



# CNMV

## Plan of Activities 2009





**CNMV Plan of Activities 2009**

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The 2009 Plan of Activities is being unveiled at a time of instability in the international securities markets. The last few months have been marked by global events, such as the exacerbation of capital problems at financial institutions, forcing some of them into bankruptcy, and the Madoff fraud case, which have significantly deteriorated confidence in market functioning and have required a revision of initial estimates as to the scale and macroeconomic repercussions of the global financial crisis that began in 2007.

Against this backdrop, and despite uncertainty regarding the severity of the crisis, there is a degree of consensus about the factors that triggered it and, to a lesser extent, about the best way to deactivate them with a view to mitigating both the real costs of the crisis and the probability that similar financial crises will erupt in the future. Copious reports have been published on the subject by public and private institutions, both national and international, such as the Report by the Financial Stability Forum (FSF) and the G-20 statement issued in November.

The current situation can be attributed to a very large range of factors, and it has affected all financial market participants. In a context of very loose monetary conditions, unregulated innovation in the financial system set the stage for deep-seated imbalances (such as excessive risk and high leverage) which are now correcting sharply. This was possible because the markets failed to produce adequate incentives to ensure proper conduct by all parties involved, because investors placed too much reliance on risk analyses by third parties who did not always behave diligently, and because financial supervisors and central banks were unable to respond with the necessary celerity to prevent (or at least reduce) the excesses.

The crisis is a testament to the need for more tenacious oversight of the adverse effects of financial innovation. Investors, especially retail investors, have had difficulties obtaining accurate information to make decisions in line with their needs and risk profiles. Furthermore, market supervisors have displayed inadequate knowledge of the magnitude and distribution of risks, which complicated the prevention and management of episodes of systemic instability.

Finally, the crisis has grown in scope as a result of the high level of market interconnectedness, which favoured the rapid spread of perturbations throughout the world. This phenomenon sets the stage for reflection on how the regulation and supervision of international markets should be organised institutionally. Specifically, at the very least, it is necessary to advance regulatory convergence,

greatly strengthen the cooperation mechanisms that exist between supervisory authorities, and encourage greater coordination in watching over transnational groups and institutions acting in the global arena, such as rating agencies.

A large number of the diverse initiatives proposed to solve these problems are born from a common goal: to restore participants' confidence in the proper functioning of the markets. As has become evident on many occasions, this goal requires an increase in the quantity and quality of information available to market participants; therefore, supervisors of markets and conduct such as the CNMV should work in this direction.

In this context, the CNMV presents its Plan of Activities for 2009(I)-2010(I), in line with the custom that commenced in October 2007 of drafting and publishing a plan of activities once per year. In coherence with the public commitment made at that time, the 2009 Plan includes a review of the degree of attainment of the goals set out in the 2007-2008 Plan, explaining the reasons for any cases of non-compliance or delays.

In line with the pattern adopted in 2007, the CNMV's broad lines of action respond to its core functions as set out in the Securities Market Act (SMA): complete the detailed rules for which the CNMV is authorised, achieve more efficient, transparent markets, promote the education and protection of investors, and improve the internal functioning of the CNMV to enhance its efficacy.

The CNMV's Plan of Activities only reflects those objectives which may be substantiated and that do not form part of the Commission's regular functions. As a result, the Plan does not include a substantial portion of the CNMV's usual work, such as supervising, authorising, registering, imposing penalties and monitoring corporate transactions, which, at all events, are set out in the Commission's Annual Report.

Moreover, the Plan does not include the CNMV's international activities, which currently utilise a significant part of its resources. The CNMV is a member of various international committees and groups whose agendas include identifying weaknesses in the global financial system and designing reforms.

Specifically, the CNMV is an active participant in working groups of the CESR<sup>1</sup> created to design and prepare the application of regulatory changes. One example is the new regulation in the area of UCITS<sup>2</sup> (UCITS Directive IV), for which there is already a preliminary draft, the regulation of credit rating agencies (CRA), which will include new oversight powers for national supervisors, and the foreseeable amendment to the Prospectus Directive, for which the European Commission has already commenced a consultation period. The CNMV will continue to support initiatives aimed at greater convergence of regulation and supervisory practices in the EU. With regard to IOSCO<sup>3</sup>, the CNMV will continue to work towards achieving greater harmonisation of the regulations governing

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1 Committee of European Securities Regulator.

2 Undertakings for Collective Investment in Transferable Securities.

3 International Organisation of Securities Commissions.



international markets. The authorisation and supervision of rating agencies, potential restrictions on short selling, regulation of hedge funds and the concept of money market funds are some of the items on IOSCO's agenda, to which the CNMV plans to contribute intensively.

As regards its Plan of Activities and in line with the lessons learned from the crisis, the CNMV will maintain its **primary objective: improving transparency** in the various areas of financial activity. This implies rigorous supervision of compliance with existing regulations on financial disclosure by listed companies and institutions supervised by the Commission. Work will also be done to improve the content of issuance prospectuses and to enhance, where necessary, the quality of the independent valuation reports provided by issuers. The CNMV will also support initiatives to improve the information available on supply and demand conditions in the securities markets.

Additionally, the CNMV will place **special emphasis on improving the provision of investment services** by authorised institutions and on verifying that those institutions have the necessary organisational and material means and personnel to discharge their duties, enabling them to adequately value assets and avoid conflicts of interest in their decisions. The Commission undertakes to apply particular rigour in supervising marketing processes with a view to ensuring that regulatory requirements are complied with.

Continuing with the work done in previous years, another objective for 2009 is to improve the mechanisms for **detecting practices classified as market abuse**.

Another important area in the plan is **improving the education and protection of investors**, especially retail investors. In this context, work is continuing in cooperation with the Bank of Spain under the Financial Education Plan, more information is being disseminated, and initiatives are under way in such areas as the commercial advertising of financial products.

Furthermore, the CNMV **will continue advising the Government** on proposals for securities market regulation. This function will foreseeably include the analysis of specific aspects of a project to reform Spain's financial supervision structure which will lead, according to statements by the Government, to a "twin peaks" model.

