I Securities markets and their agents: Situation and outlook

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1 Executive summary

- The global macroeconomic and financial landscape was again characterised by vigorous growth in the United States and China contrasting with timid advances in Europe, a region where the soundness of the banking system is increasingly being called into question in a context of ultra-reduced interest rates and newly emerging competitors. Monetary policy has varied little since our last report, except in the United Kingdom where it has taken a more expansionary turn as the Bank of England seeks to fend off the economic fallout from Brexit. In the United States, the Federal Reserve is waiting for the picture to clear before committing to new interest rate hikes (more likely under the incoming administration), while in the euro area the European Central Bank (ECB) has left its key rates unchanged while pressing on with the sovereign and corporate bond-buying programmes that have anchored interest rates at historical lows.

- A few days before the closing date for this report[1] came news of the result of the US presidential elections, which has increased uncertainty among market agents. Although it is early to say how far the new government will go in pushing through the promised measures (mostly of a nationalistic bent), financial markets are already pricing in the scenario of a deeper deficit, more inflation and higher interest rates. After fighting back from Brexit turmoil over most of the second half, financial markets were rattled once more by the change of power in the United States. The initial effects have been felt most in bond markets, with consequences varying from sector to sector and across regions. Bond yields, for instance, reacted sharply in the United States and some European peripheral economies, with rises of 30 to 48 basis points (bp) in the space of a few days. In equity markets, salient developments were the bull run of US indices, where a strongly performing economy helped boost prices by between 5.4% and 8.6%. This contrasts with the year-to-date losses posted in European and Japanese markets, the worst hit being Asian indices and the Italian Mib, on persistent concerns over the health of the country's banks.

- Spain's macroeconomic performance was positive once more, with GDP growth of over 3% easily outpacing the rest of the euro area, and significant advances in employment creation (458,000 new jobs in the past year). Having been stuck in negative terrain since the year's outset, inflation turned positive in September, followed by an October surge to 0.7% as energy rates normalised. Core inflation ran a more stable course, holding at just under 1% throughout 2016. The recent formation of a new government has removed one of the

1 The closing date for this report is 15 November.

main uncertainties for the Spanish economy, but other risks remain. Many of these it shares with other European countries, such as the consolidation of public accounts or the erosion of banks' business margins.

- Supportive economic conditions and low interest rates are allowing steady gradual inroads into Spanish banks' NPL ratios, down to 9.4% in August compared to the 13.6% highs of 2013. However, the prevailing interest rate environment and the growing challenge from new competitive forces (shadow banking, fintech...) has muddied the outlook for a sector that has already seen profitability ratios drop below historical averages. In response, a majority of banks have launched efficiency drives and are also casting round for more profitable business lines.

- Non-financial listed companies made 8.30 billion euros in profits from January to June 2016, 37.6% less than in 2015. This scale of decline was explained mainly by the deterioration of results from discontinued operations among firms in the retail and services sector. Meantime, aggregate debt levels rose by 2.9% versus the 2015 close to 267 billion euros, nudging leverage up from 1.18 to 1.22.

- The stress indicator for Spanish financial markets spiked to 0.44 after the Brexit vote before easing back to around 0.30, but was barely affected by the victory of Donald Trump. It currently stands at the low end of the medium risk interval. The segments emitting most signs of stress are financial intermediaries, after their share price slump, joined recently by bond markets, where risk premiums have been edging higher.

- After clawing back the ground lost post-Brexit[2] over most of the second half, Spanish stock indices fell once more on news of the US election outcome. At the time of writing this report, the Ibex 35 has shed 9% of its value, locating it around the performance mid-point of other European indices. Remaining Spanish indices posted falls on a similar scale. The exception was the small cap index (-0.8%), smaller firms being more shielded from uncertainties of a global nature. Trading on Spanish stock exchanges prolonged its decline (down 25% in the year), in contrast to the brisk business done in Spanish shares on foreign and OTC markets.

- Domestic fixed-income markets opened the third quarter with a surge in prices, as investors sought refuge in safer assets after Brexit and the ensuing wave of stock market instability. These strategies were further encouraged by the ECB's asset purchase programme. The result was to drive yields to new lows in the month of September: 0.95% in the case of the Spanish ten-year government. Bond yields have since edged higher on the outcome of the US elections, but in general are trading below the levels of year-end 2015. Finally, debt issuance contracted in the period with the decline extending to both issues filed with the CNMV (down 9% to 92.60 billion euros) and those sold abroad.

2 Brexit triggered the biggest daily fall (-12.4%) in the history of the Ibex 35.

- After a negative start, assets under management in mutual funds rose by 3.1% to 229 billion euros in the first nine months of 2016. This advance owed entirely to investor subscriptions exceeding 7.4 billion euros, while the value of portfolio assets stayed practically flat. Also apparent was a certain shift in investor preferences towards fixed-income and guaranteed equity funds. Meantime CIS management companies reported a small first-half decrease in both profits (9.1%) and managed assets (1.3%), owing mainly to the decline in value of fund and company portfolios. The number of loss-making managers increased in the period to 21 (11 in 2015).

- Unsettled markets also impacted negatively on investment firm business in the first nine months of 2016, driving pre-tax profits down by 18.8% versus the year-ago period to 146.5 million euros. The volatile climate was most detrimental to fees from order processing and execution, which contracted for broker-dealers and brokers alike. Despite this, sector solvency remained well within the comfort zone.

- This report contains six exhibits:

  – Exhibit 1 looks at the main points of the economic and financial scenario foreseeably ushered in by the new US government, and the market effects observable to date.

  – Exhibit 2 summarises the milestones in the Brexit process, and its impact on domestic and global financial markets.

  – Exhibit 3 discusses the new EU Regulation on benchmark indices and its implications for supervisors.

  – Exhibit 4 considers the main elements of CNMV Circular 4/2016, of 29 June, in force as of 13 October this year, which revises the functions of CIS depositaries.

  – Exhibit 5 explains the changes made by the CNMV to the way securities transfer fees are calculated in fee schedules, in response to evidence of disproportionate charging by providers in recent years.

  – Finally, Exhibit 6 comments on the main initiatives on show at the second Financial Education Day, held annually on the first Monday in October with the goal of alerting citizens to the importance of having a good grasp of essential financial concepts in order to navigate their day-to-day needs.

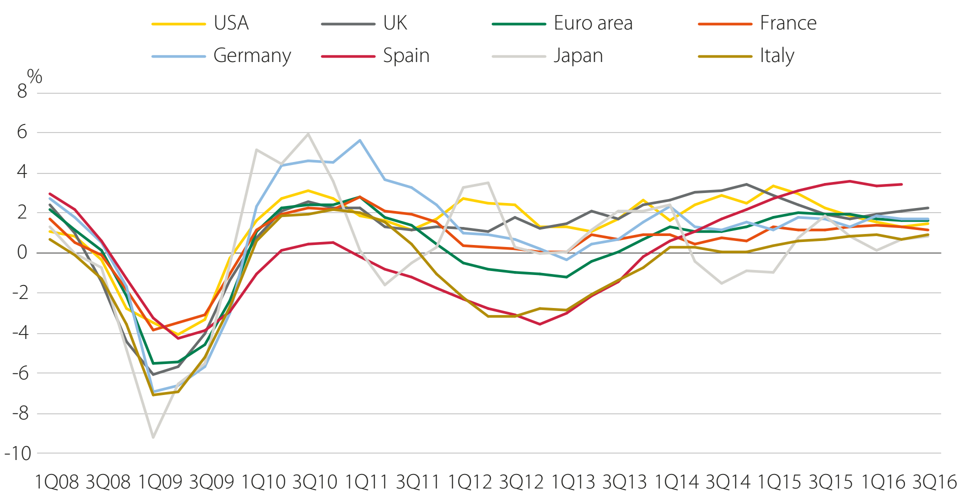
2 Macro-financial background

2.1 International economic and financial developments

Activity in the advanced economies proceeds unevenly in the central months of 2016.

Activity in the advanced economies progressed at a divergent pace in the central months of 2016 (see Figure 1). In the United States, growth quickened to 0.7% in the year's third quarter (1.5% year on year), while in the United Kingdom GDP growth slowed slightly to 0.5% (2.3% year on year) in response partly to uncertainties surrounding Brexit. The euro area as a whole advanced 1.6% in annual terms, with Germany and France repeating the growth rates of the previous quarter (1.7% and 1.1% respectively), and the Italian economy picking up to a small extent. Spain kept up brisk growth with an annual third-quarter rate of 3.2%, according to advance figures from the National Statistics Office, two points less than in preceding period. The stand-out among emerging market economies was the continuing vigour of the Chinese economy, which continued to power ahead at a flat rate of 6.7%.

GDP, annual % change FIGURE 1



Source: Thomson Datastream.

Monetary policies hold to their course in both the United States and euro area. The ECB announces that interest rates will remain at similar levels for some time to come…

Monetary authorities stuck to their respective policies in the euro area and the United States. In the first case, the ECB held the official rate at a record low of 0%, the marginal lending rate at 0.25%, and the marginal deposit rate at -0.4%, as inflation continued to trail its mid-term target, announcing that rates would remain at current or lower levels for an extended period of time. The Bank announced no changes in its asset purchase programme but pledged to prolong it until March 2017 or until inflation returns to its medium-term objective.

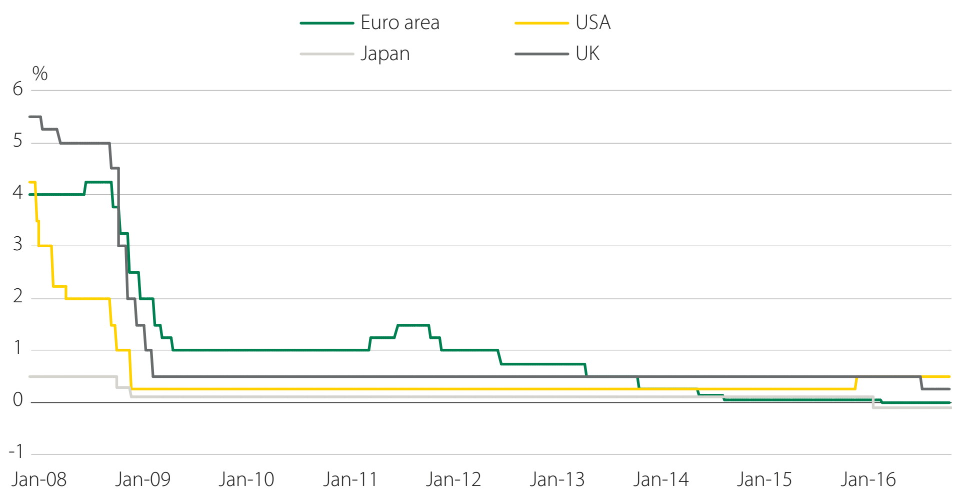
… and, despite seeing added support for a hike in rates, the Federal Reserve decides to await clearer evidence of progress in key economic variables.

In the United States, the Federal Reserve saw compelling reasons to justify an interest rate hike, in the shape of brisk third-quarter activity, solid job creation, and gently rising inflation since the start of 2016. Its decision, however, was to hold off pending more solid evidence of a recovery in key economic variables, keeping rates meantime in the interval of 0.25% and 0.5%. The US authority will weigh its future decisions by reference to labour market figures, inflation and the course of international financial developments.

The Bank of England decided to cut its bank rate last August by 25 bp to 0.25%. It also enlarged its government bond-buying scheme to 435 billion pounds, and announced the purchase of up to 10 billion pounds in UK corporate bonds. It reached this decision based on the prospect of a downturn in activity prompted by weaker aggregate demand, and despite its belief that inflation could rise temporarily above target due to the post-Brexit fall in sterling. Finally, the Bank of Japan shifted the focus of its monetary stimulus to controlling the yield curve. It also pledged to go on expanding the monetary base until inflation settles above the target rate of 2%.

The Bank of England cuts its official rate by 25 bp to 0.25% and scales up its sovereign bond-buying programme.

Official interest rates FIGURE 2



Source: Thomson Datastream. Data to 15 November.

Short-term interest rates in the advanced economies again reflected the varied directions of monetary policy. By November,[3] US interbank rates were strung out between 89 bp at three months and 157 bp in the one-year term (between 24 bp and 31 bp higher than last June) on the outlook for a new rate hike by the Federal Reserve. In the euro area, conversely, three-month and twelve-month rates slipped deeper into negative territory as far as -31 bp and -7 bp at mid-November, in both cases 4 bp down on their mid-year levels.

Short-term rates are still moving at lows, albeit somewhat higher in the United States and United Kingdom, while rates in the euro area and Japan have turned negative in some cases.

In international bond markets, ten-year yields performed in line over the third-quarter period, with a sharp fall extending to most of the advanced economies. Behind the trend was investors' decreasing appetite for risk (see Figure 7) in the uncertain climate following Brexit, which brought about a renewed search for quality. This all changed in mid-November, however, when the outcome of the US elections set the markets discounting a scenario of higher interest rates and inflation. The result was a run-up in yields (see Exhibit 1) led by the United States (41 bp), United Kingdom (31 bp) and Germany (24 bp), which nonetheless stopped short of the levels of the 2015 close except in the cases of Portugal and Italy.

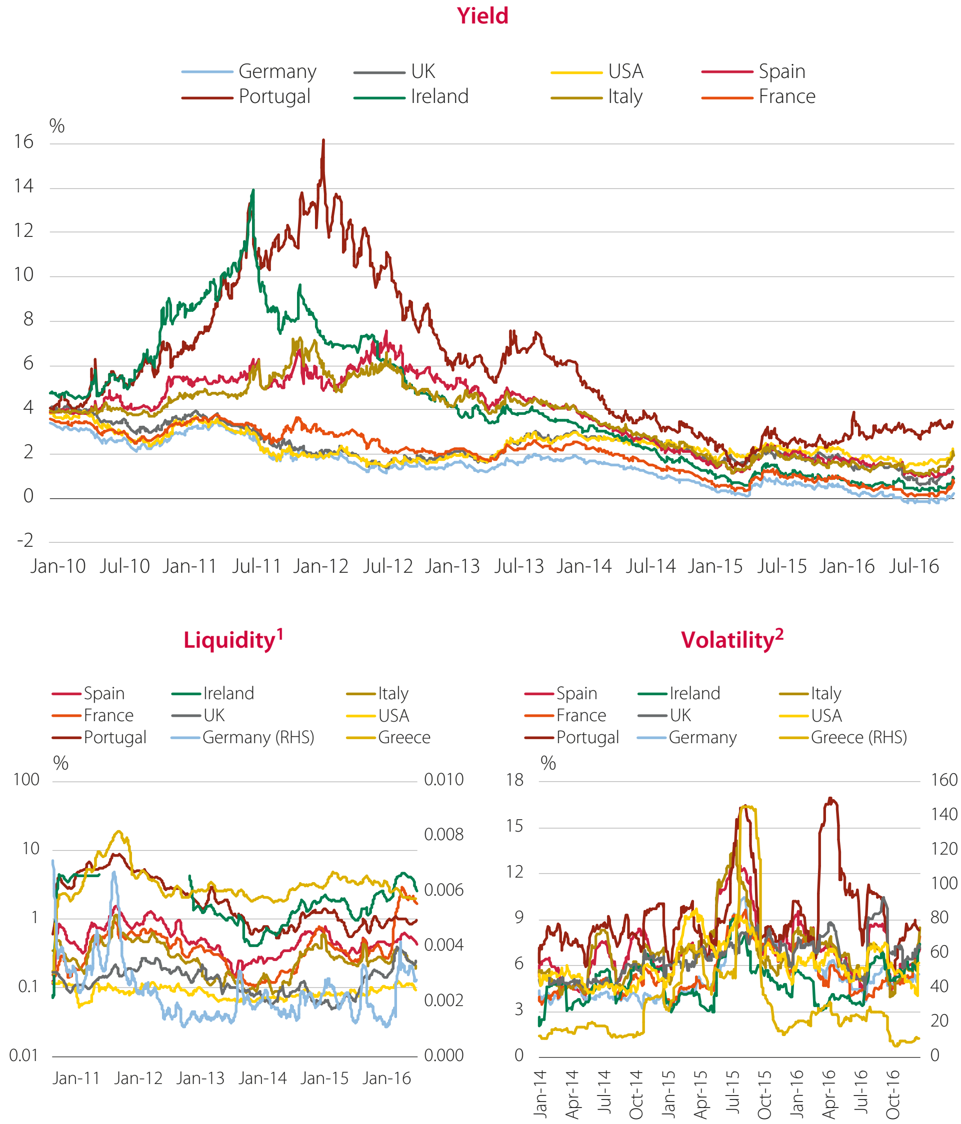
Government bond yields reduce across the board in the third quarter…

3 Monthly average to 15 November.

… and continue to hold below their end-2015 levels despite a steep run-up in the wake of the US elections.

In November, US and UK ten-year governments were trading at a 2.0% and 1.27% average respectively, 26 bp and 61 bp less than at end-2015 but still exceeding the yields of the most solid euro-area economies. The German bond, specifically, reached 0.13% in November, after a third-quarter average of -0.12%, extending its year-to-date fall to 46 basis points. Yields on French and Spanish bonds also headed lower to 0.57% and 1.34% respectively, while Portuguese yields jumped to 3.35% (up by 86 bp).

Ten-year sovereign debt market indicators FIGURE 3



Source: Bloomberg, Thomson Datastream and CNMV. Data to 15 November.

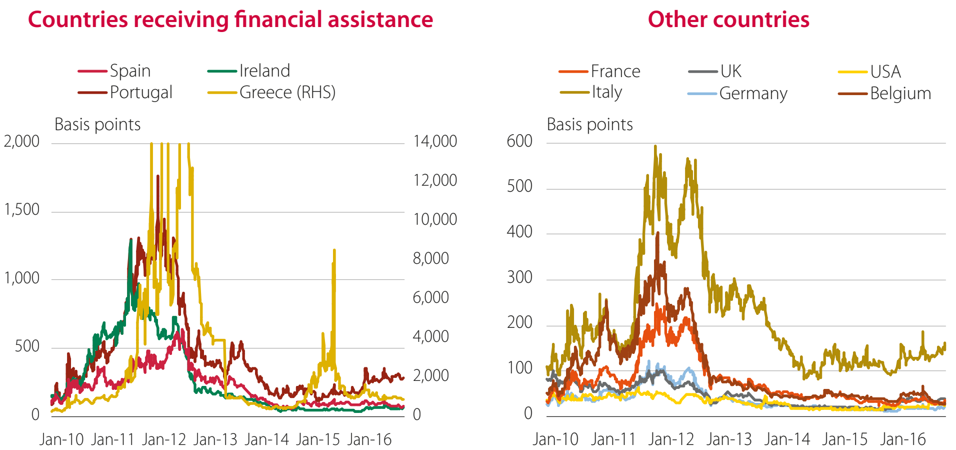
1 One month average of daily bid-ask spread for yields on ten-year sovereign bonds (logarithmic scale). In the case of the German bond, the one month average of the bid-ask spread is represented without dividing by the yield average to avoid the distortion introduced by its proximity to zero.

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

Risk premiums hold broadly flat year to date in the United States and core euro countries, against the more fluctuating spreads of peripheral economies.

Sovereign risk premiums, as gleaned from the five-year CDS of government bonds, have seen little variation year to date in the United States and core euro-area economies (see Figure 4). By November, spreads were running at 26 bp in the United States, 21 bp in Germany, 29 bp in Belgium and 33 bp in France. Peripheral economies experienced more varied fortunes, with November spreads of 75 bp in Spain, 154 bp in Italy and 280 bp in Portugal representing an 11 bp fall and rises of 57 bp and 108 bp respectively with respect to December 2015, as these last two economies labour under the effects of concerns about their banking sectors.

Credit risk premiums on public debt (five-year CDS) FIGURE 4



Source: Thomson Datastream. Data to 15 November.

In corporate bond markets, credit spreads in the United States and euro area have been compressing all year across all types of product. High-yield spreads again took the lead (see Figure 5), with year-to-date falls of 171 bp and 67 bp in the United States and euro area respectively as far as November levels of 483 bp and 476 bp. In an ultra-low rate environment, narrower spreads may reflect the growing prevalence of search for yield strategies. Likewise, the lower weighting of equities in the portfolios of increasingly risk averse institutional investors (see Figure 7) may have helped drive up bond prices.

Corporate bond spreads head steadily downwards across all categories in both the US and euro area.

Net long-term issuance in global bond markets summed 1.16 trillion dollars in the second half of 2016, a little above the register for the year-ago period. Public sector issuance dropped to 437 billion dollars, 112 billion less than in the second half of 2015, whereas corporate issuance surged by 259 billion to 728 billion dollars.

Net second-half debt issuance on a par with the same period last year.

