I Securities markets and their agents: Situation and outlook

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1 Executive summary

– The global and national macroeconomic and financial environment in the first quarter of this year was marked by what is, without a doubt, the most significant global shock in recent decades: the spread of the coronavirus from Wuhan, in China, to the rest of the world. The virus initially spread more intensely in Korea, Italy and Spain, but went on to impact the rest of the European countries and the world. The lack of a vaccine to treat this virus meant that the most immediate measures adopted by the governments of the affected countries were aimed at isolating the population, which resulted in the virtual paralysis of all non-essential economic activity. This crisis, which has three dimensions (health, social and economic), is of a different order to previous ones. In previous systemic crises, the trigger was usually an imbalance or dysfunction in some part of the financial system, which spread, with more or less intensity, to other parts of the system and with a certain lag, to the real economy. In the current crisis, the trigger was a shock that was totally external to the financial system and which has led to an unprecedented health crisis and to the temporary shutdown of most economies. In this context, the financial markets have merely reflected the increasing uncertainty (with a flight to safer assets) and expectations about the impact of the "economic hibernation" on companies.

– The spread of the coronavirus to Europe, the United States and much of the globe has forced the world's leading central banks, led by the European Central Bank (ECB) and the US Federal Reserve, as well as the governments of European Union (EU) member states, the United States and other economies, in addition to international organisations such as the International Monetary Fund (IMF), to approve packages of monetary and fiscal stimulus measures to address the economic and social effects caused by the pandemic. From a monetary standpoint, these measures include cutting interest rates to all-time lows, massive asset purchase programmes and rounds of financing for banks to promote lending. The ECB and Federal Reserve asset purchase programmes stand out for their size: their combined value is close to US$2 trillion and the final volume could be more if necessary. Apart from this, fiscal measures involve increases in public spending, the cancellation or deferral of taxes, loans and capital injections from the public sector, as well as guarantee programmes, which for the group of developed and emerging economies making up the G20 are estimated at a total of US$7 trillion.

– In mid-April, the IMF released an initial estimate of the economic impact of the crisis based on the assumption that the pandemic will dissipate in the second half of 2020 and that containment measures will be gradually lifted so that economic activity can return to normal with the support provided by the economic policies implemented by the authorities. These forecasts, subject to a high degree of uncertainty, point to a decline in world GDP of 3% this year, which would recover in 2021 at a rate of 4.7%. The developed economies, especially in Europe, would experience the deepest recession (-6.1%), while emerging countries would suffer a decrease in activity of 1%, which would not be generalised among all countries since China and India are expected to post slight growth. This scenario means that other uncertainties, such as the trade war and Brexit, have become less significant, but at the same time it involves new risks, prominent among which, for example, is the need for many countries to implement the appropriate measures to address the crisis while at the same time trying to ensure the sustainability of their public finances.

– In this context, the financial markets went through several weeks of severe turbulence caused by the increased uncertainty and the emergence of new expectations.[1] International equity markets, which had shown some ups and downs in the first two months of the year, posted heavy losses in March, as the worldwide spread and effects of the virus became known. The price falls were especially sharp towards the middle of March, when several indices posted all-time record daily falls in an environment of high volatility. For the majority of stock exchanges, volatility indicators rebounded to very high levels (above 85%), similar to, or in some cases higher than, those recorded in the 2008 global financial crisis. In the last few days of March, quoted prices stopped falling and steadied, but this did not prevent the balance for the quarter from being highly unfavourable: price falls were somewhat less in Japan and the United States, where they ranged from 14.2% to 23.2%, whereas all major European indices lost more than 25%.

– In the international debt markets, short term interest rates decreased in most economies due to decisions made by the different monetary authorities, although in the euro area they ended the quarter with a slight rise. Returns on long-term sovereign debt assets of the economies perceived as strongest posted declines, as they were subject to large-scale buying at the times of greatest turbulence (flight to quality), while the more fragile economies saw higher yields and, consequently, higher risk premiums. In Europe, the upward trend in risk premiums was reversed when the ECB announced its Pandemic Emergency Purchase Programme. In the private debt segment, the turbulence translated into a substantial increase in risk premiums, especially those applied to issuers with relatively poor credit quality (high yield), which at one stage were close to 10 percentage points (pp).

– In the Spanish economy, which had been growing at rates of 2% with a slightly slowing trend, the scenario changed radically in the space of a few days as Spain was one of the countries worst hit by the spread of the virus. The information on economic activity presented in this report (with a closing date of 31 March) does not yet reflect the severity of the crisis for the Spanish economy. The most recent information corresponds to unemployment figures for March (almost 300,000) and the decline in the number of people registered with the social security system.

1 The closing date of this report is 31 March, except for certain information such as that deriving from the World Economic Outlook published by the IMF on 14 April.

- However, the IMF has already issued some initial forecasts for the economy, which draw a very unfavourable picture for this year. In particular, it forecasts a fall in GDP of 8%, together with an increase in public debt to 113% of GDP and an increase in the unemployment rate to over 20% of the active population. The figures for 2021 show a scenario of gradual recovery. The Bank of Spain has also released various GDP growth scenarios for the Spanish economy for 2020-2021, according to which GDP could fall this year by between 6.6% and 13.6% depending on the number of weeks of confinement, the nature of the transition to normal and the effectiveness of the economic policy measures applied to limit the enduring effects on activity and employment. The public deficit could be between 7% and 11% of GDP and public debt between 110% and 122% of GDP.

- The risks faced by the Spanish economy once the COVID-19 health crisis has been overcome are similar to those facing its neighbours. These include a fresh surge in unemployment to very high rates (at a time when levels prior to the last crisis have not yet been recovered) and the challenge of reconciling the implementation of the measures required to handle the crisis with the sustainability of public accounts. All this in a context of uncertainty surrounding possible changes in the consumption habits of the population and the necessary reactivation of the export activity, in an environment of price instability affecting some raw materials.

- In the first quarter, the Spanish financial markets showed trends that were similar to those of other surrounding markets as a consequence of the crisis. The Spanish financial market stress indicator marked its largest increase in the four consecutive weeks starting on 28 February, moving from 0.19 at the end of February to 0.56 at the end of March. Since the end of March, the indicator has remained relatively stable at 0.55-0.56, values that correspond to a high stress level (above 0.49), after registering its third highest historical value, surpassed only by those of late 2008 (0.88) and mid-2012 (0.70). The abrupt falls in asset prices, together with the deterioration of their liquidity and higher volatility, have triggered very significant increases in stress levels in most components of the general indicator.

- The Spanish equity markets, which had ended 2019 with a gain of 11.8%, started the year with slight setbacks due to fears of the negative effects of the coronavirus on the economy and global growth. These falls intensified as the quarter progressed, when it became known that the virus was spreading strongly throughout Europe and much of the rest of the world, following the trends of the main global stock markets. The Ibex 35 lost more than 22 pp in March, to end its worst quarter ever with losses of 28.9%, in a context of rising trading volumes and very high volatility, which led the CNMV, like other European securities supervisors, to announce a temporary ban in mid-March on creating or expanding net short positions.

- In the Spanish fixed income markets, yields on long-term public debt, which had increased slightly in the last part of 2019, posted short-lived upticks as a result of the turbulence, which subsided following the announcement of the ECB's substantial purchase programme. Even so, both public and private debt rates showed small increases in the quarter, which were more pronounced for assets with lower credit ratings. In this context, the interest rate curve began to show positive values after the 3-year reference, with the yield on 10-year public debt standing at 0.68% at the end of March (0.45% at the close of 2019). The sovereign risk premium increased by 48 basis points (bp) to end the quarter at 114 bp, after peaking at close to 150 bp.

– The investment fund industry saw a significant increase in assets in 2019 (7.8%), to €279 billion (or €307.8 billion including assets of open-ended collective investment companies), due above all to the positive performance in a year of lower net subscriptions by unitholders. Assets of foreign collective investment schemes (CIS) marketed in Spain also continued to expand, reaching approximately €179 billion at the end of the year, which represents 36.4% of the total assets of all CIS distributed in Spain. The expansion of this industry, which continued in the early part of this year, was interrupted in March by the crisis, which led to a notable loss of value in portfolios and an increase in redemptions. It is estimated that assets fell by about 10% in March. In this context, the sector functioned normally, and no schemes had to suspend redemptions, in contrast with some European countries.

– Credit institutions remained the main providers of investment services, accounting for almost 90% of total income from fees in the various segments. Non-bank financial intermediaries (basically broker-dealers and brokers), which have a significant share of some financial services, saw their pre-tax profits decline further in 2019, to €75.5 million. Despite this fall in profits, the number of loss-making entities decreased, suggesting that the sector's poor performance in 2019 came mainly from a relatively small number of entities. In recent years, these entities have gradually shifted their business models towards greater diversification among the various services that they can provide, but the outlook is complex, given that on top of the competition from credit institutions in the provision of these financial services they now also have to contend with the crisis scenario, which complicates business development even further.

– This report contains three monographic exhibits:

  - The first describes the main features of the monetary and fiscal policies adopted by the major economies in response to the COVID-19 crisis.

  - The second lists the most notable initiatives taken by the CNMV in response to the crisis, ranging from organisational and procedural measures to specific measures relating to the supervision of financial markets and their infrastructures, and to CIS, in addition to work relating to collaboration and the sharing of experiences among national supervisors and in global forums.

  - Finally, the third exhibit refers to the decisions taken by the CNMV to restrict the creation or increasing of short positions on shares listed on the Spanish markets, in line with the decisions of other European authorities.

2 Macro-financial background

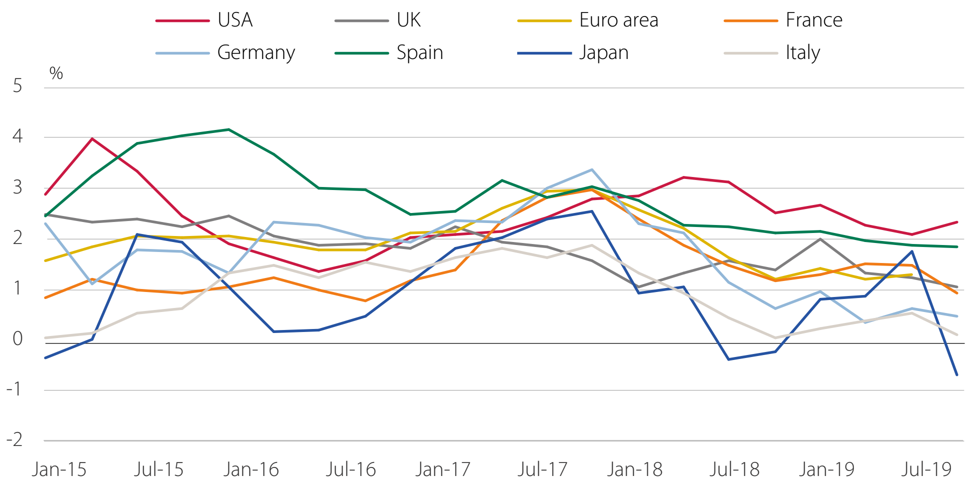
The analysis of global economic and financial trends has been carried out at the closing date of 31 March. The published activity indicators contain economic information from before the spread of the COVID-19 crisis, and consequently describe the previous status of the global economy and not the current situation, which will be described in subsequent issues of the CNMV Bulletin, In contrast, the information relating to financial markets includes the impact of the crisis on the main indicators in March. The Outlook section aims to put forward some of the most foreseeable trends in future activity.

2.1 International economic and financial developments

2019 was marked by a notable slowdown in growth in most economies. The variation in world GDP stood at 2.9% (compared with 3.6% in 2018).

2019 was marked by a notable slowdown in growth in most of the world's economies, in a context of political and economic uncertainty. World GDP went from 3.6%[2] in 2018 to 2.9% in 2019. All regions saw lower growth than in the previous year, except for the United Kingdom, where GDP growth went from 1.3% in 2018 to 1.4% in 2019. In the United States, there was also some slowdown (from 2.9% to 2.3%), although the country has posted positive growth rates for more than 40 consecutive quarters. Similarly, in the euro area, the slowdown in growth was considerable in the largest economies, which led to GDP growth in the area as a whole of 1.2% in 2019, 0.7 percentage points less than in 2018. Uncertainties surrounding Brexit and trade tensions were the main causes of this slowdown. Standouts also included the slowdown seen in Germany (from 1.6% to 0.6%), also caused by weak external demand, and in the Netherlands (from 2.6% to 1.8%). In Italy, France and Spain the falls were less severe (0.4 pp, to 0.3%, 1.3% and 2.0% respectively).

Annual change in GDP FIGURE 1



Source: Thomson Datastream.

2 Data from the *World Economic Outlook*, published by the IMF on 9 January.

In March, the Federal Reserve cut interest rates twice, finally placing them in the range of 0.00-0.25%…

The serious crisis triggered in March by the spread of the coronavirus among countries and the difficulties in coping with it led the major central banks to adopt urgent measures. The Federal Reserve, which in January resolved to keep its official rates in the range of 1.50-1.75%, met twice in March and made emergency cuts in these rates to deal with the economic risks of this health crisis. The first reduction was half a pp and the second, less than two weeks later, was 1 pp, which finally placed the official rates in the range of 0.00-0.25%, the same levels as during the financial crisis (rates had been unchanged from the end of 2008 to 2015). At the second meeting in March, in addition to the new rate cut, the US central bank increased holdings of treasury bills and covered bonds issued by any of the three official mortgage securitisation agencies by US$500 billion and US$200 billion respectively to support the smooth operation of the credit market. The Fed also stressed that it was prepared to use all tools at its disposal to ease the flow of credit to households and businesses, with the aim of achieving its goals of maximum employment and price stability.

… while the ECB resolved to keep its official interest rate unchanged but increased its asset purchase programmes to record amounts and made them more flexible in terms of the assets that can be acquired.

The ECB, at its first meeting of 2020, made no changes in its official interest rates or in the marginal lending or deposit facility (currently at 0%, 0.25% and -0.50% respectively) and initiated a review of its monetary policy strategy.[3] At its next meeting, various expansive measures were adopted to counteract the effects of the outbreak and the spread of the coronavirus, although it did not change its official rates. To inject liquidity into the system, the central bank launched an additional programme of net asset purchases worth €120 billion until the end of the year, and also resolved to increase liquidity injections to banks on more favourable terms, to promote the flow of credit. Lastly, on 18 March, in a context of extremely high market volatility, abrupt falls in quoted prices and increases in risk premiums, an emergency meeting was held, at which the ECB decided to expand the aforementioned package of measures. A new asset purchase programme (Pandemic Emergency Purchase Programme, PEPP) was announced, to provide additional liquidity of €750 billion that will last at least until the end of the year and is characterised by its flexibility with regard to the asset classes to be purchased and the percentages assignable to each country, including Greece.[4] For the time being, official interest rates remain unchanged, but future measures to limit the economic risks entailed by the pandemic have not been ruled out. Specifically, the Governing Council of the ECB has indicated that it is prepared to increase the size of its asset purchase programmes and to adjust their composition as necessary to ensure the correct transmission of its monetary policy in the euro area.

The Bank of England resolved to cut its official rates and increase the amount of its asset purchasing programmes, as well as providing a funding facility for SMEs.

In March, the Bank of England cut interest rates twice as an emergency measure to revive the British economy, which was affected by the fall in the pound and the sharp slowdown in activity caused by the coronavirus crisis. The first reduction in the official interest rate was half a point, down to 0.25% (since July 2018 it had

3 The existing strategy, which was adopted in 1998 and partly clarified in 2003, is being revised in order to incorporate the structural changes that have taken place in the euro area economy over these years. This review will cover the quantitative formulation of price stability, the set of monetary policy instruments, economic and monetary analysis and communication practices, as well as other aspects such as financial stability, employment and sustainability.

4 For this new asset purchase programme, the ECB has removed the usual restriction whereby no more than one third of the debt of any single issuer may be acquired. This will give the authority a discretionary stance in its asset purchases and allow it to focus on the countries most affected.

stood at 0.75%) and the second, just a week later, placed it at 0.1%. Another of the measures adopted by the Bank of England was the introduction of a new Term Funding Scheme with additional incentives for SMEs (TFSME) similar to the one launched in 2016, consisting of lending incentives and lines of credit. In addition, although the level of the asset purchase programme was initially unchanged[5] (£435 billion), in the second meeting in March the BoE announced that it would be increased by £200 billion to a total of £645 billion. It also clarified that it was ready to take more measures to provide liquidity to the system and contain the economic effects caused by the crisis.

The Bank of Japan did not change its official interest rate although it did introduce temporary measures to counteract market turmoil.

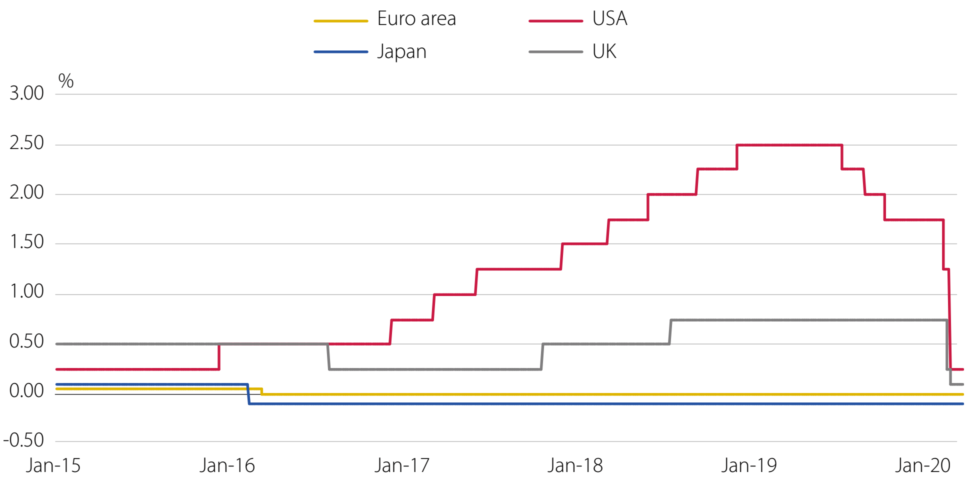
The Bank of Japan kept the its official interest rate unchanged -0.10% where it has been since early 2016, although it introduced temporary measures regarding the scope of its asset purchasing programmes in response to the market turmoil. It increased the scope of these programmes and set up a line of financing for companies affected by the coronavirus. This line will provide loans at an interest rate of 0% with a maturity of up to 1 year and will be in place until the end of September 2020. In addition, the BoJ stepped up government bond purchases and to facilitate corporate financing, resolved to double its purchases of ETF to ¥12 trillion a year (more than €100 billion) and increase the pace of J-REIT purchases to ¥180 billion a year. Lastly, the central bank said it would take additional measures depending on the progress and impact of COVID-19.

Trends in short term interest rates followed a downward path in most regions, in line with the rate cuts made by several monetary authorities.

The trend in short term interest rates during the first quarter of 2020 followed a downward path in most regions, with differences among rates of the main developed economies narrowing as a result of the monetary policy measures applied. Thus, three-month rates in the US, which had fallen by 90 bp in the past year, continued to follow the same trend and registered a 46 bp drop in the first quarter of 2020, to stand at 1.45% at the end of March. Despite ending the quarter at this level, interest rates had fallen as low as 0.74% (the lowest levels since mid-2016), which would imply a 117 bp drop. Similarly, the United Kingdom saw falls in short term rates, which stood at 0.60% at the end of the first quarter (20 bp less than at the beginning of the year). In the euro area, short term interest rates increased slightly compared with the beginning of the year (2 bp), to stand at -0.36% at the end of March. However, it should be pointed out that in the weeks prior to the end of the quarter, falls of up to 11 bp had been recorded.

5 The new asset purchase programme will cover both public and private debt, although after the increases on this programme, the majority of the purchases up to £645 billion will comprise public debt.

Official interest rates FIGURE 2



Source: Thomson Datastream. Data to 31 March.

Sovereign bond yields declined compared with the previous quarter in most developed countries, except for peripheral euro area nations.

Interest rates on long-term public debt showed a relatively uniform performance in the first quarter of 2020, with slight decreases in most developed countries, in line with the deterioration in economic activity, except for the peripheral euro area countries, where slight increases were observed. Therefore, the yield on 10-year sovereign bonds increased by 39 bp to 0.84% in Portugal; by 22 bp to 0.68% in Spain; by 16 bp to 1.65% in Greece and by 11 bp to 1.53% in Italy.

The steepest declines were seen in the United States.

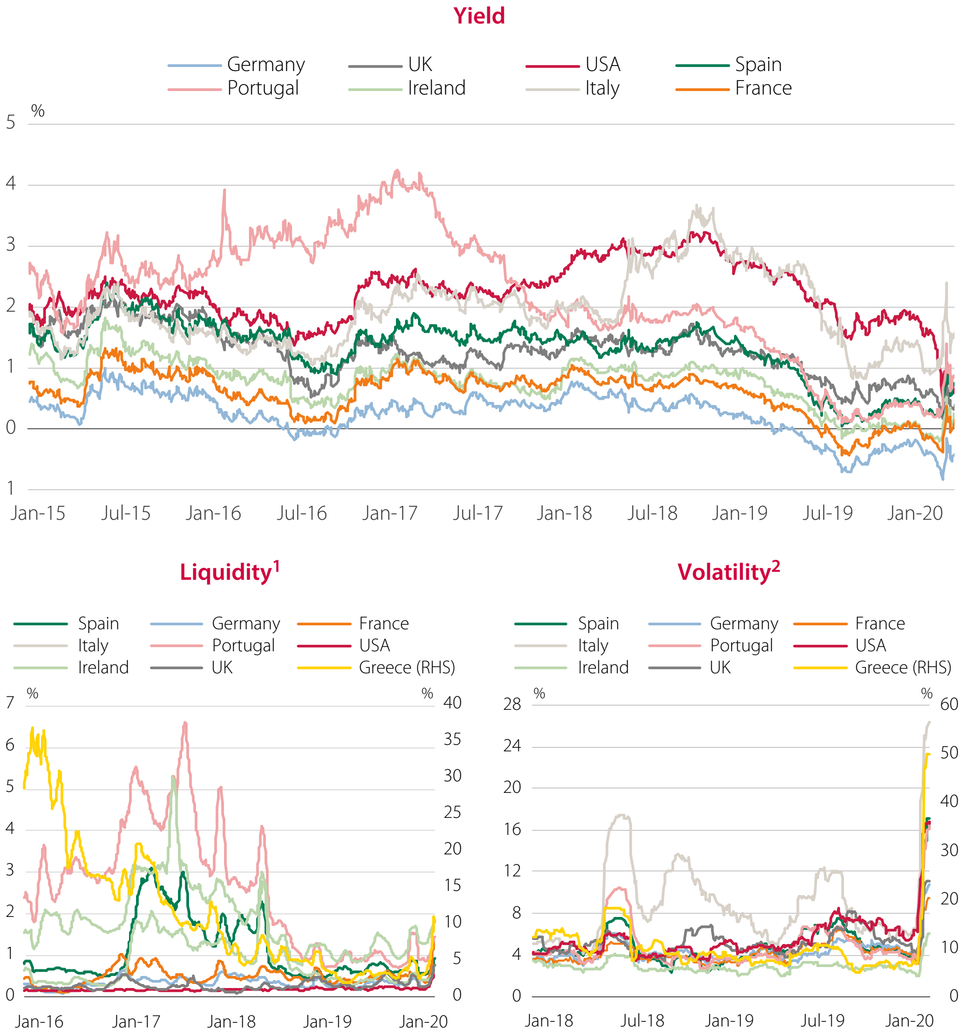
The most notable development in the remaining euro area countries was the 27 bp decrease in the rate on German public debt, which remains in negative territory (-0.46%), given its safe haven status. Yields on long-term public debt were also negative in France (-0.01%), Finland (-0.02%) and the Netherlands (-0.21%); and very close to zero in Belgium, Austria and Ireland (0.08%, 0.02% and 0.09% respectively). In the United States, the decrease in the yield on sovereign bonds was more significant, down 121 bp compared with December 2019, to stand at 0.70%.

Sovereign credit risk premiums increased throughout the first quarter of 2020, especially in the peripheral euro area countries.

Sovereign credit risk premiums (assessed via 5-year CDS contracts) in developed economies increased during the first quarter of 2020, after a year in which, in general terms, they had decreased due to the easing of uncertainties such as those concerning the trade war between the US and China, and Brexit. The largest increases occurred mainly from March and in the peripheral euro area countries, some of which were initially most affected by the spread of the coronavirus. The rise in the risk premium in mid-March compared with December 2019 was as much as 291 bp for Greece, 144 bp for Italy, 126 bp for Spain and 133 bp for Portugal. Risk premiums fell markedly from 18 March after the ECB's announcement of the expansionary measures discussed above, although this did not prevent rises in the quarter as a whole. Notable quarterly increases included Greece (up 86 bp to 197 bp), Portugal (up 66 bp to 104 bp), Spain (up 64 bp to 105 bp) and Italy (up 55 bp to 176 bp).

10-year sovereign bond market indicators

FIGURE 3



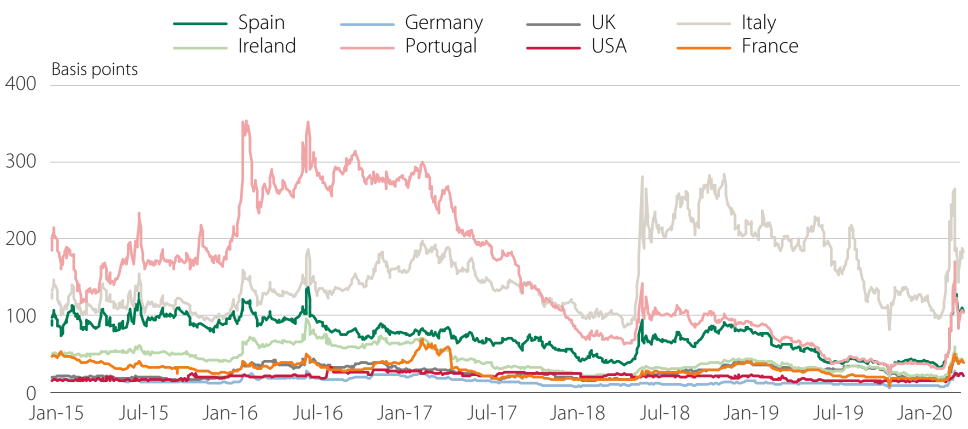
Source: Bloomberg, Thomson Datastream and CNMV. Data to 31 March.