Finally, and in line with the previous Plan, **the CNMV is working consistently to be a flexible, efficient institution** able to respond to the new challenges in its path. To this end, a majority of its objectives are aimed at strengthening the Commission's human capital (its principal asset) and at incorporating technological improvements to facilitate communication with investors, reduce red tape with supervised parties and, in the final instance, maintain the maximum level of security in all of its actions.



## 2 Review of 2007-2008 Plan of Activities

The CNMV's first Plan of Activities, which covered the five quarters in the period 2007 (IV) to 2008 (IV), both inclusive, indicated 67 objectives, essentially focused on completing the regulatory implementation of directives derived from the EU's Financial Services Action Plan (FSAP), as evidenced by the fact that 21 of the 67 objectives involved the publication of Circulars.

The CNMV attained 85% of its objectives. Specifically, 41 objectives (61% of the total) were achieved within the Plan's period of execution. Together with the 11 which will be completed in 2009 (I) and excluding those whose completion does not depend solely on the CNMV, just 10 objectives (15% of the total) were not achieved in the terms set out in the Plan.

As regards planned rule-making, 16 of the 21 Circulars have been approved, i.e. as many as in the previous six years. Those objectives that were not achieved have been included in this Plan, four of which are envisaged for 2009 (I), such as the Circular on UCITS investment policies and the Guide on information to third parties.

There was considerable success with regard to the objectives envisaged for supervision and improved transparency: close to 90% were achieved. Of the 20 objectives envisaged, 12 were completed within the Plan's term and 5 are pending for 2009 (I). Apart from one objective whose achievement does not depend solely on the CNMV, only two objectives remain unattained, and they have been carried forward to the 2009 Plan. Among the initiatives expressly linked to investor protection, of special note is the work being carried out in conjunction with the Bank of Spain in the area of improving financial disclosure, the plan for which was published last May. Additionally, objectives related to improving the functioning of the CNMV, such as reorganisation of the CNMV website, have been redefined and included in the 2009 Plan.

The principal reason for which certain objectives were not achieved is the unfolding of events in the last year, the magnitude and size of which could not have been foreseen in September 2007, when the Plan's design was completed. This affected the fulfilment of objectives in various ways.

Firstly, debacles such as the Lehman demise and the Madoff fraud made it necessary to assign resources that had not been budgeted to estimate their effects, monitor their development and supervise product marketing practices. Specifically, in the department responsible for UCITS Circulars, 16% of qualified technical resources had to be used for unforeseen tasks that were essential for the purpose of transparency and monitoring the crisis in real time.

The CNMV's work as advisor to the Government obliged it to dedicate resources to areas such as the design and implementation of the Financial Asset Acquisition Fund (FAAF) and government guarantees, and to the definition and coordination of Spain's positions in international forums, whose pace of work has increased substantially; none of this had been budgeted for.

Certain delays are also attributable to the redefinition of priorities. This affected, for example, the implementation of the Royal Decree on Takeovers and the Guide to disciplinary action, which have been included in a more far-reaching objective in the 2009 Plan of Activities in which the Government will be asked to approve a re-write of Title VIII of the SMA.

Lastly, two issues consumed significantly more human and material resources than initially predicted. Firstly, the adverse circumstances in the markets required special attention to be focused on reviewing mark-to-market valuations of illiquid assets, in both investment fund portfolios and on listed companies' balance sheets, and specific monitoring of liquidity policies at certain types of investment funds.

Secondly, the funding difficulties derived from the crisis led banks to resort more intensely to issues aimed at their customers, which required that oversight efforts focus more than expected on the determination and subsequent application of criteria regarding areas such as issuance conditions, the inclusion in the issuance prospectuses of all pertinent information for the investors in the context of the crisis, and compliance with appropriate practices for marketing those financial products.

The 2007-2008 plan envisaged a work force of 412 at 2008 year-end, compared with 348 at 2007 year-end (an increase of 18%). Only 19 of the new positions have been filled; 45 are pending.

### 3.1 Regulatory implementation

The last few years have been marked by intense regulatory changes in the area of financial services as a result of the completion of the EU's FSAP. In 2008, the CNMV made a significant effort to expedite the publication of pending rules in areas such as the provision of investment services, collective investment, transparency and regulations on market abuse.

The detailed rule-making envisaged by the CNMV in 2009 is focused on specific aspects of the recent Royal Decree on Investment Firms and on specific questions in the area of collective investment and significant information, among others.

Based on experience gained in the global financial crisis, the CNMV will support initiatives aimed at improving the functioning of securities markets, and will participate actively in the debate on issues such as improving regulation of such entities as CRAs and the new UCITS IV Directive.

#### **Royal Decree on Investment Firms and other entities that provide investment services**

The transposition of MiFID into Spanish law led to approval of Royal Decree 271/2008, of 15 February, on the legal regime of Investment Firms and other entities that provide investment services, partially amending Act 35/2003, of 4 November, on UCITS, approved by Royal Decree 1309/2005, of 4 November. This new regulation requires the implementation of certain Circulars and additional actions that enable optimal application.

Specifically, in 2009 (II), the CNMV plans to publish a list of registers that companies which provide investment services are obliged to keep. As stipulated under art. 32 of the Royal Decree on Investment Firms, the CNMV will specify the registers that companies which provide investment services must keep for at least five years in a format which facilitates storage and accessibility.

In 2009 (III) and following a period of public consultation, the CNMV will issue a Circular to specify the content of the annual report on the custody of financial instruments that external auditors must issue to the CNMV (with a copy to the Bank of Spain in the case of credit institutions), in compliance with art. 43 of the Royal Decree on Investment Firms.

Additionally, as a result of the publication of new Circulars on accounting, solvency and the custody report, the CNMV plans in 2009 (IV) to update Circular 9/1989 on audits of Investment Firms, which will lead to changes in the supplementary auditors' report envisaged by the Circular.

Also in 2009 (IV), the CNMV plans to publish a Circular on fees, contracts and information given to clients by companies that provide investment services. The publication of this Circular will be an important step forward in terms of investor protection as it will specify, among other questions, the information to be provided to the investor by financial intermediaries, as stipulated by MiFID. While a draft is expected to be available for public consultation in 2009 (III), its final approval hinges on authorisation by the Ministry of Economy and Finance.

Finally, in 2010 (I), following a period of public consultation and depending on the necessary authorisation, the CNMV plans to publish a Circular on the internal code of conduct of companies that provide investment services.