Net sovereign issuance was again conditioned by the existence of large redemption volumes and, in Europe especially, an ongoing fiscal consolidation effort which has driven down public sector borrowing requirements. In this context, net issuance in the United States was down by 163 billion dollars in the second half-year compared to the same period 2015. In the euro area, meantime, the redemptions bill exceeded the volumes borrowed, giving a negative net figure of -129 billion (see upper right panel of Figure 6).

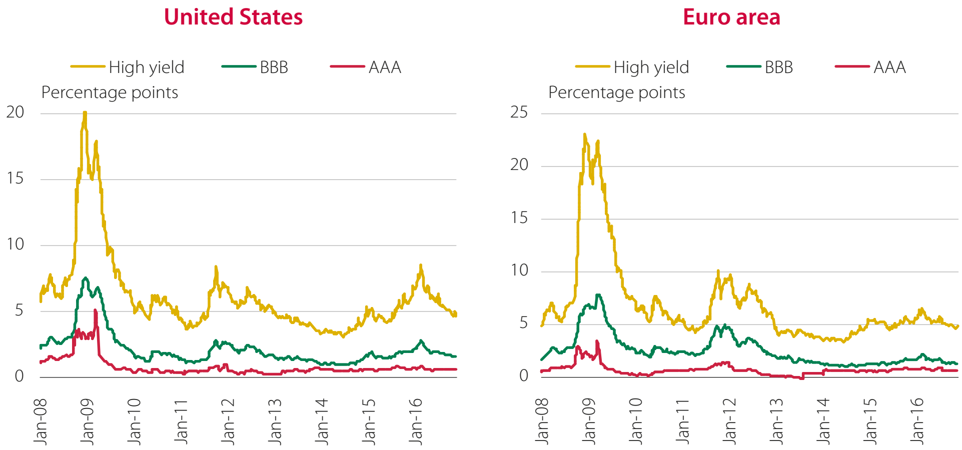
Public sector issuance remains subservient to the demands of fiscal consolidation.

In the financial sector, net issue volumes in the United States were 6% lower than in the second half of 2015 at 196 billion dollars, while the figure for Europe turned more steeply negative (down 7% to -82 billion dollars). Europe's banks are currently immersed in a deleveraging process motivated in part by newly imposed capital requirements, but also reflecting the challenges posed by excess capacity and growing competition in certain investment services.

Financial sector net issuance turns down in both the United States and Europe.

Corporate bond yields
Spread vs. ten-year governments[1]

FIGURE 5



Source: Thomson Datastream and CNMV. Data to 15 November.

1 In the euro area versus the German benchmark.

Net international debt issuance

FIGURE 6

Source: Dealogic. Half-year data. Data for the second half of 2016 are to 15 November but restated on a semi-annual basis to facilitate comparison.

Net corporate bond issuance rose in the second half-year across most of the regions followed. In Europe, net borrowings stood 44% higher than in the first half of 2016, while in Japan, the figure turned positive to the tune of 25 billion after the negative outcome of the first half-year. Part of this increase was likely prompted by the asset purchase programmes of the ECB and Bank of Japan. In the United States, net corporate borrowings were 11% lower than last year, due basically to the issuance spike of first-half 2015, when corporations brought forward placements to lock in lower costs ahead of the expected hike in interest rates.

Net corporate issuance climbs in second-half 2016 across a majority of regions, most markedly in Europe and Japan under the spur of central bank asset purchase programmes.

Performance of main stock indices[1] TABLE 1

%	2012	2013	2014	2015	4Q 15	1Q 16	2Q 16	3Q 16	4Q 16 (to 15 November) %/ prior quarter	4Q 16 (to 15 November) %/ Dec 15
World										
MSCI World	13.2	24.1	2.9	-2.7	5.1	-0.9	0.3	4.4	-1.4	2.3
Euro area										
Eurostoxx 50	13.8	17.9	1.2	3.8	5.4	-8.0	-4.7	4.8	1.6	-6.7
Euronext 100	14.8	19.0	3.6	8.0	5.6	-4.6	-2.1	4.1	-1.0	-3.7
Dax 30	29.1	25.5	2.7	9.6	11.2	-7.2	-2.9	8.6	2.1	-0.1
Cac 40	15.2	18.0	-0.5	8.5	4.1	-5.4	-3.4	5.0	2.0	-2.2
Mib 30	7.8	16.6	0.2	12.7	0.6	-15.4	-10.6	1.3	1.7	-22.1
Ibex 35	-4.7	21.4	3.7	-7.2	-0.2	-8.6	-6.4	7.5	-1.1	-9.0
United Kingdom										
FTSE 100	5.8	14.4	-2.7	-4.9	3.0	-1.1	5.3	6.1	-1.5	8.8
United States										
Dow Jones	7.3	26.5	7.5	-2.2	7.0	1.5	1.4	2.1	3.4	8.6
S&P 500	13.4	29.6	11.4	-0.7	6.5	0.8	1.9	3.3	0.6	6.7
Nasdaq Composite	15.9	38.3	13.4	5.7	8.4	-2.7	-0.6	9.7	-0.7	5.4
Japan										
Nikkei 225	22.9	56.7	7.1	9.1	9.5	-12.0	-7.1	5.6	7.4	-7.2
Topix	18.0	51.5	8.1	9.9	9.6	-12.9	-7.5	6.2	6.1	-9.3

Source: Datastream.

1 In local currency.

Leading stock indices rallied strongly in the second half-year after widespread losses in the first six months[4] brought on in part by nervousness about the Brexit vote. Year-to-date figures evidence large disparities both between and within regions. The Dow Jones, S&P 500 and technology composite Nasdaq have all advanced strongly from year-start levels (8.6%, 6.7% and 5.4%, respectively), contrasting with the deep losses of Japanese indices (-7.2% for the Nikkei and -9.3% for the Topix). In Europe, meantime, losses range from the 0.1% of the German Dax 30 to the 22.1% of Italy's Mib 30, weighed down by a struggling banking sector and the uncertain outcome of

International stock indices rally strongly in the second half, but year-to-date performance is notably uneven.

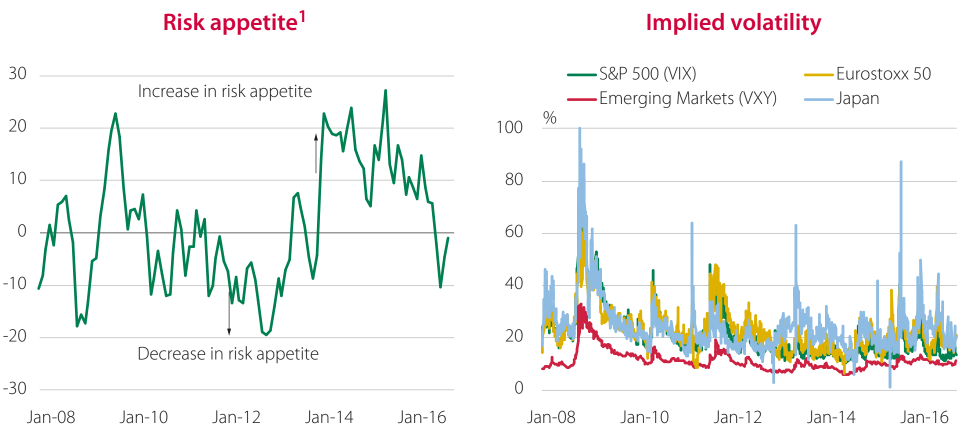
4 With the exception of the FT 100, Dow Jones and S&P 500.

the constitutional reform referendum to be held on 4 December, among other factors. The 9% fall of the Ibex 35 places it around the halfway mark. Volatility, finally, hit a mid-year high of over 30% following the news on the UK referendum, after which readings headed lower, most markedly in the euro area and Japan, to settle at around 20% in November (see right-hand panel of Figure 7).

Emerging stock indices stay in gains, except those tied in with the Chinese economy, on fears of a growth slowdown.

Turning to emerging stock markets, the MSCI index followed up the -0.6% of the first half-year with a rally that by mid-November had delivered a year-to-date gain of 2.3%. The advance extended to indices in Latin America, Eastern Europe and a majority of Asian countries excepting those most linked to the Chinese economy on concerns over a possible growth stall. Top performers to date are the Argentine Merval index and Brazil's Bovespa, with gains of 41.1% and 37.6% respectively, followed by the Russian index, up 29.5% with respect to the 2015 close. At the other extreme, the Shanghai Composite suffered losses in the period of 9.4%.

Financial market indicators FIGURE 7



Source: Thomson Datastream and CNMV.

1 State Street indicator.

Presidential elections in the United States: A first assessment of the effects on financial markets

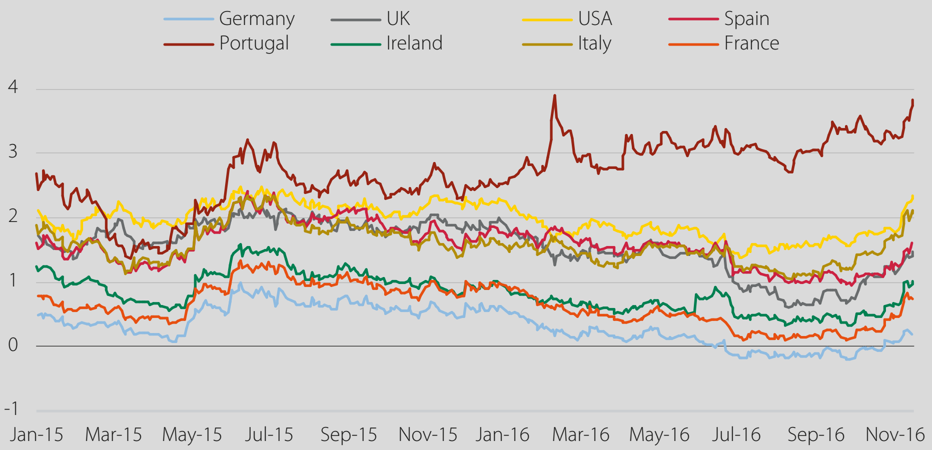
EXHIBIT 1

The outcome of the US presidential elections, with the victory of Republican candidate Donald Trump, has sent ripples of uncertainty through global financial markets on the prospect of economic policy changes by the incoming administration. Although it is too early to predict the extent of future measures, to judge from the electoral campaign they will certainly include: i) a major fiscal expansion, accompanied by increased public investment and tax cuts; ii) further deregulation of certain strategic industries, including the cancellation of renewable energy plans and the scaling-back of public healthcare programmes; iii) tougher policies on migration; and iv) greater economic protectionism.

It is hard to tell what effect these policies will have on the American economy. Some could be initially positive but more deleterious in the medium to long run, especially measures that choke off international trade and impede the free circulation of people. The markets, in any case, are already discounting a major fiscal stimulus that would foreseeably boost inflation in the form of rising government and corporate bond yields in the medium and long segments of the curve. As we can see from figure E1.1, yields on the ten-year sovereign bonds of the advanced economies turned up significantly in November. Between the 1st and 17th, the fastest rising were US treasuries (up by 48 bp to 2.30%), although European yields also headed higher, especially those of peripheral economies (Portugal: 38 bp to 3.7%; Italy: 37 bp to 2.1%; Ireland: 33 bp to 0.98%; and Spain: 30 bp to 1.61%). The smallest increases corresponded to Germany (10 bp to 0.20%) and the United Kingdom (12 bp to 1.40%).

Ten-year sovereign bond yields

FIGURE E.1.1



Source: Thomson Datastream. Data to 17 November.

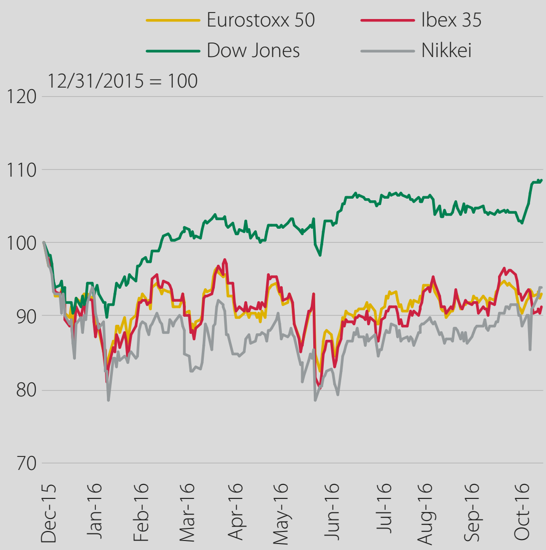
Rising long-term bond yields caused an uptick in the risk premiums of European peripherals, which had held more or less flat for most of the year, including through the Brexit shock. Spanish sovereign risk spreads widened from 116 bp at the start of November to 141 bp, and those of Italy from 161 bp to 191 bp.

The reaction of equities to Trump's election triumph varied from country to country, with US markets showing most buoyant. At the time of writing, top US indices continue to outperform peers by a wide margin (the Dow Jones gaining 8.5% year to date, the S&P 500 7%, and the Nasdaq 6.5%; see Table and Figure E1.2), boosted not just by the change of government but also by the greater vigour of the domestic economy.

Elsewhere, responses were both milder and more divergent. Asian markets, the first to wake up to the news, reacted most sharply with a small spike in volatility,[1] while in Europe, reactions ranged from the 3.6% fall of the Ibex 35 to the 1.5% advance of the German Dax. This underperformance by Spanish stocks can be attributed to the strong Latin American exposure of its biggest corporations. The most obvious case is Mexico, given the negative fallout for the country of the Trump administration's promised measures (reflected in falling stock markets all over Latin America). Individually, the worst hit have been companies, like BBVA and Abertis, with most interests in Mexico, along with firms in the renewable energy sector. On the upside, pharmaceutical shares have responded with a price surge.

International stock indices FIGURE E1.2

	Change from:	
	01/11/2016	31/12/2015
MSCI World	1.4	2.7
Eurostoxx 50	0.6	-6.9
Dax 30	1.5	-0.5
Cac 40	1.3	-2.4
Ibex 35	-3.6	-8.7
FT 100	-1.8	8.8
Dow Jones	4.8	8.5
S&P 500	3.6	7.0
Nasdaq Cpte	3.5	6.5
Nikkei 225	2.4	-6.2
Hang Seng	-3.8	1.6
Mex Ipc	-5.0	4.5
Ibovespa	-5.6	37.9



Source: Thomson Datastream. Data to 17 November.

Table E1.3 tracks price movements in US shares grouped into sectors. Although it is early to say whether the trends emerging will persist over time, we can see the gap opened up between those that stand to gain from the new president's policies, and those likelier to lose out. Among the former are construction-related sectors (up 10.6% in November), transport (9.4%), basic materials (8.9%), industry (6.7%), banks (14.7%) and insurance (8.5%). Conversely, utilities and consumer goods-related sectors have posted varying degrees of losses.

In currency markets, the dollar has gained strongly against the euro and yen since the date of the elections: the dollar/euro from 1.11 to 1.07 and the yen/dollar from 103 to 109.3.[2]

Performance of US shares by sector

TABLE E1.3

	Change from			Change from	
	01/11/2016	31/12/2015		01/11/2016	31/12/2015
Gas and oil	2.7	13.4	Industrial goods and services	6.4	14.0
Basic materials	4.2	11.7	Transport	9.4	21.7
Industry	6.7	14.3	Support services	4.0	10.9
Investment trusts (diversified)	-7.1	3.3	Automobiles and parts	3.6	-7.2
Consumer goods	-2.2	0.7	Food and drink	-3.9	1.9
Healthcare	5.4	-1.8	Personal consumer goods	-1.8	1.7
Consumer services	4.4	3.6	Retail	2.5	1.3
Telecommunications	2.4	10.2	Media	7.0	8.7
Financials	8.0	9.0	Travel and leisure	6.5	4.5
Technology	0.8	10.6	Utilities	-4.3	8.0
Chemicals	2.7	4.7	Banks	14.7	12.5
Basic resources	8.9	40.0	Insurance	8.5	16.6
Construction and materials	10.6	20.1	Real estate	-2.7	-3.7
			Financial services	8.6	9.4

Source: Thomson Datastream. Industry classification by Datastream.

1 Volatility reached 35% on the Nikkei due to the sharp price swings of 9 and 10 November (-5.4% and 6.7% respectively).

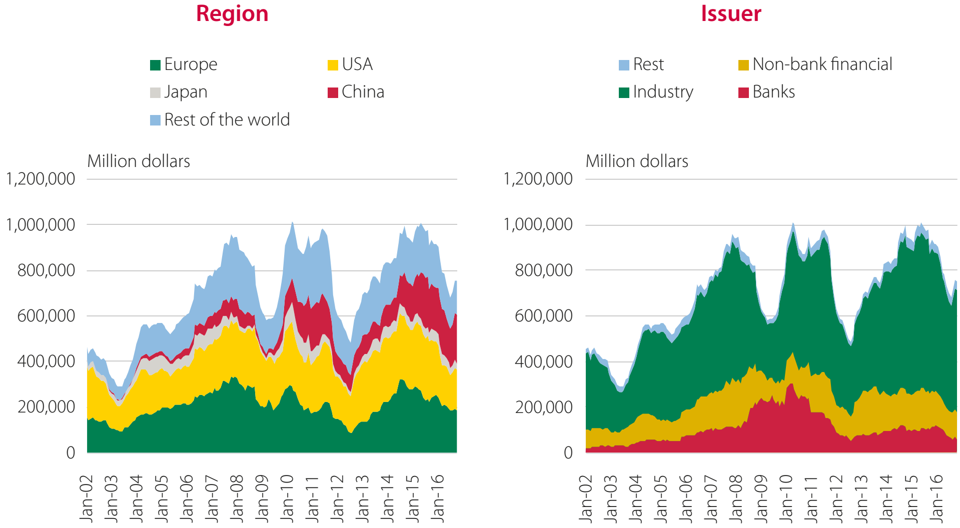
2 Change from the day after the elections to 17 November.

Equity issuance to mid-November stood at 690 billion dollars, 18% less than in the same period last year. In cumulative twelve-month terms, the 762 billion raised (to November) was likewise sizeably less than one year before (see Figure 8). The downturn extended to all regions except China, which bucked the trend with a year-on-year surge of 23%. In Europe, the United States and Japan, share issue volumes dropped by 32%, 22% and 48% respectively. By sector, the decline was sharpest among financial corporations (17%) and, especially, the banks (68%). This last register is one symptom of the challenges facing the European banking sector, which is struggling to squeeze out more profits in a context of ultra-low interest rates and mounting competition. Issuance by industrial firms was 10% lower, while the utilities sector raised its issue volumes 12% in the same period.

Share issue volumes to November fall off sharply versus the same period 2015.

Global equity issuance

FIGURE 8



Source: Dealogic. Cumulative twelve-month data to 15 November. For comparative purposes, the figure for this month is restated on a monthly basis.

2.2 National economic and financial developments

Spain's GDP grows 0.7% in the third quarter (3.2% year on year), preserving its strong lead over the euro area (1.6%).

Spanish GDP kept up brisk growth through the third quarter, with rates on a par with the previous three months and substantially ahead of those of the euro area. According to provisional data from the National Statistics Office (INE), the Spanish economy expanded 3.2% year on year in the third-quarter period (0.7% in quarterly terms), compared to the 1.6% of the euro area (0.3% quarterly).

Lower growth input from domestic demand is offset by a rising contribution from the net exports side.

Domestic demand contributed 3.0 percentage points to GDP growth, down from 3.7 in the second quarter, offset by a stronger input from the net exports side. All domestic demand components reduced their growth pace with respect to the opening quarter, notably government consumption (from 2.0% to 0.7%) and gross fixed capital formation (from 4.9% to 3.7%). Private consumption, meantime, slowed by a considerably smaller margin (from 3.7% to 3.5%). Finally, accelerating export growth (up from 4.3% to 7.2%) with respect to imports (from 5.9% to 6.4%), lifted the external sector's GDP contribution into positive terrain (from -0.4 to +0.4 percentage points).

On the supply side, services and industry pick up speed.

On the supply side of the economy, the growth of services and industry picked up slightly in year-on-year terms to 3.5% in the second quarter (3.3% in both cases in the first quarter of 2016). Conversely, primary industries and construction slowed their advance to 2.5% and 1.1% respectively (previously 3.1% and 1.7%).

