I Securities markets and their agents: Situation and outlook

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1 Executive summary

– In the first few months of the year, the international and national macroeconomic and financial environment was still marked by the COVID-19 pandemic. Although fresh outbreaks of infection continue to appear, the vaccination process launched on an international scale has slightly reduced the existing uncertainty, prompting an improvement in economic expectations, especially in economies such as Spain which have been most affected by the crisis due to their productive model. Expectations have also improved for other economies such as the United States, which have launched substantial packages of fiscal measures. In some of these jurisdictions, the expected uptick in activity has been accompanied by fears of rising inflation, which has carried over to returns on debt assets. In the area of monetary policy, there have been no significant developments with respect to the situation in recent months, but rather a continuation of the expansive tone.

– In this context, the main international equity indices marked significant gains in the first quarter of the year,[1] in tune with the vaccination process and improved economic expectations. Gains were relatively similar in the different economic areas during this period, compared to the uneven performance observed in 2020 between the US and Japanese indices and their European counterparts (except for the German Dax 30) in favour of the former. US stock market indices presented rises ranging from 2.8% on the Nasdaq technology index and 7.8% on the Dow Jones. In the Euro area increases were between 6.3% on the Ibex 35 and 10.9% on the Mib 30, and in Japan, the Nikkei gained 6.3% and the Topix rose by 8.3%. In most cases, volatility indicators remained at moderate levels. On the other hand, the increase in inflation expectations, mainly in the United States, led to a substantial rebound in debt yields in that economy (the 10-year sovereign bond rose 83 basis points [bp], +1.75%), which was transferred, with less intensity, to similar assets in other economies.

– The latest activity data for the Spanish economy show a 10.8% drop in GDP in 2020, which is greater than the decline experienced by the Euro area as a whole (6.8%), mainly because the product composition in Spain has a higher weighting of activities that have been relatively more affected by the crisis. The crisis led to job losses of 622,600 last year, as well as an increase in the unemployment rate to 16.1% of the active population (13.8% in 2019). Likewise, the public deficit grew to 10.9% of GDP as a consequence of the rise in spending deriving from the pandemic, which is estimated at €45 billion, and public debt climbed to 120% of GDP. In this context, the most recent forecasts of the

1 The closing date for this report is 31 March, except for certain specific information.

International Monetary Fund (IMF) for the Spanish economy envisage substantial growth of 6.4% this year (5 tenths of a point more than in its last forecast and 2 percentage points [pp] more than for the Euro area as a whole). This improvement would be due to the positive effects of the gradual lifting of lockdown measures, which were so detrimental to the Spanish economy in 2020, as well as the expectations generated by the European funds. It is also important to bear in mind that, having fallen more sharply in 2020, recovery rates tend to be higher as economic activity approaches pre-crisis levels. The uncertainty surrounding these forecasts remains high due to factors whose evolution is difficult to predict: the development of the COVID-19 pandemic itself, the effectiveness of the policies and economic aid implemented and, finally, the adjustment capacity of economic activity to new consumption patterns and certain existing vulnerabilities, such as high public debt or the potential increase in financial difficulties affecting some companies.

– The Spanish equity markets, which made large gains in the final months of 2020, recouping a substantial large part of the losses they have previously incurred, began 2021 with fresh increases, fuelled by the outlook for economic recovery and the beneficial effects of the vaccination programmes. In this environment (which is still marked by high uncertainty) the Ibex 35 ended the quarter with a rise of 6.3%, slightly lower than the gains marked by other large international indices, with moderate levels of volatility and stable liquidity, and with a noteworthy fall in trading volumes. Equity issues were close to €3 billion in the first quarter of the year, with transactions carried out under the scrip dividend format growing in popularity as they allow companies to keep part of the funds on their balance sheets. No initial public offerings (IPOs) have been registered so far this year, although several are expected in the coming months, especially from companies in the renewable energy sector. On the other hand, two public offerings, corresponding to Opdenergy Holding and Grupo Ecoener, have recently been approved.

– In the Spanish bond markets, the decline in asset returns observed most of last year as a result of the expansionary measures adopted by the European Central Bank (ECB) ended in the first few months of 2021, in line with the performance of the yields of these assets in the international debt markets. Despite the slight increases, interest rates remain very low and are negative for a broad set of assets (the 10-year sovereign bond yield ended the quarter at 0.34%). Likewise, debt issues of Spanish issuers registered with the CNMV in the first quarter of 2021 increased by 13.3% year-on-year, to €23.5 billion, while issues made abroad decreased, although their amount was significant (more than €19 billion in just two months).

– In 2020, the investment fund industry remained practically stable in terms of assets, showing a slight increase of 0.1%, to €279.7 billion (€306.6 billion including the assets of open-ended collective investment schemes, SICAVs). The 10.5% decrease in asset value in the first quarter, 90% of which owed to the reduction in the value of the portfolio, was offset by the subsequent increase (11.8%) accumulated in the rest of the year. The liquidity conditions of the portfolios of these institutions remained satisfactory. In contrast, the assets of foreign collective investment schemes (CISs) marketed in Spain continued to expand, reaching close to €200 billion at the end of the year, representing 39% of the total assets of CISs marketed in the country. In the first months of the year, the growth in assets and the number of unitholders in these institutions seen in the last quarters of 2020 continued. This marks a change in the trend, boosted by the strong increase in household savings, which for the time being are being channelled into more conservative and liquid financial assets.

– In the area of investment services, credit institutions continued to account for most of the fees charged for different types of services (close to 90% of the total). Investment firms (IFs) saw substantial growth in pre-tax profits in 2020 (80%), although this performance was due to a small number of entities; in particular one that was affected by Brexit to which part of the business carried out by its parent in the United Kingdom was transferred. The number of broker-dealers and brokers closing the year in losses remained the same as in 2019 (32 out of a total of 95), but their aggregate amount dropped significantly. Solvency in the sector remained satisfactory, although a significant decrease was observed in the margins of broker-dealers. For some years, this sector has marked a trend in which the weight of entities related to commercial banks is decreasing slightly and that of entities that can be considered independent, and whose business model is diversified among the different investment services, is increasing.

– This report contains four monographic exhibits:

  - The first describes the initial effects of Brexit on the European financial markets, especially in relation to the transfer of trading from infrastructures based in the United Kingdom to other infrastructures in the European Union (EU).

  - The second looks at movements in the credit ratings of debt assets issued by Spanish issuers in 2020 in order to assess the impact of the COVID-19 crisis.

  - The third exhibit discusses the public consultation opened by the CNMV in relation to the future Circular on the advertising of crypto-assets.

  - Lastly, the fourth exhibit addresses the obligation of entities to observe the requirements established in Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, applicable since 10 March.

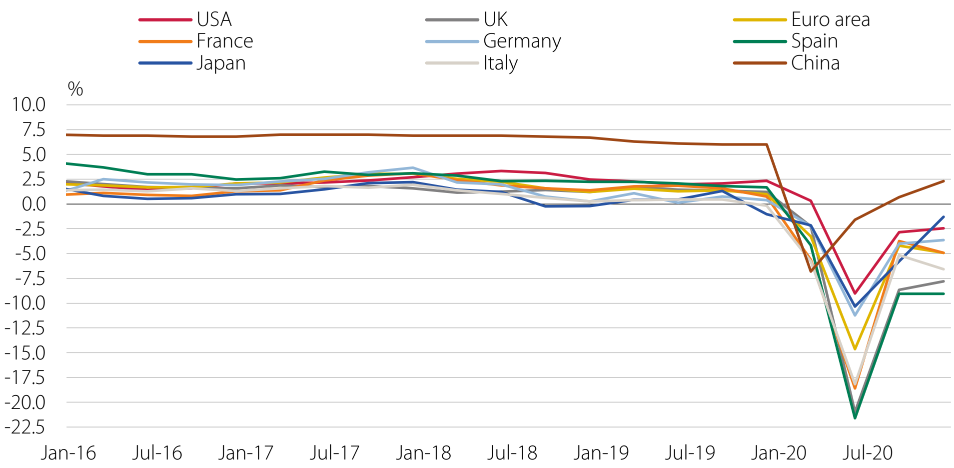
2 Macro-financial environment

2.1 International economic and financial performance

The Coronavirus pandemic marked economic performance in 2020, leading to a contraction of world GDP of 3.3% in the year as a whole (vs. the growth of 2.8% seen in 2019).

The Coronavirus pandemic marked economic performance in 2020, leading to a contraction in world GDP of 3.3%[2] in the year, a long way below the growth of 2.8% seen in 2019. All regions went into recession and the fall in activity was most notable in the second quarter, when the effects of the serious economic and productive closures caused by lockdowns and distancing measures became more visible. In the following quarters of the year, the drop in GDP was milder in most economies, although none registered positive growth except for China, where the virus had spread earlier and hence the recovery of its economy was also earlier.

Annual change in GDP FIGURE 1



Source: Refinitiv Datastream. Year-on-year GDP rates are shown for each quarter in all economies except China, where growth rates accumulated in the year are represented in year-on-year terms.

The United States posted a milder decline in activity than the European economies.

In the United States, the fall in GDP was less severe than in European countries, as the lockdown measures were less restrictive and there were fewer closures. However, GDP went from growth of 2.2% in 2019 to a fall of 3.5% in 2020. In the Euro area, the drop was 6.8% in the year, although notable differences were observed between European countries, with falls that ranged from 10.8% in the case of Spain to 3.7% in the Netherlands (in 2019 the GDP of these economies grew by 2% and 1.6%, respectively). In Italy, as in Spain, the spread of the Coronavirus was initially more rapid, as were the lockdown measures implemented, which translated into a drop in GDP of 8.9% in 2020 (+ 0.3% in 2019). In France, the decline was 8.2% (9.7 points less than the previous year) and in Germany it was milder (GDP down 5.3% in 2020). The United Kingdom also showed one of the largest falls in activity, from growth of 1.4% in 2019 to a contraction of 9.8% in 2020, as the uncertainty caused by COVID-19 exacerbated the uncertainty caused by Brexit.

2 *World Economic Outlook,* published by the IMF on 6 April.

The crisis caused by the spread of the Coronavirus caused the main central banks to adopt urgent monetary policy measures last year. In their last meetings of March of this year, the majority of the monetary authorities maintained the stimuli that they had been applying with no significant changes. Thus, the Federal Reserve did not alter its official interest rate, which remained in the range of 0.00-0.25%, and undertook not to raise it until labour market conditions reach its dual objective of full employment and an inflation rate that moderately exceeds 2%. It also kept its asset purchase programme unchanged (US$120 billion in treasury bills and mortgage-backed assets).

At its meeting on 16/17 March, the Federal Reserve did not lower its official interest rate, which remains in the range of 0.00-0.25%.

Similarly, at its meeting of 11 March 2021, the ECB did not make changes to its official interest rates, keeping the rates for main refinancing transactions, the marginal credit facility and marginal deposit facility unchanged at 0%, 0.25% and -0.50%, respectively. Neither did it change the limits of its pandemic emergency purchasing programme[3] (PEPP), although an increase in pace of purchases[4] was announced in order to prevent the increase in sovereign bond yields from giving rise to harsher funding conditions.

The ECB resolved to keep its official interest rate unchanged, but announced an increase in the pace of purchases.

The Bank of England did not change the tone of its monetary policy either, keeping its official interest rate at 0.1% and the amount of its asset purchase programme at GBP 895 billion. Lastly, the Bank of Japan, at its last meeting in March, made certain adjustments to its monetary policy,[5] although the official interest rate remains unchanged at -0.10% (since 2016).

The Bank of England did not change its monetary policy, while the Bank of Japan has made certain adjustments.

Short term interest rates marked somewhat different trends in most of the regions observed during the first quarter of 2021. 3-month rates fell 4 bp in the United States, following the downward path that began in 2019, albeit with a more moderate decline than in the first quarter of 2020 (-46 bp). In the Euro area, interest rates saw few significant changes during the first quarter of the year (increase of 1 bp), as in Japan. Meanwhile, the United Kingdom posted small increases in short term rates, which stood at 0.09% at the end of the first quarter (6 bp more than at the beginning of the year).

Short term interest rates followed different trends: with slight falls in the United States, increases in the United Kingdom and hardly any changes in the Euro area and Japan.

Interest rates on long term public debt marked a similar performance in the first quarter of 2021, with increases in most advanced economies, driven by the increase in interest rates on US debt.

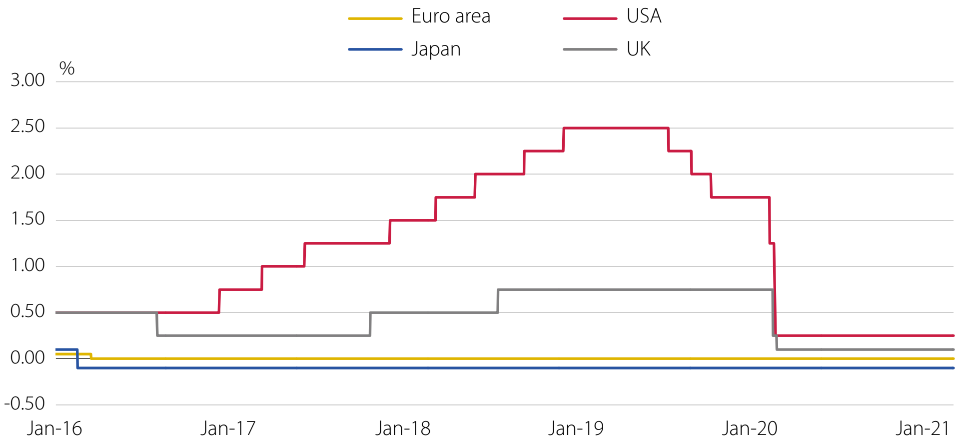
Interest rates on long term public debt marked a similar performance in the first quarter of 2021, with increases in most advanced economies, especially in the United States.

3 The PEPP has been endowed with €1.85 trillion after its extension at the December ECB meeting, with a completion date of March 2022 and the roll-over of the programme bond maturities until, at least, the end of 2023.

4 In the first half of March, the ECB confirmed an increase in weekly purchases of debt in secondary markets during the second quarter of the year as part of the framework of its PEPP programme. Likewise, the President stated that “inflation will probably reach 2% by the end of the year”.

5 It slightly widened the range of 10-year bond yields (from 0.2% to 0.25%, above and below the target level, which remains around zero) and eliminated its annual fund purchase target of publicly traded and Japanese real estate investment funds (J-REITs) (set at JPY 6 trillion and JPY 90 billion, respectively, although these amounts doubled after COVID-19).

Official interest rates FIGURE 2



Source: Refinitiv Datastream. Data to 31 March.

In the United States, the 10-year sovereign bond yield increased 83 bp, well above the rises observed in the Euro area (between 14 bp and 40 bp).

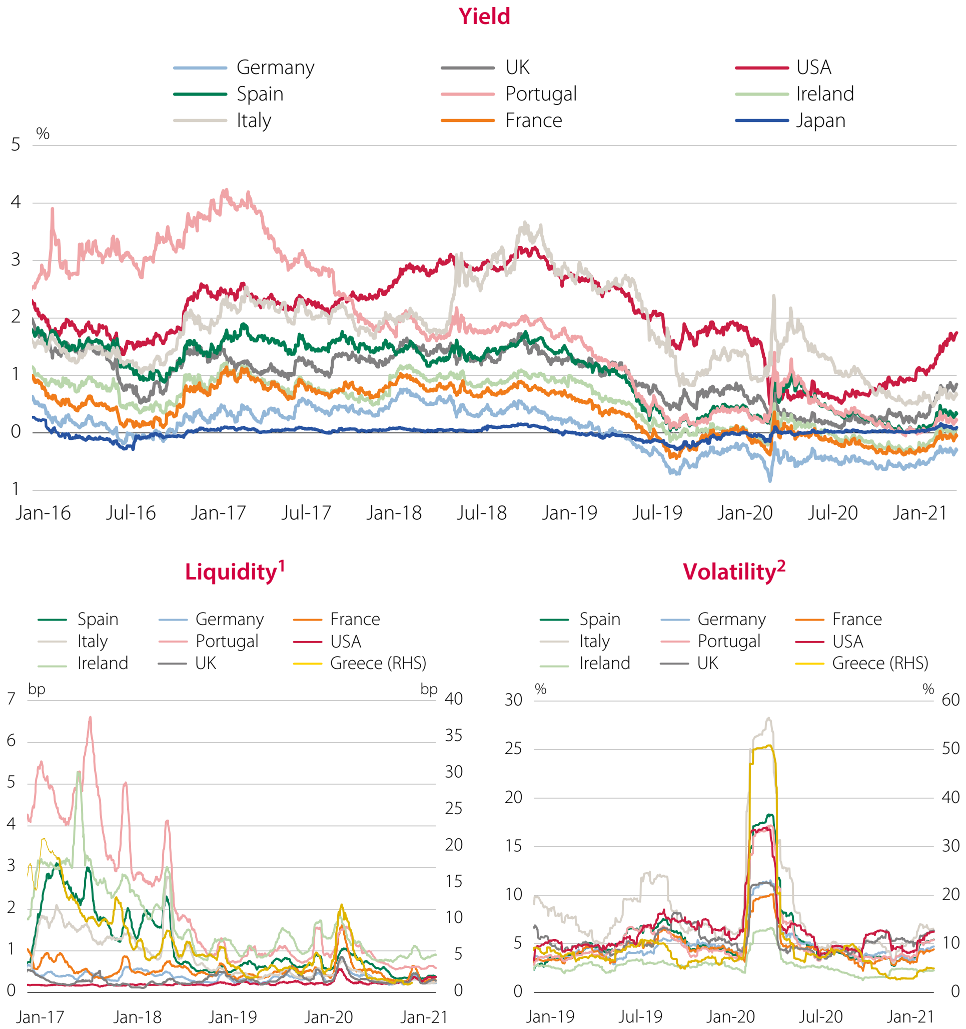
In the United States, the yield on the 10-year sovereign bond increased 83 bp in the first quarter of the year (to 1.75%), mainly due to higher growth and inflation expectations prompted by progress made on the vaccination programme and the approval of a strong economic stimulus package. In the Euro area countries, the increase in interest rates on public debt was smaller, ranging between 14 bp and 40 bp in Italy and Belgium, respectively. The yield on the German sovereign bond remained negative (-0.30%), as did the yield on public debt in the Netherlands (-0.24%), Finland (-0.11%), Austria (-0.07%) and France (-0.05%), and was very close to zero in Ireland (0.07%). In the peripheral Euro area countries, the increases in long term sovereign debt yields were less pronounced than in the rest of the European countries (between 14 bp and 28 bp). Thus, at the end of March these yields stood at 0.87% in Greece, 0.66% in Italy, 0.34% in Spain and 0.23% in Portugal. In the United Kingdom, on the other hand, the increase in the interest rate on the 10-year bond was more significant, standing at 0.85% in March (65 bp more than at the end of 2020).

Sovereign credit risk premiums decreased throughout the first quarter of 2021, especially in the peripheral Euro area countries.

Sovereign credit risk premiums (assessed through 5-year CDS contracts) of advanced economies decreased slightly during the first quarter of 2021, maintaining the downward path observed after the highs recorded in the same quarter of the previous year as a result of the uncertainty caused by the spread of COVID-19. In general, the greatest decreases were observed in peripheral Euro area countries, especially in Italy, where after some tightening of premiums caused by political instability, there was a decrease of 23 bp in the quarter as a whole (to 75 bp). In Greece, the risk premium decreased by 25 bp in the quarter, 10 bp in Spain and 7 bp in Portugal (to 77 bp, 34 bp and 30 bp, respectively).

10-year sovereign bond market indicators

FIGURE3 3



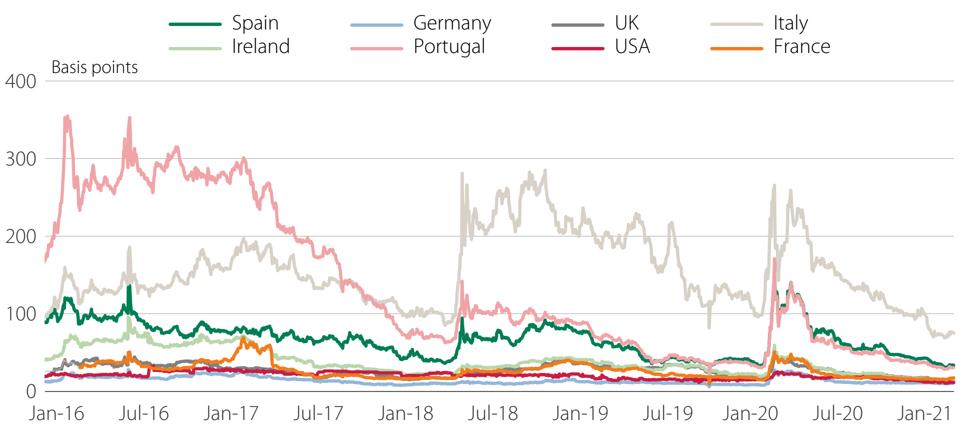
Source: Bloomberg, Refinitiv Datastream and own calculations. Data to 31 March.

1 1-month average of the daily bid/ask spread of 10-year sovereign bond yields.

2 Annualised standard deviation of daily changes in the prices of 40-day sovereign bonds.

Credit risk premiums for sovereign debt (5-year CDS)

FIGURE 4



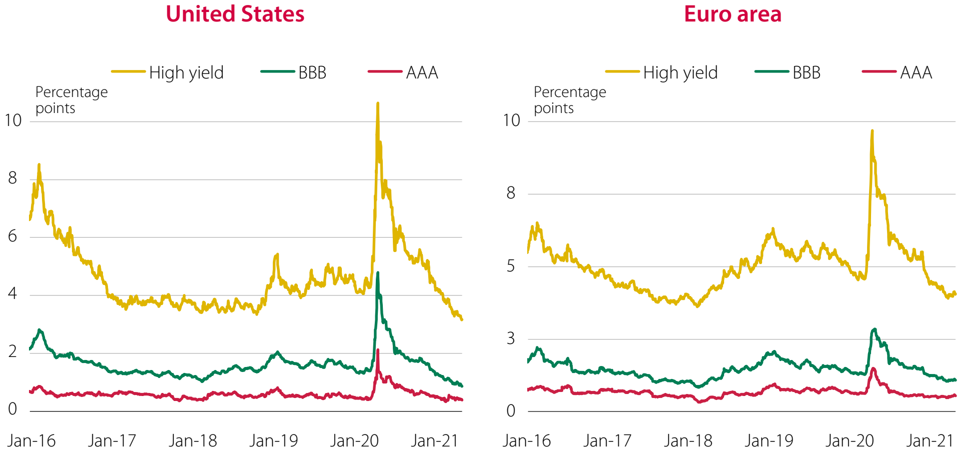
Source: Refinitiv Datastream. Data to 31 March.

Similarly, credit risk premiums declined in most bond segments, somewhat more sharply in the United States than in the Euro area, especially on bonds with lower credit ratings (high yield).