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

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

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

FIGURE 4



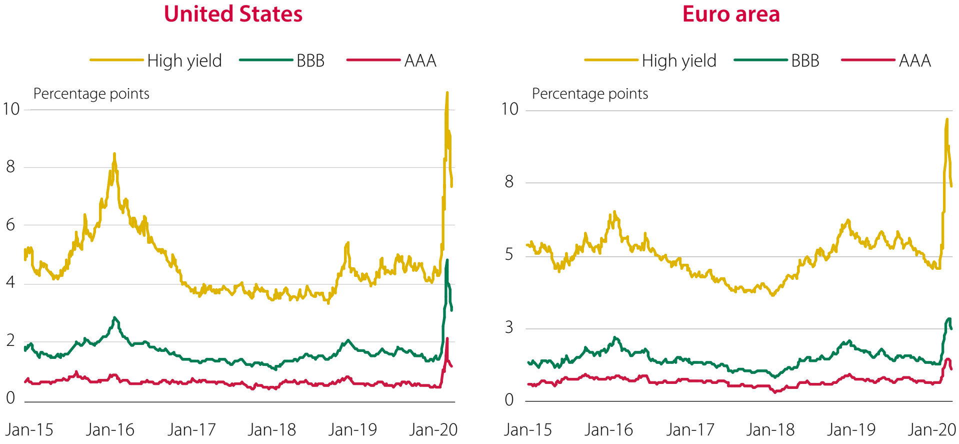
Source: Thomson Datastream. Data to 31 March.

Similarly, credit risk premiums increased in all bond tranches, somewhat more markedly in the United States than in the euro area, with the uptick concentrated in poorer quality (high yield) bonds.

Credit risk premiums in the private fixed income markets of developed economies increased in all bond segments with respect to the values observed at the end of 2019, in which year they had decreased. These increases were somewhat more marked in the United States than in the euro area, and particularly so in the least creditworthy assets during March, although there was a slight decrease in the last few days of the month (see Figure 5). In the United States, the risk premium in the first quarter of the year increased by 447 bp to 860 bp in the high yield tranche; by 257 bp to 390 bp in the BBB tranche and by 89 bp to 133 bp in the AAA tranche. In the euro area, increases in the credit risk premiums applied for corporate debt were 389 bp in the high yield tranche, to 863 bp; 148 bp in the BBB tranche, to 280 bp; and 81 bp in the AAA tranche, to 143 bp.

Private debt risk premiums FIGURE 5

Spread compared with 10-year sovereign debt[1]



Source: Thomson Datastream and CNMV. Data to 31 March.
1 In the euro area relative to German sovereign debt.

Gross debt issuances in global markets during the first quarter of the year showed a slight increase of 4.2% year-on-year, due to the increase in gross issuances made by private sector companies.

Gross long-term debt issues in global markets during the first quarter of the year (half-yearly data) registered a slight increase compared with the first half of 2019, amounting to US$6.5 trillion (4.2% up on the same period of the previous year). This increase was due to the rebound in private sector issuances, especially in the non-financial sector, where they increased by 19.3%, while in the financial sector they rose by 8%. In contrast, gross issuances in the public sector decreased slightly (by approximately 1%). By region, debt issuances in the United States stand out, increasing by 21.8% relative to the same period last year, to US$3.2 trillion (about half of total gross issuances).

Gross sovereign issuances advanced slightly (1%) due to the increase in the United States. Stripping out maturities, the net amount of these issuances would have declined.

Gross sovereign debt issuances decreased slightly to US$3.9 trillion (1% compared with the first half of 2019), with an uneven performance among the different regions. Thus, while in the United States gross sovereign issuances increased by 11.4% to US$1.9 trillion, in other economic regions they decreased compared with the first half of 2019 (in Europe by 12% and in Japan by 1.8%). However, if all net sovereign issuances were included, the total amount would have decreased by 18.6% due to the notable rise in debt maturities, especially in Europe.

Gross global fixed income issuances FIGURE 6

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

For debt issuances made by private sectors, the general trend was uniform among subsectors, although those of the non-financial sector showed a larger increase. Gross non-financial sector issuances went from US$1.1 trillion in the first half of 2019 to US$1.3 trillion in 2020 (+19.3%); with most of the increase coming from the United States (49.5%), although there was also an increase in Europe (4.5%). The 8% increase in debt issuances in the financial sector, to US$1.3 trillion, was driven by issuances made in the United States and Japan.

Gross issuances increased in the private sector, although there was a greater rise in non-financial sector issuances.

The main equity indices, which had risen significantly in 2019, posted sharp falls in the first three months of 2020 due to the slowdown in activity linked to the lockdown measures adopted by most governments and the expectation of an economic crisis caused by COVID-19, which could be the worst since World War II. Equity markets suffered abrupt declines in quoted prices and substantial increases in volatility, which in some indices exceeded the peak levels seen in 2008. Some indices, such as Spain's, posted their biggest daily fall ever (14.1% on 12 March).

The main equity indices, which had risen considerably in 2019, posted sharp falls in the first three months of 2020, in an environment of extremely high volatility.

The US stock indices saw significant falls in the first quarter of the year, notably the Dow Jones, down by 23.2% and the S&P 500 down by 20%, while the technology-heavy Nasdaq fell by less, -14.2%. Likewise, European stock markets posted

By region, both US and European stock market indices fell significantly.

sharp falls, ranging from 25% for the Dax 30 to 28.9% for the Ibex 35. In most cases, European indices lost more than they had gained in 2019 (see Table 1). The UK's FTSE 100 index also fell sharply, by 24.8%, as did the Japanese indices: 20% for the Nikkei and 18.5% for the Topix.

Emerging stock markets also performed very poorly in the quarter, affected by the pandemic and other uncertainties.

Emerging stock markets were also affected by the coronavirus pandemic and showed significant falls in quoted prices in the first quarter of 2020, which led to a drop in the MSCI equities index of 21.4%. Therefore, all indices registered large falls compared with the previous quarter and in most cases these were greater than 20%. In China, where the Shanghai Composite index, which fell by 8% in its opening after the Chinese New Year, eventually lost 9.8% in the first quarter, registering the smallest fall among emerging indices and, in particular, among Asian bourses. The fact that this economy has gone through the phases of isolation and the resumption of normal activities ahead of the rest of the economies may partly explain this trend. Asian indices lost between 15% (in Malaysia) and 31.9% (the Philippines). Among Eastern European economies the most notable development was the 34.5% plunge of Russia's RTS index caused by the fall in oil prices following the breakdown of negotiations between Russia and Saudi Arabia. In Latin America, the main falls were seen in Argentina's Merval and Brazil's Bovespa indices (41.5% and 36.9% respectively), while the Peruvian and Mexican stock markets lost less (29.5% and 25.2% respectively).

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

%

	2016	2017	2018	2019	II 19	III 19	IV 19	I 20
World								
MSCI World	5.3	20.1	-10.4	25.2	3.3	0.1	8.2	-21.4
Euro area								
Eurostoxx 50	0.7	6.5	-14.3	24.8	3.6	2.8	4.9	-25.6
Euronext 100	3.0	10.6	-11.2	24.9	2.8	2.6	4.1	-25.0
Dax 30	6.9	12.5	-18.3	25.5	7.6	0.2	6.6	-25.0
Cac 40	4.9	9.3	-11.0	26.4	3.5	2.5	5.3	-26.5
Mib 30	-10.2	13.6	-16.1	28.3	-0.2	4.1	6.3	-27.5
Ibex 35	-2.0	7.4	-15.0	11.8	-0.4	0.5	3.3	-28.9
United Kingdom								
FTSE 100	14.4	7.6	-12.5	12.1	2.0	-0.2	1.8	-24.8
United States								
Dow Jones	13.4	25.1	-5.6	22.3	2.6	1.2	6.0	-23.2
S&P 500	9.5	19.4	-6.2	28.9	3.8	1.2	8.5	-20.0
Nasdaq-Composite	7.5	28.2	-3.9	35.2	3.6	-0.1	12.2	-14.2
Japan								
Nikkei 225	0.4	19.1	-12.1	18.2	0.3	2.3	8.7	-20.0
Topix	-1.9	19.7	-17.8	15.2	-2.5	2.4	8.4	-18.5

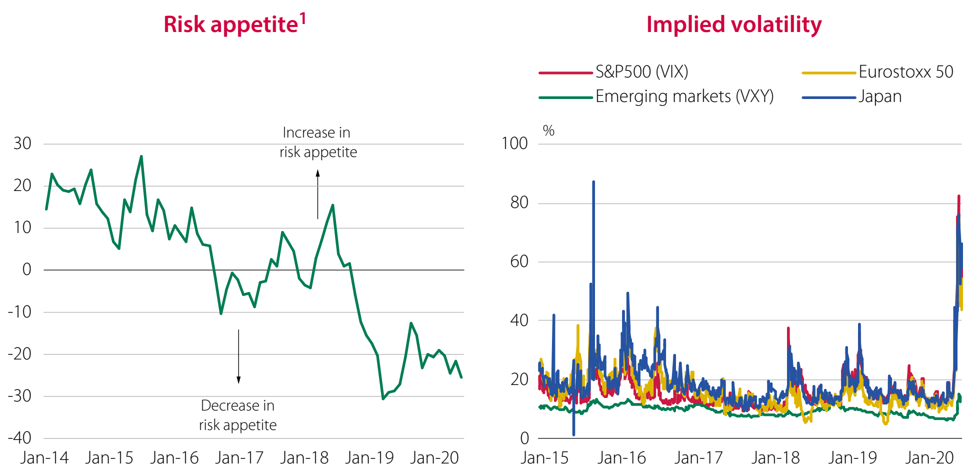
Source: Thomson Datastream.

1 In local currency Data to 31 March.

Global implied volatility measures increased during the first quarter of the year and reached very high episodic peaks.

Measures of implied volatility of the main stock market indices, which during 2019 had held steady at between 12% and 16% on average, increased during the first quarter of the year to much higher levels (between 24% and 29% on average), with some very high episodic peaks. Thus, coinciding with the period of greatest downturns in the various indices, levels of implied volatility reached episodic highs of up to 90% for the Mib 30, 88% for the Dow Jones and around 78% for the rest of the major indices. In general terms, the highs recorded by the implied volatility indicators are similar to those observed in the 2008 crisis.

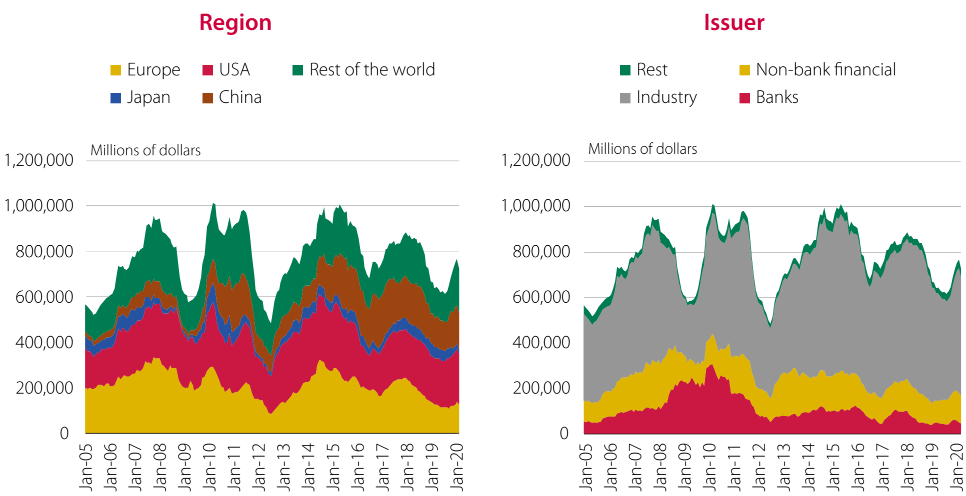
Financial market indicators FIGURE 7



Source: Thomson Datastream and CNMV.

1 State Street indicator.

International equity issuance FIGURE 8



Source: Dealogic. Cumulative data for the 12 months to 31 March.

The volume of equity issuance increased slightly during the first quarter of 2020 and was close to US$140 billion (1.9% more than in the same period in 2019). This was due to the 7% rise in equity issuance in Europe, while other regions showed declines in varying degrees. The most notable decline was seen in Japan, where issuance fell by 24.3%. In China and the United States the decreases were less pronounced, at 5.1% and 6.4%, respectively. By sector, issuance grew substantially in the utilities sector, and to a lesser extent in manufacturing companies (172.6% and 22.1% respectively, compared with the first quarter of 2019). The remaining sectors all posted declines, most notably the banking sector, with a decrease of 86.7%.

The volume of equity issuance increased by 1.9% in the first quarter of 2020, with notable increases in the utilities sector.

Reorientation of monetary and fiscal policy due to the coronavirus crisis

EXHIBIT 1

Following the last monetary flexibility measures adopted over the course of 2019 by both the ECB (reduction of the marginal rate to -0.50%, third round of financing to banks (TLTRO-III) extending the term from 2 to 3 years, and the beginning of net purchases of debt amounting to €20 billion per month from November) and the US Federal Reserve (three cuts in rates, bringing them to a range of 1.5-1.75%), both the equity and debt markets started the year on the assumption that the monetary authorities would not adopt any additional measures and might even consider some strategic reviews[1] in view of the resolution of certain elements of uncertainty that had affected the markets, such as the trade dispute between the United States and China and the outcome of Brexit. Likewise, the projected scenario of revived growth in Europe and continued expansion in the United States favoured the performance of public accounts and, consequently, fiscal consolidation.

In this context, the spread of the coronavirus to Europe, the United States and much of the rest of the world triggered sharp falls in the stock markets and the first tensions in the debt markets due to uncertainties among economic agents as to how the pandemic would evolve and its potential effects on the economies and public accounts of the largest world economies, in a scenario of lockdown and confinement adopted by many of them to address the health crisis.

In this scenario, the US Federal Reserve announced its first monetary measure, surprisingly lowering its interest rates by 50 bp in response to the risks facing economic activity. This was subsequently followed by a number of monetary, economic and fiscal stimulus measures to address the economic and social effects of the pandemic implemented by the ECB, the US Federal Reserve itself and other central banks, as well as the governments of EU member states and US and global organisations such as the IMF.

In the European framework, the ECB approved an initial package of measures, which included new injections of liquidity for banks at a more favourable interest rate[2] (from June 2020 to June 2021), extraordinary purchases of assets worth €120 billion until the end of the year, in addition to the €20 billion per month of the current asset purchase programme (APP), with the aim of providing more favourable financing conditions for the real economy, in addition to the relaxation of capital and liquidity rules for banks, which included the suspension of the stress tests scheduled for July. Later, in the second half of March, it announced a second package of measures with a greater reach and scope, the Pandemic Emergency Purchase Programme (PEPP), for an amount of €750 billion. The main objectives of this programme are to ensure the proper expansion of monetary policy and to end the escalation of interest on debt in the countries most affected by the spread of the coronavirus, ensuring that all sectors of the economy are able benefit from favourable financial conditions that allow them to absorb this shock. The main measures in the programme include: purchases of €750 billion of public and private debt by the end of 2020 with a flexible approach to its distribution, acquisition of negotiable fixed income securities with a residual maturity of

70 days and a maximum of 30 years – allowing the acquisition of corporate commercial paper that until now had not been included – and exemption from eligibility requirements to allow it to acquire public debt issued by Greece.

Another European monetary authority, the Bank of England, also lowered its interest rates (from 0.25% to 0.10%), while increasing its bond purchase programme by £200 billion (to a total of £645 billion), in addition to temporarily increasing direct funding[3] to the UK Government without limit. Others such as Sweden's central bank launched asset purchase and liquidity injection programmes, while in the Denmark the authority resolved to raise interest rates in an attempt to ease the downward pressure on its currency.

From a fiscal standpoint, Spain and the other EU member states adopted economic support measures worth almost 2% of euro area GDP, as well as schemes to provide liquidity to support businesses and citizens for an amount close to 15% of GDP. Prominent among these plans is the Eurogroup agreement, which will release up to €550 billion for countries (€240 billion through the ESM) and companies (through the EIB, which will mobilise up to €200 billion in loans and guarantees) and to avoid mass layoffs (through a new mechanism called SURE, a fund designed to mitigate unemployment risk in an emergency).[4]

Most notably, on an international level, on a Sunday night just a few days after the previous cut, the Federal Reserve reduced its rates even further (100 bp) to between 0 and 0.25% and announced an asset purchase programme of US$700 billion, which will include public debt and mortgage-backed assets. Lastly, in line with the ECB, it expanded the amount of purchases indeterminately, to any volume that might be necessary to keep the markets working normally and ensure the effective execution of monetary policy, followed by the announcement of an extraordinary liquidity injection of US$2.3 trillion for households and small businesses.

In addition, at the fiscal level, the US government approved a US$2 trillion financial aid package, which includes a direct cash payment to most of the country's citizens, a US$367 billion loan facility to help SMEs with payrolls, and a US$500 billion fund for industries, cities and states.

On top of all this, the IMF and the World Bank established funding facilities for countries needing emergency financing,[5] as well as a raft of monetary policy measures adopted by, among others, the central banks of Japan,[6] Canada,[7] China,[8] Australia, and Brazil, reflecting the global scope of the pandemic's economic impact.

1 The President of the ECB, Christine Lagarde, expressed her concern about low interest rates, indicating that the ECB would remain attentive to any secondary effects they might generate, and announcing a strategic review of the bank's monetary policy instruments and objectives. The Federal Reserve stated, "This action will help support economic activity, strong labour market conditions, and inflation returning to the Committee's symmetric 2 percent objective." Furthermore, the United States is due to hold presidential elections in November this year and in normal circumstances the Federal Reserve would not make decisions on interest rates in the run-up to elections, in order to preserve its neutrality and independence.

2 At a rate that could be 25 bp below the deposit facility if the funds are used to offer bank financing to the real economy.

3 Through the Ways and Means (W&M) facility, an overdraft facility that the British government has historically held with the Bank of England whereby it borrows directly without having to go to the market to issue debt.

4 This fund will serve to finance furloughs and companies that reduce employees' working hours or wages temporarily rather than laying them off.

5 The IMF offered financing amounting to US$50 billion, of which 10% is earmarked for the poorest countries, while the World Bank announced a package of US$12 billion for the same purpose, while affirming that it was prepared to distribute up to U$160 billion in the coming months to respond to the health consequences and drive economic recovery.

6 The Bank of Japan (BoJ) expanded its purchases of public and corporate debt, as well as of other instruments such as ETF, in addition to creating a line of financing for companies.

7 The Bank of Canada made three successive rate cuts, to 0.25%, while launching an asset purchase programme of at least C$5 billion a week.

8 The People's Bank of China (PBOC) applied several successive rate reductions, bringing them to a record low of 2.95%, as well as making several injections of liquidity.

2.2 National economic and financial developments

As in the analysis of the global environment, most of the economic indicators presented here contain information prior to the intensification of the COVID-19 crisis in Spain and, consequently, describe the previous situation of the Spanish economy and not the current one, which will be dealt with in subsequent issues of the CNMV Bulletin. The economic outlook for Spain and other economies in the region will be discussed in the last part (2.3) of this section; the detailed financial developments – which do reflect the onset of the crisis – are analysed in Section 3 of this report.

Spain's GDP grew by 2.0% in 2019, 0.8 pp more than that of the euro area as a whole.

In 2019, Spain's GDP grew by 2%, thus extending the expansionary path begun in 2014, albeit at a slower pace than in previous years (2.4% in 2018 and 2.9% in 2017), in line with the slowing of other economies. Even so, the slowdown in domestic activity was weaker than in the euro area as a whole, where GDP growth fell from 1.9% to 1.2%, mainly due to Germany's relatively poor performance, taking the growth differential with Spain from 0.5 pp to 0.8 pp.

The contribution of domestic demand to growth decreased from 2.6 pp in 2018 to 1.5 pp in 2019, while that of the external sector ended the year at 0.4 pp (-0.4 pp in 2018).

The contribution of domestic demand to GDP growth fell to 1.5 pp in 2019 (2.6 pp in 2018), while that of the external sector, which had been negative in the previous two years, was 0.4 pp (0.7 pp more than in 2018). As regards the components of domestic demand, growth in private consumption slowed from 1.8% in 2018 to 1.1% in 2019 and growth in gross fixed capital formation slowed by much more, from 5.3% to 1.9%, while growth in public consumption rose slightly, from 1.9% in 2018 to 2.2% in 2019. Regarding the performance of the external sector, exports grew by slightly more than in the previous year (2.3% vs. 2.2%) despite the slowdown in global trade, while the increase in imports slowed (from 3.3% in 2018 to 1.2% in 2019). Because growth in imports slowed by more, the contribution of external demand to growth was positive throughout the year.

In terms of supply, the services sector grew at a similar pace to 2018, and the industrial sector was the only one to see a certain pick up.

On the supply side, the sharpest slowdowns were seen in the primary sector (agriculture, livestock, forestry and fisheries), the added value of which, having grown by 5.9% in 2018, shrank in 2019 by 2.6% as an annual average, and in construction, which still posted positive growth (3% in 2019, compared with 5.7% in 2018). With the services sector growing at a similar pace to the previous year (2.6% in 2019 compared with 2.7% in 2018), the industrial sector was the only one to see a pick up, from a negative 0.4% in 2018 to a positive 0.7% in 2019. This was driven mainly by non-manufacturing industries.

Spain: Main macroeconomic variables (annual % change) TABLE 2

% var. anual

	2016	2017	2018	2019	IMF[1] 2020	IMF[1] 2021
GDP	**3.0**	**2.9**	**2.4**	**2.0**	**-8.0**	**4.3**
Private consumption	2.6	3.0	1.8	1.1	n/a	n/a
Government consumption	1.0	1.0	1.9	2.2	n/a	n/a
Gross fixed capital formation, of which:	2.4	5.9	5.3	1.9	n/a	n/a
Construction	1.6	5.9	6.6	0.9	n/a	n/a
Capital goods and others	1.8	8.5	5.7	2.7	n/a	n/a
Exports	5.4	5.6	2.2	2.3	n/a	n/a
Imports	2.7	6.6	3.3	1.2	n/a	n/a
External sector (contribution to growth, pp)	1.0	-0.1	-0.3	0.4	n/a	n/a
Employment[2]	**2.8**	**2.8**	**2.5**	**2.3**	**-**	**-**
Unemployment rate	**19.6**	**17.2**	**15.3**	**14.1**	**20.8**	**17.5**
Consumer Price Index[3]	**-0.2**	**2.0**	**1.7**	**0.7**	**-0.3**	**0.7**
Current account balance (% GDP)	**3.2**	**2.7**	**1.9**	**1.9**	**2.2**	**2.4**
General government balance[4] (% GDP)	**-4.5**	**-3.1**	**-2.6**	**-2.6**	**-9.5**	**-6.7**
Public debt (% GDP)	**99.0**	**98.1**	**97.2**	**95.5**	**113.4**	**114.6**
Net international investment position (% GDP)	**71.0**	**68.4**	**62.4**	**58.8**	**n/a**	**n/a**

Source: Thomson Datastream, European Commission, Bank of Spain and INE (Spanish National Statistics Institute).

1 IMF forecasts published in mid-April.

2 In full-time equivalent (FTE) jobs.

3 The European Commission forecasts refer to the harmonised index of consumer prices.

4 Includes public aid to credit institutions in 2016, 2017, 2018 and 2019 for amounts of 0.2%, 0.04%, 0.01% and 0.00% of GDP respectively.

n/a [data] not available.

The inflation rate – which reached 1.5% in April, its highest level in 2019 due to the uptick in energy prices – subsequently decreased as the energy inflation rate entered negative territory, ending the year at 0.8%, where it remained in the first months of 2020 (0.7% in February). The core inflation rate, which excludes the most volatile elements of the index such as energy and unprocessed food, stayed within a much narrower band throughout the period (between 0.7% and 1.0%), to end 2019 at 1.0% and register a slight increase in February of this year (to 1.1%). The inflation differential with the euro area ended 2019 at -0.5 pp and ranged from -0.1 pp in the period of highest inflation in Spain in April to -0.7 pp in June. The average of this differential over the year was -0.4 pp, compared with practically zero in 2018. In February 2020, it narrowed slightly to -0.3 pp.

The inflation rate gradually returned to normal over the course of 2019 as energy inflation decreased. The differential with respect to the euro area ended the year at -0.5 pp.

In the labour market, the buoyant economic activity allowed employment to grow significantly, by 2.3% on average in 2019, but with less intensity than in previous years (2.5% in 2018 and 2.8% in 2017). Information from the Labour Force Survey (EPA) indicates that last year the number of employed people increased by 402,300 (2.4 million in the last five years) and that the unemployment rate fell to 13.8% in the fourth quarter (14.5% at the end of 2018). In addition, the average year-on-year

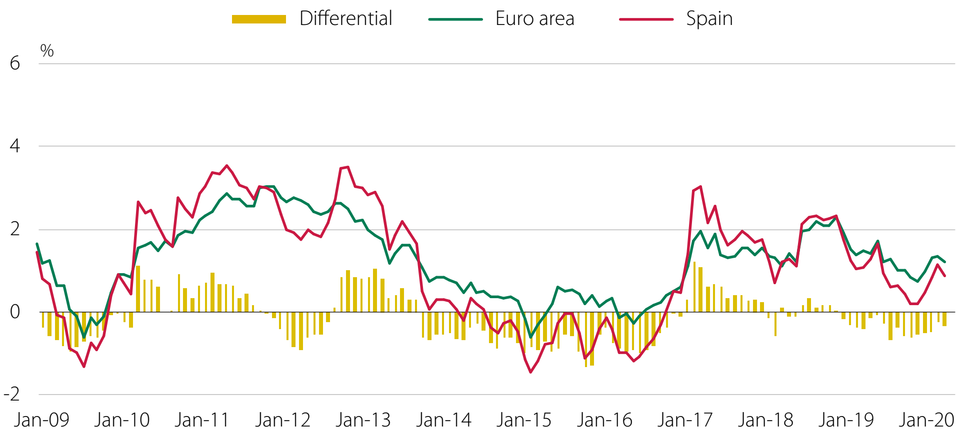
Positive job creation data in 2019 (2.3%) are helping to reduce the unemployment rate, which is still high.

growth in unit labour costs stood at 2.3% in 2019, as the increase in remuneration per employee (2%) was accompanied by a slight fall in apparent labour productivity (0.3%).