### **UCITS Regulation**

In 2009, the CNMV will publish the detailed rules envisaged in the 2007-2008 Plan that were not produced in the planned period for a number of reasons: redefinition of priorities and assignment of resources in some cases, lack of authorisation in others.

First, in 2009 (I) the Commission plans to approve the Circular on UCITS categories based on their investment policy, following a period of public consultation and a report from the Council of State. That Circular, which will replace the classification existing since January 2002, aims to improve the categorisation of the funds in order to provide investors with clearer, more concise information on the investment policies of the various UCITS so as to facilitate their decisions. To that end, the number of categories will be reduced and clarifications will be incorporated in the definitions in line with the real situation of the Spanish collective investment sector. Criteria will also be provided for defining the investment policy of each UCITS.

Two more Circulars will be published in 2009 (II). The Circular regulating the half-yearly reports on compliance with the oversight and supervision duties by UCITS depositories, whose draft was released for public consultation in December 2008, is expected to be approved. And the Circular on internal control of UCITS operators (SGIIC) is expected to be approved following public consultation in 2009 (I).

Finally, in 2009 (III), and with a view to establishing clear rules on the use of financial derivatives, a Circular on the use of derivatives by UCITS will be published, after public consultation of the draft in 2009 (II).

### **Royal Decree on securitisation trusts and their management companies**

The regulatory changes in accounting that arose in the last year and the need to improve transparency rules for asset securitisation trusts (FTA), in coherence with the long-held goals of the market and the Spanish regulator, make it necessary

to adapt the financial disclosure regulations applicable to FTAs and the corresponding standard financial statements. This was done on the basis of the institutions' specific features and using the options established in Royal Decree 926/1998, of 14 May, which regulated asset securitisation trusts and securitisation trust management companies.

With this goal, the CNMV aims in 2009 (I) to approve the Circular on accounting standards and periodic and statistical disclosure requirements for asset securitisation trusts, following public consultation in December 2008.

### **Regulations on Market Abuse**

Conditional upon the publication of the Ministerial Order on the disclosure of significant information, the CNMV plans to publish a Circular which will detail, among other things, an indicative list of cases that are considered to be significant information, the means and standard forms to be used to disclose that information, and other aspects related to the interlocutors that issuers must designate vis-à-vis the CNMV. Approval of that Circular is expected in 2009 (III).

### **Regulatory amendments to be proposed**

In compliance with its function as advisor to the Government, the CNMV will continue providing assistance with a view to improving the current regulatory framework and adapting it to the new market reality. Throughout 2009, the CNMV aims to promote a debate on certain amendments that it deems necessary with the ultimate objective of fostering proper functioning of the markets and guaranteeing protection for investors.

In 2009 (I), following the recent increase in the amount covered by the Investment Guarantee Fund (FOGAIN) as announced by the Government, the CNMV considers it advisable to propose an amendment to the regulations on the contributions to that fund.

Secondly, it is necessary to progress in defining a more specific regulatory framework for financial product advertising. In view of the growing linkage between markets, it is worth considering the possibility of producing a comprehensive regulation that includes all the financial products available to investors (investment funds, deposits, insurance products, etc.). To this end, the CNMV will work with the Bank of Spain, the Directorate-General of Insurance and Pension Funds, and the Ministry of Economy and Finance to analyse the viability of the proposal, which could be implemented in 2009 (II).

In 2009 (III), the CNMV will also analyse and propose to the Government, if appropriate, an amendment to Title VIII of the SMA determining the Commission's supervision, inspection and penalisation systems. The proposal will aim to improve the CNMV's oversight capabilities, reviewing the inspection methods that it has available. It will address issues such as the need for greater capacity to access certain information, as well as others related to the penalty system. Those amendments will improve the efficiency of the CNMV and, if the envisaged reform

is carried out, facilitate the assumption of new responsibilities envisaged in the model announced by the Government.

Furthermore, in 2009 (IV), the CNMV plans to review certain aspects of trading and post-trading requisites of Spain's market infrastructure. That will lead to extensive modification of the current Stock Market Regulation, as already proposed in the 2007-2008 Plan, with a view to specifying relevant aspects such as the listing of securities, and other aspects in the clearing and settlement system that must adapt to the new features of MiFID.

In 2009 and in view of the experience with the global financial crisis, the CNMV will evaluate certain areas of Spain's legal framework, such as collective investment, to identify the strengths and weaknesses of the current system and potential improvements in the regulation, which, when appropriate, will be referred to the Government for consideration.

Finally, depending on the definitive terms of the Regulation on Credit Rating Agencies, the CNMV will propose the regulatory amendments that may derive from that Regulation in order to enable the Commission to effectively take on its new supervisory powers.



Regulation	Initiative	Schedule*
<b>Royal Decree 217/2008 on Investment Firms and entities providing investment services</b>	Publish list of obligatory records	2009 (II)
	Circular on the Annual Report regarding the custody of financial instruments	2009 (III)
	Adaptation of Circular 9/89 on audits of investment firms to the new Circulars on accounting, solvency and custody report	2009 (IV)
	Circular on fees, contracts and information for clients	2009 (IV) <sup>1</sup>
	Circular on Internal codes of conduct	2010 (I) <sup>1</sup>
<b>Detailed rule-making under the UCITS Regulation</b>	Circular on UCITS investment policies	2009 (I)
	Circular on six-monthly reports by depositories	2009 (II)
	Circular on internal control at UCITS operators	2009 (II)
	Circular on use of derivatives by UCITS	2009 (III)
<b>Royal Decree 926/1998 on securitisation trusts and securitisation trust management companies</b>	Circular on accounting and periodical and statistical disclosure by securitisation trusts	2009 (I)
<b>Royal Decree 1333/2005 concerning Market Abuse<sup>2</sup></b>	Circular on disclosure of significant information	2009 (III) <sup>1</sup>
<b>Possible regulatory amendments to be proposed by the CNMV</b>	Review of contributions to the FOGAIN	2009 (I)
	Proposal for a regulation on financial advertising	2009 (II)
	Proposal to amend Title VIII of the SMA	2009 (III)
	Review of trading and post-trading requirements (possible amendment of the Stock Market Regulation)	2009 (IV)
	Analysis and, if appropriate, identification of possible improvements in the regulations based on the experience of the financial crisis	During 2009
	Implementation of the Regulation on Credit Rating Agencies	2010 (I)

\* Deadline for fulfilling the commitment.

