chg.
Spanish codes	601	850	41.4%
Foreign codes	164	251	53.0%
Total	**765**	**1.101**	**43.9%**

18 CNMV Advisory Board

18.1 Introduction

The CNMV Advisory Board is the body which provides advice to the Commission, as provided for under article 22 of Securities Market Act. Its opinion must obligatorily be sought regarding 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, revocation and mergers and takeovers of investment firms from non-EU Member States.

In addition to its consultative role to the Board, the Advisory Board provides advice on draft regulations relating generally to the securities markets which are referred to it by the Government or the Ministry of the Economy.

In order to achieve greater participation by the sector, and in line with international recommendations on the analysis of the regulatory impact, the CNMV has decided to enhance the role of the Advisory Board not only as a body which provides advice to the CNMV's Board on the issues provided in the Act, but also on other matters relating to the international sphere and market integrity. In this manner, the Committee's agenda always includes voluntary and non-mandatory matters which can be categorised as follows:

– Consultations of an international nature (from CESR, IOSCO or the European Commission).

– Consultation on various initiatives of the CNMV or the Advisory Board itself.

The Advisory Board is comprised of sixteen members, six representing the members of the official secondary markets, four representing securities issuers, four representing investors, plus one representative of each of the Autonomous Regions that have assumed powers in the area of securities market and in whose territory there is an official market.

The composition of the Advisory Board is set out in the annex on the CNMV organisation.

The members that formed part of the Committee in 2007 were elected in 2004; therefore, since their four-year term is about to expire, they must be re-appointed by

1 April 2008. To that end, on 30 January 2008, the Board of the CNMV resolved to commence the procedure to renew the Advisory Board. The details of the renewal procedure are contained in Royal Decree 504/2003 of 2 May.

18.2 Advisory Board actions in 2007

Advisory Board actions in 2007 are summarised in Table 18.1:

Type of matters referred to the Advisory Board TABLE 18.1

Number

	2006	2007
Mandatory reports on standards	9	14
Proposals for very serious penalties	10	6
Authorisations, revocations and mergers and takeovers of investment firms	12	15
Voluntary consultations (IOSCO, CESR, etc.)	8	14
Total	**39**	**49**

The number of issues handled by the CNMV Advisory Board increased from 39 (2006) to 49 (2007).

In 2007, voluntary consultations and Advisory Board reports on planned regulations accounted for almost 60 per cent of the total number of issues.

All voluntary consultations came from CESR regarding either the transposition of MiFID, the Takeover Directive or the Transparency Directive, or the completion of the first phase of implementation of standards such as the Prospectus Directive, the Market Abuse Directive and the UCITS Directive. Investment firm mergers accounted for more than 30% of the total number of reports regarding proposed regulations.

In fact, because of the nature of these transactions, the Advisory Board considered whether it was advisable that it should issue an opinion on them. In 2007, this question and others regarding its composition led the Advisory Board to review and evaluate its functioning, after 12 years in operation. As a result of this process and after an analysis of similar bodies in other countries, the following areas for improvement were flagged:

– Flexibility in operations. The Advisory Board proposed that its rules of operation be reflected in an Internal Regulation, approved by the Board of the CNMV, which would provide for greater flexibility in making amendments to the Committee's functioning.

– Advisory functions and priorities of the Advisory Board. The Advisory Board proposed to strengthen its advisory function in regulatory proceedings. The Advisory Board also considered the idea that it should be required by law to advise on draft Acts and draft EU regulations in matters related to the securities market. It was felt that the CNMV should retain the power to submit to the Advisory Board any other question, and the Advisory Board should be able to provide comprehensive advice on proceedings involving very serious and lesser violations. The

Advisory Board also proposed to consider whether its competencies related to proceedings for authorisation, revocation, amendment of bylaws and mergers and acquisitions should be abolished, like those relating to the matter of the collective guarantee.

- Structure. The Board proposed the adoption of an organisational structure so that the Advisory Board or the principal organisation, which would continue to meet monthly, could include subgroups of experts, which would noticeably increase the volume of matters on which it expressed an opinion and enable it to address very complex matters more efficiently.

- Representativity. The Advisory Board considers that its composition needs to be reviewed in order to improve representation of the securities markets. It maintained that at least the following groups should be represented: credit institutions (both issuers and wholesale and retail marketers), Autonomous Regions where secondary markets are domiciled, the markets, trading and registry, clearing and settlement systems, investment firms, insurance companies, issuers, UCITS, pension funds, and users of financial services.

  The Board also defends the possibility of including other groups, to be appointed by the Advisory Board itself based on a proposal by the CNMV, which would allow the inclusion of market experts and permit the consideration of new situations that may arise in financial markets. As regards substitutes for Advisory Board members, the Board prefers that they be appointed directly by the members themselves. The Advisory Board proposes to channel the election of members through associations that represent the industry.

List of Advisory Board actions in 2007

TABLE 18.2

Date	Mandatory reports on standards	Proposals for very serious penalties	Corporate transactions of investment firms and branches	Other consultations
January 15/01/07			Authorisation of AURIGA SECURITIES, SV, S.A.	Consultation from CESR regarding the implementation of the Market Abuse Directive: definition of inside information.
			Authorisation for the merger by absorption of DEUTSCHE ASSET MANAGEMENT, SGC, S.A. by DWS INVESTMENTS (SPAIN), SGIIC, S.A.	Consultation from CESR regarding the functioning of the Prospectus Directive and implementing regulations.
February 12/02/07	Draft CNMV Circular on statistical information to be required of EU UCITS.			Consultation from CESR on passports under MiFID.
	Draft Ministerial Order amending Order ECO/805/2003, regarding the rules for real estate appraisal.			Consultation from CESR on incentives under MiFID.
March 12/03/07	Draft Ministerial Order establishing standards regarding accounting, determination of equity, calculation of diversification coefficients and certain aspects of UCITS.			Consultation from CESR on notification of transactions under MiFID.
				Consultation from CESR on best execution under MiFID.
				Consultation from CESR on transparency in markets other than equities.
				Consultation from CESR on the eligibility of hedge fund indices for UCITS.

List of Advisory Board actions in 2007 (cont.)

Date	Mandatory reports on standards	Proposals for very serious penalties	Corporate transactions of investment firms and branches	Other consultations
April 16/04/07	Draft of the Act partly amending Act 24/1998 of 28 July on the Securities Market regarding the transposition of MiFID.	Penalty 1 for inside information.		
	Draft Royal Decree implementing Act 24/1988, dated 28 July on the Securities Market regarding transparency.			
May 21/05/07	Draft Royal Decree on the rules for takeover bids.	Penalty 2 for investment portfolio management without authorisation.		Consultation from CESR on the disclosure of key investor information on UCITS (Simplified UCITS prospectus).
	Draft Ministerial Order to amend Order ECO/805/2003 on rules for real estate appraisal.			
June 11/06/07		Penalty 3 for delays in disclosure of significant holdings.		
July 09/07/07			Authorisation for the amendment of the scheme of operations of RIVA Y GARCÍA – 1877, SV, S.A.	Consultation from the three Level 3 Committees on guides for studying impact.
			Authorisation for the absorption of FONDITEL VALORES, AV, S.A. by FONDITEL GESTIÓN, SGIIC, S.A.	
September 10/09/07	Draft Royal Decree implementing article 21 of Act 44/2002, dated 22 November, on Measures to Reform the Financial System, with regard to electronic money institutions.		Authorisation for the transformation of ALTURA MARKETS, AV, S.A. into a broker-dealer and amendments to its scheme of operations.	Consultation from CESR regarding the market participants' assessment of CESR's activity between 2001 and 2007.

List of Advisory Board actions in 2007 (cont.)

Date	Mandatory reports on standards	Proposals for very serious penalties	Corporate transactions of investment firms and branches	Other consultations
			Authorisation for amendments to the scheme of operations of IBERSECURITIES, SV, S.A.	Consultation from CESR on the possibility of carrying out Level 3 work with regard to the Transparency Directive.
			Authorisation of the creation of M&B CAPITAL MARKETS, SV, S.A.	
			Authorisation for the merger by absorption of AB ASESORES CEUTA, S.L. by MORGAN STANLEY, SV, S.A.	
			Authorisation for the complete demerger of MORGAN STANLEY, SV, S.A. and the establishment of MORGAN STANLEY, SV, S.A. and MORGAN STANLEY WEALTH MANAGEMENT, SV, S.A.	
November 12/11/07		Penalty 4 for the regular performance of reserved activities consisting of the reception and transmission of orders from third parties and portfolio management.	Authorisation for the merger by absorption of SOGECAPITAL, S.A. by SGAM IBERIA, AV, S.A.	Consultation from CESR on the CESR Expert Group's work programme: Level 3 of MiFID, 2007/2008.
			Authorisation of TACTICAL GLOBAL ADVISORY, AV, S.A.	Consultation from CESR on the format and content of Key Investor Information on UCITS (KII, currently KID).
			Authorisation of amendments to the scheme of operations of SINERGIA ADVISORS 2006, AV, S.A.	

List of Advisory Board actions in 20077 (cont.)

Date	Mandatory reports on standards	Proposals for very serious penalties	Corporate transactions of investment firms and branches	Other consultations
December 10/12/07	Draft CNMV Circular to approve forms for the disclosure of significant holdings, own shares and other forms relating to listed corporations.	Penalty 5 for insider dealing.	Authorisation of the merger by absorption of ARCALIA VALORES, AV, S.A. by ARCALIA PATRIMONIOS, AV, S.A., transformation of ARCALIA PATRIMONIOS, AV, S.A. into a broker-dealer and amendments to its scheme of operations.	
	Draft CNMV Circular to amend the Annual Corporate Governance Report Form to be completed by listed corporations.	Penalty 6 for insider dealing.	Authorisation of CAPITAL STRATEGIES PARTNERS, AV, S.A.	
	Draft CNMV Circular on Periodic Public Disclosure by entities with listed securities.		Authorisation of GBS FINANZAS INVESTCAPITAL, AV, S.A.	
	Draft CNMV Circular on liquidity contracts.			
	Draft CNMV recommendations on block trades.			
	Draft CNMV Circular on regulatory disclosures by UCITS.			

VI Report by the Internal Control Body

AUDITORS' REPORT, AS PROVIDED UNDER ACT 44/2002, ON MEASURES TO REFORM THE FINANCIAL SYSTEM. YEAR 2007

1. Introduction

The Comisión Nacional del Mercado de Valores's Internal Control Unit has performed the internal audit of the degree to which the decisions adopted by the governing bodies conform to the procedural regulations applicable in each case, in implementation of the Internal Control Action Plan approved by the Board of the Commission on 16 January 2008, thus complying with Additional Provision Two of Act 44/2002, of 22 November, on Measures to Reform the Financial System (Gazetted on 23 November).

The work was performed in accordance with the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA), as provided in the CNMV's Internal Audit Rules approved by the Board on 28 December 2004.

2. Objective and scope of the work

The objective of this work is to ascertain the degree to which the decision by the governing bodies of the Comisión Nacional del Mercado de Valores in 2007 conformed to the applicable procedural rules.

The specific regulations applicable to the procedures of the CNMV were as follows:

- Securities Market Act. (24/1998, of 28 July).
- CNMV Internal Regulations.
- CNMV internal operating procedures in the terms of articles 38, 39 and 40 of the Internal Regulations.

The decisions adopted on 29 June 2006, 11 July 2007 and 24 October 2007 delegating powers to the President, the Vice-President and the Executive Committee of the Comisión Nacional del Mercado de Valores were also considered. There were no scope limitations in the performance of the work.

3. Opinion

In our opinion, having completed the audit work, it can be concluded that, in 2007, the governing bodies of the Comisión Nacional del Mercado de Valores, in the scope of supervision provided by the Securities Market Act and other regulations, complied with the requirements established in the current legislation that is applicable in each case, in terms of both procedure and competence.

Madrid, 27 March 2008.
Head of Internal Control

Signed. Margarita García Muñoz

VII Financial statements of the CNMV

Summary of Finnancial Statements 2007

1. Balance sheet

Account no.	Assets	2007	2006
	A) FIXED ASSETS	**32,037,537.61**	**32,368,916.33**
	II. Intangible assets	1,937,318.59	1,861,538.57
215	3. Computer software	4,266,013.27	3,687,250.22
281	7. Amortisation	-2,328,694.68	-1,825,711.65
	III. Tangible fixed assets	30,098,983.15	30,506,141.89
220, 221	1. Land and structures	28,646,223.02	28,645,078.77
226	3. Tools and furnitures	2,602,672.30	2,554,585.79
227, 228	4. Other fixed assets	4,092,755.28	3,882,868.74
282	5. Depreciation	-5,242,667.45	-4,576,391.41
	V. Permanent financial investments	1,235.87	1,235.87
250	1. Long-term securities portfolio	935.36	935.36
265	3. Long-term deposits and guarantees provided	300.51	300.51
	C) CURRENT ASSETS	**115,906,610.05**	**93,572,573.91**
	II. Accounts receivable	11,706,566.54	11,541,187.32
460, 469	1. Sundry accounts receivable	11,711,840.78	11,545,757.99
555, 558	4. Other accounts receivable	27,190.65	13,785.51
490	5. Provisions	-32,464.89	-18,356.18
	III. Short-term financial investments	102,336,341.86	80,489,684.57
541, 546	1. Short-term securities portfolio	102,319,169.42	80,478,598.08
544, 547	2. Other short-term investments and receivables	17,172.44	11,086.49
57	IV. Cash	1,644,951.16	1,370,074.81
480	V. Accruals	218,750.49	171,627.21
	GRAND TOTAL (A+B+C)	**147,944,147.66**	**125,941,490.24**

1. Balance sheet (continuation)

Account no.	Liabilities	2007	2006
	A) EQUITY	**143,315,175.70**	**120,674,823.54**
	I. Own funds	5,118,213.34	5,130,783.47
100	1. Own equity	4,204,102.67	4,204,102.67
101	2. Equity received in assignment	1,181,768.61	1,194,338.74
108	6. Equity delivered in assignment	-267,657.94	-267,657.94
117, 113	II. Reserves	115,544,040.07	101,823,588.81
129	IV. Surplus for the year	22,652,922.29	13,720,451.26
142	**B) PROVISIONS FOR CONTINGENCIES AND EXPENSES**	**1,535,085.59**	**1,552,027.83**
	D) CURRENT LIABILITIES	**3,093,886.37**	**3,714,638.87**
	III. Accounts payable	3,093,886.37	3,714,638.87
420, 429	1. Sundry accounts payable	2,111,885.33	2,223,438.29
475, 476	3. Public authorities	948,182.28	909,214.77
554, 521,523	4. Other accounts payable	33,818.76	581,985.81
	GRAND TOTAL (A+B+C+D)	**147,944,147.66**	**125,941,490.24**

2. Statement of revenues and expenditure

Account no.	Debit	2007	2006
	A) EXPENSES	**36,846,151.49**	**35,890,703.99**
	3. Operating expenses of services and employee welfare expenses	36,266,210.82	35,431,622.07
	a) Personal expenses:	22,807,302.51	22,299,519.62
640, 641	a.1) Wages, salaries and similar	18,368,667.14	17,875,056.87
642, 643, 644	a.2) Employee welfare expenses	4,438,635.37	4,424,462.75
681, 682	c) Period depreciation and amortisation charge	1,146,537.78	1,067,521.35
	d) Change in operating provisions	59,797.89	45,549.75
675, 694, (794)	d.2) Change in provisions for, and losses on, bad debts	59,797.89	45,549.75
	e) Other operating expenses	12,220,010.92	12,007,658.03
62	e.1) Outside services	12,168,978.11	11,962,736.85
630,632	e.2) Taxes	45,229.67	41,979.25
676	e.3) Other current operating expenses	5,803.14	2,941.93
	f) Financial and similar expenses	32,047.31	10,808.58
669	f.1) On debts	32,047.31	10,808.58
668	h) Exchange losses	514.41	564.74
	4. Transfers and subsidies	350,957.63	400,497.48
651	b) Current subsidies	350,957.63	400,497.48
	5. Extraordinary losses and expenses	228,983.04	58,584.44
671	a) Losses on fixed assets	10,464.14	20,296.34
679	d) Expenses and losses from other years	218,518.90	38,288.10
	SURPLUS	**22,652,922.29**	**13,720,451.26**

2. Statement of revenues and expenditure (continuation)

Account no.	Credit	2007	2006
	B) REVENUES	**59,499,073.78**	**49,611,155.25**
	3. Ordinary revenues	54,876,680.69	46,307,142.35
	a) Fee revenues	54,876,680.69	46,307,142.35
740	a.1) Fees for the provision of services or the performance of activities	54,876,680.69	46,307,142.35
	4. Other ordinary revenues	4,519,084.77	3,264,625.93
78	b) In-house work	554,871.33	576,494.45
	c) Other ordinary revenues	185,404.68	146,872.76
776, 777	c.1) Ancillary and other ordinary revenues	185,404.68	146,872.76
761	e) Revenues from other tradable securities and fixed asset	3,543,977.11	2,400,178.10
	f) Other interest and similar revenues	234,797.52	141,060.88
769	f.1) Other interest	234,797.52	141,060.88
768	g) Exchange gains	34.13	19.74
	6. Extraordinary gains and revenues	103,308.32	39,386.97
771	a) Gains on fixed assets	1,719.50	0.00
779	d) Revenues and income from other years	101,588.82	39,386.97

3. Cash flow statement. Source and application of funds

Funds applied	2007	2006
1. Funds applied in operations	35,227,189.37	34,344,457.83
c) Outside services	12,168,978.11	11,962,736.85
d) Taxes	45,229.67	41,979.25
e) Personnel expenses	22,414,233.07	21,841,091.15
g) Transfers and subsidies	350,957.63	400,497.48
h) Financial expenses	32,561.72	11,373.32
i) Other current loses and extraordinary expenses	155,431.28	41,230.03
j) Provision for current assets	59,797.89	45,549.75
4. Fixed asset acquisitions and other additions	907,164.09	2,882,316.27
b) Intangible assets	578,763.05	607,408.75
c) Tangible fixes assets	328,401.04	2,274,907.52
5. Direct decrease in equity	0.00	22,930,647.77
b) Assignments	0.00	227,324.62
c) Delivered for general use	0.00	22,703,323.15
7. Provision for contingencies and expenses	410,011.68	379,022.29
TOTAL FUNDS APPLIED	**36,544,365.14**	**60,536,444.16**
FUNDS OBTAINED IN EXCESS OF FUNDS APPLIED (INCREASE IN WORKING CAPITAL)	**22,954,788.64**	**0.00**

Funds obtained	2007	2006
1. Funds from operations	59,497,354.28	49,611,155.25
e) Fees, charges and special levies	54,876,680.69	46,307,142.35
g) Financial revenues	3,778,808.76	2,541,258.72
h) Other current revenues and extraordinary expenses	841,864.83	762,754.18
5. Fixed asset disposals and other retirements	1,799.50	232,279.15
c) Tangible fixed assets	1,799.50	232,279.15
TOTAL FUNDS OBTAINED	**59,499,153.78**	**49,843,434.40**
FUNDS APPLIED IN EXCESS OF FUNDS OBTAINED (DECREASE IN WORKING CAPITAL)	**0.00**	**10,693,009.76**

4. Cash flow statement. Change in working capital

	2007		2006	
Change in working capital (Summary)	Increase	Decrease	Increase	Decrease
2. Accounts receivable	151,974.08	0.00	3,069,045.76	189.85
a) Trade accounts receivable	151,974.08	0.00	3,069,045.76	0.00
b) Other accounts receivable	0.00	0.00	0.00	189.85
3. Accounts payable	622,922.41	0.00	135,155.63	538,357.67
a) Trade accounts payable	111,552.96	0.00	135,155.63	0.00
b) Other accounts payables	511,369.45	0.00	0.00	538,357.67
4. Short-term financial investments	21,846,657.29	0.00	0.00	10,720,944.88
6. Other non-bank accounts	11,235.23	0.00	0.00	504,444.56
7. Cash on hand and at banks	275,698.33	821.98	0.00	2,153,059.39
a) Cash on hand	0.00	821.98	0.00	4,261.86
c) Cash at banks and other credit institutions	275,698.33	0.00	0.00	2,148,797.53
8. Accruals	47,123.28	0.00	19,785.20	0.00
TOTAL	**22,955,610.62**	**821.98**	**3,223,986.59**	**13,916,996.35**
CHANGE IN WORKING CAPITAL	**22,954,788.64**	**0.00**	**0.00**	**10,693,009.76**

Annexes

Statistical annexes I

International economic indicators

I.1

	GDP[1]			Internal demand[2]			Unemployment rate[3]		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
OECD	2.6	3.1	2.7	2.8	3.0	2.4	6.4	5.9	5.4
USA	3.1	2.9	2.2	3.3	2.9	1.6	5.1	4.6	4.6
Japan	1.9	2.4	2.0	1.6	1.5	0.9	4.4	4.1	3.9
Euro area	1.6	2.9	2.6	1.8	2.6	2.1	8.6	7.8	7.4
France	1.2	2.2	1.9	2.4	2.5	2.2	9.9	9.1	8.1
Germany	1.0	3.1	2.6	0.3	1.7	0.8	11.7	10.8	9.0
Italy	0.6	1.8	1.5	1.0	1.3	1.4	7.7	6.8	5.9
Spain	3.6	3.9	3.8	5.3	5.1	4.6	9.2	8.5	8.3
UK	1.8	2.9	3.1	1.8	2.9	3.7	2.7	3.0	2.7
Latin America & Caribbean	4.7	5.6	5.6	—	—	—	9.1	8.6	8.0

	Inflation[4]			Budgetary balance[5]			Current account balance[5]		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
OECD	2.6	2.6	2.4	–2.9	–1.8	–1.6	–1.6	–1.8	1.4
USA	3.4	3.2	2.9	–3.7	–2.3	–2.7	–6.1	–6.2	–5.4
Japan	–0.3	0.2	0.1	–5.3	–4.6	–4.0	3.7	3.9	4.7
Euro area	2.2	2.2	2.1	–2.4	–2.1	–0,8	0.3	0.0	0.0
France	1.7	1.7	1.4	–2.9	–2.7	–2.6	–1.0	–1.3	–2.3
Germany	2.0	1.7	2.1	–3.2	–2.3	0.1	4.6	4.9	5.8
Italy	2.0	2.1	1.8	–4.3	–4.8	–2.3	–1.5	–2.6	–2.2
Spain	3.4	3.5	2.8	1.1	1.8	2.2	–7.4	–8.6	–9.2
UK	2.0	2.3	2.3	–3.4	–3.0	–2.8	–2.5	–3.1	–3.1
Latin America & Caribbean	6.1	5.0	6.1	–1.1	0.1	–0.1	1.5	1.7	0.7

Sources: Ministry of Economy and Finance, OECD, Economic Outlook No. 80 and ECLAC.