The leading indicators of trends in the labour market in March illustrate the intensity of the crisis, with an increase of 293,000 in the number of unemployed people in one month.

Leading indicators of trends in the labour market in March illustrate how serious the effect of this crisis might become in the coming months. Unemployment data for March showed an increase of 293,000 in the number of unemployed people, thus interrupting the downward trend seen in recent years. The average number of people registered with the social security system fell in the month by 243,000.[6]

Harmonised CPI: Spain compared with the euro area (annual % change) FIGURE 9



Source: Thomson Datastream. Data to February.

The public deficit remained at 2.6% of GDP in 2019, which means that for the second consecutive year Spain was excluded from the excessive deficit procedure to which it had been subject since 2009.

Public sector finances as a whole were stable in 2019. The public deficit closed the year at 2.6% of GDP, the same figure as in 2018, and which is therefore compatible with Spain's exit from the excessive deficit procedure which it has been subject to since 2009. With the exception of the autonomous regions, with a deficit of 0.55% (0.28% in 2018), the public administrations with financing needs reduced the amounts they borrowed. The most notable decreases were the central administration deficit, which went from 1.32% in 2018 to 1.12% in 2019; and, to a lesser extent, that of social security administrations, which stood at 1.29% (1.44% in 2018). The surplus of local authorities fell slightly from 0.5% to 0.3% of GDP. Public debt stood at 95.5% of GDP (fourth quarter data), 2.1 pp lower than in the same quarter of 2018.

The NPL ratio remains at its lowest since 2011, although the low interest rates continue to put downward pressure on banks' profitability.

Banks continue to operate in a complicated environment of low interest rates, which reduces their profitability. Buoyant economic activity remained a positive factor for the financial sector in Spain. Therefore, the positive performance of private consumption, which boosted the lending recovery, and the favourable performance of the labour market led to a further decrease in the NPL ratio, which stood at 4.8% in December 2019 (5.9% in 2018). There are, however, several underlying challenges related to the entry of new players linked to the technology sector and other

6 The average data for the month, which are those commonly used, do not accurately reflect what happened in the month as a whole. At 31 March, the number of people registered with the social security system was 18,445,436, which means that up to that date the system had lost 833,979 people.

uncertainties of a legal nature, such as the forthcoming ruling of the Court of Justice of the European Union (CJEU) on IRPH linked mortgages.

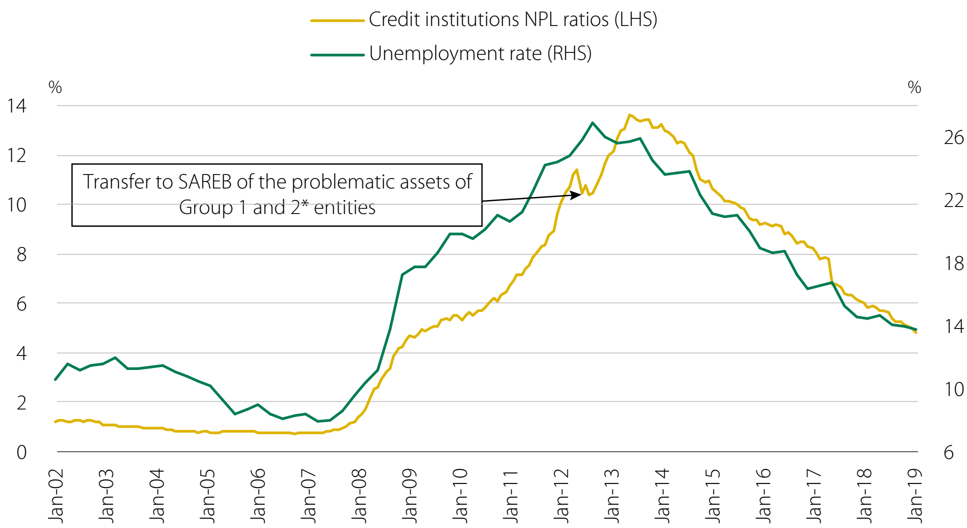
The aggregate profit and loss accounts of the banking sector showed profits of more than €13.7 billion in 2019.

The profit and loss accounts of credit institutions in relation to their businesses in Spain showed profits of €13.8 billion for the whole of 2019 (€12.36 billion in 2018). As previously mentioned, banks' profitability remains under pressure in the low interest rate environment, which is preventing improvements in net interest income (€23.15 billion in 2019 compared with €23.28 billion in 2018). Further, higher returns on financial instruments and the increase in other profit for the year marked the improvement in the sector's aggregate profit, which was the highest since 2009.

In February 2020, bank financing extended to businesses and households increased slightly, continuing the trend of the previous year.

In 2019, bank lending to the non-financial residential sector (businesses and households) grew at a similar rate to previous years (by 0.7% compared with 0.8% in 2018 and 0.5% in 2017) and continued to increase in the first months of 2020, although at a slower pace (0.5% in February). Financing extended to non-financial entities, which increased by 1.0% in December 2019 (1.2% in 2018), rose by 0.6% in February. Financing extended to households, which increased by 0.3% in December, in line with the previous year and reversing the trend seen in recent years (0.4% in 2018, -1.3% and -0.6% in 2016 and 2017 respectively), continued to grow in February (0.4%). The growth in consumer lending (4.5% in February 2020, 4.2% in 2019 and 5.2% in 2018) offset the decrease in the outstanding balance of housing loans (-1.1% in February 2020, -1.1% in 2019 and -1.3% in 2018).

Credit institution NPL ratios and unemployment rate[1] FIGURE 10



Source: Bank of Spain and INE. Data to December.

1 Regarding the active population.

* The transfers from Group 1 entities took place in December 2012 (€36.7 billion) and those from Group 2 in February 2013 (€14.09 billion).

The size of the banking sector increased in 2019, breaking the downward trend started in 2012 for the second time (the first was in 2017).

The size of the banking sector, in terms of the aggregate volume of assets from its activity in Spain, increased in 2019 to €2.61 trillion (€2.57 trillion in 2018), breaking, for the second time, the downward trend that started in 2012 (the first time was in 2017). The most important sources of funding performed unevenly: financing from the Eurosystem decreased, as did the item that includes equity, adjustments and impairment allowances. In this item it is worth noting that equity increased slightly, but this was offset by the decrease in the item including provisions for impairment losses for both loans and other assets. Liability items that showed the most significant increases included deposits from the other resident institutions sector and debt financing.

Non-financial listed companies posted an aggregate profit of €19.34 billion in 2019, 20% down on 2018, due to the performance of one large company.

Non-financial listed companies posted an aggregate profit of €19.34 billion in 2019, 20% down on 2018. The performance was not uniform among sectors or companies, as stripping out the negative performance of one single company (out of 93) that suffered very high losses,[7] total aggregate profit would have grown by 6.6%. By sector, the largest increases occurred in construction and real estate companies, where profits increased by 61.6% in the year, predominantly driven by the positive performance of companies that had made losses in 2018[8] and industrial companies, with a 2.3% rise in consolidated profits. In contrast, the most significant falls were concentrated in the energy and the retail and services sectors, with a decrease in profits of 43.1% and 35.5% respectively. In both sectors, the specific performance of a few large companies was decisive for the sector aggregate.[9, 10]

Profits by sector: non-financial listed companies TABLE 3

Millions of euros

	Operating profit/ (loss)		Profit before tax		(Consolidated) profit for the year	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**
Energy	9,589	8,037	7,754	5,731	5,787	3,290
Manufacturing	8,088	8,967	7,646	8,135	6,075	6,217
Retail and services	16,036	13,041	14,138	9,673	10,158	6,549
Construction and real estate	5,627	5,197	4,244	3,953	2,029	3,279
Aggregate total	**39,340**	**35,242**	**33,781**	**27,492**	**24,049**	**19,335**

Source: CNMV.

The debt held by listed non-financial companies increased by 8.1% in 2019, to over €249 billion.

The debt of listed non-financial companies increased by 8.1% in 2019, to around €249 billion. Although short term debt represents a minor part (19% of total debt), it grew at a faster pace than long-term debt (16.6% compared with 6.3%). All sectors posted higher debt, most notably companies in the retail and services sector (+9.0%, to €87.97 billion), energy companies (+8.5%, to €89.17 billion) and construction and real estate companies (+7.4%, to €49.74 billion). The increase in debt of

7 Repsol (a company in the energy sector) posted losses of €3.79 billion in 2019 as a result of the adjustments made to lay the groundwork for the company's new strategic orientation (it has set a goal of zero net emissions by 2050).

8 These companies notably include Ferrovial, which went from losses in 2018 to profits in 2019, and OHL, which has significantly reduced its losses.

9 In the energy sector, stripping out Repsol, aggregate profits would have doubled between 2018 and 2019, driven by the improvement in Naturgy's figures.

10 In the retail and services sector, the decrease in aggregate profits was largely due to the poor performance of IAG and Telefónica. Stripping out these companies, the reduction in profits in this sector would be less (-4.2%).

industrial companies increased was lower (4.4% to €22.61 billion), although these entities, together with those in the retail and services sector, show the highest rates of leverage, measured in terms of the debt: equity ratio (1.23 and 1.41 respectively). These figures are higher than the aggregate leverage ratio, which went from 0.94 in 2018 to 0.99 in 2019. Lastly, the debt coverage ratio, calculated as the ratio of debt to operating profit, deteriorated between 2018 and 2019, from 5.8 to 7.1.

The equity position of households continues to improve (indebtedness and wealth) and an increase in the savings rate has been observed, which in 2019 stood at 7.4% of disposable income.

The most recent data on the financial position of households reveal an increase in savings and wealth rates, while the debt ratio continued to decline in 2019. The increase in the savings rate, which went from 5.9% of gross disposable household income (GDHI) at the end of 2018 to 7.4% at the end of 2019, is explained by precaution on the part of households in a context of economic slowdown and the presence of various uncertainies, which was compatible with the expansion of aggregate consumption and easier access to financing. Despite registering two consecutive years of increased savings, the rate of Spanish households remains well below the euro area average (close to 13% of GDHI). The debt ratio decreased from 102.2% of GDHI at the end of 2018 to 98.7% in 2019, with a decline in debt levels, basically in housing loans, and an increase in aggregate disposable income. Net wealth of households increased in 2019 (from 563.6% of GDP to 571.1%) due to the revaluation of both financial and, to a lesser extent, real estate assets.

Financial investment decisions made by households continued to favour liquid assets and investment funds, although the latter saw a lower amount invested than in previous years.

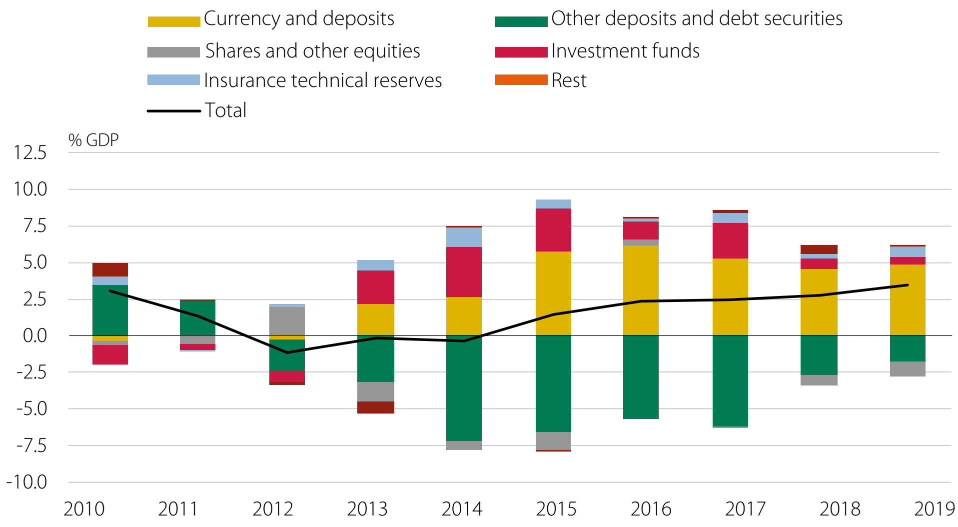
Household net financial investment was 3.9% of GDP in 2019 (2.8% in 2018), maintaining the trend seen in previous years. Therefore, investment in means of payment continued (4.9% of GDP) as did disinvestment in shares and equity stakes (1.0% of GDP) and in term deposits and fixed income securities (1.7% of GDP), in this last case by smaller amounts than in previous years (see Figure 11). Households invested in investment fund units following the trend started in 2012, probably influenced by the good performance of the markets in the latter part of 2019, although the volume invested was also lower than in the previous year. In total, households invested the equivalent of 0.5% of GDP in these products (0.7% in 2018).

In investment funds, net subscriptions in fixed income categories were higher in the first months of the year, while in the final part of the year subscriptions to international equity funds were higher.

Regarding investment in mutual funds, in an apparent break with the trend that had been in place since 2013, with asset variations translating into a decrease in the relative weight of the more conservative formulas (fixed income funds and guaranteed fixed income and equity funds), in 2019 unitholders did not follow such a clear direction. While international equity funds – a category considered more risky – registered positive net subscriptions of more than €4 billion, fixed income funds received the most funds during the year. The way this changed over time was also significant: the first quarters were marked by subscriptions to fixed income funds, above all by the most risk-averse investors who were influenced by the negative performance of the markets at the end of 2018, while there were substantial subscriptions to international equity funds in the second half of the year. While international equities were favoured by the easing of several of the uncertainties affecting the markets, some of these subscriptions may have been made by investors attracted by options with a higher expected return (and risk), in the current environment of low interest rates.

Households: Net financial asset acquisitions

FIGURE 11



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

2.3 Outlook

The latest IMF forecasts forecast a contraction in world GDP of 3.0% in 2020, a more negative figure than in 2009 at the time of the global financial crisis (-0.6%).

The latest forecasts published in April by the IMF, which already factor in the effects of the crisis caused by the worldwide spread of the coronavirus but are subject to a very high degree of uncertainty, point to a very unfavourable year in 2020, especially in the first half of the year, with both the main developed economies and most of the emerging economies showing varying degrees of recession, with the exception of China and India. Therefore, a 3.0% contraction in world GDP is expected this year (much more pronounced than the figure seen in 2009 in the global financial crisis, which was 0.6%), with a 5.8% increase in 2021. These forecasts have undergone an extraordinary downward revision with respect to those published by this institution in its January report (-6.3 pp), based on the impact of the health crisis on economic activity, as well as the impact of the economic policy responses implemented.[11]

In the developed economies, the GDP contraction is expected to be more pronounced than in emerging economies, at 6.1%.

In developed economies, the contraction of GDP is expected to be more pronounced than in emerging economies, standing at 6.1% this year, compared with the 1.7% advance in 2019, with expected setbacks for the euro area and the United States of 7.5% and 5.9% respectively (compared with rises of 1.2% and 2.3% in 2019). In Europe, the most notable changes are the downgrades in the forecasts for Italy and Spain, the European countries most affected by the virus, which have been adjusted by 9.6 pp between January and April to place the contraction rates for 2020 at 9.1% and 8.0% respectively. The forecasts for emerging and developing economies imply a decline of 1.0% for this year, as the growth data forecast for China and India (estimated at 1.2% and 1.9% for 2020 respectively) will cushion the fall in GDP for this

11 The IMF forecasts take as a base scenario the assumption that the COVID-19 pandemic will dissipate in the second half of 2020 and that containment measures can be gradually withdrawn, so that economic activity normalises thanks to the support provided by economic policies implemented by the authorities.

group of countries. Subsequently, for 2021, expansion of 6.6% is expected for the emerging economies as a whole.

The most significant risks in this scenario are mainly associated with uncertainty about the duration of the spread and containment of COVID-19, as well as the effectiveness of the measures implemented, the duration of which is also uncertain. The consequences of the current health crisis are difficult to predict and depend on numerous factors. On one hand, it is difficult to predict the rate of recovery of economic activity when the isolation measures are gradually lifted, and there is even the possibility that fresh outbreaks will lead to the tightening or prolongation of some of these. It is also important to take account of the agents' significant loss of wealth deriving from the sharp falls in the prices of financial assets (and possibly real assets shortly) in a context of a foreseeable decrease in their income. Further, it is difficult to predict the change and the scale of agents' consumption patterns and how they will interact in the future; factors that will also determine the speed of the recovery from the crisis. Lastly, the key role of the different authorities and institutions, which are adopting various measures to combat the crisis, should be remembered. In this regard, the need to preserve the sustainability of public accounts in the various economies should be highlighted, especially those that are financially most vulnerable. In Europe, an improvement in coordination among countries and institutions would be desirable, as would a more ambitious reach in the design of a common plan to contain the crisis.

The most significant risks to the scenario envisaged derive mainly from the duration of the spread and containment of COVID-19 and from the effectiveness of the measures implemented. All this in an unknown scenario of impoverishment for companies and consumers, where habits that may change substantially, and also of vulnerability in public finances.

Gross Domestic Product

TABLE 4

% annual variation

					IMF[1]	
	2016	2017	2018	2019	2020	2021
Global	3.2	3.7	3.6	2.9	-3.0 (-6.3)	5.8 (2.4)
United States	1.5	2.2	2.9	2.3	-5.9 (-7.9)	4.7 (3.0)
Euro area	1.8	2.4	1.9	1.2	-7.5 (-8.8)	4.7 (3.3)
Germany	1.9	2.5	1.5	0.6	-7.0 (-8.1)	5.2 (3.8)
France	2.0	2.3	1.7	1.3	-7.2 (-8.5)	4.5 (3.2)
Italy	0.9	1.5	0.8	0.3	-9.1 (-9.6)	4.8 (4.1)
Spain	3.3	3.0	2.4	2.0	-8.0 (-9.6)	4.3 (2.7)
United Kingdom	1.9	1.7	1.3	1.4	-6.5 (-7.9)	4.0 (2.5)
Japan	0.9	1.7	0.3	0.7	-5.2 (-5.9)	3.0 (2.5)
Emerging markets	4.4	4.7	4.5	3.7	-1.0 (-5.4)	6.6 (2.0)

Source: IMF.

1 In parentheses, the variation compared with the last published forecast (IMF, forecasts published in April 2020 relative to January 2020).

For the Spanish economy, as previously mentioned, the IMF forecasts a decrease in GDP of 8.0% this year, followed by growth of 4.3% in 2021, once the COVID-19 health crisis has been resolved. The downward revision to Spanish economic growth (9.6 pp) has been one of the largest, as Spain was one of the countries most affected by the virus (at least, up to the date of preparation of the IMF report), although it should be noted that the negative impact on growth in other European economies has been equally significant, close to 8 pp on average. Based on these figures, the growth differential with the euro area would be negative, standing at -0.5 pp in 2020 and -0.4 pp in 2021.

Spain's GDP will contract by 8.0% in 2020 due to the coronavirus health crisis, in line with other neighbouring countries, and the differential with the euro area will stand at -0.5 pp In 2021, it should recover, with growth of 4.3%.

The most significant risks to the Spanish economy are common to those of other economies affected by the virus, although particular risks that stand out are: the new increase in unemployment to very high rates (at a time when the rate has still not recovered from the previous crisis) and the challenge of reconciling the implementation of the necessary measures to combat the crisis with the need to maintain the sustainability of the public accounts.

The most significant risks observed for the Spanish economic outlook once the health crisis has been resolved – some of which are shared by other European economies – have to do with: i) the difficulties in resuming activity at a rate similar to that existing before the crisis (2%), in order to achieve a V-shaped recovery, as opposed to a U- or L-shaped recovery, as is usually indicated. Therefore, the reactivation measures for strategic sectors such as the automotive industry and tourism will be very important; ii) the challenge of combining a tailored fiscal policy to minimise the effects of the crisis at three levels: health, economic and social, with the need to preserve the sustainability of public finances in the medium and long term. In this regard, the recent agreement with Brussels grants greater flexibility for managing the deficit and short term public debt; iii) the high unemployment rate caused by the pandemic: the IMF forecasts an unemployment rate of 20.8% in 2020 and 17.5% in 2021, with the risk of a significant part of this unemployed population becoming long-term unemployed; iv) the negative impact on the business of Spanish export companies exposed to global markets, aggravated by the collapse in the prices of some raw materials; v) variation in consumption patterns and foreseeable changes in the behaviour of the population (for example, avoiding the use of public transport or purchases in large consumer establishments); and vi) the prolongation of some sources of political uncertainty in the country.

Actions undertaken by the CNMV to address the COVID-19 crisis EXHIBIT 2

The crisis unleashed by the spread of COVID-19 is posing a great challenge for Spanish society and the group of institutions that form part of it. In this context the CNMV has taken a large number of decisions of various kinds: initially, measures were taken to ensure that the institution could continue to operate normally, particularly by arranging for as many people as possible to work from home, and subsequent efforts have focused on monitoring the performance of the markets and their participants, which in some cases has led to decisions such as the restrictions placed on short positions. This exhibit describes the main actions, decisions and measures taken by the CNMV since the beginning of March:

i) Organisation:

– Human resources. The first significant measures implemented, following the health guidelines, were aimed at ensuring that CNMV employees could continue to work normally from home. The process began on 11 March, when approximately half the workforce began to work from home, and teams considered especially important for the CNMV's operations were doubled.[1] On 14 March when the Royal Decree on the state of alarm was published and came into force, practically all employees were already working from home. According to a survey carried out among CNMV staff on the institution's work and activity during this exceptional phase, to which more than 300 employees have responded, more than two thirds consider that the CNMV's activity is similar to the level it was before, and their assessment of how the systems and the institution in general are working is favourable. This experience has reinforced the perception of the importance of technology and communication in the CNMV's work and has involved the use of new tools, servers and equipment.

In mid-March, the CNMV announced the temporary postponement of the five personnel selection processes that were under way.[2]

– Registry: On 16 March the CNMV announced the closure of its General Registry for the physical presentation of documents. To ensure continuity in the presentation and registration of documents, various channels have been enabled: the open area and the investors' area of the CNMV's electronic office and the electronic offices of the registries of the different autonomous regions.[3]

On 20 March, the CNMV announced the approval of a resolution on the suspension of administrative deadlines as provided in Royal Decree 463/2020, on the state of alarm. The resolution was published in the Spanish Official State Gazette (*BOE*) of 25 March. As indicated in the resolution, the suspension of deadlines provided in the Royal Decree does not affect the CNMV's supervisory activity in general (requirements and other supervisory actions), nor does it affect authorisations processed by the Institutions or Markets Directorates General that may benefit the interested party or any other procedures established with reason by the institution's Executive Committee.[4]

ii) Market supervision

The context of extreme volatility in the financial markets has given rise to a need to intensify the supervision of the markets, their infrastructure and the agents participating in them. The most notable decisions in this area related to restricting short positions in securities listed on Spanish securities markets (see Exhibit 3). The first such decision, taken on 12 March, involved a ban on short-selling for one day and affected 69 shares. The second decision, prohibiting the creation or increase of net short positions in any shares traded on Spanish markets for one month, was passed on 16 March and was subsequently extended for a further month.[5] Similar decisions were taken in the days following by other European securities supervisors, specifically those of France, Italy, Belgium, Austria and Greece. Furthermore, the European Securities and Markets Authority (ESMA) decided, in parallel, to lower the threshold for triggering the notification of short positions to supervisors from 0.2% to 0.1% of issued share capital.[6] In the field of market **infrastructures**, in addition to verifying that the trading systems have functioned normally despite the severe bout of volatility and price falls, special attention was given to the central counterparty (CCP), BME Clearing. This entity, in addition to activating the contingency plan for pandemics, has made extraordinary margin calls in numbers and amounts higher than usual, as a result of the price variation parameters being exceeded and of the application of CCP regulations, to cover excesses of specific risks. No incidents have been detected in the transfer of funds to the CCP. In addition, back-testing exercises are frequently carried out to check the extent to which it would be able to deal with the hypothetical default of the most significant members with the financial resources available to it, and the CCP has also brought forward the review of the parameters for margin calls. Special attention has also been paid to settlements, with some increase in inefficiency observed (failures in the delivery of securities on the agreed date) as a consequence, according to the entities, of the increase in activity coupled with its decreased capacity to respond to and resolve incidents due to staff working from home. This trend, which has been observed to a lesser extent in other European countries, has been partially reversed in the last few days.

For companies, some considerations have been published both in relation to the holding of **general shareholders' meetings**[7] and the formulation of annual financial statements and the proposed distribution of company profits.[8] With regard to the holding of general shareholders' meetings, the CNMV has indicated that it considers it reasonable to encourage attendance by proxy, as well as to maximise the use of remote attendance and distance voting mechanisms for shareholders. It has also indicated that in the current circumstances it believes the maximum flexibility must be granted to boards of directors of listed companies to adopt measures and solutions that can protect people's health and prevent the spread of the virus, even if they are not expressly contemplated in their articles of association, the regulations of their board or the call notices, provided that shareholders' rights to information, attendance and voting and equal treatment of those who are in the same position are effectively safeguarded.