1 Condicional upon publication of the corresponding regulations.

2 Amended by Royal Decree 364/2007.

## 3.2 Towards more efficient, transparent markets

### a) Supervision of the securities markets and participants

In the current context of instability in global financial markets and with a view to maintaining investor confidence, the CNMV will be particularly rigorous in applying the regulatory framework and while using the necessary flexibility when dealing with unforeseen episodes.

The CNMV will focus on the following areas, whether because they represent new supervisory functions or because they are of particular relevance as part of the planning for 2009:

#### 1. Provision of investment services

Following the publication of Circular 10/2008, of 10 December 2008, on Financial Advisory Firms (EAFI), implementing Royal Decree 217/2008, the CNMV will authorise and register applications for the creation of financial advisory firms that comply with the organisational requisites and provide the documentation established in the Circular. This commences the development in Spain of a new type of investment firm as established by the MiFID solely for the provision of investment advice, understood as the provision of personalised recommendations to clients about financial instruments. Since 2009 (I), the CNMV is at the disposal of interested parties to facilitate compliance with the requirements and the required documentation.

In a broader framework, the CNMV will focus on the provision of investment services by investment firms and credit entities (banks and savings banks) to ensure that they conform to the needs of investors, especially retail investors.

In this vein, starting in 2009 (I), the CNMV will review the risk map for the supervision of entities that provide investment services. The risk map is a vital tool for the advance detection of areas and entities where breaches of the regulation are more likely to harm investors.

Furthermore, in 2009, part of the Commission's resources will be allocated to supervising the provision of services by entities to which UCITS operators or depositories have delegated the functions of administration, calculation of net asset value, compliance and supervision, as allowed under article 68 of the UCITS Regulation.

After last year's publication of a set of recommendations for the detection and subsequent communication of suspicious transactions, the CNMV considers it useful in 2009 to review the degree of compliance with those recommendations. This will be done by integrating this function into the area of inspection, both general or specific, as well as through the CNMV's remote oversight.

It is necessary to review the processes of issuance and subsequent commercialisation of products to retail investors in order to consider possible conflicts of interest, especially (but not exclusively) in those cases where the seller/marketer is also the issuer of the financial product. To this end, in 2009 (I) the CNMV will collaborate

with the industry in promoting the improvement of information and pricing of those products, such as preferred stock and subordinated debt, for which the market is narrow. This measure seeks to enhance the information provided to investors with regard to the issue conditions. In 2009 (III) the CNMV will conduct a more in-depth review of marketing procedures for such issues, the goal being to increase the transparency of the process and mitigate potential conflicts of interest so that the investor can evaluate investment options in the best possible conditions.

## 2. Securities markets

The CNMV has been working since the start of 2009 on completing approval of the Regulations for unregulated markets that already existed in Spain but which, as a result of the transposition of the MiFID, have been transformed into multilateral trading facilities (MTF).

Also, in line with the initiative already announced in the previous Plan within the framework defined by the ICAM<sup>4</sup>, in 2009 (I) the CNMV will complete the review of the criteria for handling news and rumours about listed securities. These criteria, which were released for public consultation late in 2008, aim to facilitate and clarify the attitude expected of the CNMV, issuers and financial intermediaries with regard to the publication of certain information about a listed security. The CNMV's objective is not to establish rigid rules or a protocol of action but to offer a guide with regard to the actions that can be expected from the CNMV, the goal being to minimise diverging interpretations about its actions and provide the greatest possible transparency. The document will also include guidelines for issuers and financial intermediaries with a view to enhancing market integrity.

### b) Enhancing transparency and disclosure

Most reflections about the origins of the global financial crisis coincide in emphasizing the idea that improved transparency is a key element for restoring confidence in the financial system. With a view to improving the quality of information, the CNMV has plans to implement the following actions, among others.

1. The CNMV will continue its policy of publicising and providing transparency with regard to its **criteria and recommendations** so that supervised parties can have the maximum certainty as to the guidelines on which its actions will be based, as well as raising awareness about those guidelines. In this regard, the CNMV is planning the following actions for 2009.

In 2009 (I) the CNMV will publish its responses to the queries received regarding the application of the Circulars on accounting, public information and calculating the net asset value of UCITS; it will also begin publishing its criteria for what are to be considered good practices in the provision of financial services.

<sup>4</sup> Initiative against Market Abuse.

The CNMV also plans to publish in 2009 (I) the “Guide for action in connection with the transfer of inside information to third parties”, which was released for public consultation last December; this will complete the work carried out as part of the ICAM, announced in the 2007-2008 Plan. The guide, which is addressed to financial intermediaries and professionals, contains recommendations which aim to avoid the transfer of inside information for improper use during the design or negotiation of financial and corporate operations.

As regards hedge funds, in 2009 (II) the CNMV’s criteria published on the web in a Q&A format will be reviewed in their entirety with a view to updating them and adding the Commission’s most recent events and actions.

In 2009 (III), with a view to raising awareness about recommendations and criteria adopted by the international groups and committees of securities supervisors, such as CESR and IOSCO, the CNMV will commence regular publication of a Letter containing the main conclusions of those international bodies that may be of interest to the Spanish market.

In 2009 (IV), subject to promulgation of the Audit Act, the Commission plans to disseminate an action guide for drafting auditors’ reports on pro-forma and combined financial statements, which is necessary given the lack of regulations in this area.

In 2009 (IV), the CNMV will establish a working group of experts to draft internal control recommendations for listed companies and a questionnaire for companies planning a listing. This group will be comprised of representatives of the leading audit firms and experts from listed companies, among others.

2. Other actions aimed at improving **transparency in financial markets** include the following:

In 2009 (I), it will publish on its web site the updated Book of Case Law, as announced in the 07-08 Plan; it will consist of a compilation of court decisions in connection with disciplinary proceedings and other resolutions adopted by the CNMV.

In 2009 (III), it plans to publish procedure manuals for the verification of equities and fixed-income transactions. The manuals will include an updated version of the Q&A currently on the CNMV’s web site, and a guide with the necessary information regarding flotations, secondary offerings and issuance prospectuses, as indicated in the previous Plan.