1. Annual rate of change, in real terms (%).
2. Contribution to annual growth in percentage points, except for the OECD, which is expressed in annual growth terms (%).
3. Annual average (% of active population).
4. Consumer price indices. Average y/y rate of change.
5. Surplus (+) or deficit (–) as a % of GDP.

Composition of households' financial assets[1]

I.2

Amounts in percentages except for balance, expressed in million euro

	Balance	Cash and deposits	Fixed-income securities	Shares	Mutual funds and investment companies	Insurance underwriting reserves	Other
1998	932,890	35.9	2.5	26.7	18.9	11.2	4.9
1999	1,026,264	36.5	2.4	27.4	16.7	12.0	5.0
2000	1,048,329	39.8	2.5	23.9	13.7	13.9	6.2
2001	1,104,544	40.4	2.3	23.7	12.8	14.5	6.4
2002	1,116,472	42.3	2.5	20.4	12.0	15.6	7.1
2003	1,271,188	39.2	3.0	23.6	12.3	15.0	6.9
2004	1,386,578	39.0	2.3	23.4	12.5	15.0	7.9
2005	1,549,550	38.1	2.1	24.4	12.7	14.8	7.9
2006	1,763,352	38.1	2.5	26.0	11.7	14.1	7.8
2007[2]	1,807,685	39.3	2.4	25.2	11.4	14.1	7.7
Pro memoria: breakdown of change in the portfolio between December 2006 and September 2007							
(% change)	2.5	5.8	–1.5	–0.6	–0.2	3.0	1.3
Change (million euro)	44,333	38,819	–629	–2,531	–453	7,342	1,786
- net acquisition of assets	55,507	39,019	8,198	3,085	–2,813	7,023	995
- approximate price effect[3]	–11,174	–200	–8,827	–5,616	2,360	319	791

Source: Bank of Spain "Financial accounts of the Spanish economy", and CNMV.

1. Includes NPISH (Non-Profit Institutions Serving Households).
2. Data at September 2007.
3. The approximation of the price effect is calculated using data from the "Financial accounts of the Spanish economy". For its effect on UCITS with CNMV data, see chapter 6.

Composition of non-residents' financial assets

I.3

Amounts in percentages except for balance, expressed in million euro

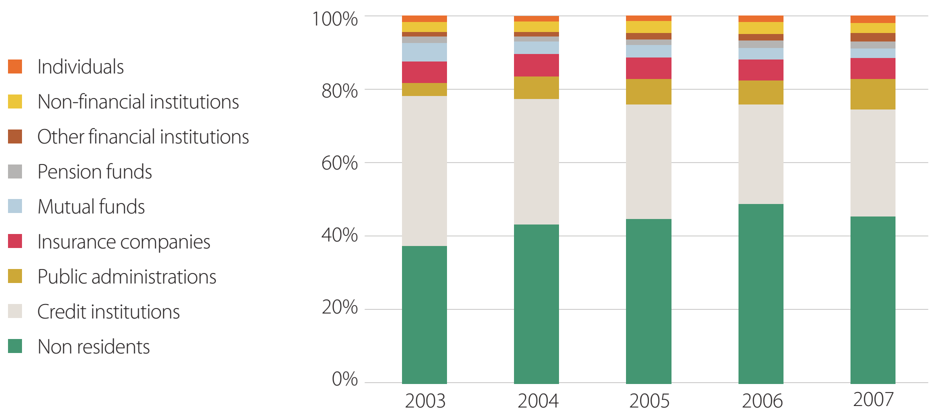
	Balance	Cash and deposits	Fixed-income securities	Loans	Shares	Mutual funds and investment companies	Other
1998	539,149	29.1	17.7	10.4	33.4	0.7	8.8
1999	670,862	28.5	18.7	11.2	33.1	0.6	7.9
2000	823,791	28.6	20.3	12.3	31.1	0.4	7.3
2001	919,557	28.0	20.9	14.3	29.4	0.3	7.1
2002	989,658	27.7	23.2	15.4	26.0	0.7	7.1
2003	1,141,852	27.8	23.2	16.0	25.7	0.6	6.7
2004	1,341,830	24.3	28.4	14.9	25.6	0.6	6.2
2005	1,612,395	23.8	33.1	14.2	23.0	0.3	5.7
2006	1,919,049	19.9	38.5	13.9	22.3	0.3	5.1
2007[1]	2,140,195	19.6	39.3	14.0	22.1	0.2	4.8

Source: Bank of Spain "Financial accounts of the Spanish economy", and CNMV.

1. Data at September 2007.

Balance of public debt by holder

I.4



Source: Directorate-General of the Treasury and Financial Policy.

EBT of companies listed on the electronic market[1]

I.5

Million euro

Sector CNMV	2006	% Chg. 06/05[2]	2007	% Chg. 07/06[2]
Oil	6,758.14	–4.4	6,863.32	1.6
Energy & water	9,884.33	8.5	11,367.31	15.0
Mining & base metals	1,089.51	210.6	744.21	–31.7
Cement and construction materials	447.11	37.0	529.59	18.4
Chemicals	125.54	–226.5	87.54	–30.3
Textiles and paper	1,359.79	13.8	1,779.41	30.9
Metal-mechanical	733.67	26.7	1,044.16	42.3
Food	392.09	–11.5	312.56	–20.3
Construction	5,906.48	86.8	6,431.54	8.9
Real estate	2,506.60	91.8	1,296.83	–48.3
Transport and communications	7,949.66	3.2	11,974.54	50.6
Other non-financial	2,203.95	2.9	2,617.79	18.8
Banks	19,729.45	18.7	24,246.21	22.9
Insurance	186.66	33.4	330.52	77.1
Portfolio companies	2,904.96	1,170.2	1,850.97	–36.3
Total	**62,177.96**	**19.6**	**71,476.49**	**15.0**

Source: CNMV.

1. According to IFRS for companies with a consolidated group and national GAAP for companies that do not present consolidated data. Only information from domestic issuers is included.
2. Percentage of change calculated using periodic financial information issued by the companies. The information issued with respect to the previous year is used for each rate of change.

Return on assets and equity of companies listed on the electronic market[1]

I.6

%

Sector CNMV	ROA[2] 2006	ROA[2] 2007	ROE[3] 2006	ROE[3] 2007
Oil	12.4	12.2	17.4	16.2
Energy & water	7.4	6.2	16.3	12.0
Mining & base metals	14.6	8.2	25.2	15.1
Cement and construction materials	9.5	8.9	13.4	15.0
Chemicals	4.6	3.2	9.0	7.0
Textiles and paper	12.7	13.5	17.2	18.7
Metal-mechanical	6.4	6.6	22.4	25.0
Food	2.7	2.1	9.2	6.8
Construction	4.9	3.4	28.4	15.6
Real estate	5.6	2.1	22.6	10.6
Transport and communications	5.5	8.2	27.7	32.3
Other non-financial	7.2	7.3	23.3	21.0
Banks	1.3	1.4	22.0	18.5
Insurance	9.6	5.6	13.0	7.1
Portfolio companies	15.1	8.8	28.7	22.9
Total	**2.9**	**2.8**	**20.2**	**17.3**

Source: CNMV.

1. According to IFRS for companies with a consolidated group and national GAAP for companies that do not present consolidated data. Only information from domestic issuers is included.
2. EBIT/Average total assets in the year.
3. Earnings after taxes/Average net equity in the year.

Statistical annexes II

Capital increases and IPOs through primary or secondary offerings or a combination of both

II.1

Million euro

Issuer	Cash amount[1]	Transaction	Date registered with the CNMV
NH Hoteles	127.9	Capital increase for non-monetary consideration	09/01/07
Faes Farma	1.6	Capital increase with suppression of pre-emptive subscription rights	16/01/07
Service Point Solutions	0.9	Capital increase by conversion	16/01/07
Indra Sistemas	339.7	Capital increase for non-monetary consideration	18/01/07
Sniace	3.2	Capital increase with suppression of pre-emptive subscription rights	18/01/07
Amper	17.0	Capital increase with suppression of pre-emptive subscription rights	23/01/07
Jazztel	0.5	Capital increase with suppression of pre-emptive subscription rights	25/01/07
Metrovacesa	0.0	Bonus issue	01/02/07
Papeles y Cartones de Europa	73.3	Capital increase for non-monetary consideration	01/02/07
Bankinter	0.7	Capital increase by conversion	06/02/07
Dogi International Fabrics	39.4	Rights issue	06/02/07
Montebalito	50.0	Rights issue	06/02/07
Service Point Solutions	54.3	Rights issue	06/02/07
Dogi International Fabrics	0.9	Capital increase by conversion	13/02/07
Tecnocom, Telecomunicaciones y Energía	22.2	Capital increase with suppression of pre-emptive subscription rights	13/02/07
Arcelor Mittal	41.2	Capital increase by conversion	20/02/07
NH Hoteles	250.0	Rights issue	23/02/07
Mapfre	3,447.8	Capital increase with suppression of pre-emptive subscription rights	01/03/07
Sniace	4.1	Capital increase with suppression of pre-emptive subscription rights	06/03/07
Papeles y Cartones de Europa	0.0	Bonus issue	13/03/07
Clínica Baviera	124.0	IPO via secondary offering	15/03/07
Arcelor Mittal	109.0	Capital increase by conversion	22/03/07
AMCI Habitat	22.4	Rights issue	27/03/07
Jazztel	6.4	Capital increase with suppression of pre-emptive subscription rights	10/04/07
EADS	4.8	Capital increase with suppression of pre-emptive subscription rights	12/04/07
Iberia	7.7	Capital increase by conversion	17/04/07
Sniace	2.3	Capital increase with suppression of pre-emptive subscription rights	17/04/07
Sniace	77.6	Rights issue	19/04/07
Iberdrola	9,097.9	Capital increase for non-monetary consideration	24/04/07
Inmobiliaria Colonial	210.4	Capital increase for non-monetary consideration	30/04/07

Capital increases and IPOs through primary or secondary offerings or a combination of both *(continuation)* II.1

Million euro

Issuer	Cash amount[1]	Transaction	Date registered with the CNMV
Bankinter	0.5	Capital increase by conversion	08/05/07
Iberdrola	490.0	Capital increase for non-monetary consideration	10/05/07
Banco Guipuzcoano	124.8	Rights issue	16/05/07
Realia Business	783.2	IPO via secondary offering	18/05/07
Ercros	143.7	Rights issue	22/05/07
Laboratorios Almirall	697.6	IPO via combined secondary (585.6) and primary (112.0) offering	31/05/07
Service Point Solutions	0.0	Bonus issue	31/05/07
Solaria Energía y Medioambiente	255.5	IPO via primary offering	31/05/07
Zeltia	27.3	Capital increase with suppression of pre-emptive subscription rights	05/06/07
Faes Farma	0.0	Bonus issue	07/06/07
Jazztel	0.1	Capital increase with suppression of pre-emptive subscription rights	07/06/07
EADS	2.0	Capital increase with suppression of pre-emptive subscription rights	12/06/07
Fersa Energías Renovables	151.0	Rights issue	14/06/07
Funespaña	0.0	Bonus issue	21/06/07
Urbas Guadahermosa	175.4	Capital increase for non-monetary consideration	21/06/07
Iberdrola	153.1	Capital increase for non-monetary consideration	26/06/07
Mittal Steel Company	1,263.0	Capital increase for non-monetary consideration	26/06/07
Iberdrola	3,374.5	Capital increase with suppression of pre-emptive subscription rights	28/06/07
La Seda de Barcelona	439.5	Rights issue	28/06/07
Inverfiatc	44.5	Capital increase for monetary and non-monetary contributions	05/07/07
Avanzit	29.0	Capital increase with suppression of pre-emptive subscription rights	10/07/07
Inmobiliaria Colonial	709.5	Rights issue	17/07/07
Service Point Solutions	0.5	Capital increase by conversion	17/07/07
Avanzit	34.6	Rights issue	26/07/07
Abertis	0.0	Bonus issue	31/07/07
Banco de Valencia	0.0	Bonus issue	09/08/07
General de Alquiler de Maquinaria	53.4	Capital increase for non-monetary consideration	09/08/07
Zardoya Otis	0.0	Bonus issue	09/08/07
Jazztel	0.2	Capital increase with suppression of pre-emptive subscription rights	14/08/07
Jazztel	0.6	Capital increase with suppression of pre-emptive subscription rights	14/08/07
Papeles y Cartones de Europa	2.8	Capital increase with suppression of pre-emptive subscription rights	21/08/07
Tavex Algodonera	16.9	Capital increase for non-monetary consideration	23/08/07
Service Point Solutions	1.6	Capital increase with suppression of pre-emptive subscription rights	30/08/07

Capital increases and IPOs through primary or secondary offerings or a combination of both *(continuation)* II.1

Million euro

Issuer	Cash amount[1]	Transaction	Date registered with the CNMV
Service Point Solutions	8.1	Capital increase with suppression of pre-emptive subscription rights	30/08/07
Tavex Algodonera	1.1	Capital increase for non-monetary consideration	06/09/07
Banco Bilbao Vizcaya Argentaria	3,204.6	Capital increase for non-monetary consideration	10/09/07
Compañía Levantina de Edificación y Obras Públicas	0.0	Bonus issue	20/09/07
Criteria Caixacorp	3,848.3	IPO via primary offering	20/09/07
Mecalux	0.0	Bonus issue	20/09/07
Tecnocom, Telecomunicaciones y Energía	0.0	Bonus issue	27/09/07
Jazztel	1.2	Capital increase with suppression of pre-emptive subscription rights	02/10/07
Codere	236.0	IPO via combined secondary (95.4) and primary (140.6) offering	04/10/07
Inypsa Informes y Proyectos	0.0	Bonus issue	09/10/07
La Seda de Barcelona	0.8	Capital increase by conversion	09/10/07
Fluidra	298.3	IPO via secondary offering	11/10/07
Tecnocom, Telecomunicaciones y Energía	46.6	Rights issue	16/10/07
Renta 4	90.9	IPO via combined secondary (15.1) and primary (75.8) offering	25/10/07
Iberia	0.1	Capital increase by conversion	30/10/07
Arcelor	33,694.8	Capital increase for non-monetary consideration	13/11/07
Laboratorios Farmacéuticos Rovi	166.9	IPO via secondary offering	15/11/07
Urbar Ingenieros	0.0	Bonus issue	15/11/07
Metrovacesa	566.6	Rights issue	20/11/07
Iberdrola Renovables	4,070.5	IPO via primary offering	22/11/07
Unipapel	0.0	Bonus issue	22/11/07
Grupo Inmobiliario Tremon	308.6	IPO via secondary offering	22/11/07
Grupo Empresarial Ence	25.5	Capital increase with suppression of pre-emptive subscription rights	27/11/07
Cintra Concesiones de Infraestructuras de Transporte	0.0	Bonus issue	29/11/07
Prim	0.0	Bonus issue	29/11/07
Inmobiliaria del Sur	0.0	Bonus issue	04/12/07
Papeles y Cartones de Europa	0.0	Bonus issue	04/12/07
Banco de Valencia	262.5	Rights issue	05/12/07
Libetas 7	0.0	Bonus issue	18/12/07
Zeltia	15.6	Capital increase with suppression of pre-emptive subscription rights	20/12/07

Source: CNMV.

1. Issues of new shares not paid for in cash have been valued at market prices.

Delistings in 2007[1]

Company	Market[2]	Reason. Procedure	Date
Telefónica Publicidad e Información (TPI)	SIBE	Settlement of the takeover bid by Midorina S.L. At the request of the issuer.	04/04/07
Tele Pizza	SIBE	Settlement of the takeover bid by Foodco Pastries Spain S.L.U. At the request of the issuer.	24/04/07
Inmobiliaria Colonial	SIBE	Merged into Grupo Inmocaral. Technical	30/04/07
Tableros de Fibras	SIBE	Settlement of the takeover bid by Sonae. At the request of the issuer.	28/05/07
Inmobiliara Urbis	SIBE	Merged into Construcciones Reyal. Technical	11/06/07
Mittal Steel Company	SIBE	Merged into Arcelor Mittal. Technical	03/08/07
Hullas del Coto Cortés	SIBE	Delisting takeover bid	08/08/07
Arcelor Mittal	SIBE	Merged into Arcelor, which was renamed ArcelorMittal. Technical	13/11/07
Fadesa Inmobiliaria	SIBE	Merged into Promociones y Urbanizaciones Martín. Technical	17/12/07
Inversiones Azalba	Open outcry	At the request of the issuer.	31/01/07
Hispana Hólding	Open outcry	At the request of the issuer.	31/01/07
Naviera Murueta	Open outcry	Delisted by Basque Government	07/02/07
Calpe Invest	Open outcry	At the request of the issuer.	12/02/07
Banco de Promoción de Negocios	Open outcry	At the request of the issuer.	19/09/07
Sungave Land	Open outcry, UCITS	Deregistration from UCITS register. Technical	05/01/07
Bexcartera	Open outcry, UCITS	Deregistration from mercantile register. Technical	09/01/07
Ahorro Colectivo	Open outcry, UCITS	Deregistration from mercantile register. Technical	31/01/07
Juos de Inversiones	Open outcry, UCITS	Deregistration from mercantile register. Technical	01/02/07
Agaba Inversiones	Open outcry, UCITS	Deregistration from mercantile register. Technical	06/02/07
Laullon Inversiones	Open outcry, UCITS	Deregistration from mercantile register. Technical	06/02/07
Pichilemu	Open outcry, UCITS	Deregistration from UCITS register. Technical	06/02/07
Inversiones Demeter	Open outcry, UCITS	Delisted by Catalan Government	15/02/07
ABC de Inversión Mobiliaria	Open outcry, UCITS	Delisted by Catalan Government	15/02/07
Bansodad	Open outcry, UCITS	Merged into SOIXA SICAV. Technical	19/02/07
Dinerinver	Open outcry, UCITS	Merged into SOIXA SICAV. Technical	19/02/07
Cartera Urquijo	Open outcry, UCITS	Merged into Urquijo Fondos Internacionales SICAV. Technical	19/02/07
Traxis	Open outcry, UCITS	Merged into SOIXA SICAV. Technical	19/02/07
Maximus Inversiones	Open outcry, UCITS	Merged into SOIXA SICAV. Technical	19/02/07
Pericles Inversiones	Open outcry, UCITS	Merged into SOIXA SICAV. Technical	19/02/07
Credit Suisse Magallanes-25	Open outcry, UCITS	Deregistration from mercantile register. Technical	19/03/07
Inverretiro	Open outcry, UCITS	Deregistration from mercantile register. Technical	21/03/07
Inversiones Helguera	Open outcry, UCITS	Deregistration from mercantile register. Technical	24/04/07
Acates Investments	Open outcry, UCITS	Merged into Sisapon Inversores SICAV	24/05/07
Tabarca Asset Management	Open outcry, UCITS	Merged into Sociedad Mediterránea Asset Management SICAV	24/05/07
Valenciana de Negocios	Second market	Merged into Libertas 7	31/07/07

Source: CNMV.

1. Delistings due to change of market are not included.
2. Companies which are UCITS are indicated as such.

Sector indices in the Madrid and Barcelona stock exchanges

II.3

Yield in the period (%)

	2004	2005	2006	2007	2007			
					1Q	2Q	3Q	4Q
Madrid Stock Exchange								
Oil and energy	20.1	28.0	33.3	13.0	7.1	9.1	–3.3	0.0
Commodities, industry and construction	28.7	43.4	61.9	–3.2	8.0	2.9	–10.7	–2.5
Consumer goods	34.7	24.2	31.9	6.1	17.0	0.2	–1.6	–8.0
Consumer services	34.3	21.2	8.6	–8.0	11.8	–5.0	–8.9	–4.9
Financial and real estate services	8.9	22.7	34.9	–5.5	0.2	–2.1	–7.0	3.6
Banking	7.6	19.2	27.3	–3.6	0.2	–1.3	–7.0	4.8
Real estate and others	23.7	72.9	111.2	–40.6	–8.5	–21.1	–3.6	–14.7
Technology and telecommunications	18.4	–6.6	28.4	34.3	2.4	–0.5	17.5	12.2
Madrid Stock Exchange General Index	**18.7**	**20.6**	**34.5**	**5.6**	**4.3**	**1.1**	**–2.4**	**2.6**
Barcelona Stock Exchange								
Electricity	17.1	29.9	48.3	12.3	10.3	5.5	–0.1	–3.5
Banks	5.7	19.4	26.0	–0.8	–2.2	0.3	–4.7	6.2
Chemicals	23.4	29.1	7.2	–10.4	–0.8	10.5	–13.3	–5.7
Cement, construction and real estate	29.9	56.9	85.6	–32.0	0.1	–11.9	–12.4	–11.8
Metallurgy	28.5	17.7	77.9	8.0	6.1	–1.0	6.7	–3.6
Food, agriculture and forestry	27.8	35.6	32.4	–14.0	1.6	0.4	–6.1	–10.1
Textiles and paper	33.2	32.5	42.0	–8.5	14.5	–5.3	–1.3	–14.5
Trade and finance	33.6	26.7	34.4	–9.6	10.0	8.4	–13.7	–12.1
Sundry services	23.0	–2.2	20.6	23.3	5.6	–1.5	9.7	8.1
BCN Global 100	**17.6**	**12.7**	**29.3**	**5.2**	**2.2**	**0.2**	**–0.5**	**3.3**

Source: Bolsas y Mercados Españoles.

Concentration of capitalisation by sector[1]

II.4

Number

	2006				2007			
Sector	**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	3	12
Mining & base metals	1	1	3	11	1	1	4	9
Cement and construction materials	1	2	2	5	1	2	3	5
Chemicals	1	2	2	4	1	2	3	6
Textiles and paper	1	1	1	20	1	1	2	21
Metal-mechanical	1	2	4	16	1	3	5	17
Food	1	2	4	17	1	1	3	16
Construction	1	3	4	7	1	2	4	7
Real estate	1	3	6	29	2	4	7	31
Transport and communications	1	1	1	7	1	1	1	6
Other non-financial	2	5	9	21	2	4	8	23
Banks	1	2	3	15	1	2	2	14
Insurance	1	1	2	2	1	1	2	2
Portfolio companies	1	1	2	16	1	1	2	13
SICAV	13	72	238	746	1	1	3	8
Finance companies	1	1	1	1	0	0	0	0

Source: CNMV.

1. Includes only capitalisation of companies that were traded at some time during the year. Values do not include Latibex or MAB.