Credit risk premiums in the private fixed income markets of advanced economies decreased in most segments with respect to the values recorded at the end of 2020, continuing the trend observed after the rallies in March last year. These declines were somewhat sharper in the United States compared to the Euro area, especially in assets with lower credit ratings (see Figure 5). In the United States, the risk premium on high yield debt decreased by 90 bp in the first quarter of the year, to 317 bp; the premium on BBB debt rose by 35 bp, to 87 bp, and that on AAA debt by 2 bp, to 39 bp. In the Euro area, the decline in corporate debt credit risk premiums was 39 bp in the high yield segment, to 405 bp; 16 bp in the BBB segment, to 108 bp, and there were no changes in the AAA tranche, standing at 54 bp.

Private debt risk premiums
Spread compared to the 10-year sovereign debt[1]

FIGURE 5



Source: Refinitiv Datastream and own calculations. Data to 31 March.

1 In the Euro area in relation to German sovereign debt.

Gross debt issues in international markets registered a slight increase of 5.8% in the first quarter of the year, highlighting the increase in issues made by companies in the financial and public sectors.

Gross long term debt issues in international markets during the first quarter of the year (half-yearly data) registered a slight increase compared to the first half of 2020, reaching US$8.3 trillion (5.8% more than in the same period of the previous year). This increase was due to the rebound in financial and public sector issues, which increased by 13.4% and 11%, respectively. In contrast, gross issues in the non-financial sector decreased by 15.5%. By region, the increase in debt issues in the United States and Japan stand out, with issues in Europe down 12%.

Gross sovereign debt issues as a whole increased by 11%, driven by rises in the United States and Japan.

Gross sovereign debt issues increased by 11% as a whole compared to the first half of 2020, to US$5.5 billion, with an uneven performance between regions. Thus, in the United States and Japan there were rises of 41.6% and 33.3% respectively (US$3.1 trillion and US$693 billion). In Europe, however, these issues fell by 22.1%.

International gross fixed income issues FIGURE 6

Source: Dealogic. Half-yearly data. Data for the first haft of 2020 are to 31 March, but are shown as their half-yearly equivalent for purposes of comparison.

Gross debt issues made by private sectors performed unevenly between sectors compared to the first half of 2020, with an increase of 13.4% in the financial sector and a decrease of 15.5% in the non-financial sector. In the former, the increase was fuelled mainly by Europe (29.4%) and the United States (23.3%). Similarly, the drop in debt issues in the non-financial sphere was determined by movements in these two areas (-24.3% in the United States and -16.6% in Europe).

Private sector issues performed differently according to subsectors, with increases in the financial sector and decreases in the non-financial sector.

The main equity indices strengthened during the first months of 2021, after a year marked by episodes of sharp falls followed by rallies that, in some markets, failed to offset the initial losses. Equity markets showed a positive performance in this period due to several factors that sparked an improvement in economic expectations, including the progress in the vaccination programme, the resolution of several sources of uncertainty, such as Brexit, or the approval of a large economic stimulus programme in the United States. The gains observed on the main indices were accompanied by lower volatility indicators.

The main equity indices rose during the first three months of 2021 in a less volatile environment.

Index gains ranged between 2.8% and 10.9% in advanced economies.

In contrast to 2020, when the US indices showed were notably stronger than the others (which even lost value), the increases experienced by equity indices in the first quarter of 2021 moved in similar ranges in all advanced economic areas (see Table 1). US stock market indices reported rises in the range of 2.8% for the Nasdaq technology index and 7.8% for the Dow Jones (5.8% for the S&P500). Similarly, increases were observed in stock market indices in the Euro area ranged between 6.3% for the Ibex 35 and 10.9% for the Mib 30. The UK FTSE100 index increased by 3.9%, as did the Japanese indices: 6.3% for the Nikkei and 8.3% for the Topix.

Most emerging equity markets made gains in the first quarter of the year.

The performance of stock market indices of emerging economies was more irregular in the first quarter of the year, although as a whole, according to the MSCI emerging markets index, there was an increase of 3.6% compared to December 2020. The Asian indices registered rallies that ranged between 4.2% and 11.5% (in Hong Kong and Taiwan, respectively), except in China, where the Shanghai Composite index fell slightly (0.9%) on expectations of a potential withdrawal of stimulus measures, Malaysia and the Philippines, whose main indices dropped 3.3% and 9.8%, respectively. Among the Eastern European economies, the gains made by the Romanian and Bulgarian indices stood out (14.1% and 12.2%, respectively). In Latin America, several indices marked falls, such as the Argentine Merval (6.3%) and the Brazilian Bovespa (2.0%), while the Chilean, Mexican and Peruvian bourses rose throughout the quarter (17.5%, 7.2% and 2.6%, respectively).

Performance of the main stock market indices[1] TABLE 1

%

	2017	2018	2019	2020	II 20	III 20	IV 20	I 21
World								
MSCI World	20.1	-10.4	25.2	14.1	18.8	7.5	13.6	4.5
Euro area								
Eurostoxx 50	6.5	-14.3	24.8	-5.1	16.0	-1.3	11.2	10.3
Euronext 100	10.6	-11.2	24.9	-3.6	13.8	-1.8	15.1	8.3
Dax 30	12.5	-18.3	25.5	3.5	23.9	3.7	7.5	9.4
Cac 40	9.3	-11.0	26.4	-7.1	12.3	-2.7	15.6	9.3
Mib 30	13.6	-16.1	28.3	-5.4	13.6	-1.9	16.9	10.9
Ibex 35	7.4	-15.0	11.8	-15.5	6.6	-7.1	20.2	6.3
United Kingdom								
FTSE100	7.6	-12.5	12.1	-14.3	8.8	-4.9	10.1	3.9
United States								
Dow Jones	25.1	-5.6	22.3	7.2	17.8	7.6	10.2	7.8
S&P 500	19.4	-6.2	28.9	16.3	20.0	8.5	11.7	5.8
Nasdaq Composite	28.2	-3.9	35.2	43.6	30.6	11.0	15.4	2.8
Japan								
Nikkei 225	19.1	-12.1	18.2	16.0	17.8	4.0	18.4	6.3
Topix	19.7	-17.8	15.2	4.8	11.1	4.3	11.0	8.3

Source: Refinitiv Datastream.

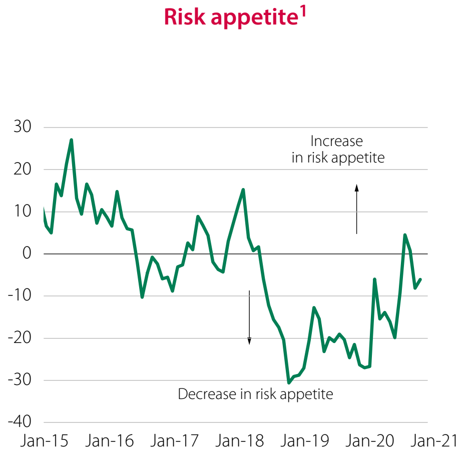
1 In local currency Data to 31 March.

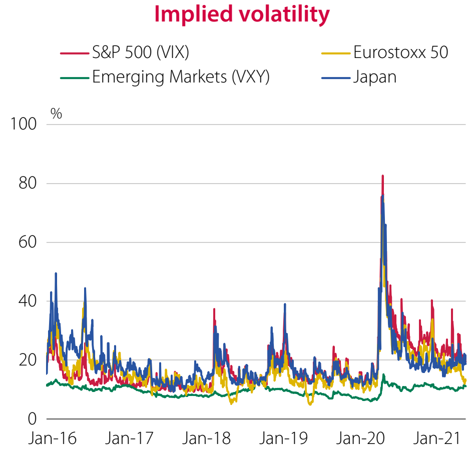
The implied volatility measures of the most significant stock market indices decreased compared to the fourth quarter of 2020 and remained on average between 17% and 21% during the first quarter of 2021, with the exception of the Nasdaq, which experienced outbreaks of volatility throughout the first three months of the year. Although implied volatility indicators spiked at certain times between January and March, they fell with respect to the figures seen in 2020 (between 24% and 49%), but remained above the levels observed in 2019 (between 12% and 16%).

Global implied volatility indicators decreased during the first quarter of the year compared to the values recorded in 2020.

Indicators relating to financial markets

FIGURE 7



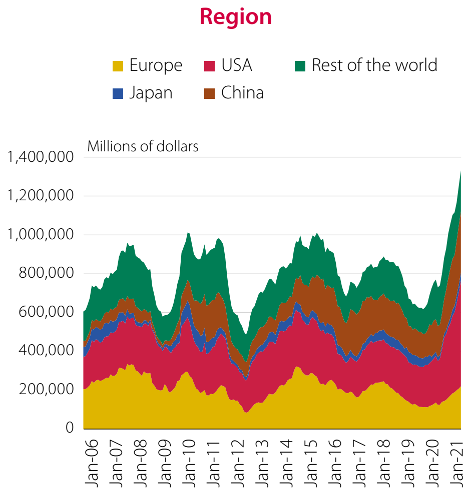


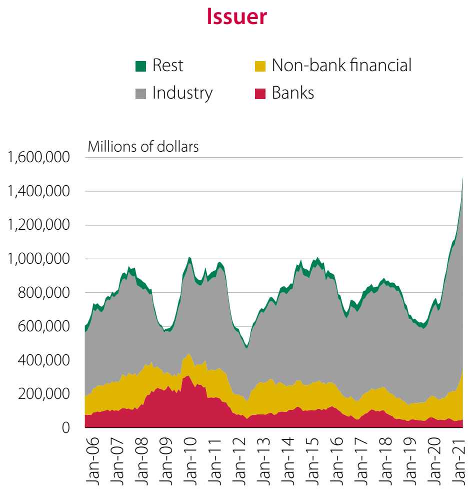
Source: Refinitiv Datastream and own calculations.

1 State Street indicator.

International equity issues

FIGURE 8





Source: Dealogic. Accumulated data for 12 months to 31 March.

The volume of equity issues increased significantly in the first quarter of 2021, especially in the United States.

The volume of issues of equity instruments increased significantly during the first quarter of 2021 and stood at close to US$465 billion (compared to US$141 billion issued in the same period in 2020). Thus, equity issues grew in all regions, especially in the United States, where they were four times higher than in the first quarter of 2020, accumulating half of the equity issues made in that country by March last year. The increase was also large in other areas, with issues of equity instruments of around US$80.7 billion In Europe, US$6.9 billion in Japan and US$87.2 billion in China (US$28.4 billion, US$2.9 billion and US$35.4 billion in the first quarter of 2020, respectively). By sector, issues made by companies in the non-bank financial sector grew substantially (multiplied by five with respect to the first quarter of 2020) as well as issues made by the banking sector (multiplied by four). The most significant increases in absolute terms were concentrated in the industrial sector, where equity issues increased by almost US$205 billion compared to the first quarter of the previous year. The increase in utilities companies was less pronounced (29.2%).

2.2 Domestic economic and financial performance

In 2020, Spanish GDP dropped by 10.8% due to the COVID-19 crisis, a larger decrease than that of the Euro area as a whole, which was 6.8%…

The COVID-19 crisis, with the familiar lockdown measures and closure of activity, caused Spanish GDP to contract by 10.8% in 2020. The largest drop was registered in the second quarter of the year (21.6% year-on-year) and later on the gradual opening of the economy led to smaller setbacks (-8.6% and -8.9% in the third and fourth quarters, year-on-year). These figures were among the worst in the Euro area, which registered an overall contraction of 6.8% in the year. Reasons for this worse relative performance include the impact of the crisis on sectors such as tourism and related segments, which generate a great deal of value for the Spanish economy, and a business network that is mainly composed of small and medium-sized enterprises, which, in addition to being affected by the restrictions imposed by the crisis (especially retail companies) generally have more difficulties than larger companies in dealing with such serious and long-lasting crises.

The contribution of domestic demand to the drop in GDP was 8.8 pp, while that of the foreign sector was 2.0 pp.

Of the total drop in GDP in 2020 (10.8%), 8.8 pp was due to the contribution of domestic demand and 2 pp to the foreign sector. In relation to the components of domestic demand, there was a strong decline in both private consumption and gross fixed capital formation (-12.4% and -11.4%, compared to growth of 0.9% and 2.7%, respectively, in 2019). In contrast, public consumption increased by 3.8%, the highest figure since 2009. In the foreign sector, both exports and imports decreased in the year: the former by 20.1% and the latter by 15.8% (in 2019 both grew – by 2.3% and 0.7%, respectively).

Spain: Main macroeconomic variables TABLE 2

Annual % change

	2017	2018	2019	2020	IMF[1] 2021	IMF[1] 2022
GDP	**3.0**	**2.4**	**2.0**	**-10.8**	**6.4**	**4.7**
Private consumption	3.0	1.8	0.9	-12.4	6.0	3.3
Public consumption	1.0	2.6	2.3	3.8	3.9	0.4
Gross fixed capital formation, of which:	6.8	6.1	2.7	-11.4	8.9	7.5
Construction	6.7	9.3	1.7	-14.0	n/a	n/a
Capital goods and others	9.2	5.5	4.5	-13.1	n/a	n/a
Exports	5.5	2.3	2.3	-20.1	n/a	n/a
Imports	6.8	4.2	0.7	-15.8	n/a	n/a
Foreign sector (contribution to growth, pp)	-0.2	-0.5	0.6	-2.0	0.8	0.9
Employment[2]	**2.9**	**2.6**	**2.3**	**-7.5**	**n/a**	**n/a**
Unemployment rate	**17.2**	**15.3**	**14.1**	**16.1**	**16.8**	**15.8**
Consumer Price Index[3]	**2.0**	**1.7**	**0.8**	**-0.3**	**1.0**	**1.3**
Current account balance (% GDP)	**3.0**	**2.6**	**2.8**	**1.4**	**1.0**	**1.9**
Public administrations balance[4] (% of GDP)	**-3.1**	**-2.5**	**-2.9**	**-11.0**	**-9.0**	**-5.8**
Public debt (% of GDP)	**98.6**	**97.4**	**95.5**	**120**	**118.4**	**117.3**
Net international investment position (% of GDP)	**68.0**	**61.7**	**58.7**	**60.3**	**n/a**	**n/a**

Source: Refinitiv Datastream, IMF, Bank of Spain and INE.

1 IMF forecast released 6 April 2021.

2 In terms of full-time equivalent jobs.

3 The European Commission forecasts are from the harmonised consumer price index.

4 Includes the public aid to credit institutions in 2017, 2018, 2019 and 2020 for an amount of 0.04%, 0.01%, 0.00% and 0.88% of GDP, respectively. The increase registered in 2020 corresponds to the reclassification of the SAREB under public administrations, required by Eurostat, whose figures are computed in this section.

n/a: [data] not available.

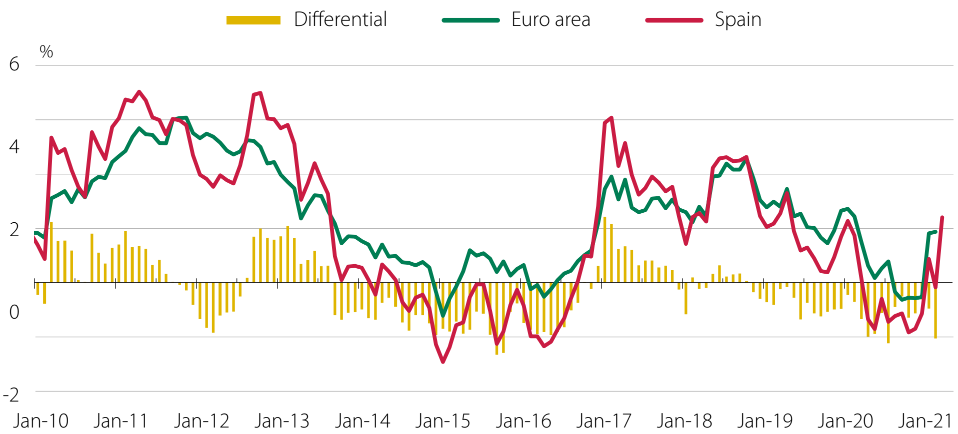
On the supply side, significant slowdowns were observed in most sectors, except for the primary sector, financial and insurance activities, and public administration, health and education activities, that in 2020 reported increases in added value of 5.4%, 3.3% and 1.4%, respectively (-2.2%, 0% and 1.2% in 2019). The greatest decreases were seen in the arts and recreational activities sector (-24.9%) and trade, transport and hospitality (-24.4%), which were seriously affected by the restrictions on movement. Construction (-14.5%), services (-11.1%) and industry (-9.6%) also performed badly.

On the supply side, significant slowdowns were observed in most sectors, particularly art and recreational activities and trade, transport and hospitality.

The inflation rate remained negative for much of 2020, reaching a minimum rate of -0.9% in May. Inflation started 2021 at positive levels and, despite several fluctuations, is holding an upward trend (1.3% in March). In contrast, the core inflation rate (IPSEBENE), which excludes the most volatile elements of the index such as energy and fresh food, remained at positive levels in 2020 and was relatively stable until the middle of the year (at around 1.0%), to subsequently fall progressively to stand at 0.1% in December. It also fluctuated In January 2021, reaching 0.3% in February. Inflation in the Euro area as a whole was higher than the rate in Spain throughout 2020 and the spread between the two ranged from -1.1 pp (July) to -0.3 pp (at the beginning and end of the year). In 2021, the spread widened further (-1.0 pp in February).

The inflation rate remained negative for a good part of the previous year and while there were some fluctuations, it appears to have resumed an upward trend. The spread with the Euro area was -1.0 pp at the end of February.

Harmonised CPI: Spain compared to the Euro area (annual % change) FIGURE 9



Source: Refinitiv Datastream. Data to February for the Euro area and to March for Spain.

The crisis led to a sharp drop in employment (7.5% in 2020) and an increase in the unemployment rate to 16.1%.

In line with the decline in activity, there was a sharp drop in employment, which averaged 7.5% in 2020,[6] and an increase in the unemployment rate, from 13.8% at the end of 2019 to 16.1% at the end of 2020 (15.5% annual average). The latest unemployment data for March show a certain improvement, since the number of people unemployed fell by 59,149 (-1.5%) compared to February, rising above the threshold of 4 million unemployed (3,949,640). It should also be noted that workers affected by temporary lay-off measures (ERTEs) are not included in these figures as they are considered to be employed.[7] At the end of 2020 there were a total of 755,613 people covered by these measures, compared to 3.39 million workers in April. These figures have remained relatively stable since September and at the end of March 2021, the number of people covered by temporary lay-off measures was 743,628.

…as well as an increase in the deficit of public administrations to 11% of GDP at the end of 2020 (10.1% if financial aid is discounted) and public debt to 120%.

The crisis also manifested in a substantial deterioration of public sector finances, impacted by the strong growth in spending and a decline in revenue. Expenses related to COVID-19 were close to €45 billion. Thus, the public deficit closed the year at 11.0% of GDP,[8] well above the figure of 2.9% seen in 2019. The central government bore most of the cost of the pandemic, due to the larger transfers made to the autonomous regions and the social security system, posting a deficit of 7.5% of GDP (1.3% at year-end 2019). The social security deficit also stood out at 2.7% of GDP (1.3% in 2019). The autonomous regions, on the other hand, performed better compared to 2019, registering a small deficit of 0.21% (0.6% in the previous year), as they received the highest funding ever received from the State. Local authorities showed a slight surplus (0.26%). As a consequence of the higher deficit, public debt stood at 120% of GDP at the end of 2020, compared to 95.5% in 2019.

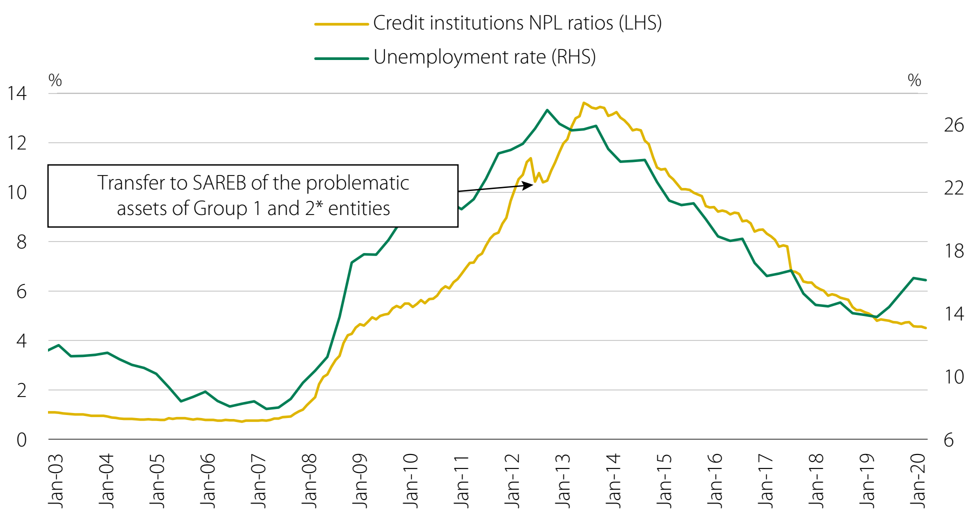
The crisis led to a significant impairment of bank assets, with the sector recording losses in 2020. However, delinquencies remain at low levels.

The banking sector has also been affected by the crisis, as the sharp slowdown in activity could lead to a future increase in delinquency rates, which has not yet materialised (see Figure 10). To date, the crisis has caused a sharp increase in losses due

6 Data from the Labour Force Survey (EPA) indicate that 622,600 jobs were destroyed in 2020.
7 According to Eurostat and International Labour Organization (ILO) methodology.
8 The deficit would be reduced to 10.1% if the amount of financial aid deriving from the reclassification of the SAREB indicated by Eurostat is excluded.

to the impairment of financial and other assets, especially in the second quarter of last year which, together with the progressive fall in net interest income, gave rise to accumulated losses of more than €3 billion in 2020 (profits of €13.53 billion in 2019). The low interest rate environment may impede the recovery of net interest income, although it also favours the containment of non-performing loans. Furthermore, this sector has access to Eurosystem funding on very favourable terms.

Delinquency ratio of credit institutions and unemployment rate[1] FIGURE 10



Source: Bank of Spain and INE. Unemployment rate data up to June and delinquency ratio up to July.

1 Of the active population.

* Transfers of Group 1 entities took place in December 2012 (€36.70 billion) and Group 2 entities in February 2013 (€14.01 billion).

The composition of banking institutions' balance sheets (which increased in 2020) reflected a rise in resident deposits (under liabilities) and an increase in bank financing extended to non-financial companies (under assets).

The size of the banking sector, in terms of the aggregate volume of assets, increased for the second year in a row to stand at €2.82 trillion at the end of 2020 (€2.61 trillion in 2019). On the liability side, the increase in deposits of Spanish residents stands out, which grew from €1.58 trillion in 2019 to €1.82 trillion in 2020,[9] and Eurosystem financing, which went from €129.67 billion in 2019 to €259.12 billion in 2020. The increase in deposits can be explained at least partially by precautionary savings in a scenario of high uncertainty. In regard to banking sector assets, the rise in bank financing extended to companies and households stands out, at 3.1% in 2020 as a whole. This increase is due exclusively to the rise in financing extended to non-financial companies in the context of this crisis, which was 6.1% (2% in 2019). In contrast, financing to households fell 0.6% (compared to a slight increase of 0.2% in 2019). In the case of financing to non-financial companies, the increase in loans (with a significant use of public guarantees) and financing through the acquisition of debt securities both stood out.

The household savings rate increased sharply in 2020 as gross disposable income decreased.