At year-end, the Commission intends for the Annual Report on Auditors’ Report to begin including information about the areas on which the CNMV will place special emphasis when reviewing financial statements. These areas will be selected using experience to date and considering the specific financial and economic scenario.

In 2009 (IV), the CNMV also aims to develop, through AIAF Mercado de Renta Fija, an electronic platform for trading certain fixed-income securities to improve disclosure and transparency.

A working group will also be created to review the application of interpretational criteria regarding the disclosure of significant holdings, to commence in 2009 (IV).

3. With a view to the continuous improvement of access to information, the CNMV will continue expanding **the use of the XBRL format**. This format is expected to be available in 2009 (II) for sending and receiving solvency information regarding investment firms. XBRL will also be used for periodic disclosures by UCITS and public disclosures by securitisation trusts.

4. The CNMV will continue organising such **public events** as it deems necessary to explain and disseminate changes to regulation and action criteria. Specifically, a seminar is scheduled for 2009 (II) on the notification of suspicious transactions. The goal is to involve the industry itself in the fight against market abuse with a view to reducing the scope for perpetrators to operate freely.

5. The CNMV's **web site** is an essential tool in the quest for transparency, and it will be continuously reviewed to improve access and adapt it to new demands. To this end, a set of partial improvements have been planned for different areas of the site in 2009 (III), without prejudice to the plan to completely update and revise the site so as to improve accessibility. Regarding the planned partial improvements, the CNMV will review the section of the web dedicated to international activities, continue to improve the English version of the web site (particularly the translation of Spanish regulations), enhance queries about significant holdings (scheduled for 2009 (II)), and draft a new procedure for submitting regulatory disclosures in 2010 (I) which will enable them to be queried via the web site, among other advantages.

### c) Improving risk management

It has been observed recently that some of the problems that may trigger a crisis arise not from solvency but, rather, in the markets, which have become considerably more sophisticated in recent years. Institutions which supervise conduct, such as the CNMV, have minimal capacity to act during a crisis that affects the system's stability, given their limited powers in the area of solvency and the scant tools at their disposal. However, supervisors of conduct play an important role in monitoring and detecting behaviours and trends that may create instability in the future.

In this context, the constant transformation of markets requires adequate risk management in order for them to function properly. Such risk management focuses not only on monitoring potential risks that might affect price discovery if they materialise but also those that might affect trading infrastructures and even the CNMV itself in the discharge of its duties of supervision and inspection.

Specifically, the CNMV will work towards the following objectives in 2009. In 2009 (III), based on the provisions of article 87 bis.1 of the SMA, the CNMV will publish a set of guides for investment firms to encourage proper evaluation of risks and improved compliance with the rules on order and discipline.

Progress is being made on improving the tools available to detect unauthorised entities (boiler rooms) with a view to adapting them to the new techniques used by these entities to attract clients. The goal is to limit the activity of entities operating without a license.

As regards its own risk management and in line with the initiative implemented last year, the Commission will be particularly diligent in specifying and reviewing the various phases of its Continuity Plan. The review, which aims to improve the Commission's capacity to withstand contingencies that may affect the discharge of its duties, requires the implementation of certain operational tests of server and client technology at alternative sites, inter alia, which are scheduled for 2009 (II).

<b>a) Supervision of the securities markets and participants</b>		
	<b>Initiative</b>	<b>Schedule</b>
<b>Investment services and securities issuers</b>	Commence authorisation and registration of financial advisory firms	2009 (I)
	Review risk map for supervision of entities providing investment services	2009 (I)
	Supervision of services by entities to which UCITS operators or depositories have delegated functions	During 2009
	Review degree of application of the CNMV's recommendations on detecting and reporting suspicious transactions	During 2009
	Review possible conflicts of interest in issuing products and marketing them to retail investors	
	i) Improve valuations, in cooperation with the industry	2009 (I)
	ii) Review procedures for marketing of issues by the issuer itself	2009 (III)
<b>Securities markets</b>	Approval of the Regulation on MTFs	2009 (I)
	Review of the criteria for handling news and rumours about listed securities	2009 (I)
<b>b) Enhancing transparency and disclosure</b>		
<b>Publication of the CNMV's criteria and recommendations</b>	Publication of responses to queries about the application of the Circulars on accounting, public disclosures and net asset value of UCITS	2009 (I)
	Guide on transmission of information to third parties	2009 (I)
	Full review of Q&A about UCITS and hedge funds	2009 (II)
	Commence publication of letters with conclusions and recommendations of international committees	2009 (III)
	Guide on drafting audit reports on proforma and combined financial statements	2009 (IV)
	Working group to draw up recommendations on internal control by listed companies	2009 (IV)
	Publish criteria on good practices for the provision of financial services	During 2009
<b>Fostering transparency</b>	Update the book of case law	2009 (I)
	Manual of procedures for verifying trades in fixed-income and equity securities	2009 (III)
	Include in the Annual Report on Audit Reports information about the areas on which the CNMV will focus when reviewing financial statements	2009 (IV)
	Promote the development of an electronic trading platform for fixed-income	2009 (IV)
	Create working group to review the application of interpretation criteria on the disclosure of significant holdings	2009 (IV)
<b>Implement XBRL</b>	For investment firm solvency information	2009 (II)
	For periodic disclosures by UCITS and securitisation trusts	2009 (II)
<b>Seminars for public education</b>	Explanations and follow-up on notifications received regarding suspicious transactions	2009 (II)

**Towards more efficient, transparent markets (continued)**

TABLE 2

<b>Improve and update CNMV web site</b>	Partial improvements to site:	
	i) Access to and queries of significant holdings	2009 (II)
	ii) More information on the area of international activities	2009 (II)
	iii) Review and update of regulations in English	During 2009
	iv) Review procedure for filing and accessing significant information	2010 (I)
	Plan for update and overall review of the web site	2009 (III)
<b>c) Improvements to risk management</b>		
<b>Proper functioning of markets and participants</b>	Guides to foster proper risk assessment by investment firms	2009 (III)
	Update tool for detecting operations by unauthorised parties	2009 (IV)
<b>CNMV performance</b>	Implement the phases envisaged in the CNMV Continuity Plan	2009 (II)



Investor protection is one of the three duties entrusted to the CNMV under the SMA, and the Commission discharges it as part of its function of supervising and inspecting the securities markets.