Percentage of capitalisation by sector and largest companies with respect to the overall market[1]

II.5

Sector	% sector/market[2]	Companies with the largest capitalisation in the sector	% company/market[3]
Oil	6.4	Repsol YPF	3.9
		CEPSA	2.5
Energy & water	18.3	Iberdrola	6.8
		Endesa	5.0
		Gas Natural	2.3
Mining & base metals	1.1	Acerinox	0.6
		Tubos Reunidos	0.1
		Duro Felguera	0.1
Cement and construction materials	0.7	Cementos Portland Valderrivas	0.3
		Cementos Molins	0.2
		Uralita	0.2
Chemicals	0.8	Laboratorios Almirall	0.3
		Zeltia	0.2
		Faes Farma	0.2
Textiles and paper	4.8	Industria de Diseño Textil	3.4
		Grifols	0.4
		Solaria	0.3
Metal-mechanical	2.2	Zardoya Otis	0.7
		Técnicas Reunidas	0.3
		Abengoa	0.3
Food	2.9	Altadis	1.6
		Damm	0.4
		Ebro Puleva	0.3
Construction	6.7	ACS	1.9
		Acciona	1.8
		Sacyr Vallehermoso	1.0
Real estate	3.1	Metrovacesa	0.7
		Inmobiliaria Colonial	0.4
		Reyal Urbis	0.4
Transport and communications	16.9	Telefónica	13.8
		Abertis Infraestructuras	1.8
		Cintra	0.7
Other non-financial	5.4	Gamesa	1.0
		Telecinco	0.6
		BME	0.5
Banks	26.7	Santander	12.1
		BBVA	8.2
		Banco Popular	1.9
Insurance	1.3	Mapfre	0.9
		Grupo Catalana Occidente	0.4
Portfolio companies	2.9	Criteria Caixacorp	2.3

Percentage of capitalisation by sector and largest companies with respect to the overall market[1] *(continuation)*

II.5

Sector	% sector/market[2]	Companies with the largest capitalisation in the sector	% company/market[3]
		Corporación Financiera Alba	0.4
		Unión Europea de Inversiones	0.1
SICAVs[4]	0.04	Financiera Ponferrada SICAV	0.0
		CAT Patrimonis SICAV	0.0
		Mulinsar SICAV	0.0

Source: CNMV.

1. Capitalisation at year-end.

2. Capitalisation of the sector as a percentage of the overall market.

3. Capitalisation of the company as a percentage of the overall market.

4. Includes open-end securities investment companies traded in the open outcry market at 2007 year-end.

Capitalisation and trading volume of Ibex 35 companies[1]

II.6

Million euro

	Market capitalisation[2]			Trading volume		
Company	2006	2007	% of total[3]	2006	2007	% of total[3]
Telefónica	79,328.6	106,067.1	13.8	189,951.5	286,907.1	17.3
Banco Santander	88,435.8	92,501.0	12.1	196,755.6	301,115.9	18.2
Banco Bilbao Vizcaya Argentaria	64,787.9	62,816.0	8.2	158,951.7	229,852.0	13.9
Iberdrola	29,859.3	51,934.9	6.8	57,222.7	112,060.2	6.8
Endesa	37,935.1	38,485.6	5.0	87,407.9	123,332.4	7.5
Repsol YPF	31,986.6	29,764.7	3.9	86,286.2	78,668.4	4.8
Inditex	25,438.1	26,192.3	3.4	13,822.1	28,355.8	1.7
Gas Natural	13,428.8	17,920.0	2.3	8,019.1	15,648.8	0.9
ACS	15,071.2	14,344.3	1.9	11,353.1	22,572.1	1.4
Banco Popular Español	16,687.9	14,220.6	1.9	23,175.7	31,798.1	1.9
Unión Fenosa	11,425.5	14,073.1	1.8	12,088.7	19,581.7	1.2
Abertis Infraestructuras	13,680.2	14,070.5	1.8	5,892.0	12,148.8	0.7
Acciona	8,966.9	13,780.8	1.8	7,871.0	15,843.2	1.0
Altadis	10,155.2	12,548.6	1.6	31,018.3	49,391.8	3.0
Banesto	11,637.0	9,241.5	1.2	3,470.3	6,968.9	0.4
Banco de Sabadell	10,376.6	9,069.9	1.2	7,967.8	12,897.1	0.8
Gamesa Corporación Tecnológica	5,072.8	7,780.7	1.0	8,400.4	14,461.8	0.9
Sacyr Vallehermoso	12,808.6	7,571.3	1.0	6,487.2	6,114.7	0.4
Corporación Mapfre	4,085.2	6,848.7	0.9	3,988.7	4,813.4	0.3
Grupo Ferrovial	10,372.6	6,749.5	0.9	12,108.4	16,675.4	1.0
FCC	10,079.8	6,711.2	0.9	7,552.6	11,549.3	0.7
Red Eléctrica de España	4,394.9	5,849.1	0.8	7,298.9	15,241.6	0.9
Cintra	6,549.0	5,593.2	0.7	5,454.3	7,748.4	0.5
Bankinter	4,683.7	4,980.8	0.6	3,862.4	8,344.3	0.5
Enagás	4,206.5	4,772.3	0.6	7,742.4	13,950.3	0.8
Acerinox	5,981.5	4,367.4	0.6	8,689.9	12,169.2	0.7
Gestevisión Telecinco	5,322.5	4,318.7	0.6	8,335.1	7,676.8	0.5
Aguas de Barcelona[4]	4,161.5	4,119.6	0.5	3,149.8	5,015.5	0.3
BME[5]	2,619.7	3,896.5	0.5	2,348.5	6,932.5	0.4
Sogecable	3,703.6	3,769.6	0.5	6,289.2	6,802.5	0.4
Inmobiliaria Colonial[6]	7,005.9	3,076.5	0.4	3,543.5	7,046.5	0.4
Indra	2,720.6	3,049.6	0.4	4,490.1	5,538.0	0.3
Iberia	2,616.7	2,858.7	0.4	5,253.2	11,199.8	0.7
Antena 3 Televisión	3,766.3	2,214.6	0.3	7,386.0	3,441.0	0.2
NH Hoteles	1,858.0	1,805.2	0.2	3,193.5	3,579.2	0.2

Source: CNMV.
1. Companies in the Ibex 35 at 28 December 2007 are considered.
2. Capitalisation on the last day of the year.
3. With respect to the market total.
4. Included in the index on 02/01/2007.
5. Included in the index on 02/07/2007.
6. Included in the index on 21/03/2007 as Grupo Inmocaral; renamed Colonial on 10/05/2007 as a result of the merger. The figures include trading before the merger.

Market data of Ibex 35 companies

%

	Yield		Volatility		Dividend yield[1]		Price/earnings ratio[2]	
	2006	2007	2006	2007	2006	2007	2006	2007
Telefónica	22.1	26.8	14.2	17.6	1.6	2.9	14.8	16.2
Santander	–4.7	26.8	12.4	15.3	3.1	3.7	12.2	13.5
BBVA	15.6	21.0	13.0	17.8	3.2	3.9	15.1	13.0
Iberdrola	28.5	61.3	16.0	23.1	2.9	2.5	17.3	18.0
Endesa	28.8	6.2	17.8	22.3	7.2	4.3	9.2	13.8
Repsol YPF	23.5	43.4	12.3	24.2	2.5	3.0	9.1	9.3
Inditex	23.5	105.7	22.8	38.2	1.3	2.0	24.9	29.6
Gas Natural	27.0	48.1	16.9	20.7	3.0	2.6	14.7	17.5
ACS	6.2	33.3	12.4	15.2	1.9	3.9	17.7	12.0
Banco Popular	62.0	57.0	19.0	19.0	2.8	3.7	15.8	17.0
Unión Fenosa	37.8	11.1	16.4	16.8	2.2	2.7	11.8	18.3
Abertis Infraestructuras	4.0	26.8	13.7	21.4	2.1	2.4	23.9	25.0
Acciona	72.2	150.5	22.6	43.7	1.6	1.3	22.4	6.8
Altadis	74.8	126.6	22.1	37.6	2.5	2.1	21.2	25.1
Banesto	23.5	36.4	13.1	17.2	0.0	6.1	16.0	43.3
Banco de Sabadell	62.4	19.3	18.1	16.2	2.2	7.8	17.4	30.0
Gamesa Corporación Tecnológica	28.8	53.0	15.3	15.2	1.4	0.9	27.8	17.5
Sacyr Vallehermoso	48.8	26.4	22.9	29.0	1.0	2.4	17.7	20.9
Corporación Mapfre	13.7	3.5	14.5	19.1	2.0	3.7	15.2	13.0
Grupo Ferrovial	35.2	61.2	18.6	26.4	1.3	2.1	20.8	21.2
FCC	45.1	49.4	22.2	29.3	2.4	4.1	18.0	18.3
Red Eléctrica de España	20.8	36.6	22.5	22.5	2.4	1.8	21.2	23.6
Cintra	4.1	87.6	18.3	21.0	0.6	0.9	156.0	714.2
Bankinter	40.4	1.2	23.4	22.5	2.1	2.2	21.9	20.9
Enagás	20.0	68.7	23.1	25.7	2.4	2.6	20.3	20.8
Acerinox	19.6	27.2	15.5	22.9	1.3	2.1	21.5	9.7
Gestevisión Telecinco	58.5	24.2	19.1	17.7	4.7	7.3	18.3	16.1
Aguas de Barcelona[3]	29.5	11.5	19.6	20.9	1.5	1.6	18.1	22.9
BME[4]	28.6	22.6	18.7	20.1	0.0	3.3	—	23.5
Sogecable	95.4	26.3	29.2	32.8	0.0	0.0	—	101.5
Inmobiliaria Colonial[5]	51.5	–9.6	27.1	26.2	0.0	0.0	—	81.2
Indra Sistemas	4.6	–20.3	20.9	28.1	2.1	4.2	22.9	22.1
Iberia	5.1	15.8	16.0	14.2	0.7	1.0	5.4	52.0
Antena 3 Televisión	–7.8	–8.3	18.2	20.4	4.5	7.4	14.1	10.5
NH Hoteles	31.3	12.7	17.5	21.7	1.0	0.0	29.1	19.7

Source: Datastream.
1. Ratio of distributed dividends with respect to the price.
2. Year-end price/Expected earnings at that time (IBES data).
3. Included in the index on 02/01/2007.
4. Included in the index on 02/07/2007.
5. Included in the index on 21/03/2007 as Grupo Inmocaral; renamed Colonial on 10/05/2007 as a result of the merger.

Takeover bids authorised in 2007

Million euro

Company	Offeror	Purpose	% capital addressed by the bid	Cash amount paid	Result (%)[1]
Bids authorised under the old takeaver bid regulations					
Industrias del curtido	Sablia XXI	Takeover and subsequent delisting	63.07 (min.=19.20%)	5	54.69
Telepizza	Foodco Pastries Spain	Increase in stake for delisting	Shares: 9.87 Conv. bonds: 69,08	57 0.4	6.73 0.01
Fadesa Inmobiliaria	Promociones y Urbanizaciones Martin, and Huson Big	Takeover	100.00 (min.=54%)	3,498	86.48
Yell Publicidad (TPI)	Midorina	Increase in stake for delisting	5.75	137	4.47
Tableros de Fibras	Sonae Industria, S.G.P.S.	Increase in stake for delisting	8.84	50	7.26
Ayco Grupo Inmobiliario	Grupo Onofre Miguel	Increase in stake	76.21	0.06	0.09
Hullas del Coto Cortés	Hullas del Coto Cortés	Delisting	22.37	8	20.23
Riofisa	Inmobiliaria Colonial	Takeover	100.00 (min.= 50%)	1,988	99.41
Inmofiban	Paneuropea Desarrollos Inmobiliarios	Takeover	100.00 (min.= 80%)	30	97.36
Aguas de Valencia	Inversiones Financieras Agval	Takeover	42,83	6	3.51
Endesa	Acciona and Enel Energy Europe	Takeover	53.99 (min.= 3.99%)	19,582	46.05
Bids authorised under the new takeover regulations					
Metrovacesa	Metrovacesa	Capital reduction	50.50	3,668[2]	41.20
Uralita	Nefinsa	Increase in stake	56.41	498	35.70
Altadis	Imperial Tobacco Overseas Holdings (3) Ltd.	Takeover	100.00	12,093	95.81
Tubos Reunidos	Tubos Reunidos	Capital reduction	Max: 14.76%	170	Pro rata: 14,76%
Sociedad General de Aguas de Barcelona	Criteria CaixaCorp, Hisusa, Suez Environnement and Suez Environnement España	Increase in stake	43.54	1,388	33.55
Total amount				**43,178.46**	

Source: CNMV.

1. Percentage with respect to capital. In the event of pro-rating, the coefficient is indicated.
2. The consideration consists of a swap offer of 0.584957 shares of Gecina per share of Metrovacesa. The cash amount was calculated by applying the closing price of Gecina on Euronext Paris in the quarter prior to 16/02/07 (trading day prior to announcement of partner separation agreement), which was 128.64 euro; the resulting price was therefore 75.25 euro per share of Metrovacesa).

Companies listed on Latibex, by sector

Million euro, unless indicated otherwise

	No. of companies		Market capitalisation			Trading volume		
	2006	2007	2006	2007	% change 07/06	2006	2007	% change 07/06
Oil	2	2	82,601.6	174,774.5	111.6	89.3	91.8	2.8
Energy & water	5	5	27,295.4	26,416.2	–3.2	61.6	61.4	–0.3
Mining & base metals	5	5	60,419.6	117,331.2	94.2	202.0	286.0	41.6
Chemicals	1	1	1,283.8	1,360.9	6.0	16.0	14.4	–9.9
Textiles and paper	2	2	3,173.2	3,465.2	9.2	10.4	14.7	40.8
Metal-mechanical	1	1	2,838.6	2,688.0	–5.3	30.3	26.8	–11.5
Food	2	2	3,826.3	3,787.8	–1.0	66.4	126.4	90.3
Real estate	2	2	2,353.5	1,381.3	–41.3	15.9	19.3	21.3
Transport and communications	3	4	56,905.2	68,711.8	20.8	110.2	107.2	–2.8
Other non-financial	2	2	3,374.9	3,535.0	4.7	6.7	16.6	148.0
Banks	6	6	21,008.3	16,131.8	–23.2	71.8	74.1	3.3
Portfolio companies	1	1	3,081.6	3,264.4	5.9	16.3	19.1	17.4
Finance companies	2	1	3,479.9	4,925.5	41.5	26.4	10.3	–60.9
Total	**34**	**34**	**271,641.8**	**427,773.1**	**57.5**	**723.3**	**868.2**	**20.0**

Source: CNMV.

Mutual funds listed on the Spanish stock exchange

II.10

Million euro

			Trading volume			Assets managed			Net asset value		
Issuer	Name	Underlying index	2006	2007	% change 07/06	2006	2007	% change 07/06	2006	2007	% change 07/06
BBVA	Acción Ibex 35 ETF	Ibex 35	855,886	1,098,304	28.3	218,828	230,627	5.4	14.20	15.28	7.6
BBVA	Acción Dj EuroStoxx 50 ETF	DJ Euro Stoxx 50	210,757	588,064	179.0	85,328	183,778	115.4	41.32	44.07	6.7
BBVA	AFI Monetario Euro ETF	AFI Monetario Euro	—	491,491	—	—	250,240	—	—	102.24	—
BBVA	AFI Bonos medio plazo Euro ETF	AFI Bonos Medio Plazo Euro	—	101,279	—	—	50,415	—	—	103.20	—
BBVA	Acción FTSE Latibex Brasil ETF	FTSE Latibex Brasil	—	27,810	—	—	11,210	—	—	142.35	—
BBVA	Acción FTSE Latibex TOP ETF	FTSE Latibex Top	—	17,191	—	—	7,620	—	—	51.10	—
BBVA	Acción Ibex Top Dividendo ETF	Ibex Top Dividendo	—	9,387	—	—	4,990	—	—	37.49	—
Santander	Flame ETF Ibex 35[1]	Ibex 35	515,249	1,131,723	119.6	59,615	64,079	7.5	14.19	15.28	7.7
Santander	Flame ETF Ibex Small Caps	Ibex Small Cap	—	30,514	—	—	6,564	—	—	16.30	—
Santander	Flame ETF Ibex Mid Caps	Ibex Medium Cap	—	22,985	—	—	6,889	—	—	19.05	—
Lyxor	Lyxor ETF Ibex 35	Ibex 35	164,840	743,863	351.3	12,690	55,551	337.8	142.45	152.20	6.8
Lyxor	Lyxor ETF DJ Euro Stoxx 50	DJ EuroStoxx 50	80,330	280,565	249.3	321	8,926	2,680.7	41.46	44.21	6.6
Lyxor	Lyxor ETF Eastern Europe (CECE Eur)	Eastern Europe (CECE Eur)	—	30,609	—	—	337	—	—	28.09	—
Lyxor	Lyxor ETF Dow Jones Industrial Average	DJ Industrial Average	—	24,958	—	—	265	—	—	91.45	—
Lyxor	Lyxor ETF MSCI EMU Small Cap	MSCI EMU Small Cap	—	22,002	—	—	336	—	—	197.00	—
Lyxor	Lyxor ETF China Enterprise (HSCEI)	Hang Seng	—	13,208	—	—	908	—	—	140.65	—
Lyxor	Lyxor ETF MSCI India	MSCI India	—	9,765	—	—	997	—	—	14.72	—
Lyxor	Lyxor ETF Nasdaq 100	Nasdaq 100	—	6,312	—	—	604	—	—	5.77	—
Lyxor	Lyxor ETF Russia (DJ Rusindex Titans 10)	Dow Jones Rusindex Titans 10	—	6,230	—	—	876	—	—	43.18	—
Lyxor	Lyxor ETF MSCI EM Latin America	MSCI EM Latin America	—	4,966	—	—	335	—	—	30.42	—
Lyxor	Lyxor ETF MSCI Emerging Markets	MSCI Emerging Markets	—	3,251	—	—	245	—	—	8.59	—
Total			**1,827,061**	**4,664,477**	**155.3**	**376,782**	**885,792**	**135.1**	—	—	—

Source: CNMV.

1. In 2006 it was called Santander Ibex 35 ETF.

Gross issues by the public administrations

II.11

Nominal amount in million euro

	Amount				% year-on-year change		
	2004	2005	2006	2007	2005	2006	2007
Status	**78,616**	**67,806**	**57,962**	**52,091**	**–13.8**	**–14.5**	**–10.1**
Short term	36,964	29,512	25,891	26,971	–20.2	–12.3	4.2
Long term	41,652	38,293	32,071	25,120	–8.1	–16.2	–21.7
Autonomous Regions	**7,131**	**10,170**	**9,454**	**7,392**	**42.6**	**–7.0**	**–21.8**
Short term	4,056	4,132	4,517	3,923	1.9	9.3	–13.2
Long term	3,076	6,037	4,937	3,469	96.3	–18.2	–29.7
Local government	**310**	**200**	**590**	**496**	**–35.4**	**194.7**	**–16.0**
Short term	0	0	0	0	—	—	—
Long term	310	200	590	496	–35.4	194.7	–16.0
Total	**86,057**	**78,176**	**68,006**	**59,979**	**–9.2**	**–13.0**	**–11.8**

Source: Bank of Spain and CNMV.

Net issues by the public administrations

II.12

Nominal amount in million euro

	Amount				% year-on-year change		
	2004	2005	2006	2007	2005	2006	2007
Status	**6,650**	**3,890**	**–4,789**	**–4,716**	**–41.5**	**—**	**1.5**
Short term	–1,653	–3,819	–1,993	1,144	–131.0	47.8	—
Long term	8,304	7,709	–2,796	–5,860	–7.2	—	–109.6
Autonomous Regions	1,551	2,797	1,827	223	80.3	–34.7	–87.8
Short term	230	276	–141	283	19.8	—	—
Long term	1,321	2,521	1,968	–60	90.9	–21.9	—
Local government	–18	–5	228	131	73.1	—	–42.4
Short term	0	0	0	0	—	—	—
Long term	–18	–5	228	131	73.1	—	–42.4
Total	8,183	6,682	–2,734	–4,362	–18.3	—	–59.5

Source: Bank of Spain and CNMV.

Public debt trading between account holders. Outright transactions, repos and sell/buybacks and buy/sellbacks

II.13

Nominal amount in million euro

	Amount						% year-on-year change	
	2002	2003	2004	2005	2006	2007	2006	2007
Bills	**223,432**	**508,880**	**472,518**	**484,161**	**480,711**	**339,956**	**–0.7**	**–29.3**
Outright	14,770	62,075	85,222	82,515	64,164	35,894	–22.2	–44.1
Spot	14,770	61,662	84,833	82,389	63,694	35,868	–22.7	–43.7
Forward	0	413	389	126	470	27	273.8	–94.3
Repos	9,206	7,030	1,990	411	0	0	—	—
Sell-buybacks/Buy-sellbacks	199,455	439,775	385,306	401,234	416,547	304,062	3.8	–27.0
Bonds and debentures	**6,239,664**	**7,217,128**	**7,308,084**	**7,260,528**	**7,062,437**	**7,142,097**	**–2.7**	**1.1**
Outright	997,195	901,582	562,627	491,550	447,211	418,761	–9.0	–6.4
Spot	982,835	882,482	552,418	481,854	444,083	417,749	–7.8	–5.9
Forward	14,360	19,099	10,209	9,696	3,128	1,012	–67.7	–67.7
Repos	88,078	58,550	94,254	69,327	96	0	–99.9	—
Sell-buybacks/Buy-sellbacks	5,154,391	6,257,002	6,651,203	6,699,650	6,615,129	6,723,337	–1.3	1.6
Total	**6,463,096**	**7,726,013**	**7,780,602**	**7,744,688**	**7,543,148**	**7,482,053**	**–2.6**	**–0.8**

Source: Bank of Spain and CNMV.

Treasury bill trading between account holders. Breakdown by trade type

II.14

Nominal amount in million euro

	Amount						% year-on-year change	
	2002	2003	2004	2005	2006	2007	2006	2007
Outright[1]	**14,770**	**62,075**	**85,222**	**82,515**	**64,164**	**35,894**	**–22.2**	**–44.1**
Senaf	0	27,093	36,350	13,119	5,111	2,790	–61.0	54.5
MTS-España	191	13,103	13,580	16,959	12,464	7,896	–26.5	–77.6
EuroMTS	0	0	180	170	260	80	52.9	–69.2
Brokertec	0	0	0	0	0	0	—	—
Bilateral trading	14,579	21,879	35,112	52,267	46,329	25,128	–11.4	–45.8
Repos[2]	**208,661**	**446,806**	**387,297**	**401,646**	**416,547**	**304,062**	**3.7**	**–27.0**
Senaf	1,866	30,527	18,211	25,543	7,579	4,723	–70.3	–37.7
MTS-España	0	243	0	0	53	0	—	—
EuroMTS	0	0	0	0	0	0	—	—
Brokertec	0	0	0	0	0	0	—	—
Bilateral trading	206,795	416,036	369,086	376,103	408,915	299,339	8.7	–26.8
Total	**223,432**	**508,880**	**472,518**	**484,161**	**480,711**	**339,956**	**–0.7**	**–29.3**

Source: Bank of Spain, Directorate-General of the Treasury and Financial Policy, and CNMV.

