CNMV
Comisión Nacional del Mercado de Valores

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Quarter III

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The CNMV publishes this Quarterly Bulletin to spread research in order to contribute to the best knowledge of the stock markets and their regulation.

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Abbreviations

ABS	Asset-Backed Security
AIAF	Asociación de Intermediarios de Activos Financieros (Spanish market in fixed-income securities)
ANCV	Agencia Nacional de Codificación de Valores (Spain's national numbering agency)
ASCRI	Asociación española de entidades de capital-riesgo (Association of Spanish venture capital firms)
AV	Agencia de valores (Broker)
AVB	Agencia de valores y bolsa (Broker and market member)
BME	Bolsas y Mercados Españoles (Operator of all stock markets and financial systems in Spain)
BTA	Bono de titulización de activos (Asset-backed bond)
BTH	Bono de titulización hipotecaria (Mortgage-backed bond)
CADE	Central de Anotaciones de Deuda del Estado (Public debt book-entry trading system)
CCP	Central Counterparty
CDS	Credit Default Swap
CNMV	Comisión Nacional del Mercado de Valores (Spain's National Securities Market Commission)
CSD	Central Securities Depository
EAFI	Empresa de Asesoramiento Financiero (Financial advisory firm)
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
ECR	Entidad de capital-riesgo (Venture capital firm)
EIOPA	European Insurance and Occupational Pensions Authority
EMU	Economic and Monetary Union (Euro area)
ESA	European Supervisory Authorities
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-Traded Fund
EU	European Union
FI	Fondo de inversión de carácter financiero (Mutual fund)
FII	Fondo de inversión inmobiliaria (Real estate investment fund)
FIICIL	Fondo de instituciones de inversión colectiva de inversión libre (Fund of hedge funds)
FIL	Fondo de inversión libre (Hedge fund)
FSB	Financial Stability Board
FTA	Fondo de titulización de activos (Asset securitisation trust)
FTH	Fondo de titulización hipotecaria (Mortgage securitisation trust)
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIC	Institución de inversión colectiva (UCITS)

IICIL	Institución de inversión colectiva de inversión libre (Hedge fund)
IIMV	Instituto Iberoamericano del Mercado de Valores
IOSCO	International Organization of Securities Commissions
ISIN	International Securities Identification Number
Latibex	Market in Latin American securities, based in Madrid
MAB	Mercado Alternativo Bursátil (Alternative Stock Exchange)
MEFF	Spanish financial futures and options market
MFAO	Mercado de Futuros del Aceite de Oliva (Olive oil futures market)
MIBEL	Mercado Ibérico de Electricidad (Iberian electricity market)
MiFID	Markets in Financial Instruments Directive
MoU	Memorandum of Understanding
OECD	Organisation for Economic Co-operation and Development
P/E	Price-earnings ratio
RENADE	Registro Nacional de los Derechos de Emisión de Gases de Efectos Invernadero (Spain's national register of greenhouse gas emission permits)
ROE	Return on Equity
SCLV	Servicio de Compensación y Liquidación de Valores (Spain's securities clearing and settlement system)
SCR	Sociedad de capital-riesgo (Venture capital company)
SENAF	Sistema Electrónico de Negociación de Activos Financieros (Electronic trading platform in Spanish government bonds)
SEPBLAC	Servicio Ejecutivo de la Comisión de Prevención del Blanqueo de Capitales e infracciones monetarias (Bank of Spain unit to combat money laundering)
SGC	Sociedad gestora de carteras (Portfolio management company)
SGECR	Sociedad gestora de entidades de capital-riesgo (Venture capital firm management company)
SGFT	Sociedad gestora de fondos de titulización (Asset securitisation trust management company)
SGIIC	Sociedad gestora de instituciones de inversión colectiva (UCITS management company)
SIBE	Sistema de Interconexión Bursátil Español (Spain's electronic market in securities)
SICAV	Sociedad de inversión de carácter financiero (Open-end investment company)
SII	Sociedad de inversión inmobiliaria (Real estate investment company)
SIL	Sociedad de inversión libre (Hedge fund in the form of a company)
SME	Small and medium-sized enterprise
SON	Sistema Organizado de Negociación (Multilateral trading facility)
SV	Sociedad de valores (Broker-dealer)
SVB	Sociedad de valores y Bolsa (Broker-dealer and market member)
TER	Total Expense Ratio
UCITS	Undertaking for Collective Investment in Transferable Securities

I Securities markets and their agents: Situation and outlook

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1 Executive summary

- The latest available data[1] evidence a notably uneven growth pace across major economies. The emerging market group and, of the advanced economies, the US and the United Kingdom kept up a sturdy expansion in the second quarter, while other advanced economies like Germany and France surprised on the downside. This growth diversity justifies the differing monetary policy tacks being taken in each zone. In the US, the Federal Reserve has continued tapering its asset purchases, and the consensus is that interest rates will start to rise in the second half of 2015. The ECB, in contrast, has addressed the current low-growth, low-inflation scenario by cutting its policy rate to a record 0.05% and launching new unconventional measures in a bid to reinvigorate bank lending.

- In global debt markets, benchmark bond yields have fallen with varying intensity throughout the year. The faster rate of decrease in euro-area bonds reflects the weaker state of national economies. Hence ten-year government yields in Germany and France dropped to 1% and 1.4% in mid-September, compared to 2.6% in the United States. In Europe's peripheral economies, improved investor confidence accelerated the fall in bond yields and risk premiums to below their respective pre-crisis levels.

- Equity markets were buoyed up during the first-half period by plentiful liquidity and a keen appetite for risk, which drove leading indices sharply higher. In the third quarter, however, their performances diverged in response to at times opposing forces, with weak activity figures in Europe and geopolitical risks bearing down on prices, in contrast to the boost effect of new ECB measures. Finally, US indices came out the strongest performers year to date (with both the S&P 500 and Nasdaq gaining over 7%), against the more mixed fortunes of European bourses.

- Spanish GDP expanded 0.6% in the second quarter (1.2% in annual terms), sizeably ahead of the average for the euro area. The upswing in activity, with its roots in improved domestic demand momentum, delivered a small recovery in jobs and a lower unemployment rate. Inflation, meantime, fell to -0.5% in August after hovering near zero for the first six months. On the budget front, the central government deficit to July stood at 3.08% of GDP, half a point lower than one year before. General government debt crossed the one trillion mark at mid-year, although around six billion euros of the increase owed to an accounting change.

1 The closing date for this report is 15 September.

- The Spanish banking system continues to negotiate a difficult landscape, with economic activity still short of speed, despite recent improvement, and NPL ratios in excess of 13% of total loans. But the solid progress made is appreciable in strengthening income statements, rising share prices and the easier financing conditions available to banks. The stress test results due in October will be key to shoring up confidence in the sector.

- The recovery in domestic activity is starting to work through to listed firm earnings. The aggregate profits of non-financial listed companies rose by 3.9% in the first-half period to 8.63 billion euros. This advance rested largely on a profits rebound in the construction and real estate sector. Companies' gross debt, finally, decreased by 3.3% to 265 billion, though leverage was unchanged at 1.32.

- Prices on domestic equity markets have tended to steady after the run-up of the opening half. The Ibex 35, which had risen 10.2% in the first six months, shed 0.8% of its value in the third quarter. Even so, the Spanish index managed to sizeably outperform other leading European indices with a year-to-date gain of 9.3%. Domestic trading volumes continued to swell (up 27% in the year) on Spanish equities' attractiveness vs. alternative investments, and despite the growing business in Spanish shares on foreign regulated markets and MTFs. Market volatility has remained muted to date, at under 20%.

- Spanish fixed-income markets experienced a renewed fall in yields in a supportive climate characterised by abundant liquidity and the improved outlook for the national economy. Yields on benchmark public and private debt instruments reached new historical lows in the third quarter, leaving little room on the downside, with ten-year governments, for instance, trading at 2.3% in mid-September compared to the 4.1% of the 2013 close. Meantime, the credit risk premiums of Spanish issuers declined across the board, driving down financial costs throughout the economy. In some market segments, there are signs that prices might have edged out of step with economic fundamentals, making them more sensitive to possible instability episodes or unexpected interest rate hikes. Finally, the volume of debt issues registered with the CNMV has fallen by 28.5% to 67.31 billion euros[2], in tune with issuers' lower funding needs.

- Assets under management in investment funds climbed by 16.6% in the year's first half to 182.7 billion euros, prolonging the upward trend initiated in 2013 and restoring industry assets to levels unseen since late 2008. Eighty percent of this advance owed to net subscriptions, which were concentrated mainly in fixed-income, balanced fixed-income and passively managed funds. Investment in foreign UCITS also moved up strongly (24.2%) and now represents nearly a quarter of the assets of collective investment schemes marketed in Spain. UCITS management companies grew their management fee income (16.7%) and profits (14%) on the back of this expansion, though the number of loss-making entities rose from eleven last December to thirteen in June 2014.

2 Or a lesser 11.5% if we factor growing issuance abroad.

- Increased trading volumes on equity markets and the recovery of collective investment were good news for investment firms, whose aggregate profits rose by almost 60%, accompanied by a sturdy advance in return on equity (up from 16.5% at the 2013 close to 23.8% in mid-2014). The sector's solvency conditions remain optimal, as calculated under the new criteria introduced by Regulation (EU) 575/2013. In the investment advisory firm segment, the salient development was an 18% drop in assets under advice as far as a June total of 14.4 billion euros, due to the cancellation of one large contract. Without this circumstance, assets would have moved up 5% in the same period.

- The report includes four exhibits:

  – The first considers the revise-up in the growth forecasts for the Spanish economy in 2014 and 2014, with reference to both the issuing institution and underlying causes.

  – The second runs through the main MiFID II novelties affecting financial markets.

  – Exhibit three tracks the changes in the volume and destination of foreign investment in Spain throughout the crisis.

  – Finally, the fourth exhibit sets out the conclusions of a CNMV review of the results obtained by clients trading in CFDs (contracts for difference).

2 Macro-financial background

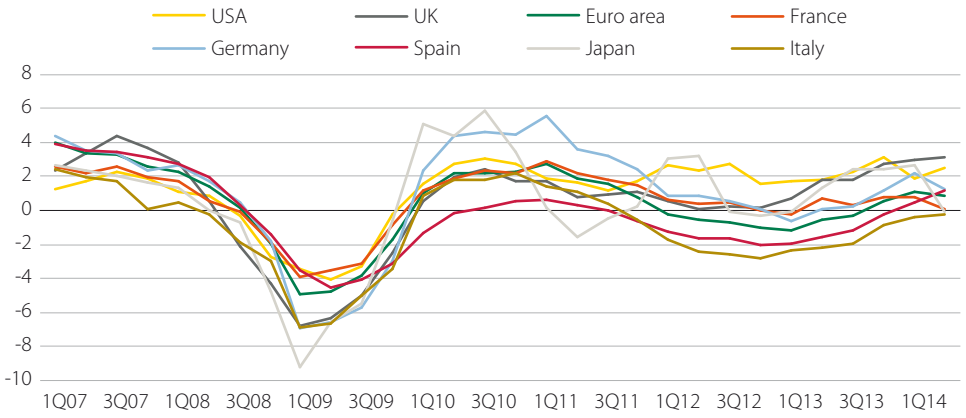
2.1 International economic and financial developments

Mixed fortunes in the second quarter of 2014, with downside surprises in Germany and France and better news for Spain, Portugal and the Netherlands.