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

	2012	2013	2014	2015	EC[1] 2016F	EC[1] 2017F	EC[1] 2018F
GDP	**-2.9**	**-1.7**	**1.4**	**3.2**	**3.2**	**2.3**	**2.1**
Private consumption	-3.6	-3.2	1.6	2.8	3.2	2.1	1.6
Public consumption	-4.7	-2.1	-0.3	2.0	0.9	0.8	0.8
Gross fixed capital formation, of which:	-8.6	-3.4	3.8	6.0	4.2	3.6	3.8
Construction	-12.2	-8.6	1.2	4.9	N/A	N/A	N/A
Equipment	-6.2	5.3	8.4	8.9	6.7	4.5	3.9
Exports	1.1	4.3	4.2	4.9	6.1	4.5	3.9
Imports	-6.3	-0.5	6.5	5.6	5.8	4.3	4.1
Net exports (growth contribution, p. p.)	2.2	1.5	-0.5	-0.1	0.2	0.2	0.2
Employment[2]	**-4.8**	**-3.4**	**1.1**	**3.0**	**2.8**	**2.1**	**1.8**
Unemployment rate	**24.8**	**26.1**	**24.4**	**22.1**	**19.7**	**18.0**	**16.5**
Consumer price index	**2.4**	**1.4**	**-0.1**	**-0.5**	**-0.4**	**1.6**	**1.5**
Current account balance (% GDP)	**-0.2**	**1.5**	**1.1**	**1.4**	**1.7**	**1.5**	**1.5**
General government balance (% GDP)[3]	**-10.5**	**-7.0**	**-6.0**	**-5.1**	**-4.6**	**-3.8**	**-3.2**
Public debt (% GDP)	**87.5**	**95.4**	**100.4**	**99.8**	**99.5**	**99.9**	**100.0**
Net international investment position (% GDP)[4]	**-68.5**	**-83.7**	**-90.1**	**-79.3**	**N/A**	**N/A**	**N/A**

Source: Thomson Datastream, European Commission, Banco de España and National Statistics Office (INE).

1 European Commission forecasts of November 2016.

2 In full-time equivalent jobs.

3 Figures for 2012, 2013, 2014 and 2015 include government aid to credit institutions amounting to 3.8%, 0.5%, 0.1% and 0.1% of GDP, respectively.

4 Ex. Banco de España.

N/A: [data] not available.

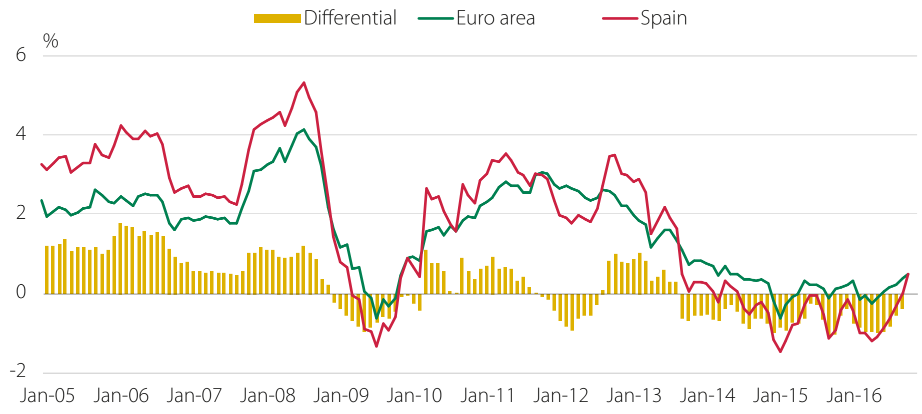
Inflation accelerates to 0.7% in October, a month after returning to positive rates. The result has been to close Spain's inflation gap with the euro area.

Spanish inflation turned positive in September (0.2%) after moving all year in negative terrain, in response, chiefly, to a rise in energy prices contrasting with the sharp fall of November 2015 (-3.0%). The inflation upturn firmed in October in the shape of a year-on-year GDP rate of 0.7%, well clear of the negative rate recorded last May (-1.0%). The items making up core inflation – excluding the volatile energy and fresh food constituents – traced a notably more stable course, with October's annual rate of 0.8% just a whisker below the 0.9% of December 2015. Finally, Spain's inflation gap versus the euro area closed entirely in October, in contrast to the -1.0 percentage points of May 2016 (see Figure 9).

Job creation continues apace, permitting further inroads into unemployment as far as a 3Q rate of 18.9%.

In the labour market, job creation kept up its advance through the second quarter, with a year-on-year rate of 2.7%, just slightly down on the average for 2015 (3.0%). The result was a total of 17.31 million people in work and an increase of 458,000 jobs in the space of twelve months. The unemployment rate ended the third quarter at 18.9%, a solid improvement over last year's average of 22.1%. Growth of unit labour costs, calculated as the difference between the increase in compensation per worker and productivity, accelerated to 0.4% in the second quarter (-0.2% in first-quarter 2016), on a rise in worker compensation (0.8%) not matched by productivity (0.4%).

Harmonised ICP: Spain vs. the euro area (annual % change) FIGURE 9



Source: Thomson Datastream. Data to October.

The public deficit ends August at 3.3% of GDP, a little below the figure for the same period 2015.

The general government deficit, excluding local authorities, reached 3.3% of GDP at the August close, slightly below the figure for the same period 2015 (3.4%). By branch, central government returned a deficit of 2.6% against the 0.1% of the autonomous regions, improving strongly on the 0.8% of the year-ago period thanks mainly to the final liquidation of 2014 accounts, and the 0.6% of the social security administration. According to the excessive deficit protocol, public debt rose to 101.0% of GDP at the end of the second quarter from the 99.8% of the 2015 close. Budgetary execution figures to September put the central government deficit at 2.6% of GDP, two points above the register of one year before. The latest updated Stability Programme, for 2016-2019, projects a downward trending deficit of 3.6% this year and 2.9% in 2017. This is rather more optimistic than the European Commission's November forecasts, which posit 4.6% in 2016 y 3.8% in 2017.

A supportive macro environment helps banks rein in NPL ratios, but the sector still has to contend with reduced interest rates and growing competition in some business areas.

The brisk pace of activity and job creation have delivered a gradual decrease in bank sector non-performing loan (NPL) ratios. That said, the low interest rate environment continues to constrain the sector's earnings power. Return on equity (ROE) has shrunk this year to 6.1% (8.8% in 2015) and is moving significantly short of historical levels. In addition, structural factors like excess capacity and growing competition from shadow banking and fintech organisations (firms at the high-tech end of financial services delivery) are making rapid inroads into banks' traditional business.

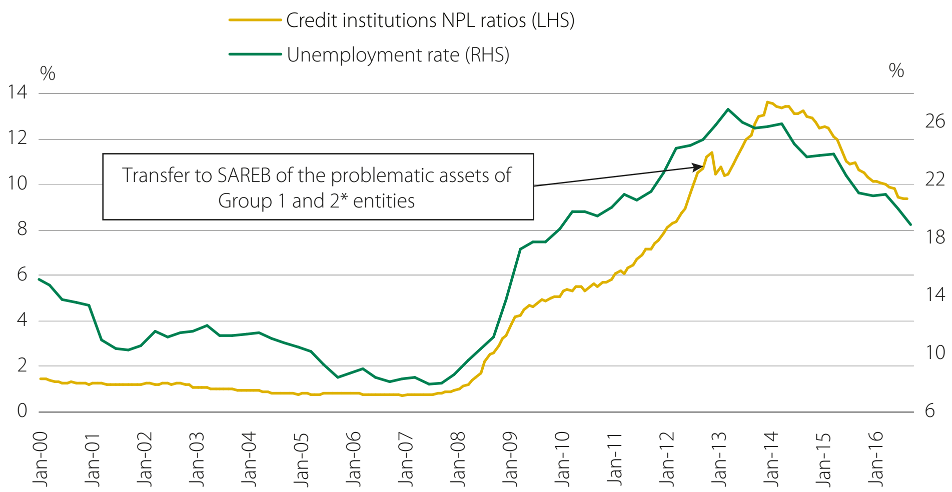
NPLs drop to 9.4% of total loans in August, a small improvement on the starting ratio for 2016…

Non-performing loans to other resident borrowers (households and non-financial corporations) dropped in August to 9.4% of the total outstanding, a seven-point improvement on the 10.1% ratio of December 2015. Low interest rates have helped relieve the bad debt problem by reducing the repayment costs of borrowers, given the predominance in Spain of adjustable-rate mortgages. Bank income statements showed first-half profits of 6.14 billion euros, up from 5.46 billion in the same period last year. Net operating income, however, dropped to 7.89 billion euros from the 8.58 billion of the first half of 2015, due to gross income falling more steeply than financial asset impairment losses.

Bank lending to the non-financial resident sector (companies and households) reduced further in third-quarter 2016, albeit at a slower pace than in the first six months. Year-on-year growth in the flow of finance (loans and securities other than shares) to non-financial corporations turned positive in August for the first time since 2011, and by September was up to 0.5% (compared to -1.8% as recently as last March). It bears mention that this upturn relied on loans from abroad and securities other than shares, while year-on-year rates remained negative (-1.5%) for lending by resident entities. Among households, a downturn in home purchase loans restricted year-on-year growth to -1.6% (-2.1% in December 2015). In the euro area, conversely, the stock of outstanding loans to non-financial corporations and households climbed by 1.2% and 2.0% respectively year on year, on a par with the growth recorded to December 2015 (1.3% and 1.9% respectively).

… while bank lending to non-financial resident borrowers contracts by 0.4% in September, slowing its rate of decline vs. the start of the year (-1.9% in April).

Credit institutions NPL ratios and the unemployment rate[1] FIGURE 10



Source: Banco de España and National Statistics Office (INE). NPL ratios to August 2016 and unemployment to September.

1 Percentage of the active population.

* Group 1 transfers took place in December 2012 (36.70 billion euros) and Group 2 transfers in February 2013 (14.09 billion euros).

Bank sector balance sheets shrank further in the middle months of 2016 prolonging the trend of previous years. By August, the sector-wide balance sheet was down to 2.70 trillion euros, equivalent to 62 billion less in assets compared to December 2015. All funding sources contracted in the eight-month period: deposits by 45 billion euros, outstanding debt by 20 billion and equity by 2 billion to an August figure of 367 billion euros. Meantime, banks increased their net Eurosystem borrowings to 135 billion in October, up from the 133 billion of December 2015, after the initial reduction was wiped out by heavier borrowings in the rest of the period.

The bank sector balance sheet reduces further across all funding heads in the middle months of 2016.

Non-financial listed companies obtained 8.30 billion euros profits in the first half of 2016, 37.6% less than in the same period last year. Leading the decline were firms in the retail and services sector whose 4.62 billion profit of first-half 2015 turned into a 745 million loss due to a slump in results from discontinued operations. Energy firms too saw a drop in profits to 4.33 billion euros, 11.2% less than in 2015. By contrast, firms in the industrial sector and, more so, construction and real estate

Profits of non-financial listed companies fall by around 37% in first-half 2016, with the retail and services sector leading the decline.

grew their earnings by 6.1% and 49.4% versus the first half of 2015 to 2.27 and 2.42 billion euros respectively (see Table 3).

Earnings by sector: Non-financial listed companies[1]

TABLE 3

	EBITDA[2]		Profit before taxes		(Consolidated) profit for the year	
Million euros	jun-15	jun-16	jun-15	jun-16	jun-15	jun-16
Energy	6,624	6,445	6,197	5,465	4,874	4,326
Industry	3,223	3,366	2,898	3,024	2,140	2,270
Retail and services	5,267	5,300	2,363	1,720	4,623	-745
Construction and real estate	2,785	3,758	2,037	2,974	1,622	2,423
Adjustments	20	28	-34	-26	-29	-24
Total	**17,879**	**18,841**	**13,529**	**13,209**	**13,288**	**8,298**

Source: CNMV.

1 First half-year results for 2015 and 2016.

2 Earnings before interest, taxes, depreciation and amortisation.

Debt levels edge up 2.9% in the first six months accompanied by a small increase in leverage.

The aggregate first-half debt of non-financial listed companies, at 266.93 billion euros, was 2.9% more than at the 2015 close (see Table 4), with all sectors sharing in the increase. Retail and services firms led the field with a 3.7% jump in debt to 115.70 billion, followed by energy firms with a 3.6% rise to 79.82 billion. Average leverage rose to 1.22 in June from 1.18 at the 2015 close, drawing on both higher debt tallies and a decrease in equity. However debt coverage ratio (debt/EBITDA) improved in the period from 10.2 to 7.1 on a larger relative increase on the operating income side.

Gross debt by sector: Listed companies[1]

TABLE 4

	Debt		Debt/equity		Debt/EBITDA[2]	
Million euros	dec-15	jun-16	dec-15	jun-16	dec-15	jun-16
Energy	77,051	79,823	0.74	0.78	9.7	6.2
Industry	17,001	17,045	0.53	0.53	5.6	2.5
Retail and services	111,579	115,698	2.00	2.14	12.3	10.9
Construction and real estate	55,226	55,756	1.86	1.79	10.4	7.4
Adjustments	-1,461	-1,391				
TOTAL	**259,397**	**266,930**	**1.18**	**1.22**	**10.2**	**7.1**

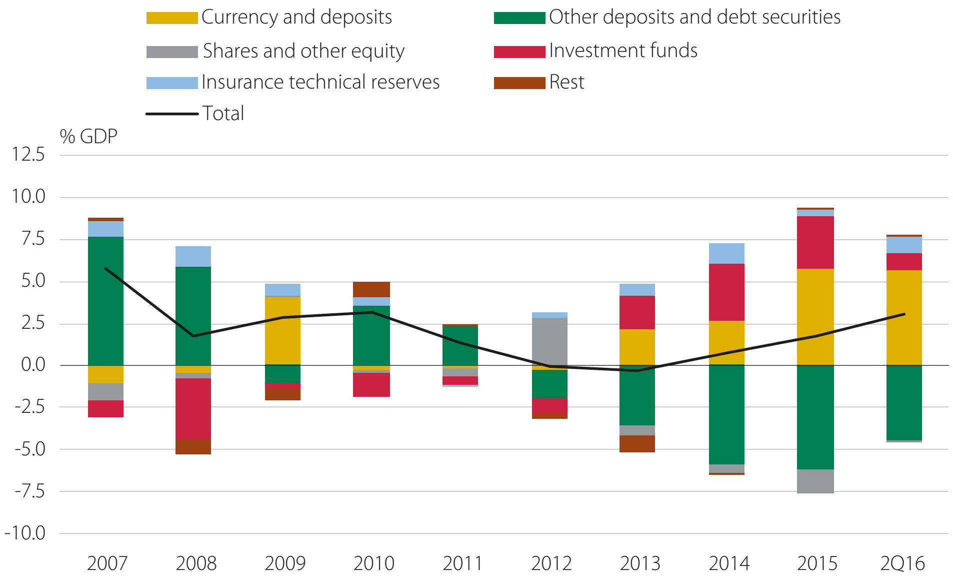
1 Cumulative data for the 2015 close and the first half of 2016.

2 Earnings before interest, taxes, depreciation and amortisation for 2016 are annualised to facilitate comparison.

Diverse factors combine to boost the financial position of households. Savers opt increasingly to withdraw from long-term deposits and debt securities in favour of insurance products, mutual funds and, especially, currency and transferable deposits.

Indicators for the financial position of Spanish households in 2016 reveal that saving rates held broadly flat at around 8% of gross disposable income (GDI) in the first six months of the year. Both debt-to-income and debt burden ratios prolonged the decline of the past few years: the former from 106,0% of GDI at the 2015 close to 104.7% in June this year, coinciding with an increase in compensation per worker; and the latter from 12% to 11.7%, due partly to the slightly lower average cost of borrowed funds. Household financial investments in the second quarter amounted to 3.1% of GDP (cumulative four-quarter data), up from 1.8% in 2015, 0.8% in 2014 and the -0.3% of 2013. As in previous years, households continued to move out of long-term deposits and debt securities (4.5% of GDP), due to the poor returns on offer, exchanging them for currency and transferable deposits (5.7% of GDP), insurance products (1.1% of GDP) and mutual funds (1.0% of GDP).

Households: Financial asset acquisitions (net) FIGURE 11



Source: Banco de España, *Cuentas financieras*. Cumulative four-quarter data.

2.3 Outlook

The world economy is poised to grow 3.1% this year, one point less than in 2015.

The latest forecasts from the International Monetary Fund (IMF), published in October, project global growth of 3.1% in 2016 and 3.4% in 2017. These rates, a near re-run of 2015 (3.2%), represent a small mark-down with respect to the organisation's July forecasts on an augured slowdown in the advanced economies. Current forecasts for this group point to 1.6% and 1.8% growth this year and next, down from 2.1% in 2015. Emerging market economies, meantime, are expected to see a 4.2% advance this year followed by 4.6% in 2017 (4.0% in 2015).

The prospect of a hard Brexit, the new political scenario in the United States, bank sector weakness in Europe and the deceleration of emerging economies remain the most prominent risks on the global horizon.

Internationally, the advent of a new US government with more inward-looking policies and a protectionist bent entails a significant risk for the global growth outlook. In the euro area, the macroeconomic and financial landscape is clouded by worries over the prospect of a harder-than-expected Brexit and the exact repercussions of the change of government in the United States. The scenario of a more expansionary fiscal policy stateside driving an upturn in inflation and bond yields could jeopardise the monetary policy goals of the ECB. Other risks to be reckoned with are the weakness of the banking sector, especially in Europe, where banks face the dual challenge of ultra-low interest rates and growing competition from shadow banking activities and fintech firms. Finally, threats persist of a slowdown in certain emerging economies (China is transitioning to a consumer-driven growth model and has apparently made little progress in tackling its credit glut and corporate debt problem), and the escalation of ongoing geopolitical conflicts.

Gross domestic product (annual % change)

TABLE 5

	2012	2013	2014	2015	IMF[1] 2016F	IMF[1] 2017F
World	3.5	3.3	3.4	3.2	3.1 (0.0)	3.4 (0.0)
United States	2.2	1.7	2.4	2.6	1.6 (-0.6)	2.2 (-0.3)
Euro area	-0.9	-0.3	1.1	2.0	1.7 (0.1)	1.5 (0.1)
Germany	0.7	0.6	1.6	1.5	1.7 (0.1)	1.4 (0.2)
France	0.2	0.6	0.6	1.3	1.3 (-0.2)	1.3 (0.1)
Italy	-2.8	-1.7	-0.3	0.8	0.8 (-0.1)	0.9 (-0.1)
Spain	-2.6	-1.7	1.4	3.2	3.1 (0.5)	2.2 (0.1)
United Kingdom	1.3	1.9	3.1	2.2	1.8 (0.1)	1.1 (-0.2)
Japan	1.7	1.4	0.0	0.5	0.5 (0.2)	0.6 (0.5)
Emerging economies	5.3	5.0	4.6	4.0	4.2 (0.1)	4.6 (0.0)

Source: IMF.

1 In brackets, change vs. the previous forecast. IMF, forecasts published October 2016 vs. July 2016.

The Spanish economy will continue to outpace the rest of the euro area. Political uncertainty is no longer an issue, but significant risks remain, some of them shared with other European countries.

In the case of the Spanish economy, the IMF is looking for 3.1% growth in 2016 (0.5 points more than its previous forecast) followed by 2.2% in 2017 (one point more), easily outpacing the 1.7% and 1.5% rates projected for the euro area as a whole. The success of structural reforms, a weaker euro and the supportive monetary policy deployed by the ECB are among the factors favouring a scenario of robust growth and employment creation. The formation of a new government in late October has also ended a period of political uncertainty that in truth had little apparent impact on financial markets. Remaining risks have to do with the sustainability of public finances, the resilience of the banking sector and the outlook for those firms strongly exposed to the United Kingdom and Latin America in the light of the progress of Brexit and the policies of the incoming US government.

3 Spanish markets

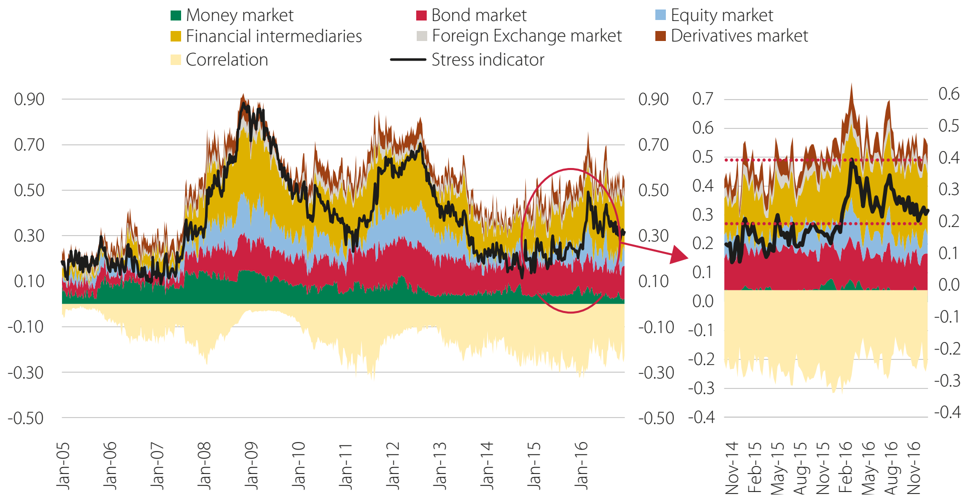
The indicator of stress on Spanish financial markets has retreated from Brexit highs, but remains in the medium risk interval.