1. Outright trades include spot and forward trades.
2. The figure for repos includes sell-buybacks/buy-sellbacks.

Government bonds and debentures trading between account holders. Breakdown by trade type

II.15

Nominal amount in million euro

	Amount						% year-on-year change	
	2002	2003	2004	2005	2006	2007	2006	2007
Outright[1]	**997,195**	**901,582**	**562,627**	**491,550**	**447,211**	**418,761**	**–9.0**	**–6.4**
Senaf	440,628	253,653	69,758	57,554	89,118	55,049	54.8	–38.2
MTS-España	105,175	183,208	85,265	83,830	72,581	66,484	–13.4	–8.4
EuroMTS	105,031	111,705	47,503	24,462	11,170	10,746	–54.3	–3.8
Brokertec	6,403	2,137	337	312	0	0	—	—
Bilateral trading	339,958	350,879	359,764	325,392	274,343	286,482	–15.7	4.4
Repos[2]	**5,242,469**	**6,315,551**	**6,745,457**	**6,768,978**	**6,615,226**	**6,723,337**	**–2.3**	**1.6**
Senaf	26,217	436,455	277,358	127,478	76,788	33,662	–39.8	–56.2
MTS-España	0	7,501	388	0	1,949	2,668	—	36.9
EuroMTS	0	0	0	0	0	0	—	—
Brokertec	0	0	0	0	0	0	—	—
Bilateral trading	5,216,252	5,871,595	6,467,711	6,641,500	6,536,489	6,687,007	–1.6	2.3
Total	**6,239,664**	**7,217,133**	**7,308,084**	**7,260,528**	**7,062,437**	**7,142,097**	**–2.7**	**1.1**

Source: Bank of Spain, Directorate-General of the Treasury and Financial Policy, and CNMV.

1. Outright trades include spot and forward trades.

2. The figure for repos includes sell-buybacks/buy-sellbacks.

Public debt trading by account holders and third parties. Outright transactions, repos and sell/buybacks and buy/sellbacks

II.16

Nominal amount in million euro

	Amount						% year-on-year change	
	2002	2003	2004	2005	2006	2007	2006	2007
Bills	**2,012,442**	**2,098,975**	**1,800,846**	**1,746,209**	**1,214,840**	**1,254,600**	**–30.4**	**3.3**
Outright	25,326	28,120	30,328	33,963	29,167	22,030	–14.1	–24.5
Spot	25,325	28,089	30,119	33,698	29,137	21,496	–13.5	–26.2
Forward	0	31	209	265	31	534	–88.6	1624.2
Repos	1,985,247	2,069,898	1,768,729	1,709,341	1,185,339	1,230,166	–30.7	3.8
Sell-buybacks/Buy-sellbacks	1,868	957	1,789	2,905	334	2,404	–88.5	620.2
Bonds and debentures	**10,329,895**	**11,465,342**	**13,252,235**	**12,729,047**	**13,857,369**	**13,927,674**	**8.9**	**0.5**
Outright	1,292,148	1,318,652	1,571,265	2,040,064	2,690,033	2,994,352	31.9	11.3
Spot	1,288,012	1,274,648	1,469,329	1,740,267	2,366,230	2,702,273	36.0	14.2
Forward	4,136	44,004	101,936	299,797	323,803	292,079	8.0	–9.8
Repos	8,103,296	9,042,194	10,613,122	9,631,174	9,850,322	9,741,672	2.3	–1.1
Sell-buybacks/Buy-sellbacks	934,451	1,104,496	1,067,848	1,057,808	1,317,014	1,191,650	24.5	–9.5
Total	**12,342,337**	**13,564,317**	**15,053,081**	**14,475,256**	**15,072,210**	**15,182,274**	**4.1**	**0.7**

Source: Bank of Spain and CNMV.

Number of issuers and issues filed with the CNMV: detail by instrument

II.17

	Number of issuers[1]		Number of issues	
	2006	2007	2006	2007
Long term	**121**	**129**	**252**	**228**
Non-convertible bonds and debentures	46	41	115	79
- of which, subordinated debt	27	14	35	14
Convertible bonds and debentures	1	0	1	0
Mortgage covered bonds	11	10	37	32
Territorial covered bonds	5	4	6	8
Securitisation bonds	61	77	82	101
- asset-backed (ABS)	58	73	79	97
- mortgage-backed (MBS)	3	4	3	4
Preference shares	9	5	11	5
Other issues	0	2	0	3
Short term[2]	**68**	**80**	**83**	**106**
Commercial paper	68	80	83	106
- of which, asset-backed	3	3	3	3
Total	**159**	**173**	**335**	**334**

Source: CNMV.

1. In the case of issuers, the figures are not exclusive; i.e. a single issuer may have issued more than one type of instrument.

2. Shelf registrations.

Main fixed-income issuers[1] in 2007

Nominal amount in million euro

Name of issuing company	Nominal amount issued		
	Total	Short term[2]	Long term
Caja de Ahorros y Pensiones de Barcelona	19,871	12,000	7,871
Caja de Ahorros y Monte de Piedad de Madrid	14,350	7,000	7,350
ICO Mediación I AYT, Fondo de Titulización de Activos	13,169	0	13,169
Bankinter	13,050	12,000	1,050
Banco de Sabadell	11,850	8,500	3,350
Banco Popular Español	10,225	9,900	325
Caja de Ahorros de Galicia	10,150	8,000	2,150
BBVA Banco de Financiación	10,000	10,000	0
Santander Consumer Finance	10,000	10,000	0
Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)	9,150	6,000	3,150
AYT Cédulas Cajas Global Fondo de titulización de Activos	9,135	0	9,135
Banco Bilbao Vizcaya Argentaria	7,450	0	7,450
Banco Pastor	7,000	7,000	0
Santander Emisora 150	7,000	0	7,000
Caja de Ahorros del Mediterráneo	7,000	5,000	2,000
Caixa D'Estalvis de Catalunya	6,910	4,500	2,410
Banesto Banco de Emisiones	6,000	6,000	0
Bankinter Sociedad de Financiación	5,000	5,000	0
BBVA RMBS 2, Fondo de Titulización de Activos	5,000	0	5,000
BBVA RMBS 4, Fondo de Titulización de Activos	4,900	0	4,900
Programa Cédulas TDA, Fondo de Titulización de Activos	4,510	0	4,510
Banco Santander	4,500	0	4,500
Caja de Ahorros de Castilla-La Mancha	4,500	4,000	500
Cédulas TDA 9, Fondo de Titulización de Activos	4,000	0	4,000

Source: CNMV.

1. Issuers that registered issues exceeding 4 billion euro in 2007.
2. Shelf registrations.

Main fixed-income issuers[1] in 2007. Detail by instrument

Million euro

Type of asset[2]	Issuer	Amount
Non-convertible bonds and debentures	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)	3,150
	Caja de Ahorros y Monte de Piedad de Madrid	2,600
	BPE Financiaciones	2,500
	Caja de Ahorros y Pensiones de Barcelona	2,150
	Caja de Ahorros del Mediterráneo	2,000
	Banco Bilbao Vizcaya Argentaria	1,550
Mortgage covered bonds	Caja de Ahorros y Pensiones de Barcelona	5,721
	Banco Santander	4,500
	Caja de Ahorros y Monte de Piedad de Madrid	3,500
	Banco Bilbao Vizcaya Argentaria	3,000
	Banco de Sabadell	2,200
	Caixa D'Estalvis de Catalunya	1,800
	Caja de Ahorros de Galicia	1,800
	Banco Español de Crédito	1,750
Territorial covered bonds	Banco Bilbao Vizcaya Argentaria	2,900
Commercial paper[3]	Bankinter	12,000
	Caja de Ahorros y Pensiones de Barcelona	12,000
	BBVA Banco de Financiación	10,000
	Santander Consumer Finance	10,000
	Banco Popular Español	9,900
	Banco de Sabadell	8,500
	Caja de Ahorros de Galicia	8,000
	Banco Pastor	7,000
	Caja de Ahorros y Monte de Piedad de Madrid	7,000
	Banesto Banco de Emisiones	6,000
	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)	6,000
	Bankinter Sociedad de Financiación	5,000
	Caja de Ahorros del Mediterráneo	5,000
	Caixa D'Estalvis de Catalunya	4,500
	Caja de Ahorros de Castilla-La Mancha	4,000
	Banco de Andalucía	3,600
	Banco Guipuzcoano	2,500
	Caixa D'Estalvis del Penedès	2,500
	Caja de Ahorros y Monte de Piedad de Navarra	2,500
	Caja de Ahorros de Salamanca y Soria	2,250
	Telefónica	2,000
	Iberdrola	2,000
	Endesa Capital	2,000
	BBK Empréstitos	2,000
	Caja España de Inversiones, Caja de Ahorros y Monte de Piedad	2,000

Main fixed-income issuers[1] in 2007. Detail by instrument *(continuation)*

II.19

Million euro

Type of asset[2]	Issuer	Amount
	Montes de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga y Antequera	2,000
	Caja de Ahorros de Murcia	2,000
	Caja de Ahorros Municipal de Burgos	1,500
	Monte de Piedad y Caja de Ahorros San Fernando de Huelva, Jerez y Sevilla	1,500
Other fixed-income issues	Santander Emisora 150	7,000

Source: CNMV.

1. Issuers which issued more than 1.5 billion euro in 2007, in the corresponding financial instrument.
2. Convertible bonds and debentures and preference shares do not appear as no issuer issued more than 1.5 billion euro in these instruments.
3. Amount of shelf registrations.

Commercial paper issuers: largest outstanding balances[1] at 31 December 2007

II.20

Million euro

Issuer	Amount	% of total	% accum.
Banco Popular Español	8,447	8.0	8.0
Santander Consumer Finance	7,497	7.1	15.1
Banesto Banco de Emisiones	6,000	5.7	20.8
Banco de Sabadell	5,843	5.5	26.3
Caja de Ahorros y Pensiones de Barcelona	5,281	5.0	31.3
Bankinter	5,164	4.9	36.2
BBVA Banco de Financiación	5,040	4.8	41.0
Caja de Ahorros de Galicia	4,259	4.0	45.1
Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)	4,132	3.9	49.0
Caixa D'Estalvis de Catalunya	3,895	3.7	52.7
Banco Pastor	3,880	3.7	56.3
Caja de Ahorros y Monte de Piedad de Madrid	3,591	3.4	59.8
Bankinter Sociedad de Financiación	2,500	2.4	62.1
Banco Guipuzcoano	2,275	2.2	64.3
Caja de Ahorros del Mediterráneo	2,229	2.1	66.4
Caja de Ahorros de Salamanca y Soria	2,086	2.0	68.4
Banco de Andalucía	2,019	1.9	70.3
BBK Empréstitos	1,830	1.7	72.0
Caixa D'Estalvis del Penedès	1,751	1.7	73.7
Caja de Ahorros de Castilla-La Mancha	1,672	1.6	75.3
Caja de Ahorros y Monte de Piedad de Navarra	1,566	1.5	76.7
Caja de Ahorros de Murcia	1,543	1.5	78.2

Source: CNMV.

1. Issuers with an outstanding balance greater than 1.5 billion euro.

Main securitisation bond issuers[1] in 2007

II.21

Million euro

Issuer	Amount	Assets securitised
ICO Mediación I AYT, FTA	13,169	Drawdowns against mediation lines granted by ICO to financial institutions
AYT Cédulas Cajas Global FTA	9,135	Mortgage covered bonds
BBVA RMBS 2, FTA	5,000	Mortgage assignment certificates
BBVA RMBS 4, FTA	4,900	Mortgage assignment certificates
Programa Cédulas TDA, FTA	4,510	Mortgage covered bonds
Cédulas TDA 9, FTA	4,000	Mortgage covered bonds
AYT Colaterales Global Hipotecario, FTA	3,609	Mortgage assignment certificates
FTA Santander Empresas 4	3,586	Loans granted to companies and self-employed persons to finance their business or acquire property for the same purpose
FTA Santander Empresas 3	3,546	Loans granted to companies and self-employed persons to finance their business or acquire property for the same purpose
AYT Cédulas Cajas XI, FTA	3,460	Mortgage covered bonds
Madrid RMBS III FTA	3,000	Mortgage assignment certificates
BBVA RMBS 3 FTA	3,000	Mortgage assignment certificates
FTA Santander Hipotecario 3	2,822	Mortgage assignment certificates
Bancaja 10, FTA	2,631	Mortgage assignment certificates
BBVA RMBS 1, FTA	2,500	Mortgage assignment certificates
BBVA Leasing 1, FTA	2,500	Debt claims arising from financial lease transactions
IM Grupo Banco Popular Empresas 2, FTA	2,500	Loans granted to companies and self-employed persons to finance their business or acquire property for the same purpose
Madrid RMBS IV, FTA	2,400	Mortgage assignment certificates
FTA Santander Consumer Spain Auto 07-I	2,040	Debt claims arising from loans to natural and legal persons to finance the acquisition of vehicles
IM Grupo Banco Popular FTPYME II, FTA	2,039	SME
Bancaja 11, FTA	2,023	Mortgage assignment certificates

Source: CNMV.

1. Issuers which issued more than 1.5 billion euro in 2007, in the corresponding financial instrument.

Main securitisation bond issuers[1] in 2007 *(continuation)*

II.21

Million euro

Issuer	Amount	Assets securitised
Cédulas Grupo Banco Popular 3, FTA	2,000	Mortgage covered bonds
Empresas Banesto I FTA	2,000	Loans granted to companies and self-employed persons to finance their business or acquire property for the same purpose
IM Goya Hipotecario I, FTA	1,900	Mortgage assignment certificates
MBS Bancaja 4, FTA	1,873	Mortgage assignment certificates
TDA CAM 8, FTA	1,713	Mortgage participations and mortgage assignment certificates
Hipocat 11, FTA	1,628	Mortgage assignment certificates
Hipocat 12, FTA	1,628	Mortgage assignment certificates
Bankinter 15 FTH	1,526	Mortgage backed
Rural Hipotecario IX, FTA	1,515	Mortgage assignment certificates
TDA CAM 9, FTA	1,515	Mortgage participations and mortgage assignment certificates
Foncaixa Hipotecario 10, FTA	1,512	Mortgage assignment certificates
BBVA-6 FTPYME FTA	1,500	SME

Source: CNMV.

1. Issuers which issued more than 1.5 billion euro in 2007, in the corresponding financial instrument.

Securitisation bonds, by type of collateral

II.22

Nominal amount in million euro

	2002	2003	2004	2005	2006	2007
Total asset-backed bonds issued	**18,803**	**36,740**	**50,525**	**69,044**	**91,608**	**141,627**
Via FTH (a)	6,776	5,030	4,890	6,850	4,300	4,740
Via FTA	12,027	31,710	45,635	62,194	87,308	136,887
Mortgage loans (b)	4,247	11,828	13,967	22,314	34,663	57,550
Mortgage covered bonds (c)	3,500	10,650	18,685	24,280	25,670	26,655
Real estate developer loans (d)	320	0	475	730	0	0
Mortgage subtotal (a+b+c+d)	**14,843**	**27,508**	**38,017**	**54,175**	**64,633**	**88,945**
FTPYME [1]	2,713	5,303	8,964	2,944	7,956	6,474
FTGENCAT [1]	397	950	0	2,177	1,860	2,020
Other SME [1]	0	0	0	1,250	2,979	2,485
Loans to companies [2]	0	0	0	3,100	5,536	19,250
Subtotal SMEs and Companies	**3,110**	**6,253**	**8,964**	**9,471**	**18,331**	**30,230**
Loans to large companies [3]	0	0	0	556	0	0
Territorial covered bonds	0	1,400	0	665	0	0
Treasury bonds	0	0	0	1,180	1,450	0
Government loans	0	0	1,850	0	0	0
Consumer loans	0	1,280	235	0	5,527	3,592
Auto loans	850	0	1,000	2,598	1,360	2,840
Financial leases	0	0	0	0	0	2,500
Other loans [4]	0	300	458	400	307	13,521
Total securitised commercial paper [5]	**6,114**	**3,870**	**3,724**	**2,767**	**1,993**	**465**
Total bonds and commercial paper	**24,917**	**40,610**	**54,248**	**71,811**	**93,600**	**142,092**

Source: CNMV

1. Includes funds whose portfolio includes almost all of the loans to SMEs.
2. Includes funds whose portfolio includes loans to any type of business: self-employed. micro-enterprises. SMEs. and larger companies.
3. Includes funds with portfolios comprised only of loans to large companies.
4. Includes: in 2003, an accounts receivable fund; in 2004 and 2005, loans for agricultural and livestock activities; in 2004 and 2006, AYT Fondo Eólico, FTA (infrastructure); in 2006, AYT Deuda Subordinada I, FTA (special subordinated debentures); in 2007, Mediación I AYT, FTA (mediation lines granted by ICO to financial institutions) and IM Préstamos Fondos Cédulas, FTA (loans granted to mortgage covered bond securitisation trusts to cover their reserve fund).
5. Gross issues by FTAs under asset-backed commercial paper programmes.

Proprietary trading on AIAF

II.23

Nominal amount in million euro

	2002	2003	2004	2005	2006	2007	% change 07/06
Commercial paper	5,637	2,946	9,440	28,474	41,916	41,243	–1.61
Bonds and debentures	32,498	48,875	122,989	249,375	155,960	231,942	48.72
- of which. asset-backed securities	23,271	41,334	102,885	219,722	130,624	205,044	56.97
Mortgage covered bonds	204	184	5,950	5,651	7,071	14,572	106.08
Territorial covered bonds	0	4	4	111	23	1,050	4.406.44
Matador bonds	3,275	2,992	3,519	2,363	2,915	1,363	–53.24
Total	**41,614**	**55,001**	**141,902**	**285,975**	**207,885**	**290,169**	**39.58**

Source: CNMV.

Numbers, investors, assets and breakdown of variation in assets of securities and real estate mutual funds

III.1

Million euro

Category	No. of funds		No. of investors		Amount	Total change[1]	Change in assets dur to subscriptions andnet yield			Pro-memoria: Change in net subscriptions (%)
	2007	Change	2007	Change	2007	% 07/06	Amount	Net subs.	Net yield	
Short-term fixed-income	334	–40	1,508,217	–1,029,501	80,034	–24.3	–389	–3,194	2,809	–15.7
Long-term fixed-income	150	–7	319,360	6,829	7,339	–16.7	–1,335	–1,425	89	–7.0
Mixed fixed-income	136	–9	291,639	–16,345	8,016	–14.1	–860	–1,053	193	–5.2
Mixed equity	135	–13	245,925	–17,145	6,261	–11.7	–592	–840	248	–4.1
Spanish equity	123	5	288,210	–29,176	7,839	–24.7	–1,546	–2,314	768	–11.4
Foreign equity	69	–4	63,557	–44,316	1,362	–26.9	–67	–65	–2	–0.3
Foreign mixed fixed-income	68	1	202,147	–14,696	4,996	–16.5	–810	–889	79	–4.4
Foreign mixed equity	72	–2	85,289	–8,654	2,587	–15.4	–424	–437	13	–2.1
Euro equity	124	10	289,312	–9,239	8,750	11.6	–199	–442	243	–2.2
Guaranteed fixed-income	251	31	549,108	51,568	17,674	22.0	3,151	2,715	437	13.3
Guaranteed equity	590	29	1,715,144	–68,723	42,042	–6.1	–2,594	–3,602	1,008	–17.7
Global funds	470	52	822,277	–115,566	29,693	–12.5	–5,809	–6,259	450	–30.7

Source: CNMV.

1. Changes in assets in each category are influenced by changes in funds' investment policy during the year. For example, the reduction in assets in category 1 is due to the transfer of approximately 25 billion euro to category 19, while approximately 1.1 billion euro were transferred to category 1 from other categories. The real variation in assets due to net subscriptions and net yields is shown in the column **«Change in assets due to subscriptions and net yield».**

Numbers, investors, assets and breakdown of variation in assets of securities and real estate mutual funds *(continuation)*

III.1

Million euro

Category	No. of funds		No. of investors		Amount	Total change[1]	Change in assets dur to subscriptions andnet yield			Pro-memoria: Change in net subscriptions (%)
	2007	Change	2007	Change	2007	% 07/06	Amount	Net subs.	Net yield	
Foreign equity Europe	71	3	262,559	–19,564	6,434	–16.1	–1,204	–1,141	–63	–5.6
Foreign equity Japan	28	0	51,656	–33,233	461	–57.3	–608	–482	–125	–2.4
Foreign equity USA	43	1	48,553	–73,904	893	–37.2	–530	–497	–33	–2.4
Foreign equity emerging countries	62	4	156,937	38,982	2,198	28.0	487	165	323	0.8
Other foreign equity	153	–4	280,851	–71,600	3,962	–21.9	–1,045	–948	–97	–4.6
Money-market funds	47	47	872,308	872,308	24,499	—	–886	–1,063	177	–5.2
Total mutual funds	**2,926**	**104**	**8,053,049**	**–581,975**	**255,041**	**–5.6**	**–15,259**	**–21,772**	**6,517**	**–106.8**
Funds of hedge funds	31	29	3,897	3,895	999	—	996	1,006	–10	4.9
Hedge funds	21	16	1,127	1,106	446	—	373	378	–5	1.9
Total securities funds	**2,978**	**149**	**8,058,073**	**–576,974**	**256,486**	**–5.1**	**–13,890**	**–20,388**	**6,502**	**–100.0**
Real estate funds	**10**	**1**	**146,353**	**–4,700**	**8,609**	**0.1**	**13**	**–448**	**461.0**	
Foreign UCITS[2]	**440**	**100**	**850,931**	**71,766**	**37,093**	**–15.9**				

Source: CNMV.

2. The line on foreign UCITS includes both companies and funds. The asset dats for foreign UCITS refer to the volume of investment, i.e. the product of the number of shares and units marketed in Spain and their year-end value.

Fund portfolio as a percentage of the outstanding balance of Spanish securities

III.2

%

	2001	2002	2003	2004	2005	2006	2007
Listed equities[1]	**2.6**	**2.9**	**4.8**	**5.2**	**4.9**	**4.1**	**3.8**
Private sector fixed-income[2]	**15.2**	**10.9**	**10.1**	**11.3**	**10.3**	**8.8**	**8.1**
short term	28.6	21.2	16.0	18.2	17.2	13.6	14.1
long term	8.4	5.4	6.6	7.4	6.5	6.1	4.9
Public sector fixed-income	**8.3**	**6.5**	**6.2**	**4.8**	**4.2**	**3.8**	**3.3**
short term[3]	13.8	18.4	16.3	11.7	12.1	9.0	6.6
long term	7.6	5.1	4.8	3.9	3.3	3.3	2.9

Source: CNMV and Bank of Spain.