Regarding the annual financial statements and proposed distribution of company profits, the CNMV published a joint statement with the Registrars Association of Spain clarifying that since the situation deriving from the COVID-19 health crisis constitutes an absolutely extraordinary circumstance, entities may, among other alternatives, choose to replace the proposed distribution of profits contained in the notes to their financial statements with an alternative that is more appropriate to the situation. For general shareholders' meetings that have already been called, the decision on the proposed distribution of profits may be postponed to a subsequent meeting to be held within the period established for holding the ordinary meeting (although these measures were covered by existing legislation, in the interest of clarity they were subsequently included in Royal Decree-Law 8/2020 of 17 March, on extraordinary urgent measures to deal with the economic and social impact of COVID-19, by means of Royal Decree-Law 11/2020 of 31 March).

iii) Supervision of entities

As regards the supervision of entities, it is worth highlighting the measures that have been adopted in relation to collective investment schemes, and in particular **investment funds**. The work has mainly focused on the liquidity of the assets in the fund portfolios and movements in redemptions by entity, maintaining constant contact with the management companies to monitor the situation and remind them of their obligations as well as the liquidity management tools available to them. In this regard, the CNMV has issued indications on the advisability in certain cases of valuing assets at the bid price or applying swing pricing schemes.

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

In terms of **monitoring redemptions**, the cumulative net volume from the time the crisis flared up in early March until the end of that month is estimated at approximately €6 billion, which managers are handling with no difficulty. In a small number of funds, redemptions exceeded 20% of assets, a percentage that should be reported in a significant event notice (for this purpose, the percentage is applied to redemptions made in a single act; however, when limits are reached through successive redemptions requested by the same unitholder or by several unitholders belonging to the same group in a period of two months, this is also considered as price sensitive information). The only notable incident that has occurred until now concerns a fund of funds that had shares of a Luxembourg SICAV in its portfolio that had suspended the calculation of net asset value. Consequently, the fund continued to carry out subscriptions and partial redemptions in the normal way but without taking account of this investment, which represented 7.1% of its portfolio. Lastly, it is worth noting the inclusion, by virtue of Royal Decree-Law 11/2020, of 31 March, adopting urgent complementary measures in the social and economic area to deal with COVID-19, of a new macro prudential tool consisting of the possibility of establishing prior notice periods for redemptions without these being subject to the term, minimum amount and prior evidence requirements in management regulations, which are ordinarily applicable. These terms can be established by the manager or by the CNMV itself.

Aside from these actions, the CNMV has also adopted a series of measures that relate to certain reporting obligations of CIS management companies and venture capital firm management companies.[9]

iv) Coordination and interaction with other institutions

To manage this crisis, coordination with other national and foreign institutions is proving essential. At the national level, it is worth highlighting the meetings – the frequency of which has increased significantly – that are taking place within the Macroprudential Authority Financial Stability Council (**AMCESFI**), which brings together representatives of the Ministry of Economy, the Bank of Spain, the CNMV and the General Directorate of Insurance and Pension Funds to analyse the situation of the Spanish financial system from the point of view of financial stability and increased systemic risk. In times of major market turmoil, it is important for financial supervisors to exchange information to understand the extent of the risks and, if necessary, to take the necessary measures.

At the global level, the CNMV has intensified the exchange of information with the various institutions with which it regularly maintains contact, such as the International Organization of Securities Commissions (IOSCO), the Financial Stability Board (FSB), ESMA and the European Systemic Risk Board (ESRB). For the time being, the most important aspects of these contacts relate to the exchange of supervisory experiences and information on the various types of measures adopted.

1 http://www.cnmv.es/portal/verDoc.axd?t={401f9f9e-464e-46bb-8ca5-6833f02b0a9f}
2 http://cnmv.es/DocPortal/Ofertas/AplazamientoProcesosSeleccion.pdf
3 http://cnmv.es/DocPortal/AlDia/RegistrosOficialesFuncionamiento.pdf
4 http://www.cnmv.es/portal/verDoc.axd?t={78758e16-becc-4509-aa22-7f79b87ae766}
5 http://www.cnmv.es/portal/verDoc.axd?t={ca1ed0f3-097f-4f08-ab07-e24bcf508e42}
http://www.cnmv.es/portal/verDoc.axd?t={5baf609e-ed4e-4dad-a697-80c55548e181}
http://www.cnmv.es/portal/verDoc.axd?t={c65a96cd-6d0d-47b8-90fb-a77b82551349}
6 https://www.esma.europa.eu/sites/default/files/library/esma71-99-1291_pr_ssr_measure_march_2020.pdf
7 http://www.cnmv.es/portal/verDoc.axd?t={410f574a-4778-462f-8785-45a6abb8213a}
8 http://www.cnmv.es/portal/verDoc.axd?t={be06a6b8-516a-4fb0-9016-dd45bcc6f4d3}
9 http://www.cnmv.es/portal/verDoc.axd?t={391bf674-a997-420b-8612-ebf2cbbad844}

3 Domestic market performance

As a result of the COVID-19 crisis and its impact on the financial markets, the system stress indicator posted its largest ever increase in just one month, from 0.19 to 0.56. In the last few days, the intervention of the ECB has helped to avoid a further escalation of the indicator by influencing the risk premiums that it comprises.

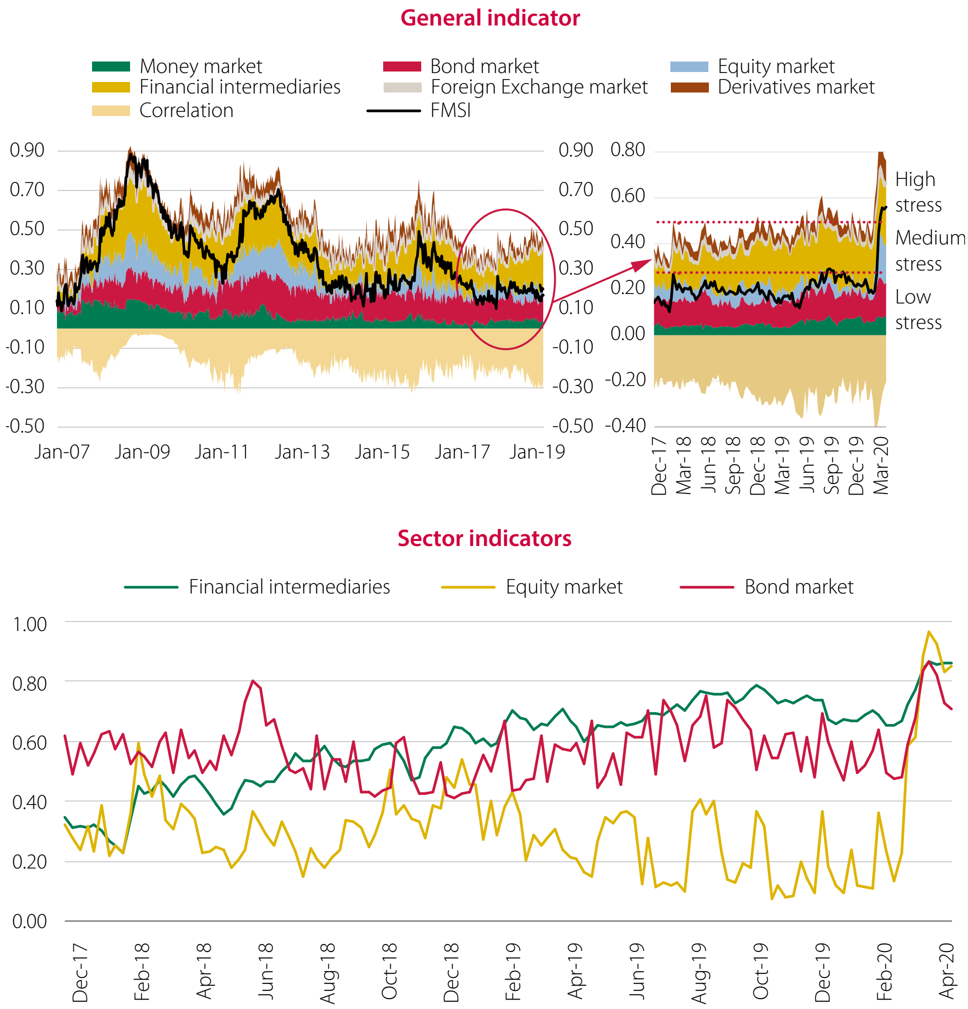
The Spanish financial markets stress indicator[12] has shown a significant increase in recent weeks, reaching the high stress zone (above 0.49) due to the COVID-19 crisis and its impact on the various segments of the financial system. The stress indicator for the system as a whole, the latest reading of which is 0.56 (10 April), saw the most intense uptick in its history in four consecutive weeks: between 28 February and 27 March it surged from 0.19 to 0.56 (0.36 points), a trend that contrasts with the more gradual increase in value observed in other periods of crisis. The indicator has reached its third highest ever value, below only those seen in late 2008 (0.88) and mid-2012 (0.70). Abrupt falls in asset prices, increased volatility and loss of liquidity of assets have generated very significant increases in stress levels in most of the segments that make up the general indicator.

The most significant individual indicators saw peaks of 0.85 or higher in some cases, while a gradual increase in the correlation among them was observed.

As seen in Figure 12, the most significant individual indicators rose above 0.85 or even 0.95 in the case of non-financial equities. Since the end of March, the total aggregate stress value has remained relatively stable at figures ranging between 0.55 and 0.60 due to a certain easing of market turbulence, to which the announcement of a more ambitious package of measures by the ECB has undoubtedly contributed. Furthermore, the degree of correlation in the system has also been increasing over the last few weeks, albeit slowly, which may contribute to keeping the stress level at high levels for some time.

12 The stress indicator calculated by the CNMV provides a real-time measure of systemic risk in the Spanish financial system ranging from zero to one. To do this, it evaluates stress in six segments of the financial system and combines them to obtain a single figure that takes account of the correlation among these segments. Econometric estimates indicate that values below 0.27 correspond to periods of low stress, while values between 0.27 and 0.49 correspond to periods of medium stress and those 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/menu/Publicaciones-Estadisticas-Investigacion.aspx. 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 Document No. 60 (http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/Monografia_60_en.pdf).

Spanish financial markets stress indicator FIGURE 12



Source: CNMV.

3.1 The stock markets

The Spanish equity markets, which had ended 2019 with moderate gains that had allowed them to recover part of the previous year's losses, began the quarter with slight setbacks due to fears of the negative impacts of the coronavirus on the economy and global economic growth. Thus, after a short-lived rebound at the beginning of February, thanks to central banks' maintaining their expansive monetary policy[13] and the easing of some elements of uncertainty,[14] they fell sharply from the latter part of the month on news that the virus was spreading strongly in Europe and

Equity markets fell sharply in the first quarter, posting the largest losses ever in a single quarter, on news that the coronavirus had spread to Europe and much of the rest of the world, leaving most economies heading for recession.

13 The ECB had initiated a third round of bank financing (TLTRO-III), extending its term from two to three years, as well as starting net purchases of debt in secondary markets amounting to €20 billion a month from November. Meanwhile the Federal Reserve, which had cut rates three times in 2019, had said it favoured interest rate stability, noting that its monetary policy would help support economic activity, strong labour market conditions, and inflation returning to the 2% objective.

14 Among them, the signing in mid-December of the first phase of the trade agreement reached between the United States and China, as well as the foreseeable definitive resolution of Brexit.

much of the rest of the world, and posted their biggest ever falls in one month in March. In barely a month, the sharp drop in quoted prices, which was also the biggest ever in a single quarter, took national indices to their lowest levels since 2012 (coinciding with the debt crisis in Europe) on fears that both the Spanish and the world economies would experience sharp declines in the first half of the year and consequently slide into recession. The stock market falls, which affected all global markets, were marked by a context of very high volatility and an increase in trading volumes. At certain times slight price increases were registered due to the effect on the markets of the various economic and monetary measures announced by the governments and monetary authorities in Europe and the United States.[15] Likewise, some regulators, including Spain's, imposed limits on short-selling, while on some global stock exchanges mechanisms were activated to temporarily suspend market trading in view of the speed and intensity of the falls.

In this context, the Ibex 35 lost 28.9% of its value in the first quarter of the year, its biggest quarterly drop ever. Its performance, together with that of the Italian index, was slightly more unfavourable than that of other European benchmarks.

The Ibex 35, which in 2019 had recovered part of its 2018 losses with gains of 11.8% for the whole year, fell by 28.9% in the first quarter of the year, its largest ever fall in a single quarter (with more than 22 pp of it in March). The index fell to around 6,785 points, its lowest value since the summer of 2012 when the sovereign debt crisis occurred. These falls followed the trend of the main global indices,[16] although they were somewhat sharper, as were those of the Italian index. The declines in Spain's leading index were mid way between the declines marked by the share prices of the smallest companies (24.6%) and those of mid-caps (31%), where losses were greater. The FTSE Latibex All-Share and FTSE Latibex Top indices of Latin American securities listed in euros showed even sharper falls (46.3% and 43.3% respectively) due to uncertainty about the impact of the expected recession on Latin American economies,[17] closely linked to the prices of raw materials, as well as the depreciation of their currencies against the euro.[18]

The decreases were uneven among companies, those of companies in the consumer services sector (airlines and hotel companies), banks and oil companies being particularly notable.

All sectors ended the quarter with falls, although of sharply varying degrees of intensity among sectors and among companies within them due to the different outlook for each one of the impact of this health crisis and the foreseeable subsequent economic crisis. The most significant falls (see Table 5) were those of companies in the consumer services sector, where the sharp declines posted by the airline IAG and hotel companies in the tourism sector stood out due to the cessation of their activity and the foreseeable loss of the tourist season; banks, which face an even more intense and prolonged squeeze on their margins in an environment of increasing non-performing loans and risks, and the main company in the oil sector, Repsol, which was negatively affected by the decline in oil[19] and natural gas prices, weighing down its margins in a context of reduced economic activity.

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15 Among them, US and European governments' stimulus programmes and those of the EU, in addition to rate cuts and debt purchase programmes of the Federal Reserve, the ECB and the Bank of England.

16 The main European indices also presented sharp falls: Eurostoxx 50 (25.6%), Dax 30 (25%), Cac 40 (26.5%), Mib 30 (27.5%), as did the US Dow Jones (23.2%) and S&P 500 (20%), while those of the technology-heavy Nasdaq and Japan's Nikkei 225 were somewhat more moderate at 14.2% and 20% respectively.

17 The main stock market indices in Brazil (Bovespa) and Mexico (S&P/BMV IPC) fell in the same period by 36.9% and 20.6% respectively.

18 In the first quarter of the year the euro appreciated by almost 27.4% against the Brazilian real and by nearly 23.3% against the Mexican peso.

19 The price of oil fell below US$25, its lowest level since 2002.

The trend was also negative in sectors that produce raw materials and industrial and construction goods, as well as in the real estate, technology and textile sectors. Companies that produce raw materials and industrial goods face a decline in the prices of raw materials and intermediate goods due to lower demand in an environment of reduced activity at a global level, while construction companies must deal with an expected decline in capital expenditure. Meanwhile, the real estate, technology and textile sectors have suffered decreased demand for capital and consumer goods. Companies with more moderate declines notably included those in the electricity, pharmaceutical and food sectors, which are expected to suffer less severe effects of the crisis. Companies in the utilities sector will have to cope with lower demand but will be favoured by financial costs being kept low; pharmaceutical companies will benefit from sustained demand for health-related goods and the food sector will benefit from its countercyclical nature.

Companies with more moderate declines notably included those in the electricity, pharmaceutical and food sectors, which are expected to suffer less severe effects of the crisis.

Performance of Spanish stock market indices and sectors TABLE 5

Indices	2017	2018	2019	I 19[1]	II 19[1]	III 19[1]	IV 19[1]	I 20[1]
Ibex 35	7.4	-15.0	11.8	8.2	-0.4	0.5	3.3	-28.9
Madrid	7.6	-15.0	10.2	8.0	-0.6	-0.3	3.0	-29.4
Ibex Medium Cap	4.0	-13.7	8.4	4.7	-1.5	-5.5	11.1	-31.0
Ibex Small Cap	31.4	-7.5	11.9	9.4	-1.3	-1.3	5.0	-24.6
FTSE Latibex All-Share	9.0	10.3	16.3	14.0	0.9	-6.2	7.8	-46.3
FTSE Latibex Top	7.3	14.8	15.3	11.7	1.1	-5.8	8.4	-43.3
Sectors[2]								
Financial and real estate services	**10.5**	**-27.1**	**-2.6**	**2.7**	**-3.0**	**-6.3**	**4.3**	**-40.7**
Banking	10.6	-29.0	-3.4	2.7	-3.1	-6.5	3.8	-41.9
Insurance	0.1	-12.8	-0.5	2.9	3.9	-6.0	-0.9	-36.4
Real estate and other	17.6	-26.1	-11.0	-2.9	-6.7	-0.5	-1.3	-31.3
Oil and energy	**3.9**	**6.1**	**14.4**	**9.6**	**2.3**	**5.4**	**-3.2**	**-13.9**
Oil	9.9	-4.5	-1.1	8.4	-9.7	4.0	-2.9	-40.2
Electricity and gas	2.0	8.9	18.4	9.9	5.6	5.7	-3.4	-7.7
Basic mats., industry and construction	**2.6**	**-8.6**	**24.9**	**18.2**	**-0.6**	**2.1**	**4.1**	**-30.5**
Construction	9.9	-3.4	29.1	18.7	-1.3	10.1	0.1	-29.2
Manufacture and assembly of capital goods	-19.3	-10.4	21.1	19.9	-1.0	-12.0	15.9	-20.4
Minerals, metals and metal products processing	14.2	-25.3	4.4	7.5	0.8	-11.6	8.9	-38.7
Engineering and other	-9.9	-21.3	19.1	14.4	5.0	-2.2	1.4	-44.3
Technology and telecommunications	**7.5**	**-5.5**	**4.5**	**9.0**	**-1.4**	**-2.5**	**-0.3**	**-30.3**
Telecommunications and other	-5.1	-8.2	-4.5	3.7	-0.5	-0.5	-7.0	-23.8
Electronics and software	36.6	-0.1	19.8	17.3	-2.6	-5.8	11.4	-40.1
Consumer goods	**-2.1**	**-16.7**	**34.8**	**14.3**	**0.9**	**5.0**	**11.3**	**-19.1**
Textile, clothing and footwear	-10.4	-23.1	40.6	17.2	1.0	7.4	10.7	-24.8
Food and drink	5.2	-8.4	1.8	12.2	-9.7	-3.4	4.0	-2.1
Pharmaceutical products and biotechnology	14.6	-6.4	38.0	11.6	5.0	3.4	13.9	-8.6
Consumer services	**23.3**	**-19.7**	**8.6**	**2.0**	**-1.4**	**-3.9**	**12.3**	**-50.2**
Motorways and car parks	-3.1	39.5	6.9	2.7	4.3	-2.6	2.4	-49.1
Transport and distribution	-15.7	32.3	12.5	0.3	-0.5	-2.5	15.6	-52.5

Source: BME and Thomson Datastream.

1 Variation compared with 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.

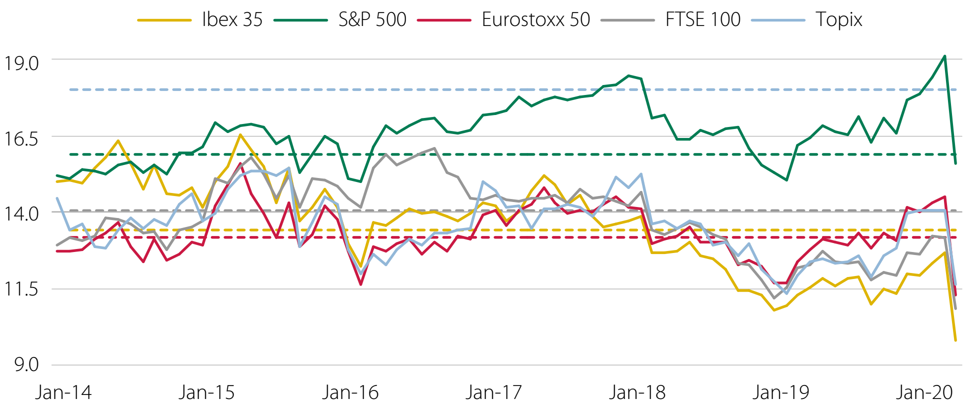
The regulation adopted in March to deal with the crisis stemming from COVID-19 established restrictions on takeover bids from outside the EU and EFTA for Spanish companies in strategic sectors taking advantage of the sharp falls in quoted prices.

The drastic drop in quoted prices, which placed the valuations of many companies at very low levels (several have lost more than half of their value and some close to two thirds), coupled with the absence, in some cases, of anti takeover amendments or reference shareholders, could make several of these entities susceptible to possible takeover bids by large industrial groups or foreign funds due to their attractive valuations. In order to avoid situations of this type, Royal Decree-Law 8/2020 of 17 March, on extraordinary urgent measures to address the economic and social impact of COVID-19, included a limitation on Foreign Direct Investments from outside the EU and EFTA,[20] making the acquisition of 10% or more of the share capital of companies in strategic sectors (or less if the transaction gives the investor an effective role in management, or control of the company) subject to authorisation by the Council of Ministers. Subsequently, Royal Decree-Law 11/2020 of 31 March, on complementary measures, specified that foreign investors may not indirectly acquire shares of 10% or more in Spanish companies through investment structures established in EU or EFTA countries.

The sharp drop in prices led to a fall in the price-earnings ratio (PER) from 11.9 in December to 9.8 in March, the lowest level since 2012 and well below its historical average.

The sharp fall in quoted prices in the quarter, together with a slower decline in the growth of expected corporate earnings for the coming months caused the price-earnings ratio (PER) to fall, although it is foreseeable that in the coming months it will increase as estimates of expected earnings reflect the strong shock that the temporary closure of economies represents for companies, the amount of which is very difficult to estimate at the moment. The value of this ratio fell from 11.9 in mid-December to 9.8 in March, its lowest level since mid-2012. As shown in Figure 13, the PER of the most significant stock market indices across the world also showed a similar behaviour in the quarter, although in all cases these ratios were higher than the PER of the Spanish index, which reflects the better relative price performance of these markets in recent years. Even so, with the exception of the US S&P 500 index, which remains at similar levels, all PER fell well below their average values during the 2010-2020 period.

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



Source: Thomson Datastream. Data to 15 March.

1 With forecast earnings for 12 months.

20 This regulation does not affect Six's takeover bid for BME, since Six is a Swiss company and Switzerland belongs to EFTA.

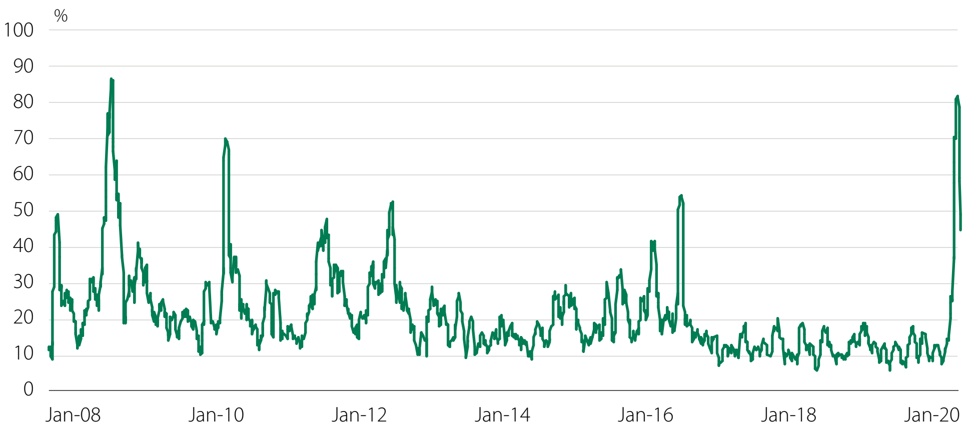
The volatility of the Ibex 35, which had reached historic lows during the last quarter of 2019, rose sharply to its highest level since the financial crisis of 2008, in line with the main European and global stock markets, where in some cases, such as the New York Stock Exchange, trading was temporarily suspended several times.[21] At the end of the first quarter, the volatility of the Ibex 35 was above 80%, far exceeding the 57.5% average for the entire month of March and almost three times the average for the entire first quarter (28.2%). The volatility of the Ibex 35 moved in a range of over 55 pp in March and over 70 pp in the quarter. This performance was similar the volatilities of other European indices such as the Eurostoxx 50 (77.6% at the end of the quarter), but the rises were somewhat less pronounced than in the US indices, where the Dow Jones historical volatility indicator peaked at 103.2%.[22]

Volatility, which came from all-time lows during the last quarter of 2019, increased sharply to its highest level since the 2008 financial crisis, just as happened in the main global stock exchanges.

Further, in line with other European regulators,[23] the CNMV banned transactions in securities and financial instruments that create or increase net short positions in shares admitted to trading in Spanish trading venues (stock exchanges and the Alternative Stock Market, MAB) for a month,[24] with effect from 17 March to 20 April[25] (see Exhibit 3). ESMA also announced the obligation to temporarily require investors with net short positions in shares listed on regulated EU markets to report to the corresponding national authority when their position was equal to or greater than 0.1% of capital, as opposed to 0.2% in force until then.

The CNMV banned transactions with securities and financial instruments that create or increase net short positions in shares admitted to trading in Spanish trading venues.

Historical volatility of the Ibex 35 FIGURE 14



Source: Thomson Datastream and CNMV. The indicator is calculated as the annualised standard deviation of the daily changes in the prices of the Ibex 35 over 21 days.

21 The New York Stock Exchange is equipped with procedures known as market-side circuit breakers which apply to both individual stocks and market indices. In the S&P 500 index, a halt to trading is triggered if it falls 7% below its previous close, which is known as a level 1 breach. Level 2 and 3 breaches imply 13% and 20% drops respectively. In the case of Level 1 and 2 breaches trading is halted for 15 minutes, except if it occurs with less than 35 minutes remaining before the close. Level 3 breaches bring trading to a halt for the rest of the trading day.