The stress indicator for Spanish financial markets dropped from 0.43 in late June to 0.30[5] in mid-November (see Figure 12) on evidence of a gathering economic recovery, the formation of a new national government and the wearing-off of the initial Brexit shock. The main risks for these levels, currently at the low end of the medium stress range, lie in the financial intermediaries segment, where sharply falling bank shares reflect the multiple problems besetting the financial sector.

5 The stress indicator developed by the CNMV provides a real-time measurement of systemic risk in the Spanish financial system in the range of zero to one. To do so, it assesses stress in six segments (equity, bonds, financial intermediaries, the money market, derivatives and the forex market) and aggregates them into a single figure bearing in mind the correlation between them. Econometric estimations consider that market stress is low when the indicator stands below 0.27, intermediate in the interval of 0.27 to 0.49, and high when readings exceed 0.49. For more information see Exhibit 1.1 of the *CNMV Annual Report* for 2014 and Estévez, L. and Cambón, M.I. (2015). *A Spanish Financial Market Stress Index (FMSI)*. CNMV Working Paper No. 60. Available at: http://www.cnmv.es/portal/Publicaciones/monografias.aspx

Spanish financial market stress indicator

FIGURE 12



Source: CNMV. See *A Spanish Financial Market Stress Index (FMSI)*. CNMV Working Paper No. 60. Data to 11 November.

Market risk is still the big threat for financial markets, with fixed-income assets in the foreground.

The most pressing risk in financial markets is currently market risk, referring chiefly to fixed-income asset prices. Even after large falls to mid-November, prices in this segment remain notably high, shored up by a series of factors including the ECB's asset purchase programmes. The concern now is that prices may correct more sharply if yields start climbing in response to monetary policy switches in both the United States and the euro area. Equities also carry this risk, given their close correlation to bond prices. Among the most vulnerable are financial and real estate shares, along with those most exposed to Brexit effects and possible changes in US economic policy.

3.1 Equity markets

Equity markets rally in the third quarter on a robust economy, the formation of a new government and the wearing-off of Brexit effects. However, persisting uncertainties…

Spanish equity markets opened the third quarter with a price spurt that tended to flatten out as time went on, but ensured that the Ibex 35 had by mid-November recouped some of the ground lost in the first six months. This positive showing owed to the consolidation of economic recovery, the wearing-off of the initial Brexit shock (see Exhibit 2) and the forming of a new government after long months of political impasse. In recent weeks, however, uncertainty has again gripped markets, anxious about a possible speed-up in the Brexit calendar (the markets were counting on a gradual disconnection), the results of the US presidential elections and the new government's economic policy (specifically the chance that the Federal Reserve could accelerate its timetable of interest rate hikes). On top of this, rumours have surfaced to the effect that the ECB might bring forward the withdrawal of its monetary stimulus.

… have got in the way of a stronger recovery. Year to date, the Ibex 35 presents similar losses to the Eurostoxx 50 against a backdrop of falling trading volumes and the normalisation of volatility after the post-Brexit spike.

The rebound in Spanish share prices after the initial Brexit dip was a little stronger than elsewhere in Europe, except Germany, and on a par with the Eurostoxx 50. Despite this, the Spanish market is still mired in losses year to date, underperforming Germany, France and the United Kingdom,[6] and ahead only of the penalised

6 Britain's FT 100 shows gains in local currency but performs negatively in euro terms.

Italian markets. Volatility, meantime, receded from peak levels of over 80% in the immediate aftermath of Brexit – the highest since the debt crisis of 2010 – settling back to below its historical average as the markets regained their feet. The trading contraction unfolding since January intensified if anything, as far as 788 billion euros to end-September, a 25% decrease year on year. Meantime trading in Spanish shares on platforms other than their home market continued its advance to nearly 33% of the total. In primary markets, equity issuance fell off significantly after a run of three initial public offerings (IPO) in the second quarter, with transactions in the period confined to capital increases.

Performance of Spanish stock market indices and sectors (%)

TABLE 6

							4Q 16 (to 15 November)	
Index	2012	2013	2014	2015	2Q 16[1]	3Q 16[1]	%/ prior quarter	%/ Dec 15
Ibex 35	-4.7	21.4	3.7	-7.2	-6.4	7.5	-1.1	-9.0
Madrid	-3.8	22.7	3.0	-7.4	-6.7	7.7	-1.1	-9.4
Ibex Medium Cap	13.8	52.0	-1.8	13.7	-7.6	7.8	-1.9	-11.5
Ibex Small Cap	-24.4	44.3	-11.6	6.4	-8.1	11.6	-3.2	-0.8
FTSE Latibex All-Share	-10.7	-20.0	-16.1	-39.2	-2.6	24.4	7.7	61.2
FTSE Latibex Top	-2.6	-12.4	-11.1	-34.6	-5.6	29.3	10.1	57.8
Sectors[2]								
Financial and real estate services	**-4.7**	**19.9**	**1.4**	**-24.2**	**-14.0**	**10.4**	**10.7**	**-9.9**
Banks	-4.8	18.8	1.6	-26.0	-15.0	10.3	11.8	-10.4
Insurance	-2.0	47.3	-9.2	-5.0	1.8	20.5	9.4	8.2
Real estate and others	-14.4	38.3	36.3	18.4	-3.4	0.1	-3.2	-6.3
Oil and energy	**-16.0**	**19.0**	**11.8**	**0.6**	**5.3**	**0.8**	**-7.0**	**-7.9**
Oil	-35.4	19.5	-15.1	-34.9	15.0	5.8	2.4	22.1
Electricity and gas	-5.4	18.7	21.7	9.6	3.7	-0.1	-9.0	-12.7
Basic materials, industry and construction	**-8.0**	**28.9**	**-1.8**	**2.1**	**-5.7**	**12.6**	**-5.9**	**-3.6**
Construction	-9.3	26.5	8.9	4.9	-8.2	9.5	-7.0	-12.7
Manufacture and assembly of capital goods	-8.8	55.4	-18.3	49.0	-4.0	16.2	-10.8	2.4
Minerals, metals and metal processing	-8.7	11.5	4.5	-30.8	-1.2	21.7	6.5	42.0
Engineering and others	3.8	7.6	-17.0	-39.6	3.4	14.3	-4.9	-1.9
Technology and telecommunications	**-18.3**	**22.8**	**2.5**	**-5.2**	**-9.7**	**9.0**	**-10.8**	**-16.5**
Telecommunications and others	-23.0	17.1	2.6	-12.3	-13.6	7.0	-11.1	-21.6
Electronics and software	39.4	56.8	2.3	22.2	3.4	14.4	-10.0	0.0
Consumer goods	**55.6**	**17.1**	**-1.5**	**30.9**	**0.9**	**7.0**	**-4.7**	**-3.7**
Textiles, clothing and footwear	66.2	13.5	-1.1	33.6	1.2	10.4	-5.1	-1.1
Food and drink	25.0	4.7	-5.2	26.4	-1.0	-1.2	-7.6	-10.6
Pharmaceuticals and biotechnology	68.3	39.6	-1.0	23.5	2.5	-1.3	-2.1	-9.5
Consumer services	**12.7**	**58.9**	**10.0**	**10.4**	**-10.2**	**7.3**	**-4.5**	**-12.9**
Motorways and car parks	5.7	36.5	6.8	-7.9	-4.1	5.0	-10.3	-9.4
Transport and distribution	29.7	116.4	27.9	29.6	-19.5	7.9	1.1	-18.2

Source: BME and Thomson Datastream.

1 Change vs. the previous quarter.

2 IGBM sectors. Under each sector, data are provided for the most representative sub-sectors.

The Ibex 35 followed up its 8.6% and 6.4% losses in the first and second quarters with a third-quarter advance of 7.5%. It then returned to negative territory (-1.1%) to mid-way through the fourth quarter[7] for a year-to-date decline of 9% (-7.2% in full-year 2015). Most Spanish stock indices, with the exception of the outperforming small cap index, advanced in line in the third quarter, with gains ranging from 7.5% to 7.8%, only to slip back in the fourth. Year-to-date falls border on 9% for the Ibex 35 and IGBM, widening to 11.5% for the medium cap index, while firms in the small cap bracket have contained their losses at less than 1% (see Table 6). The indices grouping Latin American securities traded in euros managed a sizeable third-quarter gain on top of the rises of the first six months. Specifically, the FTSE Latibex All-Share and FTSE Latibex Top have climbed 61.2% and 57.8% respectively in the year, bolstered by the strength versus the euro of currencies like the Brazilian real and the Colombian and Chilean pesos.

The Ibex 35 and other large cap indices have posted deep losses year to date (between 9% and 11.5%), in contrast to the sideways trading of small cap firms (-0.8%).

The story for most sectors except financial and real estate services was one of third-quarter gains giving way to a downward correction in the fourth quarter. The financial sector was the strongest performing in third-quarter 2016 after the punishment taken in the first six months. Also doing well were industry and metals and minerals, with the economy and commodity prices in support. However most sectors stand in negative territory year to date, with financial services at the rear – held back by the banks. The other big loser is the telecommunications sector where Spain's top operator has faced difficulties in disposing of its UK subsidiary. On the upside, the oil sector and minerals and metals rose strongly on commodity price recovery, with the insurance sector some way behind (see Table 6).

Share prices rise in the third quarter, led by financials, industry and metals, before moving back into reverse (except the banks). Year to date, most sectors show negative returns.

The UK referendum on leaving the European Union (Brexit) and its impact on financial markets

EXHIBIT 2

The referendum of 23 June on the United Kingdom's membership of the European Union (EU) gave the victory to the leave camp, which won almost 52% of votes cast (Brexit). The United Kingdom has tended to be an uncomfortable partner since it joined the then European Economic Community (EEC) in 1973. The country held its first vote on remaining in 1975, after renegotiating its membership conditions, with a majority of the electorate in favour. It subsequently opted out of the Schengen space (1985) and, despite signing up for the Single Market (1993), decided not to join the euro. At the start of this year, with the new referendum already announced, it won a deal giving it "special" conditions in the event that the British voted to stay in the Union. Among them, a degree of flexibility in the application of European regulations for non-euro EU members not belonging to the banking union, including a guarantee that the United Kingdom would not be discriminated against for being outside the euro area. Limits were also agreed on the availability of UK welfare benefits to newly arrived EU migrants.

Although there were plentiful grounds to doubt the outcome, the vote to leave nonetheless came as a surprise to the bulk of public opinion both within and

7 Data to 15 November.

outside the United Kingdom, and provoked a wave of uncertainty leading to revise-downs of growth forecasts for the British economy and the EU itself, and an upswing in the perceived political risk of certain European countries. Prime Minister David Cameron, an advocate of remaining in the EU, resigned and was replaced by Theresa May on 13 July last.

European equity markets received the news with sharp price falls, a surge in volatility (to levels unseen since the debt crisis of 2010) and a jump in trading volumes. Losses were steepest in Spain (where the Ibex 35 experienced the worst fall in its history; 12.4% in a single day) and Italy (see Table E2.1). The Spanish shares taking the biggest punishment on 24 June corresponded to large corporations in banking, telecommunications and services, on account of their higher exposure to the UK and global economies. Losers included Banco de Santander (-19.9%), Banco Sabadell (-19.3%), Telefónica (-16.1%) and IAG (-26.7%), while small and medium cap firms got off relatively lightly on their more limited exposure to events outside Spain.

The price swings of the 24 June trading session were a sharp test for the stabilising mechanisms envisaged in European market regulations, and one they passed with flying colours. As the day progressed, many stock exchanges, including Spain's, had to activate the "circuit breakers" designed for such occasions, suspending trading in a given share when its price varied beyond a preset threshold, and only resuming after the reboot of a "volatility auction" where agents can re-enter their orders. These cooling-off mechanisms play a vital stabilising role at times of heightened market stress, and certainly proved their worth on the day in question.

Performance of main Spanish and European stock indices[1] TABLE E2.1

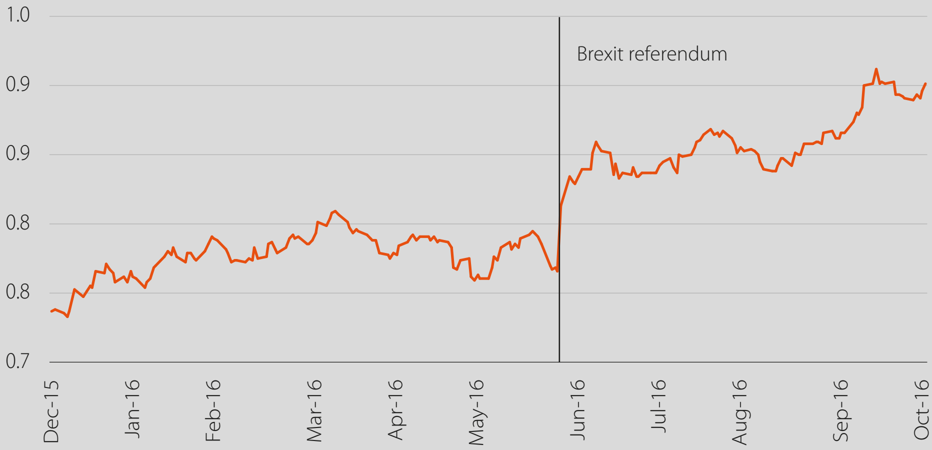
	%/ 23 June	% 23 Jun / 1 July	% 23 Jun / 31 Oct.		%/ 23 June	% 23 Jun / 1 July	% 23 Jun / 31 Oct.
Spain				**Euro area**			
Ibex 35	-12.4	-6.9	2.9	Eurostoxx 50	-8.6	-5.1	0.6
Madrid	-12.5	-7.0	3.2	Dax 30	-6.8	-4.7	4.0
Ibex Med. Cap	-7.5	-4.3	2.5	Cac 40	-8.0	-4.3	1.0
Ibex Small Cap	-8.1	-3.4	6.2	Mib 30	-12.5	-9.3	-4.7
				United Kingdom			
				FTSE 100	-3.1	-3.8	9.7
				FTSE 100 (in €)	-8.5	-5.1	-6.2

Source: Datastream
1 In local currency.

After the initial disruption, European equity markets shook off the Brexit effects and initiated a bull run that was not interrupted even when a "hard Brexit" emerged as the likeliest option to judge from the Prime Minister's words in early October.[1] On the contrary, most indices held in positive terrain from there to the end of the month. In the United Kingdom, leading index FTSE 100 managed a 9.7% advance in local currency, ahead of other European indices (the German Dax 30 rose by 4%, the Ibex 35 by 2.9% and France's Cac 40 by 1%). However, this gain becomes a steep correction if calculated in euros (-6.2%), in view of the sterling pound's prolonged depreciation (17.2% since the referendum and 21.7% since the start of the year) (see Figure E2.1).

In fixed-income markets, the first reaction was a jump in risk premiums that was most intense in sovereign bonds (with many registering peak annual spreads). The yield spread between European sovereigns and the German ten-year benchmark widened sharply post-Brexit (by 21 bp in one session in the case of the Spanish bond), but promptly corrected back in the following weeks.

British pound/euro exchange rates FIGURE E2.1



Source: Bloomberg.

The last chapter in the story, for the moment at least, opened on 3 November last, when the High Court in London, petitioned by a group of citizens as to whether the British executive was empowered to trigger Article 50 of the Treaty of Lisbon and set in motion Brexit, ruled that the United Kingdom government must receive authorisation from Parliament before moving ahead with the separation process. The British government appealed against the ruling before the Supreme Court, arguing that the result of the June referendum conferred sufficient legitimacy to initiate Brexit without recourse to Parliament, since the country's citizens had already issued their verdict. The Court will announce its final decision before the end of 2016.

As to Brexit's medium- and long-term effects on the British economy, analysts believe that it will weaken economic growth.[2] It implies the loss of the internal market – damaging competitiveness and foreign trade, and could lead to flights of capital and the dethroning of the City of London as premier financial centre, as well as higher unemployment and fiscal imbalances. For the EU too, Brexit threatens to usher in a scenario of lower growth, weaker commercial ties and budgetary rebalancing. In Spain's case, the most obvious harm will be to bilateral trade (Spain runs a trade and services surplus with the UK, and 15.5 million British tourists visited the country in 2015) and the future of Spanish investments in the United Kingdom (particularly elevated in finance, telecommunications, energy and infrastructures). It will also mean higher regulatory costs for Spanish banks and companies, and the possible renegotiation for both countries' citizens of their entitlement to social services.

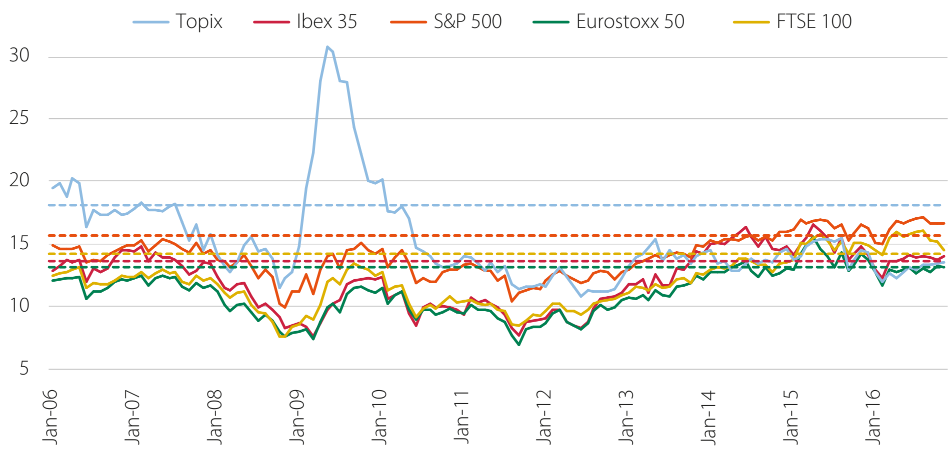
1 The new British Prime Minister announced in early October that the United Kingdom would trigger Article 50 of the Treaty of Lisbon (establishing the country's exit from the EU) before the end of March 2017, a process the markets dubbed a "hard Brexit" having presumed that the leaving process would be drawn out over time.

2 A report from the UK Treasury estimates that Brexit could slice between 3.6% and 6% off British GDP in the next two years, and that inflation will climb between 2.3% and 2.7%, compared to the Bank of England's 2017 forecast of 1.8%. The same report calculates that the impact on the European Union will be 1% less growth in the two-year period. The European Commission issued its own projections last July putting the negative impact on 2017 GDP at 1% to 2.75% for the United Kingdom and 0.25% to 0.5% for the euro area.

P/E ratios fall despite the third-quarter share rally, ahead of expected improvement in corporate earnings.

Despite rising share prices in the second half-year, expectations of a small rise in company earnings pushed the price-earnings ratio (P/E) of the Ibex 35 down from 14.1 to 13.9. The multiple has dropped by a similar margin year to date, as the fall in markets was comparable (just slightly smaller) to the fall in projected earnings per share. As we can see from Figure 13, the P/Es of major stock indices held more or less flat in the third quarter of 2016, evidencing expectations of low-key growth for the advanced economies. With the exception of Japan's Topix, multiples in all markets stood slightly above the average levels of 2000-2015.

Price-earnings ratio[1] (P/E) FIGURE 13



Source: Thomson Datastream. Data to 15 November.

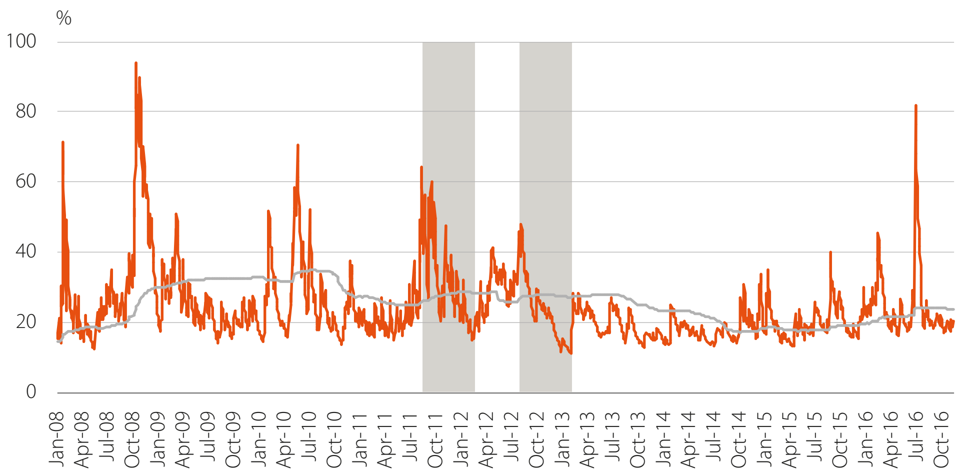
1 Twelve-month forward earnings.

Market jitters after the Brexit vote push volatility to above 80%, though readings quickly recede to current levels near 20%, below the 25.2% average for the year.