Nonetheless, the CNMV will devote particular attention to the following areas of investor protection, particularly with regard to retail investors.

1. The execution of various phases of the Financial Education Plan (PEF), a joint initiative between the Bank of Spain and the CNMV presented in 2008 to encourage training and information for consumers of financial services. Specifically:

- Progress will be made to establish institutional cooperation agreements for optimal execution of the PEF. The agreement with the Ministry of Education, Social Policy and Sport is expected to be finalised in 2009 (I). Other agreements are also under negotiation, including one with the Directorate-General of Insurance and Pension Funds.
- The launch of the Financial Education Portal is planned for 2009 (III); the site will be accessible to all investors, enabling the Commission to complete Phase 2 of PEF.
- Under Phase 3 of PEF, educational materials will be disseminated in 2009 (IV) on a pilot basis among secondary school students in the 2009-2010 school year.
- Relevant materials drafted for the pilot implementation will be published and disseminated among interested groups in 2009 (IV).

2. Measures aimed at improving dissemination of information, especially for investors, will continue.

- In 2009 (I), the CNMV plans to launch the new Investor Portal on its web site in place of the current Investor's Corner. Revamping the web will allow for improvements in accessibility and greater efficacy in the dissemination of the regulator's positions, recommendations and best practices. It will also include useful tools for investment decision-making, as well as a virtual classroom, current news and links of interest for investors.
- Publication of the Investor Bulletin is also expected to begin in 2009 (I). The bulletin, which will be disseminated electronically, will contain information of interest for investors, including the regulator's positions, new publications, interpretative documents, events and warnings. It will be published quarterly. This initiative also includes an SMS service that provides users with alerts about information of interest on the web site in real time.
- With a view to encouraging the exchange of information with investors, the CNMV will establish an Annual Plan of Investor Seminars. The goal of these local seminars is to disseminate information of interest that is tailored to investors' needs, thereby improving their awareness of the financial markets. The seminars will be organised in collaboration with local institutions of interest.

- In 2009 (I), the CNMV will distribute the calendar for the publication of investment products and services factsheets for 2009. They will complement the range of CNMV factsheets already in print. The Commission will also encourage the distribution of the factsheets by various means, e.g. via financial institutions. Initiatives to expand information for retail investors will include a special focus on warnings about unauthorised entities.
3. The image of the CNMV's Investor Assistance Office will be adapted to the Commission's corporate image. This will apply to investor publications, the new web site, and the Investor Bulletin, among others.
  4. The CNMV will collaborate with the Bank of Spain and the Directorate-General of Insurance and Pension Funds in pursuit of the following objectives. The organisations aim to improve coordination between their call centres. To this end, they will work in a first phase to expand the current "one-stop shop" system for claims and complaints so as to include queries. Later they will analyse the viability and advisability of transitioning to a single call centre.

They will also promote the joint launch of a financial services web site to make it easier for users to search for information via links to the three institutions' web sites.

#### Investor education and protection

TABLE 3

	Initiative	Schedule
<b>Financial Education Plan: joint project between the Bank of Spain and the CNMV</b>	Institutional cooperation agreements in the framework of the Plan: agreement with the Ministry of Education	2009 (I)
	Launch the Financial Education Portal	2009 (III)
	Distribute educational materials to secondary school students (pilot experience)	Commencing in 2009 (IV)
	Publish material and disseminate among identified groups	2009 (IV)
<b>Improve dissemination of information for investors</b>	Launch new Investor Portal	2009 (I)
	Begin publication of Investor Bulletin	2009 (I)
	Annual plan of Investor Seminars	Begin 2009 (I)
	Calendar of publication of factsheets on investment products and services	2009 (I)
<b>Adapt image of the Investor Attention Office to the CNMV corporate image</b>	Apply new image to publications, Portal, Bulletin, etc.	2009 (I)
<b>Action coordinated with Bank of Spain and Directorate-General of Insurance</b>	Extend coordination between the respective telephone service systems	2009 (I)
	Possible development of Portal for users of financial services	During 2009

### 3.4 Improvements in the functioning of the CNMV and organisational changes

The CNMV devotes constant attention to its own functioning and that of the services it provides. This covers various aspects, ranging from continuous concern for the institution's primary asset, its human capital, to improving and expediting paperwork and processes while maintaining service quality.

1. With a view to continuously reducing red tape and improving e-government, the following actions will be implemented:

- In 2009 (I), the CNMV will commence the transition to the new electronic prospectus for UCITS, at a pace to be determined by the industry itself.
- Work is also being done towards expediting documentation delivery to the Directorate-General of the Treasury and Finance Policy. The goal is to shorten the process while maintaining the security of the numerous communications.
- New electronic prospectuses for certain fixed-income securities in the case of institutional issues and private placements are expected in 2009 (IV).
- Automation of processes, to commence in 2009 (IV), will also extend to investment trusts' regulations and SICAV articles of association. Electronic notifications to entities will be promoted, and public queries and access to data on venture capital firms will be improved.
- In 2010 (I), the response to investor claims and queries will be automated and comprehensively managed. To this end, the Commission will plan the management, oversight and automation of all matters directly related to retail investors.

2. To guarantee that it properly discharges its supervision duties, the CNMV must be prepared for future events that may affect its actions. To this end, it is essential to consider the announced change in the organisation of financial supervision in Spain. In 2009, the CNMV will make adjustments to its organisation so that, in the event that the reform is carried out, it will be able to take on the new responsibilities without affecting its performance in carrying out its duties.

3. In the framework of improving cooperation with other supervisors, the process of updating the Cooperation Agreement with the Bank of Spain, which was established as an objective in the 2007-08 Plan, will foreseeably be completed in 2009 (I).

4. Two specific actions are planned with regard to the CNMV's organisation:

- In 2009 (I), the Supervision Department will be divided into two, one in charge of supervising UCITS and venture capital firms and the other dealing with investment firms and credit institutions that provide investment services. The goal is to tailor supervision to the type of entities being supervised and also to optimize available resources.
- Additionally, as established in the CNMV's Internal Regulation, the structure and work force of the units below department level will be defined.