The latest data on the financial position of households reveal an increase in both the savings rate and the debt ratio in 2020, which contrasts with the decline in gross household income (-3.3%). The savings rate rose from 6.3% of gross disposable

9 This figure includes deposits from the credit system, public administrations and other resident sectors (non-financial companies and households).

income (GDI) at the end of 2019 to 14.7% in 2020 due, as indicated above, to precautionary savings in a crisis context marked by a high level of uncertainty, as well as the effects of lockdown measures, which have prevented certain consumption decisions. Despite this trend, the savings rate of Spanish households remains lower than the average for the Euro area as a whole, which also increased, albeit to a lesser extent, to stand at 19.6% of GDP. The household debt ratio grew slightly from 100.3% of GDP at the end of 2019 to 102.3% in 2020, after 10 years of uninterrupted declines. In relative terms, there was also an increase in the net wealth of households, which went from 929% of GDP in 2019 to 967% in 2020.

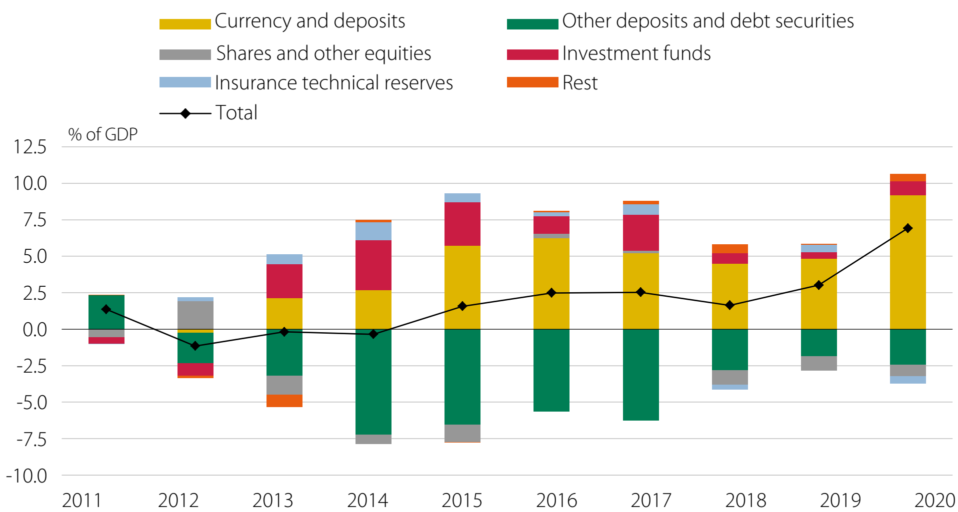
Household net financial investment rose in 2020 and the more liquid assets continued to prevail over fixed income and equities.

Household net financial investment rose to 6.9% of GDP in 2020 (the highest since 2006) compared to 3.0% in 2019, largely due to the accumulation of savings. By asset class, investment in means of payment remained the most significant (9.2% of GDP), with higher amounts than in previous years, and some divestment of time deposits and fixed income securities was observed (2.5% of GDP). Households also invested in investment fund units, continuing a trend that began in 2012, despite the negative market performance in the first half of the year (0.9% of GDP; 0.5% in 2019).

Investment in investment funds decreased significantly in the past year due to the high volume of redemptions in March.

Regarding the composition of the investment fund flows, it should be noted that during the most critical months of the pandemic (March and April) relatively high net redemptions were recorded, which were concentrated mainly in the fixed income category and to a lesser extent in guaranteed equity funds and passive management funds. In particular, net redemptions in fixed income funds were close to €1.5 billion in the first quarter (€2.7 billion in the month of March alone). However, net inflows of funds in the following quarters were significant and net subscriptions in this category were high for the year as a whole (€3.88 million). For investment funds as a whole, net subscriptions for the year were positive (€631 million), but much lower than in previous years (around €2.5 billion in 2019 and €7.9 billion in 2018).[10]

Households: Net acquisitions of financial assets FIGURE 11



Source: Bank of Spain, *Financial Accounts*. Cumulative data for four quarters.

10 See Section 4.1 for further details.

2.3 Outlook

The latest forecasts published in April by the IMF point to a stronger recovery in world activity than expected a few months ago, driven mostly by the United States and China. Thus, world GDP growth is forecast at 6.0% in 2021 and 4.4% in 2022 (compared to 5.5% and 4.2% expected in January, respectively). The stimuli approved by governments and supranational organisations, including the new fiscal package in the US or the EU recovery fund, in addition to the progress made in the vaccination programme, have prompted an upward revision of these forecasts.

The latest IMF forecasts suggest a greater than expected recovery for world GDP this year of 6.0%…

By economic area, advanced economies are expected to grow by 5.1% in 2021 (0.8 pp more than in January) and 3.6% in 2022. The forecast for emerging markets is somewhat better, 6.7% in 2021 (0.4 pp more than in January) and 5.0% in 2022. Among the advanced economies, the best forecasts for this year are for the United States and Spain (6.4% in both cases); the former driven by the approval of a major fiscal stimulus package. Among the emerging economies, the forecasts for India and China for this year stand out (12.5% and 8.4%, respectively), with smaller advances expected in other emerging regions (4.4% in Eastern Europe and 4.6% in Latin America).

…5.1% for advanced economies and 6.7% for emerging economies.

The uncertainty surrounding these forecasts remains high due to factors whose evolution is difficult to predict: the development of the COVID-19 pandemic itself, the effectiveness of the economic policies implemented and, finally, the adjustment capacity of the economies to new consumption patterns and certain vulnerabilities. There are downside risks with respect to this growth scenario that derive above all from a prolongation of the pandemic, which would be highly detrimental to the survival of a significant number of companies. However, there is also upside potential that could materialise if the duration of the pandemic is shortened and a part of the high level of savings of some agents is used to boost consumption.

The uncertainty surrounding these forecasts is high due, above all, to the evolution of the pandemic, although there is both downside risk and upside potential.

Gross Domestic Product TABLE 3

Annual % change

					IMF[1]	
	2017	2018	2019	2020	2021	2022
Global	3.7	3.6	2.8	-3.3	6.0 (0.5)	4.4 (0.2)
United States	2.2	2.9	2.2	-3.5	6.4 (1.3)	3.5 (1.0)
Euro area	2.4	1.9	1.3	-6.6	4.4 (0.2)	3.8 (0.2)
Germany	2.5	1.5	0.6	-4.9	3.6 (0.1)	3.4 (0.3)
France	2.3	1.8	1.5	-8.2	5.8 (0.3)	4.2 (0.1)
Italy	1.5	0.8	0.3	-8.9	4.2 (1.2)	3.6 (0.0)
Spain	3.0	2.4	2.0	-11.0	6.4 (0.5)	4.7 (0.0)
United Kingdom	1.7	1.3	1.4	-9.9	5.3 (0.8)	5.1 (0.1)
Japan	1.7	0.3	0.7	-4.8	3.3 (0.2)	2.5 (0.1)
Emerging markets	4.7	4.5	3.7	-2.2	6.7 (0.4)	5.0 (0.0)

Source: IMF.

1 In parentheses, the variation compared to the last published forecast (IMF forecasts published in April 2021 with respect to January 2021).

The Spanish economy, which registered a very high drop in activity in 2020, has one of the highest expected recovery rates in 2021.

As mentioned above, according to the IMF, the Spanish economy will register GDP growth of 6.4% this year (improving the forecast made in January by 0.5 pp) and 4.7% in 2022 (unchanged with respect to the previous forecast). The fact that Spain is included among the economies with the highest expected growth is due to the positive effects of the gradual lifting of lockdown measures, which were so detrimental to the Spanish economy in 2020, as well as the expectations generated by the European funds. It is also important to bear in mind that after the sharp falls in 2020, recovery rates also tend to be higher as economic activity approaches pre-crisis levels.

The most significant risks for the Spanish economy include risks related to the possibility of company bankruptcies in the coming months and to the financial vulnerabilities that the increase in public debt may bring with it.

The risks affecting the global economy also affect Spain, although there are some factors that are particularly significant for the Spanish economy. In the first place, the evolution of the pandemic is key to the recovery of activity in Spain, which has a strong service-oriented structure with a predominance of small-sized companies. In fact, there is a significant risk of company bankruptcies in the coming months, especially among smaller enterprises as they are more vulnerable in such a severe crisis situation. This risk would negatively affect both the country's business network and the labour market. Another key vulnerability for the economy stems from the notable increase in public indebtedness as a consequence of the crisis and hence the need to guarantee the sustainability of public finances. On a positive note, the positive effect expected from European funds on the Spanish economy stands out in the medium and long term, as well as the possibility that the increase in consumption will be greater than expected if the evolution of the pandemic allows spending decisions that were deferred in 2020 to materialise.

3 Domestic market performance

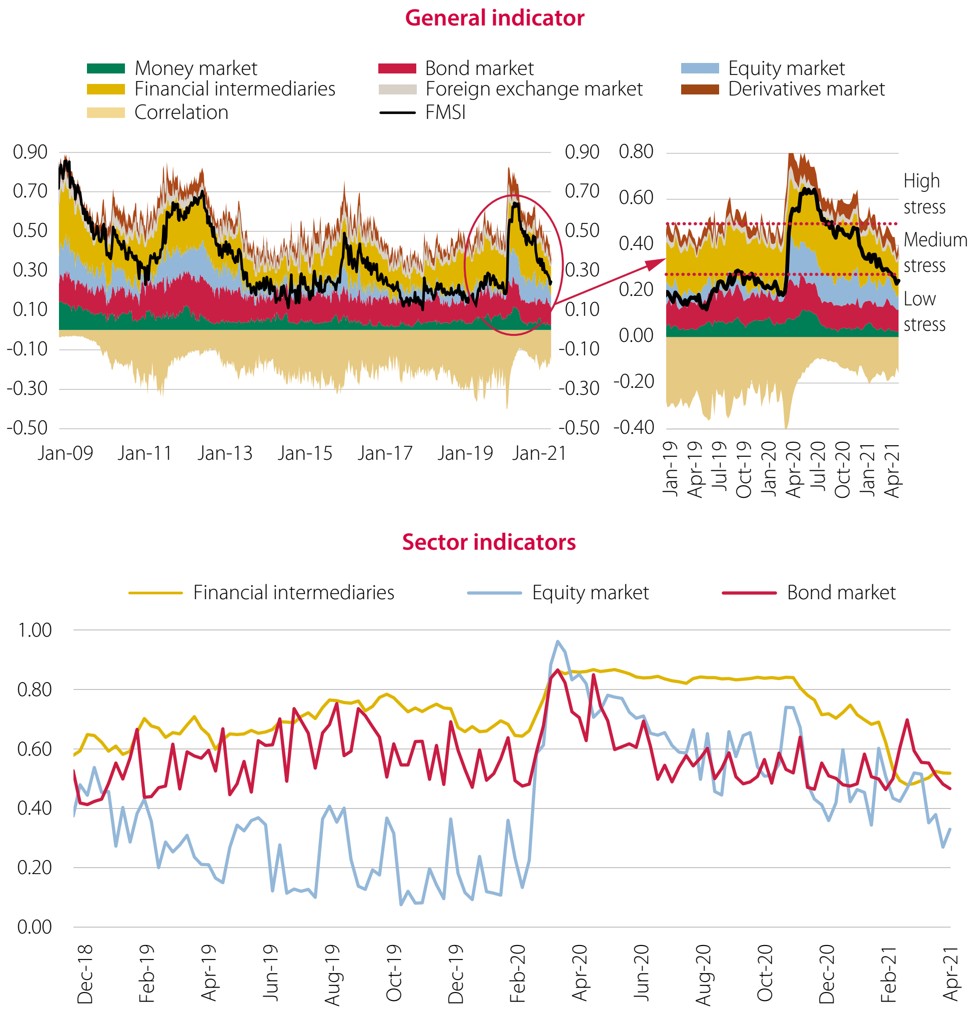
Since May 2020, when it reached a level of 0.64 (high risk), the stress indicator gradually decreased to stand at 0.25 at the beginning of April, which implies a low risk level.

The Spanish financial market stress indicator[11] has gradually decreased after hitting its third highest historical value due to the crisis generated by COVID-19 and its impact on the different segments of the financial system. Thus, after reaching 0.64 at the beginning of May 2020, the stress indicator for the system as a whole progressively fell at the start of second wave of the pandemic, with a slight rebound at the end of October, to close 2020 at 0.36 (medium stress level). From then on, after a period of some stability, the downward trend became clear as a consequence of the recovery in company quoted prices, the notable decrease in volatility indicators and a slight fall in the correlation of the system, although the latter remains at higher

11 The stress indicator calculated by the CNMV provides a real-time measure of systemic risk in the Spanish financial system that ranges from zero to one. To do this, it evaluates stress in six segments of the financial system and makes an aggregate, obtaining a single figure that takes into account the correlation between these segments. Econometric estimates indicate that index values below 0.27 correspond to periods of low stress, while scores between 0.27 and 0.49 correspond to periods of medium stress, and values above 0.49 indicate periods of high stress. For further details on recent movements in this indicator and its components, see the quarterly publication of the *Financial Stability Note*, and the CNMV's statistical series (market stress indicators), available at http://www.cnmv.es/portal/Publicaciones/PublicacionesGN.aspx?id=51. For more information on the methodology of this index, see Cambón, M.I. and Estévez, L. (2016). "A Spanish Financial Market Stress Index (FMSI)". *Spanish Review of Financial Economics,* Vol. 14, No. 1, pp. 23-41 or as CNMV Working Paper No. 60 (http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/Monografia_60_en.pdf).

values than those registered before the Coronavirus crisis. Thus, at the beginning of April this indicator stood at 0.25,[12] a low stress level (see Figure 12).

Spanish financial markets stress indicator FIGURE 12



Source: CNMV.

The decline was generalised in all segments, with the stress level of financial intermediaries in April at 0.5 and that of non-financial equities at 0.35.

At the end of the year, the highest stress levels were recorded by the financial intermediaries, non-financial equity and exchange rates segments, all of which were affected by notable levels of volatility and, in the case of the first two, by the cumulative decline in quoted prices (despite the recovery in the last few weeks of the year). As of January, the stress levels in these segments began to decrease, especially in the case of financial intermediaries and equity markets, and since the beginning of March it has remained relatively stable at values of around 0.5 for the first and 0.35 for the second. In the fixed income markets, which benefited from the raft of measures adopted by the ECB – which cut short the upward trend of the main risk premiums – the stress level fell relatively quickly in the central months of 2020. Since then, apart from the occasional rebound, the stress level in this segment has been below 0.60.

12 This indicator has a weekly frequency. The data presented in this report correspond to 9 April.

3.1 The stock markets

The Spanish equity markets started the first quarter with fresh gains, fuelled by the projected economic recovery and beneficial effects of the vaccination programmes.

The Spanish equity markets, which made large gains in the last quarter of 2020, recouping a substantial large part of the losses incurred in previous months, began the first quarter with fresh increases, fuelled by the outlook for economic recovery, the beneficial effects of the vaccination programmes and the release of new vaccines. Even so, progress slowed in the last sessions of the quarter due to fears of the consequences of delays in the vaccination schedule in Europe and outbreaks of the virus, forcing fresh restrictions to be established in several European regions over fears of a fourth wave of infection. This situation has delayed the expectations of economic recovery until the second half of this year.[13]

In this context, the Ibex 35 rose by 6.3% in the first quarter of the year, with a gain that was somewhat lower than the gains posted by other large international indices.

The main Spanish stock market index, the Ibex 35, which had ended 2020 with losses of 15.5%, began the first quarter of the year with an advance of 6.3%, a slightly lower appreciation than other European benchmark indices[14] together with that of the UK FT100. The Ibex 35 stood at 8,580 points at the end of March, recovering more than 26% from the low of 6,785 points seen at the end of the same month in 2020, the lowest level recorded since the summer of 2012. The index gain was lower than the rises marked by small and mid caps (9.3% and 8.3%, respectively). Likewise, the indices that are representative of Latin American securities that trade in euros, the FTSE Latibex All-Share and FTSE Latibex Top, marked a modest performance (-2.1% and 1.3%, respectively) as a consequence of decline of the Brazilian stock market[15] and the depreciation of its currency against the euro.[16]

Almost all sectors made gains, although these were weaker in sectors and companies that had performed better in 2020. The gains made by banks, consumer service companies, engineering companies and oil companies stood out.

Almost all the sectors ended the quarter with gains, although a weaker performance was observed in those sectors and companies that had shown a better performance in the previous year. In part, this performance can be explained by the rotation of some investment portfolios from defensive stocks, such as food and electricity companies, to cyclical and growth stocks that would benefit more from a recovery scenario, such as banks or companies in the services and hospitality industries. Rises were uneven between companies and sectors depending on their recovery outlook. The most significant increases (see Table 4) corresponded to financial services companies, mainly banks; consumer services companies, highlights of which included the good performance of the airline IAG; leisure, tourism and hospitality companies; in addition to producers of raw materials and engineering companies; as well as the main company in the oil sector (Repsol), which was boosted by the recovery in oil prices[17] and its activity in the area of renewable energies.

13 The head of the ECB, Christine Lagarde, said the ECB "believes that 2021 will be the year of recovery, but we do not expect this to happen until the second half of 2021".

14 See Table 1 of this report for further details.

15 The main Brazilian stock market index, Bovespa, fell 2% in the first quarter of the year, while the Mexican BMV IPC index rose 7.2%.

16 In the first quarter of the year, the Brazilian real depreciated by 4% against the euro, while the Mexican peso appreciated by 1%.

17 The price of oil rose 22.5% in the first quarter, reaching around US$63, its highest level since December 2019.

Performance of Spanish stock market indices and sectors

TABLE 4

Indices	2018	2019	2020	I 20[1]	II 20[1]	III 20[1]	IV 20[1]	I 21[1]
Ibex 35	-15.0	11.8	-15.5	-28.9	6.6	-7.1	20.2	6.3
Madrid	-15.0	10.2	-15.4	-29.4	6.4	-7.4	21.7	6.2
Ibex Medium Cap	-13.7	8.4	-9.7	-31.0	7.8	0.5	20.8	8.3
Ibex Small Cap	-7.5	11.9	18.9	-24.6	17.5	7.8	24.7	9.3
FTSE Latibex All-Share	10.3	16.3	-22.0	-46.3	14.4	-7.3	36.9	-2.1
FTSE Latibex Top	14.8	15.3	-19.1	-43.3	14.6	-3.2	28.8	1.3
Sectors[2]								
Financial and real estate services	**-27.1**	**-27.1**	**-26.4**	**-40.7**	**1.0**	**-19.8**	**53.4**	**14.8**
Banking	-29.0	-29.0	-27.5	-41.9	0.9	-20.6	55.7	15.0
Insurance	-12.8	-12.8	-23.6	-36.4	4.8	-8.7	25.5	13.6
Real estate and others	-26.1	-26.1	-16.0	-31.3	5.8	7.4	7.7	4.6
Oil and energy	**6.1**	**6.1**	**5.0**	**-13.9**	**10.6**	**-1.8**	**12.2**	**-1.6**
Oil	-4.5	-4.5	-40.8	-40.2	-6.6	-26.5	44.2	28.0
Electricity and gas	8.9	8.9	14.2	-7.7	12.9	1.0	8.5	-4.5
Basic mats., industry and construction	**-8.6**	**-8.6**	**-2.5**	**-30.5**	**11.5**	**-1.5**	**27.8**	**5.0**
Construction	-3.4	-3.4	-16.3	-29.2	11.3	-11.0	19.4	3.8
Manufacture and assembly of capital goods	-10.4	-10.4	50.7	-20.4	10.7	23.8	38.2	-0.1
Minerals, metals and metal products processing	-25.3	-25.3	-0.1	-38.7	13.8	3.5	38.3	17.9
Engineering and others	-21.3	-21.3	-6.1	-44.3	-20.9	1.3	37.8	11.2
Technology and telecommunications	**-5.5**	**-5.5**	**-21.9**	**-30.3**	**11.0**	**-9.7**	**11.7**	**6.5**
Telecommunications and others	-8.2	-8.2	-25.8	-23.8	13.3	-16.2	2.7	10.3
Electronics and software	-0.1	-0.1	-18.8	-40.1	6.6	1.9	24.8	1.7
Consumer goods	**-16.7**	**-16.7**	**-15.3**	**-19.1**	**-0.3**	**-0.8**	**5.8**	**5.6**
Textile, clothing and footwear	-23.1	-23.1	-17.3	-24.8	-0.4	0.9	9.4	7.9
Food and drink	-8.4	-8.4	10.6	-2.1	9.8	1.6	1.2	1.0
Pharmaceutical products and biotechnology	-6.4	-6.4	-18.3	-8.6	-3.6	-5.4	-2.7	1.5
Consumer services	**-19.7**	**-19.7**	**-36.7**	**-50.2**	**8.8**	**-11.8**	**32.5**	**10.5**
Motorways and car parks	39.5	-34.7	-27.8	-49.1	4.4	-17.7	65.0	11.3
Transport and distribution	32.3	-11.5	-38.8	-52.5	12.5	-12.4	30.9	10.3

Source: BME and Refinitiv Datastream.

1 Variation compared to the previous quarter.

2 Sectors belonging to the IGBM (Madrid Stock Exchange General Index). The information corresponding to the most representative subsectors is displayed within each sector.

…as well as consumer goods, telecommunications and technology companies.

The positive performance of the consumer goods sectors also stood out, thanks to the gains made by the leading company in the textile sector (Inditex), as well as that of the telecommunications and technology sectors. The leading textile company has been favoured by its ability to transform to a new, increasingly digital, business model, while the main telecommunications and technology companies (Telefónica and Amadeus) have been driven by the improved outlook for the Latin American economies and the tourism sector, respectively, in which a large part of their activity is concentrated.

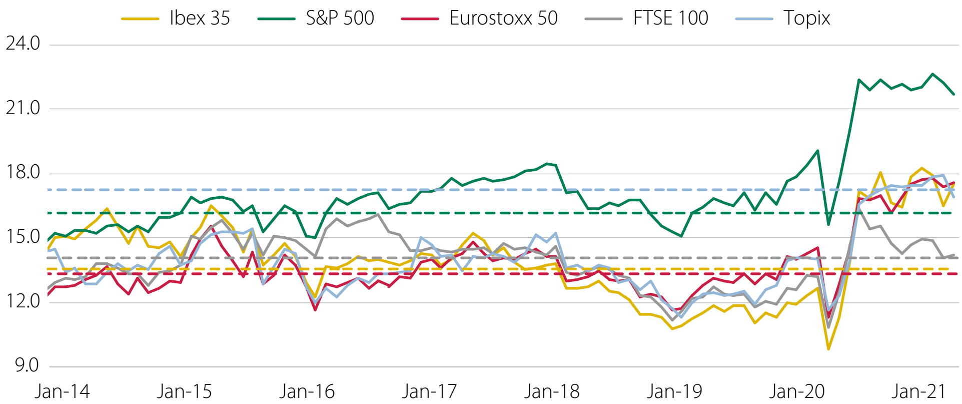
The weakest performance corresponded to companies in the energy sector and companies that manufacture industrial goods.

The weakest performance corresponded to companies in the energy sector and electricity companies, in addition to manufacturers of industrial goods. The former, which had shown a positive performance throughout the previous year due to their defensive nature, deriving from their more stable revenues, have been affected by the rotation of portfolios from traditional energy companies to renewable energy companies and cyclical securities, while the latter reflect the stagnation in investment in capital goods.[18] Pharmaceutical and food companies showed small gains (less than 2% in both sectors).