Ibex 35 volatility died down steadily from mid-year onwards, after a dramatic spike in the aftermath of the Brexit vote when readings shot to over 80%, a level unseen since the thick of the sovereign debt crisis. Current levels of around 20% compare favourably to the year-to-date average of 25.2%. A similar pattern could be observed on other European indices like the Eurostoxx 50, although the Ibex's post-Brexit run-up was more intense than most.

Historical volatility of the Ibex 35

FIGURE 14



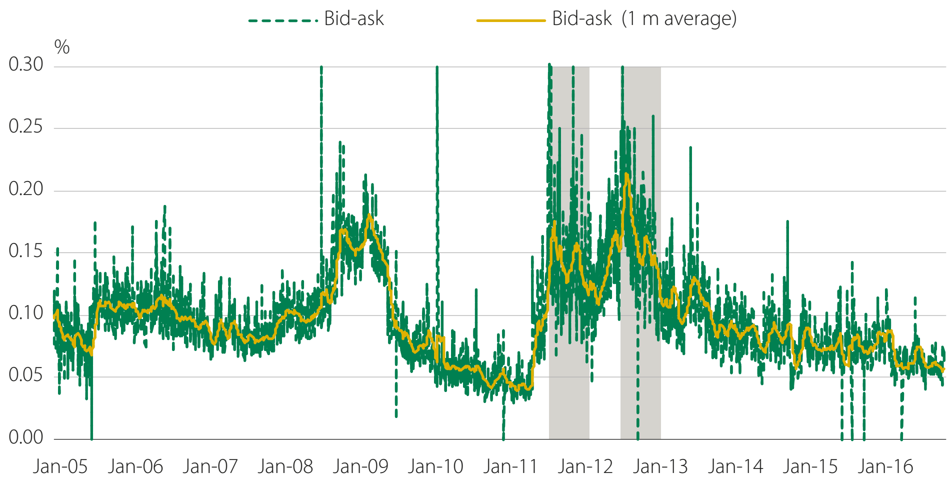
Source: Thomson Datastream and CNMV. Data to 15 November. The black line indicates unconditional volatility and the red line conditional volatility. The vertical lines refer to the introduction and lifting of the short selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013.

Ibex 35 liquidity holds within acceptable bounds.

Ibex 35 liquidity, as measured by the bid-ask spread, has traced a smooth progression with signs of some mild improvement in the second half. The only blips occurring were brief widening movements on news of a possible early Brexit and, later, the announcement of the US election result. Finally, the spread narrowed from 0.09% at end-June to 0.06% in mid-November, below the indicator's historical average of 0.095%.

Ibex 35 liquidity. Bid-ask spread

FIGURE 15



Source: Thomson Datastream and CNMV. Data to 15 November. The curve represents the bid-ask spread of the Ibex 35 along with the average of the last month. The vertical lines refer to the introduction and lifting of the short-selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013.

Trading in Spanish shares listed on Spanish exchanges[1]

TABLE 7

Million euros	2012	2013	2014	2015	2Q 16	3Q 16	4Q 16[2]
Total	**709,902.0**	**764,986.6**	**1,002,189.0**	**1,161,482.8**	**252,422.3**	**172,742.7**	**103,031.4**
Listed on SIBE (electronic market)	**709,851.7**	**764,933.4**	**1,002,095.9**	**1,161,222.9**	**252,417.9**	**172,739.8**	**103,031.0**
BME	687,456.1	687,527.6	849,934.6	925,978.7	187,555.2	116,214.4	68,970.9
Chi-X	16,601.3	53,396.7	95,973.0	150,139.9	29,647.4	25,332.5	16,231.1
Turquoise	3,519.6	11,707.9	28,497.5	35,680.5	12,914.1	13,288.1	6,701.2
BATS	2,261.9	10,632.1	18,671.0	35,857.6	13,550.5	8,814.8	5,187.0
Others[2]	12.8	1,669.2	9,019.8	13,566.2	8,750.7	9,089.9	5,940.9
Open outcry	**49.9**	**51.4**	**92.4**	**246.1**	**4.0**	**0.5**	**0.4**
Madrid	3.0	7.3	32.7	19.4	1.2	0.1	0.0
Bilbao	8.5	0.1	14.3	7.5	0.0	0.0	0.0
Barcelona	37.7	44.1	45.2	219.1	2.7	0.4	0.3
Valencia	0.7	0.0	0.3	0.1	0.0	0.0	0.0
Second market	**0.4**	**1.7**	**0.7**	**13.8**	**0.4**	**2.4**	**0.1**
Pro memoria							
BME trading of foreign shares[3]	4,102.0	5,640.0	14,508.9	12,417.7	1,565.9	1,539.1	821.0
MAB	4,329.6	5,896.3	7,723.2	6,441.7	1,064.6	1,021.7	664.4
Latibex	313.2	367.3	373.1	258.7	18.0	26.5	23.1
ETF	2,736.0	4,283.9	9,849.4	12,633.8	1,468.5	1,014.3	518.6
Total BME trading	698,987.5	703,768.7	882,482.3	957,990.5	191,676.7	119,818.9	70,998.4
% Spanish shares on BME vs. total Spanish shares	96.8	89.9	84.8	80.1	74.6	67.7	67.3

Source: Bloomberg and CNMV.

1 Spanish shares listed on Spanish exchanges are those with a Spanish ISIN that are admitted to trading in the regulated market of Bolsas y Mercados Españoles, i.e., not including alternative investment market MAB. Foreign shares are those admitted to trading in the regulated market of Bolsas y Mercados Españoles whose ISIN is not Spanish.

2 Data to 15 November.

3 Difference between the turnover of the EU Composite estimated by Bloomberg for each share and the turnover of the markets and MTFs listed in the table, i.e., including trading on other regulated markets, MTFs and OTC systems.

Political uncertainty at home and abroad contributes to drive down trading in Spanish shares.

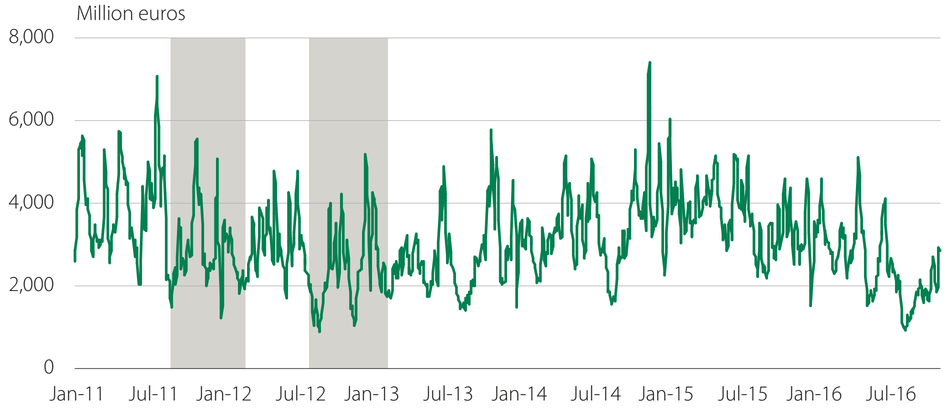
Trading in Spanish equities sank by 34% in the second half with respect to the year-ago period, affected by the uncertainty following the Brexit referendum and, domestically, the delays in forming a new national government, compounded by market-specific factors like the summer business lull and the OTC trading boom. At 782 billion euros, volumes to date are 25% down on the equivalent period in 2015.[8] The Spanish regulated market still accounts for the bulk of trading in Spanish shares, although it has been losing ground to other European regulated markets and multilateral trading facilities (MTFs). Specifically, trades on Spanish exchanges summed 565 billion euros, 32% less than in the year-ago period. Average daily trading on continuous market SIBE was 1.78 billion euros in the third quarter, well short of the 3.13 and 2.91 billion of the two preceding quarters, and the 2.54 billion average recorded year to date (see Figure 16).

8 Excluding trading on MAB and Latibex and in ETFs.

As stated, trading in Spanish shares on other European platforms increased significantly in the third quarter. The shift in trading away from home exchanges to other regulated markets and MTFs is a process that, to date, had mainly affected other European bourses. The recent upswing in the case of Spanish shares may owe something to last May's reform of the securities clearing, settlement and registration system, to align domestic procedures with international post-trade standards. So far this year, external markets have channelled 216.70 billion euros in trades, 4% more than in the same period 2015. This equates to nearly a third (32.3%) of overall trading in Spanish shares (23.8% and 25.4% in the first and second quarters of 2016 respectively, up from 20% in full-year 2015). Again the Chi-X stands out for the scale of volumes transacted – almost 105 billion euros year to date and 48% of all foreign trading – although it has recently lost share to competing platforms.

Trading of Spanish shares on other European regulated markets and MTFs has now reached almost 33% of the total.

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



Source: CNMV. Data to 15 November. The vertical lines refer to the introduction and lifting of the short-selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013.

1 Moving average of five trading days.

Equity issuance on domestic markets dropped to 4.45 billion euros in the second half of the year (data to 15 November), less than a third of the volume of the first-half period. Year-to-date issuance[9] totalled 18.59 billion euros, 46% lower than the equivalent period last year. There were no new share offerings in the third quarter and capital increases were smaller and consisted largely (60%) of scrip dividends,[10] which were similar to the second quarter in value terms (1.15 billion euros). So far this year there have been only two modest share offerings – one in the restaurant sector and one in leisure – raising a total of 506 million euros, compared to six in 2015 raising more than 8.30 billion. There was, however, a boom in non-monetary offerings settled by share contributions, which summed 1.74 billion euros by market value to November, compared to just 51 million euros in the first quarter and 367 million euros in the previous year.

Equity issuance dips sharply in 3Q 2016 with no new share offerings and only smaller-scale capital increases.

9 Data to 15 November.

10 The third quarter figure includes the many company dividends paid in July.

Capital increases and public offerings

TABLE 8

	2013	2014	2015	1Q 16	2Q 16	3Q 16	4Q 16
NUMBER OF ISSUERS[1]							
Total	**39**	**49**	**52**	**17**	**20**	**13**	**5**
Capital increases	39	47	47	17	20	13	5
Public offer for subscription	5	6	0	0	3	0	0
Public offering of shares	0	4	6	0	2	0	0
NUMBER OF ISSUES[1]							
Total	**145**	**147**	**115**	**21**	**24**	**15**	**7**
Capital increases	145	140	103	21	22	15	7
Public offer for subscription	5	8	0	0	4	0	0
Public offering of shares[2]	0	7	12	0	2	0	0
CASH AMOUNT[1] (million euros)							
Total	**39,126.2**	**32,762.4**	**37,067.4**	**4,891.5**	**9,247.2**	**1,907.8**	**2,540.1**
Capital increases	39,126.2	27,875.5	28,735.8	4,891.5	8,740.6	1,907.8	2,540.1
Public offer for subscription	1,742.8	2,951.5	0.0	0.0	807.6	0.0	0.0
Paid-in capital increases	9,932.8	12,650.8	9,627.8	966.6	1,233.3	1,146.3	1,034.3
Of which scrip dividend[3]	9,869.4	12,573.8	9,627.8	966.6	1,233.3	1,146.3	1,034.3
Capital increases by debt conversion[4]	7,478.8	3,757.9	2,162.5	3,008.6	230.7	342.6	2.3
Capital increases against non-monetary consideration[5]	231.6	2,814.5	367.0	50.8	0.0	238.3	1,502.6
With preferential subscription rights	11,463.1	2,790.8	7,932.6	799.9	5,534.0	174.8	0.0
Without rights trading	8,277.1	2,909.9	8,645.9	65.5	935.0	5.8	0.8
Public offering of shares	0.0	4,886.9	8,331.6	0.0	506.6	0.0	0.0
***Pro memoria:* MAB transactions[6]**							
Number of issuers	7	9	16	2	3	8	2
Number of issues	14	15	18	2	3	8	2
Cash amount (million euros)	45.7	130.1	177.8	7.2	4.2	178.2	20.5
Capital increases	45.7	130.1	177.8	7.2	4.2	178.2	20.5
Of which, through public offer for subscription	1.8	5.0	21.6	0.0	0.0	7.3	7.3
Public offering of shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: BME and CNMV. Data to 15 November.

1 Transactions registered with the CNMV. Not including figures for MAB, ETFs or Latibex.

2 Greenshoe-related transactions are accounted for separately in this item.

3 In scrip dividends, the issuer gives existing shareholders the option of receiving their dividend in cash or converting it into shares in a paid-in capital increase.

4 Includes capital increases to allow conversion of bonds and other debt into shares by the exercise of employee stock options or execution of warrants.

5 Capital increases for non-cash consideration have been measured at their market value.

6 Transactions not registered with the CNMV.

3.2 Fixed-income markets

Yields on government and corporate debt hit record lows in September before rebounding on expectations of changes in monetary policy and, later, the US presidential elections.

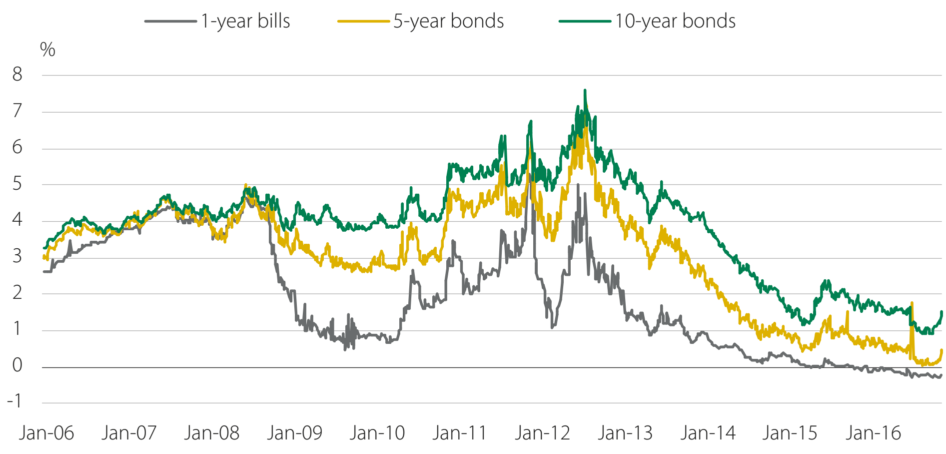
Fixed-income markets in Spain, as in most major European economies, began the third quarter with big price rallies and yield falls as investors sought refuge from post-Brexit instability on equity markets. This, coupled with the ECB's debt purchase programme, drove down yields on public and corporate debt to historical lows in September in most segments of the yield curve. Yields paid by Spanish and German ten-year sovereign bonds fell to all-time lows, below 1% and 0% respectively.

The effects rippled out to all fixed income markets, including high yield as investors turned to ever more varied assets in their quest for yield. Even so, in the fourth quarter, bond yields started to recover somewhat, as markets began to anticipate the ECB's first steps toward withdrawing its stimulus.[11] Rises began in October, gathering pace in November with US election result, read by investors as heralding a more expansionary and inflationary policy likely to affect monetary policy at the Fed and even the ECB.

Risk premiums also narrow in the second half, helped by the installation of a new government in Spain, but tend to rebound after the US elections.

Spanish risk premiums were helped by ECB monetary policy and the formation of a new government. Sovereign spreads eased 20 bp[12] in the second half taking them back to their year-start level. Large corporates continued to snap up the cheap finance available (thanks to the ECB's corporate debt purchase programme) on the corporate markets, although volumes were down on previous quarters. Also down was issuance abroad. Issues registered with the CNMV so far this year totalled 92.60 billion euros, nearly 9% below the same period 2015. Defying this general trend, however, securitisation volumes were up in year-on-year terms.

Spanish government debt yields FIGURE 17



Source: Thomson Datastream. Data to 15 November.

Yields on short-dated government and corporate paper touch new lows in September, but the falls now seem to have levelled off.

Interest rates paid on short-dated government bonds continued their decline as the year wore into its second half and reached new historical lows in both primary and secondary markets. ECB monetary policy and purchase programmes[13] continue to affect movements at the short end of the debt curve. In mid-November, yields on three-month, six-month and twelve-month Letras del Tesoro stood at -0.39%, -0.29% and -0.25% respectively, having shed between 11 and 17 bp since end-June. This puts them within a whisker of the -0.4% minimum threshold for ECB purchase programmes (marginal deposit rate). All Treasury auctions were settled at negative interest rates, although rates did edge up at the most recent ones in November.

11 The ECB president has confirmed that the bank will continue buying assets until at least the end of 2017.

12 Data to 15 November.

13 At end-October 2016, the ECB had bought 1,148 billion euros of debt including 135.22 billion euros of Spanish paper.

Short-term corporate debt showed a similar trend, with yields also at historical lows. Falls were similar in scale to public debt (between 9 bp and 20 bp) focusing on the six-month and twelve-month tenors. Interest rates at issuance on six- and twelve-month commercial paper fell to 0.29% and 0.25% respectively, although rates on three-month paper rose slightly, to 0.29% (see Table 9).

Short-term interest rates[1] TABLE 9

%	Dec 13	Dec 14	Dec 15	Mar 16	Jun 15	Sep 16	Nov 16[2]
Letras del Tesoro							
3 month	0.54	0.12	-0.15	-0.26	-0.22	-0.42	-0.39
6 month	0.70	0.25	-0.01	-0.12	-0.18	-0.27	-0.29
12 month	0.91	0.34	-0.02	-0.06	-0.14	-0.23	-0.25
Commercial paper[3]							
3 month	1.09	0.55	0.31	0.28	0.25	0.25	0.29
6 month	1.36	0.91	0.42	0.65	0.49	0.35	0.29
12 month	1.59	0.91	0.53	0.48	0.34	0.33	0.25

Source: Thomson Datastream and CNMV.

1 Monthly average of daily data.

2 Data to 15 November.

3 Interest rates at issue.

Yields on long-dated debt also fell to annual lows in late September. Corporate bonds were additionally buoyed by the start of the ECB's purchase programme.

Yields on medium- and long-term government bonds also fell in the second half-year, by between 6 bp and 18 bp comparing mid-November with mid-year rates, although the ten-year yield did go as far as 50 bp down during September, when returns on three-, five- and ten-year public debt also set historical lows of -0.11%, 0.04% and 0.88% respectively. Despite subsequent rises, yields in all tenors at the end of the second half-year remain below their year-start level. The ten-year bond, the most liquid, pays 32 bp less than when the year began. Three-, five- and ten-year notes were yielding 0.04%, 0.28% and 1.33% respectively in mid-November (see Table 10). Corporate debt traced a similar pattern but with even steeper falls in yields, between 16 bp and 28 bp as, even though the market was pre-warned about the ECB's plans to buy up corporate debt and had already partly priced in their impact, the actual purchases only began in June. The falls were sharpest in three-year bonds, where yields dropped 28 bp compared to the previous half-year, with short-lived dips of up to 50 bp in ten-year bonds in late September. At the closing date of this report (15 November), yields on three-, five- and ten-year notes were 0.53%, 1.34% and 1.87%, respectively.

Medium and long term interest rates[1]

TABLE 10

%	Dec 13	Dec 14	Dec 15	Mar 16	Jun 15	Sep 16	Nov 16[2]
Government bonds							
3 year	2.00	0.65	0.24	0.13	0.10	-0.05	0.04
5 year	2.68	0.96	0.72	0.55	0.46	0.12	0.28
10 year	4.15	1.77	1.72	1.51	1.47	0.99	1.33
Corporate bonds							
3 year	2.63	0.84	0.66	0.63	0.81	0.53	0.53
5 year	2.84	1.88	1.95	1.65	1.51	1.09	1.34
10 year	4.46	2.32	2.40	2.11	2.04	1.54	1.87

Source: Thomson Datastream, Reuters and CNMV.

1 Monthly average of daily data.

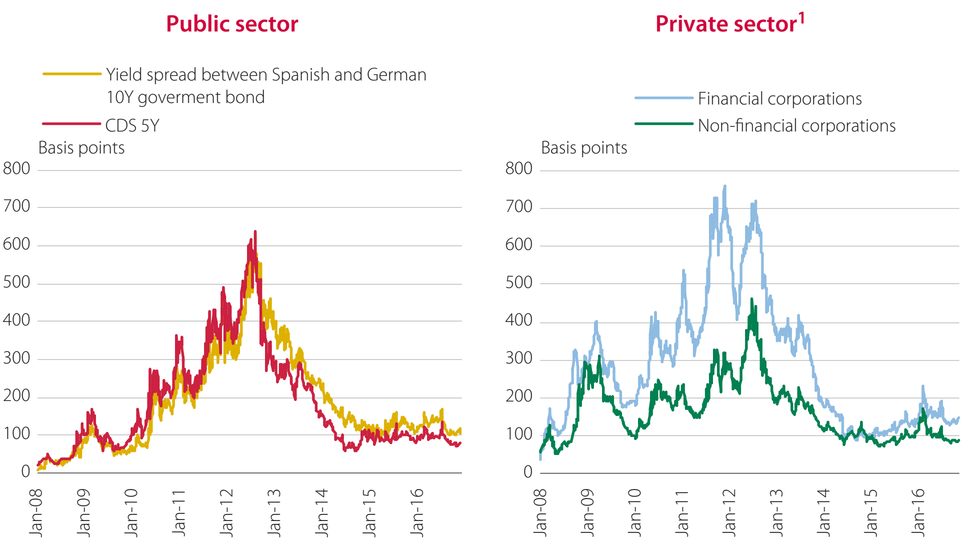
2 Data to 15 November.