1. Realisation value. The outstanding balance figures are the capitalisation of domestic securities in the electronic market, open outcry market and MAB.
2. Fixed-income figures are nominal values.
3. Repos are not included.

Expenses charged to financial mutual funds (excluding ETFs and hedge funds)

III.3

Million euro

	2006		2007	
	Amounts	as % of average daily assets	Amounts	as % of average daily assets
Management fees	2,891.3	1.05	2,788.7	1.02
Depository fees	263.9	0.09	255.8	0.09
Other operating expenses	64.3	0.02	60.0	0.02
Total expenses charged	**3,219.5**	**1.09**	**3,104.5**	**1.13**

Source: CNMV.

Expenses charged to ETFs

III.4

Million euro

	2006		2007	
	Amounts	as % of average daily assets	Amounts	as % of average daily assets
Management fees	0.30	0.11	1.32	0.18
Depository fees	0.06	0.02	0.26	0.03
Other operating expenses	0.04	0.02	0.12	0.02
Total expenses charged	**0.40**	**0.15**	**1.70**	**0.23**

Source: CNMV.

Expenses charged to hedge funds

III.5

Million euro

	2006		2007	
	Amounts	as % of average daily assets	Amounts	as % of average daily assets
Management fees	0.03	0.10	4.84	1.44
Funding expenses	0.00	0.01	1.07	0.32
Other	0.01	0.06	2.69	0.80
Total expenses charged	**0.04**	**0.17**	**8.60**	**2.56**

Source: CNMV.

Breakdown of mutual fund assets*

III.6

Million euro, at market values

	2006	2007	% of total assets in 2007
Liquidity	10,459	15,485	6.0
Portfolio investment	259,900	240,110	93.8
Domestic portfolio	127,333	134,701	52.6
Shares and other equities In mutual funds	31,130	30,321	11.8
Public sector fixed-income securities	12,774	10,915	4.3
Private sector fixed-income securities	51,585	61,738	24.1
Repos	31,217	31,172	12.2
Other	629	553	0.2
Foreign portfolio	132,567	105,410	41.2
Euro	118,583	94,205	36.8
Other	13,983	11,205	4.4
Net balance (debit-credit)	–59	444	0.2
Assets	270,301	256,040	100.0

Source: CNMV.

* Excludes hedge funds but includes funds of hedge funds.

Yields and net subscriptions of mutual funds

Yield (%) and net subscriptions (million euro)	2002		2003		2004		2005		2006		2007	
	Yield	Net subs.	Yield	Net subs.	Yield	Net subs.	Yield	Net subs.	Yield	Net subs.	Yield	Net subs.
Short-term fixed-income	2.72	4,117	1.89	12,011	1.78	6,842	1.63	5,607	2.26	49,005	2.87	–3,194
Long-term fixed-income	4.34	–727	2.58	–383	3.4	889	2.14	–461	0.47	–3,267	1.19	–1,425
Mixed fixed-income	–3.84	–1,912	5.14	–323	3.95	15	4.78	1,657	4.87	910	2.30	–1,053
Mixed equity	–15.92	–337	11.34	–877	6.87	–852	11.62	–475	13.06	–955	3.68	–840
Spanish equity	–26.91	105	29.02	511	19.51	1,130	20.61	276	33.25	–2,219	8.02	–2,314
International fixed-income	–0.64	–219	1.66	101	1.82	192	3.67	177	–0.11	–533	–0.22	–65
International mixed fixed-income	–2.42	–246	2.39	–1,597	2.98	–456	5.4	689	3.11	629	1.31	–889
International mixed equity	–17.96	–28	7.55	–576	4.29	–257	12.42	–70	4.71	101	0.34	–437
Euro equity	–33.45	–187	16.91	472	9.23	11	22.35	344	19.16	382	3.78	–442
Guaranteed fixed-income	4.46	–2,200	2.39	–2,262	2.5	1,853	1.65	–354	0.83	1,019	2.78	2,715
Guaranteed equity	0.37	–1,945	2.66	12,873	3.92	1,222	4.02	4,694	4.66	–3,021	2.44	–3,602
Global funds	–12.42	326	5.79	4,367	2.31	8,070	6.16	3,928	4.09	7,301	1.48	–6,259
International equity Europe	–33.78	–143	13.36	167	8.61	345	22.23	1,174	17.35	899	–0.24	–1,141
International equity Japan	–25.41	–9	11.84	–1	5.94	173	40.9	681	–5.61	–395	–16.15	–482
International equity USA	–34.25	124	10.03	314	0.37	–130	12.14	138	4.24	155	–1.77	–497
International equity Emerging countries	–24.53	15	26.48	–18	22.86	137	52.75	368	22.16	78	23.76	165
International equity Other	–35.16	–363	11.77	–252	4.7	–21	21.46	–51	12.13	15	–0.93	–948
Money market funds	—	—	—	—	—	—	—	—	—	—	0.72	–1,063
Total securities funds	**–5.92**	**–3,740**	**5.22**	**24,528**	**4.13**	**19,164**	**6.13**	**18,319**	**5.85**	**50,103**	**2.72**	**–21,772**
Funds of hedge funds	—	—	—	—	—	—	—	—	—	1	–0.95	1,006
Hedge funds	—	—	—	—	—	—	—	—	—	—	2.21	378
Total funds	**–5.92**	**–3,740**	**5.22**	**24,528**	**4.13**	**19,164**	**6.13**	**18,319**	**5.85**	**50,104**	**2.71**	**–20,388**
FIAMM (money market)	**2.42**	**8,350**	**1.5**	**3,843**	**1.18**	**–739**	**1.17**	**–3,878**	**2.06**	**–54,629**	**—**	**—**
Real estate funds	**7.87**	**459**	**6.89**	**559**	**6.7**	**1,304**	**5.35**	**1,808**	**5.98**	**1,673**	**5.3**	**–448**
Pro memoria: amount marketed by Spanish firms and Spanish-resident foreign firms												
Foreign UCITS						6,766	—	11,770	—	6,435	—	–5,846

Source: CNMV.

UCITS operators (SGIIC): registrations and deregistrations in 2007

III.8

UCITS operators	Controlling group
Registrations	
Altex Partners Gestión, SGIIC, SA	Independent
Siitnedif, SGIIC, SA	Fidentis Equities
Acapital Finanzas, SGIIC, SA	Independent
ICR Institutional Investment Management, SGIIC, SA	Independent
ALTAN Capital, SGIIC, SA	Independent
Omega Gestión de Inversiones, SGIIC, SA	Independent
Cartesio Inversiones, SGIIC, SA	Independent
Goldman Sachs Gestión, SGIIC, SA	Goldman Sachs
Valorica Capital e Inversiones. SGIIC, SA	Tressis
Deregistrations	
Afina Gestión, SGIIC, SA	Commerzbank
Aguilar y de la Fuente Gestión, SA, SGIIC	Aguilar y de la Fuente
Gesdinco Gestión, SGIIC, SA	Renta 4

Source: CNMV.

Foreign investment firms with community passport: Home Member State [1]

III.9

Number of firms	2006	2007
Free provision of services	**951**	**1,365**
Austria	26	28
Belgium	8	8
Cyprus	9	10
Denmark	7	8
Germany	22	28
Finland	5	5
France	42	41
Greece	8	8
Ireland	26	29
Italy	5	4
Luxembourg	9	11
Malta	1	1
Netherlands	50	54
Norway	12	20
Portugal	7	8
Slovenia	1	1
Sweden	9	8
UK	704	1,093
Branches	**22**	**29**
France	2	2
Netherlands	2	2
Portugal	0	1
UK	18	24
Total	**973**	**1,394**

Source: CNMV.

1. Country stated in the communiqué by investment firms from EU Member State and in authorisations of investment firms from non-EU countries.

Broker-dealers, brokers and portfolio management companies. Registrations and deregistrations III.10

Firm	Controlling group
Broker-dealers and brokers	
Registrations	
Selección e Inversión de Capital Global, Agencia de Valores, SA	Independent
Lombard Odier Darier Hentsch & Cie. (España), Sociedad de Valores, SA	Lombard Odier Darier Hentsch & Cie.
Auriga Securities, Sociedad de Valores, SA	Independent
Morgan Stanley Wealth Management, Sociedad de Valores, SA	Morgan Stanley
Morgan Stanley, Sociedad de Valores, SA	Morgan Stanley
Deregistrations	
Eurosafei, Sociedad de Valores, SA	Banco Inversis
Inversis Intermediarios Financieros, Agencia de Valores, SA	Banco Inversis
Euroactivos, Agencia de Valores, SA	Banco Inversis
Beta Capital, Sociedad de Valores, SA	Fortis Bank
Deutsche Securities, Sociedad de Valores, SA	Deutsche Bank
Afina Pentor, Agencia de Valores, SA	Commerzbank
Botavara Blanca, Agencia de Valores, SA	Independent
Morgan Stanley, Sociedad de Valores, SA	Morgan Stanley
JPMorgan, Sociedad de Valores, SA	JP Morgan Bank
Fonditel Valores, Agencia de Valores, SA	Telefónica
Portfolio management companies	
Deregistrations	
MG Wealth Managers, SA, Sociedad Gestora de Carteras	Independent
Deutsche Asset Management, Sociedad Gestora de Carteras, SA	Deutsche Bank
Padinco Patrimonios, Sociedad Gestora de Carteras, SA	Renta 4
González Cantero Hermanos, Sociedad Gestora de Carteras, SA	Independent
Foreign investment firms with branch	
Registrations	
Blackrock Investment Management (UK) Limited, Sucursal en España	Merrill Lynch
Morley Fund Management Limited, Sucursal en España	Aviva
ADM Investor Services International Limited, Sucursal en España	ADM investor services
Fairfield Greenwich (UK) Limited, Sucursal en España	Fairfield Greenwich Group
DIF Broker Sociedade Corretora, S.A., Sucursal en España	Dif Broker
IG Markets Limited, Sucursal en España	IG Group
MFS International (UK) Limited, Sucursal en España	MFS International

Source: CNMV.

Changes of control at broker-dealers, brokers and portfolio management companies. 2007

III.11

Firm	Buyer
Acqusitions of control by Spanish financial institutions	
Dexia Equities España, S.A. Agencia de Valores	Independent[1]
Acquisitions of control by foreign financial institutions	
Winvalor Agencia de Valores, S.A.	Axa[2]

Source: CNMV.

1. Employee buy-out from RBC Dexia Investor Services España.
2. Axa, S.A. bought 100% of Winterthur Swiss Insurance Company from the Credit Suisse Group, which entailed indirectly acquiring 100% of Winvalor, AV.

Spanish investment firms with community passport. Host Member State[1]

III.12

Number of firms	2006	2007
Free provision of services	**135**	**137**
Austria	5	5
Belgium	10	12
Denmark	5	5
Finland	5	5
France	11	12
Germany	17	16
Greece	5	5
Iceland	3	3
Ireland	8	7
Italy	12	11
Liechtenstein	1	1
Luxembourg	9	9
Netherlands	10	11
Norway	3	3
Portugal	16	17
Sweden	5	5
UK	10	10
Branches	**2**	**2**
Portugal	1	1
UK	1	1
Pro memoria: Total no. of investment firms with cross-border operations[2]		
Free provision of services	32	29
Branches	2	2

Source: CNMV.

1. Country stated in the communiqué relating to free provision of services and in authorisations of branches.
2. Number of Spanish investment firms providing services in other countries, without counting the number of countries as a single firm may provide services in more than one.

Foreign credit institutions with Community passport to provide investment services at 31 December 2007. Home Member State

III.13

Number of credit institutions	2006	2007
Free provision of services	**293**	**310**
Austria	18	20
Belgium	5	7
Cyprus	2	2
Denmark	7	9
Finland	5	5
France	47	48
Germany	36	36
Hungary	1	1
Iceland	1	1
Ireland	23	23
Italy	6	7
Liechtenstein	2	2
Luxembourg	39	43
Malta	1	3
Netherlands	25	25
Norway	2	2
Portugal	11	11
Sweden	3	3
UK	59	62
Branches	**45**	**52**
Belgium	2	3
Denmark	1	1
France	13	14
Germany	6	6
Iceland	0	1
Ireland	1	3
Italy	2	1
Luxembourg	2	2
Netherlands	5	5
Portugal	6	8
UK	7	8

Source: CNMV.

Statistical annexes IV

Number of shareholders of Ibex 35 companies[1] with significant holdings

IV.1

	Stake			
Company	**5%-10%**	**10%-25%**	**25%-50%**	**50%-100%**
Abertis	2	2	–	–
Acciona	–	–	–	1
Acerinox	1	3	–	–
ACS	1	3	–	–
AGBAR	1	–	–	1
Altadis	5	1	–	–
Antena 3	1	1	1	–
B. Popular	2	1	–	–
B. Sabadell	4	–	–	–
B. Santander	2	1	–	–
Banesto	–	–	–	1
Bankinter	1	2	–	–
BBVA	3	–	–	–
BME	4	–	–	–
Cintra	1	–	–	1
Colonial	4	1	1	–
Enagás	9	–	–	–
Endesa	–	–	1	1
FCC	–	1	–	1
Ferrovial	–	–	–	1
Gamesa	3	1	–	–
Gas Natural	–	1	2	–
Iberdrola	3	–	–	–
Iberia	2	1	–	–
Inditex	1	1	–	1
Indra	3	2	–	–
Mapfre	–	–	–	1
NH Hoteles	5	1	1	–
REE	1	1	–	–
Repsol YPF	1	2	–	–
Sacyr	6	3	–	–
Sogecable	1	1	1	–
Telecinco	3	1	–	1
Telefónica	4	–	–	–
Unión Fenosa	3	–	1	–
Total	77	31	8	10

Source: CNMV.

1. Composition of the Ibex 35 index at year-end.

Outcome of disciplinary proceedings in 2007

Reference	Resolution
(1/07)	**Ministerial Order of 29 January 2007**
	Resolution on disciplinary proceedings against two investment firms (a broker and a portfolio management company) for three alleged serious breaches of article 99.e) of the Securities Market Act (essential accounting irregularities), two by the broker and one by the portfolio management company. Two fines were imposed on the broker for a total of 200,000 euro and one fine on the portfolio management company for 50,000 euro. A member of the Board of Directors of both firms received three punishments of removal and disqualification for a total period of 18 years.
(2/07)	**CNMV Board Resolution dated 22 February 2007**
	Resolution on disciplinary proceedings against a corporation which is the parent company of a consolidable group of financial institutions for an alleged serious breach of article 100.b) of the Securities Market Act (failure to file the supplementary auditors' report by the deadline). No liability was found.
(3/07)	**Ministerial Order of 6 March 2007**
	Resolution on disciplinary proceedings against a limited company and its sole administrator for an alleged very serious breach of article 99.q) of the Securities Market Act (performance of reserved activities without authorisation). The company and the administrator were fined 300,506.05 euro each.
(4/07)	**Decision by the CNMV Executive Committee dated 19 April 2007**
	Decision to dismiss disciplinary proceeding against an issuer for an alleged serious breach of article 99 ñ) of the Securities Market Act (failure to file regulatory disclosure), which had been suspended as the matter was sub judice, since the corresponding criminal case was dismissed.
(5/07)	**CNMV Board Resolution dated 25 April 2007**
	Resolution on disciplinary proceedings against a UCITS operator for alleged breaches of the UCITS Act. Fines totalling 1,030,000 euro for two serious breaches (breach of fee rules and breach of investment policy of certain funds).
(6/07)	**CNMV Board Resolution dated 30 May 2007**
	Resolution on disciplinary proceedings against two natural persons for alleged very serious breach, by one of them, of article 99.o) of the Securities Market Act (disclosure of inside information) and a serious breach, by the other, of article 100.x) of the Securities Market Act (insider dealing). The former was found not to be liable, and the latter was fined 6,021 euro.
(7/07)	**Ministerial Order of 5 July 2007**
	Resolution on disciplinary proceedings against a natural person for two alleged very serious breaches of the Securities Market Act, one of article 99.p) (failure to disclose significant holdings) and the other of article 99.o) (insider dealing). They were fined 15,000 euro and 33,500 euro, respectively.
(8/07)	**Ministerial Order of 5 July 2007**
	Resolution on disciplinary proceedings against a limited company, its sole administrator and an executive of the company for alleged serious breach of article 99.q) of the Securities Market Act (performance of reserved activities without authorisation). The company was fined 16,081,881 euro and each of the natural persons was fined 300,506.05 euro.
(9/07)	**Ministerial Order of 24 October 2007**
	Resolution on disciplinary proceedings against a credit institution for alleged serious breach of article 99 p) of the Securities Market Act (delay in disclosing significant holdings). Fine: 12,000 euro.

Source: CNMV.

Court judgments in 2007 in administrative appeals against penalties

No.	Date	Court	Appeal no.	Appealed order
1	11/01/2007	National Court	98/2005	Order MEH 25/01/2005

Upheld the penalties imposed by Ministry of Economy and Finance Order dated 25 January 2005 for a very serious breach of article 99.p) of the Securities Market Act.

No.	Date	Court	Appeal no.	Appealed order
2	12/02/2007	National Court	376/2004	Order ME 12/03/2004

Upheld the penalties imposed by Resolution of the CNMV Board, which was confirmed on appeal by Ministry of Economy and Finance Order dated 12 March 2004, in connection with several serious breaches of article 100.t) of the Securities Market Act and articles 32.3.c) and 32.3.j) of the UCITS Act.

No.	Date	Court	Appeal no.	Appealed order
3	28/02/2007	National Court	152/2005	Order MEH 24/01/2005

Upheld the penalties imposed by Resolution of the CNMV Board, confirmed on appeal by Ministry of Economy and Finance Order dated 24 January 2005, in connection with several serious breaches of articles 100.c), 100.h) and 100.o) of the Securities Market Act.

No.	Date	Court	Appeal no.	Appealed order
4	20/03/2007	National Court	80/2004	Order MEH 22/01/2004

Upheld the penalty imposed by Ministry of Economy and Finance Order dated 22 January 2004 for a very serious breach of art. 99.ñ) of the Securities Market Act.

No.	Date	Court	Appeal no.	Appealed order
5	23/03/2007	National Court	222/2005	Order MEH 14/02/2005

Upheld the penalty imposed by Ministry of Economy and Finance Order dated 14 February 2005 for a very serious breach of article 99.p) of the Securities Market Act.

No.	Date	Court	Appeal no.	Appealed order
6	12/04/2007	National Court	450/2004	Order ME 15/07/2004

Upheld the penalties imposed by Resolution of the CNMV Board, confirmed on appeal by Order of the Ministry of the Economy dated 15 July 2004, in connection with several serious breaches of articles 100.t), 100.m) and 100.c) of the Securities Market Act.

No.	Date	Court	Appeal no.	Appealed order
7	10/05/2007	National Court	332/2005	Order MEH 12/04/2005

Upheld the penalty imposed by Ministry of Economy and Finance Order dated 12 April 2005 for a very serious breach of article 99.p) of the Securities Market Act.

No.	Date	Court	Appeal no.	Appealed order
8	25/05/2007	National Court	362/2005	Order ME 09/06/2005

Upheld the penalties imposed by Resolution of the CNMV Board, confirmed on appeal by Order of the Ministry of the Economy dated 9 June 2005, in connection with several serious breaches of articles 100.o) and 100.c) of the Securities Market Act.

No.	Date	Court	Appeal no.	Appealed order
9	25/05/2007	National Court	317/2006	Order MEH 16/06/2006

Upheld the penalty imposed by Resolution of the CNMV Board for a serious breach of article 100.t) of the Securities Market Act, and confirmed on appeal by Ministry of Economy and Finance Order dated 16 June 2006.

No.	Date	Court	Appeal no.	Appealed order
10	08/06/2007	National Court	629/2005	Order MEH 18/10/2005

Upheld the penalties imposed by Ministry of Economy and Finance Order dated 18 October 2005 for a very serious breach of article 99.l) of the Securities Market Act.

No.	Date	Court	Appeal no.	Appealed order
11	12/06/2007	National Court	506/2004	Order MEH 24/11/2003

Upheld the penalty imposed by Ministry of Economy and Finance Order dated 24 November 2003 for a very serious breach of article 32.4.e) of the UCITS Act.

Court judgments in 2007 in administrative appeals against penalties *(continuation)*

No.	Date	Court	Appeal no.	Appealed order
12	13/06/2007	Supreme Court	893/2001	National Court decision 26/07/2004
Upheld, on appeal, the National Court decision of 26 July 2004 rejecting administrative appeal number 893/2001 against the Order of the Ministry of the Economy dated 12 December 2000, imposing a penalty for a very serious breach of article 99.q) of the Securities Market Act.				
13	20/06/2007	Supreme Court	892/2001	National Court decision 08/09/2004
Upheld, on appeal, the National Court decision of 8 September 2004 rejecting administrative appeal number 892/2001 against the Order of the Ministry of the Economy dated 12 December 2000, which imposed penalties for a very serious breach of article 99.q) of the Securities Market Act.				
14	06/07/2007	National Court	669/2005	Order MEH 18/10/2005
Upheld the penalty imposed by Resolution of the CNMV Board for a serious breach of article 100.t) of the Securities Market Act, confirmed on appeal by Ministry of Economy and Finance Order dated 18 October 2005.				
15	17/07/2007	National Court	224/2005	Order MEH 14/02/2005
Upheld the penalty imposed by Order of the Ministry of the Economy dated 14 February 2005 for a very serious breach of article 99.l) of the Securities Market Act.				
16	18/07/2007	National Court	685/2005	Order MEH 18/10/2005
Upheld the penalties imposed by Resolution of the CNMV Board for a serious breach of article 100.t) of the Securities Market Act, confirmed on appeal by Ministry of Economy and Finance Order dated 18 October 2005.				
17	14/09/2007	National Court	153/2005	Order MEH 17/02/2005
Upheld the administrative appeal against Ministry of Economy and Finance Order dated 17 February 2005 which upheld, on appeal, the penalties imposed by CNMV Resolution for a serious breach of article 32.3.j) of the UCITS Act. That Order was overturned.				
18	20/09/2007	National Court	684/2005	Order ME 18/10/2005
Upheld the penalties imposed by Resolution of the CNMV Board for serious breaches article 100.t) of the Securities Market Act and article 32.3. j) of the UCITS Act, confirmed on appeal by Ministry of Economy and Finance Order dated 18 October 2005.				
19	11/10/2007	National Court	305/2005	Order MEH 28/03/2005
Upheld the penalties imposed by Ministry of Economy and Finance Order dated 28 March 2005 for very serious breaches of article 99.l) and 99.q) of the Securities Market Act.				
20	24/10/2007	Supreme Court	97/2004	National Court decision 27/09/2005
Rejected appeal for unification of doctrine made against National Court decision of 27 September 2005, which had rejected administrative appeal number 97/2004 against Ministry of Economy and Finance Order of 19 December 2003, which imposed penalties for very serious breaches of article 99.l) of the Securities Market Act.				
21	28/12/2007	National Court	683/2005	Orders MEH 18/10/2005 and 10/02/2006
Confirmed the penalties imposed for a serious breach of article 100.t) and a very serious breach of article 99.l) of the Securities Market Act by Ministry of Economy and Finance Orders dated 18 October 2005 and 10 February 2006 which confirmed, on appeal, a CNMV Resolution and an Order of the Ministry of Economy and Finance.				