The increase in quoted prices together with the recovery in corporate earnings expected for the coming months led to a decrease in price-earnings ratio (PER) from 18.2 in December to 17.5 in March, remaining at high values above its historical average.

The rise in quoted prices in the quarter, together with the slightly stronger recovery in corporate earnings expected in the coming months, meant that the price-earnings ratio per share declined a little in the first quarter of this year. The value of this ratio, which was subject to significant adjustments throughout 2020, may continue to show some variability in the coming months, as earnings estimates more precisely reflect the impact of the successive waves of contagion on business activity. The value of this ratio in the case of the Ibex 35 fell from 18.2 in mid-December – its highest value since 2002 – to 17.5 in March, close to the ratio of the European Eurostoxx 50 index. As shown in Figure 13, the PER ratios of the world's most significant stock market indices also showed a similar performance in the quarter, marking slight declines. With the exception of the Japanese Topix index, most ratios tended to be above their median values over the last decade.

Price-earnings ratio[1] (PER) FIGURE 13



Source: Refinitiv Datastream. Data to 15 March. The dashed lines represent the historical average of the indicator since 2000.

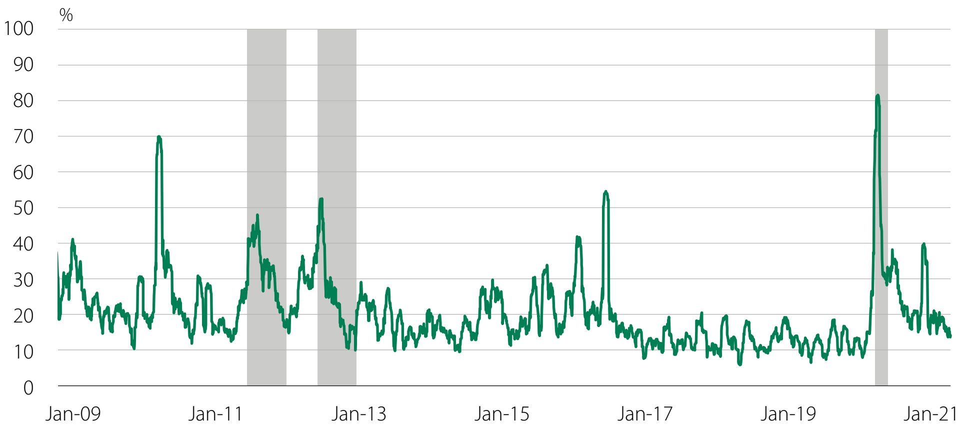
1 With forecast earnings for 12 months.

18 See Table 2.

The Ibex 35 volatility indicator, which had been normalising in the second half of 2020 after the strong rebound experienced in the first part of the year, continued to decline in the first three months of 2021, reaching a quarterly average of around 17%. Thus, although at moderate levels and lower than in recent quarters,[19] the indicator is still just above the values of around 10% – its historical low – seen at the close of 2019 (see Figure 14). This performance is similar to the trend marked by other international indices such as the European Eurostoxx 50 (14.2% on average in the quarter) or the US Dow Jones (12.9% on average), although its average value is somewhat higher than these indices.

Volatility continued to moderate but still remains slightly higher than before the outbreak of the pandemic.

Historical volatility of the Ibex 35 FIGURE 14



Source: Refinitiv Datastream and own calculations. The indicator is calculated as the annualised standard deviation of the daily price variations of the Ibex 35 over 21 days. The vertical lines of the graph refer to the introduction of restrictions on short-selling dated 11 August 2011, their subsequent lifting on 16 February 2012 (for financial institutions), the new restrictions of 23 July 2012 and their lifting on 1 February 2013, as well as the two most recent bans: the first for one day (13 March 2020), which affected 69 entities, and the second, adopted a few days later and lifted on 18 May 2020, which affected all entities.

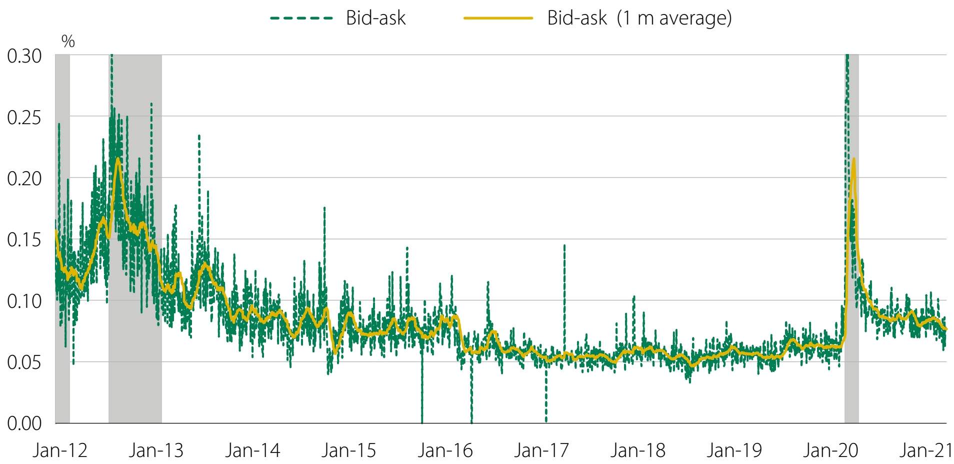
The liquidity conditions of the Ibex 35, estimated through the bid-ask spread, which had progressively improved since the second half of 2020 to reach values slightly higher than those seen at the beginning of the crisis, once again presented small additional improvements. Liquidity conditions have been favoured by the drop in volatility, but at the same time weighed down by the decrease in the volumes traded. The spread improved in the first quarter of the year, reaching an average of 0.081%, below the average of 0.111%, 0.086% and 0.084% of the three previous quarters and the historical average of the indicator (0.091%), although notably higher than the values observed in recent years, which were around 0.06% (see Figure 15).

Liquidity conditions assessed using the bid-ask spread continued to improve, but have not yet returned to pre-crisis levels, weighed down by the decline in volumes traded.

19 In the third and fourth quarters of 2020 it reached values of 22.2% and 24.3%, respectively.

Ibex 35 liquidity. Bid-ask spread

FIGURE 15



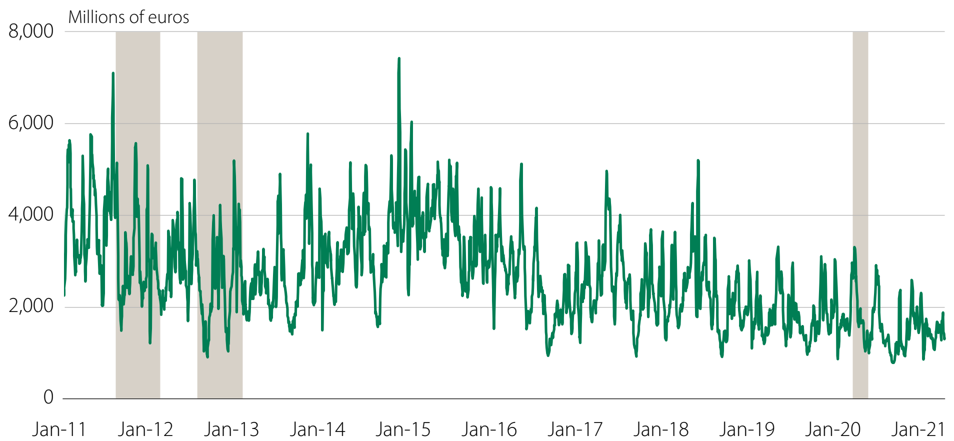
Source: Refinitiv Datastream and own calculations. Information is presented on the Ibex 35 bid-ask spread and last month's average. The vertical lines of the graph refer to the introduction of restrictions on short-selling dated 11 August 2011, their subsequent lifting on 16 February 2012 (for financial institutions), the new restrictions of 23 July 2012 and their lifting on 1 February 2013, as well as the two most recent bans: the first for one day (13 March 2020), which affected 69 entities, and the second, adopted a few days later and lifted on 18 May 2020, which affected all entities.

In this context of falling volatility and quoted price increases, trading in Spanish securities continued to decline in the first quarter of the year (-27.1% year-on-year).

In this context of falling volatility and rises in quoted prices, trading of Spanish equities fell once again to stand at just over €178 billion in the first quarter of the year, 27.1% less than in the same period of the previous year. Thus, the downward trend in trading volumes of Spanish equities appears to be consolidating. Average daily trading in the continuous market in the first quarter was €1.46 billion (26.5% less year-on-year), below the average for the previous quarter (€1.61 billion) and for 2020 as a whole (€1.65 billion).

Daily trading on the Spanish stock market

FIGURE 16



Source: CNMV. The vertical lines of the graph refer to the introduction of restrictions on short-selling dated 11 August 2011, their subsequent lifting on 16 February 2012 (for financial institutions), the new restrictions of 23 July 2012 and their lifting on 1 February 2013, as well as the two most recent bans: the first for one day (13 March 2020), which affected 69 entities, and the second, adopted a few days later and lifted on 18 May 2020, which affected all entities.

Regarding the distribution of trading in Spanish securities, just over €91 billion corresponded to the Spanish regulated market, while the remaining c€87 billion corresponded to other trading venues and competing markets. Trading fell by around 27% year-on-year in the regulated market and by nine tenths of a point in competing venues, which put BME's market share at 51.8%.[20] Trading of Spanish securities carried out in trading venues and competing markets appears to have consolidated at above 45% of the total trading, without apparently having been affected by the transfer of its activity in most cases from London to Amsterdam as consequence of Brexit.

…decreasing both trading in the Spanish regulated market and in competing venues.

In relation to trading carried out through these competing venues, Cboe Global Markets (Cboe) market stood out once again in absolute value terms, which now operates from Amsterdam and reported a trading volume was close to €62.5 billion in the quarter, representing more than 68% of trades made abroad and almost 72% of trades made through BME. Among the other competing venues, both Turquoise and "others" slightly improved their market shares to the detriment of Cboe, to levels of 7% and 21%, respectively. These centres have progressively increased their trading levels, which now represent more than a fifth of the total market (see Table 5).

Cboe Global Markets holds onto its leadership position in the trading of Spanish shares abroad, with 68% of the total traded.

Trading through systematic internalisers, which is not subject to market rules, decreased significantly in the first quarter, accounting for a proportion of close to 8% of total trading of Spanish securities (total trading is defined as the sum of trading subject to non-discretionary market rules and trading carried out through systematic internalisers). This proportion represents around half, in relative terms, of the trading made under this format, which remained relatively stable at around 15% of the total in the past year.[21]

The proportion of trading carried out through systematic internalisers fell to 8% of the total, almost half its usual value.

Equity issues carried out in domestic markets fell to €2.96 billion in the first quarter, of which €2.19 billion corresponded to capital increases with fund raising (see Table 6). Capital increases were largely capital increases with non-monetary considerations, while the remainder were carried out almost entirely under the scrip dividend method. The former totalled €2.08 billion, corresponding to one single transaction carried out as part of the Bankia – CaixaBank merger which resulted in the former being delisted from the market. Otherwise, in line with expectations, capital increases made under the scrip dividend format increased (six transactions for a total amount of €772 billion). Companies have been attracted by this format as a form of shareholder remuneration as it allows at least part of the funds earmarked for such remuneration to remain on the companies' balance sheets, strengthening them in times of economic uncertainty.

Capital increases with fund raising decreased once again and were concentrated in capital increases with non-monetary contributions. Likewise, capital increases made under the scrip dividend format increased, as this format offers a more attractive option for shareholder remuneration.

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20 These calculations are based on total trading subject to market rules (lit and dark). The difference between lit and dark trading lies in the transparency requirements, which are lower in the second case. The volume of trading in Spanish shares through trading venues and competing markets has been obtained from Bloomberg, so BME's market share of total trading has been calculated internally. There are other indicators that indicate a lower fragmentation of trading in Spanish shares. See Liquidmetrix reports available at BME Renta Variable (bmerv.es).

21 Information on OTC trading is available every six months. The distribution of trading in Spanish shares in 2020 including these trades was approximately 33% for the Spanish regulated market, slightly less than 30% for the other competing venues, just over 25% for OTC trading, and also slightly more than 10% for systematic internalisers.

Trading in Spanish shares listed on Spanish stock exchanges[1]

TABLE 5

Millions of euros

	2017	2018	2019	2020	III 20	IV 20	I 21
Total	**932,771.9**	**930,616.1**	**805,833.0**	**778,043.4**	**152,027.8**	**194,617.4**	**178,116.8**
Admitted to SIBE (electronic trading platform)	**932,763.1**	**930,607.1**	**805,826.6**	**778,040.9**	**152,027.6**	**194,617.0**	**178,114.0**
BME	633,385.7	579,810.4	460,267.4	416,212.5	78,626.0	103,959.5	91,268.7
Cboe Equities[2]	-	-	-	-	-	-	62,442.7
Chi-X	117,899.2	106,869.7	80,678.9	65,006.5	13,529.9	15,390.8	-
BATS	75,411.6	171,491.3	176,093.6	210,675.8	45,202.7	52,183.8	-
Turquoise	44,720.1	42,833.4	30,550.6	23,242.2	4,607.6	5,660.6	6,093.2
Other	61,346.5	29,552.2	58,236.1	62,903.8	10,061.4	17,422.3	18,309.5
Open outcry	**8.1**	**8.2**	**6.2**	**2.5**	**0.2**	**0.5**	**2.8**
Madrid	1.8	0.8	0.8	0.1	0.0	0.0	0.0
Bilbao	0.0	0.0	2.1	0.0	0.0	0.0	0.0
Barcelona	6.3	7.4	3.2	2.4	0.2	0.5	2.7
Valencia	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Secondary market	**0.7**	**0.8**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Pro memoria							
Trading of foreign equities through BME	6,908.0	3,517.1	3,480.5	4,236.0	1,041.4	941.4	1,056.9
BME MTF Equity[3]	4,987.9	4,216.3	4,007.7	3,907.3	629.9	1,322.6	971.2
Latibex	130.8	151.6	136.6	79.4	16.4	9.3	11.2
ETF	4,464.1	3,027.6	1,718.0	2,543.4	431.3	621.6	400.5
Total BME trading	649,885.3	590,732.0	469,616.6	426,981.1	80,745.2	108,854.9	93,711.3
% Spanish equities traded through BME/total Spanish equities	68.3	62.6	57.4	53.9	52.1	53.9	51.8

Source: Bloomberg and CNMV.

1 This includes the trading of Spanish equities subject to market rules or MTF (lit plus dark). Spanish shares on Spanish stock exchanges are those with a Spanish ISIN that are admitted to trading on the regulated market of Bolsas y Mercados Españoles (BME), i.e., not including the Alternative Stock Market (MAB), currently BME MTF Equity. Foreign equities are those admitted to trading in the regulated BME market with an ISIN that is not Spanish.

2 Includes trading that until 2020 was carried out through Chi-X and BATS, which since January 2021 has moved to Amsterdam as a result of Brexit.

3 MAB until September 2020. This MTF has three segments: BME Growth (in which growth companies and Spanish real estate investment funds are listed), BME IIC (in which the open-ended collective investment schemes and hedge funds are listed) and BME ECR (in which the venture capital firms are listed).

Likewise, in the first quarter of the year there were no initial public offerings of shares (IPOs), although several operations are expected in the coming months,[22] mainly from companies in the renewable energy sector, some of which could be completed in the second quarter. In fact, two share offerings, by Opdenergy Holding and Grupo Ecoener, have recently been approved. In addition, Kaixo Telecom (belonging to MásMóvil Ibercom, which was the object of a delisting takeover bid in 2020) has announced a voluntary bid for the entire capital of Euskaltel.

There have been no IPOs so far this year, but several transactions are expected in the coming months, mainly in the renewable energy sector.

Capital increases and public offerings

TABLE 6

	2018	2019	2020	II 19	III 20	IV 20	I 21
NUMBER OF ISSUERS[1]							
Total	**46**	**33**	**38**	**8**	**8**	**14**	**10**
Capital increases	45	33	38	8	8	14	10
Public offerings (for subscription of securities)	2	1	1	0	0	1	0
Initial public offerings (IPO)	1	0	0	0	0	0	0
NUMBER OF ISSUES[1]							
Total	**81**	**52**	**38**	**8**	**8**	**14**	**10**
Capital increases	80	52	38	8	8	14	10
Public offerings (for subscription of securities)	2	1	1	0	0	1	0
Initial public offerings[2] (IPO)	1	0	0	0	0	0	0
CASH AMOUNT[1] (millions of euros)							
Capital increases with fund raising	**7,389.9**	**8,240.6**	**8,903.1**	**1,518.4**	**4,024.6**	**3,185.1**	**2,185.7**
With pre-emptive rights	888.4	4,729.8	6,837.2	50.0	3,999.5	2,787.7	0.0
Without pre-emptive rights	200.1	10.0	150.1	0.0	0.0	150.1	0.0
Of which, increases	0.0	10.0	0.0	0.0	0.0	0.0	0.0
Accelerated book builds	1,999.1	500.0	750.0	750.0	0.0	0.0	0.0
Capital increases with non-monetary considerations[3]	2,999.7	2,034.2	2,33.0	0.0	0.0	220.5	2,079.2
Capital increases via debt conversion	388.7	354.9	162.4	0.0	0.0	0.0	0.0
Other	913.9	611.8	770.3	718.4	25.1	26.8	106.5
Scrip issues[4]	**3,939.7**	**1,565.4**	**1,949.0**	**93.5**	**1,083.9**	**375.2**	**772.5**
Of which, scrip dividends	3,915.2	1,564.1	1,949.0	93.5	1,083.9	375.2	772.5
Total capital increases	**11,329.6**	**9,806.0**	**10,852.1**	**1,611.9**	**5,108.5**	**3,560.3**	**2,958.2**
Initial public offerings	**733.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
***Pro memoria*: Transactions on MAB[5]**							
Number of issuers	8	12	13	3	2	3	9
Number of issues	12	17	14	3	2	3	11
Cash amount (millions of euros)	164.5	298.3	238.0	9.9	36.0	174.3	83.2
Capital increases	164.5	298.3	238.0	9.9	36.0	174.3	83.2
Of which, IPOs	0.0	229.4	173.0	0.0	0.0	174.3	0.0
Public share offerings	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: BME and CNMV.

1 Trades registered with the CNMV. Does not include data from MAB, ETF or Latibex.

2 Transactions linked to the exercise of green shoe options are separately accounted for.

3 Capital increases for non-monetary consideration have been stated at market value.

4 In scrip dividends, the issuer gives existing shareholders the option of receiving their dividend in cash or converting it into shares in a bonus issue.

5 Trades not registered with the CNMV.

22 The CNMV estimates that six transactions of this type could take place in the coming months.

The impact of Brexit on European financial markets EXHIBIT 1

On 31 December 2020, the United Kingdom left the European Union (Brexit) after the end of the transition period established in the exit agreement of 31 January 2020. From that moment on, the United Kingdom has had the status of a third country with respect to the legal framework of the Union. Previously, on 24 December 2020, the European Union (EU) and the United Kingdom reached a principle of commitment on the basis of the Trade and Cooperation Agreement to allow an orderly exit.

As part of the preparatory work, in September 2020, the European Commission adopted an equivalence decision for a limited time (18 months) for central counterparties (CCPs), and the European Securities and Markets Authority (ESMA) announced that the three UK CCPs would be recognised after the transition period: ICE Clear Europe Limited, LCH Limited and LME Clear Limited. In addition, on 25 November, the European Commission adopted a temporary equivalence decision (6 months) with respect to the United Kingdom's central securities depositories, specifically Euroclear UK and Ireland Limited (EUI), once the transition period has concluded. Regarding the situation of trading venues domiciled in the United Kingdom, in the absence of acknowledgement of equivalence by the European Commission, ESMA and the competent authorities have been closely monitoring trading trends in the different asset classes.

Royal Decree-Law 38/2020

Royal Decree-Law 38/2020, of 29 December, which implements measures to adapt the United Kingdom of Great Britain and Northern Ireland to the status of a third country after the end of the transition period provided for in the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union is to address the contingency of the no-deal Brexit in the Spanish legal system by regulating, among other issues, the provision of investment services (Article 13).

In accordance with this Royal Decree-Law, the authorisation or registration initially granted by the competent UK authority to an entity that provides services in Spain while domiciled in the United Kingdom will provisionally remain valid until 30 June 2021, in order to terminate or transfer contracts signed before 1 January 2021.

The CNMV created a new section on its website called "After Brexit: issues relating to the financial sector", with useful information for market participants and investors, such as a list of documents of interest on the possible impact and implications of Brexit and some interpretative criteria, in the form of questions and answers, on the provisions relating to the securities market and investment services.

These include clarifications on the issue of access to UK and EU trading venues, which, in short, establishes that Spanish legislation does not set any additional requirements for becoming a member of a trading venue in a third country. For the reverse case, access to Spanish trading venues by remote members of third countries, it has been clarified that there are also no additional requirements other than those applicable to EU residents.

Regarding direct electronic access (DEA), it is established that UK investors will be able to use DEA to Spanish trading venues without having to request authorisation as an investment firm. However, DEA providers must have the status of an investment firm under MiFID II.

Another very significant clarification was made on OTC transactions. The CNMV has specified that during the transition period market participants may continue to trade OTC in instruments that are not subject to trading obligations under MiFIR. In the case of OTC derivatives, it has also indicated that trades that are direct, involve non-essential modifications or are explicitly set down in pre-existing contracts may be continued. These clarifications are in line with those made by other competent European authorities in this matter and, with some exceptions, are a sign of the effort being made towards greater convergence in the application of MiFID II among the Member States.

Relocation of trading venues to the European Union

A large part of the relocations of UK institutions and trading venues have been to the Netherlands. Specifically, CBOE and Turquoise, two significant trading markets, have established their European headquarters in the Netherlands, while Aquis Exchange has set up a head office in France. Since the date of the United Kingdom's departure, no new authorisation requests for trading venues have been received, although one is currently being processed by the CNMV. In this sense, it is estimated that the preparatory work has been carried out with sufficient anticipation and foresight by UK institutions.

Application of the trading obligation for shares

The application of the share trading obligation, established in Article 23 of Regulation (EU) No. 600/2014 (MiFIR), has given rise to certain interpretation issues due to the liquidity fragmentation of European shares between the UK and EU markets. ESMA and the European authorities have opted to apply the obligation to trade in EU markets based on two factors: that this obligation exists in the event that the issuer's international securities code (ISIN) corresponds to a Member State, Iceland, Liechtenstein or Norway and, secondly, if the trades are made in euros. According to the data collected by ESMA, the number of equity issues with an ISIN code corresponding to a Member State traded on UK trading venues in pounds (GBP) does not exceed 50 and represents less than 1% of total trading in the EU.

Broadly speaking, trading in equities subject to European regulations has been carried out largely in the EU, mainly due to the transfer of trading to the aforementioned European venues, which have been established in the Netherlands and France. The volume associated with this migration corresponds to the ordinary volumes that had been seen in the UK platforms, naturally accounting for an average of between 25% and 30% of total trading, taking into account transactions carried out through trading venues.