Economic activity progressed unequally among the advanced economies in the second quarter of 2014. Growth was strongest in the United States and United Kingdom, whose economies expanded 2.5% and 3.2% in annual terms, in the first case after a first-quarter dent due to temporary factors. In the euro area, however, activity figures caused a degree of consternation, as core economies were revealed to have stalled or even reversed (a quarterly -0.2% in Germany and Italy and zero growth in France), while peripheral economies shook off earlier weakness to advance at a solid rate (0.6% in Spain and Portugal and 0.5% in the Netherlands). The Chinese economy, meantime, grew 7.4% in the first six months, just slightly behind the 7.6% of the same period last year.

Gross domestic product (annual % change)

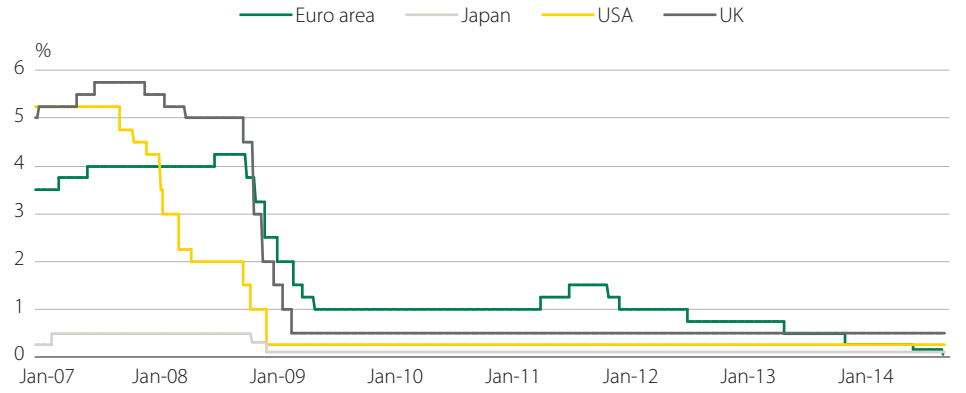
FIGURE 1



Source: Thomson Datastream.

Official interest rates

FIGURE 2



Source: Thomson Datastream. Data to 15 September.

Inflation is running at around 2% in the US and United Kingdom and under 1% in the euro area. Hence the disparate strategies being pursued by central banks.

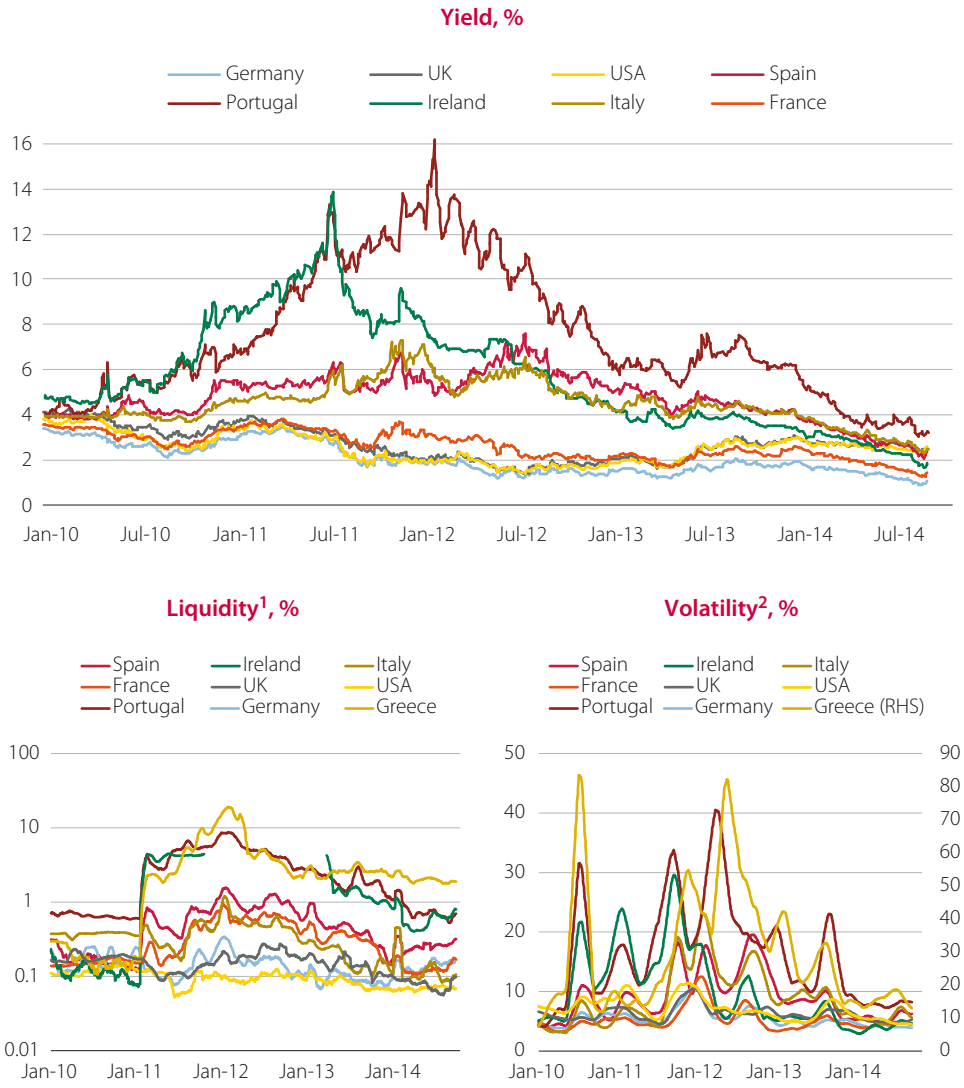
Inflation rates held near 2% in recent months in both the United States and the United Kingdom. In the euro area, growth in consumer prices has been running below 1% since October 2013, conjuring the spectre of deflation. Monetary policies, meantime, remained broadly accommodative though with certain major differences. In the United States, for instance, the rebound in activity and employment has enabled the monetary authority to wind down its monthly bond purchases. These now stand at 25 billion dollars, a full 60 billion less than at year-end 2013, and the Federal Reserve has announced a further cut to 15 billion starting in October. In the euro area, conversely, the ECB cut its policy rates in June and September to a record low of 0.05%, and has unveiled new unconventional measures: among them, its targeted longer-term refinancing operations (TLTRO), which banks can tap as a function of their (non-mortgage) lending. Europe's central bank will also activate a new programme in October for the purchase of private-sector assets, including mortgage covered bonds and certain asset-backed securities[3].

3 The ECB will buy asset-backed securities (ABS) whose underlying assets are claims against the euro area non-financial private sector under the ABSPP (ABS Purchase Programme), and mortgage covered bonds under the newly launched CBPP3 (Covered Bonds Purchase Programme).

In international debt markets, the long-term yields of main sovereign benchmarks have headed lower in the main, with rather less intensity in the case of US treasuries and UK gilts. In these two economies, yields narrowed by a bare 50 bp vs. year-end 2013 to mid-September values of 2.6% and 2.5% respectively. The greater strength of their activity is presumably the prime cause of this downside resistance.

Yields of long-term sovereign benchmarks have trended lower in the year…

Ten-year sovereign bond market indicators FIGURE 3



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

1 Monthly average of the daily bid-ask spread of ten-year sovereign yields (on a logarithmic scale).

2 Annualised standard deviation of daily changes in 40-day sovereign bond prices. Moving average of 50 periods.

Euro-area yields have to date run down more steeply. The improved prospects for Europe's peripheral economies have spurred purchases of their debt, thereby further compressing sovereign yields –to 1.9%, 2.3% and 2.5% in Ireland, Spain and Italy respectively after year-to-date declines upwards of 1.5 pp. These values, improving on pre-crisis levels, may denote a degree of uncoupling from macroeconomic fundamentals. Among the larger European economies, German bond yields fell by 0.92 pp to 1.02% while the yield on the French bond tightened by 1.1 pp to

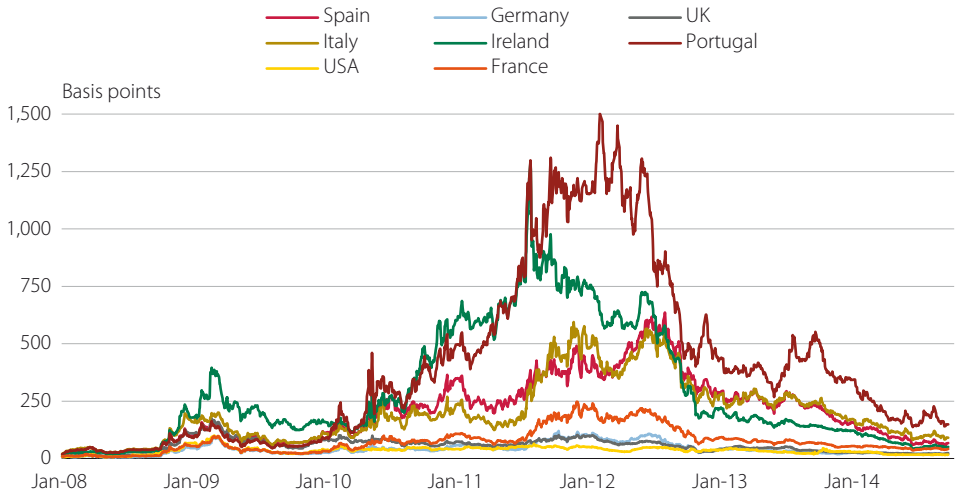
… more steeply among European economies, on account of their greater macroeconomic frailty and increased investment flows to peripheral countries.

1.4%. This converging performance, at odds with the experience of prior years, may respond to the frailty of both countries' second-quarter economic figures.

Sovereign risk spreads are near or below their pre-crisis levels.

The compression of peripheral risk premiums has continued all year, in line with the moderation of debt market tensions and countries' improved economic outlooks. From December 2013 to mid-September 2014, the 5-year CDS spreads on 10-year sovereign bonds fell by between 70 and 180 bp. As we can see from figure 4, these risk spreads are, in most cases, near to or lower than the values prevailing at the start of the crisis. In corporate bond markets, reduced levels of high-yield spreads reflected the continuing predominance of "search for yield" strategies. The down-trend, however, reversed at the start of June, with spreads widening thereafter by around 60 bp in the US and 85 bp in Europe (see figure 5).