5. Finally, a number of specific initiatives will be taken as part of the plan to improve human resources management, including:

- Development of an internal training plan to respond to the needs of CNMV staff and improve the Commission’s professional quality, in 2009 (I).
- Adaptation of staff hiring systems to the new needs, commencing in 2009 (I).
- Implementation in 2009 (II) of a plan to promote internal mobility so as to encourage professional development and optimize available resources.

**Improvements in functioning and organisational changes at the CNMV**

TABLE 4

	<b>Initiative</b>	<b>Schedule</b>
<b>Make paperwork with the CNMV more agile</b>	Transition UCITS to the new electronic prospectus	Begin 2009 (I)
	Make document filing with the Directorate-General of the Treasury and Financial Policy more agile	2009 (II)
	Expand the electronic prospectus for fixed-income securities	2009 (IV)
	Automate certain processes for mutual funds and SICAVs	2009 (IV)
	Extend electronic notifications to participants	2009 (IV)
	Improve access to registers of venture capital firms	2009 (IV)
	Automate and provide comprehensive management of claims and queries by investors	2010 (I)
<b>Prepare for possible reorganisation of financial supervision in Spain</b>	Adapt the institution to possible new responsibilities	During 2009
<b>Improve cooperation with other supervisors</b>	Update cooperation agreement with the Bank of Spain	2009 (I)
<b>Improve functioning and organisational changes at the CNMV</b>	Reorganise the Market Participant Supervision Department	2009 (I)
	Design CNMV structure and work force	2009 (I)
<b>Plan to improve human resources management</b>	Internal training plan	2009 (I)
	Reform staff hiring system	2009 (I)
	Plan to promote internal mobility	2009 (II)

### 4.1 Budgetary projections for 2009

#### 4.1.1. Current expenditure

The budget for expenditure on ordinary activities in 2009 is 48.2 million euro, i.e. 7.8% more than in 2008. This increase of 3.5 million euro is broken down as follows:

- A 3.1 million euro increase in personnel expenses (11.9%).
- A 0.2 million euro increase in depreciation and amortisation (15.3%).
- A 0.1 million euro increase in lease expenses (1.9%).
- A 0.1 million euro increase in subsidies (25%).

The average work force will increase from 375 in 2008 to 410 in 2009. This increase in staff plus the adjustments to increases under budgetary regulations leads to an 11.9% increase in personnel expenditure.

The sizable increase in capital expenditure in 2008 leads to a corresponding increase (15.3%) in depreciation and amortisation expense in 2009.

#### 4.1.2. Capital expenditure

Since the investments corresponding to the operational continuity plan have been completed, investments in information systems decline to 2.2 million euro, of which 1.6 million correspond to software applications (development of new oversight applications in line with the new regulations) and 0.6 million to hardware.

Replacement of furniture and other office fittings is assigned 0.1 million euro.

#### 4.1.3. Funding

Projected revenue for 2009 amounts to 46.9 million euro. Fees account for 43.2 million euro in revenue. The reduction in fee revenue (13.2 million, i.e. 23.5%) with respect to 2008 is the result of the sharp decline in UCITS assets and market

trading volume and of the absence of takeovers. The yield on financial investments is expected to produce 3.0 million euro in revenue.

The projected outcome for the year 2009 is a deficit of -1.3 million euro.

The budget for 2009 envisages delivering the CNMV's 2008 surplus to the Treasury, leading to a 16.2 million euro reduction in own funds.

Total budgeted expenditure is 50.5 million euro, of which 2.3 million euro relates to investment and 1.5 million euro to depreciation and amortisation. Since projected revenue amounts to 46.9 million euro, both investment and the contribution to the Treasury of the 2008 surplus will be financed with a reduction in working capital of 18.4 million euro as follows:

- financial investments and cash are reduced by 15.6 million euro,
- fees receivable are reduced by 2.7 million euro,
- short-term accounts payable increase by 0.1 million euro.

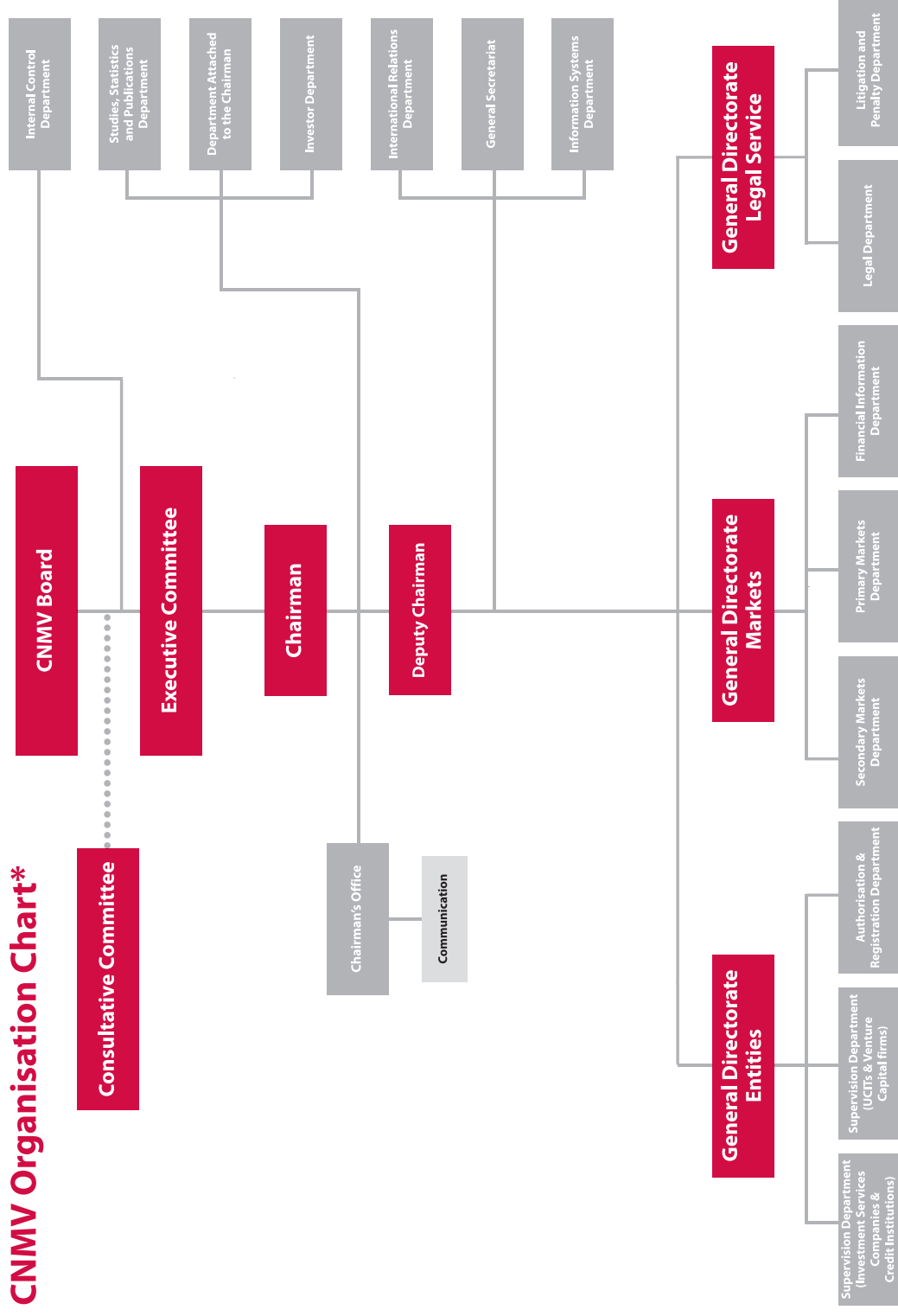
Expenditure on ordinary activities (million euro)			2008-2009	
	2008	2009	absolute change	% change
Personnel expenses	26.1	29.2	3.1	11.9%
Depreciation and amortisation	1.3	1.5	0.2	15.3%
Leases	5.2	5.3	0.1	1.9%
Other outside services	11.7	11.7	0.0	0.0%
Subsidies and other expenses	0.4	0.5	0.1	25.0%
<b>Total ordinary expenses</b>	<b>44.7</b>	<b>48.2</b>	<b>3.5</b>	<b>7.8%</b>
Extraordinary expenses	0.0	0.0	0.0	N.A.
<b>Total expenditure</b>	<b>44.7</b>	<b>48.2</b>	<b>3.5</b>	<b>7.8%</b>