Risk premiums fell, particularly in the financial sector. The sovereign bond's risk premium drops to 115 bp, close to their year-start levels.

Risk premiums in the diverse sectors of the private economy broadly tracked the trend in public debt in the third quarter, although financials, being the likeliest winners from a rising-rate environment, saw the greatest narrowing. Shrugging off the brief post-Brexit turbulence, sovereign risk premiums continued to benefit from the ECB's purchase programmes and the reduction in political uncertainty after Spain finally got itself a new government. The yield spread between the Spanish and German benchmarks was less volatile than in the previous quarter, trading mostly between 100 bp and 120 bp, although occasionally dipping below the lower bound of this range. At mid-November, the premium based on this spread was around 115 bp, below the 135 bp of the second quarter and similar to its level when the year began. On the CDS market, the premium traded on the Spanish sovereign CDS once again showed less fluctuation than the yield spread over the bund and movements were more restrained. It ended the period at 78 bp, below the 104 bp and 89 bp at which it began the quarter and year respectively (see left-hand panel of Figure 18).

Risk premium paid by Spanish issuers

FIGURE 18



Source: Thomson Datastream and CNMV. Data to 15 November.

1 Simple average of five-year CDSs from a sample of issuers.

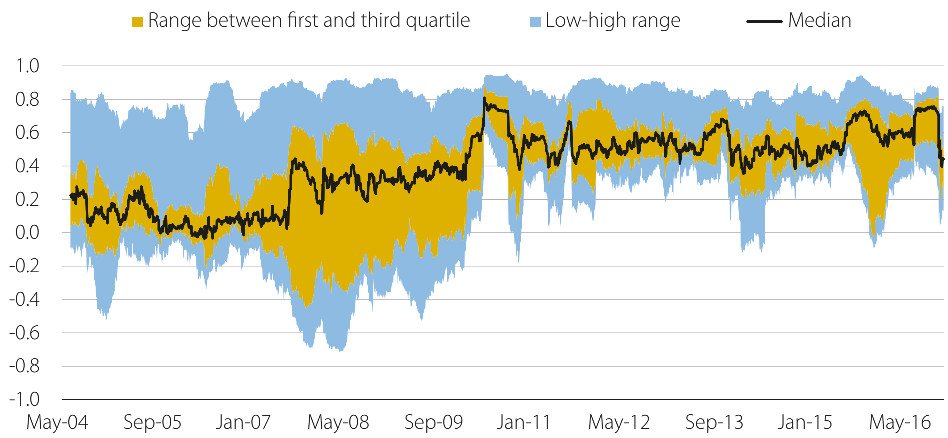
In the private sector, financial issuers would get a boost from any future rate hikes, while non-financials tend to be more stable.

Private sector borrowers continue to benefit from the ECB's corporate debt purchase programme. Credit risk premiums on corporate bonds performed positively, with the biggest falls in the financial sector. Although there has never been a specific programme to buy paper issued by financial entities (excluded from the corporate debt purchase programme), the market, as we said, has been assuming banks would profit from any hike in interest rates and could rebuild margins once rates turned positive. As is clear from the right-hand chart in Figure 18, the average CDS spread of Spanish financials in mid-November was 146 bp, down from the third-quarter's 175 bp and similar to its level at the start of the year. For non-financial corporations, average risk premiums were 93 bp at the same date, below the 108 bp and 112 bp of the prior quarter and end-2015 respectively.

Correlations between the price of Spain's financial assets remains high for most of the year but weakens in the last quarter.

The prices of Spanish financial assets remained closely correlated during most of the third quarter (see Figure 19) as all suffered more or less equally from the Brexit effect. However, in the fourth quarter, average correlations fell from around 0.70 to near 0.40. The downtrend started before the results of the US elections were known, though these may well have exacerbated the differences in the behaviour of fixed-income and equity assets. The range of correlations between assets widened resulting in weaker correlations between some sets of asset pairs, partly because the ECB's bond-buying programme tends to insulate fixed-income instruments from some market shocks.

Correlation between classes of Spanish financial assets[1] FIGURE 19



Source: Thomson Datastream and CNMV. Data to 15 November.

1 The indicator of correlation between asset classes is based on pairs of correlations calculated using daily data in three-month windows. The asset classes are sovereign debt, corporate fixed income of financial and non-financial firms and Ibex 35 stocks of financial corporations, utilities and the other sectors.

The volume of issues registered in 2Q is the lowest of recent times. Year-to-date issuance stands at 92.60 billion euros, nearly 8.80 billion less than in 2015.

The CNMV recorded 22.71 billion euros of gross bond issuance in the second half of the year (to 15 November), less than a third of the 69.97 million euros of the first six months. Issuance is running at its lowest in recent semesters and has been heavily affected by a resurgence of traditional bank funding, both in terms of volume and prices, and by Spain's biggest companies preferring to tap markets abroad. The slump affected the traditionally heavy-volume assets, particularly mortgage covered bonds where issuance fell by more than 17 billion euros to barely a sixth of the first-half total, but with sharp drops too in non-convertible bonds and debentures and securitisations, where issuance was down by 84% and 73% respectively versus the first half. On the plus side, there were notable rises in territorial covered bonds, with 64% more issued in the period, and the first ever issue of international covered bonds in a 1.50 billion euro operation. Year-to-date issuance was 92.60 billion, nearly 8.80 billion less than in the same period 2015, with the biggest declines in non-convertible bonds and debentures and commercial paper – competing with a popular international market – and, to a lesser extent, mortgage covered bonds, where issuance was curtailed by the still falling volume of mortgages in circulation.

Gross fixed-income issues

TABLE 11

					2016		
Registered[1] with the CNMV	**2012**	**2013**	**2014**	**2015**	**2Q**	**3Q**	**4Q[2]**
NOMINAL AMOUNT (million euros)	**357,830**	**138,839**	**130,258**	**136,607**	**29,252**	**13,523**	**9,156**
Mortgage bonds	102,170	24,800	23,838	31,375	10,200	0	3,000
Territorial bonds	8,974	8,115	1,853	10,400	2,750	2,500	2,000
Non-convertible bonds and debentures	86,442	32,537	41,155	39,100	4,054	1,411	559
Convertible/exchangeable bonds and debentures	3,563	803	750	53	0	0	0
Asset-backed securities	23,800	28,593	29,008	28,370	4,656	4,186	1,613
Domestic tranche	20,627	24,980	26,972	25,147	4,589	3,865	729
International tranche	3,173	3,613	2,036	3,222	67	321	884
Commercial paper[3]	132,882	43,991	33,654	27,310	7,593	3,925	1,984
Securitised	1,821	1,410	620	2,420	580	0	480
Other commercial paper	131,061	42,581	33,034	24,890	7,013	3,925	1,504
Other fixed-income issues	0	0	0	0	0	1,500	0
Preference shares	0	0	0	0	0	0	0
Pro memoria:							
Subordinated issues	7,633	4,776	7,999	5,452	130	733	82
Other issues	0	193	196	0	0	0	0
					2016		
Abroad by Spanish issuers	**2012**	**2013**	**2014**	**2015**	**1Q**	**2Q**	**3Q[4]**
NOMINAL AMOUNT (million euros)	**91,882**	**47,852**	**56,736**	**65,602**	**12,758**	**19,596**	**9,786**
Long term	50,312	34,452	35,281	32,362	4,594	12,887	4,234
Preference shares	0	1,653	5,602	2,250	0	1,200	0
Subordinated debt	307	750	3,000	2,918	0	1,544	170
Bonds and debentures	50,005	32,049	26,679	27,194	4,594	10,143	4,064
Asset-backed securities	0	0	0	0	0	0	0
Short term	41,570	13,400	21,455	33,240	8,164	6,709	5,552
Commercial paper	41,570	13,400	21,455	33,240	8,164	6,709	5,552
Securitised	11,590	0	0	0	0	0	0
Pro memoria: **Gross issuance by subsidiaries of Spanish companies resident in the rest of the world**							
					2016		
	2012	**2013**	**2014**	**2015**	**1Q**	**2Q**	**3Q[4]**
NOMINAL AMOUNT (million euros)	**49,392**	**48,271**	**41,682**	**55,835**	**12,038**	**15,923**	**16,123**
Financial corporations	18,418	8,071	9,990	15,424	2,964	2,497	4,408
Non-financial corporations	30,974	40,200	31,691	40,411	9,074	13,426	11,715

Source: CNMV and Banco de España.

1 Incorporating issues admitted to trading without a prospectus being filed.

2 Data to 15 November.

3 Figures for commercial paper issuance correspond to the amount placed.

4 Data to 30 September.

Mortgage covered bonds decline relative to securitisations, which now make up nearly a third of annual issuance.

By type of instrument, mortgage covered bonds fell most sharply out of favour, accounting for just 13% of total issuance in the second half-year against 29% to June. As we said, new issues of these assets depend on the volume of mortgages available. Even allowing for this, though, the costs of issue are helped by ECB buying of covered bonds under its CPP3 programme, which hoovered up 199 billion in bonds to 11 November, 29% of these in the primary market. Territorial covered bonds were, in contrast, more popular, making up one fifth of all issuance, as was commercial paper which, although volumes fell by over 7 billion euros in absolute terms, still grew their market share to 26% in the second half-year, up from 19% in the first half, making these and securitisations the top two instruments by issuance over the period.

Fixed-income issuance abroad continues to fall in both volume and share of the total. It is split equally between long-term debt and short-term commercial paper.

Fixed income issuance abroad halved in the third quarter as long-term issues dwindled to a third of the volumes raised in the prior quarter. The main issuers have scaled back their long-dated debt programmes as bank finance is now easier and cheaper to obtain, and have in any case already covered much of their financing needs for the year. Many of the new issues therefore went to refinance existing debt more cheaply. Foreign issuance thus fell faster than domestic issuance to 30% of the total raised by Spanish issuers in the third quarter, compared to 40% in the second quarter and 32% in full-year 2015. Year-to-date a total of 42.14 billion euros was raised overseas, compared to 47.90 billion in the 2015 period. By instrument type, commercial paper constituted 57% of the total for the quarter and half for the year, the rest being long-term debt of which only 13% was subordinated or in preference shares. Issuance by Spanish subsidiaries abroad was barely changed in quarterly or annual terms, at 44.08 billion euros in the year to September, compared to 43.47 billion for the year-ago period.

New European rules on benchmark indices and their implications for supervisors

EXHIBIT 3

The *Official Journal of the European Union* of 29 June carried the text of Regulation (EU) 2016/1011 of the European Parliament and of the Council, of 8 June 2016, on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (henceforth, European Regulation on Benchmark Indices), amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014.

The new Regulation stands alongside the recommendations and principles issued by the Financial Stability Board (FSB) and IOSCO in 2014, and the various revisions that followed, as a pillar of authorities' and regulators' global response to the cases of manipulation that have come to light in recent years in connection with the world's most important reference rates, the Euribor, Libor and Tibor.

These cases have called into question the integrity and reliability of these and other indices employed widely in the global finance industry as benchmarks for an ample variety of financial products and contracts. They have been shown to be vulnerable to manipulation, with the resulting deleterious effects on market confidence and integrity, consumers and investors, and, ultimately, the stability of the financial system.

At the root of these weaknesses is the fact that neither the provision of input data and calculation of indices nor the entities in charge of their administration and publication were regulated activities or providers, subject to public supervision.

The European Regulation on Benchmark Indices came into force the day after its publication and its terms will apply as of 1 January 2018, though note that certain provisions like those on critical benchmarks and supervisory colleges have been enforceable since 30 June 2016.

Its goal is to improve the functioning and management of benchmark indices and to ensure that those produced and utilised in the European Union are robust, accurate, representative, fit for their purpose, and not susceptible to manipulation. Steps are accordingly taken to improve their governance and methodology. The idea is that the determination of indices should be free of conflicts of interest, and should be based, where possible, on real transactions and not estimations, as has happened until now.

The Regulation also clarifies the responsibilities attached to the provision of a benchmark index and places this activity, and the entities in charge, under the supervision of the competent authorities.

Critical benchmarks, i.e., those with a potential impact on financial stability, are made subject to stricter rules, such that the competent authority can, for instance, prevent contributors from discontinuing their provision of input data and oblige other entities to contribute for the sake of preserving the benchmark's existence.

New supervisor powers and functions

The Regulation assigns new functions to the competent authorities with regard to the authorisation and registration of benchmark administrators; supervision, inspection and sanctioning; and the establishment of supervisory colleges in the case of critical benchmarks. Their new powers are summarised below:

Authorisation and registration:

– Authorisation and registration of administrators, as appropriate. Also recognition and endorsement of administrators and indices, respectively, with regard to third-country benchmarks intended for use within the European Union.

– Notification to ESMA of all authorised and registered administrators and benchmarks, and all recognised or endorsed third-country benchmarks, for entry into a central public register.

– Withdrawal or suspension of the authorisation or registration of an administrator, whether at the administrator's own request or imposed due to lack of activity, or else when the administrator has obtained its authorisation by irregular means, ceases to meet the conditions of such authorisation or registration, or infringes the provisions of the Regulation.

Supervision, inspection and sanctioning:

– Administrators, contributors and any persons involved in the provision of benchmarks may be subject to supervision, inspection and sanctioning. In order to fulfill their duties under the Regulation, competent authorities shall have full supervisory and investigatory powers, including access to documents and premises, on-site inspections and the possibility of requiring the freezing or sequestration of assets; the temporary cessation of any practice or professional activity considered contrary to the Regulation; and the taking of all necessary measures to ensure that the public is correctly informed about the provision of a benchmark.

– Review and verification of the codes of conduct applicable to critical benchmark contributors to ensure their compliance with the Regulation.

– Review of the written plans that all supervised entities using benchmark indices must produce and maintain, setting out the actions that they would take in the event that a benchmark materially changes or ceases to be provided, and alternative benchmarks that could be referenced to substitute those no longer provided, indicating why they would be suitable alternatives. Such measures should also be reflected in the contractual relation with clients.

Supervisory colleges for critical benchmarks:

– Within 30 business days from the inclusion of a benchmark in the list of critical benchmarks published by the European Commission, the administrator's competent authority shall establish a college comprising itself, in the chair, ESMA and the competent authorities of supervised contributors. Other authorities shall have the right to be members of the college, provided they can demonstrate that the benchmark in question is critical in their Member State.

ESMA is considered a competent authority for these purposes and shall promote and monitor the college's efficient, effective and consistent functioning.

Establishment of the Euribor college

In 2013 the Euribor's administrator launched a reform programme to implement the FSB's recommendations, ahead of the new European rules. This has caused a series of doubts among the banks forming the panel of contributors, to the extent that its membership has been significantly depleted. More exits may follow, leading to a situation where the Euribor is no longer representative and, at worst, might even cease publication.

In view of this risk and the Euribor's systemic importance to Europe and some of its Member States – Spain, for instance, where a large proportion of retail mortgages are linked to this benchmark – the European institutions have fast tracked the powers assigned to the authorities under the new Regulation.

On 12 August last, the European Commission issued a resolution classifying the Euribor as a critical benchmark. The Financial Services and Markets Authority (FSMA), the Belgian authority charged with supervising the Euribor, has begun work on setting up the Euribor college, on which CNMV will sit as a competent authority, since four of its contributors are Spanish banks.

4 Market agents

4.1 Investment vehicles

Mutual funds[14]

Mutual funds shake off a poor opening quarter and grow their assets 3.1 % in the first nine months of 2016.

In the first nine months of 2016, assets under management in mutual funds climbed by 3.1% to 229 billion euros. The year started badly, with a 1.7% dip in assets in the first three months, but the ground lost was more than recouped over two quarters of sturdy growth that restored the industry to the expansion path initiated in 2013. Growth, however, failed to match the brisk pace of previous years (see Table 13).

Net subscriptions favour fixed-income, passively managed and guaranteed equity funds, while redemptions are highest in balanced fund products.

The advance in assets owed entirely to investor subscriptions summing 7.42 billion euros in the first nine months, after a shaky first quarter that concluded with net redemptions of 509 million. But not all categories shared the same fortunes. The best performers were fixed-income funds, with 6.32 billion in net subscriptions, followed by passively managed and guaranteed equity products with 4.16 and 4.04 billion respectively. Global funds too performed creditably, netting 3.18 billion. The least popular in the period were balanced products, with balance fixed-income and equity funds experiencing net outflows of 3.37 and 3.41 billion respectively. This marks a slight trend shift versus prior years, when investors displayed a keener appetite for risk in response presumably to the low interest-rate environment, translating as major outflows from guaranteed funds and inflows to balanced products. Global and fixed-income funds, finally, continued to expand, albeit with the former gaining speed and the latter suffering an evident loss of momentum.

The portfolio losses affecting most fund categories in the first three months tended to be made up in the following quarters.

Fund portfolio returns to September were practically zero (-0.07%), after first-quarter losses (-1.36%) were clawed back in the second and, more so, the third quarter. Fixed-income, guaranteed fixed-income and guaranteed equity funds were the top performers after holding up better in the opening quarter, although gains, in all cases, were an extremely modest 0.5% approximately. The heaviest losses corresponded to euro equity funds, which ended the nine-month period at -4.16%, despite a strong third quarter showing (7.89%).

14 Although this classification includes hedge funds and funds of hedge funds, we make no separate reference to them here, since they are the subject of their own subsection further ahead.

Net mutual fund subscriptions

TABLE 12

Million euros	2013	2014	2015	2015	2016		
				4Q	1Q	2Q	3Q
Total mutual funds inversión	**24,133.0**	**35,972.7**	**23,466.6**	**353.0**	**-492.4**	**2,014.2**	**5,898.7**
Fixed income[1]	13,783.1	13,492.7	-5,351.4	-1,577.6	2,078.5	1,836.1	2,400.8
Balanced fixed income[2]	2,059.3	15,712.0	21,167.5	966.1	-1,604.4	-562.3	-1,200.0
Balanced equity[3]	1,881.9	6,567.7	8,153.8	750.5	-712.8	-383.0	-2,312.2
Euro equity[4]	1,730.3	2,184.9	468.9	221.6	-251.6	-410.1	-172.6
International equity[5]	900.2	531.8	4,060.5	619.8	-324.4	-99.6	237.2
Guaranteed fixed-income	-4,469.2	-10,453.6	-6,807.4	-823.0	-1,268.2	-964.9	-813.1
Guaranteed equity[6]	-2,070.2	-909.5	-2,599.8	100.3	1,752.9	1,520.5	770.1
Global funds	847.4	2,182.3	5,805.3	651.2	-78.0	-283.2	3,537.5
Passively managed[7]	9,538.2	4,970.9	-6,264.2	-1,130.6	-152.4	1,328.1	2,983.2
Absolute return[7]	-67.8	1,693.9	4,811.4	587.1	77.4	42.5	467.8

Source: CNMV. Estimates only.

1 Includes: Euro and international fixed income and money market funds (as of 3Q 2011, money market funds encompass those engaging in money market and short-term money market investments, Circular 3/2011).

2 Includes: Euro and international balanced fixed income.

3 Includes: Euro and international balanced equity.

4 Includes: Euro equity.

5 Includes: International equity.

6 Includes: Guaranteed and partial protection equity funds.

7 New categories as of 2Q 09. Absolute return funds were previously classed as global funds.

Fund numbers start to stabilise after the depletion of the last few years…

The number of funds appears to be stabilising after falling sharply since 2013 (381 fewer in three years). By end-September this year, a total of 1,810 funds were on the register, six more than at the 2015 close. The largest increases were in euro equity (24) followed by passively managed funds (22), recalling their growth spurt of 2014. Only three categories saw fund closures in the period: guaranteed equity (51), balanced fixed-income (11) and global funds (9).

… while unit-holder numbers top the eight million mark, with 200,000 new investors joining in the third quarter alone.

Unit-holder numbers mirrored the progress of assets, with a 4.4% rise to September that carried them above the eight million mark. The largest advance was in the third quarter, when the industry captured over 200,000 new investors. Global funds were strongly to the fore, with an additional 244,000 clients, followed by passively managed and fixed-income funds with 127,000 and 112,000 respectively. Balanced equity funds, where numbers had tripled in the previous two years, saw the largest outflow of investors, down by 161,000 to 451,000 at the September close. Also losing out were guaranteed fixed-income and balanced fixed-income funds, with a decrease of 97,000 unit-holders in both cases. Note that in the former case the outflow dates to 2014, while for the latter this is the first reduction in the past three years.