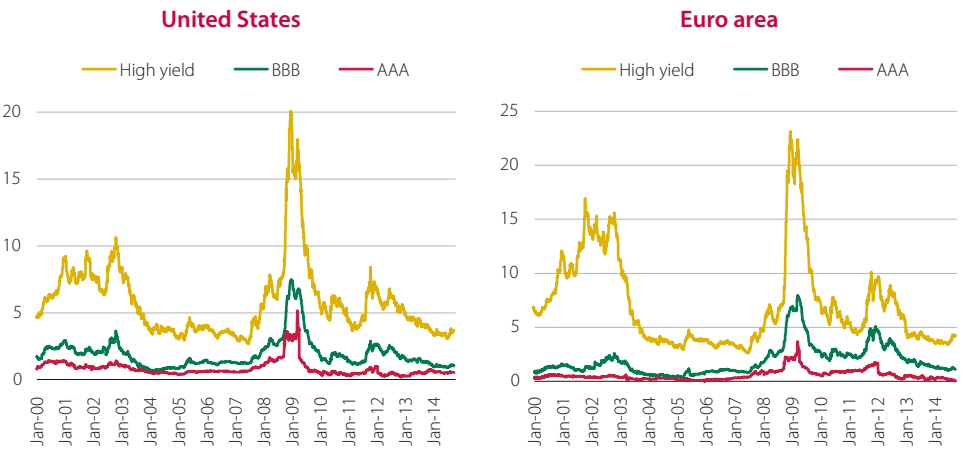
Sovereign credit spreads (five-year CDS) FIGURE 4



Source: Thomson Datastream. Data to 15 September.

Corporate bond spreads FIGURE 5

Spread vs. the 10-year government bond, in percentage points[1]



Source: Thomson Datastream and CNMV.

1 In the euro area, versus the German benchmark.

Net long-term issuance on global debt markets summed just over 2.5 trillion dollars year to date (in annualised terms), 29.5% less than in the same period in 2013. Leading the decline was public sector issuance, which slowed to a trickle, in Europe especially, during the first months of the second-half period (see figure 6). In this region, the reduction in public sector borrowing requirements ensuing from fiscal consolidation was intense enough to take net issuance into negative territory (i.e., with redemptions of long-term bonds exceeding the amounts issued). In the private sector of the economy, net year-to-date issuance by financial corporations climbed to 357 billion dollars from last year's 223 billion, while that of non-financial corporations fell from 851 to 574 billion. However, as we can see from figure 6, there were major differences both between regions and in the timing of issuance. Among US financial corporations, net debt volumes have been positive for several quarters, while in the case of Europe they turned negative once more in the middle months of 2014. Among non-financial corporations, the issuance decline was similar across main economic regions.

Net debt issuance recedes by 29.5% to 2.5 trillion dollars on lower public sector borrowing requirements.

Gross international debt issuance FIGURE 6

Source: Dealogic. Half-year data. Data for the second half of 2014 run to 15 September, but are restated on a semiannual basis to facilitate comparison.

Risk appetite and low-key volatility continue to set the tone for equity markets. The index gains of the first six months give way to a more disparate third-quarter performance…

Equity markets continued to reap the benefits of investors' growing appetite for risk in a context of muted volatility. That said, advanced economy stock indices began pulling apart in the third quarter after a strong first-half advance. In Europe, particularly, weak activity figures for core economies and the geopolitical tensions emanating from conflict areas weighed heavily enough on key indices to annul the boost effect of the ECB's announced measures, resulting in quarterly price variations ranging from the -2.2% of the Mib 30 to the 0.7% of the Euronext 100.

… with some European indices pressured by weak macro data and geopolitical tensions, despite the soothing balm of ECB measures.

The lead in year-to-date terms goes to US indices with gains ranging from the 2.7% of the Dow Jones to the Nasdaq's 8.2%. Euro-area indices, meantime, posted advances running from the 1.1% of the Dax 30 to the 9.3% of the Ibex 35, despite the reversal experienced in the middle months. In Japan, the Topix rose by 0.9% while the Nikkei ceded 2.1%. Japanese indices strengthened in both the second and third quarters, but their year-to-date performance was marred by heavy losses in the opening months.

Performance of main stock indices[1]

TABLE 1

									3Q 14 (to 15 September)		
	%	2010	2011	2012	2013	3Q 13	4Q 13	1Q 14	2Q 14	%/prior qt.	%/ Dec 13	% y/y[2]
World												
MSCI World		9.6	-7.6	13.2	24.1	7.7	7.6	0.8	4.2	-0.9	4.0	12.6
Euro area												
Eurostoxx 50		-5.8	-17.1	13.8	17.9	11.2	7.5	1.7	2.1	0.1	3.9	12.7
Euronext 100		1.0	-14.2	14.8	19.0	10.3	4.4	2.7	1.1	0.7	4.5	9.6
Dax 30		16.1	-14.7	29.1	25.5	8.0	11.1	0.0	2.9	-1.8	1.1	13.5
Cac 40		-3.3	-17.0	15.2	18.0	10.8	3.7	2.2	0.7	0.1	3.1	7.6
Mib 30		-8.7	-24.0	10.2	18.8	11.8	9.4	13.6	-2.2	-2.2	8.6	17.9
Ibex 35		-17.4	-13.1	-4.7	21.4	18.3	8.0	4.3	5.6	-0.8	9.3	21.2
United Kingdom												
FTSE 100		9.0	-5.6	5.8	14.4	4.0	4.4	-2.2	2.2	0.9	0.8	3.3
United States												
Dow Jones		11.0	5.5	7.3	26.5	1.5	9.6	-0.7	2.2	1.2	2.7	10.8
S&P 500		12.8	0.0	13.4	29.6	4.7	9.9	1.3	4.7	1.2	7.3	17.5
Nasdaq-Cpte		16.9	-1.8	15.9	38.3	10.8	10.7	0.5	5.0	2.5	8.2	21.4
Japan												
Nikkei 225		-3.0	-17.3	22.9	56.7	5.7	12.7	-9.0	2.3	5.2	-2.1	10.7
Topix		-1.0	-18.9	18.0	51.5	5.3	9.1	-7.6	5.0	4.1	0.9	10.8

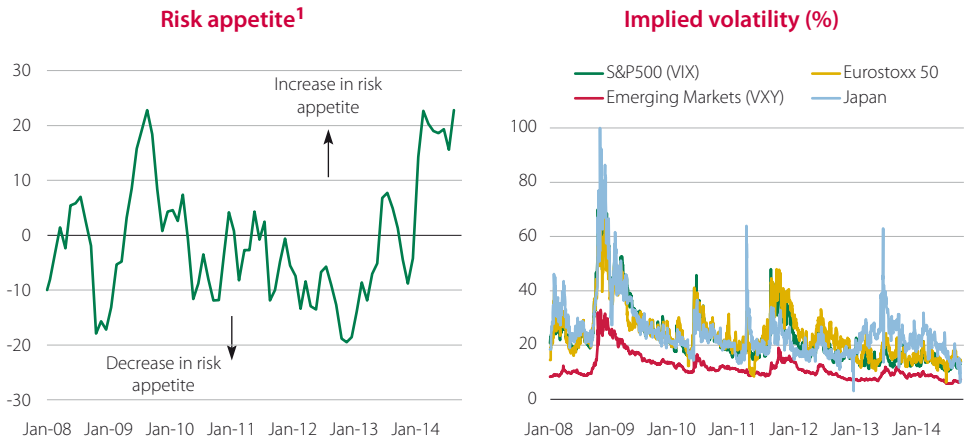
Source: Datastream.

1 In local currency.

2 Year-on-year change to the reference date.

Financial market indicators

FIGURE 7



Source: Thomson Datastream and CNMV.

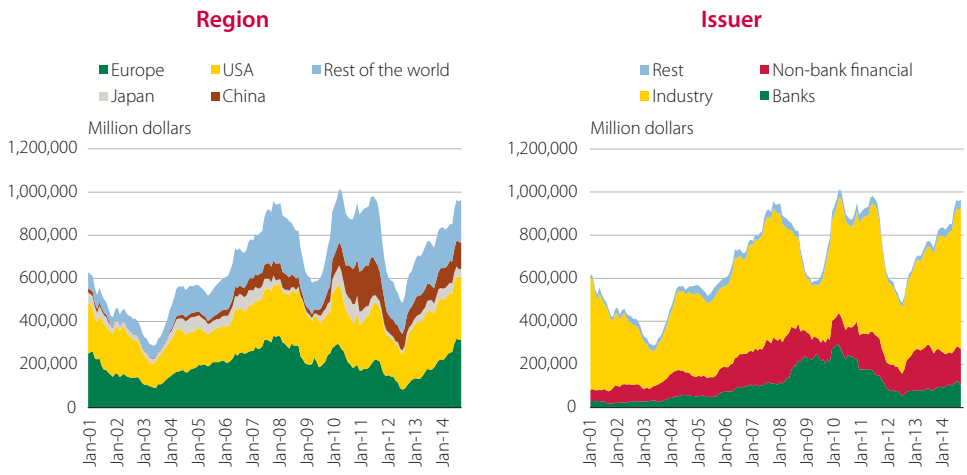
1 State Street indicator.

Global equity issuance approaches 700 billion euros, 23% more than in 2013, with Europe and China especially dynamic.

The value of equity issues on world financial markets came to 692 billion dollars between January and mid-September, a 23.2% increase over the year-ago period. Of the various issuance formats, the most popular were public offers for subscription, which raised over 154 billion dollars in all (54.3% more than in 2013). Investors' keener appetite for risk combined with generally buoyant markets favoured the issuance of shares to the detriment of less risky instruments. This was especially true in Europe and China, where rates of advance reached 63.5% and 48.8% respectively. A breakdown by sector gives industrial firms (ex. utilities) a growth lead, with 33.9% more capital raised, followed by the +11% of the banking sector. In cumulative twelve-month terms, global equity issuance stood at 964 billion dollars, closing in on the ten-year highs recorded in spring 2010 (see figure 8).

Global equity issuance

FIGURE 8



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

2.2 National economic and financial developments

Spain records second-quarter GDP growth sizeably ahead of the euro area.

According to the latest data from Quarterly National Accounts, corresponding to the second quarter of 2014, the Spanish economy expanded 0.6% in quarterly terms, lifting the year-on-year rate to 1.2%. This brisker activity stands in contrast to the muted growth of the euro area (0.05% quarterly and 0.8% annual rate in the second quarter), weighed down by the worsening figures for Germany and France. The result was that Spain outperformed the euro area in annual GDP rates for the first time in five years.

The domestic demand contribution expands from 0.7 to 1.9 points while net exports detract 0.7 points (-0.2 in the first quarter).

Domestic demand came forward strongly with a growth contribution of 1.9 points, up from 0.7 in the first quarter, while the negative contribution of net exports deepened from -0.2 to -0.7 points. The two main domestic demand components gained speed vs. the opening quarter, with final household consumption advancing 2.4% (0.7 points more) and gross fixed capital formation up by 1.2% (2.4 points more). An encouraging development here was the slower decline of the construction sector (just -3.4% in the second quarter against -8.6% in the first). Finally, both exports and imports, particularly the former, lost steam compared to the first quarter.

Excepting primary activities, all sectors of the economy strengthen vs. the previous quarter.