Source: CNMV.

Public warnings about unauthorised firms

IV.4

Date	Firm	Regulator/Supervisor
CNMV warnings about unauthorised firms		
12/02/2007	Brookfield Partners, S.L. www.brookfield-partners.com	CNMV
12/02/2007	Administraciones Temple Bar, S.L.	CNMV
05/03/2007	BERKLEY WYATT ASSET LIMITED, S.L. www.bwasset.com, www.bwasset.es	CNMV
05/03/2007	CISA MANAGEMENT, S.L. www.cisasl.org	CNMV
05/03/2007	CISA, S.L., CORPORATE INVESTMENT SERVICES www.cisasl.org	CNMV
05/03/2007	REMINGTON YORK LTD.	CNMV
02/04/2007	BR CONSULTANCE ALFAZ, S.L.	CNMV
18/06/2007	ANDERSON McCORMACK GROUP, S.L.	CNMV
18/06/2007	CORNHILL MANAGEMENT, S.L. www.cornhillmanagementsl.com	CNMV
18/06/2007	BROKER S SOCIETY SOCIEDAD DE GESTIÓN Y TRAMITACIÓN FINANCIERO ASEGURADORA, S.L.	CNMV
03/12/2007	EURO TRUST CAPITAL MANAGEMENT	CNMV
Public warnings from foreign regulators		
03/01/2007	Wakefield & Stern Corporation www.wakefieldstern.ch	JFSC - JERSEY
03/01/2007	Axxess Swiss Trading www.axxessswiss.com	NAFM - NETHERLANDS
03/01/2007	Axxess Swiss Corp www.axxessswiss.com	NAFM - NETHERLANDS
03/01/2007	IFGX Mergers and Acquisitions Group www.ifgx.com	NAFM - NETHERLANDS
10/01/2007	Aberdeen Management Limited	GFSC - GIBRALTAR
10/01/2007	Hamiltons Financial Services SL	GFSC - GIBRALTAR
24/01/2007	Hanson Group Internacional www.hansongroupinternational.com	SFSA - SWEDEN
17/01/2007	OCFDA (Offshore Commodity Futures Dealers Association) www.ocfda.org	CBF - BELGIUM
17/01/2007	Yamato & Associates www.yamatoandassociates.com	SFC - HONG KONG
17/01/2007	Newman Bell Mergers & Acquisitions www.newmanbell.com	SFC - HONG KONG
17/01/2007	Alpinai Investments www.alpinai.com	SFC - HONG KONG
17/01/2007	FinAXA Settlements Inc www.finaxa.us	SFSA - SWEDEN
24/01/2007	Hollinger Newcastle Limited www.hollingernewcastle.com	SFSA - SWEDEN
24/01/2007	Kennedy & Lang Limited www.kennedylang.com	SFSA - SWEDEN
24/01/2007	KingsleyStone www.kingsleystone.com	SFSA - SWEDEN

Public warnings about unauthorised firms *(continuation)*

Date	Firm	Regulator/Supervisor
24/01/2007	Maxwell & Goldstein www.maxwellgoldstein.com	SFSA - SWEDEN
24/01/2007	Thatcher & Thatcher Ltd www.thatcherltd.com	SFSA - SWEDEN
31/01/2007	Reynold Brown Associates	FMA - AUSTRIA
31/01/2007	South West Bank	FSC - ISLE OF MAN
31/01/2007	Hanover Company Limited	JFSC - JERSEY
07/02/2007	Gold Coast Investments www.goldcoast-investments.com	FMA - AUSTRIA
07/02/2007	Fairbain Private Bank www.fpbgroup.com	FSC - ISLE OF MAN
07/02/2007	Universal Mercantile Building Society EF (UMBS)	SFSA - SWEDEN
14/02/2007	Grundbuchzertifikat Ltd. www.gbz.at	FMA - AUSTRIA
14/02/2007	LORNE TRUST ASSET MANAGEMENT MR RYAN MCCOURT (SIC) MR RICHARD WILLIAMS	FSC - ISLE OF MAN
14/02/2007	VAULTING COMPANY LIMITED MR RYAN MCCOURT (SIC) MR RICHARD WILLIAMS	FSC - ISLE OF MAN
14/02/2007	JFS Credit Union Ekonomisk förening	SFSA - SWEDEN
14/02/2007	Unispar Universal Sparkasse Ekonomisk förening www.unisparkasse.com	SFSA - SWEDEN
21/02/2007	Cathay Asset Management	NAFM - NETHERLANDS
21/02/2007	Golden Trading Organisation www.goldentrading.co.uk	FSC - ISLE OF MAN
28/02/2007	Walden & Associates	FMA - AUSTRIA
28/02/2007	Investarea (IOM) Ltd www.investarea.org	FSC - ISLE OF MAN
28/02/2007	Oceania Bank PLC www.oceaniabnkplc.com	FSC - ISLE OF MAN
28/02/2007	The Royal London Bank of Communications	FSC - ISLE OF MAN
28/02/2007	Unicredit (UK) Ltd.	FSC - ISLE OF MAN
14/03/2007	Evergreen Equito	FSA - UK
14/03/2007	Omega Advisory Group	FSA - UK
14/03/2007	Globe Invest AG	SSMA - SLOVENIA
14/03/2007	Strategic Capital Partners Portfolio Management AG www.strategiccapital.ch	SSMA - SLOVENIA
21/03/2007	Pegasus Ventures http://www.pegasus-ventures.net	DFSA - DENMARK
21/03/2007	Pegasus Ventures http://www.pegasus-ventures.net	FSAN - NORWAY
28/03/2007	Metrofinancials	ASIC - AUSTRALIA
28/03/2007	Metro Financials	ASIC - AUSTRALIA
28/03/2007	New York Options Exchange (NYOEX)	CFTC - USA
28/03/2007	Tahoe Futures (Tahoe)	CFTC - USA
28/03/2007	International Energy Exchange (INTENX)	CFTC - USA

Public warnings about unauthorised firms *(continuation)*

IV.4

Date	Firm	Regulator/Supervisor
28/03/2007	Vitol Capital Management (Vitol)	CFTC - USA
28/03/2007	New York Petroleum Option Exchange (NYPOE)	CFTC - USA
28/03/2007	HPR Commodities (HPR)	CFTC - USA
28/03/2007	American Futures and Options Exchange (AFOEX)	CFTC - USA
28/03/2007	Metro Financials (Metro)	CFTC - USA
28/03/2007	American Futures and Options Trading Commission (AFOTC)	CFTC - USA
28/03/2007	First Equis Ltd. www.firstequis.com	FSAN - NORWAY
28/03/2007	Leeds Bank Plc www.leedsb.com	JFSC - JERSEY
11/04/2007	Trinity Ventures http://www.trinity-ventures.com	DFSA - DENMARK
11/04/2007	Olympia King Wealth Group www.olympiaking.com	SFC - HONG KONG
18/04/2007	Ashton Trading Corporation	NAFM - NETHERLANDS
18/04/2007	Carlton Hedges and Associates www.carltonhedgesandassociates.com	JFSC - JERSEY
25/04/2007	RVC Markets	FSA - UK
25/04/2007	CISA SL Corporate Investment Services	FSA - UK
25/04/2007	Empire Investments (based in Luxembourg)	FSA - UK
25/04/2007	Portsmouth Escrow Service LLC	FSA - UK
09/05/2007	Direct Settlements Pte Ltd.	FSAN - NORWAY
09/05/2007	Tanaka Securities Inc. www.tanasecure.com	FSAN - NORWAY
09/05/2007	Lohman Brokers	NAFM - NETHERLANDS
09/05/2007	Signature Consulting. Ltd. www.signatureconsulting.com	SFSA - SWEDEN
16/05/2007	Bond Trust Finance	FSC - ISLE OF MAN
16/05/2007	Guaranty Finance Clearing House Isle of Man UK	FSC - ISLE OF MAN
16/05/2007	IDS International Services	FSC - ISLE OF MAN
23/05/2007	Wellington Mergers & Acquisitions www.wellingtonma.com	FSAN - NORWAY
06/06/2007	Capital Offshore Group www.cogroup.co.uk	JFSC - JERSEY
06/06/2007	Blundell Oliver Ltd.	NAFM - NETHERLANDS
06/06/2007	Diversified Capital Management Ltd	NAFM - NETHERLANDS
06/06/2007	Global Mergers and Acquisitions Inc.	NAFM - NETHERLANDS
06/06/2007	KB Panamá	NAFM - NETHERLANDS
06/06/2007	Imperial Quest Ventures Ltd www.iqvltd.com	SFSA - SWEDEN
20/06/2007	Morgan Franklin International	FSAN - NORWAY
20/06/2007	FMSinvest LTD www.fmsinvest.co.uk	FSC - ISLE OF MAN
20/06/2007	FMS-Fund LTD www.fms-fund.com	FSC - ISLE OF MAN

Public warnings about unauthorised firms *(continuation)*

IV.4

Date	Firm	Regulator/Supervisor
20/06/2007	OPFund LTD	FSC - ISLE OF MAN
04/07/2007	DENTON MERGERS AND ACQUISITIONS	NAFM - NETHERLANDS
04/07/2007	KNOWL, BREW AND ZIMMER	SFSA - SWEDEN
04/07/2007	INDICES INTERNATIONAL GROUP	SFSA - SWEDEN
04/07/2007	TAVISTOCK CAPITAL MARKETS	SFSA - SWEDEN
18/07/2007	Merkater Business Company	NAFM - NETHERLANDS
04/07/2007	GIG HOLDINGS Ltd	HCMC - GREECE
04/07/2007	WORLD MANAGEMENT INTERNATIONAL	HCMC - GREECE
18/07/2007	SUMMIT CAPITAL MANAGEMENT	FSAN - NORWAY
18/07/2007	ORMOND COMMODITIES	FSAN - NORWAY
18/07/2007	SCANDINAVIAN BROKERS HOUSE s.r.o.	FSAN - NORWAY
18/07/2007	GORDON MACQUEEN	FSC - ISLE OF MAN
18/07/2007	UPCB PRIVE BANCO	FSC - ISLE OF MAN
18/07/2007	HUKO FINANCE AMELIA TUIWAI	FSC - ISLE OF MAN
18/07/2007	TECO FINANCE LTD HTTP://TECO-FINANCE.COM	FSC - ISLE OF MAN
18/07/2007	TECO-FINANCE.COM HTTP://TECO-FINANCE.COM	FSC - ISLE OF MAN
18/07/2007	TECO-FINANCE.COM LTD HTTP://TECO-FINANCE.COM	FSC - ISLE OF MAN
18/07/2007	FMSinvest LTD HTTP://TECO-FINANCE.COM	FSC - ISLE OF MAN
18/07/2007	ALBERT T. MACARTHUR	FSC - ISLE OF MAN
18/07/2007	HUMPHREYS & CO LAWYERS	FSC - ISLE OF MAN
18/07/2007	TIM MCCARRON	FSC - ISLE OF MAN
18/07/2007	LORNE TRUST ASSET MANAGEMENT	FSC - ISLE OF MAN
18/07/2007	VAULTING COMPANY LIMITED	FSC - ISLE OF MAN
18/07/2007	LORNE TRUST ASSET MANAGEMENT COMPANY	FSC - ISLE OF MAN
18/07/2007	UNION TRUST SECURITIES	FSC - ISLE OF MAN
18/07/2007	WESTMINSTER FINANCE LONDON	FSC - ISLE OF MAN
18/07/2007	HUNTINGTON ASSET MANAGEMENT GROUP	IFSRA - IRELAND
28/03/2007	VARIOUS USA (CFTC)	CFTC - USA
08/08/2007	UGC PRIVATE BANKING SERVICES WWW.UGROUPCOM.COM	FSC - ISLE OF MAN
08/08/2007	GUARRANTY FINANCE CLEARING HOUSE HTTP://GFCHOUSE.COM HTTP://GUARRANTYFC.007IHOST.COM/ACCESS/ABOUT/INDEX.HTML	FSC - ISLE OF MAN
08/08/2007	GOLDEN FINANCE CLEARING HOUSE HTTP://GFCHOUSE.COM HTTP://GUARRANTYFC.007IHOST.COM/ACCESS/ABOUT/INDEX.HTML	FSC - ISLE OF MAN
08/08/2007	GFCH HTTP://GFCHOUSE.COM HTTP://GUARRANTYFC.007IHOST.COM/ACCESS/ABOUT/INDEX.HTML	FSC - ISLE OF MAN
08/08/2007	FMSinvest LTD	FSC - ISLE OF MAN
08/08/2007	FMS-Fund LTD	FSC - ISLE OF MAN

Public warnings about unauthorised firms *(continuation)*

IV.4

Date	Firm	Regulator/Supervisor
08/08/2007	OPFund LTD	FSC - ISLE OF MAN
08/08/2007	UNICORN VENTURES	FSAN - NORWAY
14/08/2007	GUARANTEE TRUST ASSET MANAGEMENT COMPANY WWW.GUARANTEETRUST-ASSETMGT.COM	FSC - ISLE OF MAN
14/08/2007	Scorpion Performance Inc. www.scorpionperformance.com	CBFA - BELGIUM
22/08/2007	FIRST PRIME INTERNATIONAL	FSAN - NORWAY
12/09/2007	SWISS MUTUAL FUND (1948), S.A.	FSC - ISLE OF MAN
12/09/2007	CHARLTON HAYFIELD AND COMPANY WWW.CHARLTONHAYFIELD.COM	SFSA - SWEDEN
12/09/2007	TAO INVESTMENT MANAGEMENT COMPANY WWW.MPT-ASIA.COM WWW.MANDARIN-FUND.COM WWW.CHINACARBONFUND.COM WWW.CARBONFUND.ORG	SFC - HONG KONG
12/09/2007	MOUNTAIN PEAK TRADING LIMITED WWW.MPT-ASIA.COM WWW.MANDARIN-FUND.COM WWW.CHINACARBONFUND.COM WWW.CARBONFUND.ORG	SFC - HONG KONG
12/09/2007	MPT MARKETING SERVICE WWW.MPT-ASIA.COM WWW.MANDARIN-FUND.COM WWW.CHINACARBONFUND.COM WWW.CARBONFUND.ORG	SFC - HONG KONG
12/09/2007	ARRAN FUNDING LIMITED WWW.ARRAN-FUNDING.COM	JFSC - JERSEY
12/09/2007	BORDEAUX ADVISORY B.V.	AFM - NETHERLANDS
12/09/2007	TRANS WORLD SECURITY INVESTMENT (TWSI) WWW.TRANSWORLDSECURITYINVESTMENTS.COM/ABOUT.HTML	FSC - ISLE OF MAN
12/09/2007	OFFSHORE CREDIT SERVICES LIMITED	FSC - ISLE OF MAN
24/10/2007	Swisscash	FSC - ISLE OF MAN
24/10/2007	OXFORD INTERNATIONAL CREDIT UNION	FSC - ISLE OF MAN
24/10/2007	HOPEWOOD AND COMPANY WWW.HOPEWOODCO.COM	SFSA - SWEDEN
24/10/2007	EXTEND CAPITAL CORP. (GROUP) WWW.EXTEND-CAPITAL.COM	SFSA - SWEDEN
24/10/2007	EXTEND CAPITAL FOREIGN OPERATION FUND WWW.EXTEND-CAPITAL.COM	SFSA - SWEDEN
24/10/2007	FOREX CAPITAL MARKETS CLUB LIMITED WWW.FXCMCLUB.COM	SFC - HONG KONG
24/10/2007	FXCM CLUB WWW.FXCMCLUB.COM	SFC - HONG KONG
24/10/2007	FX CAPITAL CLUB LIMITED WWW.FXCMCLUB.COM	SFC - HONG KONG
24/10/2007	SOLARIS GLOBAL PARTNERS WWW.1STINVESTANDSECURITIES.COM WWW.SOLARISGLOBALPARTNERS.COM	SFSA - SWEDEN
24/10/2007	FOCUS (AIM) LIMITED	SFC - HONG KONG

Public warnings about unauthorised firms *(continuation)*

Date	Firm	Regulator/Supervisor
24/10/2007	SMI GLOBAL CAPITAL LTD WWW.SMICAP.COM	SFC - HONG KONG
24/10/2007	WWW.BPBONLINE.NET	FSC - ISLE OF MAN
24/10/2007	CONSOLIDATED SECURITIES INC	FSC - ISLE OF MAN
24/10/2007	ZURICHINTERNATIONAL.BANKLTD@YAHOO.CO.UK	FSC - ISLE OF MAN
24/10/2007	LAMBERT & GILBERT LAMBERT GEORGE	FSC - ISLE OF MAN
24/10/2007	HUMPHREYS & CO LAWYERS	FSC - ISLE OF MAN
24/10/2007	HUMPHREY & CO LAWYERS	FSC - ISLE OF MAN
24/10/2007	VARIOUS ISLE OF MAN	FSC - ISLE OF MAN
31/10/2007	URBAN PRIVATE FINANCE WWW.URBANFIN.COM WWW.URBANFINMAIL.COM	JFSC - JERSEY
31/10/2007	URBAN PRIVATE FINANCE CORPORATION WWW.URBANFIN.COM WWW.URBANFINMAIL.COM	JFSC - JERSEY
31/10/2007	GLOBAL PENSION PLAN	FSAN - NORWAY
31/10/2007	HARCOURT WELLS & ASSOCIATES WWW.HARCOURTWELLS.COM	FSAN - NORWAY
31/10/2007	DRAGON SECURITIES WWW.DRAGON-SECURITIES.COM	FSAN - NORWAY
31/10/2007	MORGAN FINANCIAL ADVISORS WWW.MORGAN-ADVISORS.COM	FSAN - NORWAY
31/10/2007	ARTEMIS FINANCIAL WWW.ARTEMIS-FINANCIAL.COM	FSAN - NORWAY
31/10/2007	INVESTMENT NETWORK INCOPORATED WWW.INVESTMENTNETWORKINCORPORATED.COM	FSAN - NORWAY
31/10/2007	PRIORITY VENTURE MANAGEMENT WWW.PRIORITYVENTUREMGT.COM	SFSA - SWEDEN
31/10/2007	TRANSATLANTIC GROUP MERGERS AND ACQUISITIONS WWW.TGMERGERS.COM	SFSA - SWEDEN
31/10/2007	CAMERON MCDONALD & CO WWW.CAMERONMCD.COM	SFSA - SWEDEN
31/10/2007	MILLER & ROSS WWW.MILLER-ROSS.COM	SFSA - SWEDEN
07/11/2007	ALLIANCE & LEICESTER COMMERCIAL BANK WWW.ALCBONLINE.CO.UK	FSC - ISLE OF MAN
07/11/2007	HUMPHREY & CO LAWYERS	FSC - ISLE OF MAN
07/11/2007	HUMPHREYS & CO LAWYERS	FSC - ISLE OF MAN
07/11/2007	SUMMIT EMPIRE GROUP LIMITED WWW.SUMMITEMPIRELTD.COM	SFSA - SWEDEN
07/11/2007	FORBES FIRST FINANCIAL CORPORATION	SFSA - SWEDEN
07/11/2007	OLSEN ACQUISITIONS WWW.OLSENACQUISITIONS.COM	SFSA - SWEDEN
07/11/2007	CROWN POINT MERGERS & ACQUISITIONS LIMITED WWW.CROWNMERGERS.COM	SFSA - SWEDEN
14/11/2007	Morley Thompson Inc. www.morleythompson.com	CBFA - BELGIUM

Public warnings about unauthorised firms *(continuation)*

IV.4

Date	Firm	Regulator/Supervisor
21/11/2007	CITY CAPITAL MA WWW.CITYCAPITALMA.COM	SFSA - SWEDEN
21/11/2007	CITIFUND ASSET MANAGEMENT INC WWW.CITIFUNDASSET.COM	SFSA - SWEDEN
21/11/2007	HOWELL AND JOHNSON ASSOCIATES WWW.HOWELLANDJOHNSON.COM	SFSA - SWEDEN
21/11/2007	MASAHIRO INTERNATIONAL WWW.MASAHIROINTERNATIONAL.COM	SFSA - SWEDEN
21/11/2007	WELLINGTON PHILIPS ASSET MANAGEMENT GROUP WWW.WELLINGTONPHILIPSAMG.COM	SFSA - SWEDEN
21/11/2007	THE SHERWOOD CORPORATION WWW.SHERWOOD-CORP.COM	FSAN - NORWAY
21/11/2007	BRADSTONE HEALY & PRATT WWW.BHPMERGERS.COM	SFC - HONG KONG
28/11/2007	SUPREME TEXTILES INDUSTRIES	FSC - ISLE OF MAN
28/11/2007	VARIOUS ISLE OF MAN	FSC - ISLE OF MAN
28/11/2007	TRI CAPITAL MANAGEMENT WWW.TRICAPITALMGMT.COM	SFSA - SWEDEN
28/11/2007	WESLEY WEALTH MANAGEMENT WWW.WESLEYWEALTH.COM	SFSA - SWEDEN
28/11/2007	MERIT CAPITAL MANAGEMENT INC WWW.MERITCAPITALMANAGEMENT.COM WWW.MERITCAPITAL.NET	SFSA - SWEDEN
28/11/2007	BEACON GLOBAL MANAGEMENT INC WWW.BEACONGLOBAL.US	SFSA - SWEDEN
28/11/2007	AIM LAW ASSOCIATES WWW.AIM4LAW.COM	SFSA - SWEDEN
28/11/2007	OVETII WWW.OVETII.COM	FSAN - NORWAY
28/11/2007	PHBC	AMF - FRANCE
12/12/2007	Scorpion Performance Inc.	AMF - FRANCE
2/12/2007	OLSEN ACQUISITIONS WWW.OLSENACQUISITIONS.COM	FSAN - NORWAY
12/12/2007	Allied International Investment Limited	SFC - HONG KONG
12/12/2007	XCELL SOLAR INC RENE BERGMAN	SFC - HONG KONG
12/12/2007	CRESTWELL RESOURCES LTD ROBERT LANG WWW.CRESTWELLRESOURCES.COM	SFC - HONG KONG
12/12/2007	E-MONEY BALANCE TRUSTWORTHY GROUP INC. HTTP://EMB.IMBARK.ORG	SFC - HONG KONG
12/12/2007	MASTERFIELD INVESTMENT GROUP WWW.MASTERFIELDINVESTMENTGROUP.COM	SFC - HONG KONG
12/12/2007	ELLIOTT & PARTNERS ADVISORY (HK) LIMITED WWW.ELLIOTT-PARTNERS.COM	SFC - HONG KONG
12/12/2007	BURLINGTON LTD WWW.BURLINGTONLTD.COM	SFSA - SWEDEN
12/12/2007	SOVEREIGN GLOBAL TRADING WWW.SOVTRADING.COM	SFSA - SWEDEN

Public warnings about unauthorised firms *(continuation)*

IV.4

Date	Firm	Regulator/Supervisor
12/12/2007	ACKERMAN & GOLDHART WWW.ACKERMAN-GOLDHART.COM	SFSA - SWEDEN
12/12/2007	WALDON MCLEAN ASSOCIATES WWW.WALDONMCLEAN.COM	SFSA - SWEDEN
12/12/2007	MCMILLAN CONSULTING WWW.MCMILLANCONSULT.COM	SFSA - SWEDEN

Source: CNMV.