Main mutual fund variables*

TABLE 13

				2015		2016	
Number	**2013**	**2014**	**2015**	**4Q**	**1Q**	**2Q**	**3Q**
Total mutual funds	**2,045**	**1,951**	**1,804**	**1,804**	**1,799**	**1,809**	**1,810**
Fixed income[1]	384	359	319	319	309	312	308
Balanced fixed income[2]	122	123	132	132	135	138	146
Balanced equity[3]	128	131	142	142	147	156	166
Euro equity[4]	108	103	109	109	111	111	112
International equity[5]	193	191	200	200	201	197	201
Guaranteed fixed-income	374	280	186	186	171	155	135
Guaranteed equity[6]	308	273	205	205	204	201	196
Global funds	162	162	178	178	185	198	200
Passively managed[7]	169	227	213	213	221	222	221
Absolute return[7]	97	102	97	97	92	98	104
Assets (million euros)							
Total mutual funds	**156,680.1**	**198,718.8**	**222,144.6**	**222,144.6**	**218,339.2**	**220,296.0**	**229,117.4**
Fixed income[1]	55,058.9	70,330.9	65,583.8	65,583.8	67,765.4	70,308.6	73,001.3
Balanced fixed income[2]	8,138.0	24,314.3	44,791.8	44,791.8	42,585.9	40,541.2	39,644.2
Balanced equity[3]	6,312.4	13,570.4	21,502.9	21,502.9	20,170.2	17,595.1	15,601.3
Euro equity[4]	8,632.8	8,401.5	9,092.9	9,092.9	8,160.0	7,410.3	7,795.7
International equity[5]	8,849.0	12,266.4	17,143.2	17,143.2	16,162.8	15,424.4	16,274.4
Guaranteed fixed-income	31,481.2	20,417.0	12,375.6	12,375.6	10,818.8	9,854.5	9,066.1
Guaranteed equity[6]	12,503.8	12,196.4	9,966.6	9,966.6	11,862.3	13,277.3	14,064.6
Global funds	4,528.1	6,886.3	12,683.3	12,683.3	12,300.8	16,190.4	20,067.8
Passively managed[7]	16,515.9	23,837.5	17,731.1	17,731.1	17,403.6	18,534.2	21,872.0
Absolute return[7]	4,659.9	6,498.1	11,228.1	11,228.1	11,073.7	11,134.1	11,704.0
Unit-holders							
Total fondos de inversión	**5,050,719**	**6,409,806**	**7,682,947**	**7,682,947**	**7,699,646**	**7,800,091**	**8,022,683**
Total mutual funds	1,508,009	1,941,567	2,203,847	2,203,847	2,222,005	2,274,700	2,315,533
Fixed income[1]	240,676	603,099	1,130,190	1,130,190	1,113,180	1,075,219	1,033,454
Balanced fixed income[2]	182,223	377,265	612,276	612,276	596,136	556,818	451,040
Balanced equity[3]	293,193	381,822	422,469	422,469	412,495	392,465	387,786
Euro equity[4]	457,606	705,055	1,041,517	1,041,517	1,052,810	1,052,225	1,138,697
International equity[5]	1,002,458	669,448	423,409	423,409	378,017	355,577	325,955
Guaranteed fixed-income	608,051	557,030	417,843	417,843	463,423	497,543	515,563
Guaranteed equity[6]	128,741	223,670	381,590	381,590	383,066	456,609	625,931
Global funds	441,705	686,526	554,698	554,698	557,262	609,995	681,545
Passively managed[7]	188,057	264,324	479,182	479,182	505,442	513,724	532,149
Return[8] (%)							
Total mutual funds	**6.50**	**3.67**	**0.89**	**1.51**	**-1.36**	**-0.03**	**1.34**
Fixed income[1]	2.28	2.41	0.10	0.38	0.16	0.23	0.34
Balanced fixed income[2]	4.16	3.67	0.16	0.97	-1.27	0.30	0.69
Balanced equity[3]	10.85	4.70	0.15	2.43	-2.84	0.00	1.75
Euro equity[4]	28.06	2.09	3.44	4.12	-6.99	-4.49	7.89
International equity[5]	20.30	6.61	7.84	6.30	-4.62	-0.44	4.00
Guaranteed fixed-income	4.96	2.54	0.27	0.09	0.09	0.19	0.27
Guaranteed equity[6]	6.15	2.64	1.07	1.18	-0.87	0.37	0.97
Global funds	8.71	4.63	2.45	2.33	-2.21	0.02	2.10
Passively managed[7]	8.88	7.74	0.53	1.23	-1.13	-0.03	1.63
Absolute return[7]	2.46	1.98	0.12	0.45	-0.51	0.12	0.65

Source: CNMV. *Data for funds that have filed financial statements (i.e., not including those in the process of winding-up or liquidation).

1 Includes: Euro and international fixed income and money market funds (as of 3Q 2011, money-market funds encompass those engaging in money market and short-term money market investments, Circular 3/2011).

2 Includes: Euro and international balanced fixed income.

3 Includes: Euro and international balanced equity.

4 Includes: Euro equity.

5 Includes: International equity.

6 Includes: Guaranteed equity and partial protection equity funds.

7 New categories as of 2Q 2009. All absolute return funds were previously classed as Global funds.

8 Annual return for 2013, 2014 and 2015. Quarterly data comprise non-annualised quarterly returns.

Less-liquid assets as a proportion of the mutual fund fixed-income portfolio appear to be settling in the 1.2%-1.4% range.

After years of solid improvement, the liquidity of the fixed-income portfolio has apparently levelled off over 2015 and 2016 (to September). Less-liquid assets have ranged from 1.2% to 1.4% of the total in recent quarters, far from 2009's peak levels bordering on 9%. At end-September, the sum of less-liquid assets was 2.85 billion euros, 1.24% of the total and 7.7% less than the figure for last June. By category, the biggest variation was in the less-liquid assets held in the fixed-income portfolio of financial corporations rated below AA, which dropped by 15.4% in January-September to 231 million euros. The volume of asset-backed securities defined as less liquid fell by 160 million euros, although in relative terms their share of the portfolio was substantially higher.

Estimated liquidity of mutual fund assets TABLE 14

	Less-liquid investments					
	Million euros			% total portfolio		
Type of asset	Mar 16	Jun 16	Sep 16	Mar 16	Jun 16	Sep 16
Financial fixed income rated AAA/AA	71	77	43	6.0	7.0	3.9
Financial fixed income rated below AAA/AA	1,315	1,611	1,266	6.5	7.6	5.7
Non-financial fixed income	383	463	627	3.6	3.8	4.8
Securitisations	1,010	939	917	48.2	58.7	61.6
AAA-rated securitisations	26	23	20	86.6	86.9	87.4
Other securitisations	984	915	897	47.6	58.2	61.2
Total	**2,779**	**3,089**	**2,852**	**8.1**	**8.6**	**7.6**
% of mutual fund assets	**1.3**	**1.4**	**1.2**			

Source: CNMV.

Real estate schemes

Stability has been the hallmark of the real estate investment sector since 2015.

Key real estate scheme variables remained largely unchanged in the first nine months of 2016, as they had done in the closing stretch of 2015.

The funds segment sees little change in the first nine months. Portfolio returns stay negative but to a somewhat lesser extent.

This was the funds segment hit hardest by the real estate downturn but it maintained an even keel, closing the period with the same three schemes operative as at year-end 2014. At the end of September, fund assets stood at 376.9 million euros, 3.6% down versus December 2015 after a cumulative return in the first three quarters of -3.6%. This is better than at the height of the crisis, but suggests that sector recovery is not yet strong enough to produce a turnaround in real estate fund portfolios.

Despite no change in numbers and only a small advance in assets, companies see shareholder growth of 17% between January and September.

The number of real estate investment companies was likewise unchanged to September, with the same six entities in operation as in the third quarter of 2015. Assets in this sub-sector edged 1.7% higher in the first nine months to 714.3 million euros, while the number of shareholders jumped from 583 to 682. Behind this increase is the fact that the last company to join the register, in 2015, recruited in large numbers between April and September this year.

Hedge funds

Hedge fund assets contracted by 5% to 1.98 billion euros in the first six months of 2016. As at 31 October, 50 schemes were filing financial statements with the CNMV (40 hedge funds and 10 funds of hedge funds), two more than at end-2015 following five new entries and three deregistrations.

Assets in Spanish hedge funds fall slightly in the first six months of 2016.

As we can see from Table 15, pure hedge funds had 1.69 billion assets at the end of the first half-year. This was 4.2% down versus the 2015 close, breaking with two years of robust expansion that had boosted sector assets by 70.2%. The decline owed to both net redemptions (38.7 million in January-June 2016) and portfolio losses of -1.79% after several years of sturdy returns. In parallel, unit-holder numbers fell by 5.2% to 2,928.

The contraction in pure hedge fund assets is a product of 39 million net outflows and portfolio losses of -1.8%.

Fund of hedge fund assets shrank by 9.1% to 290.6 million euros, prolonging the contraction trend of recent years. Unit-holder numbers reduced by ten to 1,255, while the global portfolio return in the six-month period was -2.3%.

Funds of hedge funds also experience asset shrinkage (-9.1%) and negative returns (-2.3%).

Main hedge fund and fund of hedge fund variables

TABLE 15

				2015		2016	
	2013	2014	2015	3Q	4Q	1Q	2Q
FUNDS OF HEDGE FUNDS							
Number[1]	19	14	11	11	11	11	10
Unit-holders	3,022	2,734	1,265	1,365	1,265	1,262	1,255
Assets (million euros)	350.3	345.4	319.8	338.0	319.8	306.3	290.7
Return (%)	4.39	8.48	6.16	-1.90	2.07	-2.89	0.56
HEDGE FUNDS							
Number[1]	28	36	37	37	37	37	39
Unit-holders	2,415	2,819	3,089	3,121	3,089	3,011	2,928
Assets (million euros)	1,036.7	1,369.5	1,764.8	1,708.4	1,764.8	1,652.2	1,690.2
Return (%)	16.48	5.30	4.97	-5.56	3.90	-1.30	-0.50

Source: CNMV.

1 Number of funds filing financial statements (i.e., not including those in the process of winding-up or liquidation).

Foreign UCITS marketed in Spain

The expansion enjoyed by this segment since 2012 (with investment volumes tripling between 2011 and 2015) continued this year at an appreciably slower pace, with assets up by 4% to 112.47 billion euros at end-September. This was 29.8% of the total assets in collective investment schemes marketed in Spain, on a par with the percentage of the 2015 close (see Figure 20).

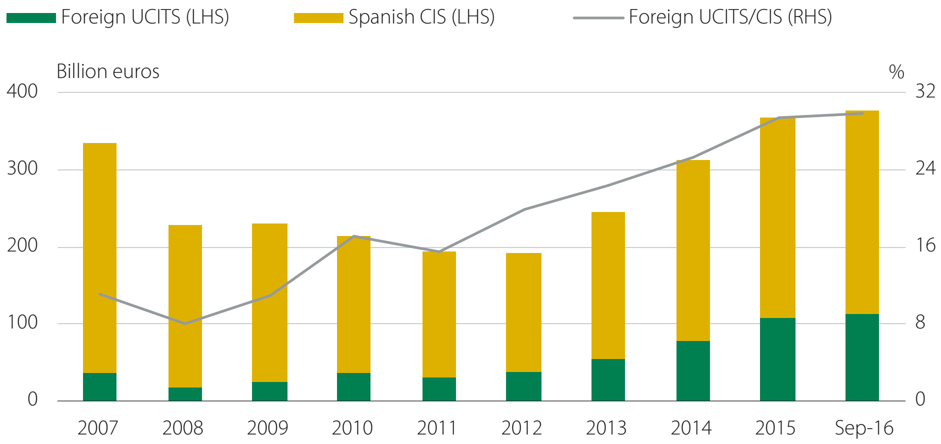
Growth of foreign UCITS marketed in Spain since 2012 is evidently flagging…

Growth drew mainly on fund products, which increased their assets 27.4% in the period to 19.50 billion euros, while investment companies saw only modest expansion of 0.2% to 92.97 billion. Investor numbers, meantime, rose 3% in companies and 4.3% in funds as far as a combined 1.7 million, 3.2% more than in December

… albeit with divergences between the still expanding funds segment and companies, where growth has appreciably levelled off.

2015. The number of schemes registered with the CNMV also increased in both cases, with the addition of 12 more funds and 35 more companies giving 437 and 490 respectively at end-September 2016. Most new entrants, as in previous quarters, came from Luxembourg and Ireland.

Assets of foreign UCITS marketed in Spain FIGURE 20



Source: CNMV.

Outlook

Low interest rates are a boon for the fund industry, but market instability may dampen growth and steer investors back to less risky products.

The collective investment industry has come back strongly since 2012 after a run of troubled years, and now appears to be entering a period of stability characterised by considerably slower growth, with figures even turning negative in the first quarter of 2016. In the short and medium term, collective investment should continue to benefit from the low interest rates in the economy. However bond market turbulence and equity market volatility remain risks to be reckoned with. The former has in recent years driven investors into riskier products, especially balanced funds, while the latter is luring them back to supposedly safer funds in the fixed-income segment.

Depositaries Circular. Independent Directors EXHIBIT 4

On 13 October 2016, CNMV Circular 4/2016, of 29 June, on the functions of depositaries for collective investment schemes and entities regulated by Law 22/2014, of 12 November, regulating venture capital firms, other closed-ended collective investment funds and investment management firms for closed-ended funds, amending Law 35/2003, of 4 November, on collective investment schemes.

Its purpose is to set out the regime for depositaries, limiting the scope of their functions and laying down some technical specifications. The Circular complements the European standards set out in Commission Delegated Regulation (EU) No. 231/2013, of 19 December 2012, supplementing Directive 2011/61/EU of the European Parliament and of the Council, with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision, for alternative investment funds and Commission Delegated Regulation (EU) 2016/438, of 17 December 2015, supplementing Directive 2009/65/EC of the European Parliament and of the Council, with regard to the obligations of depositaries, applying to undertakings for collective investment in transferable securities (UCITS).

It also regulates the specific cases of depositaries which, in certain circumstances, venture capital firms and closed-ended collective investment schemes are obliged to have under Law 22/2014. Much of the Circular's content merely recycles the previous regulations in Order EHA/596/2008, of 5 March, regulating aspects of the legal regime for scheme depositaries, and spells out the mandatory content of the position statements.

One innovation, however, is the cataloguing of custodiable and non-custodiable financial assets. It also defines some technical specifications for reconciliations, custody, registration of non-custodiable assets and the administration and control of cash, and requires that the depositary play a role in both registration and cash control and authorises the corresponding movements. This is a continuation of the previous regulations.

The Circular also regulates the criteria for delegation of custody. It states that for the purposes of Article 135.2 b) of Royal Decree 1082/2012, of 13 July, approving the Implementing Regulations of Law 35/2003, of 4 November, on collective investment schemes, one of the objective grounds for delegation is when the depositary does not participate in the clearing, settlement and registration systems. Accordingly, for an entity to be designated as a CIS depositary it must be able to exercise direct custody over an asset class. Otherwise, it risks the emergence of entities claiming to be CIS depositaries but which in fact merely outsource the actual business of custody.

It also specifies the criteria that depositaries must apply when appointing and subsequently monitoring third parties and for the purpose of supervising risks in the custody chain. And it adds strictures regarding external legal advice, which must be sought by both depositary and subcustodian in the case of harmonized CISs.

For the depositaries of entities regulated by Law 22/2014, it was decided to retain the legal regime for CISs but with a number of additional specifications to reflect the differing nature of the assets in which these firms invest (for instance, less frequent reconciliation).

In addition, the Circular sets out a number of technical specifications regarding the depositary's duty of supervision and oversight (of subscriptions and redemptions, NAV calculation, ratios, limits and suitable assets, dividends and information to report to the CNMV), again allowing for the specificities of firms regulated by Law 22/2014. In these respects, too, the new standard conforms to the old.

Finally, the Circular seeks to simplify and unify regulations governing depositaries by incorporating CNMV Circular 3/2009, of 25 March, on the content of the half-yearly report on CIS depositaries' compliance with their supervision and oversight obligations. In the case of entities regulated by Law 22/2014, it specifies the content of the periodic report on the depositary's compliance with supervision and oversight obligations and the reporting of major anomalies to the ECR and EICC.

In parallel with this Circular, one other innovation needs mentioning. Delegated Regulation (EU) 2016/438 on UCITS introduced new requirements for independence between the manager and the depositary. Specifically, when the fund manager and depositary belong to the same group, independent members must make up at least either one-third or two of the members of both boards (whichever is lower).

This requirement has further implications, since Law 22/2015, of 20 July, on Auditing, requires managers of harmonised public-interest CISs (with at least 5,000 unit-holders or shareholders) which are not small- or medium-sized to have in place an audit committee with a majority of independent directors, if their specific regulations require the presence of independent directors on the board.

4.2 Investment firms

The 2015 pattern repeats. Investment firms' profits fall by 19% in the year to September, on unsettled markets.

Spain's investment firms had to contend with uncertainty and instability on financial markets in the early months of the year. This was reflected in their aggregate profits: 146.5 million euros between January and September, 18.8% down on the same period in 2015.[15] So, last year's weak performance continues in a sector that had grown promisingly in 2013 and 2014 (see Figure 21). The number of firms registered with the CNMV at end-October this year was 84, three more than at end-2015 after nine new listings and six deregistrations. Five firms are passported to operate in other EU countries through a branch, one fewer than at end-2015, and 39 under free provision of service rules, two fewer than nine months ago.

Broker-dealer profits fall 14%, mirroring the fall in fee income. The biggest decline affects order processing and execution (-26 %). On the upside, fees from security depositary and registration services jump to 35 million euros.

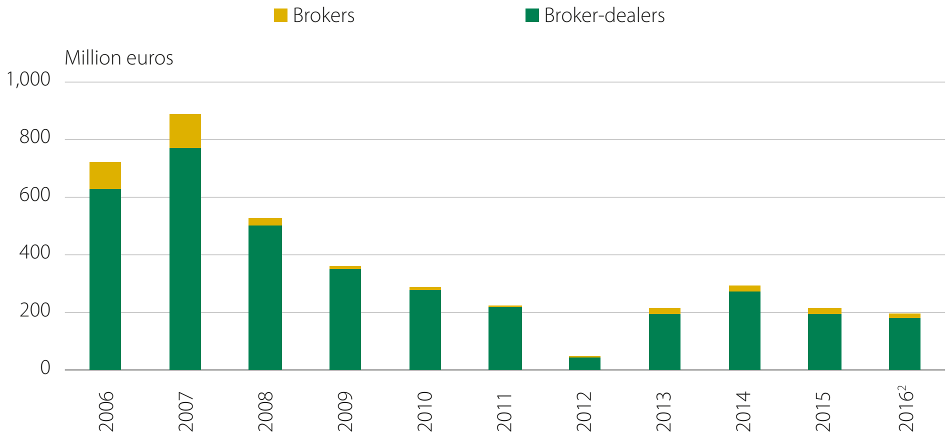
Broker-dealers, who contribute around 90% of the sector's total profits, experienced a fall-off in business, with aggregate pre-tax profit dropping by 14.3% to 134.7 million (see Table 16). Driving the fall were lower fee income and results from financial investments. Fees were down by 14% compared to January-September 2015, at 407.9 million euros. Fees from order processing and execution suffered the greatest absolute decline to 184.4 million euros in the first three quarters of 2016, a year-on-year fall of 26.2%. These fees remain by some distance the most important earners for broker-dealers but now make up less than 50% of the total compared to the 70% peak of 2010. In contrast, the second biggest source of fee income, CIS marketing, grew by a further 1.6% to 55.8 million euros (on top of the 17.4% growth of 2015). We should also highlight the 90% leap in fees for securities depositary and registration services, to nearly 35 million euros.

15 Not including investment advisory firms, for which no data are available since December 2015.

Still above the net operating income line, the other stand-out item, as mentioned above, was results from financial investments, down by 54.7% to 84.3 million euros. The 26% increase in net interest income and 13.9% fall in fee expense, however, left gross income in the year to September at 394.7 million euros, a reduction of 9.2% on the year-ago period. Coupled with rising depreciation and operating expenses falling much more slowly than income (by 6.5% to 26.2 million euros), this meant that the final operating income to September 2016 was 120.1 million euros, down 20.9% on the same period 2015.

The 55% drop in results from financial investments, heavy depreciation, and operating costs declining slower than income, have played a big part in undermining earnings.

Investment firm pre-tax profits[1] FIGURE 21



Source: CNMV.