As supply side analysis of GDP shows that industry, construction and services all improved on their first-quarter showing, with annual growth in gross value added quickening from 0.5% to 1.1%, -8.1% to -3.1%, and 0.9% to 1.5% respectively, in contrast to the GVA shrinkage of primary activities.

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

					EC[1]	
	2010	2011	2012	2013	2014F	2015F
GDP	**-0.2**	**0.1**	**-1.6**	**-1.2**	**1.1**	**2.1**
Private consumption	0.1	-1.2	-2.8	-2.1	1.3	1.6
Government consumption	1.5	-0.5	-4.8	-2.3	-0.8	-0.7
Gross fixed capital formation, of which:	-5.5	-5.4	-7.0	-5.0	-1.4	4.2
Construction	-9.9	-10.8	-9.7	-9.6	n.a.	n.a.
Equipment and others	5.0	5.6	-3.9	2.3	6.5	8.2
Exports	11.7	7.7	2.1	4.9	5.5	6.7
Imports	9.4	0.0	-5.7	0.4	3.4	5.8
Net exports (growth contribution, p.p.)	0.4	2.1	2.5	1.5	0.8	0.5
Employment[2]	-2.3	-2.2	-4.8	-3.4	0.4	1.2
Unemployment rate	19.9	21.4	24.8	26.1	25.5	24.0
Consumer price index	1.8	3.2	2.4	1.4	0.1	0.8
Current account balance (% GDP)	-4.5	-3.7	-1.2	0.8	1.4	1.5
General government balance (% GDP)[3]	-9.6	-9.6	-10.6	-7.1	-5.6	-6.1
Public debt (% GDP)	61.7	70.5	86.0	93.9	100.2	103.8
Net international investment position (% GDP)[4, 5]	-92.0	-83.6	-68.4	-84.4	n.a.	n.a.

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

1 European Commission forecasts of May 2014.

2 In full-time equivalent jobs.

3 Figures for 2011, 2012 and 2013 include government aid to credit institutions amounting to 0.5%, 3.8% and 0.47% of GDP respectively.

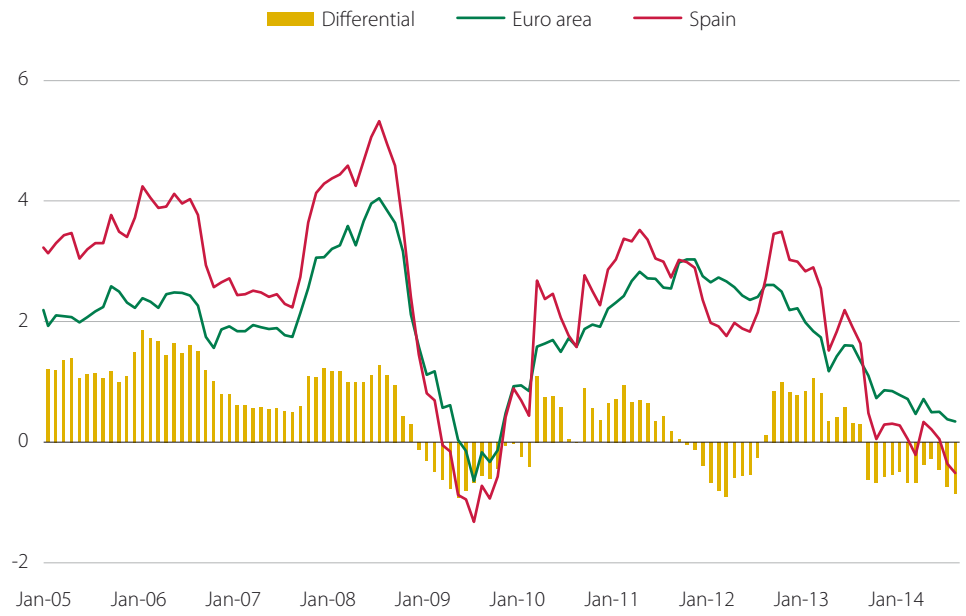
4 Ex. Banco de España.

n.a.: Not available.

After hovering near zero over the first half of the year, Spanish inflation turned negative in the summer months. August's -0.5% was substantially below the euro area headline rate (see figure 9), while the core rate stood at zero for the fourth consecutive month. By component, prices of non-energy industrial goods moved in negative terrain (as they have for a year), joined more recently by food prices, especially of fresh produce. Service prices, finally, made a slightly positive contribution in year-on-year terms.

CPI rates border on zero for the first six months, then fall steeply into negative territory.

Harmonised index of consumer prices: Spain *vs.* euro area (annual % change) FIGURE 9



Source: Thomson Datastream. Data to August.

Labour market figures are beginning to reflect the recent upturn in economic activity. Employment in terms of full-time equivalent jobs rose by 0.6% in the second quarter and 0.8% year on year (127,000 jobs in a year) in what was the first positive annual variation since the second quarter of 2008. The unemployment rate eased in consequence from 25.9% in the first quarter to 24.5% in the second, equating to just over 5.6 million people without work.

The labour market begins to reflect the pick-up in domestic activity, in the shape of 127,000 new jobs in a year and a 1.5-point cut in the unemployment rate to 24.5% of the active population.

According to available budgetary execution figures, the public deficit to the month of July was 3.08% of GDP compared to the 3.6% of one year before. The decline in the central government deficit was secured on a combination of 3% higher non-financial resources and 2.6% lower non-financial uses. The deficit to May of all branches of government except local authorities came to 2.35% of GDP (2.48% in 2013), of which 0.6% corresponded to the regions (autonomous communities). Finally, the social security system recorded a surplus of 0.52%.

The public deficit is also being reined back, though progress is slow.

General government debt stood at just over one trillion euros in the second quarter, according to the methodology of the European System of National and Regional Accounts (ESA 2010), whose Regulation came into force on 1 September 2014. The enlarged perimeter of general government introduced by the new system adds al-

Public debt tops the one trillion mark in the second quarter, due partly to the effects of an accounting change.

most 6 billion euros to the debt figure[4] with respect to the old format. Note, in this respect, that GDP too will be revised upwards under ESA 2010, leading in all probability to a sizeable reduction in the public debt ratio[5].

Forecasts for the Spanish economy

EXHIBIT 1

Short and medium-term forecasts for the Spanish economy have improved in recent months, with both domestic institutions and international organisations revising up growth expectations for this year and next. In its July forecasts, for instance, the Banco de España boosted its GDP growth estimates by 0.1 points (from 1.2% to 1.3%) for 2014 and 0.3 points for 2015 (from 1.7% to 2.0%) with respect to the figures published last March. And in a similar move, the forecasting panel of savings bank foundation FUNCAS raised its growth projections for this year and next from 1.0% and 1.8% in March respectively to 1.2% and 1.9% in the survey of July.

International organisations the International Monetary Fund (IMF) and OECD also revised up forecasts for Spain in the latest of their regular analyses of the global economy. The Fund, in its *World Economic Outlook* (WEO) of last July, projected growth rates of 1.2% and 1.6% for this and next year, against its April forecast of 0.9% this year, rising to 1% in 2015. In the same publication, it lowered its global growth estimate for 2014 by 0.3 points (from 3.7% to 3.4%)[1], while leaving its 2015 forecast unchanged at 4%.

Forecast for main macro-variables

TABLE E.1.1

Change[1]

	Banco de España		FUNCAS		IMF		OECD	
	2014	2015	2014	2015	2014	2015	2014	2015
GDP	1.3	2.0	1.2	1.9	1.2	1.6	1.2	1.6
	(0.1)	(0.3)	(0.2)	(0.1)	(0.3)	(0.6)	(0.2)	(0.1)
Private consumption	1.6	1.6	1.5	1.6	–	–	2.1	1.8
	(0.5)	(0.4)	(0.5)	(0.2)			(1.1)	(0.8)
Government consumption	-0.8	-1.5	-0.9	-0.5	–	–	-0.3	-1.5
	(0.7)	(1.0)	(1.1)	(-0.2)			(3.3)	(1.0)
Gross capital formation	1.8	4.2	0.5	2.9	–	–	0.6	2.9
	(1.8)	(0.0)	(0.4)	(0.4)			(0.3)	(0.9)
Exports of goods and services	4.6	5.9	5.2	5.7	–	–	3.7	5.9
	(-0.5)	(-0.2)	(-0.2)	(-0.2)			(-1.9)	(-0.4)
Imports of goods and services	4.7	4.5	4.6	4.8	–	–	4.3	5.2
	(1.7)	(0.1)	(1.3)	(-0.1)			(1.7)	(1.4)
Employment	0.4	1.4	0.5	1.3	–	–	0.8	1.1
	(0.0)	(0.5)	(0.1)	(0.2)				

Source: CNMV.

1 The figures in brackets correspond to the difference between the organisation's latest and previous forecast. In the case of FUNCAS, the previous forecast is as published in its March report as opposed to its subsequent report in May (to maintain a comparable time lag between predictions).

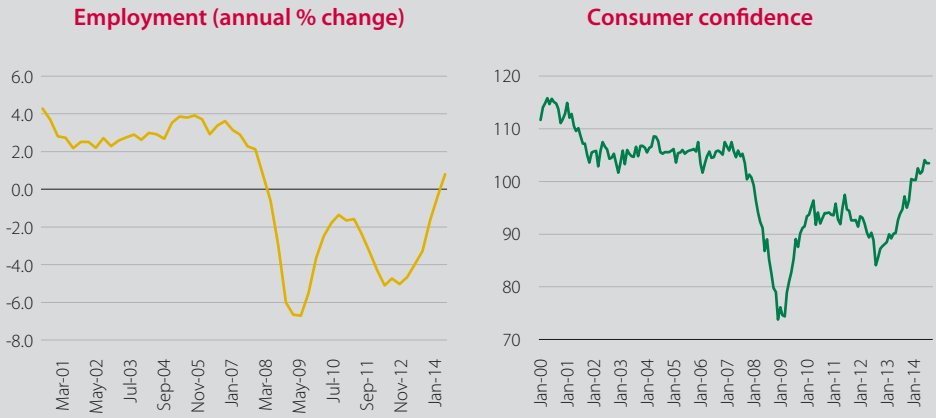
4 In accordance with the EDP (Excessive Deficit Procedure).

5 Banco de España has announced that it will update the public debt/GDP ratios on its website following the National Statistics Office's publication of annual GDP estimates on 25 September and quarterly estimates in October.

The latest report is the OECD's economic survey, released in early September 2014, in which this organisation revisits its own projections for the Spanish economy, made last May. The result is a revise-up in growth forecasts to 1.2% in 2014 and 1.6% in 2015, an increase of 0.2 points and 0.1 points respectively.