Legislation annexes

A. Spanish legislation

Main domestic legislation approved in 2007.

A.1 Securities market regulations

Amendments to Act 24/1988, of 28 July, on the Securities Market

— **Act 6/2007, of 12 April,** amending the Securities Market Act 24/1988, of 28 July, in order to amend the rules governing takeover bids and issuer transparency. Gazetted 13/04/2007.

The purpose of this Act was to amend Act 24/1988, of 28 July, on the Securities Market, to partly incorporate Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids (the Takeover Directive) and Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (the Transparency Directive) into Spanish law.

That Act establishes the main lines of the new regulation, since the transposition of the Directives was completed by Royal Decree 1066/2007, of 27 July, on the rules governing takeover bids and Royal Decree 1362/2007, of 19 October, implementing Act 24/1988, of 28 July, on the Securities Market, in connection with the transparency requirements applying to issuers whose securities are admitted to trading on an official secondary market or other regulated market in the European Union.

The amendments to the Securities Market Act are as follows:

i. Amendment to article 34 of the Securities Market Act. Improvements were made to the rules governing delistings. Listed companies seeking to delist just generally, with very limited exceptions, make a takeover bid aimed at all the shares that the company wishes to delist.

ii. Amendment to article 35 of the Securities Market Act. This amendment adopts the European rules governing regular disclosures by companies with securities listed on official secondary markets (annual, half-yearly and quarterly reports).

iii. A new article 35.bis was added to cover issuers' other disclosure obligations, such as the obligation to disclose any change in the rights inherent to the securities, to facilitate the exercise of their rights by shareholders and bondholders, and to notify the CNMV of any plans to amend the Articles of Association.

iv. Addition of a new article 35.ter on issuers' responsibility for drawing up and publishing certain regulated information.

v. Amendment to article 53 to include rules governing notification to the issuer and the CNMV of the acquisition or loss of a significant stake in an issuer's voting stock or of financial instruments giving entitlement to acquire such securities.

vi. Addition of a new article 53.bis which completes these rules by requiring issuers to notify the CNMV of transactions with own shares and to disseminate the information publicly.

vii. Addition of a new article 53.ter which enables the CNMV, when it is the host country competent authority, to adopt preventive measures with regard to issuers and other bound parties subject to supervision by authorities in other Member States.

viii. Chapter V of Title IV of the Securities Market Act was expanded to cover cases where a takeover bid for 100% of the company is mandatory; rules governing the CNMV's powers where the company is not domiciled in Spain; obligations of the Board of Directors of a company which is the target of a takeover bid; the possibility of adopting anti-takeover measures; optional neutralisation measures, and squeeze-outs and sell-outs. In general terms, the system of prior partial takeover bids has been replaced with one of total a posteriori takeover bids, more in line with the system in other EU Member States.

ix. Amendment of the rules on publication and dissemination of regulatory disclosures contained in article 82 of the Securities Market Act and the addition of a new section 1.bis in article 85 to empower the CNMV to demand from an issuer's auditors such information as it may need to discharge its supervisory duties and to demand that issuers publish supplements or corrections to their periodical disclosures. The article governing the CNMV's public records was amended and the register of regulated information is now classified as the central storage mechanism for such information.

x. As for penalties, the categories of serious and very serious infringements were introduced to cover breaches of the obligations under this Act.

xi. A new article 116.bis was added to include additional information that listed companies must publish in their directors' report (covering the capital and voting structure and decisions that are triggered when a takeover bid is made for the company, among others).

— **Act 47/2007, of 19 December,** amending Act 24/1988, of 28 July, on the Securities Market.

The purpose of Act 47/2007 is to amend Act 24/1988, of 28 July, on the Securities Market so as to comply with the obligation to transpose the following Directives: Directive 2004/39/EC of the European Parliament and of the Council of 21 April on markets in financial instruments; Directive 2006/73/EC, of 10 August 2006, implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive; and Directive 2006/49/EC of the European Parliament and the Council, of 14 June 2006, on the capital adequacy of investment firms and credit institutions.

Directive 2004/39/EC, also known as MiFID, contains regulations more in line with the current workings of the securities markets with the goal of fostering the development of a single financial market. To that end, it establishes a more precise and detailed general regulatory framework for the European Union's financial markets than was contained in the Investment Services Directive, particularly the conditions for the provision of investment and ancillary services, the organisational requirements that providers of such investment services must meet, and those applicable to regulated markets, the reporting requirements with regard to trading in financial instruments in the European Union and the transparency requirements applicable to transactions in shares traded in regulated markets.

In line with the Lamfalussy process, that Directive was implemented by two regulations of the European Commission: Commission Regulation 1287/2006 implementing Directive 2004/39/EC as regards record-keeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive, and Commission Directive 2006/73/EC of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive, which was only partly transposed by this Act.

And Directive 2006/49/EC applies to investment firms the approach which the supervisor must apply when determining the most appropriate ratio between required equity and risks of each entity, following the model adopted by the Basel II Accord of 2004. Under this new approach, EU regulations seek to stimulate a new form of risk management by investment firms. It also requires investment firms to be more transparent by requiring them to issue regulatory disclosures on key aspects of their business profile, risk exposure and forms of risk management. The inclusion of these new rules on solvency into the Securities Market Act represents a major change for investment firms and credit institutions that provide investment services.

The goal of the reform is basically to further modernise the securities markets so as to adapt them to current requirements without impairing investor protection. In fact, the new regulations introduced measures to enhance investor protection. Investment firms are now required to classify their clients into retail and professional and give them different degrees of protection based on their level of knowledge and experience and, in some cases, their ability to assume the risk involved in the investment. Providers of investment services are also required to have a detailed catalogue of codes of conduct.

The Act also strengthens the organisational and solvency requirements that apply to firms providing investment services, expands the powers of the Comisión Nacional del Mercado de Valores and enhances the mechanisms for cooperation between supervisors, both domestically and internationally.

The main new features introduced in each Title of the Act are described below:

— **Title I:** adapts the scope of the Act to the amendments made in its wording; it also expands the catalogue of tradeable securities and financial instruments, and improves the definition of group by adopting that of article 42 of the Commercial Code.

— **Title IV:** amended extensively as a result of Directive 2004/39/EC, which harmonised the rules applicable to organised markets as regards their conditions of authorisation and operation, the rules governing significant holdings, the internal organisation requirements, the conditions of membership of such markets, etc.

The term «official secondary market in securities» was maintained in Spanish law as the legislators consider it to be firmly rooted in our legislation, even though the Directive refers to regulated markets.

The main new feature introduced by this Act in our markets is that it departs from the principle that shares may only be traded on the Stock Exchanges, thus complying with the general principle, introduced by the MiFID, that each regulated market may decide which financial instruments may be traded in it, provided that the legal requirements are met.

Also, once this Act came into force, the Minister of Economy and Finance (and not the Cabinet, as was previously the case) holds the power to authorise the creation of official secondary markets, since it is considered that such authorisation is essentially technical and it was considered necessary to expedite the procedure.

The rules contained in the Securities Market Act governing official secondary markets must be completed with regulations drafted by the markets themselves, which must be authorised by the Minister of Economy and Finance.

The CNMV maintains its powers to suspend and exclude financial instruments from trading, but market governing bodies are now authorised to suspend or exclude a financial instrument from trading if it is in breach of the market's own regulations.

Another new feature in this Title, aimed at providing greater protection for more frequent investors, is the regulation of a pre- and post-trade transparency system for shares traded on official secondary markets. This system of pre- and post-trade transparency is completed with the requirements in Title XI for trades in such shares on multilateral trading facilities, and post-trade transparency requirements for systematic internalisers.

As regards clearing and settlement, as a result of the transposition of MiFID, Title IV allows regulated markets and multilateral trading facilities to choose any clearing and settlement system in another EU Member State. As a logical consequence of this, the Securities Market Act expands the object of the Systems Company to enable it to clear and settle trades in regulated markets and multilateral trading facilities of other EU Member States and it also allows official secondary market and Spanish multilateral trading facilities to enter into agreements with entities in other EU Member States to entrust them with the clearing and settlement of trades concluded on those markets and facilities. Such arrangements must be approved by the Comisión Nacional del Mercado de Valores, which may refuse if the arrangement may impair the orderly working of the Spanish market or system. And members of official secondary markets and multilateral trading facilities are now free to designate the system for settling the trades they conclude in such markets or facilities subject to a number of conditions and independently of the settlement system belonging to the official secondary market or multilateral trading facility.

And a new Chapter IV bis was added to this Title, with the heading «Notification of Transactions», to regulate the obligation on investment firms and credit institutions to inform the CNMV of all trades they conclude in financial instruments, regardless of the market, facility or mechanism used for the trade, in order to facilitate the CNMV's supervisory work.

— **Title V:** sets out in detail the new rules on authorisation, working and internal organisation of investment firms as a result of the transposition of Directive 2004/39/EC.

As for the parties who are bound, the Securities Market Act applies not only to credit institutions (as was previously the case) but also to UCITS operators which, in accordance with Act 35/2003, of 4 November, on UCITS, may provide certain investment services. The Act also creates a new type of investment firm as a result of MiFID treating investment advice as a reserved activity. Financial advisory firms, which may be natural or legal persons, need authorisation and must comply with the Act in order to provide such services.

The catalogue of investment services has also been expanded to include not only investment advice but also the management of multilateral trading facilities, as regulated in Title XI, and the Act states that this activity, and that of investment advice, may only be conducted by duly authorised entities. The marketing of investment services and financial instruments and client acquisition are also reserved for investment firms and their agents since those activities are intimately related to the provision of investment services.

— **Title VII:** Chapter I establishes an important catalogue of rules of conduct that are obligatory for all firms providing investment services. It also requires that those entities classify their clients as retail or professional clients or as eligible counterparties so as to offer them the degree of protection that is appropriate to their profile, including measures such as providing sufficient information and performing tests of suitability.

— **Title VIII:** sets out new powers for the Comisión Nacional del Mercado de Valores in the area of supervision and inspection and the functions of cooperation and exchange of information with the supervisory authorities of other Member States and even with the competent authorities of third countries, as a result of the transposition of Directive 2004/39/EC. It also regulates the new rules for the supervision of the solvency of investment firms arising from transposition of Directive 2006/49/EC. And it adapts the disciplinary rules to the amendments made throughout the Act while also updating the penalties.

— **Title XI:** this new Title regulates multilateral trading facilities and systematic internalisers.

The intention is that investment firms and credit institutions providing investment services should be able to compete with the Stock Exchanges and other official secondary markets in trading financial instruments, thus expanding the list of order execution venues available to investors, the clear goal (imposed by the Directive) being to reduce costs for end clients and facilitate the establishment of a single market in financial services.

Multilateral trading facilities arose in Spain in the form of «*sistemas organizados de negociación de valores y otros instrumentos financieros (SON)*« - organized trading systems, which were already regulated prior to this reform. This amendment acknowledges this reality within Europe and establishes certain requirements with regard to organisation and pre- and post-trade transparency that are similar to those imposed on the official secondary markets.

Systematic internalisation represents a third alternative form of trading financial instruments, since investment firms and credit institutions are allowed to execute internally for their own account, in an organised, systematic way, the orders from their clients to trade in financial instruments listed on official secondary markets. Only post-trade transparency requirements are imposed.

— **Transitional provisions:** investment firms are given six months from the entry into force to adapt their Articles of Association, programmes of activities and internal codes of conduct. The current unofficial organised trading markets or systems are also given six months to convert into multilateral trading facilities. Otherwise, they must cease operating.

— **Final provision 4:** the Government is entrusted with consolidating the text of the Securities Market Act within one year from the entry into force of the Act, the intention being to include this reform and its predecessors into a single coherent text.

In conclusion, the competition, transparency and improvement in investor rights provided by the Act will wreak major changes in the financial services market. The pending transposition of the aforementioned top-level directives (Directive 2004/39/EC and Directive 2006/49/EC) and the second-level directives (Directive 2006/73/EC) was completed by means of **Royal Decree 217/2008, of 15 February, on the rules governing investment firms and other providers of investment services, partly amending the Regulation under Act 35/2003, of 4 November, on UCITS, approved by Royal Decree 1309/2005, of 4 November**, gazetted on 16 February 2008 and **Royal Decree 216/2008, of 15 February, on the own funds of financial institutions**, gazetted on that same day.

Transparency

- **Royal Decree 1362/2007, of 19 October,** implementing Act 24/1988, of 28 July, on the Securities Market, in connection with the requirements for transparency imposed on issuers whose securities are listed on an official secondary market or other regulated market in the European Union. Gazetted on 20/10/2007.

  The main goal of this Royal Decree is to implement the provisions of the Securities Market Act in connection with the disclosure requirements imposed on entities whose securities are listed on an official secondary market or other regulated market in the European Union.

  The essential elements of Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC were incorporated into Spanish law by the approval of Act 6/2007, amending the Securities Market Act 24/1988, of 28 July, to amend the system for takeovers and issuer transparency. Therefore, this Royal Decree incorporates into Spanish law the part of Directive 2004/109/EC not covered by Act 6/2007, and also Directive 2007/14/EC of the Commission, of 8 March, laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC.

  The Royal Decree provides detailed regulations of the content, publication and dissemination of regulated disclosures by issuers whose securities are admitted to listing on an official secondary market or other regulated market domiciled in the European Union where Spain is the home country; it distinguishes between public information that issuers must publish and disseminate to the market periodically (annual and half-yearly reports and interim management declarations or quarterly reports) and the information about issuers that must be made public and disseminated continuously (significant information under the market abuse regulations, identity of significant shareholders and their stakes, transactions with own shares).

- **Circular 2/2007, of 19 December,** of the Comisión Nacional del Mercado de Valores, approving the standard forms for disclosure of significant holdings, directors and executives, transactions by the issuer with own shares, and other forms. Gazetted 10/01/2008.

  The purpose of this Circular is to establish the standard disclosure forms to be used for filing this type of information with the Comisión Nacional del Mercado de Valores. The forms were designed taking account of the specific obligations established in articles 39, 43 and 47.4 of Royal Decree 1362/2007, of 19 October, implementing Act 24/1988, of 28 July, on the Securities Market, in connection with the transparency requirements applying to issuers whose securities are admitted to trading on an official secondary market or other regulated market in the European Union, and of article 9 of Royal Decree 1333/2005, of 11 November, in market abuse, and the parties obliged to file such notifications, i.e. significant shareholders that are not directors, directors, executives and the issuers themselves, in the case of disclosures of transactions with own shares.

- **Circular 4/2007, of 27 December,** of the Comisión Nacional del Mercado de Valores, amending the form of annual corporate governance reports by listed corporations. Gazetted 14/01/2008.

On 22 May 2006, the Board of the CNMV approved the Unified Code of Good Governance that listed companies must use as a reference when presenting their annual corporate governance report (ACGR) for 2007 and subsequent years. The purpose of the Circular is to replace the standard form for ACGR by listed corporations, set out in annex I of Circular 1/2004, of 17 March, of the CNMV, by that regulated in this Circular's annex I, which must be completed in accordance with the instructions in the form itself.

Since one of the basic tenets of the Unified Code is that compliance is voluntary, and that listed companies are free to follow the recommendations or otherwise, it is not obligatory to complete certain sections of the ACGR form; rather, they need only be completed if the company declares that it fulfils the related recommendation. However, if a company does not follow the recommendation, or follows it only partly, it must state the reasons.

The Unified Code establishes that listed companies are free to decide whether or not to follow the corporate governance recommendations but, when disclosing whether or not they follow them, they must respect the Code's definitions.

Takeover bids

— **Royal Decree 1066/2007, of 27 July**, on the rules for takeover bids. Gazetted 28/07/2007.

Act 6/2007, of 12 April, amending the Securities Market Act 24/1988, of 28 July, in order to amend the rules governing takeover bids and issuer transparency, amended article 34 and Chapter V of Title IV of Act 24/1988, of 28 July, on the Securities Market. The Act had two goals: to make the changes required by transposition of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids; and to amend other aspects of the regulations to ensure that takeover bids are conducted within a comprehensive legal framework and with total legal certainty.

This Royal Decree on takeover bids rounds out the amendments made by Act 6/2007 in pursuit of the aforementioned two goals.

The Royal Decree contains exhaustive regulations on all phases of making a takeover bid for a listed company.

It applies to all takeover bids, both voluntary and mandatory, that are made for a listed company. In accordance with the requirements of the Act, cases where the Royal Decree is applicable across borders are envisaged, and it establishes the features of such bids that are governed by the Royal Decree and those that are governed by the legislation of the company's home country.

Royal Decree 1066/2007, of 27 July, introduced significant new features into the rules for takeover bids. The main change is the regulation of the «compulsory takeover bid a posteriori», by establishing the obligation to make a takeover bid for all of a company's capital in the month after attaining control of 30% of the company's capital.

The new rules provide cases of exemption from this requirement, subject to CNMV approval, where, upon crossing the 30% threshold, another party, individually or jointly, already owns the same or a greater percentage of the voting stock.

The regulation governing compulsory takeover bids a posteriori includes a new feature by defining the fair price required in compulsory bids (without prejudice to the adjustments provided in article 9 of the Royal Decree), i.e. the highest price that the bidder or persons acting in concert with him have paid or agreed to pay for the same securities in the twelve months prior to announcing the bid. This price should be distinguished from that defined as the delisting price in article 10 of the Royal Decree, which must necessarily be in cash.

Apart from other lesser changes undertaken by the Royal Decree, it establishes the cases of «squeeze-out» and «sell-out» already known in Europe. These are cases where the buyer or seller can force the other party to sell the shares where there was a previous takeover bid at a fair price and two conditions are met: a) the bidder owns at least 90% of the company's voting stock, and b) the takeover bid was accepted by at least 90% of the voting stock which it aimed to acquire. The Royal Decree also regulates the procedure for exercising the squeeze out and sell out rights.

And it introduces neutralisation or «break through» rules. This means that the Shareholders' Meeting has the power to decide on the enforceability of takeover defences established in the Articles of Association and to override any decision restricting the transferability of the company's shares. And the Royal Decree regulates break-up fees, allowing the Board of Directors of a target company to reach an agreement with the first bidder on a fee for the expenses of preparing the bid where the initial bid fails because of competing bids.

The Decree also introduced significant new features in the rules on competing bids: for example, it is now possible to present a competing bid up to five business days before the deadline for acceptance of the preceding bid, which provides flexibility in the process of auction between competing bidders.

Market abuse

— **Royal Decree 364/2007, of 16 March,** amending Royal Decree 685/1982, of 17 March, implementing certain aspects of Act 2/1981, of 25 March, regulating the Mortgage Market, Royal Decree 1343/1992, of 6 November, implementing Act 13/1992, of 1 June, on own funds and consolidated basis supervision of financial entities, and Royal Decree 867/2001, of 20 July, on the legal regime for investment services companies, and Royal Decree 1333/2005, of 11 November, implementing Act 24/1988, of 28 July, on the Securities Market, in the area of market abuse. Gazetted 17/03/2007.

This Royal Decree amended four royal decrees on financial matters. One of them is Royal Decree 1333/2005, of 11 November, implementing Securities Market Act 24/1988, of 28 July, concerning market abuse. The new decree expands the scope of related parties of an issuer's directors and executives who are obliged to disclose transactions in the issuer's shares. The goal is to adapt Spanish law more closely to European regulations on market abuse.

— **Circular 3/2007, of 19 December,** of the CNMV on Liquidity Contracts for the purposes of their acceptance as a market practice. Gazetted 12/01/2008.

The liquidity contracts referred to in this circular involve an intermediary providing liquidity on behalf of an issuer by buying and selling that issuer's shares in the secondary market. Since this activity might entail market manipulation as defined in Securities Market Act (Act 24/1988, of 28 June) and in Directive 2003/6/EC, this Circular seeks to determine the limits and conditions in which the transactions carried out under such contracts may be classified as an accepted practice for the purposes of the provisions of the aforementioned article 83.ter.1.a) of Act 24/1988.

Official secondary markets in securities

— **Royal Decree 361/2007, of 16 March**, implementing Act 24/1988, of 28 July, on the Securities Market with regard to holdings in the capital of companies that manage secondary markets in securities and companies that manage securities registry, clearing and settlement systems. Gazetted 17/03/2007.

This Royal Decree sets out special rules for parties owning a significant or controlling stake in companies that manage secondary markets and securities registry, clearing and settlement systems. Under additional provision seventeen of the Securities Market Act, government authorisation is required to acquire or dispose of a controlling stake in such companies. This Royal Decree specifies the information to be provided to apply for authorisation, the goal being to provide the government with sufficient information on which to base a decision as to the appropriateness of the party wishing to acquire a controlling stake. Among other information, it requires disclosures of the buyer's holdings in similar companies, its activities in the financial markets, and its strategy for the market in question. A report is also required from the party or parties previously holding a controlling stake.

The Royal Decree also provides certain rules for owners of controlling interests in such companies. The Shareholders' Meetings of those companies may approve limitations or special rules on the voting rights of controlling shareholders, subject to compliance with the Decree. Also, where applicable, they must comply with the rules in the Securities Market Act regarding takeover bids and the disclosure of significant holdings in listed companies, without prejudice to the obligations contained in the Royal Decree.

— **Royal Decree 363/2007, of 16 March,** amending Royal Decree 726/1989, of 23 June, on the Governing Companies and Members of the Stock Exchanges, *Sociedad de Bolsas*, and the Collective Deposit, Royal Decree 1814/1991, of 20 December, regulating the official futures and options markets and Royal Decree 116/1992, of 14 February, on the representation of securities by book-entries and clearing and settlement of stock market transactions. Gazetted 17/03/2007.