This migration does not seem to have affected the transparency of trading, that is, the division between transparent (lit) and non-transparent (dark) trading remains. The previous structure of the UK trading venues has been replicated in the new trading venues established in the EU. In line with the above, the volume of OTC equities trades in the EU reflects the effect of the increase in the volume reported to the newly created approved publication arrangements (APAs) in Europe.

In contrast, trading on the same issues has fallen substantially in the United Kingdom. The proportion of trades on instruments subject to trading obligations according to MiFIR taking place in the United Kingdom accounted for only 2.75% in January (compared to 25% previously), according to a study carried out by Liquidnet.[1]

ESMA publishes annual liquidity calculations on equity instruments, which are used to implement the transparency regime. In March, the figures corresponding to the period ending on 31 December 2020 were published, which still include the trades made in the United Kingdom, given that during the reference period the United Kingdom was still a member of the EU. Information from this country will not be excluded until the following year 2022, when calculations will refer to 2021.

Application of the trading obligation for derivative instruments

Market participants have also requested clarifications from ESMA regarding the practical application of the trading obligation for derivative instruments, established in Article 28 of Regulation (EU) No. 600/2014 (MiFIR). Specifically, the categories of instruments subject to this obligation are certain subsets of instruments subject to clearing through a CCP in accordance with Regulation (EU) No. 648/2012 (EMIR).

As has occurred with respect to equity trading, new trading venues have been set up in the EU, such as those already mentioned above (Cboe Europe, Turquoise Europe and Aquis Exchange Europe), which have absorbed part of the trading that used to take place in the United Kingdom. In regard to interest rate derivatives on the euro and credit derivatives, a gradual increase in trading in the EU has been observed since the months before Brexit, without prejudice to the potential seasonal effects of derivatives trading, especially at the end of the year.

However, the same effect has not been extended to all instruments included in the scope of application of the obligation and today there are two scenarios: i) no clear increase has been observed in the EU with respect to certain instruments denominated in currencies other than the euro and ii), even in the pre-Brexit period there was an increase in trading by European and UK participants in US venues (Swap Execution Facilities, SEF), which are recognised by Europe and the United Kingdom.

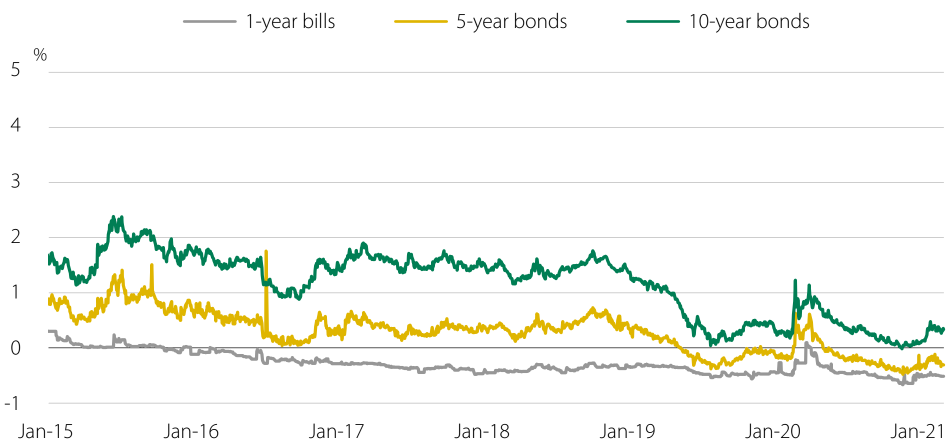
1 https://static1.squarespace.com/static/5bedbc974eddecbfbb0c217e/t/602c34fd4fcd5f707073e641/1613509887656/Liquidity+Landscape+-+One+month+post-Brexit.pdf

3.2 Fixed income markets

Debt markets, in which interest rates had declined progressively over much of 2020 pursuant to the ultra-expansive monetary policies implemented by central banks, started the year with slight increases in all sections of the curve.[23] These increases are partly explained by expectations of a possible rise in inflation caused by the strong growth in the money supply over recent years, as well as the impact of the public spending growth packages. As in the main European economies, the rates on Spanish public debt showed small increases in the quarter, which moved them away from the historical lows seen at the end of 2020, although levels remained very low. Likewise, private fixed income rates also experienced slight increases in some sections of the curve, which were somewhat more prominent in the case of corporate debt with the lowest credit ratings, although risk premiums remained at low levels as a result of the search for yield phenomenon. In this context, the yield on the Spanish 10-year sovereign bond rose by 29 bp in the quarter, while the Spanish risk premium remained unchanged at 63 bp, the same level at which the year began.

Debt markets, which had ended 2020 with rates at historic lows, started the year with slight increases due to expectations of a rise in inflation.

Interest rates on Spanish public debt FIGURE 17



Source: Refinitiv Datastream.

In the current environment of low interest rates and abundant liquidity fuelled by the ECB purchases, issues registered with the CNMV in the first quarter of the year showed a year-on-year increase of 13.3%, totalling over €23.5 billion. While issues made abroad decreased compared to the same period in 2020, in barely two months they reached an amount close to that registered with the CNMV in a full quarter. Companies, which had taken advantage of the favourable market conditions in 2020 to raise funds and finance themselves for longer terms and at a reduced cost, opted more for short term issues to cover their financing needs.

Fixed income issues registered with the CNMV increased by 13.3% in the first quarter of 2021. Issues made abroad fell but their amount was significant.

23 See Section 2.1 for more details on the performance of long-term interest rates in other economies.

The yield on short term government debt increased slightly, although it remained negative (for the sixth year running)…

The yields on short term private fixed income and public debt saw different performances in the first quarter, with small rises and some drops, respectively. Despite the small rises, short term government debt rates, for the sixth consecutive year, continued to show negative values for the entire segment of the curve, pursuant to the ECB's ultra-expansive monetary policy, which includes purchases of securities with a minimum residual maturity of 70 days. Thus, the secondary market yield on 3-, 6- and 12-month treasury bills was -0.54%, -0.54% and -0.50%, respectively, an increase of between 5 and 16 bp on the values seen in December (see Table 7).

Short term interest rates[1] TABLE 7

%

	Dec-18	Dec-19	Dec-20	Jun-20	Sep-20	Dec-20	Mar-21
Treasury bills							
3 months	-0.50	-0.58	-0.70	-0.48	-0.51	-0.70	-0.54
6 months	-0.41	-0.47	-0.59	-0.45	-0.46	-0.59	-0.54
12 months	-0.33	-0.48	-0.63	-0.45	-0.49	-0.63	-0.50
Corporate commercial paper[2]							
3 months	0.24	0.20	0.49	0.36	0.39	0.49	0.14
6 months	0.19	0.52	0.55	0.52	0.69	0.55	0.51
12 months	0.07	0.71	1.44	0.71	1.02	1.44	0.72

Source: Refinitiv Datastream and CNMV.

1 Monthly average of daily data.

2 Issuance interest rates.

…while the yield on short term private debt showed slight declines.

In the case of yields on short term private fixed income, the behaviour was different with values that were lower than those of the previous quarter observed, in contrast to the trend seen in the past few quarters. In previous quarters, the performance of these yields was shaped by the high concentration of commercial paper issued in the Alternative Fixed Income Market[24] (MARF), where medium-sized companies could access the market and issue commercial paper under the guarantee programme rolled out by the Instituto de Crédito Oficial (ICO). However, they incurred substantially higher costs than large companies, which raised the average interest rates in the sample. In the last quarter, the issues made under this programme[25] decreased, so

24 On 24 November 2020, the government approved an allocation of €50 million to guarantee companies in MARF that are complying with bankruptcy proceedings, up to date with payments and that have resolved their financial situation, although the whole agreement has not been executed. Likewise, an additional tranche of €250 million was released to guarantee commercial paper issued in MARF by companies that could not avail themselves of the first line of guarantees because their commercial paper programmes were in the process of being renewed. In 2020, €410.6 million were used to guarantee 66 issues made by 15 companies, which mobilised funds amounting to €597.2 million.

25 Beneficiaries of issues of commercial paper through MARF guaranteed by the ICO guarantee programme included: El Corte Inglés, Finycar, Grupo Pikolin, Sacyr, Hotusa, Pryconsa, Nexus Energía, Tubacex and Renta Corporación. The guarantees will cover a maximum of 70% of the commercial paper issuance, which will have a maximum maturity of 24 months and be available until 30 September, with the following conditions for awarding them: i) having registered a commercial paper issue programme on the

the sample includes a greater number of issues made by large companies that benefit from lower issuance costs, as well as purchases of ECB debt in the primary market, as they fall in the range of eligible issuers.[26] Spanish market data show that in March the issuance yields on commercial paper in the primary market ranged from 0.15% for the 3-month instrument to 0.72% for 12-month paper, values that were substantially lower than at year-end 2020 (see Table 8).

Return on fixed income in the medium and long term[1] TABLE 8

%

	Dec-18	Dec-19	Dec-20	Jun-20	Sep-20	Dec-20	Mar-21
Public fixed income							
3 year	-0.04	-0.29	-0.53	-0.28	-0.43	-0.53	-0.41
5 year	0.43	-0.06	-0.42	-0.11	-0.24	-0.42	-0.25
10 year	1.43	0.45	0.05	0.47	0.25	0.05	0.34
Private fixed income							
3 year	0.67	0.20	-0.20	0.19	0.12	-0.20	-0.08
5 year	0.55	0.23	-0.13	0.40	0.06	-0.13	-0.15
10 year	1.52	0.79	0.41	0.77	0.64	0.41	0.45

Source: Refinitiv Datastream, Reuters and CNMV.

1 Monthly average of daily data.

Public debt assets show slight increases in yields that are concentrated in the longer terms, with positive returns only after the 7-year term…

Yields on medium- and long-term debt followed a similar trend throughout the quarter, showing slight increases, which were concentrated mostly in the longer terms and in public debt. Despite the ECB purchasing programmes[27] being maintained, and even the announcement of the increase in their short term weekly amounts, investors' fears of a resurgence in inflation slightly raised the yield on public debt in all sections of the curve. Even so, the rate remained negative until the 7-year term. As shown in Table 8, the yield on 3, 5 and 10-year government debt in March stood at -0.41%, -0.25% and 0.34%, respectively, which is between 12 and 29 bp more than in December.

…and also on private fixed income assets, although returns are more varied in the second group, as not all issues are eligible for ECB purchases.

Private fixed income marked a similar performance, with slight increases in interest rates in most sections of the curve, despite which they also remained at around

MARF before 23 April, ii) the company's registered office being located in Spain and iii) the funds obtained not being available for paying dividends.

26 The short term debt the ECB can acquire under its PEPP programme may include commercial paper issued by Spanish companies such as Endesa, Iberdrola, Repsol, Telefónica, Red Eléctrica, Ferrovial, Naturgy, Abertis, Aena, ACS, Amadeus, Cellnex, Inmobiliaria Colonial and Viesgo. To be eligible, these assets must have a minimum credit rating of BBB- from Standard & Poor's, Fitch or DBRS, or Baa3 from Moody's.

27 The PSPP (Public Sector Purchase Programme) and PEPP (Pandemic Emergency Purchase Programme) are currently in operation. Under the first, up until the end of February the ECB had acquired public debt for a net amount of €2,506.86 billion, of which €293.85 billion corresponded to Spanish securities; while up until the end of March, within the framework of the PEPP programme, it had acquired public debt for a net amount of €899.73 billion, of which €104.23 billion corresponded to Spanish securities. Therefore, the amount of Spanish public debt acquired by the ECB stood at €398.01 billion (38% of the outstanding balance of long-term government debt).

historical lows.[28] Most of the large corporate debt issuers continue to benefit from the ECB's debt purchase programmes, which include specific corporate debt purchases,[29] although not all issuers have issues that are part of the range of eligible assets.[30] At the end of March, yields on 3 and 5-year private debt remained negative at -0.08% and -0.15% respectively, while the yield on 10-year debt stood at 0.45%, implying a risk premium of between 10 and 33 bp compared to public debt.

The sovereign risk premium remains stable at 63 bp, the same level at which it started the year, supported by the ECB's debt purchases.

The performance of the sovereign risk premium – like that of the risk premiums applied for large Spanish issuers – will continue to be shaped in the short term by the support provided by the ECB through debt purchases, although in the medium term it could be conditioned by economic recovery trends and the budgetary decisions taken by the government. The sovereign risk premium – measured as the difference in yield between the Spanish and the German 10-year sovereign bonds – started the year at 63 bp, and subsequently remained relatively stable throughout the quarter, to close the period unchanged. This indicator continues to benefit from the positive effect of the ECB's public debt purchases, as well as the outlook for economic recovery, thanks to the progress of the vaccination programmes. The risk premium measured through the CDS (credit default swap) of the Spanish sovereign bond – whose market is less liquid than the underlying market – ended the quarter at 34 bp, 10 bp less than at the end of 2020.

Risk premiums of private sector companies performed unevenly, with decreases for financial institutions and hardly any changes for non-financial companies.

The risk premiums of the private subsectors of the economy performed unevenly, with further declines for the second consecutive quarter in premiums of financial institutions, while those of non-financial companies barely showed changes. As shown in the right hand panel of Figure 18, the average CDS of financial institutions stood at 67 bp at the end of March, 11 bp less than at the start of the year, but still above the 58 bp average risk premium of non-financial companies, which fell just 1 bp from its value at the close of 2020. In the case of financial institutions, the further decrease in risk premiums owes to the continuation of the support measures deployed by the ECB, which include specific programmes for the purchase of assets issued by banks, such as covered bonds and asset-backed securities,[31] as well as rounds of financing and specific longer-term funding under very favourable conditions, but also to the improve outlook for economic recovery. The risk premiums of non-financial companies remained unchanged, given that while they also benefit from the positive effect of the ECB's purchases, their businesses have been impaired by crisis and the uncertainty about their future development.

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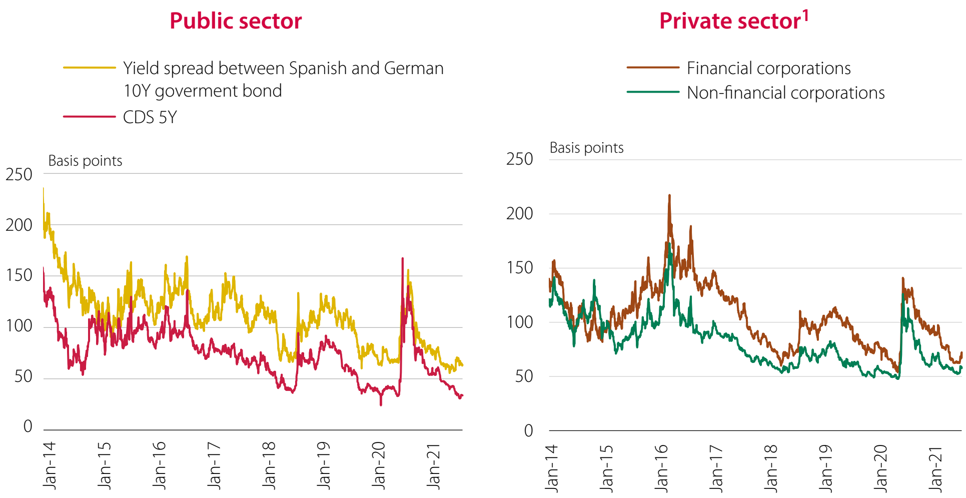
28 It should be taken into account that yields vary considerably in this debt category as the sample used to estimate interest rates is based on a wide range of assets with different levels of risk, covered bonds, investment grade rated bonds, high yield bonds and even debt with no credit rating.

29 Up until the end of March, the Corporate Sector Purchase Programme (CSPP) accumulated a volume of purchases amounting to €266.80 billion, of which more than 21% was acquired in the primary market. In the same period, the ECB had accumulated corporate bonds for the amount of €27.06 billion and commercial paper for a value of €12.77 billion acquired under the PEPP.

30 The ECB requires a minimum investment grade rating for purchases.

31 The ECB, through its covered bond purchase programme (CBPP3) and the asset backed securities purchasing programme (ABSPP), made up to the end of March for an amount of €289.61 billion and €28.72 billion, respectively, of which more than 36% and 57% were carried out in the primary market. At the same date, the ECB had accumulated covered bonds for the amount of €4.05 billion, acquired under the PEPP.

Risk premium of Spanish issuers FIGURE 18



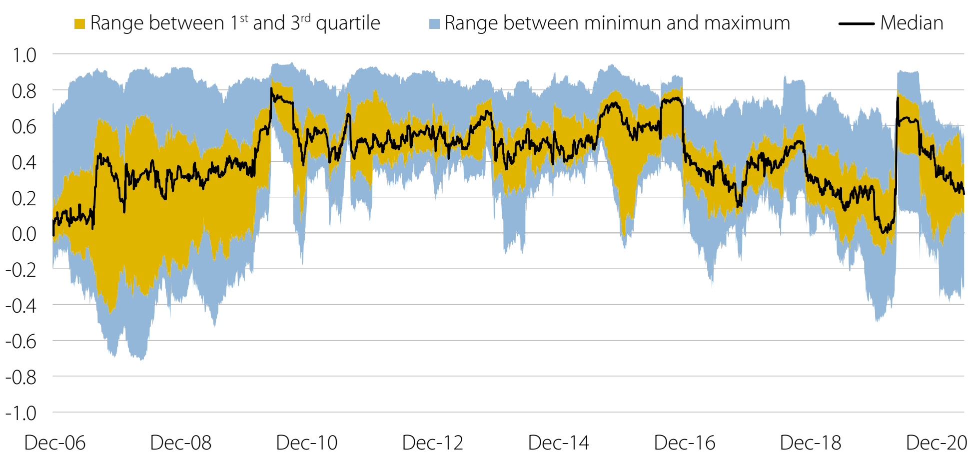
Source: Refinitiv Datastream and own calculations.

1 Simple average of the 5-year CDS of a sample of entities.

The degree of correlation between the prices of the different classes of financial assets, which had reached its highest level since 2016 in the first quarter of 2020, followed the downward trend seen in previous quarters, while remaining at values that are higher than those presented at the beginning of the previous year (see Figure 19). This additional decline was due to the different performance of debt and credit asset prices with respect to share prices: debt and credit asset prices remained relatively stable thanks to the support of the ECB, while equities posted substantial increases across the board as a consequence of the improved economic expectations.

The correlation between asset prices continued to decline, although it remained at levels higher than those seen at the beginning of the crisis. Debt and credit prices have been relatively stable, while equity prices show widespread increases.

Indicator of correlation among asset classes[1, 2] FIGURE 19



Source: Refinitiv Datastream and own calculations.

1 The correlation indicator between asset classes includes pairs of correlations calculated using daily data in three-month windows. The asset classes are sovereign debt, private fixed income of financial and non-financial entities and securities of the Ibex 35, financial companies, utilities and other sectors.

2 As from 7 June 2017, the CDS of the 5-year senior debt of Banco Popular has been excluded from the calculation of ROI on the asset class corresponding to financial fixed income.

Debt issues registered with the CNMV increased by 13.3% in the first quarter, while those made abroad decreased, although the amount of the latter was significant.

As we have already seen, fixed income issues registered with the CNMV in the first quarter stood at €23.53 billion, 13.3% more the figure reported in the same period of the previous year, a volume that is lower than in the last quarter of 2020, but higher than the values seen of the first quarter in several previous years. Issues made abroad showed a year-on-year decrease but their amount was significant, reaching €19.14 billion in just two months.

Gross fixed income issues registered with the CNMV TABLE 9

					2020		2021
	2017	2018	2019	2020	III	IV	I[1]
NOMINAL AMOUNT (millions of euros)	**109,487**	**101,296**	**90,161**	**132,111**	**19,968**	**35,018**	**20,203**
Covered bonds	29,824	26,575	22,933	22,960	6,750	7,508	6,250
Regional covered bonds	350	2,800	1,300	9,150	0	1,300	0
Non-convertible bonds and debentures	30,006	35,836	29,602	33,412	1,533	12,084	6,159
Convertible/exchangeable bonds and debentures	0	0	0	0	0	0	0
Asset-backed securities	29,415	18,145	18,741	36,281	4,909	9,681	3,066
Corporate commercial paper[2]	17,911	15,089	15,085	22,292	5,275	4,446	4,728
Asset-backed	1,800	240	0	0	0	0	0
Other commercial paper	16,111	14,849	15,085	22,292	5,275	4,446	4,728
Other fixed income issues	981	0	1,500	6,266	1,500	0	0
Preferred shares	1,000	2,850	1,000	1,750	0	0	0
***Pro memoria*:**							
Subordinated issues	6,505	4,923	3,214	14,312	459	2,088	861
Secured issues	0	0	0	0	0	0	0
					2020		2021
Issues carried out abroad by Spanish issuers	2017	2018	2019	2020	III	IV	I[1]
NOMINAL AMOUNT (millions of euros)	**84,760**	**89,358**	**100,321**	**82,774**	**13,394**	**19,062**	**19,140**
Long term	61,095	38,425	53,234	42,978	5,950	9,550	8,134
Preferred shares	5,844	2,000	3,070	1,850	350	0	0
Subordinated debentures	5,399	2,250	1,755	0	0	0	0
Bonds and debentures	49,852	34,175	48,409	41,128	5,600	9,550	8,134
Asset-backed securities	0	0	0	0	0	0	0
Short term	23,665	50,933	47,087	39,796	7,444	9,512	11,006
Corporate commercial paper	23,665	50,933	47,087	39,796	7,444	9,512	11,006
Asset-backed	0	0	0	0	0	0	0
***Pro memoria*: Gross issues of subsidiaries of Spanish companies in the rest of the world**							
					2020		2021
	2017	2018	2019	2020	III	IV	I[3]
NOMINAL AMOUNT (millions of euros)	**66,790**	**91,446**	**92,284**	**65,235**	**9,654**	**16,497**	**12,479**
Financial institutions	19,742	43,234	57,391	38,339	6,035	6,964	5,477
Non-financial companies	47,585	48,212	34,893	26,896	3,619	9,553	7,002

Source: CNMV and Bank of Spain.

1 Data as of 31 March.

2 The figures for corporate commercial paper issues correspond to the amounts placed.

3 Data as of 28 February.

In regard to the breakdown of the first quarter issues, both in absolute and relative terms, the highest growth was seen in issues of simple bonds and debentures (55.4%) and asset-backed securities (64.1%). One issue of internationalisation covered bonds amounting to €823 million also stood out. The increase in issues of bonds and debentures was due to two issues made by the Asset Management Company for Assets Arising From Bank Restructuring (SAREB) for an aggregate amount of €9.47 billion, compared to a single issue for amount of €4.06 billion registered in 2020. Meanwhile, the rise in issues of securitisation instruments remains associated with their use as collateral for obtaining funding in the ECB liquidity auctions.

The most significant increases occurred in issues of asset-backed securities and simple bonds.

Issues made on the MARF stood at €2.46 billion in the first quarter, an amount similar to the same quarter of 2020, with most of the figure corresponding to commercial paper (97%). The number of issuers stood at 45 (four more than in 2020), including companies such as El Corte Inglés, Tubacex or Sacyr.

Issues made on the MARF reached €2.46 billion, most of which corresponded to commercial paper.