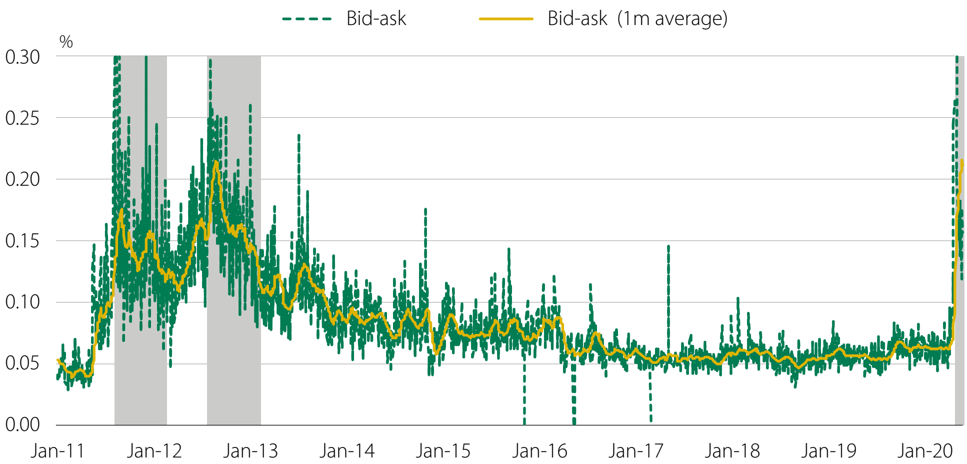
22 The VIX volatility index – known as the "fear index" – reached 64%, its highest ever.

23 Regulators in France (AMF), Italy (CONSOB), Belgium (FSMA) and Greece (HCMC) also imposed restrictions on the short selling of securities listed on their respective markets.

24 Previously, the CNMV had banned the short selling of shares of 69 listed companies in the session of Friday, 13 March.

25 The CNMV extended the ban for one more month, from 18 April to 18 May.

Liquidity of the Ibex 35. Bid-ask spread FIGURE 15



Source: Thomson Datastream and CNMV. Information on the bid-ask spread of the Ibex 35 and the average of the last month is presented here. The shaded areas of the figure refer to the introduction of the precautionary prohibition on short-selling dated 11 August 2011, its subsequent lifting on 16 February 2012 (for financial institutions), the new prohibition of 23 July 2012 and its lifting on 1 February 2013, as well as the latest ban which was imposed on 16 March 2020. The last two prohibitions affect all entities.

Liquidity conditions deteriorated to levels that were worse than those of the 2008 financial crisis and the 2012 debt crisis.

The liquidity conditions of the Ibex 35, measured through the bid-ask spread, remained relatively stable at the beginning of the first quarter of the year, but as the coronavirus crisis took hold, they deteriorated substantially, with both the spread and market volatility increasing to values in excess of those of the financial crisis of 2008 and the debt crisis of 2012. This differential reached 0.107% on average in the first quarter of the year, but increased to 0.25% in the second half of March – almost three times the historical average of this indicator (0.091%) –, when it was briefly above 0.4%, which could be partly associated with the ban on short positions.

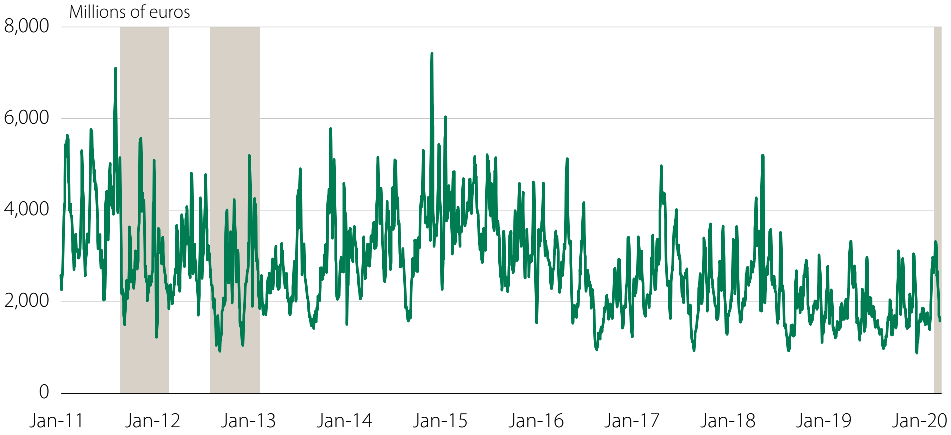
The rise in market volatility boosted trading in Spanish securities, which increased by 26.3% year-on-year in the first quarter…

In this environment of high volatility and sharp falls in quoted prices, trading in Spanish equities increased significantly in the quarter, reaching the highest volume seen since the first half of 2018. The increase is explained by the selling pressure registered as a result of the price falls, by purchases to close short positions following the ban on short-selling and also by the fact that high market volatility once again encouraged algorithmic and high frequency trading.[26] Therefore, trading in Spanish equities grew by 26.2% year-on-year to more than €244 billion, almost €51 billion higher than in the same period of 2019, in line with the trend marked by most of the main European stock markets, which also saw a significant increase in trading.[27] Average daily trading on the continuous market in the first quarter reached €1.995 billion, 17.6% more than in the same period of 2019. This figure is also above the average of the previous quarter (€1.98 billion) and of 2019 as a whole (€1.82 billion). It should be noted, however, that this increase occurred exclusively in March.

26 High Frequency Trading (HFT).

27 According to data from the World Federation of Exchanges, trading up until February increased significantly in year-on-year terms on the main European stock markets: by 29.0% on Euronext, 19.4% on the London Stock Exchange Group (London and Italy), 25% on Deutsch Börse and 18.8% on Cboe Europe.

Daily trading on the Spanish stock market[1] FIGURE 16



Source: CNMV. The shaded areas of the figure refer to the introduction of the precautionary prohibition on short-selling dated 11 August 2011, its subsequent lifting on 16 February 2012 (for financial institutions), the new prohibition of 23 July 2012 and its lifting on 1 February 2013, as well as the latest ban imposed on 16 March 2020. The last two prohibitions affect all entities.

1 Moving average of five business sessions.

… and allowed trading on trading venues and competing markets other than the home market to reach 47.8% of the total, the highest percentage recorded in the entire historical series.

Regarding the distribution of Spanish securities trading, a total of €126.70 billion corresponded to the Spanish regulated market (+19.4% year-on-year), while €117.73 billion (+34.4%) were traded through other trading venues and competing markets, which saw their highest ever volumes. While the amount traded through BME has grown significantly year-on-year, there has been hardly any increase compared with the previous quarter (0.8%), while the amount traded on trading venues and competing markets has risen a much faster rate in both comparisons. As a result, the market share held by the latter has continued to grow, reaching a new record high of 47.8%. Trading on competing trading venues and regulated markets subject to market rules remained above 40% of total trading in all quarters of 2019, with some temporary recoveries in the share held by BME. However, in this quarter the increase in volatility, and therefore in algorithmic and high-frequency trading, which is usually carried out to a greater extent in these competing centres, is one of the main reasons for the increase in this share to the aforementioned high (7.5 pp more than at the end of 2019).

Cboe Global Markets continued to lead the trading of Spanish stocks abroad, with 72% of the total volume traded outside Spain.

Regarding the trading of Spanish shares abroad, the standout was once again Cboe Global Markets (Cboe), which operates through two different order books, BATS and Chi-X, although there was a further increase in both its trading volume and market share. Trading was close to €85 billion in the first quarter, which represents 72% of trades made abroad and around two thirds of trades carried out through BME. In addition, as in previous quarters, distribution continued to shift between the two books in favour of BATS. Both Turquoise and the rest of the operators again lost market share among the competing centres of BME, reaching 6.8% and 21.1%, respectively, since their gains were lower than those of the total volume traded (see Table 6).

The CNMV authorised the voluntary takeover bid to acquire BME shares by the Swiss entity Six Group.

Additionally, on 25 March, the CNMV authorised the voluntary takeover bid to acquire BME's shares submitted by the Swiss entity, Six Group.[28] The approval took place once the acquisition had been authorised by the government by means of a resolution of the Council of Ministers. The offer is for 100% of BME's capital and the price offered is €33.40 per share.

Trading in Spanish shares listed on Spanish stock exchanges[1] TABLE 6

Millions of euros

	2016	2017	2018	2019	III 19	IV 19	I 20
Total	**877,413.3**	**932,771.9**	**930,616.1**	**805,833.0**	**181,393.0**	**209,032.6**	**244,429.7**
Admitted to SIBE (electronic trading platform)	**877,402.7**	**932,763.1**	**930,607.1**	**805,826.6**	**181,391.6**	**209,031.8**	**244,428.6**
BME	631,107.2	633,385.7	579,810.4	460,267.4	99,552.2	125,712.6	126,698.3
Chi-X	117,419.4	117,899.2	106,869.7	80,678.9	20,312.6	16,053.1	22,954.9
Turquoise	51,051.8	44,720.1	42,833.4	30,550.6	6,730.5	5,711.7	7,954.3
BATS	44,839.8	75,411.6	171,491.3	176,093.6	42,557.4	39,694.3	62,025.5
Other	32,984.5	61,346.5	29,552.2	58,236.1	12,238.9	21,860.2	24,795.5
Pit-traded (corros)	**7.5**	**8.1**	**8.2**	**6.2**	**1.4**	**0.7**	**1.1**
Madrid	3.2	1.8	0.8	0.8	0.2	0.0	0.1
Bilbao	0.0	0.0	0.0	2.1	0.1	0.0	0.0
Barcelona	4.1	6.3	7.4	3.2	1.1	0.7	1.0
Valencia	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Secondary market	**3.2**	**0.7**	**0.8**	**0.1**	**0.0**	**0.0**	**0.0**
Pro memoria							
Trading in foreign equities, BME	6,033.0	6,908.0	3,517.1	3,480.5	698.0	962.1	987.7
MAB	5,066.2	4,987.9	4,216.3	4,007.7	710.4	1,345.8	1,145.3
Latibex	156.7	130.8	151.6	136.6	32.8	39.0	29.2
ETF	6,045.2	4,464.1	3,027.6	1,718.0	415.9	459.2	819.0
Total trading through BME	648,418.9	649,885.3	590,732.0	469,616.6	101,410.7	127,938.4	129,680.6
% total Spanish equities traded through BME	71.9	68.3	62.6	57.4	55.2	59.7	52.2

Source: Bloomberg and CNMV.

1 This includes the trading of Spanish equities subject to market or MTF rules (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). Foreign equities are those admitted to trading on the regulated BME market with an ISIN that is not Spanish.

28 The offer was presented on 18 November by Six Group at a price of €34 per share, from which the dividends paid by the company would have to be discounted.

Capital increases and public offerings

TABLE 7

	2017	2018	2019	II 19	III 19	IV 19	I 20
NUMBER OF ISSUERS[1]							
Total	**47**	**46**	**47**	**11**	**10**	**12**	**8**
Capital increases	45	45	47	11	10	12	8
Public offerings (for subscription of securities)	3	2	1	0	0	0	0
Initial public offerings (IPO)	4	1	0	0	0	0	0
NUMBER OF ISSUES[1]							
Total	**91**	**81**	**52**	**13**	**10**	**15**	**15**
Capital increases	84	80	52	13	10	15	15
Public offerings (for subscription of securities)	4	2	1	0	0	0	0
Initial public offering (IPO)[2]	7	1	0	0	0	0	0
CASH AMOUNT[1] (millions of euros)							
Capital increases with fund-raising	**25,787.7**	**7,389.9**	**8,240.6**	**973.3**	**1,748.3**	**4,132.9**	**174.9**
With preemptive rights	7,831.4	888.4	4,729.8	199.8	44.6	3,132.8	0.0
Without preemptive rights	956.2	200.1	10.0	0.0	0.0	0.0	0.0
Of which, increases	68.8	0.0	30.0	10.0	10.0	0.0	0.0
Accelerated book builds	821.8	1,999.1	500.0	0.0	0.0	500.0	0.0
Capital increases with non-monetary consideration[3]	8,469.3	2,999.7	2,034.2	351.6	1,682.6	0.0	12.5
Capital increases via debt conversion	1,648.8	388.7	354.9	0.0	0.7	341.1	162.4
Other	6,060.2	913.9	611.8	421.9	20.4	159.0	0.0
Scrip issues[4]	**3,807.3**	**3,939.7**	**1,565.4**	**140.4**	**1,074.9**	**2.6**	**396.4**
Of which, scrip dividends	3,807.3	3,915.2	1,564.1	140.4	1,074.9	1.3	396.4
Total capital increases	**29,595.0**	**11,329.6**	**9,806.0**	**1,113.7**	**2,823.1**	**4,135.5**	**571.3**
Public offerings	**2,944.5**	**733.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
***Pro memoria*: Transactions on the MAB[5]**							
Number of issuers	13	8	12	2	5	4	5
Number of issuances	15	12	17	2	6	4	6
Cash amount (millions of euros)	129.9	164.5	298.3	3.4	74.1	200.5	18.3
Capital increases	129.9	164.5	298.3	3.4	74.1	200.5	18.3
Of which, initial public offerings	17.1	0.0	229.4	0.0	30.0	196.3	0.1
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 accounted for separately.

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

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

5 Trades not registered with the CNMV.

Equity issuances made in Spanish markets stood at €571.3 million in the first quarter, which represents less than a third of the amount issued in the same quarter of 2019 and the lowest figure since the second quarter of 2018 (see Table 7). Capital increases were mostly carried out under the scrip dividend method, coinciding with the payment in January of the dividends of several large energy companies under this format, which nonetheless continued to lose its appeal for investors and issuers alike. Even so, this option is likely to be used more extensively in the near future, if companies perceive the need to strengthen their capital in the context of the crisis. The rest of the increases corresponded mostly to capital increases with debt conversion, although their amount was very low, and capital increases with

The issuance of new shares reached its lowest level since the second quarter of 2018 and those that were issued were mostly under the scrip dividend format. Likewise, there were no IPOs in the quarter.

fund-raising reached their lowest levels in recent years. Likewise, as happened throughout 2019, there were no initial public offerings in the quarter. The projected scenario of uncertainty and volatility over the coming months makes it unlikely that any such transactions will occur in the immediate future.

Numerous companies have announced the cancellation of their dividends and other actions to strengthen their balance sheets in the context of the crisis.

However, many companies, especially banks,[29] have announced the cancellation of dividends or their intention to delay or reduce the amounts paid out, in addition to cancellation of share buyback programmes, to strengthen their balance sheets and address the economic and financial challenges posed by the coronavirus crisis.

The CNMV introduces restrictions on short-selling of shares listed on Spanish stock exchanges EXHIBIT 3

In an environment of extreme volatility and sharp falls in quoted prices, which were accentuated in March, several European securities authorities,[1] including the Spanish authority, resolved to impose restrictions on short trading with certain shares. These decisions can be taken on certain financial instruments in situations of significant price falls or, more generally, when circumstances arise that constitute a serious threat to financial stability. In parallel, the European Securities and Markets Authority (ESMA) ruled to temporarily lower the threshold that determines the obligation to report to the competent national authority the short positions of holders, from 0.2% of issued capital to 0.1%.[2]

The CNMV, which, since the years of the sovereign debt crisis in 2011 and 2012 had only ever adopted one measure of this nature, with respect to a specific share (Liberbank, following the resolution of Banco Popular), first resolved to prohibit short-selling on 13 March for certain securities, followed by a second decision to prohibit the creation or increase of net short positions, which applied to all shares and which was recently extended until 18 May. The first decision[3] affected all the shares considered to be liquid admitted to trading on the Spanish stock exchanges, the price of which had fallen by more than 10% in the previous session (12 March) and all shares considered illiquid, the price of which had fallen by more than 20%. In total it affected 69 securities.

Subsequently, on 17 March, the CNMV temporarily prohibited, pursuant to Article 20 of Regulation (EU) No. 236/2012, until 17 April the creation or increase of net short positions on shares admitted to trading on Spanish trading venues for which the CNMV is the competent authority, in accordance with the provisions of said Regulation.[4] In the following days, the French, Italian, Belgian, Austrian and Greek supervisors took similar measures. The ban was subsequently extended from 18 April to 18 May, both dates inclusive, and may in turn be extended for renewable periods not exceeding three months, if the circumstances that gave rise to it persist, in accordance with Article 24 of the aforementioned Regulation, or it may be lifted at any time before the term has

29 Banking and insurance supervisors have urged financial institutions and insurers to suspend payments of dividends.

elapsed if deemed necessary. The extension,[5] which was approved after various discussions with the securities supervisors of the other European countries that have adopted similar measures, was notified to ESMA as provided for in the Regulation. The reasons given were the persistence of risks and uncertainties affecting the performance of the economy and the market in the context of the situation deriving from the COVID-19 pandemic, the high levels of volatility and the risk of disorderly price movements.

The prohibition affects any transactions on shares or indices, including cash transactions, derivatives transactions in organised markets or OTC derivatives transactions that involve creating a net short position or increasing a pre-existing one, even on an intraday basis. Net short positions are understood to be those defined in Article 3.1 of Regulation (EU) No. 236/2012. These positions include short-selling even where the transactions are covered by securities loans. The following transactions are excluded from the scope of the prohibition:

– Market-making activities under the terms provided in the Regulation on short-selling.

– The creation or increase of net short positions when the investor acquiring a convertible bond holds a neutral delta position between the position in the equity element of the convertible bond and the short position taken out to cover this element.

– The creation or increase of net short positions when the creation or increase of the short position in shares is covered with an equivalent purchase in terms of the proportion of subscription rights.

– The creation or increase of net short positions through derivative financial instruments on indices or weighted baskets of financial instruments when the weight of the securities affected by the prohibition does not exceed half of the index or basket (the scope of this exception differs from the initial ban, which referred to the number of financial instruments, not their weighting in the index or basket).

Restrictions on short-selling, which may be appropriate in exceptional situations, affect the efficiency of the markets by reducing the speed at which prices adjust to available information and adversely affect some liquidity measures or actual trading volumes. The CNMV is carrying out a specific analysis to assess the impact in this case of the measure adopted.

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1 In particular those of Italy, Austria, Belgium, France and Greece.

2 https://www.esma.europa.eu/press-news/esma-news/esma-requires-net-short-position-holders-report-positions-01-and-above

3 The decision was taken in accordance with Article 23 of Regulation (EU) No. 236/2012 of the European Parliament and of the Council of 14 March 2012, which empowers the competent national authorities to temporarily restrict short-selling in the event of a significant fall in share prices. https://www.cnmv.es/portal/verDoc.axd?t=%7Bca1ed0f3-097f-4f08-ab07-e24bcf508e42%7D

4 https://www.cnmv.es/Portal/verDoc.axd?t=%7B5baf609e-ed4e-4dad-a697-80c55548e181%7D

5 http://www.cnmv.es/portal/verDoc.axd?t={c65a96cd-6d0d-47b8-90fb-a77b82551349}

3.2 Fixed income markets

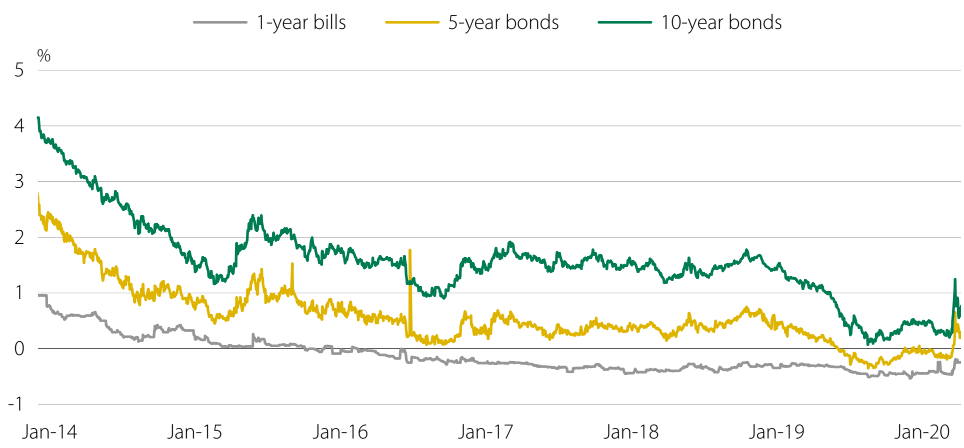
The turmoil in the financial markets was reflected in the debt markets with spikes in the sovereign and corporate risk premiums of the most vulnerable countries and companies, which did not ease until after the announcement of the specific ECB debt purchase programme (PEPP) to mitigate the effects of the pandemic.

The debt markets started the year with a slight upturn in yields, given the prospect that the monetary authorities would not adopt any additional monetary policy measures and could even consider revising their strategies, following the resolution of some areas of uncertainty that had been affecting the markets. In this context, the spread of the coronavirus in Europe and the start of the financial market turmoil translated into a process of replacing relatively high-risk debt assets with better credit quality debt instruments (flight to quality). In parallel, there was a notable increase in the risk premiums applied on sovereign and corporate debt of countries and companies perceived as most vulnerable, in which the impact on public accounts and economic activity is expected to be more significant, and this trend did not change until governments announced economic stimulus measures and, particularly, when the ECB announced its new exceptional monetary policy measures. These included a substantial programme of debt purchases, the Pandemic Emergency Purchase Programme, or PEPP, details of which are discussed in Section 2.1 and Exhibit 1 of this report, specifically to alleviate the effects of the pandemic, for instance by eliminating the spikes in interest on the debt of countries most affected by the spread of the virus.

Despite the positive effect of the ECB purchases, both public and private debt rates rose in the quarter, and the increases were more marked for debt assets with low credit ratings.

The rates on Spanish public debt, like those of other southern European economies, increased slightly in the quarter, and were attenuated by the positive effect of the ECB's purchasing programme, while those of northern European economies showed slight declines, which were more concentrated in Germany and the Netherlands. Long-term private sector fixed income rates also saw increases, which were more notable in the case of high-yield corporate debt. As a consequence, the Spanish risk premium increased by 48 bp in the quarter, reaching 114 bp, although it had episodic peaks of close to 150 bp.

Interest rates on Spanish public debt FIGURE 17



Source: Thomson Datastream.

In this context of low interest rates and a certain market stability until February, issuances registered with the CNMV remained relatively stable in the quarter, while those made abroad increased, once again exceeding the volume recorded in Spain, as had been the case throughout 2019. In addition, issuers continued to take advantage of favourable market conditions and low costs to raise financing for the medium and long term, and it is therefore expected that many companies – at least the largest ones – will have a sufficient level of liquidity to be able to deal with the risks and uncertainties associated with the pandemic without too much difficulty.

In this context, fixed income issuances made by Spanish issuers registered with the CNMV saw little change in the first quarter, while those made abroad continued to increase.

There was a disparity in the performance of interest rates on short term debt in the first quarter between the public and private sector, with slight increases in the former and slight decreases in the latter. In this way, the yield on public debt entered its fifth consecutive year of negative values for the entire short section of the curve due to the intensification of the ECB's ultra-expansive monetary policy, which now includes exceptional measures to mitigate the effects of the coronavirus.[30] At the end of March, the yield on the secondary market for treasury bills at 3, 6 and 12 months stood at -0.28%, -0.24% and -0.28% respectively, slightly above the closing values of 2019 and also above the ECB's deposit facility rate (-0.50%), which they usually tracked. All the TLTRO auctions in the primary market were still allocated at negative rates, including those carried out in March (with positive returns for the longer terms).[31] In the case of short term private fixed income, the returns observed at the end of the first quarter were lower than those of the previous quarter. The largest decreases were in the 6- and 12-month terms, assets that could now be eligible for the ECB's purchase programme.[32] However, there are a significant number of smaller issuers that have stopped issuing commercial paper, either because of the greater difficulties in placing these instruments or because of their higher cost, as investors demand higher returns. Therefore, in March yields on commercial paper at the time of issuance reached values of between 0.19% for the 3-month instrument and 0.58% for the 12-month paper[33] (see Table 8).

The yield on short term public debt increased slightly, although it remained negative for the fifth consecutive year, while that of corporate commercial paper showed slight declines thanks to the intensification of the ECB's ultra-expansive monetary policy.

30 The new PEPP programme, amounting to €750 billion, includes purchases of securities with a minimum residual maturity of 70 days.

31 The auctions of 3- and 5-year bonds held on 2 April had a marginal rate of 0.107% and 0.276% respectively.

32 The ECB would acquire short term debt under its PEPP purchase programme, which could include commercial paper issued by some Spanish companies (such as Endesa, Iberdrola, Repsol, Telefónica, Red Eléctrica, Ferrovial, Naturgy, Abertis, Aena, ACS, Amadeus, Cellnex, Colonial, ACS and Viesgo), as long as they have a minimum credit rating of BBB- according to Standard & Poor's, Fitch and DBRS or Baa3 according to Moody´s.

33 Regarding commercial paper, it should be noted that the guarantee programme recently established by Royal Decree-Law of 21 April, on complementary urgent measures to support the economy and employment, indicates that commercial paper traded on the Fixed Income Market of the Association of Financial Asset Intermediaries (AIAF) and the Alternative Fixed Income Market (MARF) will be eligible for the guarantees, promoting the maintenance of liquidity sources provided by the capital markets and not only through the traditional banking channels.

Short term interest rates TABLE 8

%

	Dec-17	Dec-18	Dec-19	Jun-19	Sep-19	Dec-19	Mar-20
Treasury bills							
3 months	-0.62	-0.50	-0.58	-0.47	-0.54	-0.58	-0.28
6 months	-0.45	-0.41	-0.47	-0.38	-0.53	-0.47	-0.24
12 months	-0.42	-0.33	-0.48	-0.38	-0.49	-0.48	-0.28
Corporate commercial paper[1, 2]							
3 months	0.39	0.24	0.20	0.21	0.16	0.20	0.19
6 months	0.26	0.19	0.52	0.58	0.17	0.52	0.23
12 months	0.19	0.07	0.71	1.06	0.43	0.71	0.58

Source: Thomson Datastream and CNMV.

1 Monthly average of daily data.

2 Issuance interest rates.

The yield on long-term public debt increased over the entire curve, although the increases were tempered by the positive effect of the ECB's purchase programmes. The rate curve went from presenting negative values up to the 5-year term to presenting such value only up to the 2-year term.