But what are the reasons that moved these organisations to revise their forecasts in the last quarter? On the one hand, financial conditions have become more supportive, in the shape of lower long-term interest rates in the advanced economies and a degree of stabilisation on financial markets. In the euro area, specifically, lower-than-expected inflation has enabled the ECB to cut its policy rates at the same time as it has activated a series of expansionary measures over and above existing programmes. On the other, referring to the particular circumstances of Spain, the more upbeat projections for short and mid-term growth hang particularly on a growing contribution of domestic demand, assisted by the gradual restoral of confidence and improved labour market readings. Banco de España, for example, forecasts that private consumption will rise by 1.6% both this year and next (against its March predictions of 1.1% and 1.2%), while the OECD augurs 2.1% growth in 2014 and 1.8% in 2015. Other upside factors in view of their potential growth benefits are the recent tax reform and the fiscal strategy mapped out in the Government's Stability Programme for 2014-2017. Further, the process of financial system recapitalisation and restructuring has strengthened the liquidity and capital positions of Spanish banks and lowered the cost of capital market financing, thanks to the efforts of individual institutions and the reform package implemented by the Government with the help of the EU. And this seems certain to have influenced forecaster sentiment.

Employment and confidence FIGURE E.1.1



Source: Thomson Datastream.

Forecasters also point to the persistence of downside risks for growth projections, especially in 2015. In a country with its particularities, Spain's high level of public debt is a major vulnerability factor in the event of an upturn in sovereign rates. Also, concerns have been voiced that meeting the current deficit targets (5.5% for

2014 and 4.2% for 2015) will require deeper-than-projected budgetary consolidation, which could end up sapping domestic demand.

On the external demand front, the growth weakness of Spain's main trading partners could hurt its export markets, and demand some adjustment of forecasts under this head[2].

1 The main cause of the revise-down in global growth for 2014 was the weakness of the US economy in the opening months, which has dampened growth expectations from 2.8% to 1.7%.

2 Some reports have already cut projections of export growth in view of the poorer expectations for certain emerging market economies. Banco de España, for instance, has reduced them by 0.5 points for 2014 and 0.2 points for 2015, as far as 4.6% and 5.9% respectively.

The Spanish banking system is making progress even in the face of weak activity and high bad debt. Factors in support include income statement and share price growth along with easier funding conditions. Stress test results will be key to shoring up confidence in the sector.

Spain's banking sector remains immersed in the clean-up and restructuring process initiated in 2012. The task of rationalising institutions is proceeding to plan, but banking business itself is still having to contend with weak economic activity, which has yet to fully revive despite recent improvement. NPL ratios are still running high, since they reflect the macro situation with a certain time lag, but other fundamental sector variables have begun to turn around. Bank income statements have improved, even among intervened entities, thanks to dwindling provision charges. And funding has become easier now markets have steadied, alleviating the fragmentation observable in the euro area. Banks, it appears, are also readier to lend: the amount of outstanding loans continues to fall, but the pace is decelerating. Looking ahead, the results of Europe's planned stress tests could prove crucial in determining agent expectations for the sector.

Banks' aggregate profits climb from 621 million in 1Q 2013 to 3.70 billion in the same period this year.

The Spanish banking sector obtained first-quarter profits of 3.70 billion euros, well clear of the 621 million reported in 2013. At the top of income statements, net interest income decreased by an additional 7.4% to 6.40 billion euros, due to the slowness of business and, more so, the persistence of reduced interest rates, which complicate life for these institutions. However, higher income from equity instruments, operating cost savings and lower financial asset impairment losses did enough to boost earnings sector wide.

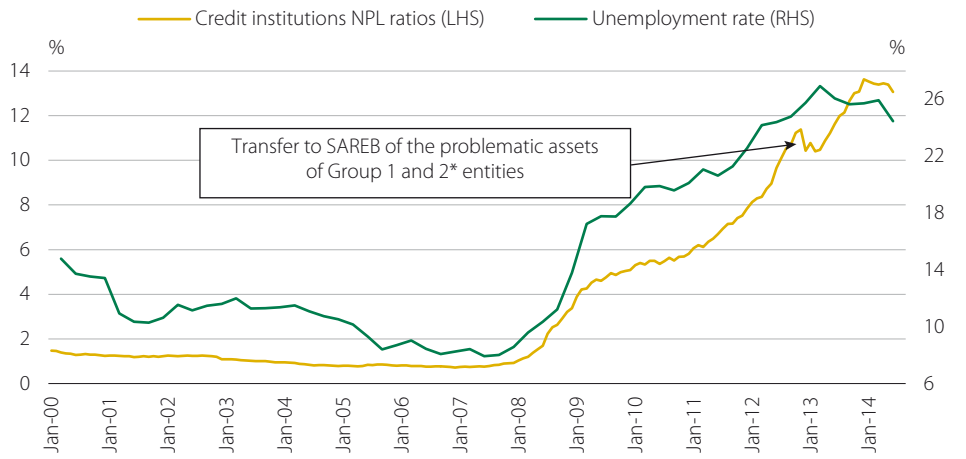
Lending to the private sector of the economy continues to decline, but the pace is slowing.

In this context, bank lending to non-financial sectors of the economy continued to decline, albeit less so than in preceding months. The stock of lending to non-financial corporations contracted 4.7% in July (vs. an annual low in February of -5.9%) with lending to households down 4.5% (-5% in January). In the euro area, loans to businesses and households fell by a lesser 2.3% and 0.5% respectively. The prospect now is that the decline in lending to the Spanish private sector will be tempered further by the upswing in domestic activity and the somewhat easier line on loan approvals being taken by the banks. According to figures from the Encuesta de Préstamos Bancarios (bank lending survey), this relaxation is more apparent in short maturities and loans to SMEs.

The June NPL ratio stands at 13.1% of total loans.

Bank sector NPL ratios stood at 13.1% of total loans (see figure 10), a small improvement over the four previous months (13.4%).

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



Source: Banco de España and National Statistics Office. Data to June 2014.

1 Percentage of the active population.

* Group 1 transfers took place in December 2012 (36.69 billion euros) and those of Group 2 in February 2013 (14.09 billion euros).

Key developments include a smaller sector balance sheet and the realignment of funding sources with the emphasis on capital.

Bank sector funding requirements have continued to ease, so the far better financing conditions available have not brought a significant increase in fixed-income issuance. In fact, a look at the liabilities of financial institutions, now at less than three trillion euros[6] overall, reveals a shift in the funding mix towards capital sources and away from deposits[7], bonds and Eurosystem borrowings[8].

Non-financial listed companies grow their profits 3.9% in the first six months with construction and real estate operators to the fore…

Non-financial listed companies obtained 8.63 billion profits in the first half of 2014, 3.9% more than in the same period last year. Heading the list were companies in the construction and real estate sector, with 829 million profits contrasting with more than 500 million losses in first-half 2013 (see table 3). Industrial firms too performed strongly, with profits growth of 5.2% to 664 million euros. Conversely, the profits of energy and, above all, retail and services operators fell by 3.8% to 5.48 billion and by 35% to 1.62 billion euros respectively compared to the year-ago period. That said, energy sector earnings remain the highest in straight-money terms, amounting to 64% of the June 2014 total (68% in June 2013).

… as well as trimming their debt by 3.3% to 265 billion euros.

The aggregate debt of non-financial listed companies dropped by 3.3% in the first-half period to 265 billion euros, with the energy sector contributing 76% of the decline. Aggregate leverage, defined as debt to equity, reduced in all sectors with the exception of industry (up from 0.6 to 1.0) to close the first six months at 1.32 vs. 1.33 one year before (see table 4). Companies' debt coverage ratio, measuring the years needed to repay existing debt assuming constant EBITDA, was largely unchanged at 4.3. Finally, interest cover (EBIT/interest expenses) improved between end-2013 and June 2014 after deteriorating solidly since 2010, with all sectors, except industrial companies, sharing in the advance.

6 For the first time since March 2008.

7 Especially credit system deposits. Deposits of other resident sectors (business and households) held more or less flat in 2014 at 1.3 trillion euros.

8 Net Eurosystem borrowing was 162.5 billion euros in August (188.8 billion in January).

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

TABLE 3

	EBITDA[2]		EBIT[3]		Profit for the year	
Million euros	1H 13	1H 14	1H 13	1H 14	1H 13	1H 14
Energy	10,471	11,775	6,176	7,282	5,690	5,479
Industry	2,085	2,236	1,311	1,414	631	664
Retail and services	13,698	13,656	6,456	7,198	2,496	1,624
Construction and real estate	3,182	3,021	1,654	1,850	-517	829
Adjustments	-69	-59	-21	-16	7	32
TOTAL	**29,367**	**30,629**	**15,576**	**17,728**	**8,307**	**8,628**

Source: CNMV.

1 Year to date.

2 Earnings before interest, taxes, depreciation and amortisation.

3 Earnings before interest and taxes.

Gross debt by sector: Listed companies

TABLE 4

Million euros		2010	2011	2012	2013	Jun 14
Energy	Debt	98,283	95,853	91,233	82,146	75,363
	Debt/ Equity	0.95	0.92	0.85	0.75	0.68
	Debt/ EBITDA[1]	2.81	3.27	3.26	3.41	3.20
	EBIT[2]/ Interest expenses	4.15	3.30	3.14	2.90	3.48
Industry	Debt	14,948	17,586	17,232	16,609	18,145
	Debt/ Equity	0.58	0.63	0.63	0.62	1.03
	Debt/ EBITDA	2.11	2.54	2.38	2.17	4.06
	EBIT/ Interest expenses	5.00	3.90	3.82	4.56	2.41
Retail and services	Debt	115,413	113,142	117,359	111,795	109,503
	Debt/ Equity	1.60	2.01	2.00	1.99	1.95
	Debt/ EBITDA	3.38	3.78	4.01	3.90	4.01
	EBIT/ Interest expenses	3.94	2.45	2.02	2.08	2.21
Construction and real estate	Debt	99,917	83,716	76,236	65,066	63,637
	Debt/ Equity	3.42	2.98	3.51	4.46	3.59
	Debt/ EBITDA	11.18	15.00	15.17	18.87	10.53
	EBIT/ Interest expenses	0.98	0.52	0.32	0.09	0.92
Adjustments[3]	Debt	-1,792	-1,404	-1,429	-1,395	-1,376
TOTAL	**Debt**	**326,769**	**308,893**	**300,633**	**274,221**	**265,271**
	Debt/ Equity	1.43	1.44	1.41	1.33	1.32
	Debt/ EBITDA	3.84	4.29	4.32	4.29	4.33
	EBIT/ Interest expenses	3.12	2.30	2.06	1.99	2.24

Source: CNMV.

1 Earnings before interest, taxes, depreciation and amortisation.

2 Earnings before interest and taxes.

3 In drawing up this table, we eliminated the debt of issuers consolidating accounts with some other Spanish listed group. The figures in the adjustments row include eliminations corresponding to subsidiary companies with their parent in another sector.