Debt issues made by Spanish issuers abroad during the first two months of the year stood at €19.14 billion, the highest figure in the last three quarters. The decline compared to the same period of the previous year corresponded mainly to long term debt issues, which fell by 27%, while short term debt saw a smaller drop (-6%). It would appear that large issuers covered most of the long-term financing needs in 2020 and are opting mostly to issue short term notes. Debt issues of subsidiaries of Spanish companies abroad stood at €12.48 billion (data to February), 32% less than in 2020. Of this amount, 56% corresponded to non-financial companies and the rest to financial institutions.

Issues made abroad picked up, with activity concentrated in short term issues.

In regard to the activity registered in Spanish trading venues, the significant decrease in activity of the Electronic Debt Trading System (SEND) stands out. Although marking an improvement compared to the last quarter of 2020, trading fell by more than half year-on-year, standing at €21.5 billion in the first quarter. 63% of this amount corresponded to Spanish public debt and 37% to foreign debt. Trading on the two organised trading facilities (OTFs) authorised by the CNMV reached €159.35 billion in the first quarter, 8.6% more than in the same period of the previous year, of which almost €123 billion (77% of the total) corresponded to Spanish public debt and almost all of the rest to foreign public debt.

Trading in Spanish venues decreased significantly in SEND, but increased in the OTFs.

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

EXHIBIT 2

The Coronavirus crisis has significantly dampened economic activity, raising doubts about the solvency of the companies hardest hit and, hence, their credit risk. The CNMV has prepared quarterly reports to analyse the credit ratings of Spanish debt assets since the onset of the crisis and their subsequent evolution. The first of these reports[1] also compared these ratings with those of a sample of private issuers from other European countries. If an increase in credit risk were to occur, it could be reflected in downgrades of the ratings of the different companies and, if significant, would have damaging effects on many of the market agents and could ultimately have negative implications for financial stability. Among other things there could be significant asset sales, downward price spirals, various contagion phenomena among entities, higher financing costs, etc.

The analysis of Spanish debt[2] was carried out on the outstanding fixed income issues at the end of each quarter of 2020. As shown in Table E2.1, there was an increase in the outstanding balance of rated debt between March and June, going from €1,685.26 billion to €1,777.15 billion, in response to liquidity needs in the context of the crisis and as companies took advantage of the low interest rates. Thereafter, the variations were much less pronounced.

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

A-rated debt has the highest outstanding balance (70.5% on average for the year), since it encompasses government debt issues. From March to June there was a slight increase in the weight of BBB debt, from 8.8% to 9.3%, where it remained until the end of the year. Therefore, although most of Spanish debt remains of high quality, there has been a slight shift within this group towards assets with lower credit quality.

BBB issues have been closely monitored and, within this group, those that while still investment grade are a notch above high yield (BBB- for Fitch and S&P or Baa3 for Moody´s). As shown in Table E2.1, the amount of the BBB- debt increased from March to June from €54.75 billion to €78.68 billion (almost €24 billion more), mainly due to the downgrades in the bond ratings of the Community of Madrid, as well as different issues of monetary financial institutions and non-financial companies. Subsequently, the variations in the outstanding balance of BBB- rated debt were much less marked: between June and September there was an increase of slightly more than €2.8 billion and between September and December there was a decrease of a similar amount (€2.84 billion), as a result of the large volume of repayments and the slower pace of BBB- rated issues (there were no downgrades in credit ratings at this level).

Outstanding balance of rated Spanish fixed income securities TABLE E2.1

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

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

The increase in the balance of BBB- rated debt between March and June meant that from March onwards the size of this debt was greater than the debt of high yield issues. Although this difference narrowed slightly in the last quarter of the year, it is important to bear in mind that based on this performance, in the event of a mass downgrade of credit ratings, the high yield debt market might not be able to absorb the downgraded BBB- rated debt without difficulty. However, this could be less relevant if the benchmark debt market is considered on a European scale and not strictly domestic, as in a larger market the downgrades of ratings of Spanish assets would have less of an impact.

In regard to the proportion of high yield debt, it should be noted that after remaining stable for most of the year (around 3.5% of the total outstanding debt), this debt increased slightly to 3.7% in the last quarter of 2020 due to the issues of new assets with a BB (high yield) rating, as there were no downgrades of asset ratings to this category. These issues were mostly made by non-financial companies (80.5%).

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

1 See Cambón Murcia, M.I. and Gordillo Santos, J.A. (2020). "Changes in credit ratings of Spanish debt assets since the onset of the COVID-19 crisis". *CNMV Bulletin*, Quarter III, pp. 83-109. Available at: https://www.cnmv.es/DocPortal/Publicaciones/Boletin/Boletin_3_En_2020en.pdf

2 For the purposes of the study, Spanish debt is considered to be debt issued by an issuer of Spanish nationality or an entity that belongs to a group whose parent company is Spanish, even if the issues are made abroad.

4 Market agents

4.1 Investment vehicles

Financial CIS

Investment funds

The assets of the investment funds remained stable in 2020, recovering in the last three quarters the amount lost in the first as a result of the crisis deriving from the pandemic.

Investment fund assets, which had grown substantially in 2019, remained practically stable in 2020, standing at €279.67 billion at the year-end, just 0.1% more than at the end of the previous year. After a first quarter in which the effects of the pandemic were noted in this sector, both in the behaviour of investors[32] and the performance of the fund portfolio, in April the recovery of the markets, especially the equity markets, and a slight uptick in investor confidence led investment funds to gradually gain ground. Thus, in the last quarter of the year alone, assets increased by around €12.5 billion (4.7% more than at the end of September): 85% of this amount was due to portfolio asset gains in these vehicles and the remaining 15% to net subscriptions made by unitholders.

Some unitholders opted for equity funds in their search for higher returns, while others preferred much less risky options, such as fixed income funds, conditioned by the uncertainty and the unfavourable performance of the equity markets due to the pandemic.

Despite the prolonged context of low interest rates, which has caused some investors to opt for equity funds in their search for returns, others, that are more risk-averse and influenced by uncertainty brought by the crisis and the unfavourable market performance in the first quarter of 2020, opted for safer formulas, in principle, such as fixed income. For the year as a whole, the category that attracted the highest volume of net subscriptions was fixed income funds, with a total of €3.88 billion, followed by the international equity category, with €2.53 billion. It is worth mentioning that the fixed income category received the greatest number of subscriptions by far between April and December (€5.35 billion), having also registered the largest number of redemptions during the worst moments of the crisis in March. Mixed funds also saw positive net subscriptions, of €1.19 billion for mixed equity funds and €522 million for mixed fixed income funds. Meanwhile, the largest redemptions (in net terms) corresponded to guaranteed equity funds, with an outflow of €2.17 billion, and euro equity funds, with €1.97 billion (see Table 10).

32 As mentioned in previous reports, in March alone, net redemptions were around €5.5 billion, and were especially high in fixed income funds.

The performance of the fund portfolio in 2020 was slightly positive, 0.8%, with sharp differences between the first three months and the rest of the year, as described above. Thus, as shown in Statistical Annex 3.11, in the first quarter the return was -9.3%, while in the following nine months this figure stood at 11.1%. The same trend was observed in all fund categories, in other words, a negative return in the first quarter and a positive return in the next three, although the figures differed widely between, with the most extreme values seen in categories with a higher weight of equity in their portfolios. Thus, equity funds marked the worst performance in the first quarter (-28.5% for euro equity and -23.1% for international equity) and also the best performance in the rest of the year, with portfolio gains of 27.6% and 33.7%, respectively (16.6% and 11.9% in the fourth quarter alone). This meant that for the year as a whole, euro equity funds offered the lowest return of all the different categories (-8.8%) and international equity funds the highest (2.8%).

In all categories of funds, portfolio performance was negative in the first quarter and positive in the next three as a whole, with a more extreme values posted by funds with a greater weight of equities.

Net subscriptions of IFs

TABLE 10

Millions of euros

				2020			
	2018	2019	2020	I	II	III	IV
Total investment funds	**7,907.5**	**2,429.7**	**631.3**	**-2,084.5**	**132.1**	**659.8**	**1,923.8**
Fixed income[1]	-2,657.9	11,004.4	3,876.7	-1,470.9	1,359.5	2,301.5	1,686.7
Mixed fixed income[2]	-1,861.8	-1,850.1	521.6	2,007.7	-444.4	-1,169.3	127.8
Mixed equity[3]	3,062.8	3,212.3	1,193.7	276.0	17.8	819.2	80.8
Euro equity[4]	1,777.5	-3,541.8	-1,973.2	-822.0	-372.8	-459.3	-319.1
International equity[5]	3,789.2	3,900.9	2,525.4	1,738.1	-402.6	113.2	1,076.7
Guaranteed fixed income	-406.9	-282.6	-605.9	-261.4	0.9	-99.5	-246.0
Guaranteed equity[6]	-465.8	-1,841.0	-2,171.0	-1,287.4	-213.1	-325.8	-344.8
Global funds	9,153.7	-2,420.0	-1,352.6	-446.2	-208.9	-581.1	-116.4
Passive management[7]	-2,762.0	-3,010.1	-41.0	-1,099.0	723.3	84.4	250.4
Absolute return	-1,737.2	-2,742.2	-1,342.4	-719.4	-327.2	-23.5	-272.3

Source: CNMV.

1 Until I-2019 it includes the following categories (CNMV Circular 3/2011): euro fixed income, global fixed income, money market and short term money market. From II-2019 onwards it includes the following categories (Circular 1/2019): short term public debt constant net asset value MMF, short term low volatility net asset value MMF, short term variable net asset value MMF, standard variable net asset value MMF, euro fixed income and short term euro fixed income.

2 It includes euro mixed fixed income and global mixed fixed income.

3 It includes euro mixed equity and global mixed equity.

4 It includes: euro equity.

5 It includes: international equity.

6 It includes: guaranteed equity and partial guarantee.

7 Until I-2019 it includes passively managed CIS (CNMV Circular 3/2011). From II-2019 onwards it includes the following categories (Circular 1/2019): passively managed CIS, CIS that replicate an index and CIS with a specific non-guaranteed target return.

The number of funds continued to decline in 2020, especially guaranteed equities funds and passive management funds.

The supply of funds from management companies continued to decline in 2020, with a reduction in the number of vehicles greater than that experienced in recent years (80 in 2020 compared to 22 in 2019). Thus, there were 1,515 funds at the end of 2020, with 151 deregistrations and 71 registrations during the year. Guaranteed equity funds saw the largest fall, in line with the trend marked in recent years, with 22 fewer vehicles, followed by the passive management funds, which lost 15 funds. In contrast, international equity funds, which had increased in 2019 (with 27 more funds), grew further in 2020 with 13 institutions.

The number of unitholders stood at 12.7 million at the end of the year, with the advance in fixed income funds and international equities standing out, which were also those that attracted the highest subscriptions.

Despite the stability in terms of assets, the number of unitholders grew by 7.8% during 2020, with an increase of 3.5% in the last quarter alone, closing the year at a total of 12.7 million unitholders.[33] In line with the data on net subscriptions, the fixed income and international equity fund categories saw the greatest increases in 2020, with nearly half a million more unitholders in the former and just under 400,000 in the latter. In contrast, guaranteed equity funds, euro equity funds and absolute return funds posted a small drop in the number of unitholders (72,000, 69,000 and 59,000 fewer, respectively).

In the first two months of 2021, the expansionary trend marked by investment funds continued.

According to the provisional data for the months of January and February 2021, funds continued to perform in the same way as at the end of 2020, since assets grew by 2%, while the number of unitholders was up by 3.8%, to exceed 13 million. The number of vehicles decreased by five, to 1,510, with 17 deregistrations and 12 registrations.

The percentage of illiquid assets in funds' private fixed income portfolios fell 4 pp during 2020, standing at 4.8% of the fixed income portfolio, with a notable decrease in reduced liquidity assets in the financial fixed income portfolio rated *below AA.*

Despite the turbulence at the end of the first quarter, the liquidity conditions of the private fixed income portfolio of investment funds improved throughout 2020, with a weight of assets with reduced liquidity of 4.8%, a percentage which has been gradually decreasing, with fluctuations, since the highs reached in 2010, when these assets came to represent more than 30% of the fixed income portfolio. Thus, during the year, the weight of these assets fell almost 4 pp: from 8.7% at the end of 2019 to 4.8% of this portfolio. As of 31 December 2020, the total volume of assets considered to be of reduced liquidity was €2.87 billion, representing 1.03% of total investment fund assets.[34] Table 12 shows that the decrease in illiquid assets occurred in all categories of fixed income assets, highlighting the reduction in financial fixed income with a rating of less than AA, which saw an annual reduction of €858 million to €986 million at the end of the year. In general terms, the improvement in liquidity was a consequence of the large number of assets with a residual life of less than one year.

33 It should be noted that the same unitholder is counted for each contract held in different funds, so that the registered increase could be sometimes due to diversification by the same investor into a greater number of funds.

34 These results are compatible with the half-yearly analyses made by the CNMV of the liquidity conditions of the total portfolio of investment funds within the framework of the stress tests carried out on these institutions. The analyses performed in 2020 concluded that for the funds analysed (funds that have certain restrictions on redemptions, such as guaranteed funds, and those with a majority investment in other investment funds are excluded) the level of liquidity measured according to the HQLA (high quality liquid assets) approach, showed few variations throughout 2020, placing the percentage of liquid assets, according to this criterion, at 48% of the total portfolio. For more information, see the exhibit "Stress test for mutual funds" in the last report of the *Non-bank financial intermediation in Spain* series.

Investment funds. Key figures*

TABLE 11

	2018	2019	2020	2020 I	2020 II	2020 III	2020 IV
Total investment funds (number)	**1,725**	**1,710**	**1,643**	**1,697**	**1,692**	**1,654**	**1,643**
Fixed income[1]	279	281	276	283	283	276	276
Mixed fixed income[2]	168	173	174	173	175	170	174
Mixed equity[3]	184	185	186	187	186	183	186
Euro equity[4]	113	113	104	112	110	108	104
International equity[5]	236	263	276	272	275	279	276
Guaranteed fixed income	67	66	55	66	63	57	55
Guaranteed equity[6]	163	155	133	147	145	136	133
Global funds	242	255	247	254	247	250	247
Passive management[7]	172	133	118	119	125	117	118
Absolute return	99	84	72	82	81	76	72
Assets (millions of euros)							
Total investment funds	**259,095.0**	**279,377.4**	**279,668.0**	**250,126.3**	**263,619.4**	**267,084.6**	**279,668.0**
Fixed income[1]	66,889.3	78,583.2	81,015.9	73,475.8	76,179.4	78,775.6	81,015.9
Mixed fixed income[2]	40,471.0	40,819.9	43,200.4	41,312.7	42,581.8	41,957.1	43,200.4
Mixed equity[3]	23,256.0	28,775.8	30,432.7	25,829.7	27,511.7	29,019.2	30,432.7
Euro equity[4]	12,177.7	10,145.1	7,091.1	6,618.2	7,027.7	6,399.0	7,091.1
International equity[5]	24,404.9	34,078.9	37,722.5	27,636.0	31,757.0	32,763.6	37,722.5
Guaranteed fixed income	4,887.4	4,809.3	4,177.0	4,505.2	4,517.4	4,397.6	4,177.0
Guaranteed equity[6]	14,556.0	13,229.1	11,037.1	11,684.0	11,626.5	11,328.0	11,037.1
Global funds	42,137.2	43,041.9	40,918.0	37,120.7	39,071.8	39,057.4	40,918.0
Passive management[7]	16,138.6	14,073.8	14,014.3	11,708.7	13,054.6	13,223.8	14,014.3
Absolute return	14,172.5	11,818.3	10,057.4	10,233.0	10,289.6	10,161.5	10,057.4
Unitholders							
Total investment funds	**11,217,569**	**11,739,183**	**12,659,943**	**11,751,437**	**11,944,057**	**12,237,441**	**12,659,943**
Fixed income[1]	2,709,547	3,668,324	4,135,294	3,660,775	3,793,867	4,002,906	4,135,294
Mixed fixed income[2]	1,188,157	1,087,881	1,203,280	1,203,900	1,204,871	1,184,715	1,203,280
Mixed equity[3]	624,290	707,159	745,112	707,919	715,404	737,674	745,112
Euro equity[4]	831,115	598,901	530,107	532,060	500,778	487,843	530,107
International equity[5]	2,225,366	2,655,123	3,043,542	2,732,902	2,775,877	2,914,093	3,043,542
Guaranteed fixed income	165,913	154,980	135,320	148,317	145,787	141,812	135,320
Guaranteed equity[6]	494,660	428,470	356,439	391,235	383,372	368,979	356,439
Global funds	1,501,730	1,359,915	1,409,599	1,355,885	1,376,316	1,355,646	1,409,599
Passive management[7]	543,192	429,428	511,251	396,398	435,035	438,709	511,251
Absolute return	930,641	646,042	587,040	619,085	609,793	602,106	587,040
Return[8] (%)							
Total investment funds	**-4.89**	**7.12**	**0.78**	**-9.30**	**5.56**	**1.08**	**4.14**
Fixed income[1]	-1.44	1.38	0.62	-2.43	1.82	0.60	0.68
Mixed fixed income[2]	-4.27	4.75	-0.03	-6.97	3.96	0.90	2.45
Mixed equity[3]	-6.45	9.25	0.59	-11.06	6.54	1.71	4.38
Euro equity[4]	-13.01	14.27	-8.75	-28.48	11.94	-2.25	16.61
International equity[5]	-12.34	22.18	2.83	-23.11	16.43	2.62	11.93
Guaranteed fixed income	0.09	3.98	1.68	-0.94	1.20	0.83	0.59
Guaranteed equity[6]	-1.33	3.62	0.70	-1.86	1.35	0.43	0.81
Global funds	-5.69	8.45	-0.31	-12.00	6.15	1.46	5.19
Passive management[7]	-3.16	7.45	0.44	-9.29	5.54	0.10	4.81
Absolute return	-4.81	3.94	0.94	-7.50	4.66	1.42	2.80

Source: CNMV. * Information on funds that have submitted confidential statements (does not therefore include funds in the process of dissolution or liquidation).

1 Until I-2019 it includes the following categories (CNMV Circular 3/2011): euro fixed income, global fixed income, money market and short-term money market. From II-2019 onwards it includes the following categories (Circular 1/2019): short term public debt constant net asset value MMF, short term low volatility net asset value MMF, short term variable net asset value MMF, standard variable net asset value MMF, euro fixed income and short term euro fixed income.

2 It includes euro mixed fixed income and global mixed fixed income.

3 It includes euro mixed equity and global mixed equity.

4 It includes: euro equity.

5 It includes: international equity.

6 It includes: guaranteed equity and partial guarantee.

7 Until I-2019 it includes passively managed CIS (CNMV Circular 3/2011). From II-2019 onwards it includes the following categories (Circular 1/2019): passively managed CIS, CIS that replicate an index and CIS with a specific non-guaranteed target return.

8 Annual return for 2018, 2019 and 2020. Quarterly return not annualised for quarterly data.

Estimated liquidity of IF assets TABLE 12

	Reduced liquidity investments[1]					
	Millions of euros			% of total volume of asset type		
Asset type	Jun-20	Sep-20	Dec-20	Jun-20	Sep-20	Dec-20
Financial fixed income with AAA/AA rating	6	6	8	0.6	0.8	1.0
Financial fixed income with a rating below AA	1,178	1,066	986	4.3	3.7	3.3
Non-financial fixed income	1,146	1,083	1,078	4.5	4.1	3.9
Securitisations (asset-backed securities)	455	410	398	63.6	62.0	56.8
AAA securitisations	140	127	128	83.9	82.4	86.3
Other securitisations	315	282	270	57.4	55.8	49.0
Total	**3,240**	**2,975**	**2,867**	**5.8**	**5.2**	**4.8**
%/IF assets	**1.23**	**1.11**	**1.03**	–	–	–

Source: CNMV.

1 Reduced liquidity assets are considered to be private sector fixed income assets with a maturity greater than one year for which there is no representative number of intermediaries willing to buy and sell them with a normal market spread.

Open-ended collective investment schemes (SICAVs)

The number of SICAVs registered with the CNMV declined further in 2020, with 143 deregistrations and only one registration, to stand at 2,427…

In line with the trend seen in the past five years, the number of SICAVs registered with the CNMV fell significantly in 2020, as there were 143 deregistrations and only one registration, so at the end of the year there were 2,427 registered vehicles. More than half of the deregisrations were the result of wind down processes, while almost 30% were due to takeover by other vehicles, mostly investment funds.[35] The decrease in the number of entities was also reflected in the number of shareholders, which dropped by 9.6% to 360,452. Almost all SICAVs were listed on the BME MTF Equity market (formerly MAB).

…which caused, together with the depreciation of their portfolio, a 6.4% drop in the assets of these institutions.

The assets of these CISs also decreased, by 6.4%, from €28.79 billion at the end of 2019 to €26.94 billion at the end of 2020. This variation was the consequence of both the decrease in the value of the assets on the portfolios of these vehicles, especially their equity portfolios, and the repurchase of shares by shareholders. Average assets per SICAV experienced a slight decrease of €100,000, to €11.1 million at the end of the year.

In the first two months of 2021, SICAV assets remained stable, but the number of entities and shareholders continued to decline.

In the first two months of 2021, the main indicators for SICAVs remained in line with the figures seen in the final months of 2020: stable assets and decreases in the number of vehicles and investors. Thus, between January and February, assets rose slightly by 0.9%, while the number of vehicles registered with the CNMV decreased by 27, to 2,400, and the number of shareholders fell by 1.8% to 354,026.

35 The rest of the deregistrations, around 20%, were the consequence of transformation into another type of entity, mostly limited companies, or to a withdrawal of their authorisation.

Hedge funds

Hedge funds, which comprise two types of vehicles depending on whether they invest in assets directly (hedge funds) or through other hedge funds (funds of hedge funds), have a very low weight in CIS in Spain, representing less than 1% of total assets, despite the significant growth experienced in recent years.

Hedge funds, which continue to have a very low weight in collective investment in Spain…

The aggregate assets of these institutions grew significantly in 2020 (+4.9% to €3.57 billion), which was particularly noteworthy given the difficult economic environment. Funds of hedge funds saw an increase of 15.4%, to €652.8 million, while hedge funds marked a much smaller rise of 2.8% to €2,912.6 million.

…saw an increase in assets of 4.9% in 2020, which was higher in the case of funds of hedge funds.

Portfolio performance was in line with market trends, with negative returns in the first quarter of 2020 and positive returns in the whole of the remaining nine months. It should be noted that the performance of funds of hedge funds in the first three months (-3.5%) was less negative than the performance of other collective investment vehicles, which allowed them to close the year with a return of 3.71%. Hedge funds, meanwhile, recorded an annual return of 1.8%

The portfolio returns of these institutions was positive for the year as a whole, largely thanks to the relatively small declines seen in the first quarter.

The total number of these vehicles registered with the CNMV at year-end 2020 was 76, seven more than at the end of 2019. As shown in Statistical Annex 3.12, there was only an increase in hedge funds, which went from 62 to 69, with 11 registrations and 4 deregistrations during the year. Funds of hedge funds saw no movements, as in 2019, with the same seven funds as in 2018. Six of these were funds (three of which were in the process of being wound down). In the first two months of this year there have been three registrations: two hedge funds and one, after two years without movements, to a fund of hedge funds.

The number of unitholders and shareholders grew by 4.0%, with the increase in hedge funds standing out, thanks to the registrations made during the year.