Interest rates on medium- and long-term public debt started the quarter showing a relatively stable trend and with negative values up to the 5-year term, given the prospect that both the ECB and the Federal Reserve would maintain their accommodative monetary policy in order to avoid a slowdown in both Europe and the United States and boost economic growth. As the spread of the virus throughout Spain took hold, rates began to rise for the entire middle and long section of the curve, where they began to acquire positive values and even temporarily recovered values greater than 1% at 10 years. They went on to decline when the ECB stepped up its purchases of public debt[34] and announced the new Pandemic Emergency Purchase Programme (PEPP),[35] which had a greater scope. Therefore, the yield on Spanish public debt at 3, 5 and 10 years stood at 0.02%, 0.26% and 0.68% respectively at the end of March (see Table 9). Over the course of the quarter, the interest rate curve changed from presenting negative values up to 5 years to doing so up to 2 years, since the 3-year term closed the quarter with slightly positive values.

Private fixed income marked a different performance, with increases in returns observed, which were a reflection of the fall in the prices of higher-risk assets.

Private sector fixed income marked a different performance, with notable increases observed in all segments of the curve, putting returns at their highest levels since the end of 2018. Although the ECB's corporate debt purchase programme[36] remains in place and its amount increased, its scope is limited to a small number of issuers with a minimum investment grade rating. Therefore, the increase in rates reflects the fall in prices of relatively high-risk assets,[37] among which a significant increase in the spreads demanded for high yield or lower credit quality debt has been observed, as well as a flight to quality, since many investors have replaced their investments in debt of this type with public debt or other less risky assets. At the end of

34 Up until 2 April the ECB had acquired public debt for a net amount of €2.26 trillion, of which €266.62 billion corresponded to Spanish securities.

35 The emergency purchasing programme, which includes purchases of public and private assets, was launched in March and by 3 April purchases totalling €30.15 billion had been made.

36 Up until 2 April, purchases under the corporate debt programme totalled €203.41 billion, of which more than 18% were acquired in the primary market.

37 The sample used to calculate interest rates included a wide range of assets with different risk levels, including covered bonds, investment grade bonds, high-yield bonds and even unrated debt.

March, the returns on private debt at 3, 5 and 10 years were 0.48%, 0.65% and 1.49% respectively, which implied a risk premium of between 39 and 81 bp with respect to public debt assets. In addition, in the second half of March, issuances made by several issuers suffered reductions in their credit ratings or a negative review of their outlook, reflecting the risks faced by their activities as a consequence of the economic impact of the pandemic.

Medium- and long-term bond yields TABLE 9

%

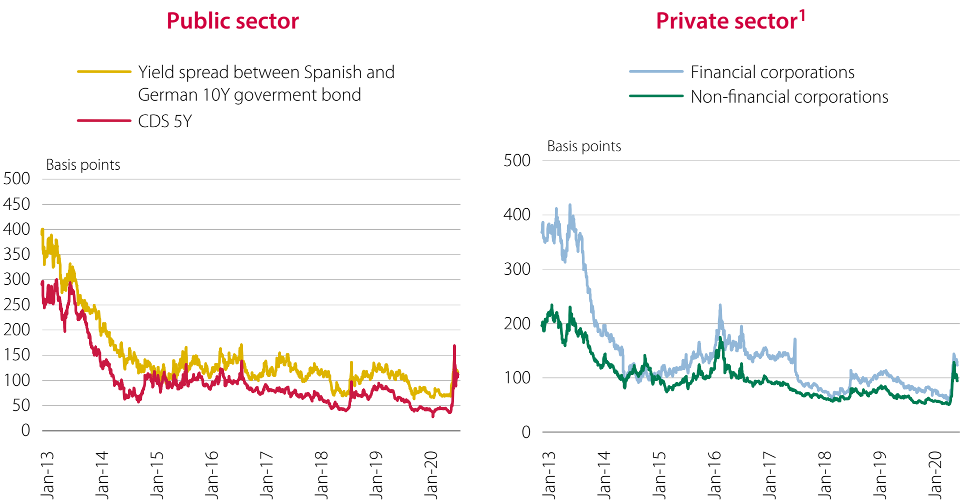
	Dec-17	Dec-18	Dec-19	Jun-19	Sep-19	Dec-19	Mar-20
Public fixed income							
3 years	-0.09	-0.04	-0.29	-0.31	-0.44	-0.29	0.02
5 years	0.31	0.43	-0.06	-0.10	-0.27	-0.06	0.26
10 years	1.46	1.43	0.45	0.50	0.20	0.45	0.68
Private fixed income							
3 years	0.44	0.67	0.20	0.19	-0.10	0.20	0.48
5 years	0.41	0.55	0.23	0.34	0.10	0.23	0.65
10 years	1.16	1.52	0.79	1.05	0.63	0.79	1.49

Source: Thomson Datastream, Reuters and CNMV.

The sovereign risk premium increased by 48 bp to 117 bp, although it had episodic peaks of 148 bp.

The sovereign risk premium – measured as the difference in yield between the Spanish and the German 10-year sovereign bonds – began the year at 66 bp, close to the annual low of 60 bp in 2019, and remained unchanged until late February, when it started to rise as uncertainty spread in the markets. This indicator continued to rise until mid-March, standing at 148 bp as a consequence of the high degree of uncertainty about the effects of the crisis on the public finances of European economies, which could generate tensions in the sovereign risk premiums of those economies with higher debt levels. As previously mentioned, the announcement of the ECB's purchase programmes and the intensification of its purchases eased pressure on debt premiums, which in the case of Spain ended the quarter at 114 bp, 48 bp above the value at the beginning of the year. The increases were also similar for the risk premium estimated using the CDS of the Spanish sovereign bond (the market for which is less liquid than that of its underlying), which closed the quarter at 105 bp, compared with 41 bp at the end of 2019 (see left-hand panel of Figure 18). In the short term, its performance, like that of the risk premiums of major Spanish issuers, will be largely determined by the effects of the pandemic on the Spanish economy and the timing and intensity of the recovery, as well as by the impact of the fiscal and monetary policy support measures put in place by the EU, the Spanish government and the ECB respectively.

Risk premium of Spanish issuers FIGURE 18



Source: Thomson Datastream and CNMV.

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

Risk premiums applied in the private sectors of the economy increased and the most significant increases were those of financial institutions as a consequence of the likely impact of the economic crisis on their margins and balance sheets.

The premiums of the private subsectors of the economy followed a similar path to that of public debt, although increases were somewhat greater in the case of financial institutions. Despite having the support of the ECB, which allows them to access to long-term, low-cost financing through the third round of TLTROs, financial institutions face increasing uncertainties and risks[38] as a consequence of the expected recession. The new scenario will cause their interest income to decline for a prolonged period as a result of the continuing context of low interest rates and may well involve a deterioration in delinquency/NPL levels, in a context of reduced commercial and lending activity. On the positive side, as well as extending its financing facilities,[39] the ECB will extend and significantly increase its debt purchase programmes, which include specific programmes for the purchase of securities issued by financial institutions, such as covered bonds and securitisations[40] (CBPP3 and ABSPP respectively), and now the purchase of these securities through the PEPP.

Risk premiums applied in the private sectors of the economy increased and the most significant increases were those of financial institutions as a consequence of the likely impact of the economic crisis on their margins and balance sheets.

In the case of non-financial companies, the rise in premiums was more moderate, even though they reached their highest levels since the end of 2016. Although these companies also benefit from the positive effect of the ECB's purchase programmes, their premiums reflect the potential impact of the economic slowdown on their businesses, as well as the foreseeable increase in their financial costs caused by the increase in credit risk. As the right-hand panel of Figure 18 shows, the average of the CDS of financial institutions stood at 125 bp at the end of March, 60 bp above the 65 bp at which it began the year; for non-financial institutions, the average risk

38 The ECB has urged banks to cancel the distribution of dividends against 2019 and 2020 results.

39 The ECB has announced a package of temporary measures that relax the requirements on guarantees and the valuation of the collateral provided in loan transactions.

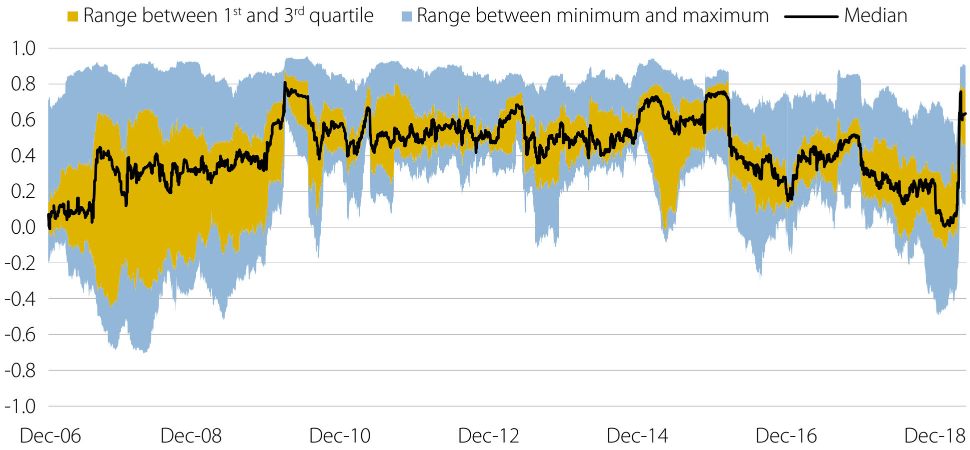
40 Up until 2 April, purchases under the covered bonds programme totalled €275.23 billion, of which more than 38% were acquired in the primary market. At the same date, cumulative purchases under the asset-backed securities programme amounted to €31.69 billion, of which almost 52% were acquired in the primary market.

premium was 98 bp at the same date, compared with 52 bp at the end of the previous quarter.

The price correlation between the different classes of Spanish financial assets, which had decreased significantly during the last quarter of 2019, reaching its lowest value in the last decade, rose sharply again in the first quarter of this year, reaching its highest level since the second half of 2016, on the back of the uncertainties associated with the health crisis. The value of the indicator, one of the highest observed in the last decade, implies that the uncertainties – and, therefore, the potential risks originated by the crisis – were transferred to the different types of assets, including shares, and debt and credit. These uncertainties triggered generalised price falls and gave rise to the aforementioned increase in the general correlation.

The correlation between asset prices, which had decreased significantly in the last quarter of 2019, rose sharply again in the early months of 2020. The generalised price falls among assets explains this performance.

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



Source: Thomson Datastream and CNMV.

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. A high correlation between the different classes of Spanish assets would indicate the possible existence of herding behaviour by investors. This situation could lead to high volatility in periods of stress. Meanwhile, diversification would offer fewer advantages since in this context it would be more difficult to avoid exposure to sources of systematic risk.

2 Since 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.

Fixed income issuances registered with the CNMV in the first quarter of 2020 came to €20.20 billion, 3.2% down on the same period of the previous year. The volume of issuances remains low, as in previous quarters, and remains largely determined by the high volume of issuance activity abroad, which in 2019 already exceeded the issuances registered with the CNMV. Furthermore, many companies took advantage of the favourable market conditions during 2019 to raise financing at a low cost, which reduces their needs for this year. In addition, financial institutions have other appealing sources of financing available to them, such as the third round of ECB financing. Regarding the composition of the issuances, in both absolute and relative terms, the largest increases corresponded to covered bonds (56%), asset-backed securities (58%) and corporate commercial paper (53%). In the case of covered bonds, activity is limited to the renewal of maturing issues, since issuance is a function of

The volume of fixed income issuances registered with the CNMV decreased slightly in the first quarter…

changes in total mortgage loans outstanding, which continue to fall;[41] asset-backed securities relate to two STS programmes carried out by two financing companies; issuances of corporate commercial paper are favoured by the return to Spain of some companies' issuance programmes from abroad.[42] The largest decrease was seen in the issuance of medium- and long-term straight bonds, which fell to less than half. This was due to the fact that SAREB (Asset Management Company for Assets Arising from Bank Restructuring) carried out a single issue of €4.06 billion, compared with three issuances for an aggregate amount of more than €10.2 billion in 2019.

… while Spanish issuances made abroad continued to grow, largely in long-term debt.

Fixed income issuances carried out abroad by Spanish issuers during the first months of the year (data to February) retained the buoyancy observed in the previous year, growing to €26.1 billion, the highest figure seen in the past few quarters and 48% more than in the same period of 2019. The largest increase, 83%, was in long-term debt issuances, due to the rise in bond issuances, which more than doubled, while short term commercial paper issuances saw more moderate growth (19%). It can therefore be inferred that companies have taken advantage of the favourable market conditions – as regards both availability of funds and low costs – to obtain long-term financing: long-term issuances represented 55% of the total, compared with 44% in the same period of the previous year. Preliminary data for 2020, subject to the changes that may arise due to the new situation caused by the pandemic, appear to indicate that the trend observed in 2019, when issuances made abroad exceeded those registered with the CNMV[43] for the first time, will continue or even intensify this year. There was also a significant increase in issuances made by subsidiaries of Spanish companies in the rest of the world, which amounted to €18.32 billion (data to February), 38% more than in 2019. Of this amount, 77% corresponded to banks and the rest to non-financial companies, reflecting the growth of Spanish banking subsidiaries as part of the internationalisation and growth of these entities in other regions.

41 To February, according to Bank of Spain data, the balance of mortgage lending to households fell by 1.1% year-on-year, to €517.1 billion.

42 For instance, the energy company Endesa, which has again registered its commercial paper issuances with the CNMV.

43 These issuances accounted for 53% of the total in 2019 (47% in 2018).

Gross fixed income issuances registered with the CNMV

TABLE 10

					2019		2020
	2016	2017	2018	2019	III	IV	I[1]
NOMINAL AMOUNT (millions of euros)	**139,028**	**109,487**	**101,296**	**90,161**	**19,968**	**35,018**	**20,203**
Covered bonds	31,643	29,824	26,575	22,933	6,750	7,508	6,250
Regional covered bonds	7,250	350	2,800	1,300	0	1,300	0
Non-convertible bonds and debentures	40,170	30,006	35,836	29,602	1,533	12,084	6,159
Convertible/exchangeable bonds and debentures	0	0	0	0	0	0	0
Asset-backed securities	35,505	29,415	18,145	18,741	4,909	9,681	3,066
Corporate commercial paper[2]	22,960	17,911	15,089	15,085	5,275	4,446	4,728
Securitised	1,880	1,800	240	0	0	0	0
Other commercial paper	21,080	16,111	14,849	15,085	5,275	4,446	4,728
Other fixed income issuances	1,500	981	0	1,500	1,500	0	0
Preferred shares	0	1,000	2,850	1,000	0	0	0
***Pro memoria*:**							
Subordinated issuances	4,279	6,505	4,923	3,214	459	2,088	861
Secured issuances	421	0	0	0	0	0	0

					2019		2020
Abroad by Spanish issuers	2016	2017	2018	2019	III	IV	I[1]
NOMINAL AMOUNT (millions of euros)	**58,587**	**84,760**	**89,358**	**100,321**	**23,754**	**22,318**	**26,098**
Long term	31,655	61,095	38,425	53,234	12,342	10,552	14,384
Preferred shares	1,200	5,844	2,000	3,070	918	100	1,500
Subordinated bonds	2,333	5,399	2,250	1,755	0	0	0
Bonds and debentures	28,122	49,852	34,175	48,409	11,424	10,452	12,884
Asset-backed securities	0	0	0	0	0	0	0
Short term	26,932	23,665	50,933	47,087	11,412	11,766	11,714
Commercial paper	26,932	23,665	50,933	47,087	11,412	11,766	11,714
Asset securitisation	0	0	0	0	0	0	0

***Pro memoria*: Gross issuance made by subsidiaries of Spanish companies in the rest of the world**

					2019		2020
	2016	2017	2018	2019	III	IV	I[3]
NOMINAL AMOUNT (millions of euros)	**56,674**	**66,790**	**91,446**	**92,284**	**22,187**	**17,789**	**18,315**
Financial institutions	11,427	19,742	43,234	57,391	13,568	13,825	14,152
Non-financial entities	45,247	47,585	48,212	34,893	8,619	3,964	4,163

Source: CNMV and Bank of Spain.

1 Data to 31 March.

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

3 Data to 28 February.

4 Market agents

4.1 Investment vehicles

Financial CIS

Investment funds

Investment fund assets increased by 7.8% in 2019, mainly due to their positive returns in a year of lower net subscriptions by unitholders.

The assets of investment funds (the five-year sustained high growth of which had been interrupted in 2018), increased strongly again in 2019, standing at €279.38 billion at year-end, 7.8% more than at the end of the previous year. 90% of this increase in assets was due to the positive performance of the assets in their portfolios. With regard to performance, the weighted average return of the funds stood at 7.1% in 2019, which is mainly explained by the rise in quoted prices on international equity markets, particularly during the first part of the year. Net subscriptions were negative during the first three months of 2019, still influenced by the fall in stock markets at the end of 2018, but positive for the rest of the year, especially in the fourth quarter (€2.25 billion). For the year as a whole, net subscriptions were €2.47 billion, a much lower figure than in recent years.

Despite the current interest rate environment, many unitholders opted to invest in less risky fund categories than in previous years, influenced by the unfavourable performance of the equity markets in 2018.

Unlike previous years and despite the prolongation of the context of low interest rates, unitholders did not show a majority preference for the riskier fund categories, with some of them opting for more conservative formulas as a consequence of the unfavourable performance of the markets in 2018, especially in the latter part of the year. In the year as a whole, fixed income funds attracted by far the largest volume of net subscriptions, with a total of €10.73 billion, followed by international equity (€4.11 billion) and mixed equity (€3.29 billion). The largest redemptions (in net terms) were seen in euro equity funds, with a net outflow of €3.59 billion, and passive management funds, with €3.01 billion (see Table 11). There have been significant redemptions of passive management funds over the last three years, and their assets have almost halved since the end of 2016.

Fund portfolios performed well in all categories, particularly those with a high proportion of equities.

The yield on investment fund portfolios in 2019 was positive, without exception, in all categories, and the highest returns were posted by the categories with the largest proportion of equities in their portfolios. Thus, international equity and euro equity funds saw their portfolios gain 22.2% and 14.3% respectively. Mixed equity funds also performed well, with a return of 9.3% on their portfolios. In contrast, fixed income funds marked a lower return, with 1.4%.

Net investment funds subscriptions

TABLE 11

Millions of euros

				2019			
	2017	2018	2019	I	II	III	IV
Total investment funds	**21,325.0**	**7,841.8**	**2,467.4**	**-402.3**	**326.2**	**295.6**	**2,247.9**
Fixed income[1]	-3,638.0	-2,766.0	10,732.6	2,996.7	2,469.2	4,352.6	914.1
Mixed fixed income[2]	2,890.5	-1,063.7	-1,506.1	-543.8	-1,631.4	-949.3	1,618.4
Mixed equity[3]	5,498.6	2,485.9	3,288.8	-27.3	2,623.8	-0.8	693.1
Euro equity[4]	2,549.7	1,848.7	-3,588.2	-1,331.1	-1,272.8	-518.3	-466.0
International equity[5]	4,514.0	3,864.1	4,113.8	-183.5	-38.9	2,843.5	1,492.7
Guaranteed fixed income	-3,262.6	-575.8	-282.6	98.3	24.2	-126.2	-278.9
Guaranteed equity[6]	-309.5	-667.2	-1,857.0	-28.5	-4.7	-745.2	-1,078.6
Global funds	13,405.9	9,448.9	-2,553.9	182.9	93.2	-3,325.4	495.4
Passive management[7]	-4,585.0	-2,790.4	-3,026.8	-270.6	-680.3	-780.1	-1,295.8
Absolute return	4,287.3	-1,899.6	-2,852.9	-1,295.4	-1,256.1	-454.9	153.5

Source: CNMV.

1 Until I-2019 comprises the following categories (CNMV Circular 3/2011): euro fixed income, international fixed income, money market and short term money market. From II-2019 comprises 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 Includes: euro mixed fixed income and international mixed fixed income.

3 Includes: euro mixed equity and international equity.

4 Includes: euro equity.

5 Includes: international equity.

6 Includes: GIF and partial guarantee.

7 Until I-2019 comprises passive management CIS (CNMV Circular 3/2011). From II-2019 comprises the following categories (Circular 1/2019): Passive management CIS, CIS that replicate an index and CIS with a specific objective of non-guaranteed return.

The number of funds offered by management companies continued to decrease as a result of the rationalisation process carried out from 2013, although more moderately than in previous years (between 2013 and 2016 the number of funds decreased by around 450). The number of funds at the end of the year was 1,710, just 15 fewer than at the end of 2018. The largest decline, reflecting their negative performance in recent years, occurred in passive management funds, with 39 fewer funds, followed by absolute return funds, with a reduction of 15. In contrast, international equity funds, the number of which had already increased in 2018 by 25, grew further in 2019 with 27 new institutions.

The number of funds continued to decline in 2019, especially passive management funds.

The number of unitholders increased by 4.6% in 2019 and closed the year at a total of 11.7 million, compared with 11.2 million the previous year.[44] In line with the data on net subscriptions, fixed income and international equity funds showed the greatest progress over the course of 2019, with almost a million more unitholders for the

The number of unitholders exceeded 11.7 million at the end of the year, with particularly notable increases in fixed income funds, which also attracted the largest number of subscriptions.

44 It must be borne in mind that a unitholder is counted as many times as the number of contracts held in different funds, so the registered increase could be explained in some cases by an investor diversifying into a greater number of funds.

former and just under half a million more for the latter. In contrast, the absolute return and euro equity categories saw notable declines in the number of unitholders (285,000 and 232,000 respectively).

In the first two months of 2020, the expansionary trend of investment funds continued, only to be truncated in March, with initial estimates indicating a contraction in fund assets of nearly 10%.

According to provisional data for the months of January and February of this year, fund assets continued to mark the same trend as in 2019 in the first month, with a decrease in the number of funds to 1,702 in February, 8 fewer than in December, and a 2.4% increase in the number of unitholders, to over 12 million. However, in March, as a consequence of the economic impact of the current pandemic, these trends reversed due to both the loss in value of the fund portfolios and the redemptions made by unitholders. Initial estimates show that in March redemptions were probably close to €6 billion, equivalent to a contraction in assets of around 2%. The largest number of redemptions were concentrated in fixed income funds, followed by global and absolute return funds. These redemptions, together with the contraction of investment portfolios as a consequence of the general fall in financial asset prices, point to a decrease in assets of close to 10% in March.

The percentage of reduced liquidity assets in funds' private sector fixed income portfolios increased by 1.3 pp during 2019, to 8.7% of the fixed income portfolio…

Liquidity conditions for the private sector fixed income portfolios of investment funds worsened slightly over the course of 2019, although they remained satisfactory, with a weight of reduced liquidity assets that is far from the values reached in 2010, when they came to represent more than 30% of the fixed income portfolio. Since then, this percentage has gradually decreased and from 2014 it has remained at moderate levels, ranging between 7% and 9% of the funds' private sector fixed income portfolios. In 2019, the weight of these assets increased by 1.3 pp from 7.4% at the end of 2018 to 8.7% at the end of 2019. Thus, at 31 December 2019, the total volume of assets considered to be reduced liquidity assets amounted to €4.52 billion, which represents 1.62% of total fund assets.

… with a notable increase in reduced liquidity assets in the non-financial fixed income portfolio.

If we look at the different categories of fixed income assets, it can be seen that the increase was concentrated in non-financial fixed income and in financial fixed income assets rated lower than AA. In the former, reduced liquidity assets increased during the year by €549 million to €1.34 billion. For financial fixed income rated lower than AA, the annual increase was €265 million, reaching €1.85 billion at 31 December 2019 (see Table 13). The largest percentage of reduced liquidity assets still occurred in the securitisations segment, at 75.1%. However, this figure has decreased progressively over in the last two years and these assets have a very low weight in the fund portfolios.

Investment funds: Key figures*

TABLE 12

	2017	2018	2019	2019			
				I	II	III	IV
Total investment funds (number)	**1,741**	**1,725**	**1,710**	**1,704**	**1,737**	**1,723**	**1,710**
Fixed income[1]	290	279	281	274	283	283	281
Mixed fixed income[2]	155	168	173	166	173	171	173
Mixed equity[3]	176	184	185	188	191	186	185
Euro equity[4]	111	113	113	113	114	113	113
International equity[5]	211	236	263	240	253	257	263
Guaranteed fixed income	79	67	66	66	66	66	66
Guaranteed equity[6]	188	163	155	161	164	159	155
Global funds	225	242	255	238	240	252	255
Passive management[7]	202	172	133	160	161	148	133
Absolute return	104	99	84	96	90	86	84
Assets (millions of euros)							
Total investment funds	**265,195**	**259,095**	**279,377.4**	**268,364.0**	**270,916.0**	**273,100.7**	**279,377.4**
Fixed income[1]	70,564	66,889	78,583.2	70,391.3	73,202.8	77,871.1	78,583.2
Mixed fixed income[2]	43,407	40,471	40,819.9	40,980.6	39,643.5	38,959.2	40,819.9
Mixed equity[3]	22,387	23,256	28,775.8	24,465.0	27,350.1	27,613.4	28,775.8
Euro equity[4]	12,203	12,178	10,145.1	11,844.7	10,676.8	10,034.3	10,145.1
International equity[5]	24,065	24,405	34,078.9	27,088.3	27,262.4	30,447.0	34,078.9
Guaranteed fixed income	5,457	4,887	4,809.3	5,065.6	5,197.8	5,143.1	4,809.3
Guaranteed equity[6]	15,418	14,556	13,229.1	14,724.9	14,938.2	14,395.0	13,229.1
Global funds	35,512	42,137	43,041.9	44,221.3	44,669.4	41,702.5	43,041.9
Passive management[7]	19,478	16,139	14,073.8	16,396.7	15,983.2	15,355.0	14,073.8
Absolute return	16,706	14,173	11,818.3	13,181.5	11,988.8	11,577.6	11,818.3
Unitholders							
Total investment funds	**10,287,454**	**11,217,569**	**11,739,183**	**11,211,400**	**11,350,779**	**11,227,036**	**11,739,183**
Fixed income[1]	2,627,547	2,709,547	3,668,324	2,737,450	3,279,530	3,376,056	3,668,324
Mixed fixed income[2]	1,197,523	1,188,157	1,087,881	1,168,810	1,124,303	1,044,836	1,087,881
Mixed equity[3]	584,408	624,290	707,159	620,258	695,823	695,444	707,159
Euro equity[4]	710,928	831,115	598,901	820,890	564,406	553,832	598,901
International equity[5]	1,865,367	2,225,366	2,655,123	2,226,793	2,301,171	2,512,222	2,655,123
Guaranteed fixed income	190,075	165,913	154,980	162,551	164,034	161,392	154,980
Guaranteed equity[6]	527,533	494,660	428,470	493,318	491,969	461,897	428,470
Global funds	1,086,937	1,501,730	1,359,915	1,535,831	1,553,357	1,291,172	1,359,915
Passive management[7]	638,966	543,192	429,428	525,194	503,369	474,947	429,428
Absolute return	858,170	930,641	646,042	917,346	669,857	652,278	646,042
Return[8] (%)							
Total investment funds	**2.42**	**-4.89**	**7.12**	**3.85**	**0.83**	**0.71**	**1.57**
Fixed income[1]	-0.13	-1.44	1.38	0.75	0.47	0.42	-0.26
Mixed fixed income[2]	1.10	-4.27	4.75	2.65	0.75	0.69	0.59
Mixed equity[3]	3.23	-6.45	9.25	5.32	1.03	0.97	1.68
Euro equity[4]	11.16	-13.01	14.27	8.21	0.82	-1.13	5.95
International equity[5]	8.75	-12.34	22.18	11.86	0.79	1.37	6.91
Guaranteed fixed income	0.72	0.09	3.98	1.51	2.12	1.39	-1.07
Guaranteed equity[6]	1.61	-1.33	3.62	1.38	1.42	1.42	-0.63
Global funds	4.46	-5.69	8.45	4.62	0.82	0.77	2.04
Passive management[7]	2.13	-3.16	7.45	3.37	1.66	0.96	1.28
Absolute return	1.44	-4.81	3.94	2.26	0.54	0.35	0.75

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 comprises the following categories (CNMV Circular 3/2011): euro fixed income, international fixed income, money market and short term money market. From II-2019 comprises 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 Includes: euro mixed fixed income and international mixed fixed income.