This Royal Decree amends the royal decrees providing the rules for the governing companies of official secondary markets (stock exchanges and futures and options markets), *Sociedad de Bolsas* and *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores* (Iberclear). The changes eliminate obsolete references and clarify certain aspects of those regulations. The decree clarifies that the appointment of members of the Board of Directors of a Stock Exchange governing company, of *Sociedad de Bolsas* and of *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores* (Iberclear) may be challenged if they do not meet the requirements of fitness and suitability and have the knowledge and experience required of the members of the Board of Directors of an investment firm under Act 24/1988, of 28 July, on the Securities Market.

It also provides more flexibility to the economic rules governing Stock Exchange governing companies, *Sociedad de Bolsas* and the governing companies of futures and options markets since they no longer have to submit an annual budget for approval by the CNMV and the regulator can not impose changes in the budget. The Royal Decree maintains the CNMV's powers to approve those entities' fee schedules.

And changes are made to the rules governing securities borrowing by *Sociedad de Sistemas* to avoid the effect of temporary inflation of security prices in certain cases of settling trades in securities.

UCITS

— **Royal Decree 362/2007, of 16 March,** amending the Regulation implementing Act 35/2003, of 4 November, on UCITS, approved by Royal Decree 1309/2005, of 4 November. Gazetted 17/03/2007.

This Royal Decree amends the Regulation under Act 35/2003, on UCITS, basically as regards hedge funds and funds of hedge funds. The basic goal of the reform is to provide more flexible regulation for these UCITS, particularly regarding the rules on reimbursement, in order to encourage their development in Spain. One of the measures adopted by the Royal Decree consists of allowing such entities to cap the amount of reimbursements and apply a pro-rata rule on reimbursements.

Such entities may also establish minimum periods of investment for their shareholders and apply advance notice periods for subscription and reimbursement that are more flexible than the general rule. Moreover, they are not required to allow reimbursements on all dates on which the net asset value is calculated. In exchange for the increased flexibility, which is necessary for such institutions to operate, the Royal Decree requires greater disclosure in the prospectus. Another limitation which it imposes is that hedge funds may not engage in marketing to clients other than eligible clients; accordingly, they may not aim advertising at retail clients, although retail clients are not prohibited from investing in hedge funds.

— **Royal Decree 364/2007, of 16 March,** amending Royal Decree 685/1982, of 17 March, implementing certain aspects of Act 2/1981, of 25 March, regulating the Mortgage Market, Royal Decree 1343/1992, of 6 November, implementing Act 13/1992, of 1 June, on own funds and consolidated basis supervision of financial entities, and Royal Decree 867/2001, of 20 July, on the legal regime for investment services companies, and Royal Decree 1333/2005, of 11 November, implementing Act 24/1988, of 28 July, on the Securities Market, in the area of market abuse. Gazetted 17/03/2007.

This Royal Decree also amends Royal Decree 867/2001, of 20 July, on the rules governing investment firms in connection with the rules governing the solvency of portfolio management companies to bring them into line with the solvency rules for all other investment firms.

— **Resolution of 13 June 2007,** of the Comisión Nacional del Mercado de Valores, designating as minor certain amendments to the rules on management, formation and Articles of Association of UCITS. Gazetted 26/07/2007.

As its name indicates, the Resolution states which amendments to creation plans, regulations and Articles of Association of FIMs and Investment Companies are classified as minor for the purposes of article 12.1 of Act 35/2003, of 4 November, on UCITS and article 14.1 of its Regulation.

— **Circular 1/2007, of 11 of July**, of the Comisión Nacional del Mercado de Valores, on the requirements regarding statistical information of UCITS, partly amending Circular 2/1998, of 27 July, on the requirements regarding statistical information of UCITS of the European Monetary Union. Gazetted 26/07/2007.

This Circular requires statistical information on all money market compartments, funds and investment companies and those whose policy is to invest in the money markets, and all those entities in the list of monetary financial institutions (MFIs) published by the European Central Bank, for use by the ECB in monitoring monetary policy within Economic and Monetary Union, thus amending the first Circular that regulated this area. It also amends certain technical requirements with respect to the remittal of the information regulated in Circular 1/2002, of the CNMV.

— **Circular 5/2007, of 27 December,** of the Comisión Nacional del Mercado de Valores, on regulatory disclosures by UCITS. Gazetted 17/01/2008.

This Circular pursues three goals: compile the requirements of regulatory disclosure by UCITs which are scattered throughout the regulations, including articles 24.2 and 26.4 of the UCITS Act, article 14.2 of the Regulation and article 2.4 of Ministerial Order of 6 July 1993; make their dissemination more agile; and clarify the obligations incumbent on foreign UCITS in this regard.

Distance marketing of financial services

— **Act 22/2007, of 11 July**, on distance marketing of financial services aimed at consumers. Gazetted 12/07/2007.

The Act's ultimate goal is to ensure greater protection of consumers in distance marketing, always having regard to the specific characteristics of the financial services. To that end, rigorous rules are established as to the information that consumers must receive before entering into a contract.

The Act applies to all financial services contracts entered into at a distance not just by credit institutions and investment firms but also by insurance companies, UCITS operators, pension fund operators, insurance brokers, venture capital firm operators and any others that provide financial services, as well as branches in Spain of foreign entities of those types that are registered in any of the registers of entities under the supervision of the Bank of Spain, the

CNMV or the insurance and pension funds regulator (Dirección General de Seguros y Fondos de Pensiones) and the Autonomous Communities, in the case of certain insurers.

A main new feature is that clients have fourteen days after signature to cancel, which can be done by any of the certifiable means recognised by law. This cancellation right does not apply to financial services whose price depends on market fluctuations.

Part of the content was also set out in **Legislative Royal Decree 1/2007, of 16 November**, **approving the consolidated text of the General Act for the Defence of Consumers and Users, and other complementary acts**.

Mortgage market

— **Order PRE/3/2007, of 10 January,** on Agreements for the Promotion of Asset Securitisation Trusts to favour business funding. Gazetted 12/01/2007.

This Order amends the Order of 28 May 1999 on Agreements for the Promotion of Asset Securitisation Trusts to favour business funding by introducing certain new procedural features and adding new requirements for establishing such agreements. Specifically, the period for filing applications for such agreements was modified and the Director General of Small and Medium Enterprise Policy is empowered to amend the deadline when market issuing conditions make this advisable. The Order also allows a fee to be charged when granting the guarantee, and the Asset Securitisation Trusts are required to be closed-ended.

— **Royal Decree 364/2007, of 16 March**, amending Royal Decree 685/1982, of 17 March, implementing certain aspects of Act 2/1981, of 25 March, regulating the Mortgage Market, Royal Decree 1343/1992, of 6 November, implementing Act 13/1992, of 1 June, on own funds and consolidated basis supervision of financial entities, and Royal Decree 867/2001, of 20 July, on the legal regime for investment services companies, and Royal Decree 1333/2005, of 11 November, implementing Act 24/1988, of 28 July, on the Securities Market, in the area of market abuse. Gazetted 17/03/2007.

This Royal Decree on the mortgage market eliminates the cap on variations in the interest rate on adjustable rate mortgages and amends Royal Decree 685/1982, of 17 March, implementing certain aspects of Act 2/1981, of 25 March, regulating the Mortgage Market in this connection.

— **Act 41/2007, of 7 December,** amending Act 2/1981, of 25 March, regulating the Mortgage Market and other rules of the mortgage and financial system, regulating reverse mortgages and long-term care insurance and establishing certain tax rules. Gazetted 08/12/2007.

Act 41/2007 introduces the following with respect to the mortgage market: it removes obstacles to offering new products, modernises the protection rules in search of more effective transparency that allows borrowers to base their decisions on the products' real risks, while improving funding instruments.

The Act improves instruments for funding and securitising mortgages, by introducing flexibility to certain aspects of Act 2/1981. Among other measures, it clarifies the delimitation of loans that qualify as underlyings for mortgage covered bonds, bonds and participations.

It amends the rules on the proportion between the nominal amount of securitised loans and their collateral (Loan-to-Value), allowing it to vary depending on whether the loans are also backed by other guarantees.

The types of loans that may serve as underlyings for the various forms of mortgage securitization need to be expanded to cover any type of loan with mortgage collateral, regardless of its purpose, including loans and credit backed by real estate located elsewhere in the European Union. The limits on issues of bonds and covered bonds with respect to the total amount of loans serving as collateral were changed, and the method of calculating those limits was modified, since they can now be supplemented with «substitute assets» (basically securities). The regulation also reduces or eliminates the formal requirements that made it difficult to issue these instruments, such as the inscription in the Property Register of the fact that the loan is attached to the issuance of bonds (no longer obligatory, and replaced by an accounting record kept by the issuer) and the obligation to establish a bondholders' association (now optional). Also, the amendment to additional provision five of Act 3/1994 clarifies and enhances the definition, legal characterisation and determination of the use to which mortgage transfer certificates are put.

The Act also regulates reverse mortgages with the goal of contributing to the development of a market that enables seniors to cover their income needs in their final years using their home.

And in connection with long-term care insurance, it regulates private instruments for insuring against long-term care needs, which may take the form of an insurance policy signed with insurers, including mutual companies, or of a pension plan.

And final provision three amends the Act on real estate mortgages and pledge without conveyance, of 16 December 1954.

A.2 Other Spanish regulations that affect the securities markets

Accounting

— **Act 16/2007, of 4 July,** reforming and adapting the mercantile legislation on accounting for international harmonisation on the basis of European Union regulations. Gazetted 05/07/2007.

In order to harmonise financial information throughout the European Union and foster comparative financial data for the purpose of making the capital markets more efficient, Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (IAS), now known as International Financial Reporting Standards (IFRS) was published on 11 September 2002. The new European regulations made it necessary to reform Spain's mercantile legislation to adapt the accounting rules to those standards. Act 16/2007 sets out the articles of the Commercial Code, Corporations Act, Limited Liability Companies Act, Auditing Act and certain tax regulations, among others, that needed to be amended.

The Act requires that companies draw up their financial statements in accordance with IFRS from the year beginning 1 January 2008. This obligation had been in force since 1 January 2005 for consolidated groups of entities with shares listed on any regulated market in any Member State, by virtue of final provision eleven of Act 62/2003, of 30 December, on tax, administrative and labour measures, in connection with the authorisation of their consolidated financial statements. This provision also required that companies with fixed-income securities listed on a regulated market in any Member State apply those standards from the year commencing 1 January 2007.

In line with European regulations, this Act contains the aspects of security and stability required to inspire and serve as a benchmark for the specific valuation standards and the presentation of financial information. The Act maintains the basic rules, principles and concepts used in drafting financial statements and leaves more technical aspects of accounting to detailed second-level legislation. The detailed rule-making includes, most notably, the General Accounting Plan published on 20 November 2007 by Royal Decree 1514/2007, of 16 November.

Valuation of real estate and certain rights

— **Order EHA/3011/2007, of 4 October,** amending Order ECO/805/2003, of 27 March, on valuation standards for real estate and certain rights for certain financial purposes. Gazetted 17/10/2007.

This Order is of interest to the securities markets in that it issues rules for valuing real estate and certain rights used as mortgage collateral for loans used or to be used as part of the pool underlying mortgage securities or which will become part of the assets of a UCITS.

Consumer protection

— **Legislative Royal Decree 1/2007, of 16 November,** approving the consolidated text of the General Act for the Defence of Consumers and Users, and other complementary acts. Gazetted 30/11/2007.

This Legislative Royal Decree fulfils final provision five of Act 44/2006, of 29 December, to improve the protection of consumers' and users' rights, which empowers the government, within 12 months, to consolidate in a single text Act 26/1984, of 19 July, for the Defence of Consumers and Users and the regulations transposing the European Directives on consumer and user protection that impact the matters regulated in that Act, while regularising, clarifying and harmonising the texts to be consolidated.

— **Act 43/2007, of 13 December,** on the protection of consumers in the purchase of goods with the offer of price restitution. Gazetted 14/12/2007.

Act 43/2007 regulates the legal relations between consumers, on the one hand, and entities and professionals, on the other hand, in an activity not regulated by the financial legislation involving the sale of goods and subsequent buy-back, establishing mechanisms for transparency, formal requirements and additional guarantees for consumer protection.

The Act also regulates commercial communications, and prohibits misleading of clients with activities of a financial nature, particularly the use of expressions that pertain to the financial sector, such as investment, saving, yield, etc. All commercial communications are required to state expressly that the goods or services through which the activity is conducted do not have a guaranteed market price.

Information Society

— **Act 11/2007, of 22 June,** governing citizens' electronic access to public services. Gazetted 23/06/2007.

This Act seeks to address the consequences of generally acknowledging citizens' right to electronic access to the public administrations. It establishes provisions that guarantee that the information obtained from electronic communications will be used solely for the purposes for which it was given to the Administration; the right to citizens' access to files about them; the form of using and archiving communications; the system for identification, authentication, minimum content, legal protection, accessibility, availability and liability.

It also regulates the validity of documents and their copies, the form in which an electronic document is fully enforceable in a conventional sense, and the form in which conventional documents can be transformed into electronic documents.

The Act also addresses the platforms that citizens and the Administration can use for electronic communications.

— **Act 56/2007, of 28 December,** on Measures to Promote the Information Society**.** Gazetted 29/12/2007.

Act 56/2007 contains a number of measures adopted to develop the Information Society and attain convergence with Europe and between the Autonomous Communities and the Autonomous Cities, as part of the Avanza Plan approved by the government in November 2005.

This Act introduces provisions aimed at fostering the use of electronic invoices and of electronic media in all phases of trading processes, and ensuring electronic communications between users and consumers, on the one hand, and the companies that provide certain services of special economic relevance, on the other hand. It also makes the necessary legislative changes to promote the information society and electronic communications.

B. European legislation

Legislation approved by the European Parliament and Council

The following legislation was approved by the European Parliament and Council in 2007:

— **Directive 2007/14/EC of the Commission, of 8 March 2007**, laying down detailed rules for the implementation of certain provisions of Directive

2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

This Directive implements certain aspects of Directive 2004/109/EC (on transparency of issuers of listed securities):

i. The concept of related-party transaction is defined for those issuers which, because they do not produce consolidated financial statements, are not obliged to apply IAS or IFRS.

ii. The exemption from disclosure of significant holdings is regulated for the case of market makers and shares acquired purely for clearing and settlement purposes.

iii. With regard to the disclosure of significant holdings, the requirements are established for exempting the controlling company of an investment firm or management company from adding to its holdings those which are managed by the investment company or management firm, provided that they act independently and the situation has been disclosed beforehand to the competent authority.

iv. The Directive details that financial instruments giving the holder an unconditional right to acquire the underlying shares or the possibility of choosing between receiving the shares or their equivalent in cash on maturity must be taken into account when disclosing significant holdings.

v. The competent authorities are obliged to establish a calendar of trading days for each regulated market for the purposes of computing the deadlines for complying with the various transparency obligations.

vi. And the Directive implements the rules of Directive 2004/109/EC on issuers domiciled outside the EU, which may be exempted from certain obligations provided that their home country's legislation imposes equivalent requirements. In particular, it is established that the equivalence must be confined to the pertinent information but that no exceptions will be made to the deadlines established in Directive 2004/109/EC.

This Directive was published in the Official Journal of the European Union (OJEU) on 9 March 2007. The deadline for transposition was 8 March 2008; transposition was attained with Royal Decree 1362/2007, of 19 October, implementing Act 24/1988, of 28 July, on the Securities Market, in connection with the requirements for transparency imposed on issuers whose securities are listed on an official secondary market or other regulated market in the European Union.

— **Commission Directive 2007/16/EC of 19 March 2007**, implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions.

The range of financial instruments traded in the financial markets has increased considerably since the adoption of Directive 85/611/EEC. This has led to uncertainty as to whether certain categories of financial instrument are included in the definitions of assets qualifying for investment by UCITS. This Directive gives competent authorities and market participants greater certainty in this respect.

Among other aspects, it refers to closed-end funds (not mentioned in Directive 85/611/EEC); the criteria for classifying a derivative as a liquid financial asset are established; investment by UCITS in derivatives on financial indices is regulated; the obligation is established that embedded derivatives must be identified; and the criteria by which UCITS that replicate share or bond indices are to be classified are established.

This Directive was published in the OJEU on 20 March 2007. The deadline for transposition into Spanish law was 23 March 2008. It was transposed by Royal Decree 217/2008, of 15 February, as regards articles 3 and 4.1 of the Directive. The remainder was transposed by Order EHA/888/2008, of 27 March, on transactions by financial UCITS with financial derivatives and clarifying certain items in the Regulation under Act 35/2003, of 4 November, on UCITS, approved by Royal Decree 1309/2005, of 4 November.

— **Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007,** on the exercise of certain rights of shareholders in listed companies.

This Directive seeks to facilitate the exercise of shareholder rights across borders. It applies to companies with shares listed on regulated markets. This is a de minimis directive in that the Member State may impose more rigorous standards when transposing it. The Directive contains a number of measures, most notably:

i. Ensuring that Shareholders' Meetings are announced sufficiently in advance, and that documentation is supplied.

ii. Elimination of all types of blockage on shares: in their place, a system of registration is established in order to participate and vote at the Meeting.

iii. Elimination of legal obstacles to electronic voting.

iv. Facilitating voting by shareholders who are not present (proxies, postal votes, voting instructions).

This Directive was published in the OJEU on 14 July 2007. The deadline for transposition into Spanish law is 3 August 2009.

— **Directive 2007/44/EC of the European Parliament and of the Council of 5 September 2007,** amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector.

The goal of this Directive is to regulate the acquisition of significant holdings in various types of financial institution (insurance company, credit institutions, investment firms) in order to reduce supervisors' scope for discretion. To that end, it establishes evaluation procedures and criteria that are standardised for the entire European Union.

This Directive was published in the OJEU on 21 September 2007. The deadline for transposition into Spanish law is 21 March 2009.

— **Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007,** on payment services in the internal market amending Directive 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC.

The purpose of this Directive is to establish a common regulatory framework for the EU payment market in order to provide the appropriate conditions for integration of national payment systems. This Directive was drafted in parallel with the creation of a single euro payment area (SEPA), which was presented by that business sector. This Directive seeks maximum harmonisation by establishing common rules for all Member States in the main aspects.

The Directive focuses on electronic payments (transfers, credit cards, direct transfers, etc.) as an alternative to cash payments, and it addresses the following main issues:

i. Harmonisation of the requirements for service providers to access this market.

ii. Payment entities are defined, having specific rules for authorisation and supervision.

iii. Common rules are established for transparency and disclosure by systems and with regard to rights and obligations of users and service providers.

This Directive was published in the OJEU on 5 December 2007. The deadline for transposition into Spanish law is 1 November 2009.

CNMV Organisation

Composition of the CNMV Board

President	Julio Segura Sánchez[1]
Vice-President	Carlos Arenillas Lorente
Commissioners	Soledad Núñez Ramos
	José María Viñals Iñiguez
	Soledad Abad Rico[2]
	Fernando Restoy Lorente[3]
	Rosa Rodríguez Moreno
Secretary	Javier Rodríguez Pelletero

Composition of the CNMV Executive Committee[4]

President	Julio Segura Sánchez
Vice-President	Carlos Arenillas Lorente
Commissioners	Soledad Abad Rico
	Fernando Restoy Lorente
	Rosa Rodríguez Moreno
Secretary	Javier Rodríguez Pellitero

1. Appointed by Royal Decree 602/2007 of 4 May. Took the place of Manuel Conthe Gutiérrez.
2. Appointed by Order EHA/701/2007 of 23 March. Took the place of Soledad Plaza y Jabat.
3. Appointed by Order EHA/2175/2007 of 16 July. Took the place of Julio Segura Sánchez.
4. The creation, constitution and functions of the Executive Committee are regulated by article 18 of Securities Market Act 24/1988, of 28 July, as amended by Act 44/2002, of 22 November, on Measures to Reform the Financial System.

Composition of the CNMV Advisory Board[5]

President	Carlos Arenillas Lorente
Secretary	Javier Rodríguez Pellitero
Technical Secretary	Víctor Rodríguez Quejido

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	Ana Ibáñez Díaz-Bustamante
Alternate	—-

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

5. Royal Decree 504/2003, dated 2 May, which regulates the CNMV Advisory Board.

Composition of the CNMV Advisory Board *(continuation)*

Representatives of the investors

Member	Manuel Pardos Vicente
Alternate	Ana Isabel Ceballo Sierra
Member	Pilar González de Frutos
Alternate	Mª Aránzazu 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
Catalonia	
Member	Ferrán Siscart Ortí
Alternate	Josep María Sánchez i Pascual
Valencia	
Member	Enrique Pérez Boada
Alternate	Nicolás Jannone Bellot

Directorates of CNMV

Directorate-General	Directorate	Subdirectorate
SECURITIES MARKET PARTICIPANTS	SUPERVISION José María Marcos[1]	BROKER-DEALERS AND BROKERS
		UCITS
		CREDIT INSTITUTIONS
	AUTHORISATION AND REGISTRATION Antonio Moreno	BROKER-DEALERS AND BROKERS
		UCITS
		VENTURE CAPITAL AND SUPPORT UNIT
		UCITS OPERATORS
		CONTRACTS AND FEES
LEGAL AFFAIRS Javier Rodríguez	LEGAL COUNSEL Sol Bourgón Camacho[2]	
	LITIGATION	
MARKETS Ángel Benito		MARKET MONITORING UNIT
	PRIMARY MARKETS Carlos Lázaro	ISSUERS
		TAKEOVERS
	SECONDARY MARKETS Rodrigo Buenaventura[1]	EQUITIES
		FIXED INCOME
		DERIVATIVES
	FINANCIAL REPORTS Paulino García	FINANCIAL DISCLOSURE
		CORPORATE GOVERNANCE

Directorates of CNMV *(continuation)*

Directorate-General	Directorate	Subdirectorate
	PRESIDENT'S OFFICE Montserrat Martínez Parera[2]	
	INVESTORS Mª José Gómez Yubero[1]	COMPLAINTS AND CLAIMS INVESTOR EDUCATION
	INFORMATION SYSTEMS Francisco Javier Nozal	DEVELOPMENT AND ANCV INFRASTRUCTURE
	GENERAL SECRETARIAT Salvador Meca	FINANCE INTERNAL REGULATIONS HUMAN RESOURCES OFFICIAL REGISTERS AND DOCUMENTATION
	INTERNATIONAL RELATIONS Antonio Mas[1]	
	STUDIES AND STATISTICS Mª Nieves García Santos	STUDIES STATISTICS
	ASSISTANT TO THE PRESIDENT Rafael Sánchez	BARCELONA OFFICE
	INTERNAL CONTROL[3] Margarita García	

1. From 1 March 2007.
2. From 16 May 2007.
3. Under article 41 of the CNMV Internal Regulation, this body reports directly to the CNMV Executive Committee.