The total number of unitholders and shareholders of these institutions showed a trend similar to equities, rising by 4.0%, so that at the end of December there were a total of 10,819. This increase was due to hedge funds, which registered an increase of 5.5%, to 7,961, thanks mainly to the seven registrations (in net terms) made during the year. In the case of funds of hedge funds, the number of unitholders remained practically unchanged, ending 2020 at 2,858.

The number of vehicles increased by seven, ending the year at 76. This rise corresponded exclusively to hedge funds.

Foreign CISs marketed in Spain

The volume of foreign CISs marketed in Spain has increased steadily and at a strong pace in recent years, from €18 billion at the end of 2008 to €199.42 billion in December 2020. The increase registered in 2020 was €20.58 billion, 11.5% more than in 2018.[36] As shown in Figure 20, this strong growth rate has meant that the weight of foreign CISs in total CIS traded in Spain has increased significantly in the last 5 years, standing at 39% in 2020.

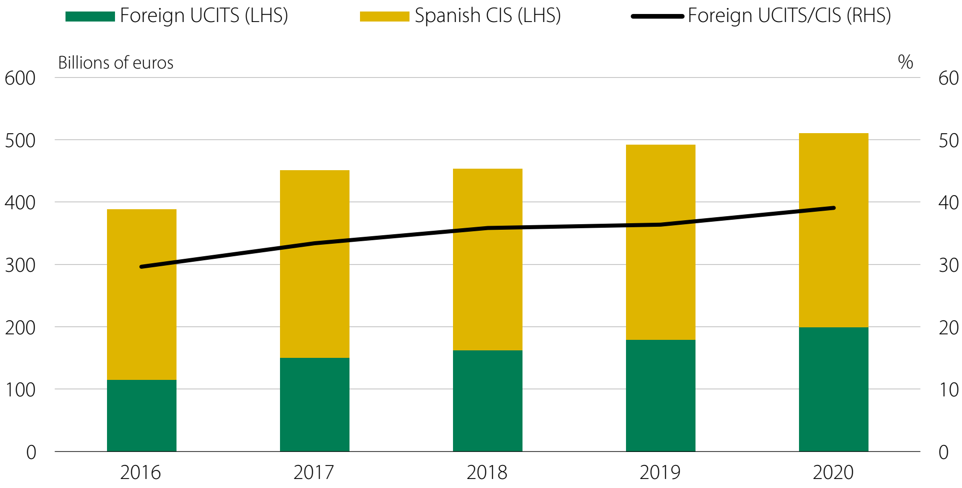
The assets of foreign CISs continued to grow in 2020, reaching €200 billion at the end of the year, which represents 39% of the total assets of CISs marketed in Spain.

36 It should be noted that following the entry into force of CNMV Circular 2/2017, of 25 October, which establishes the obligation for all foreign CIS marketers to submit to the CNMV as much information possible about the products marketed in Spain, the information received prior to 31 December 2017 may not be fully comparable with that received as of that date.

The number of foreign CISs registered with the CNMV increased by 15 in 2020, to a total of 1,048 vehicles (407 funds and 641 companies).

In line with the trend marked by assets, the number of foreign CISs registered with the CNMV increased by 15 entities in 2020 (9 in 2019), so at the end of the year there were a total of 1,048 vehicles of this type (407 funds and 641 companies). As in previous years, most of the registrations corresponded to vehicles from Luxembourg (+10, to reach 472).

Assets of foreign CISs marketed in Spain FIGURE 20



Source: CNMV.

Outlook

The outlook is positive for the collective investment industry, which has successfully overcome the worst moments of the crisis, due to the increase in savings of agents.

The performance of the collective investment industry in 2020 and the first months of 2021 seems to indicate that the most complicated moments deriving from the Coronavirus crisis have been left behind. Management companies were able to address the increase in redemptions without notable incidents and the CNMV paid special attention to the valuation of assets and the analysis of the liquidity conditions of the fund portfolios and the proper use of the liquidity management tools. In the medium term, this sector may be boosted by the notable increase in savings of agents, which may increase investment in different types of financial assets (although for the time being this increase in savings is materialising mainly in the more liquid assets, such as cash or deposits). If the positive evolution of the pandemic and a less uncertain environment are confirmed, the increase in subscriptions to these assets may continue, although it remembered that some unitholders, who are suffering more financial restrictions, may unwind their positions.

4.2 Provision of investment services

The provision of investment services can be carried out by various types of entities, mainly credit institutions, which receive almost 90% of the income generated by this business.

Credit institutions are by far the largest providers of investment services in Spain and account for the bulk of fee income in the different types of services (close to 90% of the total). Broker-dealers and brokers, however, still hold a relatively significant weight, especially in the area of order processing and execution, although they also offer a wide range of services (see Table 13). In addition to these entities, financial advisory firms (EAF) and portfolio management companies (SGC) provide specialised investment services.

Fees received for investment services. 2020

TABLE 13

Millions of euros

	Broker-dealers and brokers[1]	Credit institutions (CI)[2]	Total	% CI/total
Total Investment services	**464**	**3,714**	**4,179**	**88.9**
Placement and underwriting	7	355	362	97.9
Order processing and execution	276	605	882	68.7
Portfolio management	28	530	558	95.0
Investment advice	40	643	683	94.2
Marketing of CISs	113	1,581	1,694	93.3
Total ancillary services	**227**	**1,023**	**1,250**	**81.9**
Administration and custody	40	651	691	94.2
Other ancillary services	187	372	558	66.6

Source: CNMV and Bank of Spain.

1 Includes portfolio management companies.

2 Includes branches of EC credit institutions.

Credit institutions

At the end of 2020, a total of 111 Spanish credit institutions (banks, savings banks and credit cooperatives) were registered with the CNMV to provide investment services, one fewer than in 2019.[37] The number of foreign credit institutions providing investment services in Spain at the end of the year stood at 487, 11 more than the previous year. 432 of the registered foreign credit institutions operated under the freedom to provide services regime and 55 through branches. Almost all of these institutions were from other Member States of the European Union (482 institutions).

The number of Spanish credit institutions registered with the CNMV was 111 at the end of 2020, one less than in 2019, while the number of foreign entities willing to provide investment services increased by 11 to stand at 487.

Table 14 shows the income obtained by credit institutions from the provision of securities services and the marketing of investment funds and other non-bank financial products. As seen in the table, the aggregate amount of fees received for the provision of securities services and marketing of CISs increased by 8.5% in 2020, to €4.74 billion. The provision of investment services implied fees of €2.13 billion for credit institutions, 15.5% more than in 2019. The income obtained by the different investment services saw double-digit growth in all headings. As regards fees for ancillary services related to investment services, credit institutions received €1.02 billion, which represents an increase of 10.9% compared to 2019.

In 2020, credit institutions received €4.74 billion from the provision of securities services and the marketing of CISs, 8.5% more than in 2019.

37 Of the 111 institutions, 101 were considered to be actively providing investment services.

Income of credit institutions[1] from the provision of securities services and marketing of non-bank financial products

TABLE 14

Millions of euros

	2017	2018	2019	2020	% of total CI fees[1]
For investment services	**1,759**	**1,735**	**1,847**	**2,133**	**14.0**
Placement and underwriting	283	217	296	355	2.3
Order processing and execution	571	510	498	605	4.0
Discretionary portfolio management	389	414	479	530	3.5
Investment advice	516	595	573	643	4.2
For ancillary services	**890**	**965**	**923**	**1,023**	**6.7**
Administration and custody	653	667	650	651	4.3
Financial reports and research	148	184	148	206	1.4
Other ancillary services	89	115	125	166	1.1
Marketing of non-bank financial products	**3,739**	**4,222**	**4,084**	**4,010**	**26.4**
Collective investment schemes	1,821	1,688	1,597	1,581	10.4
Pension funds	498	892	927	972	6.4
Insurance	1,330	1,507	1,437	1,377	9.1
Other	90	135	123	80	0.5
Total	**6,387**	**6,922**	**6,854**	**7,166**	**47.2**
***Pro memoria*:**					
For securities services and marketing of CISs	4,469	4,388	4,367	4,738	31.2
Total fee income	**14,295**	**14,928**	**15,134**	**15,190**	**100.0**

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

1 Includes branches of EC credit institutions.

Broker-dealers and brokers

In 2020, the activity of broker-dealers and brokers increased, albeit with a great deal of unevenness, especially among broker-dealers.

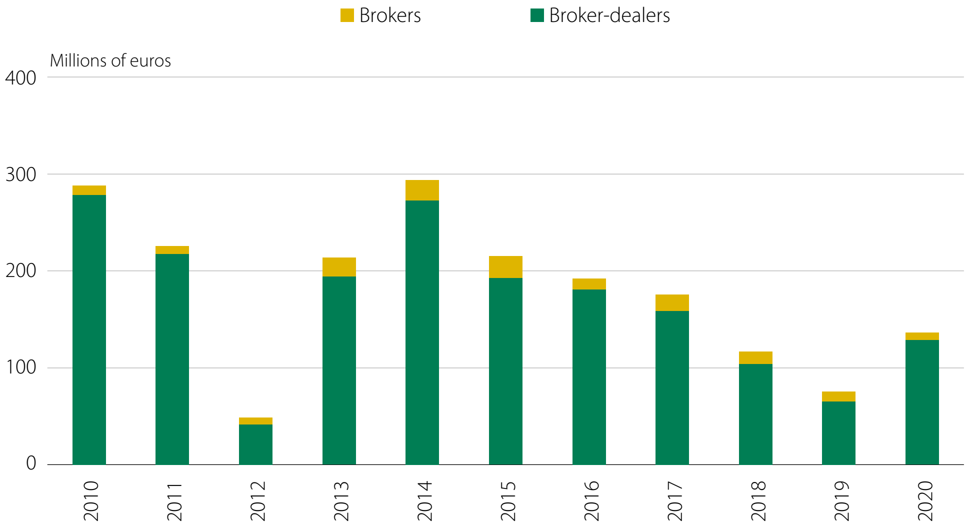
In 2020, broker-dealers provided more investment services compared to previous years. This growth was due to a company that belongs to a foreign credit institution (Credit Suisse) significantly increasing its activity. Due to Brexit, this institution decided to transfer part of its activity carried out in the United Kingdom to Spain, which is based on the processing and execution of client orders on derivatives. With the exception of this company, all others saw a reduction in activity.[38] Brokers recorded an increase in activity.

The combined profits of these entities was €136.5 million in 2020, 80% more than in 2019.

As shown in Figure 21, broker-dealers and brokers obtained profit before tax of €136.5 million in 2020, an increase of 80.1% on the previous year. This increase was due to the increase in profits of broker-dealers (98.0%), since brokers saw a fall in earnings (-25.7%) as expenses outstripping revenue growth.

38 The fees received by broker-dealers in 2020 stood at €522 million (€345 million excluding Credit Suisse), compared to €425 million in 2019 (€364 million excluding Credit Suisse).

Aggregate profit(loss) of investment firms before tax[1] FIGURE 21



Source: CNMV.

1 Except EAFs and SGCs.

At the end of 2020, a total of 95 broker-dealers and brokers were registered with the CNMV, the same number as at the end of 2019. This stability in the number of institutions, coupled with the increase registered last year, could be taken as a positive signal for the sector, especially in the context of uncertainty caused by the COVID-19 pandemic. It can be observed that banking groups are continuing to integrate their broker-dealers and brokers into the parent, which is leading to deregistrations. However, these are being offset by the registrations of independent institutions linked to non-banking entities. In 2020, eight new firms were registered and eight were deregistered.

At the end of 2020, a total of 95 broker-dealers and brokers were registered with the CNMV, the same number as at the end of 2019, following 8 registrations and 8 deregistrations.

Most entities that provided services in the European Union did so under the freedom to provide services regime, specifically 55 (six more than in 2019) and, and only four maintained branches in other countries (two fewer than in 2019). The number of foreign entities that provide investment services in Spain grew further in 2020, both under the freedom to provide services regime, which increased from 3,020 to 3,062, and through branches, from 65 to 66.[39]

The provision of cross-border securities services continued to be carried out mainly under the freedom to provide services regime, with very few branches being maintained.

As shown in Table 15, broker-dealers experienced a significant increase in revenue compared with the previous year. All the items contributed to this rise, except for the interest margin and net exchange differences. In particular, there were notable increases in gains on financial investments (229.7%) and other operating income and expense (218.7%). The rise in net fees was 11.2%, although the performance of its different components was uneven. Fees from order processing and execution remained the largest sources of revenue from the provision of services to third parties, marking a strong rise of 54.5% in 2020.

The profit and loss accounts of broker-dealers in 2020 show a strong increase in income, in part due to the performance a few entities.

39 This increase was achieved despite the notable decline in the number of UK-based entities, from 33 to 26, that can be attributed to Brexit.

Aggregate profit and loss account (Dec-20)

TABLE 15

Thousands of euros

	Broker-dealers			Brokers		
	Dec-19	Dec-20	% change	Dec-19	Dec-20	% change
1. Net interest income	38,125	35,957	-5.7	1,251	932	-25.5
2. Net fees	279,650	310,868	11.2	130,293	143,162	9.9
2.1. Fees received	427,813	525,812	22.9	150,842	165,094	9.4
2.1.1. Order processing and execution	164,606	254,307	54.5	23,194	22,035	-5.0
2.1.2. Issuance placement and underwriting	8,849	5,279	-40.3	580	2,157	271.9
2.1.3. Deposit and book-entry of securities	42,643	39,260	-7.9	879	754	-14.2
2.1.4. Portfolio management	15,102	13,128	-13.1	14,890	14,554	-2.3
2.1.5. Investment advice	23,400	5,813	-75.2	14,183	33,990	139.7
2.1.6. Search and placement of block trades	1,302	1,960	50.5	0	0	-
2.1.7. Market credit transactions	0	0	-	0	0	-
2.1.8. Marketing of CISs	53,506	50,985	-4.7	62,866	62,134	-1.2
2.1.9. Other	118,406	155,080	31.0	34,251	29,469	-14.0
2.2. Fees paid	148,163	214,944	45.1	20,549	21,932	6.7
3. Gains/(losses) on financial investments	29,452	97,113	229.7	910	-5,562	-
4. Net exchange differences	117	-981	-	75	-596	-
5. Other operating income and expense	28,949	92,259	218.7	1,119	-372	-
GROSS MARGIN	**376,293**	**535,216**	**42.2**	**133,648**	**137,564**	**2.9**
6. Operating expenses	316,406	396,091	25.2	120,787	132,069	9.3
7. Depreciation, amortisation and other charges	3,265	14,665	349.2	3,542	2,130	-39.9
8. Net losses due to impairment of financial assets	644	-533	-	35	26	-25.7
OPERATING PROFIT(LOSS)	**55,978**	**124,993**	**123.3**	**9,284**	**3,339**	**-64.0**
9. Other gains and losses	9,033	3,736	-58.6	1,159	4,417	281.1
PROFIT BEFORE TAX	**65,011**	**128,729**	**98.0**	**10,443**	**7,756**	**-25.7**
10. Income tax expense	10,483	25,801	146.1	4,280	4,920	15.0
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**54,528**	**102,928**	**88.8**	**6,163**	**2,836**	**-54.0**
11. Profit/(loss) from discontinued operations	0	0	-	0	0	-
NET PROFIT(LOSS) FOR THE YEAR	**54,528**	**102,928**	**88.8**	**6,163**	**2,836**	**-54.0**

Source: CNMV.

Broker-dealers' operating expenses also increased, in line with rise in activity in the sector. The two expense subheadings also grew: personnel expenses increased by 16.8%, while general expenses were up by 42.9%. Expenses for depreciation, amortisation and other charges also rose considerably (+349.2%), although their amount was still lower than other expense items. The fact that expenses as a whole increased at a lower rate than the gross margin (42.2%) led to a robust rise in operating profits (+123.3%), which went from €56 million in 2019 to €124.9 million in 2020. Profit before tax grew by 98.0% to €128.7 million, almost double the amount shown in 2019.

The expenses of these entities also increased but at a lower rate than income, prompting a strong increase in profit before tax (to €128 million, double the amount seen in 2019).

Aggregate profit before tax of brokers fell by 25.7% in 2020 to €7.7 million. The decline in earnings was due to the higher costs, which grew faster than the increase in income. Net fees rose by 9.9% on the previous year. In gross terms (fees received), the increase in investment advice stood out, up by almost €20 million (139.7%). Income growth from issuance placement and underwriting (271.9%) was also robust, although its amount is small in relation to that of other services. However, fees received from other items all decreased. The most notable falls corresponded to "Other" (-14.0%) and to order processing and execution (-5.0%). The rest of the fee categories did not show large variations: fees from marketing of CISs fell by 1.2% and portfolio management fees by 2.3%.

Brokers posted a drop in aggregate profit before tax of 25.7%, to €7.7 million, as while income increased (net fees +9.9%)…

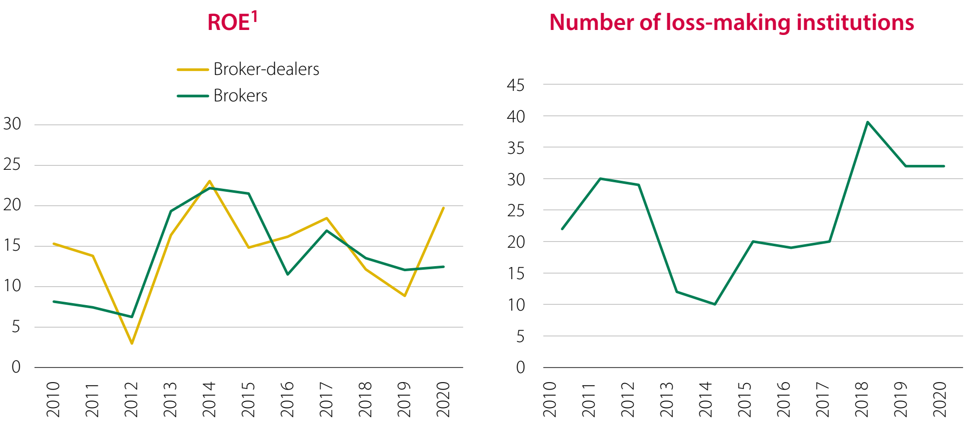
The increase in brokers' fee income was reflected in a small rise in fees paid to third parties (6.7%). Furthermore, the positive performance of fee income contrasted with the large losses on financial investments of an entity that had to be intervened by the CNMV. Therefore, growth in the aggregate gross margin decreased to 2.9%, standing at €137.6 million. Operating expenses rose by 9.3%, due to the significant growth in personnel expenses (14.0%), since general expenses were largely unchanged (0.5%). The combination of revenue growth that was lower than the rise in expenses brought net operating profit to €3.3 million, which was 64.0% less than in 2019.

…expenses were even higher.

The sector ROE climbed robustly during the year from 9.2% to 18.7%, due mainly to the increase in the profitability of broker-dealers (from 8.9% in 2019 to 19.7% in 2020). On the other hand, the ROE of brokers was much more stable (12.1% in 2019 and 12.5% in 2020), as observed in the left-hand panel of Figure 22. The number of institutions in losses remained at 32: 12 broker-dealers (one less than in 2019) and 20 brokers (one more than in 2019), although the amount of the losses fell significantly (from €41.25 million in 2019 to €27.67 million in 2020).

The sector's return on equity doubled in 2020, standing at 18.7%, mainly due to broker-dealers. The number of institutions in losses remained at 32, although the amount of these losses decreased significantly.

ROE before tax of IFs and number of loss-making institutions FIGURE 22



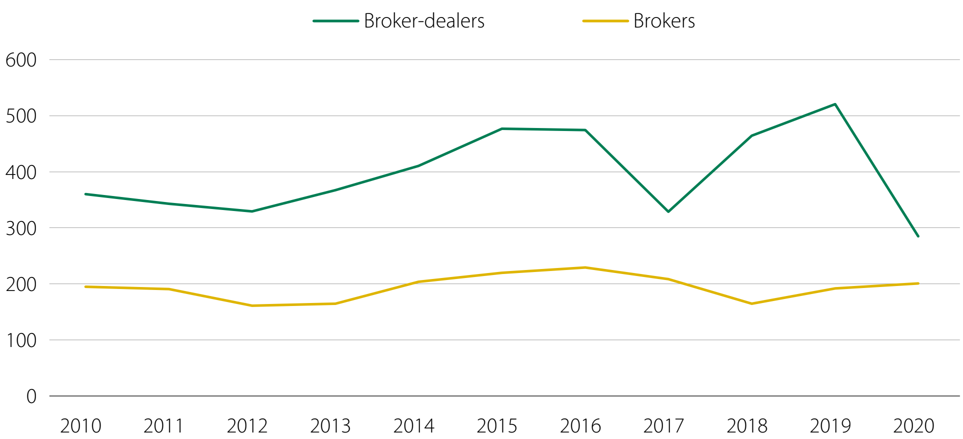
Source: CNMV.

1 ROE calculated with profit before taxes.

Solvency levels in the sector remained high in 2020, although the capital surplus of broker-dealers fell significantly.

The sector as a whole continued to exhibit relatively high solvency levels in 2020: at the end of the year the capital surplus was 2.8 times the capital requirement. However, this figure was considerably lower compared to the figure at the end of 2019 (4.9 times). In absolute terms, this buffer is too small to be significant. As is usual, the margin was generally larger in broker dealers than in brokers. While the capital surplus for broker-dealers was around 2.8 x, it remained at 2.0 x for brokers (see Figure 23). Only one company closed the year with a capital deficit (no brokers).

Capital adequacy of investment firms (capital surplus vs requirements) FIGURE 23



Source: CNMV.

Financial advisory firms

Financial advisory firms, which remained at 140, continued to lose market share in the investment advisory segment, with retail clients gaining weight.

The number of financial advisory firms remained stable at 140 in 2020, after eight registrations and eight deregistrations. Two of the deregistrations were related to the transformation of the entity into a broker. Total assets under advisory services of these entities stood at €12.05 billion in 2020 (€732 million corresponded to independent advice), which represents a decrease of 44.3% compared to 2019. This performance may be due to the increased competition from credit institutions in the area of investment advice. As shown in Table 16, the assets under advisory services of both retail and non-retail clients decreased, although the decrease in the latter was much greater (60.6% compared to 18.2%). This trend, which has been in place for several years now, implies that financial advisory firms continue to lose market share in the investment advice segment and also that their business model is shifting towards one in which the retail segment is more prominent.

Finally, the combined profit of these types of entities fell notably from €8.2 million in 2019 to €5.1 million in 2020. This decrease was a reflection of the lower fee income received from customers and, to a lesser extent, from rebates and other fees from other entities. Specifically, fees charged directly to customers went from €46.1 million in 2019 to €37 million in 2020.

The combined profit decreased from €8.2 million to €5.1 million, mainly due to the drop in income from fees received from customers.