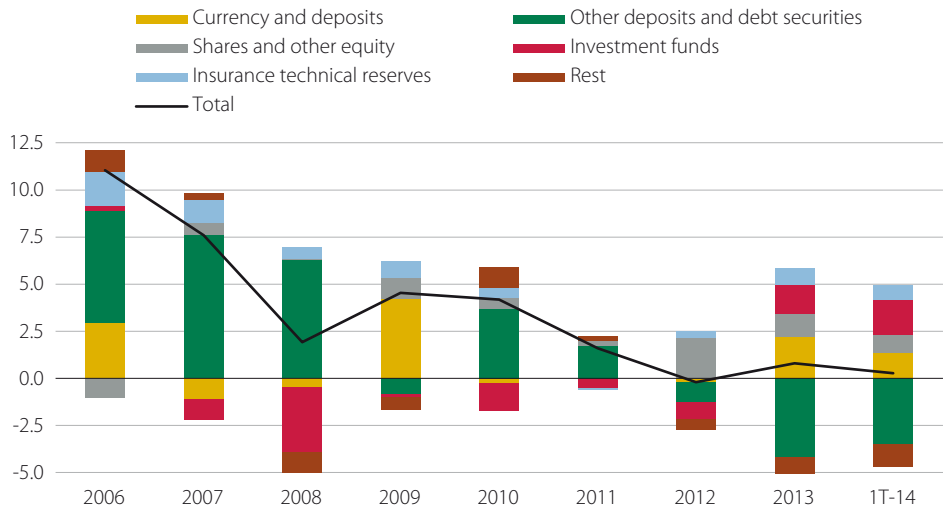
The latest indicators on the financial position of households show that the savings rate slide has lasted into 2014 on a combination of lower disposable income and a small upturn in consumer spending. The first-quarter rate stood at 9.4% of disposable income (average of the last four quarters), below the 10.4% of December 2013 and distant from the 18% levels of late 2009. Households' net wealth (financial and real estate assets minus liabilities) moved up slightly in a break with the downtrend of recent years on the rising value of shares and lower debt. Real estate assets continued to depreciate.

Household savings rates drop below 10% of disposable income, while their net wealth rises slightly on financial asset appreciation and lower levels of debt.

Cumulative four-quarter data to the first quarter of 2014 put households' net financial asset acquisitions at 0.3% of GDP (0.8% in 2013 and -0.2% in 2012). Divestments again centred on time deposits and fixed-income assets (a combined 3.5% of GDP) as households prolonged their growing preference for investment funds (1.9% of GDP), currency and deposits (1.3%) and shares and other equity (1%).

Households scale back their financial investments with a preference for investment funds, currency and deposits, and shares.

Households: Financial asset acquisitions (% GDP) FIGURE 11



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

2.3 Outlook

In its latest forecasts, the International Monetary Fund (IMF) projects global growth of 3.4% in 2014 and 4% in 2015 (see table). In the case of 2014, this is 0.3 points less than in the previous round due to revised-down estimates for both the US economy, after the growth dent of the first quarter, and, to a lesser degree, the emerging market economies. The emerging group are now expected to expand 4.6% this year, in line with 2013, and resume growth upwards of 5% in 2015.

Global GDP growth of 3.4% in 2014 and 4% in 2015, according to the IMF…

The following main risks are identified for the macroeconomic scenario : (i) prolonged geopolitical tensions in certain regions or countries, leading to sharply higher oil prices and a deterioration of investor confidence; (ii) interest rate rises earlier and sharper than expected, particularly in the United States, causing a reversal of risk sentiment and risk spread compression, and (iii) persistently low inflation and growth rates in Europe, in view of the faltering mid-year figures of some of its largest economies.

… though downside risks loom large in the shape of geopolitical tensions, a possible upturn in interest rates and stagnation in Europe.

Gross domestic product (annual % change) TABLE 5

					IMF[1]	
	2010	2011	2012	2013	2014F	2015F
World	5.2	3.9	3.5	3.2	3.4 (-0.3)	4.0 (=)
United States	2.5	1.6	2.8	1.9	1.7 (-1.1)	3.0 (+0.1)
Euro area	1.9	1.8	-0.7	-0.4	1.1 (=)	1.5 (+0.1)
Germany	3.9	3.7	0.9	0.5	1.9 (+0.2)	1.7 (+0.1)
France	1.9	2.1	0.3	0.3	0.7 (-0.3)	1.4 (-0.1)
Italy	1.7	0.6	-2.4	-1.9	0.3 (-0.3)	1.1 (=)
Spain	-0.2	0.1	-1.6	-1.2	1.2 (+0.3)	1.6 (+0.6)
United Kingdom	1.7	1.1	0.3	1.7	3.2 (+0.4)	2.7 (+0.2)
Japan	4.7	-0.4	1.4	1.5	1.6 (+0.3)	1.1 (+0.1)
Emerging economies	7.5	6.3	5.1	4.7	4.6 (-0.2)	5.2 (-0.1)

Source: Thomson Datastream and IMF.

1 In brackets, change vs. the previous forecast. IMF, forecasts published July 2014 with respect to the month of April.

Growth forecasts for Spain have been revised up strongly in recent months, but the more upbeat scenario is not devoid of risks.

The IMF projects that the Spanish economy will grow 1.2% in 2014 and 1.6% in 2015. This marks an upward revision of 0.3 and 0.6 points respectively over the previous forecast, but still stands slightly below the estimates of other institutions and analysts, for 2015 especially (see exhibit 1). The main risks confronting the economy refer to the stringencies of fiscal consolidation in a context of less-than-robust growth (with public debt approaching 100% of GDP), the successful conclusion of the bank sector clean-up and restructuring, and the need to make inroads into jobless totals.

3 Spanish markets

3.1 Equity markets

Share prices steady after the run-up of the first six months against a backdrop of increased trading and low-key volatility.

Equity markets entered a more settled phase after the bull run of the first-half period. Market-relevant news emerging in the third quarter exerted contrasting effects that tended to cancel each other out: geopolitical tensions and the weakness of euro-area macro figures bearing down on prices, and the ECB's measures helping to buoy them up. Trading volumes continued to expand on the raft of available liquidity and the attractiveness of equities relative to other instruments with a lower expected return. Market volatility was contained at lower than 20%, while liquidity conditions remained well within the comfort zone.

The Ibex 35 trades sideways after the advances of the previous quarters, and posts a year-to-date rise of 9.3%, ahead of other leading European indices.

The Ibex 35 followed up the 4.3% and 5.6% gains of the first and second quarter respectively with a jagged sideways movement, and finally closed the third quarter 0.8% down, giving a year-to-date advance of 9.3%. Other Spanish share indices traced a similar course, with the Madrid General Index (IGBM) posting 4.4%, 5.7% and -1.0% in the first three quarters and 9.2% since the start of the year. Small and medium cap indices managed a lower-key 2.8% and 6.2% respectively, after heavy

losses in the third quarter. Finally, the indices tracking the Latin American stocks traded on domestic platforms surged by 8.5% (FTSE Latibex Top) and 12.7% (FTSE Latibex All-Share) in the same period, with second and third-quarter gains amply compensating the losses of the opening months (see table 6).

Performance of Spanish stock market indices and sectors (%)

TABLE 6

							3Q 14 (to 15 September)		
Index	**2010**	**2011**	**2012**	**2013**	**1Q 14[1]**	**2Q 14[1]**	**%/prior qt.**	**%/ Dec 13**	**% y/y**
Ibex 35	-17.4	-13.1	-4.7	21.4	4.3	5.6	-0.8	9.3	21,2
Madrid	-19.2	-14.6	-3.8	22.7	4.4	5.7	-1.0	9.2	22,0
Ibex Medium Cap	-5.6	-20.7	13.8	52.0	6.8	2.4	-6.0	2.8	22,0
Ibex Small Cap	-18.3	-25.1	-24.4	44.3	20.5	-1.3	-10.7	6.2	27,2
FTSE Latibex All-Share	9.0	-23.3	-10.7	-20.0	-5.6	6.9	11.7	12.7	6,2
FTSE Latibex Top	9.7	-17.1	-2.6	-12.4	-6.3	7.2	8.0	8.5	6,2
Sector[2]									
Financial and real estate services	**-31.7**	**-18.9**	**-4.7**	**19.9**	**6.4**	**6.1**	**1.1**	**14.0**	**30.3**
Banks	-33.1	-20.3	-4.8	18.8	6.5	6.3	1.5	14.9	31.0
Insurance	-26.4	12.5	-2.0	47.3	2.0	-6.3	-4.8	-9.1	5.5
Real estate and others	-53.3	-47.5	-14.4	38.3	42.3	10.8	-3.8	51.6	101.7
Oil and energy	**-8.6**	**-2.7**	**-16.0**	**19.0**	**8.8**	**8.6**	**-0.3**	**17.8**	**28.0**
Oil	10.2	14.9	-35.4	19.5	1.1	4.0	-2.8	2.2	1.1
Electricity and gas	-14.2	-10.8	-5.4	18.7	11.9	10.4	0.5	24.1	41.0
Basic materials, industry and construction	**-15.2**	**-14.3**	**-8.0**	**28.9**	**11.6**	**6.2**	**-6.3**	**11.1**	**21.4**
Construction	-14.9	-6.9	-9.3	26.5	16.0	6.5	-7.3	14.4	21.3
Manufacture and assembly of capital goods	-29.2	-12.2	-8.8	55.4	-2.4	6.0	-10.9	-7.8	7.2
Minerals, metals and metal processing	-9.1	-33.7	-8.7	11.5	9.2	5.6	3.4	19.2	35.5
Engineering and others	-0.1	-29.0	3.8	7.6	22.0	9.5	-5.5	26.3	36.8
Technology and telecommunications	**-12.8**	**-20.9**	**-18.3**	**22.8**	**-1.3**	**6.3**	**-4.6**	**0.05**	**8.5**
Telecommunications and others	-12.8	-20.8	-23.0	17.1	-1.4	8.2	-4.1	2.3	8.0
Electronics and software	-12.0	-21.3	39.4	56.8	-0.7	-1.4	-7.2	-9.1	10.7
Consumer goods	**17.0**	**5.7**	**55.6**	**17.1**	**-4.3**	**2.8**	**-0.5**	**-2.1**	**7.1**
Textiles, clothing and footwear	28.6	12.7	66.2	13.5	-9.1	3.2	4.5	-1.9	6.8
Food and drink	25.3	-6.3	25.0	4.7	-4.2	5.7	-4.8	-3.6	0.0
Pharmaceutical products and biotechnology	-22.2	-7.3	68.3	39.6	12.1	1.8	-13.4	-1.1	11.5
Consumer services	**-0.1**	**-24.2**	**12.7**	**58.9**	**2.8**	**-1.4**	**-2.5**	**-1.3**	**16.9**
Motorways and car parks	-10.1	-3.7	5.7	36.5	2.6	6.4	-5.5	3.3	22.7
Transport and distribution	55.3	-34.9	29.7	116.4	4.6	-8.5	0.9	-3.4	24.3

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.