3 Includes: euro mixed equity and international mixed equity.

4 Includes: euro equity.

5 Includes: international equity.

6 Includes: GIF and partial guarantee.

7 Until I-2019 comprises passive management CIS (CNMV Circular 3/2011). From II-2019 comprises the following categories (Circular 1/2019): Passive management CIS, CIS that replicate an index and CIS with a specific objective of non-guaranteed return.

8 Annual return for 2017, 2018 and 2019. Quarterly return not annualised for quarterly data.

Estimated liquidity of IF assets TABLE 13

	Reduced liquidity investments[1]					
	Millions of euros			% of total volume of asset type		
Asset type	Jun-19	Sep-19	Dec-19	Jun-19	Sep-19	Dec-19
Financial fixed income with AAA/AA rating	72	72	72	4.9	5.1	5.6
Financial fixed income with a rating below AA	1,484	1,653	1,844	5.7	6.1	6.7
Non-financial fixed income	918	1,123	1,339	4.7	5.3	6.2
Securitisations	694	649	630	83.1	79.1	75.1
AAA securitisation	19	12	14	100	44.2	35.6
Other securitisations	675	638	616	82.7	80.2	77.0
Total	**3,862**	**4,146**	**4,515**	**7.9**	**8.1**	**8.7**
% / IF assets	**1.43**	**1.52**	**1.62**			

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 (SICAV)

The number of SICAVs registered with the CNMV continued to decline in 2019, with 147 deregistrations and only three additions, reaching 2,569…

As has been the case since 2015, the number of SICAV registered with the CNMV decreased notably in 2019, as there were 147 deregistrations and just three registrations, so that at the end of the year there were 2,569 vehicles registered compared with 2,713 in December 2018. More than 60% of the deregistrations, specifically 91, were the result of liquidation processes, while 30 were absorbed in merger processes and 26 were transformed into other types of entities (15 into S.Ls (private limited liability companies), nine into S.As (public limited companies) and two into SILs (hedge funds with legal personality)). The decrease in the number of entities was also reflected in the number of shareholders, which fell by 3.7% to 398,552. Virtually all SICAVs (over 99%) were listed on the MAB.

… despite which the assets of these institutions grew by 3.4% thanks to the gains on their portfolios.

The assets of these CIS, on the other hand, increased by 3.4%, from €27.84 billion at the end of 2018 to €28.79 billion at the end of 2019. This increase was due exclusively to the increase in value of the assets in these vehicles' portfolios, particularly the equity portfolios, since share issues were negative in net terms. Average assets per SICAV increased from €10.3 million in 2018 to €11.2 million in 2019.

In the first two months of 2020, SICAV assets remained stable, but the number of entities continued to decline.

In the first two months of 2020, SICAV assets remained relatively stable, while the number of vehicles registered with the CNMV continued to decrease, standing at 2,549 at the end of February, 20 fewer than at the end of 2019.

Hedge funds

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

Despite the significant progress made in 2019, hedge funds still have a very low weighting in collective investment in Spain, representing less than 1% of total assets. This collective investment segment consists of two types of vehicles, depending on whether they invest in assets directly (hedge funds) or through other hedge funds (funds of hedge funds). In both cases, the vehicles can be set up as funds or as companies.

Aggregate assets of these institutions saw strong growth in 2019, increasing by 24.4% to €3.40 billion at year-end. Hedge funds saw an increase of 25.2%, to €2.83 billion, while in funds of hedge funds assets increased by 20.7%, closing the year at €565.9 million.

… saw a significant increase in assets in 2019 (24.4%), which was distributed evenly between the two types of vehicles.

Trends in portfolio returns were in line with the performance of the markets, especially the equity markets, and were positive for all categories: while hedge funds posted a return of 10.4% in annual terms, funds of hedge funds showed a return of 5.1%. As in investment funds, the best performance occurred in the first quarter of the year.

Returns on these institutions' portfolios were relatively high, in line with the increase in prices of equity assets over the course of the year.

Hedge funds registered with the CNMV at the end of 2019 numbered 69, 13 more than at the end of the previous year. As seen in Table 14, there was a strong increase in the number of hedge funds, from 49 to 62, with 16 additions and three deregistrations during the year. In contrast, there was no movement in the register of funds of funds, with the number remaining at seven as in 2018. Of these, six have the legal form of funds (three are in the process of liquidation) and one is set up as a company. In December 2019 this company had equity of €267.6 million, an amount similar to that of all six funds of hedge funds.

The number of vehicles increased by 13 and ended the year at 69. This rise corresponded to hedge funds, which went from 49 to 62, and there was no movement in funds of hedge funds, the number of which remained at seven as in 2018.

The total number of unitholders and shareholders of these institutions tracked the trend shown by assets, with an increase of 43.6%, giving a year-end total of 10,407. This increase was uneven between the two types of fund, with those of hedge funds rising 69.8% in 2019, to 7,548, while in funds of hedge funds this increase was very small, 2.0%, to 2,859. The significant growth in hedge funds was largely a consequence of the 13 new additions (in net terms) that took place throughout the year.

The number of unitholders and shareholders showed a growth of 43.6%, and the increase in hedge funds was particularly notable, thanks in part to the high number of new registrations.

In the first two months of the year, there was no movement in the registration of these entities, so the number of hedge funds remained at 62 and the number of funds of hedge funds at seven.

In January and February 2020, there was no movement in the registration of hedge funds.

Key figures of hedge funds and funds of hedge funds TABLE 14

				2019			
	2017	2018	2019[1]	I	II	III	IV[1]
FUNDS OF HEDGE FUNDS							
Number	8	7	7	7	7	7	7
Unitholders	3,596	2,804	2,859	2,847	2,850	2,861	2,859
Assets (millions of euros)	468.7	468.8	565.9	506.9	513.7	562.4	565.9
Return (%)	-1.66	-1.28	5.07	1.86	1.34	1.10	0.68
HEDGE FUNDS							
Number	47	49	62	50	54	58	62
Unitholders	3,656	4,444	7,548	5,937	5,846	6,451	7,548
Assets (millions of euros)	2,298.2	2,262.2	2,832.4	2,395.0	2,321.5	2,467.1	2,832.4
Return (%)	7.84	-6.47	10.35	5.56	0.36	0.22	3.94

Source: CNMV.

1 Data to November, except the number of entities which is to December.

Real estate CIS

Despite the improvement of the construction and real estate sector, the figures for real estate CIS continued to decline due to the transfer of business to SOCIMI.

Real estate collective investment schemes have declined steadily and significantly since the worst moments of the financial crisis, in which the construction and real estate sector was one of the worst hit. This negative trend has continued in recent years, despite the improvement seen in this sector since 2015. One of the main reasons lies in the fact that real estate investment in Spain is being channelled mainly through SOCIMIs[45] (listed real estate investment companies, similar to REITs). These entities are listed in a specific segment of the MAB, which was extremely buoyant throughout 2019, with the incorporation of 13 new companies, to total 77 at the end of the year.

Real estate investment funds have marked the worst performance, with only two left since 2018, both of which are in the process of liquidation.

In recent years, key figures for real estate investment funds have marked significant declines as a consequence of the large number of redemptions, leading them to start liquidation processes, with their consequent deregistration in most cases. Thus, from a high of ten real estate investment funds in mid-2007, with assets of around €9 billion, these had declined to just two (both in the process of liquidation) at the end of 2018, which were still registered with the CNMV at the end of 2019, with total assets of €309 million.

Real estate investment companies on the other hand saw a small increase in assets (2%), even though one company was deregistered in the fourth quarter of 2019.

In contrast, real estate investment companies (as opposed to funds) saw a rise in assets in 2019, as they had in 2018, of 2.0% to €763.5 million, even though one company was deregistered in the last quarter. The main cause of this increase was the positive net subscriptions in one particular real estate investment company in the final months of the year. Including the aforementioned deregistration, there were three real estate investment companies at the end of the year, one of which was being liquidated and has since been deregistered in January 2020.

Foreign CIS marketed in Spain

The assets of foreign CIS continued to expand in 2019, reaching nearly €179 billion at the end of the year, which represents 36.4% of the total assets of CIS marketed in Spain.

The volume of foreign CIS marketed in Spain has increased sharply and steadily in recent years, practically tenfold since 2008, and moving from €18 billion in 2008 to €178.84 billion in 2019. The increase registered in 2019 was €16.51 billion, 10.2% more than in 2018.[46] As seen in Figure 20, this strong growth rate has meant that the weight of foreign CIS of total CIS marketed in Spain has increased significantly in the last 5 years, standing at 36.4% at year-end 2019.

The number of foreign CIS registered with the CNMV increased by nine in 2019, to a total of 1,033 vehicles (399 funds and 634 companies).

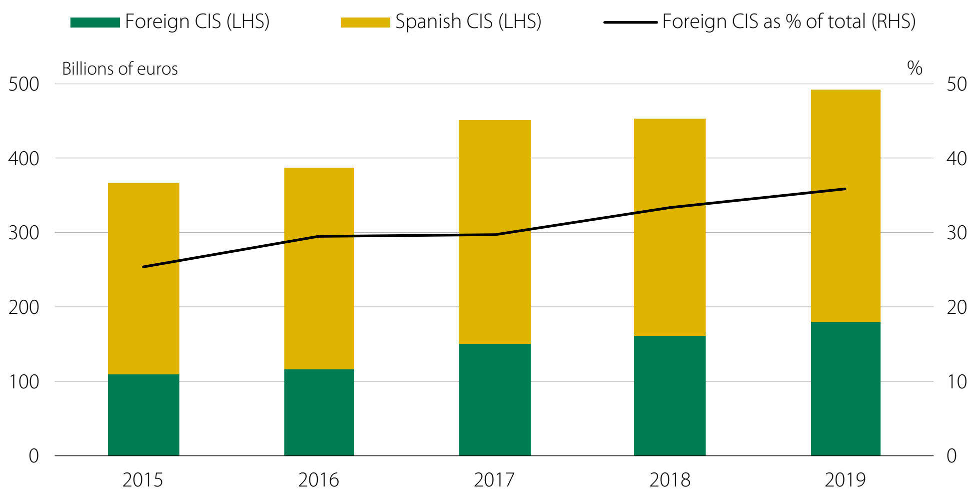
In line with the trend of recent years, the number of foreign CIS registered with the CNMV increased in 2019 by nine (11 in 2018), so that at the end of the year there were a total of 1,033 vehicles of this type (399 funds and 634 companies). As had been the case for some time, this increase was due exclusively to the large number of registrations of investment companies, as the number of funds decreased by 30.

45 SOCIMIs are public limited companies with a corporate purpose similar to real estate investment funds and companies, of either investment in real estate for leasing or indirect investment through the purchase of shares or equity stakes in other Spanish SOCIMIs or foreign REITs.

46 It is worth mentioning that with the entry into force of CNMV Circular 2/2017 of 25 October establishing the obligation for all entities that market foreign CIS to send the CNMV as much information as possible on the product marketed in Spain, information received prior to 31 December 2017 may not be fully comparable with that received after that date.

By country of origin, in 2019, as in previous years, most of the registrations corresponded to vehicles from Luxembourg and Ireland, with 15 and 20 more, reaching 462 and 220, respectively. In contrast, the number of French vehicles with investments in Spain decreased by 41, to 222.

Assets of foreign CIS marketed in Spain FIGURE 20



Source: CNMV.

Outlook

The growth of the industry took an unexpected turn in March following the onset of the crisis, and the priority is now to ensure that managers value assets correctly and attend to redemptions normally.

Trends in the collective investment industry in 2019 and the first months of 2020 seemed to indicate that, albeit at moderate rates, the expansion that had started in 2013 was continuing, both with regard to domestic vehicles and investment by foreign vehicles. The crisis unleashed in such a short time caused a reversal of this trend, the duration of which is difficult to predict. Currently, the priority is to ensure that management companies correctly value the assets of their funds' portfolios and that they respond normally to the requests for redemptions that they receive, using, if necessary, the various liquidity management tools available.[47] The CNMV has reminded managers of the possibility of valuing assets at bid prices and using swing pricing. Up until now, there have been no incidents relating to meeting requests for redemptions or any suspensions, as in cases in some other EU countries. Even so, the CNMV is carrying out a special monitoring of managers with high exposure to relatively illiquid assets or assets with low credit quality.

In the medium term, agents' liquidity needs will direct investment flows in these products, and further increases in redemptions cannot be ruled out.

In the medium term, how the assets of this industry evolve will depend on the severity of the crisis and on investors' needs for liquidity. Decisions relating to investment or divestment in these products are probably not influenced so much by purely financial considerations such as the level of interest rates, market trends, etc. as by the extent of decline in the agents' wealth and income and consequently their need to unwind certain positions in all types of assets as the economic recovery progresses.

47 These tools have recently been revised to allow management companies, if they consider it necessary, to establish prior notice periods for redemptions even if this is not included in the fund's prospectus. The CNMV may also adopt this measure.

4.2 Provision of investment services

Investment services may be provided by several kinds of entities, among which credit institutions stand out, as they receive almost 90% of the income generated by this business.

In Spain, investment services can be provided by various types of entities, notably credit institutions and broker-dealers and brokers. The former are by far the main providers of these services, accounting for most of the fee income deriving from the different types of services (about 90% of the total). The latter still retain a relative weight of some importance, especially in the transmission and execution of orders, although they also offer a wide range of services (see Table 15). In addition to these entities, financial advisory firms (EAF) and portfolio management companies (SGC) provide investment services.

Fees received for investment services. 2019 TABLE 15

Millions of euros

	Broker-dealers and brokers[1]	Credit institutions[2]	Total	% Credit inst. of total
Total investment services	**381**	**3,409**	**3,790**	**89.9**
Placement and underwriting of securities	9	294	304	96.9
Processing and execution of orders	188	478	666	71.8
Portfolio management	30	474	504	94.1
Investment advice	38	577	614	93.9
Marketing of CIS	116	1,585	1,702	93.2
Total ancillary services	**197**	**889**	**1,087**	**81.8**
Administration and custody	44	643	687	93.7
Other ancillary services	154	246	400	61.5

Source: CNMV and Bank of Spain.

1 Includes portfolio management companies.

2 Includes branches of EU credit institutions.

In Spain, investment services can be provided by various types of entities, notably credit institutions – the main providers of these services – and broker-dealers and brokers.

In this section we look closely at the performance of the activity and the economic and financial situation of the entities the prudential and regulatory supervision of which is carried out by the CNMV, namely securities brokers and broker-dealers, portfolio management companies[48] and financial advisory firms. We also provide information on the provision of investment services by credit institutions that are authorised to do so and on which the CNMV performs supervisory work regarding compliance with the rules of conduct in the market and in relation to clients.

Credit institutions

The number of Spanish credit institutions registered with the CNMV stood at 112 at the end of 2019, two fewer than in 2018, while the number of foreign entities able to provide investment services was 476, 15 more.

The number of Spanish credit institutions (banks, savings banks and credit cooperatives) registered with the CNMV for the provision of investment services amounted to 112 at the end of 2019, two fewer than in 2018.[49] This slight decrease can still

48 With regard to the latter, at the end of 2019 a single entity was registered with the CNMV, the same as at the end of 2018. Due to the lesser relevance of these types of entities with respect to the others, there is no specific heading dedicated for them.

49 It should be noted that in 2019, of the 112 registered credit institutions, only 101 can be considered active in the provision of investment services.

be considered to be related to the consolidation effect deriving from the reorganisation of the banking sector following the financial crisis. The number of foreign credit institutions providing investment services in Spain at the end of the year stood at 476, 15 more than the previous year. Of these, 419 entities operated under the freedom to provide services regime and 57 through branches. Almost all of these entities come from other EU member states (469 entities).

Revenue of credit institutions[1] for the provision of investment services and marketing of non-bank financial products TABLE 16

Millions of euros

	2016	2017	2018	2019	As % of total credit inst. fees
For investment services	**1,501**	**1,737**	**1,719**	**1,823**	**12.0**
Placement and underwriting of securities	208	281	216	294	1.9
Processing and execution of orders	536	565	504	478	3.2
Discretionary portfolio management	286	382	410	474	3.1
Investment advice	471	508	588	577	3.8
For ancillary services	**777**	**879**	**952**	**889**	**5.9**
Administration and custody	621	649	663	643	4.2
Financial reporting and analysis	112	148	183	133	0.9
Other ancillary services	44	82	106	113	0.7
For marketing of non-bank financial products	**3,632**	**3,725**	**4,208**	**4,083**	**26.9**
Collective investment schemes	1,611	1,808	1,674	1,585	10.4
Pension funds	520	498	892	939	6.2
Insurance	1,446	1,330	1,507	1,437	9.5
Other	55	90	135	122	0.8
Total	**5,910**	**6,341**	**6,879**	**6,796**	**44.8**
***Pro memoria*:**					
For CIS brokerage and marketing services	3,890	4,423	4,345	4,298	28.3
Total fee income	**13,486**	**14,295**	**14,928**	**15,176**	**100.0**

Source: CNMV and Bank of Spain. In 2017, the confidential statements that credit institutions send to the Bank of Spain were amended to bring them into line with the criteria for preparation, terminology, definitions and formats of the European Union's FINREP statements.

1 Includes branches of EU credit institutions.

Table 16 shows the revenue obtained by credit institutions from the provision of securities investment services and the marketing of investment funds and other non-bank financial products.[50] As seen in the table, the aggregate amount of fees received for the provision of investment services and marketing of CIS decreased by 1.1% in 2019, to €4.3 billion. The provision of investment services carried fees of €1.82 billion for credit institutions, 6.1% more than in 2018. However, the performance of revenue from the different investment services was uneven. In particular, fees for securities placement and underwriting (36.0%) and for discretionary portfolio management (15.7%) increased significantly. On the other hand, revenues from the processing and execution of orders and from investment advice decreased by

The amount of fees received for the provision of securities services and marketing of CIS decreased by 2.1% in 2019, although progress was recorded in some particular segments, such as portfolio management.

50 In 2017, the confidential statements that credit institutions send to the Bank of Spain were amended to bring them into line with the criteria for preparation, terminology, definitions and formats of the European Union's FINREP statements. This accounting change means that the comparison of the data for 2016 with those of 2017, 2018 and 2019 is carried out on a non-homogeneous basis.

5.2% and 2.0% respectively. The latter, which had registered a significant increase in 2018 as a result of the implementation of MiFID II, tended to normalise in 2019 and would have increased slightly in the year had it not been for an incorrect recognition of income by an entity in 2018. The decrease in revenues from the processing and execution of orders could be related to the fact that an increasingly significant part of trading in Spanish securities takes place in foreign markets.

Revenue received from ancillary services, among which administration and custody stands out, decreased by 6.3%.

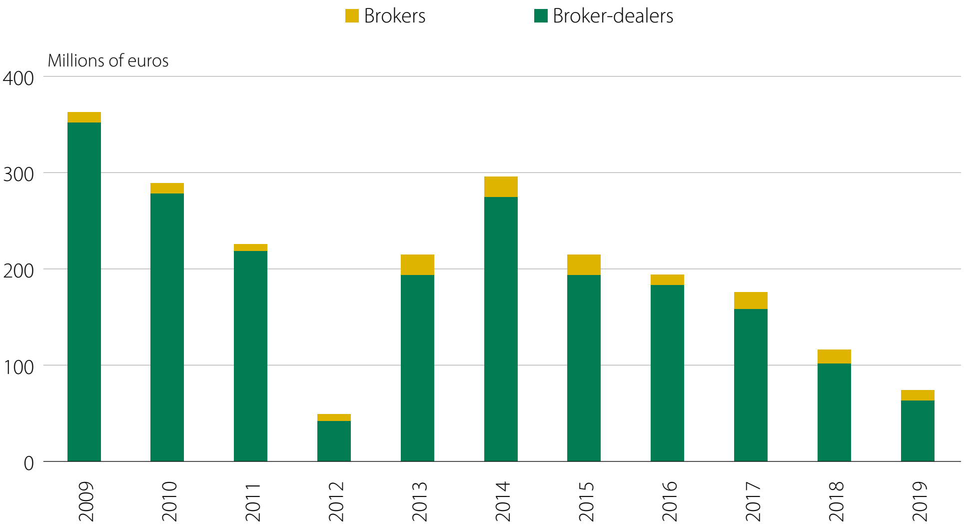
Regarding fees for ancillary services related to the provision of investment services, credit institutions received €889 million, representing a decrease of 6.6% compared with 2018. Among these services, the administration and custody service stands out, representing 72% of the total, 2.9% down on the previous year.

Broker-dealers and brokers

In 2019, broker-dealers and brokers continued to redirect their business models and, despite registering an increase in the number of entities, aggregate profit before tax decreased by 35%, to €75.5 million.

In 2019, the activity of broker-dealers and brokers remained hampered by increasing competition from credit institutions in the provision of financial services and the displacement of part of the trading of Spanish stock exchanges to other trading venues abroad. The number of entities increased, but not their profits, which fell by 35.2% to €75.5 million. Profits fell for both broker-dealers and brokers, and there was some division between entities, since there was both a decrease in profits and a decline in the number of loss-making entities. These entities, which in recent years have been redirecting their business from traditional activities such as the execution and processing of orders to other investment services, now face a new period of crisis with the difficulties that this entails and that were all too evident in the previous crisis.

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



Source: CNMV.

1 Except EAFs (financial advisers) and SGC (portfolio managers).

At the end of 2019, a total of 95 broker-dealers and brokers were registered with the CNMV, four more than in 2018, which seemed to point to the end of the sector restructuring after the last crisis.

At the end of 2019, a total of 95 broker-dealers and brokers were registered with the CNMV, four more than at the end of 2018, following eight additions and four deregistrations. Seven of the additions were independent brokers and the other was a broker-dealer established to manage a multilateral trading system specialising in

European sovereign debt and derivatives. This increase in entities could be seen as a positive sign for the sector, after the lengthy and far-reaching adjustment process that began with the financial crisis. However, it should be noted that the current crisis could trigger another adjustment process.

50 of these operated in the EU under the freedom to provide services regime and six through branches.

As usual, most entities that provided services in the European Union did so under the freedom to provide services regime, specifically 50 (one more than at the end of 2018) and only six entities maintained branches in other countries (one fewer than in 2018). The number of foreign entities that provide investment services in Spain continued to grow in 2019, both under the freedom to provide services regime, which increased from 2,894 to 3,020, and through branches, which increased from 61 to 65 (just over half of the latter were based in the United Kingdom).

Profits of broker-dealers fell by 37.4% in 2019, to €65 million, with most items in the income statement contributing to the decrease.

As seen in Table 17, broker-dealers saw a decrease in aggregate profit before taxes of 37.4%, to €65 million. All items contributed to this performance except for gains/(losses) on financial investments and other operating income and expense. The decrease in net interest income (-48.5%) was particularly notable. The fall in net fee income was 5.5%, although the performance of its different components was uneven. Under revenues from the provision of services to third parties, fees for processing and executing orders, which continued to account for the largest part, increased by 2.7% compared with the previous year. The small increase was due to the contribution of a company belonging to a foreign credit institution. This company, which is dedicated mainly to processing and executing customer orders, transferred part of its business to Spain as a result of Brexit. The decrease in fees received from the placement and underwriting of securities (-20.2%) and the increase in those from investment advice (114.7%) were also significant. The latter increase could be linked to the process of adaptation to MiFID II. On the other hand, fees paid increased significantly (25.0%).

As in previous years, a small number of entities generated most of the profits in this sector.

On the other hand, broker-dealers' operating expenses held practically steady, although the two subheadings of this item performed differently. In the past financial year, the decrease in the gross margin led to a reduction in operating profit (-34.8%), which went from €85.8 million in 2018 to €56.0 million in 2019. Profit before tax fell by 37.4% to €65.0 million due to "other income" of €9 million. As in recent years, a small number of companies generated most of the profits in this subsector. Specifically, four broker-dealers accounted for 75.7% of the total profits of companies returning a profit, which indicates a higher concentration than in previous years.