Revenue from ordinary activities (million euro)			2008-2009	
	2008	2009	absolute change	% change
Fee revenues	56.4	43.2	-13.2	-23.4%
Other operating revenues	0.7	0.7	0.0	0.0%
Financial revenues	3.8	3.0	-0.8	-21.1%
<b>Total revenue</b>	<b>60.9</b>	<b>46.9</b>	<b>-14.0</b>	<b>-23.0%</b>
<b>Outcome</b>	<b>16.2</b>	<b>-1.3</b>	<b>-17.5</b>	<b>-108.0%</b>

Capital expenditure (million euro)			2008-2009	
	2008	2009	absolute change	% change
Land and structures	0.0	0.0	0.0	0.0%
Information and communication technology	2.9	2.2	-0.7	-24.1%
Furniture and other fittings	0.6	0.1	-0.5	-83.3%
<b>Total capital expenditure</b>	<b>3.5</b>	<b>2.3</b>	<b>-1.2</b>	<b>-34.3%</b>

Projected year-end balance sheet (million euro)	2008	2009	2008-2009 absolute change	% change
<b>Assets</b>				
Property, plant and equipment	34.9	35.7	0.8	2.3%
Accounts receivable	11.3	8.6	-2.7	-23.9%
Cash and cash equivalents	95.9	80.3	-15.6	-16.3%
<b>Liabilities</b>				
Own funds	137.0	119.4	-17.6	-12.8%
Provisions	1.6	1.6	0.0	0.0%
Current liabilities	3.5	3.6	0.1	2.9%
<b>Total assets = Total liabilities</b>	<b>142.1</b>	<b>124.6</b>	<b>-17.5</b>	<b>-12.3%</b>

# CNMV Organisation Chart\*



\* For more details about these functions and members of each area, visit [www.cnmv.es](http://www.cnmv.es)



### Publication schedule

TABLE 5

Publication	Description	Frecuency	Next publication
<b>Annual report of the CNMV: regarding its actions and the securities markets</b>	Responds to the requirement under the SMA for the CNMV to publish an annual report describing its actions and the performance of the securities markets.	Annual	May 2009
<b>CNMV Bulletin</b>	Contains articles analysing matters relating to the securities markets and their participants, international reports and regulatory analysis. Includes a CD-ROM with statistical data.	Quarterly	April 2009
<b>Securities markets and their prospects (*)</b>	Contains an analysis of the situation in the securities markets and of listed companies, broker-dealers and brokers, and UCITS.	Six-monthly	April 2009
<b>Summary of issuers' auditors' reports filed with the CNMV (excluding SICAVs)</b>	Summarises the auditors' reports that have been filed, detailing any qualifications or exceptions.	Annual	2009 (IV)
<b>Annual corporate governance reports of issuers of securities listed on official secondary markets</b>	Summarises the corporate governance practices of listed companies, other securities issuers and savings banks.	Annual	2009 (IV)
<b>Annual corporate governance report on the Ibex-35 companies</b>	Analysis of the corporate governance reports produced by the companies in the Ibex-35 index.	Annual	2009 (III)
<b>Report on complaints to the CNMV</b>	Summarises the complaints made to the CNMV and sets out recommendations to investors and companies providing investment services as a result of the complaints.	Annual	2009 (III)
<b>Monographs</b>	<p>Organisation of the derivatives markets and central counterparties.</p> <p>A simple model for the ABS market?</p> <p>Characteristics of money market funds in various jurisdictions.</p> <p>Investor compensation schemes.</p> <p>Consolidation of market infrastructures.</p> <p>Transparency in the bond markets.</p> <p>Reform of the financial supervision system: proposals from international bodies.</p>	No fixed schedule	<p>2009 (I)</p> <p>2009 (II)</p> <p>2009 (II)</p> <p>2009 (III)</p> <p>2009 (III)</p> <p>2009 (IV)</p> <p>2010 (I)</p>

See [www.cnmv.es](http://www.cnmv.es)

\* Published in the corresponding Quarterly Bulletin.