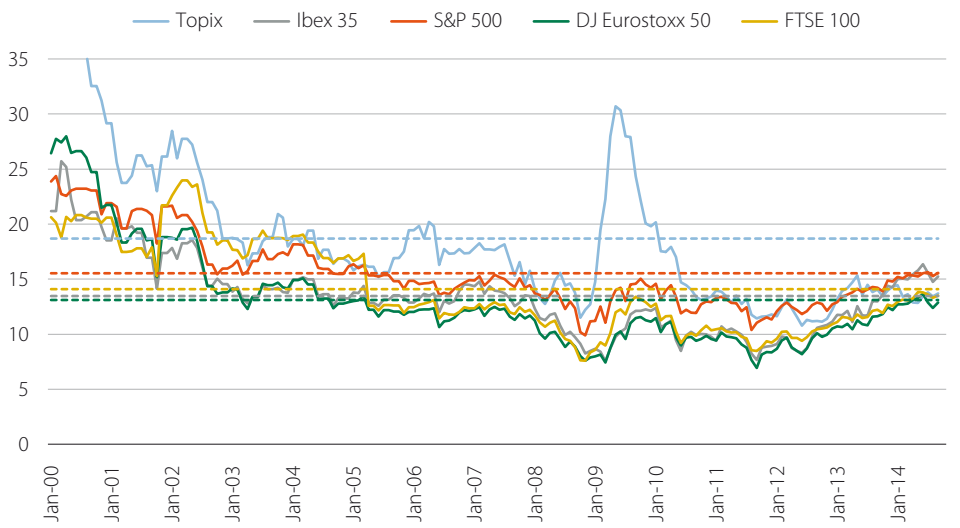
By sector, gains to date run from 0.05% to 17.8%, while consumer goods and services lag behind.

Sector-by-sector analysis reveals a broad-front advance in the first six months, and more mixed results in the third quarter, when the boost effect of the ECB's September package was in some cases insufficient to make up the losses of the preceding weeks. Specifically, five of the market's six major sectors posted third-quarter losses, ranging from the -0.3% of oil and energy to the -6.3% of basic materials, industry and construction. Only one sector, financial and real estate services, posted a timid advance (1.1%), thanks to rising bank shares. On a year-to-date basis, consumer goods and services are the only sectors in negative terrain. Elsewhere, advances run from the 0.05% of technology and telecommunications to the 17.8% of oil and energy (see table 6), by way of financial and real estate services and basic materials, industry and construction with gains of over 10% in the year, and more than 20% in year-on-year terms. The consumer goods sector, meantime, has shed 2.1% of its value and consumer services 1.3%.

Despite some third-quarter slippage, P/E advances to 15.2 times in September, surpassing the average for 2000-2014.

The price/earnings ratio (P/E) of the Ibex 35 jumped from 14.2 to 16.3 times in the first-half period as share prices surged, then sank back to 15.2. As we can see from figure 12, the multiples of leading world indices have headed steadily higher since around mid-2011 and now stand close to their 2000-2014 average. In the case of the Ibex, the average since 2000 (13.5) is below the 15.2 of September 2014. The progress of this indicator could be saying that, in Spain and other countries, current prices are not fully aligned with economic fundamentals.

Price-earnings ratio[1] (P/E) FIGURE 12



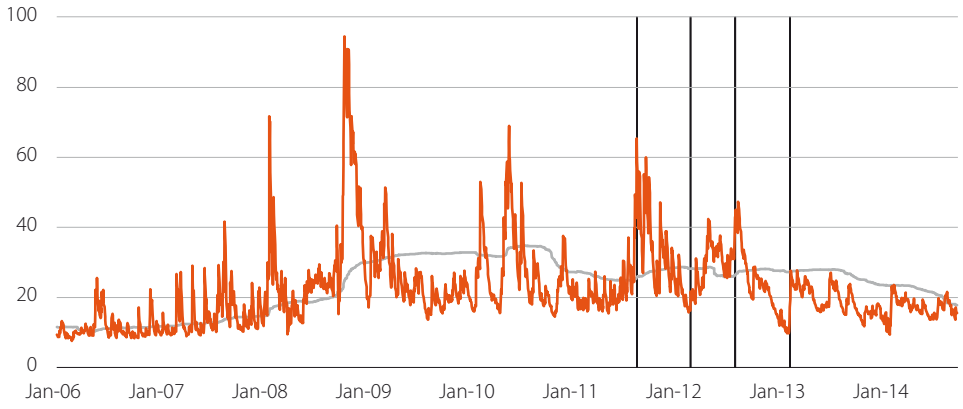
Source: Thomson Datastream. Data to 15 September.

1 Twelve-month forward earnings.

Market volatility holds below 20% practically all year, mirroring the trend observed in other markets.

Ibex 35 volatility has held below the 20% mark practically all year, far from the levels observed during the outbreaks of tension endured by financial markets since 2008. The fall and subsequent stabilisation of market volatility as of 2013 is a trend shared with other equity markets. In September 2014, Ibex volatility stood at 15.6% against a year-to-date average of 17.1% (18.5% in 2013).

Historical volatility of the Ibex 35 FIGURE 13

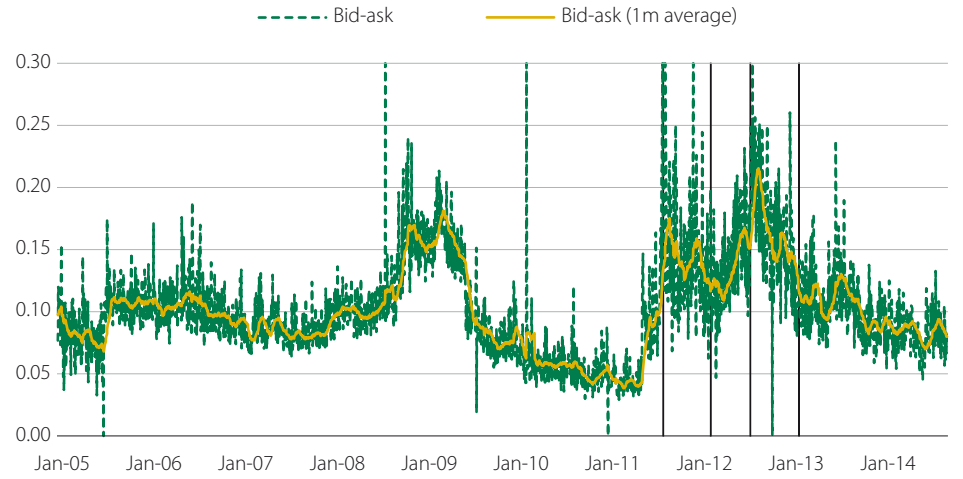


Source: Thomson Datastream and CNMV. Data to 15 September. The red line indicates volatility and the grey line unconditional volatility. The vertical lines refer to the introduction and lifting of the short-selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23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

Ibex 35 liquidity continues strong despite a small mid-August jump in the bid-ask spread.

Ibex 35 liquidity conditions remained favourable in the third quarter despite a marginal increase in the bid-ask spread around mid-August (see figure 14). Average spreads moved in the 0.081% to 0.087% interval over the first three quarters, below the average recorded since 2003 (0.104%).

Ibex 35 liquidity. Bid-ask spread (%) FIGURE 14



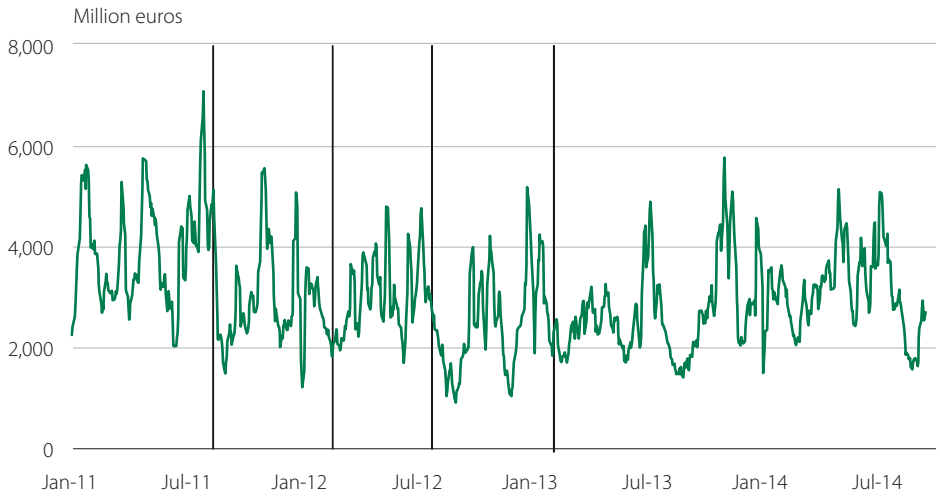
Source: Thomson Datastream and CNMV. Data to 15 September. The curve represents the bid-ask spread of the Ibex 35 along with the average of the last month. The vertical lines refer to the introduction and lifting of the short-selling ban running from 11 August 2011 to 16 February 2012, and the later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

Stock market trading expands almost 27%...

Trading on Spanish stock markets summed nearly 578 billion euros in the first three quarters of 2014, 26.8% ahead of the year-ago levels. This upswing, mirrored furthermore on other leading venues, reflects the large-scale move into equity instruments, whose attraction is enhanced at times like the present of surplus liquidity and ultra low interest rates. Average daily volume in the period was 3.20 billion euros, compared to 2.76 billion in 2013 and 2.73 billion in 2012.

Daily trading on the Spanish stock market[1]

FIGURE 15



Source: CNMV. Data to 15 September. 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.

Main novelties of MiFID II affecting market operation

EXHIBIT 2

On January 14, 2014, the European Parliament and Council agreed to approve the amendment of Directive 2004/39/EC[1] on Markets in Financial Instruments (henceforth MiFID). The modification will be effected through a Directive[2] (MiFID II) and Regulation (MiFIR) based on the legislative proposals published by the European Commission in 2011.

There follows an outline of the main novelties relative to markets envisaged in the agreement between the European Parliament and Council:

– The regime governing trading infrastructure is modified, while new measures seek to channel the trading of derivatives and equity instruments through recognised trading venues.

– Two reforms are enacted: i) in regard to equities, investment firms running internal order matching systems on a multilateral basis are required to register as multilateral trading facilities, and ii) a new type of multilateral trading system known as an organised trading facility (OTF) comes to join the existing list of systematic internalisers, regulated markets and multilateral trading facilities (MTFs). OTFs will be focused on non-equity instruments, and operators will face restrictions on the use of their own capital to match client orders.

– Shares may only be traded on legally recognised trading venues. This obligation also extends to derivative products listed in the EMIR as being suitable for central clearing, when these are sufficiently liquid.

– Competition is encouraged between trading and clearing systems.

  MiFID II establishes a harmonised regime of non-discriminatory access to trading platforms and central counterparties. The former will be obliged to send pertinent trading data to all central counterparties (CCPs) so requesting, and CCPs, in turn, will have to give any requesting platform access to their services. Likewise, those persons with proprietary rights to benchmarks will provide access to their data and calculation methodology.

  Transparency requirements are extended to platforms supporting trades in financial instruments other than shares, including bonds or derivative products. Trading venues must make public their pre- and post-trade transparency data on reasonable commercial terms, in order to promote the consolidation of information and its efficient dissemination.

– The revised text strengthens supervisory powers vis à vis commodity derivative markets.