Aggregate income statement (Dec-19)

TABLE 17

Thousands of euros

	Broker-dealers			Brokers		
	Dec-18	Dec-19	% change	Dec-18	Dec-19	% change
1. Net interest income	73,969	38,125	-48.5	1,583	1,252	-20.9
2. Net fees	296,037	279,650	-5.5	135,782	130,293	-4.0
2.1. Fees received	414,595	427,813	3.2	156,624	150,842	-3.7
2.1.1. Processing and execution of orders	160,320	164,606	2.7	20,018	23,194	15.9
2.1.2. Issuance placement and underwriting	11,090	8,849	-20.2	1,120	580	-48.2
2.1.3. Deposit and book-entry of securities	42,958	42,643	-0.7	824	879	6.7
2.1.4. Portfolio management	13,505	15,102	11.8	15,412	14,890	-3.4
2.1.5. Investment advice	9,562	23,400	144.7	25,725	14,183	-44.9
2.1.6. Search and placement of packages	543	1,302	139.8	0	0	-
2.1.7. Market credit transactions	0	0	-	0	0	-
2.1.8. Marketing of CIS	55,483	53,506	-3.6	63,821	62,866	-1.5
2.1.9. Other	121,134	118,406	-2.3	29,704	34,251	15.3
2.2. Fees paid	118,558	148,163	25.0	20,842	20,549	-1.4
3. Gains/(losses) on financial investments	27,088	29,452	8.7	-51	910	-
4. Net exchange differences	283	117	-58.7	85	75	-11.8
5. Other operating income and expense	16,331	28,949	77.3	-364	1,119	-
GROSS MARGIN	**413,708**	**376,293**	**-9.0**	**137,035**	**133,648**	**-2.5**
6. Operating expenses	315,951	316,406	0.1	121,611	120,787	-0.7
7. Depreciation, amortisation and other charges	11,267	3,265	-71.0	3,381	3,542	4.8
8. Net losses due to impairment of financial assets	653	644	-1.4	12	35	191.7
OPERATING PROFIT/(LOSS)	**85,837**	**55,978**	**-34.8**	**12,031**	**9,284**	**-22.8**
9. Other gains and losses	18,016	9,033	-49.9	501	1,159	131.3
PROFIT/(LOSS) BEFORE TAX	**103,853**	**65,011**	**-37.4**	**12,532**	**10,443**	**-16.7**
10. Income tax	12,082	10,483	-13.2	5,073	4,280	-15.6
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**91,771**	**54,528**	**-40.6**	**7,459**	**6,163**	**-17.4**
11. Profit/(loss) from discontinued operations	0	0	-	0	0	-
NET PROFIT/(LOSS) FOR THE YEAR	**91,771**	**54,528**	**-40.6**	**7,459**	**6,163**	**-17.4**

Source: CNMV.

Brokers, which cannot carry out investment activities on their own account, saw their pre-tax profits decrease by 16.7% in 2019 to €10.4 million.

Broker-dealers receive income mainly from the provision of services to third parties because they cannot carry out investment activities on their own account. Some brokers derive the bulk of their income from order processing and execution, but most of them have tended to specialise in certain services such as CIS marketing or portfolio management. Independent entities predominate in this subsector (50 out of 56). Brokers reported a decrease in aggregate profit before tax of 16.7% in 2019, to €10.4 million. The decrease in profits was due to lower income, mainly fee income, and to costs remaining practically stable.

Income received from fees fell as a whole, but trends were uneven among the different components.

Under fee income (gross), which decreased overall by 3.7%, the most notable increases were in income from the processing and execution of orders (15.9%) and fees classified as "Other" (15.3%). Conversely, there was a significant decrease in income from investment advice (-44.9%), although admittedly this item had increased significantly in 2018 (122.3% compared with 2017). The rest of the fees categories did not show large variations: fees from the marketing of CIS fell by 1.5% and portfolio management fees by 3.4%.

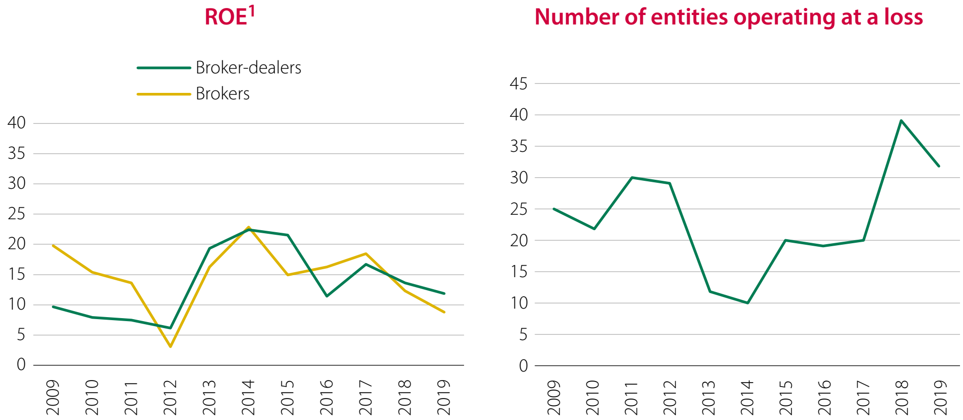
The decrease in brokers' fee income was reflected in a small decrease in fees paid to third parties (-1.4%). As a consequence of the performance of fee income, the aggregate gross margin decreased by 2.5% to €133.6 million. Meanwhile, operating expenses barely changed compared with 2018 (-0.7%). The combination of lower income and relatively unchanged operating expenses brought net operating profit to €9.3 million, which was 22.8% less than in 2018.

The decrease in income, together with stable operating expenses, brought net operating profit down 23%, to €9.3 million.

The pre-tax return on equity (ROE) of the sector fell during the year, from 12.3% to 9.2%, as a result of the adverse earnings trend. This contraction affected both broker-dealers and brokers, although it was greater in the former, where ROE decreased by more than 3 pp to 8.9%. For brokers, the ratio fell from 13.5% to 12.1% (see left-hand panel of Figure 22).

The decline in investment firms' profits again led to a noticeable drop in returns.

ROE before tax of investment firms and number of loss-making entities FIGURE 22



Source: CNMV.

1 ROE calculated with pre-tax profit.

The decrease in profit affected companies unevenly, as it did not prevent a decrease in the number of loss-making entities. Thus, in 2019, 13 broker-dealers and 19 brokers posted negative pre-tax earnings, five and two fewer entities, respectively, than at the end of 2018. Accumulated losses increased by 3.9% for broker-dealers, to €29.9 million, and by 3.7% for brokers, to €11.3 million.

The decrease in profits was uneven among entities, as the number of loss-making entities decreased even though the volume of losses increased.

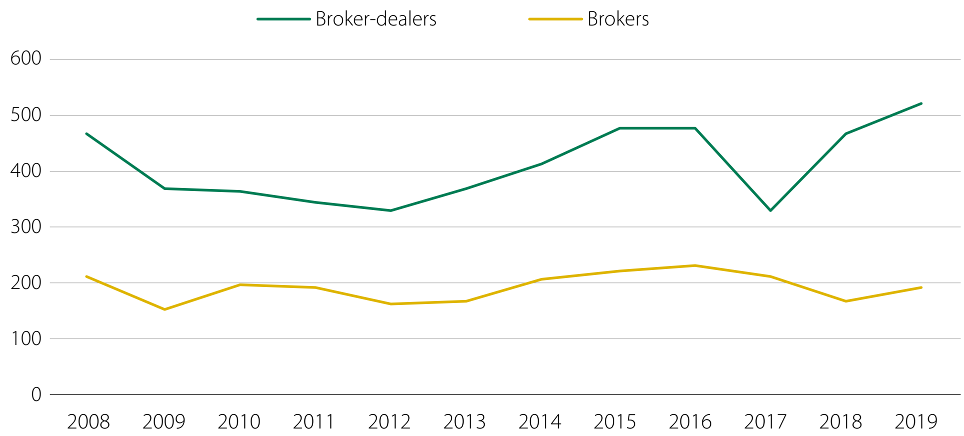
The sector as a whole continued to exhibit high relative solvency levels during 2019: at the end of the year the capital surplus was 4.9 times required amount, whereas at the end of 2018 this figure had been significantly lower, specifically 4.3. In absolute terms, while the figure is large, the values of the numerator and denominator are small and therefore it is not considered significant. As usual, this margin was generally higher in broker-dealers than in brokers. While for the former the aggregate capital surplus was approximately 5.2, for the latter it remained at 1.9 (see Figure 23).

Solvency levels in the sector remained high in 2019 and higher for broker-dealers than brokers.

Lastly, it should be noted that at the end of March, the CNMV announced the agreement on the intervention of Esfera Capital, Agencia de Valores, S.A., after having been informed by the entity itself of a mismatch deriving from an incident related to the management of derivative positions of a limited number of clients. The measure, which is adopted in accordance with the mere "intervention" procedure and did not involve the replacement of directors, was taken at the request of the entity. This entity is considering various options to resolve the situation, which, according to the information it has provided, could have a maximum equity impact of approximately six million euros.

At the end of March, the CNMV announced its decision to temporarily take over the administration of a broker, having been informed of a mismatch deriving from an incident relating to derivatives management.

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



Source: CNMV.

Financial advisory firms

The number of financial advisory firms (EAF) declined in 2019 from 158 to 140, repeating the trend of the last two years. The volume of assets on which advice was given, which had grown in previous years despite the decrease in the number of entities, decreased sharply during 2019 and stood at €21.63 billion, 31.7% less than in 2018 (see Table 18). While both assets from retail clients and from professionals and eligible counterparties[51] (heading "Other") contracted, the latter saw the greatest decrease, which was also reflected in the number of clients advised: from 91 at the end of 2018 to 29 at the end of 2019. This caused the distribution of assets to change substantially in favour of retail clients, which went from representing 32.5% of managed assets to 38.4%.

The volume of assets on which financial advisory firms gave advice fell by 31.7% in 2019, to €21.6 billion, and the number of entities also fell, to 140 at year-end. The largest loss of clients corresponded to eligible counterparties.

The decrease in the volume of assets managed translated into a decrease in fee income of 9.7%, to €56 million. Both fees received directly from clients and those corresponding to other entities contracted during the year by the same percentage, reaching €45.4 and €9.8 million respectively.

Fee income fell by 9.7%, due to the decrease in both fees received from clients and from other entities.

51 Eligible counterparty is the classification that the MiFID typically gives to banks, other financial institutions and governments, and is the category that requires a lower level of protection.

Main figures of financial advisory firms TABLE 18

Thousands of euros

	2017	2018	2019	% change 19/18
NUMBER OF ENTITIES	**171**	**158**	**140**	**-11.4**
ASSETS UNDER ADVICE[1]	**30,790,535**	**31,658,460**	**21,627,677**	**-31.7**
Retail clients	9,096,071	10,281,573	8,313,608	-19.1
Professional clients and others	21,694,464	21,376,887	13,314,069	-37.7
NUMBER OF CLIENTS[1]	**6,775**	**6,524**	**6,458**	**-1.0**
Retail clients	6,321	5,997	6,025	0.5
Professional clients	359	436	404	-7.3
Other	95	91	29	-68.1
FEE INCOME	**65,802**	**62,168**	**56,128**	**-9.7**
Fees received	**65,191**	**61,079**	**55,258**	**-9.5**
From clients	51,475	50,247	45,432	-9.6
From other entities	13,716	10,832	9,827	-9.3
Other income	**611**	**1,088**	**870**	**-20.0**
EQUITY	**32,803**	**33,572**	**32,746**	**-2.5**
Share capital	8,039	6,894	5,522	-19.9
Reserves and retained earnings	13,317	15,386	17,525	13.9
Profit/(loss) for the year	11,361	10,626	7,889	-25.8
Other own funds	86	666	1,809	171.6

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

A complementary view of the entities that provide investment services

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

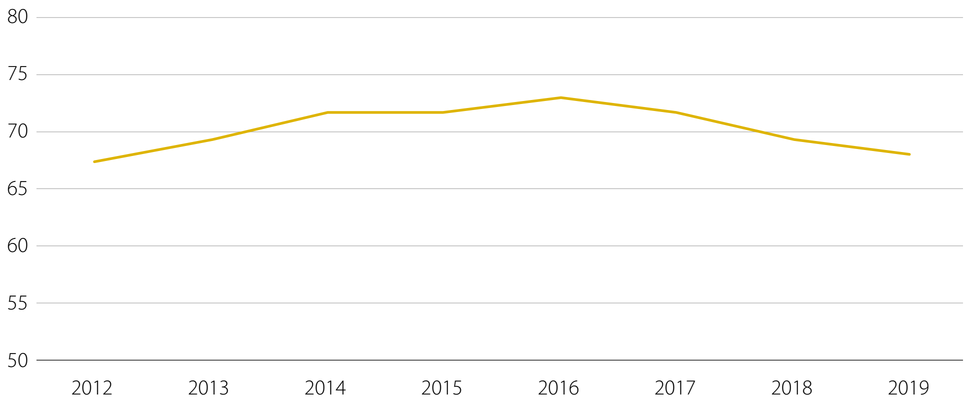
The information that is usually presented in relation to the activity of providing investment services in Spain from a broad point of view (that is, including the management activity of CIS, even though it is not strictly an investment service from a legal point of view) is provided by type of entity performing this activity: credit institution, investment firm or CIS management company. However, a less formal conception, which addresses the business model of the entities and their relationship with commercial banks, requires a more precise demarcation of which part of the business related to the provision of investment services is carried out by banks that could be called commercial, with income deriving mostly (over two thirds) from the provision of typical banking services (deposits, loans, etc.) and which part is performed by entities that can be considered to be specialised in the provision of 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 specialising in the provision of investment services. The latter would include entities such as Allfunds, Banco Inversis, Cecaban and Renta 4.

… 70% of the income related to this activity is received by traditional commercial banks or entities that belong to their groups.

As seen in Figure 24, the proportion of the business relating to the provision of investment services in Spain (including the management of CIS and measured through the fees received) that corresponds to traditional commercial banks or entities that belong to their groups was slightly less than 70% of the total in 2019, while the rest was performed by financial entities specialising in the provision of investment services and without ties to commercial banks. This proportion has remained relatively stable in recent years at around 70%, although there has been a slight decrease since 2016, when it reached a high of 73%.

Share of financial entities related to commercial banks[1] in total income deriving from the provision of investment services[2]

FIGURE 24



Source: CNMV.

1 This group of entities includes commercial banks (understood as 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, even though this is not an investment service from a legal point of view.

Outlook

The medium-term outlook for financial intermediaries is more uncertain in the context of the crisis that has recently unfolded, and which could lead to a new restructuring process in the sector.

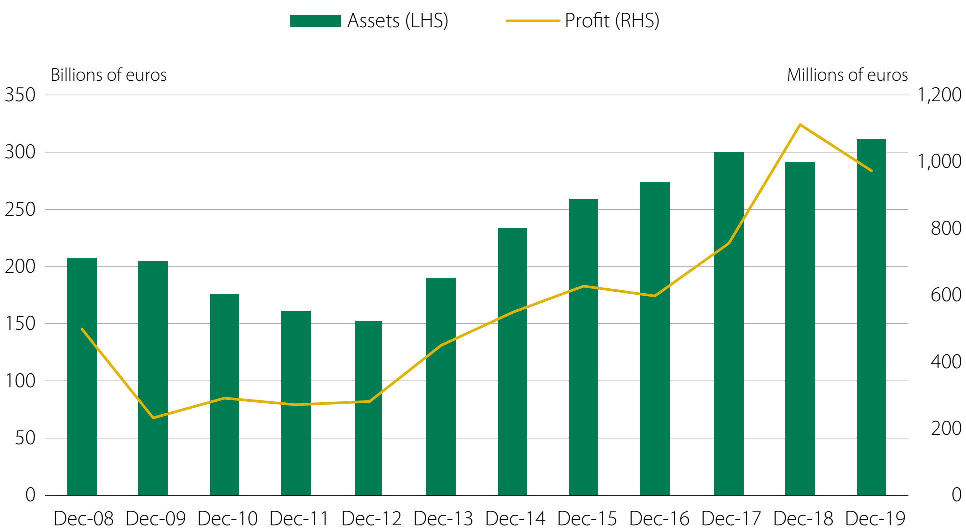
The outlook for non-bank financial intermediaries is more uncertain than in previous editions of this report, as is that for other participants in the financial markets, as a consequence of the serious crisis that has unfolded in recent weeks. In the past few years, there has been an increase in competition in the provision of investment services, which has led to a change in the business model of dealer-brokers and brokers, in that their main traditional business, intermediation in the securities markets, tends to have less and less weight, while marketing and management activities, and advisory services to third parties, are increasingly important. The displacement of the trading of Spanish securities to trading venues to outside their origin may also have influenced this change. In the current crisis, it remains to be seen whether this competition will increase and whether it will be possible for a new reorganisation of the sector to be launched, similar to the one that occurred after the last financial crisis and that led to a notable decrease in the number of entities.

4.3 CIS management companies

At the end of 2019 there were a total of 123 CIS management companies registered with the CNMV, four more than at the end of 2018, after the seven additions and three deregistrations over the course of the year. This upward trend, started in 2016, marks an end to the sector's restructuring process, during which the number of CIS management companies operating in Spain was significantly reduced. As the figures seen prior to this restructuring have been recovered. The assets managed by these companies closed 2019 with growth of 7.5%, standing slightly above €312 billion, after a year in which the expansionary trend started in 2013 had been interrupted (see Figure 25). More than 90% of this increase originated in the real estate investment fund segment, where assets mainly increased due to the gains marked by the investment portfolio. Sector concentration remained high in 2019: the three largest managers together holding 42% of total assets, a figure similar to that of previous years.

CIS management companies continued the growth trend of the last three years, with four more vehicles (seven registrations and three deregistrations) and an increase in assets under management of 7.5%, to €312 billion.

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



Source: CNMV.

Despite the increase in the assets managed by these institutions, their aggregate profit before tax contracted by 13.1% relative to 2018, to €976.4 million. However, this decline can be explained by a one-off increase in the fees of a single entity in 2018, specifically in relation to portfolio management, which led to a very large increase in total aggregate profit (see Figure 24). If we exclude the figures for this entity, profit would have grown by 2.3% and if we compare the aggregate profit of all entities between 2019 and 2017, an increase of 28.5% can be observed.

Profit of these entities decreased by 13.1% in 2019 compared with the previous year, although it grew by 28.5% compared with 2017.

Net fees decreased by 8.6% compared with 2018, to €1.56 billion, as a consequence of the lower fees paid (-3.0%) which was less than the decrease in fees received (-6.0%). However, this second figure was influenced by the aforementioned increase in portfolio management fees in 2018. Therefore, if these fees are excluded from the analysis, we can see that the fees received in 2019 remained practically constant, with growth of 0.6%. This was a consequence, above all, of the stability of CIS

Profit of these entities decreased by 13.1% in 2019 compared with the previous year, although it grew by 28.5% compared with 2017.

management fees, which are by far the largest component, accounting for close to 88% of the total fees received by the managers (83% in 2018). These fees saw a slight decrease of 0.4%, to €2.64 billion, while the previous year they had risen by 0.1%. The total amount was equivalent to 0.85% of assets, below the 0.91% at the end of 2018, possibly due to the redirection of investment fund assets towards categories such as fixed income, which are in general, associated with lower fees than other categories with higher levels of risk. Despite the reduction in profits, there was a slight increase in the aggregate return on equity (ROE) from 115.4 in 2018 to 120.6 in 2019, while the number of loss-making companies decreased from 26 to 21 and the volume of losses went from €12.3 million to €7.8 million.

CIS management companies: Assets under management, CIS management fees and average fee ratio TABLE 19

Millions of euros

	Managed assets	Revenue from CIS management fees	Average CIS management fees (%)	Fee ratio[1] (%)
2011	161,481	1,503	0.93	65.6
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	312,072	2,638	0.85	49.8

Source: CNMV.

1 Relationship between fees paid for the marketing of funds and revenue from CIS management fees.

4.4 Other intermediaries: Venture capital and crowdfunding platforms

Venture capital

Over the course of 2019 there was significant expansion in the venture capital sector…

Throughout 2019, the expansion that has been taking place in the venture capital sector in recent years continued, if anything more strongly than in previous years. Thus, the number of entities belonging to this category registered with the CNMV increased by 101 (89 investment vehicles and 12 managers), after 124 additions and 21 deregistrations.

… which was generalised among the various types of entities, affecting both traditional venture capital firms and other relatively recent types of entity such as European Social Entrepreneurship Funds (EuSEF).

Regarding traditional venture capital firms,[52] there were a total of 68 additions and 12 deregistrations, so that at the end of the year there were 210 venture capital funds and 148 venture capital companies. In the case of SME venture capital firms, five registrations and three deregistrations (the first since its creation) were recorded,

52 Traditional entities are understood as those of types existing before the entry into force of Law 22/2014 of 12 November.

reaching 29 vehicles (10 funds and 19 companies) at 31 December 2019. 12 European venture capital funds (EuVECA), making a total of 20, and four European Social Entrepreneurship Funds (EuSEF) were also registered, following the first one in the previous year.[53]

Closed-ended collective investment schemes were also buoyant in 2019, with 17 additions and only two deregistrations in the year. Thus, as of 31 December, there were a total of 46 vehicles of this type, of which 20 were funds and 26 were companies. It is worth mentioning 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 entities.

Closed-ended collective investment schemes, which have high flexibility in their investment policy, also saw a significant increase in the number of registered vehicles.

Movements in the venture capital firm register in 2019 TABLE 20

	Situation as at 31/12/2018	Registrations	Deregistrations	Situation as at 31/12/2019
Entities				
Venture capital funds	181	36	7	210
SME venture capital funds	10	3	3	10
European venture capital funds (EuVECA)	8	12	0	20
European social entrepreneurship funds	1	4	0	5
Venture capital companies	121	32	5	148
SME venture capital companies	17	2	0	19
Total venture capital firms	**338**	**89**	**15**	**412**
Closed-ended collective investment funds	12	8	0	20
Closed-ended collective investment companies	19	9	2	26
Total closed-ended collective investment entities	**31**	**17**	**2**	**46**
Closed-ended investment scheme management companies (SGEIC)[1]	**94**	**16**	**4**	**106**

Source: CNMV.

1 Denomination that now applies both to the old managers of venture capital firms (SGECR) and to the managers of the new closed-ended collective investment firms.

The data corresponding to 2019 provided by the Spanish Association of Capital, Growth and Investment (ASCRI) show even greater growth in the sector than in previous years, with an investment volume of €8.51 billion, 41.2% more than in 2018. International funds continued to show great interest in the Spanish market and accounted for 80.7% of the total investment volume, with a figure of almost €6.87 billion spread over 115 transactions; in addition, they played a special lead

According to preliminary ASCRI data, investment in the venture capital sector grew by 41.2% in 2019, to exceed €8.5 billion. Particularly notable was the intense activity of global funds, which are usually involved in larger transactions.

53 The 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.

role in the megadeals (transactions over €100 million). These large transactions, which numbered 18 in total compared with eight in 2018, represented, in volume terms, 68.4% of the sector's investment. Meanwhile, middle market transactions (between €10 and €100 million) also posted significant growth: investment reached €1.99 billion, 27.8% more than the previous year, and was divided into 69 transactions (63 in 2018).

Investment in buy-outs represented 40% of the total volume invested with €3.37 billion, while venture capital grew by 45.9% to more than €700 million.

In regard to the project development phase, investment in buy-outs[54] stood out, accounting for almost 40% of the total invested volume, with €3.37 billion spread over 71 transactions. Venture capital (seed and start-up phases) remained very active throughout the year, growing by 45.9%, with an investment volume of €737 million in 517 transactions (510 in 2018). As in other years, these investments were carried out by private Spanish funds. In relation to fundraising by private national operators, there was a decrease of 16.7% in the volume invested in 2019, which stood at €1.81 billion.

Public investment instrumented through the FOND-ICO global fund was still important, involved in 90 transactions.

As in previous years, the ICO initiative, through the FOND-ICO global venture capital fund, was key to attracting fresh funds from the private sector, through co-investment formulas. In this regard, there were 90 transactions carried out by Spanish public investors in 2019, 76 of which were investments in venture capital.

Crowdfunding platforms

After a few first years of intense activity, the number of registered crowdfunding platforms decreased to four in 2019…

In 2019, the number of crowdfunding platforms registered during the year continued to decrease, after several early years of intense activity in which, after the publication of Law 5/2015, many of the requests corresponded to platforms that were already acting as such and which as a consequence of the new regulation had to adapt to the regulatory requirements in order to continue their activity.

… which together with the first two de-registrations brought the total number of platforms in the Registry at the end of the year to 28.

Thus, throughout 2019, four new platforms were registered (five in 2018) and the first two deregistrations occurred, so that at the end of the year there were a total of 28 in the CNMV Registry. During the year eight requests for registration were received (four fewer than in 2018), while no projects were turned down (one was turned down in 2018). In addition, five withdrew their requests, eight fewer than in 2018.

Of all platforms, 12 were for securities, 9 were for loans, and 7 were for mixed funds.

Of the 28 platforms registered at the end of December, 12 corresponded to securities vehicles, nine were for loans and seven were mixed. In relation to the target sector of the investment, it is worth mentioning that eight of them were real estate vehicles, double the number in 2018 (one for securities, four for loans and three for mixed funds). In addition, there were still two platforms controlled by foreign companies.

54 Leveraged transactions (investments in mature companies in which external debt is used, in addition to equity, to acquire stakes) whose investors belong to the company itself.

Number of registered crowdfunding platforms

TABLE 21

Type of platform	2018			2019			Total accumulated since 2015		
		of which			of which			of which[1]	
	Total	Madrid	Barcelona	Total	Madrid	Barcelona	Total	Madrid	Barcelona
Securities	**3**	1	1	**2**	1	0	**12**	5	4
Loans	**1**	1	0	**0**	0	0	**9**	6	1
Mixed	**1**	0	1	**2**	1	0	**7**	4	1
TOTAL	**5**	**2**	**2**	**4**	**2**	**0**	**28**	**15**	**6**

Source: CNMV.

1 Additionally, in 2016 a crowdfunding platform was registered with its registered office in Soria and another in Valencia. In 2017, a platform was registered with its registered office in Santa Cruz de Tenerife and another in Valencia. In 2018, a crowdfunding platform was registered with its registered office in Bilbao and in 2019, one with its registered office in Ávila and one in Las Palmas.