1 Not including investment advisory firms and portfolio managers.

2 Annualised data.

Brokers also suffered a drop in activity over the period with profits down by 50.7% to 9.9 million euros. In the main, this was for the same reason as broker-dealers, a fall in fee income, exacerbated by a slight increase in operating expenses. Underlying the decline in fees was a drop-off in brokers' two biggest sources of fee income – CIS marketing and order processing and execution – which together make up over 60% of the total. Fund fee volumes dipped by 6.3% to 37 million euros while order processing and execution fees slumped by 25.7%, in line with the fall experienced by broker-dealers. On the other hand, portfolio management fees, now the third-biggest earner for brokers, advanced 11.2% to 8.2 million euros. Overall, the dip in fees received and a modest 2.3% increase in fee expense eroded brokers' gross income by 9.3% to 78.1 million euros. Finally, a 1.4% rise in operating expenses left net operating profit down by 49.8% compared to September 2015, at 9.6 million euros.

Brokers' profits are half what they were in the same period in 2015, the main culprits being lower fee income, particularly for order processing and execution (-26%) and CIS marketing (-6.3%).

Aggregate income statement (Sep 16)

TABLE 16

	Broker-dealers			Brokers		
Thousand euros	Sep 15	Sep 16	% change	Sep 15	Sep 16	% change
1. Net interest income	39,104	49,275	26.0	633	614	-3.0
2. Net fee income	326,720	280,710	-14.1	83,955	78,389	-6.6
2.1. Fee income	474,430	407,854	-14.0	99,357	94,142	-5.2
2.1.1. Order processing and execution	249,783	184,438	-26.2	25,069	18,617	-25.7
2.1.2. Placement and underwriting	10,659	5,198	-51.2	2,296	1,692	-26.3
2.1.3. Securities administration and custody	18,355	34,873	90.0	361	449	24.4
2.1.4. Portfolio management	16,133	16,933	5.0	7,362	8,188	11.2
2.1.5. Investment advising	2,575	1,909	-25.9	5,262	5,863	11.4
2.1.6. Search and placement	1,420	1,641	15.6	186	40	78.5
2.1.7. Margin trading	0	0	–	0	0	–
2.1.8. CIS marketing	54,906	55,758	1.6	39,519	37,047	-6.3
2.1.9. Others	120,597	107,104	-11.2	19,302	22,247	15.3
2.2. Fee expense	147,710	127,144	-13.9	15,402	15,753	2.3
3. Results of financial investments	186,154	84,290	-54.7	319	176	-44.8
4. Net exchange differences	-127,967	-29,944	76.6	612	-147	–
5. Other operating income and expense	10,862	10,391	-4.3	624	-920	–
GROSS INCOME	**434,873**	**394,722**	**-9.2**	**86,143**	**78,122**	**-9.3**
6. Operating expenses	282,735	264,236	-6.5	66,229	67,130	1.4
7. Depreciation and other charges	4,706	10,084	114.3	802	1,403	74.9
8. Impairment losses	-4,437	319	–	8	-3	–
NET OPERATING INCOME	**151,869**	**120,083**	**-20.9**	**19,100**	**9,582**	**-49.8**
9. Other profit and loss	5,328	14,607	174.2	898	269	-70.0
PROFITS BEFORE TAXES	**157,197**	**134,690**	**-14.3**	**19,997**	**9,851**	**-50.7**
10. Corporate income tax	28,833	16,731	-42.0	1,884	1,673	-11.2
PROFITS FROM ONGOING ACTIVITIES	**128,364**	**117,959**	**-8.1**	**18,113**	**8,178**	**-54.9**
11. Profits from discontinued activities	0	0	–	0	0	–
NET PROFIT FOR THE YEAR	**128,364**	**117,959**	**-8.1**	**18,113**	**8,178**	**-54.9**

Source: CNMV.

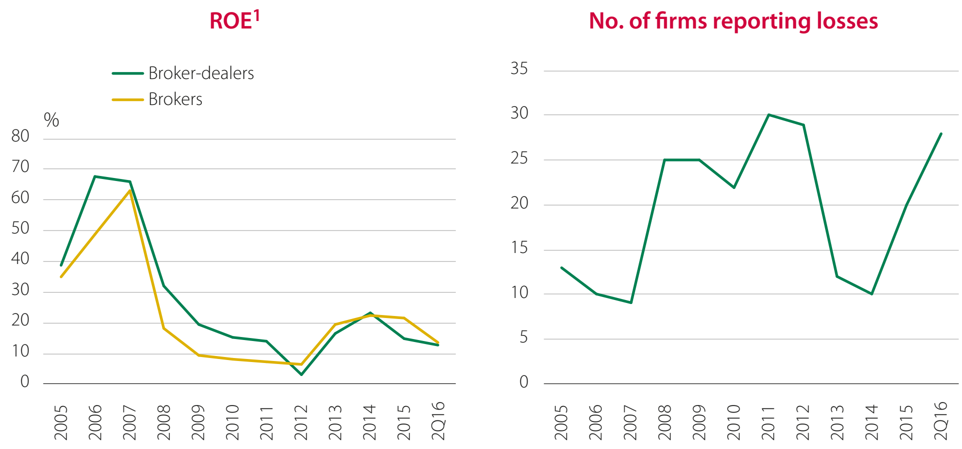
Investment firm ROE hit by falling income.

The return on equity (ROE) earned by investment firms fell from 15.3% to 13.0% between December 2015 and September 2016, reflecting the shrinkage in sector earnings. Brokers suffered the biggest dent in profitability, with ROE dropping from 21.5% to 13.9%. Broker-dealers suffered less, with ROE down from 14.9% to 12.9% (see left-hand panel of Figure 22).

Losses and the number of loss-making firms move higher in the first nine months of 2016.

In line with the general slide across the sector, the number of loss-making firms rose during the first nine months of the year to 28. This compares to 20 at end-2015. Specifically, 15 broker-dealers and 13 brokers were operating at a loss, seven and one more respectively than at end-2015. The cumulative losses of these firms in the first three quarters of the year totalled 16.5 million euros, more than double the losses recorded in the same period 2015.

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



Source: CNMV.

1 ROE based on annualised pre-tax earnings.

Investment firm solvency remains ample in January to September 2016.

Investment firms' solvency conditions remained optimal between January and September this year. The capital adequacy ratio at firms that have to file solvency statements,[16] calculated as regulatory capital over the minimum capital requirement, increased between December 2015 and September 2016 from 4.8 to 5.0 for broker dealers and remained flat at 2.2 for brokers (see Figure 23).

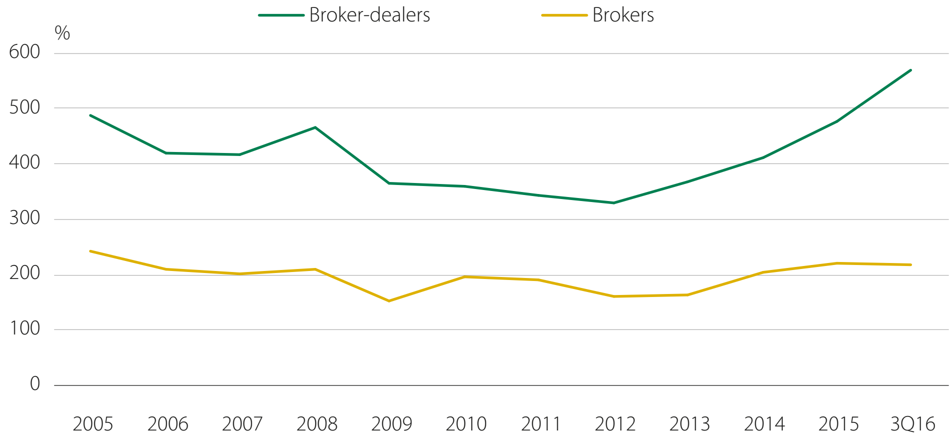
Equity market instability and competition from banks are clouding the outlook for investment firms.

After two or three good years, equity market instability is starting to weigh on investment firm earnings, since their main business lines are tied in with market trading. The prospects for investment firms are further clouded by competition from domestic credit institutions in some of their traditional core businesses like order processing and execution. There is also an ongoing, though dwindling, impact on the sector from the restructuring of Spain's financial system: only two of the six deregistrations recorded in 2015 were the result of takeovers (the remainder resulting from a change in corporate form or dissolution) and only one of the five between January and October this year.

16 As of 1 January 2014, CNMV Circular 2/2014, of 23 June, on the exercise of various regulatory options regarding the solvency of investment firms and their consolidable groups exempts some firms from the obligation to report on their compliance with solvency standards, an exemption that in September extended to 11 of the 82 firms registered with the CNMV.

Investment firm capital adequacy FIGURE 23

(surplus of regulatory capital over minimum requirement)[1]



Source: CNMV.

1 There have been minor changes to the way capital adequacy requirements are calculated since 2014 when Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms came into effect.

Change to the way securities transfer fees are calculated in fee schedules

EXHIBIT 5

CNMV Circular 7/2011, of 12 December, on the fee prospectus and content of standard contracts, seeks among other things to improve the comparability of the maximum fees and expenses charged by investment firms. To this end, the Circular lays down bases for calculation and core concepts for some of the commonest transactions firms perform for retail clients, so they are sufficiently informed to decide whether fees accurately reflect the quality of service on offer.

Among the concepts and bases of calculation specified by the Circular were the fees for transferring securities to another firm. It establishes that: "When the entity providing custody services wants to charge a fee for transferring the securities of a single holder to another entity it must include in the prospectus a fixed maximum fee for each asset class expressed in monetary terms". In other words, the maximum fee chargeable to retail customers transferring their securities to another firm must be stated in the prospectus in euros for each class of security.

The CNMV has analysed the fees specified in prospectuses over recent years. This analysis, coupled with information from investor complaints to the CNMV, showed that, in some cases, the fees reported by the firms were very high, up to 5,000 euros per asset class transferred. This, taken together with the wide range of the amounts charged, means that the maximum transfer fees often fail to meet the criterion of proportionality to the quality of service provided. The same disproportionality was found when we looked at the cost to customers of securities brokerage, custody and transfer services for a model portfolio. In some cases, transfer fees were higher than the value of the securities being transferred. In others, the fee was several times the annual custody fee (in one case equivalent to more than 40 years' custody fees). Finally, there were also cases where it was several times the cost of selling the securities concerned, up to 50 times the fees for selling the portfolio in the most extreme examples.

All in all, the analysis showed that the decision to change depositary may be affected by the heavy costs involved and that high fees can, in some circumstances, restrict competition between firms by setting up hurdles to investors switching service provider, thereby locking them into an unwanted contract. Also, the fees in the prospectus do not seem designed to proportionately compensate for the service provided by the firm but rather to act as a penalty or deterrent. It should be remembered that transfer is the only way for an investor to recover their securities as they are held in book-entry form and cannot be physically delivered.

With a view to ensuring transfer fees complied with the proportionality principle, thus making them more easily understood by investors, the CNMV has changed the base of calculation of this fee. No longer will it be given as a fixed amount per asset class but instead as a percentage of the total value of securities transferred. The change is explained in CNMV Circular 3/2016, of 20 April, amending Circular 7/2011, of 12 December, on the fee prospectus and content of standard contracts. Under the new standard, the charge for transferring securities to another entity must be expressed as "a percentage of the value of securities transferred, with the obligation to set a maximum amount and no minimum amount permitted".

Pricing transfer fees as a percentage offers benefits to retail customers who can, by applying the percentage stated, be sure of the cost of transferring their portfolio to another depositary. It should also make it easier to compare the value offered by different firms for the transfer service and allow investors to compare the cost of transfer with the cost of staying put, since both transfer and maintenance, custody and administration fees will be given as a percentage of the portfolio transferred or under custody. These fees must be shown next to each other on the same page of the firm's fee schedule.

Overall, this change should ensure that scheduled transfer fees remunerate the service provided in a proportionate way and are easily understood and comparable by retail clients.

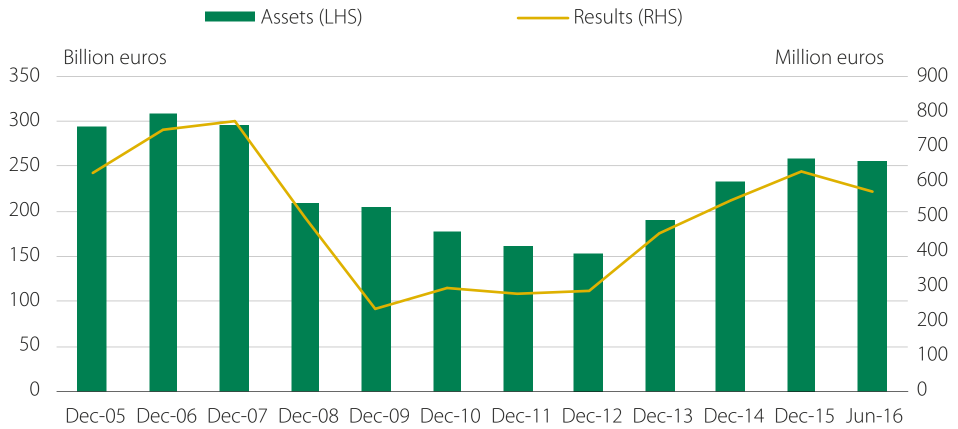
The Circular, which came into force on 1 May 2016, established that compliant fee prospectuses must be filed with the CNMV before 1 September 2016 and that as soon as a firm updates its fee prospectus, and by 1 October 2016 at the latest, firms must calculate transfer fees as a percentage of the amount transferred up to the maximum stated fee and, where appropriate, amend customer contracts accordingly.

4.3 CIS management companies

CIS managers report falls in both assets under management and profits in the first six months of 2016, by 1% and 9% respectively.

In the first half-year, CIS management companies did slower business than in the prior year. Assets under management fell by 1.3% to 255 billion euros, after the healthy expansion of the last three years in which they grew by nearly 70% (see Table 17). Similarly, aggregate pre-tax profits of 596.6 million euros (in annualised terms) were down by 9.1% versus end-2015 (see Figure 24). Almost all of the decline in assets under management in January-June 2016 was due to investment funds and companies. That said, it is important to remember that this is a heavily concentrated sector: the three biggest managers commanded a combined 42% of total managed assets at mid-2016, little changed from the level recorded at end-2015.

CIS management companies: Assets under management and pre-tax profits FIGURE 24



Source: CNMV. Results to June 2016 are shown as full-year equivalents for comparative purposes.

Average management fees decrease by 0.05% reflecting a refocus on less risky assets. The number of loss-making investment managers grows to 21.

Income from CIS management fees, the biggest contributors to management companies' earnings, fell 6.4% to 2.29 billion in the year to June (see Table 17). The reduction was driven by the abovementioned fall in managed assets and a reduction in average management fees to 0.90% of assets from 0.95% at end-2015. Behind this decline lay, principally, the rejigging of investment fund assets toward lower-risk and hence lower-fee asset classes. Likewise, aggregate ROE for all CIS management companies declined sharply, in a break with the upward trend of recent years, from 54.8% at end-2015 to 48.6% in June 2016. The number of loss-making entities jumped from 11 to 21 with combined value-added of 6.2 million euros (in annualised terms), 72.3% up on 2015.

The number of CIS managers rises to 101 in the year to October, five more than at end-2015, suggesting the sector is near the end of its recent restructuring.

Sector reorganisation, begun in the wake of the restructuring of the Spanish financial system, now seems to be nearing its end. In the first ten months of 2016 only one firm closed, merged into another manager as a consequence of the above process. In the same period six new management firms entered the register, taking the total at 31 October to 101, compared to 96 in 2015.

CIS management companies: Assets under management, management fees and fee ratio

TABLE 17

Million euros

	Assets under management	CIS management fee income[1]	Average CIS management fee[1] (%)	Fee ratio[2] (%)
2009	203,730	1,717	0.84	68.1
2010	177,055	1,639	0.93	67.2
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	2,440	0.95	63.7
Jun-2016	254,809	2,286	0.90	63.1

Source: CNMV.

1 Data for fee income and average management fee restated on an annual basis.

2 Ratio of fee expenses for fund marketing to fee income from CIS management.

Second Financial Education Day

EXHIBIT 6

As part of the Financial Education Plan, launched by the Bank of Spain and the CNMV in 2008, the 2nd Financial Education Day took place on 3 October. Held every year on the first Monday in October, it aims to raise citizens' awareness of the financial literacy they need to meet the challenges posed by the different stages of life.

Events during Financial Education Day revolved around a core event at the CNMV head office, involving the CNMV President, the Governor of the Bank of Spain, the General Director of Insurance and Pension Funds and the Secretary of State for the Economy.

Their contributions highlighted the achievements of the Plan since 2008, including the launch of website www.finanzasparatodos.es, drafting of a Financial Education Programme for secondary schools and the creation of a network of collaborators. There were reports on work in progress, such as the national survey to gauge the financial literacy of the Spanish population and their behaviour in matters of personal finance. Results are due out in 2017.

Prizes were handed out to the winning secondary schools in the fourth Financial Education Programme Awards. This year, contestants had to present a poster and video illustrating the importance of financial education at different stages of life. The winning centres were Amor de Dios (Cadiz) and Ramón y Cajal (Madrid).

Also presented was the first ever Finance for All Award, created to promote quality and impartiality in financial education initiatives. The winning project "Inclusive finance" run by the Fundación ONCE, is an initiative to promote financial education for people with intellectual differences and learning difficulties.

In parallel with the central event, in order to spread the message to the greatest possible number of groups and individuals, Plan collaborators (associations, institutions, NGOs, foundations, etc.) held some 130 events on and around the day throughout Spain (conferences, workshops, round tables, online courses, websites, publications, radio programmes, etc.). The website www.diadelaeducacionfinanciera.es acted as a central information point for the events organised.

A help line was also set up to answer callers' questions about personal finance and issues related to securities, banking and insurance.

The third Financial Education Day will be held on 2 October 2017.

4.4 Other intermediaries: venture capital

Law 22/2014 allows the creation of new closed-ended investment vehicles to promote venture capital as an alternative financing route.

At the end of 2014, Law 22/2014, of 12 November, regulating venture capital entities, other closed-ended collective investment undertakings and closed-ended CIS management companies came into force, amending Law 35/2003, of 4 November, on Collective Investment Schemes, and allowing the creation of new types of vehicle to promote venture capital as an alternative financing route. The new vehicles are SME venture capital entities (companies or funds), European venture capital funds, European social enterprise funds and closed-ended collective investment schemes (companies and funds). It also regulates closed-ended collective investment scheme management companies, a name now in use for both old-style venture capital entity management companies and the managers of new closed-ended schemes.

2015-2016 sees the creation of 25 SME venture capital entities (11 funds and 14 companies), two European venture capital funds and six closed-ended collective investment vehicles (one fund and five companies).

The first 15 of these new vehicles appeared in 2015, comprising eight SME venture capital funds, six SME venture capital companies and one closed-ended collective investment company. Between January and October this year three, eight and four vehicles were added to these categories respectively. The year also saw the creation of the first two European venture capital companies and the first closed-ended collective investment fund (see Table 18). As for traditional vehicles, in the first ten months of 2016 there were 18 new entries and four closures of venture capital funds, leaving 162 in operation at end-October. Among venture capital companies 10 opened and 12 closed, leaving 101 in operation. The total number of venture capital entities at 31 October (not including closed-ended vehicles) was 290, compared to 265 at end-2015. At the same date there were six closed-ended vehicles, five companies and a fund, as well as 82 closed-ended investment scheme management companies (which includes the old venture capital management companies), after nine entries and four deregistrations between January and October.

Movements in the VCE register in 2016 TABLE 18

	Situation at 31/12/15	Entries	Retirals	Situation at 31/10/16
Entities				
Venture capital funds	148	18	4	162
SME venture capital funds	8	3	0	11
European venture capital funds	0	2	0	2
Venture capital companies	103	10	12	101
SME venture capital companies	6	8	0	14
Total venture capital entities	**265**	**41**	**16**	**290**
Closed-ended collective investment funds	0	1	0	1
Closed-ended collective investment companies	1	4	0	5
Total closed-ended collective investment schemes	**1**	**5**	**0**	**6**
Closed-ended investment scheme management companies	**77**	**9**	**4**	**82**

Source: CNMV.

Preliminary data from the Spanish Venture Capital Entity Association ASCRI for the first half of 2016 suggests that the volume invested by venture capital entities in Spain contracted by 24.9% versus the year-ago period, to 765.8 million euros, despite a 15.6% increase in the number of deals to 303. The dip in investment, as in 2015, was due to a fall in the number of large-scale deals (over 100 million euros). On the other hand, there was a notable surge in midmarket transactions, which had also grown strongly the previous year and in 2016, with 17 deals, made up 57.7% of the total investment volume in venture capital entities. By investment phase, the bulk of the 256 deals were in venture capital (seed and start-up phases) although private equity accounted for 65% of investment by volume. It should also be noted that investment by international funds slowed while that by Spanish investors grew, particularly in the midmarket and venture capital segments.

Spanish VCE association figures show VCE investment fell by 25% in the first half of 2016, due to a dearth of big deals. However, the number of operations was high (+16%). Midmarket and venture capital deals were particularly strong.