Main figures of financial advisory firms TABLE 16

Thousands of euros

	2018	2019	2020	% change 20/19
NUMBER OF FIRMS	**158**	**140**	**140**	**0.0**
ASSETS UNDER ADVISORY SERVICES[1]	**31,658,460**	**21,627,677**	**12,049,182**	**-44.3**
Retail clients	10,281,573	8,313,608	6,797,540	-18.2
Professional clients and other	21,376,887	13,314,069	5,251,642	-60.6
NUMBER OF CLIENTS[1]	**6,524**	**6,437**	**7,262**	**12.8**
Retail clients	5,997	6,005	6,861	14.3
Professional clients	436	414	388	-6.3
Other	91	18	13	-27.8
FEE INCOME	**62,168**	**56,963**	**45,293**	**-20.5**
Fees received	**61,079**	**56,029**	**44,656**	**-20.3**
From clients	50,247	46,112	36,971	-19.8
From other entities	10,832	9,917	7,685	-22.5
Other income	**1,088**	**934**	**637**	**-31.8**
EQUITY	**33,572**	**32,089**	**30,607**	**-4.6**
Share capital	6,894	5,770	5,454	-5.5
Reserves and carry-overs	15,386	17,260	19,111	10.7
Profit/(loss) for the year	10,626	8,172	5,118	-37.4
Other own funds	666	888	923	3.9

Source: CNMV.

1 Data at market value at the end of the period.

A complementary view of the entities that provide investment services

Information on the provision of investment services in Spain from a broad point of view (i.e. including the activity of CIS management even though it is not strictly an investment service from a legal point of view) is usually presented in accordance with the type of entity performing the activity in question: credit institution, investment firm or CIS management company. However, a less formal approach, that is in line with the entities' business model and their link to commercial banks, makes it recommendable to delineate more accurately what part of the business related to

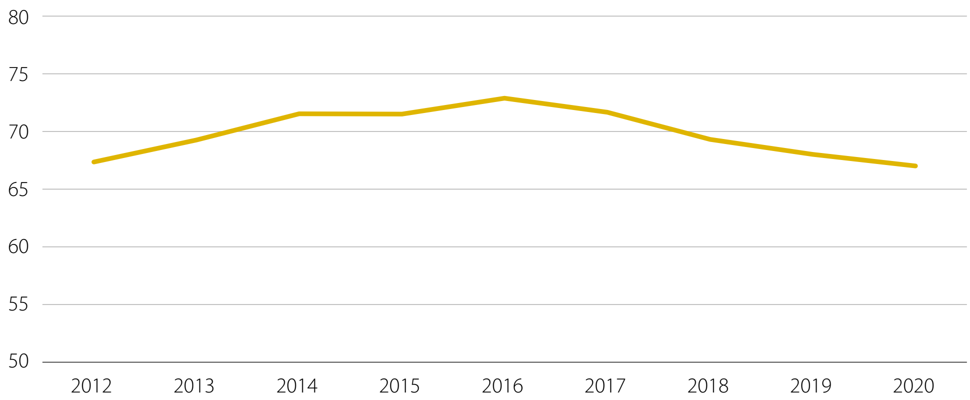
An alternative analysis of the entities that provide investment services according to their business model and not their legal form reveals that…

providing investment services is performed by banks that may be defined as commercial banks, i.e. whose income mainly comes from providing typical bank services (deposits, loans etc.), and what part is performed by entities that may be considered to be specialised in providing investment services. This last group of entities would be formed by independent investment firms and CIS management companies (that is, not subsidiaries of commercial banking groups) and by banks specialised in the provision of investment services. The latter includes entities such as Allfunds, Banco Inversis, Cecabank and Renta 4.

…67% of the income related to this activity is received by traditional commercial banks or entities that belong to their groups.

As shown in Figure 24, 67% of the business related to providing investment services in Spain (including the management of CIS and measured through the fees received for these activities) was performed by traditional commercial banks or by entities that belong to their groups in 2020, while the rest was performed by financial entities that are specialised in providing investment services and without links to commercial banking. This percentage is somewhat lower than that estimated in 2019 (68%) and follows the downward trend observed since 2017.

Share of financial institutions related to commercial banking[1] of total income derived from the provision of investment services[2] FIGURE 24



Source: CNMV.

1 This group of entities includes commercial banks (understood to be those that are not specialised in the provision of financial services) and the investment firms and CIS management companies that belong to them.

2 Includes CIS management activity, although this is not an investment service from a legal point of view.

Outlook

The crisis may accentuate some trends observed in the past and maintain a high degree of competition in the sector.

There is a great degree of uncertainty surrounding the evolution of this sector, as is the case with other participants in financial markets. It is possible that the current crisis will give rise to a fresh restructuring of the sector, accentuating some of the trends that have been observed for many years and that are reflected in: i) a high level of competition between banks and investment firms in the provision of investment services and, ii) within the investment firm segment, a growing weight of independent entities, as well as the consolidation of their change in business model, whereby their main traditional activity, intermediation in the securities markets, tends to have less and less weight, while marketing and management activities and advisory services to third parties are becoming increasingly important.

CNMV public consultation on the future Circular on advertising of crypto-assets

EXHIBIT 3

On 5 April 2020, the CNMV opened a public consultation prior to the preparation of a Circular that will delimit the scope of application, as well as the powers of the CNMV, in regard to the supervision and control of the advertising of crypto-assets. The CNMV has made use of the authorisation conferred by Article 240 *bis* of the Securities Market Act[1] (LMV), a new precept included in this Law through the Second Final Provision of Royal Decree-Law 5/2021, of 12 March,[2] in order to strengthen investor protection. Through this legislative amendment, the CNMV has applied its power, through a Circular, to subject the advertising of crypto-assets, or other assets and instruments presented as investment objects, to administrative control, with comparable advertising regulations, even if they are not activities or products provided for in the LMV. This Circular will also define the objective and subjective scope of supervision of the advertising of these assets, as well as the control mechanisms and procedures that will be applied.

The applicable regulation[3] establishes, in general terms, the obligation to carry out a public consultation prior to the drafting of the text of the legally binding rules and regulations. In this case, in which the CNMV is directly empowered by law to draw up a Circular to regulate the advertising of crypto-assets, public consultation is mandatory as it involves the exercise of regulatory *per saltum* powers. The deadline for responding to the consultation, which ended on 16 April, was short due to the urgency of the regulation, as reflected in the fact that the approval of the reform of Article 240 *bis* of the LMV was carried out through Royal Decree-Law.

The consultation seeks to obtain the opinion of those especially affected by the future standard and of the most representative organisations on the following points:

– The problems to be solved through the initiative.

– The need and appropriateness of its approval.

– The objectives of the regulation.

– Possible alternative and non-regulatory solutions.

In relation to the **problems that the initiative is intended to solve**, it should be noted that crypto-assets, understood to be digital representations of value or rights that can be transferred and stored electronically using distributed ledger technology or similar, are increasing in the financial system, and there is still no specific regulatory framework at the European level. The technologies that support them are transforming financial services and enabling far-reaching innovations. However, today crypto-currencies and crypto-assets are being offered with growing frequency as an object of investment, both to specialist investors and to the general public. In this regard, the CNMV and the Bank of Spain published a joint statement[4] on 9 February 2021, building on another statement from 2018, in which they warned about the risks that these new type of assets pose for participants in the financial system and in particular for small investors. The statement highlighted the complexity, volatility and potential lack of liquidity of these investments.

In this respect, the main issues that require regulatory action lies in the possibility that the advertising of crypto-assets, when they are offered as an investment, does not include objective information about the product and its risks. In recent months it has been observed that advertising of these products to retail customers has been carried out through a wide and growing variety of media, with differencing intensity. Investors acquiring these products must be aware of the risks they entail and that their investment could lead in some cases to significant losses due to price variations, episodes of sudden illiquidity or even to a total loss of the investment due to cyber-attacks or custody errors.

The **need and appropriateness** of this regulation is evidenced, as mentioned above, by the amendment of the LMV, carried out through Royal Decree-Law.

Regarding the **objectives of the regulation**, the purpose of the draft Circular will be to develop the rules, principles and criteria to which the advertising of crypto-assets must be subject, in particular, to delimit the objective and subjective scope of application, specify, in this case, advertising that must be submitted to prior administrative authorisation and set the tools and procedures that will be used to effectively supervise the advertising of crypto-assets. It is important to note that this Circular will not contain any rules governing the products themselves, nor on their suppliers or characteristics, which will not be subject to regulation or supervision, but relate exclusively to the requirements that the advertising aimed at offering these assets as a potential investment must adhere to.

Finally, with regard to **possible alternative and non-regulatory solutions**, the option of not drawing up a specific regulation for this issue but using criteria or indications of good practices instead has been ruled out, since Article 240 *bis* requires implementation by means of a Circular. To draw up the Circular, the CNMV is considering various alternatives that affect its scope of application and the types of administrative control. The public consultation includes six sets of questions about the possible alternatives posed:

– **Scope of application:** In order to define the objective scope of application, the CNMV is assessing the possibility of setting it for advertising activities aimed at potential investors residing in Spain who are offered or informed about crypto-assets. Likewise, it will probably be necessary to exempt some professional activities from this objective scope (white papers, professional investment analysis and recommendations or offers to professionals), unique non-fungible assets or those that are exclusively a means of payment. Regarding the subjective scope of application, the CNMV is considering the mandatory inclusion of service providers of crypto-assets, which would be defined in the Circular, regardless of their country of origin, and the advertising companies that act on their behalf.

– **Types of administrative control:** In regard to the types of administrative control, the CNMV is considering the possibility of requiring prior administrative authorisation in the case of mass advertising campaigns aimed at the general public that are carried out through the media, physical supports or certain virtual channels. Another option applicable to this type of campaign would be to establish of a prior communication regime. Other advertising actions would be subject to subsequent supervisory control of the CNMV, which may request the termination or rectification of the advertising activity according to the terms established in the Circular. The different measures are due to reasons of efficiency and agility, at the same time ensuring prior supervision in cases of mass advertising.

All advertising campaigns would be subject to the objectives of clarity and content set down in the Circular. Thus, advertising must be clear, balanced, impartial and not misleading. This is particularly important for information on returns, especially when referring to historical returns, and information on costs. It is also envisaged that advertising campaigns will be required to include warnings about the risks of investing in crypto-assets, in summarised form in each advertising communication and more extensively in other ancillary documents.

Lastly, the regulation must also include a system for the supervision of advertising by the CNMV, which will detail the procedures and deadlines for collecting information from the entities subject to the regulation, requesting the termination or rectification of the campaign, and applying sanctions when necessary. For this purpose, the entities in question must have information and documentation relating to the advertising campaigns in progress and those carried out in the past year. Given the potential impact of advertising campaigns, in the event of a request for termination or rectification, the deadlines for acting or collecting information should be limited and, in principle, should not exceed three days. This period may vary depending on the content or the advertising piece in question.

At the end of the public consultation period, 22 comments were received. All these comments, except those which the sender expressly requested that they not be made public, are available on the CNMV website. The CNMV is analysing the responses received and will shortly publish a draft text of the Circular that will be submitted to a public hearing.

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1 Royal Legislative Decree 4/2015, of 23 October, which approves the recast text of the Spanish Securities Market Act (LMV)

2 Royal Decree-Law 5/2021, of 12 March, on extraordinary measures to support business solvency in response to the COVID-19 pandemic.

3 Article 133 of Law 39/2015, of 1 October, on the Common Administrative Procedure of Public Administrations, in relation to Article 26 of Government Law 50/1997, of 27 November.

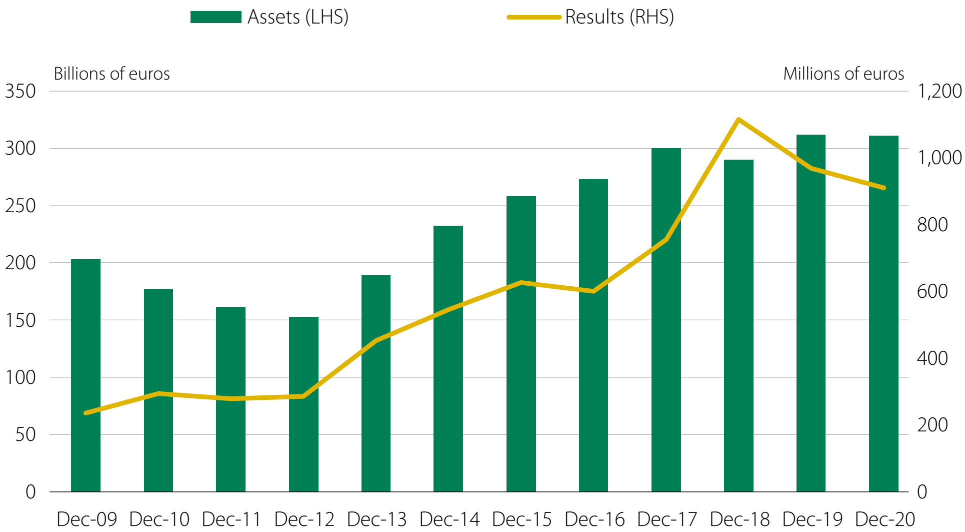
4 https://www.cnmv.es/Portal/verDoc.axd?t={52286f9f-c592-4418-9559-b75bf97115d2}

4.3 CIS management companies

Both the number of CIS management companies registered with the CNMV and the assets managed by these entities remained stable in 2020.

At the end of 2020, a total of 123 CIS management companies had been registered with the CNMV, the same figure as in the previous year, after two registrations and two deregistrations carried out during the year. The assets managed by these companies stood at just under €311 billion at the end of the year, which represents a contraction of 0.4% in relation to 2019. As in previous years, around 90% of these assets corresponded to Spanish investment funds, followed by foreign CISs, with 4.9% of the total. The sector remained highly concentrated in 2020: the three largest management companies held a combined share of 43.5% of total assets, almost 2 pp more than in 2019.

CIS management companies: Assets under management and profit before tax FIGURE 25



Source: CNMV.

Profit before tax decreased by 6.2% as a consequence of the decrease in fees received for the management CIS (-3.5%). These fees, which represent almost 90% of fees received, stood at €2.55 billion (0.82% of total assets).

Although there were very few movements in the assets managed by these companies, their aggregate profit before tax shrank by 6.2% compared with 2019, to €909.6 million (see Figure 25). This decline was due to the fall in net fees, to €1.52 billion (2.6% less). The drop in fees was due to the sharper decrease in fees received (-2.3%) compared to those paid (-2.0%). The performance of fees received was mainly fuelled by CIS management fees, which are by far the most significant, since they represent around 87% of the total fees received by management companies (88% in 2019). These fees dropped by 3.5% in 2020, to €2.55 billion. Their amount represented 0.82% of assets, slightly below the figure of 0.84% seen at year-end 2019, possibly due to the restructuring of investment fund assets into categories such as fixed income, which, in general, have lower fees than other categories. As a result of the fall in profits and the increase in capital, there was a decrease in the aggregate return on equity (ROE) from 120.6% at the end of 2019 to 87.2% in 2020. In turn, the number of loss-making companies increased from 21 to 28, although the volume of these losses saw a slight decrease, from €7.8 million to €7.6 million.

CIS management companies: Assets under management, income from CIS management fees and average fee ratio

TABLE 17

Millions of euros

	Assets under management	Income from CIS management fees	Average CIS management fees (%)	Fee ratio[1] (%)
2012	152,959	1,416	0.93	64.6
2013	189,433	1,588	0.84	62.0
2014	232,232	2,004	0.85	61.8
2015	258,201	2,442	0.95	63.7
2016	272,906	2,347	0.86	61.7
2017	299,974	2,647	0.88	58.7
2018	290,364	2,649	0.91	51.2
2019	312,235	2,638	0.84	49.8
2020	310,901	2,546	0.82	49.7

Source: CNMV.

1 Ratio of fees paid for the marketing of funds and income from CIS management fees.

4.4 Other intermediaries: Venture capital firms and crowdfunding platforms

Venture capital firms

Despite the crisis caused by the pandemic, in 2020, private equity and venture capital activity followed the upward trend of the previous years, in terms of both vehicles and management companies. The number of firms registered with the CNMV increased by 101 (88 investment vehicles and 13 management companies), with 130 registrations and 29 deregistrations.

In 2020, the number of venture capital firms continued to grow at a strong pace, with 88 investment vehicles and 13 management companies more than in 2019.

Traditional venture capital firms[40] saw 77 registrations and 16 deregistrations, for a total of 235 venture capital funds and 184 venture capital firms at the end of the year. In the case of SME venture capital firms, there were four registrations and two deregistrations, for a total of 31 vehicles (13 funds and 18 companies) as of 31 December 2020. 12 European venture capital funds (EuVECA) and one European social entrepreneurship fund (EuSEF) were also registered, which, together with the first deregistrations of two of these vehicles, meant that at the end of the year there were a total of 31 and four firms of these types.[41]

This increase was generalised among the different types of entities, affecting both traditional venture capital firms and other relatively recent categories.

40 Traditional entities are understood to be those that existed before the entry into force of Law 22/2014, of 12 November.

41 EuVECA and the EuSEF (FCRE and FESE respectively in Spanish) are entities regulated under Regulation (EU) No. 345/2013 of the European Parliament and of the Council, of 17 April 2013, on European venture capital funds and Regulation (EU) No. 346/2013 of the European Parliament and of the Council, of 17 April 2013, on European social entrepreneurship funds.

Closed-ended collective investment entities, which enjoy high flexibility in their investment policy, also experienced a significant increase in registered vehicles.

As in the previous year, closed-ended collective investment schemes were also buoyant 2020, with 18 registrations and only three deregistrations. Thus, as of 31 December, there were a total of 61 vehicles of this type, of which 33 were funds and 28 were companies. It should be mentioned that this type of collective investment scheme enjoys high flexibility both in its investment policy and in terms of compliance with investment ratios, which are more restrictive in the case of venture capital firms.

Movements in the venture capital firms register in 2020 TABLE 18

	Situation at 31/12/2019	Registrations	Deregistrations	Situation at 31/12/2020
Firms				
Venture capital funds	210	33	8	235
SME venture capital funds	10	4	1	13
European venture capital funds (EuVECA)	20	12	1	31
European social entrepreneurship funds (EUSEF)	5	1	2	4
Venture capital companies	148	44	8	184
SME venture capital companies	19	0	1	18
Total venture capital firms	**412**	**94**	**21**	**485**
Closed-ended collective investment funds	20	14	1	33
Closed-ended collective investment companies	26	4	2	28
Total closed-ended collective investment undertakings	**46**	**18**	**3**	**61**
Closed-ended investment scheme management companies	**106**	**18**	**5**	**119**

Source: CNMV.

According to preliminary data from ASCRI, the number of transactions in the venture capital sector reached an all-time high in 2020, at 765. However, the total investment volume decreased by 30% due to the decrease in the number of megadeals.

The data corresponding to 2020 provided by the Spanish Association of Capital, Growth and Investment (ASCRI) reflect a new record number of transactions in 2020, with a total of 765. However, the notable decrease in megadeals (transactions worth over €100 million) sparked a fall in investment volumes of close to 30%, to €5.56 billion. Middle market transactions (investments of between €10 and €100 million), on the other hand, were numerous (79), and represented an investment of €1.95 billion.

Investment in venture capital accounted for more than 80% of the transactions, with an investment volume of €750 million.

In terms of the project development phase, the venture capital segment (seed and start-up phases) reported the largest number of transactions, with a total of 624, which represented an investment volume of €750 million. 135 of total transactions were carried out by international funds (44 more than in 2019), with an investment volume of €459 million, and many of them were part of large joint venture transactions with Spanish funds.

The ICO initiative, through FOND-ICO Global, was especially relevant in 2020. First, in the middle of the year an increase of €2.5 billion in the amount available for investment was approved, so that over the next five years there will be a total of €4.5 billion. Second, the 12th call was held, with the selection of 11 funds in which FOND-ICO Global will invest €202 million, and the 13th call was launched, the largest ever, both in terms of the amount, €430 million, and the number of funds in which it will invest, which may be as many as 16.

In 2020, an increase in public investment of €2.5 billion was approved through the FOND-ICO Global fund.

Crowdfunding platforms

In 2020, the number of registered crowdfunding platforms continued to decline, following several years of intense activity after the publication of Law 5/2015.[42] Thus, throughout the year, two new platforms were registered (four in 2019) and there were three deregistrations, so at the end of the year there were a total of 27 on the CNMV Register. No applications for registration were submitted (eight were received in 2019) and one project was withdrawn.

For the first time since its creation in 2015, the number of crowdfunding platforms was reduced, to 27, following 2 registrations and 3 deregistrations.

Of the 27 platforms registered at the end of December, ten were for securities vehicles, eight were for loans and nine were mixed. Of the total, eight were real estate (one loan, four securities vehicles and three mixed), the same as in 2019, and two platforms were still controlled by foreign companies.

Of all the crowdfunding platforms, 10 were for securities vehicles, 8 were for loans, and 9 were mixed.

Number of registered crowdfunding platforms — TABLE 19

Platform type	2015	2016	2017	2018	2019	2020	Total[1]
Securities	**1**	4	3	**3**	2	0	**10**
Loans	**0**	8	1	**1**	0	1	**8**
Mixed	**0**	0	4	**1**	2	1	**9**
TOTAL	**1**	**12**	**8**	**5**	**4**	**2**	**27**

Source: CNMV.

1 The sum of the different years does not coincide with the accumulated total as a consequence of the two deregistrations made in 2019 (one crowdfunding platform for securities and another for loans) and of the three deregistrations in 2020 (one platform for securities, one for loans and another mixed).

42 Many of the applications made in 2015 and 2016 related to platforms that were already operating as such and which, as a consequence of the new regulation, had to adapt to the legislative requirements in order to be able to continue their business.

Application of Regulation 2019/2088 on sustainability-related disclosures in the financial services sector EXHIBIT 4

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

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

The transparency obligations can be summarised as follows:

- Information about policies on the integration of sustainability risks in the investment decision-making process: to be published on websites (Article 3) and in pre-contractual information (Article 6).

- Statement on policies on adverse impacts of investment decisions or advice on sustainability factors: to be published on websites (Article 4) and in pre-contractual information (Article 7).

- Transparency on remuneration policies in relation to the integration of sustainability risk on websites (Article 5).

- Information on the promotion of environmental or social characteristics of a product (provided that the companies in which it is invested observe good governance practices): to be included on websites (Article 10), in pre-contractual information (Article 8) and in the information corresponding periodic information, annual reports in the case of CISs or alternative investment funds (Article 11).

- Information on products aimed at sustainable investments: to be included on websites (Article 10), in pre-contractual information (Article 9) and in the corresponding periodic information, annual report in the case of CISs or AIFs (Article 11).

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

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

Without prejudice to the content of the communication the ESAs may publish, on 18 February, the CNMV issued a statement[1] encouraging institutions to use the time remaining before the application of the technical standards to prepare properly. Likewise, during the period in which the Regulation is applied in which the technical standards are not enforceable, it indicated that institutions may voluntarily use the drafts of these standards submitted by the ESAs to the European Commission as a reference.

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

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

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

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

- Disseminate criteria to the sector on the implementation of the Regulation in the absence of the technical standards, through the publication of a Q&A document on the consultations received and its supervisory experience.

- Apply the principle of proportionality in the supervision of compliance with the regulations by the institutions required to do so.

- Take into account, both in regard to the registration of amendments in CIS prospectuses and supervision tasks, the uncertainty that has surrounded the date of entry into force of the obligations established in the Regulation.

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

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

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

1 https://www.cnmv.es/portal/verDoc.axd?t=%7B177791b4-e6e9-4c05-bbc2-d4550bcddfc4%7D

2 http://www.cnmv.es/portal/Gpage.aspx?id=ProcFolletoIIC