  Further to the commitments undertaken by the G20, it introduces a harmonised regime of limits on open positions in these markets in order to improve transparency, promote efficient price formation and prevent market abuse. ESMA will decide the calculation methodology for applying limits on the size of individual net positions. Also, it lays down position reporting obligations for the diversity of market participants, so supervisors and the market itself are better placed to monitor its functioning.

– Controls are imposed on algorithmic trading.

  This kind of trading has changed the face of financial market operation. It has at times caused incidents with a distorting effect on price formation, as in the US "flash crash" of May 2010, and is regarded as a possible source of systemic risk. Under MiFID II, specific conditions are imposed on investment firms engaging in this activity and the venues where it is practised.

  Firms engaging in algorithmic trading, specifically when pursuing a market-making strategy, will be obliged to provide liquidity to the market. Also, investment firms providing direct electronic access to trading platforms should operate regularly updated risk control systems to avoid creating a disorderly market or facilitating abusive practices.

Finally, the biggest novelty from an investor protection standpoint are the new powers set out in article 42 of the MiFIR authorising supervisory authorities to exercise "product intervention", meaning they can restrict or even ban activities and financial products that pose a threat to financial stability, the orderly functioning of markets or investor protection. This is accordingly a preventive tool that allows them to anticipate and prevent problems arising from the misselling of financial products to retail investors. The UK authority made use of this fac-

ulty, when it imposed a one-year ban, starting from 1 October 2014, on the sale of contingent convertibles or CoCos to retail investors, in view of their high complexity and risk.

1 Directive 2004/39/EC of the European Parliament and of the Council of 21 April on markets in financial instruments, transposed into Spanish legislation by Law 47/2007 of 20 December, amending the Securities Market Law, and Royal Decree 217/2008 of 15 February.

2 Directive 2014/65/EU of the European Parliament and of the Council of 15 May on markets in financial instruments, repealing directives 2002/92/EU and 2011/61/EU, and Regulation 600/2014 of the European Parliament and of the Council of 15 May on markets in financial instruments, amending the EMIR Regulation relative to OTC derivatives, central counterparties and trade repositories.

… amid the ongoing fragmentation of markets.

Trading in Spanish listed shares on other regulated markets and European MTFs continued to augment. Business on these foreign markets has exceeded[9] 98 billion euros year to date, almost 15% of the shares' total turnover (10% in full-year 2013).

Trading in Spanish shares listed on Spanish exchanges[1]

TABLE 7

Million euros

	2010	2011	2012	2013	1Q 14	2Q 14	3Q 14[2]
Total	**1,030,498.6**	**926,873.7**	**709,902.0**	**764,986.6**	**218,532.7**	**254,003.2**	**183,270.1**
Listed on SIBE (electronic market)	**1,030,330.2**	**926,828.6**	**709,851.7**	**764,933.4**	**218,511.6**	**253,996.2**	**183,255.8**
BME	1,020,063.2	912,176.9	687,456.1	687,527.6	182,995.1	218,004.1	156,536.7
Chi-X	8,383.6	11,120.3	16,601.3	53,396.7	25,230.6	20,074.6	15,798.6
Turquoise	269.1	707.7	3,519.6	11,707.9	3,405.8	7,193.1	6,883.9
BATS	272.4	1,276.4	2,261.9	10,632.1	5,106.7	4,219.4	3,338.6
Others[2]	1,341.90	1,547.3	12.8	1,669.2	1,773.4	4,504.9	698.1
Open outcry	**165.4**	**42.8**	**49.9**	**51.4**	**20.9**	**6.8**	**14.1**
Madrid	15.7	16.1	3	7.3	1.0	3.7	2.5
Bilbao	3.9	0.1	8.5	0.1	14.2	0.0	0.0
Barcelona	143.9	26.4	37.7	44.1	5.7	2.9	11.6
Valencia	1.9	0.3	0.7	0.0	0.0	0.2	0.0
Second market	**3.0**	**2.3**	**0.4**	**1.7**	**0.2**	**0.2**	**0.2**
Memorandum item							
BME trading of foreign shares[3]	6,415	5,206	4,102	5,640	2,576.7	3,127.2	2,050.9
MAB	4,147.9	4,379.9	4,329.6	5,896.3	2,092.0	2,098.2	1,486.5
Latibex	521.2	357.7	313.2	367.3	137.3	76.7	58.5
ETFs	5,968.2	3,495.4	2,736.0	4,283.9	2,696.6	1,894.9	2,140.5
Total BME trading	1,037,284.3	925,661.3	698,987.5	703,768.7	190,518.8	225,208.1	162,287.9
% Spanish shares on BME vs. total Spanish shares	99.0	98.4	96.9	90.0	83.9	85.9	85.5

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 September.

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.

9 On the basis of Bloomberg data.

Equity issuance on domestic markets summed 5.81 billion in the third quarter, for a year-to-date total of 19.75 billion (see table 8). This is less than in the same period last year, but remember that bank restructuring in 2013 called for various large-scale capital increases which will not necessarily repeat this year. Note also that 2014 issuance originated in multiple productive sectors (not just the banks). Finally, the amount raised through scrip dividends has continued to augment, as far as 8.24 billion euros year to date or 41.7% of total issuance (25.2% in 2013).

Equity issuance nears 20 billion year to date, with the scrip dividend option increasingly popular.

Capital increases and public offerings TABLE 8

	2011	2012	2013	4Q 13	1Q 14	2Q 14	3Q 14[1]
CASH AMOUNTS (million euros)	**20,970.3**	**29,557.4**	**39,171.9**	**4,982.5**	**4,829.1**	**9,113.3**	**5,811.4**
Capital increases	20,843.3	28,326.0	39,171.9	4,982.5	4,829.1	7,877.0	5,293.6
Of which, scrip dividend	3,862.0	8,357.8	9,869.4	2,466.6	2,867.5	2,439.5	2,931.7
Of which, through public offer for subscription	6,238.8	2,457.3	1,744.6	0.0	900.0	1,655.0	401.5
National tranche	5,827.1	2,457.3	1,744.6	0.0	98.7	348.1	8.9
International tranche	411.7	0.0	0.0	0.0	801.3	1,306.9	392.7
Public offering of shares	127.0	1,231.4	0.0	0.0	0.0	1,236.2	517.7
National tranche	124.7	1,231.4	0.0	0.0	0.0	55.7	58.5
International tranche	2.3	0.0	0.0	0.0	0.0	1,180.5	459.2
NUMBER OF FILINGS	**91**	**106**	**159**	**49**	**35**	**46**	**39**
Capital increases	90	103	159	49	35	43	37
Of which, bonus issues	24	24	38	7	7	7	11
Of which, through public offer for subscription	8	7	6	0	2	5	2
Public offering of shares	1	3	0	0	0	3	2
NUMBER OF ISSUERS	**44**	**39**	**46**	**23**	**21**	**30**	**29**
Capital increases	44	39	46	23	21	30	28
Of which, through public offer for subscription	8	7	6	0	2	5	2
Public offering of shares	1	3	0	0	0	2	1

Source: CNMV.

1 Data to 15 September 2014.

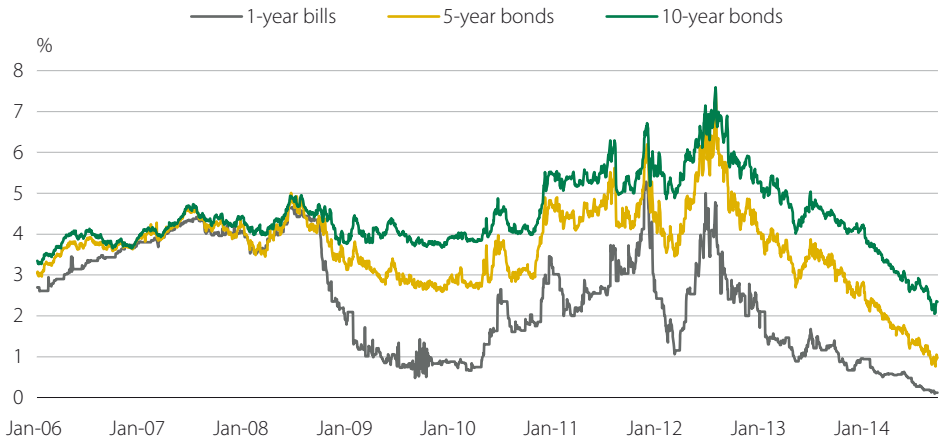
3.2 Fixed-income markets

Spanish fixed-income markets again felt the benefit of plentiful liquidity and the improved macro prospects for the domestic economy. Yields on benchmark public and private debt instruments fell to new historical lows, and with them the credit risk premiums of Spanish issuers, driving down financing costs throughout the economy. In some cases, the high prices fetched by debt instruments may be out of step with the fundamentals of the Spanish economy, making them keenly sensitive to renewed outbreaks of market instability or unexpected interest rate rises. In this context, debt issues registered with the CNMV dropped back 28.6% (-11.5% if we factor growing bond issuance abroad) in tune with issuers' more subdued financing needs.

Spanish debt yields fall to new historical lows. In some cases, debt prices may be out of step with economic fundamentals.

Spanish government debt yields

FIGURE 16



Source: Thomson Datastream. Data to 15 September.

Short-term yields hit new lows, with little downside room remaining…

Short-term treasury yields hit new lows in the third quarter of 2014, with the cumulative decline in benchmark bills in the interval of 51 to 77 bp. By mid-September, three-month, six-month and one-year Letras del Tesoro were yielding 0.03%, 0.06% and 0.12% respectively, with little downside scope remaining. In a similar vein, yields on commercial paper headed lower in the year by between 45 and 63 bp, with rates at issue in three-month, six-month and one-year tenors down to September averages of 0.64%, 0.79% and 0.96% respectively (see table 9).

Short-term interest rates[1]

TABLE 9

%	Dec 11	Dec 12	Dec 13	Mar 14	Jun 14	Sep 14[2]
Letras del Tesoro						
3 month	2.20	1.14	0.54	0.26	0.14	0.03
6 month	3.47	1.68	0.70	0.41	0.20	0.09
One year	3.27	2.23	0.91	0.56	0.42	0.13
Commercial paper[3]						
3 month	2.74	2.83	1.09	1.01	0.93	0.64
6 month	3.52	3.58	1.36	1.34	1.23	0.79
One year	3.77	3.83	1.59	1.34	1.32	0.96

Source: Thomson Datastream and CNMV.

1 Monthly average of daily data.

2 Data to 15 September.

3 Interest rates at issue.

… but long bond yields drop even faster, in the case of the ten-year sovereign to an end-September low of just over 2%.

The fall in medium and long-term government bond yields outstripped that of shorter-dated instruments as well as lasting practically all year. Specifically, yields raced lower by between 150 and 191 bp as far as average September values of 0.5%, 0.93% and 2.24% in three, five and ten-year tenors (see table 10). Corporate bonds also headed lower, with longer maturities to the fore, and by mid-September were yielding 1.13%, 1.6% and 2.77% respectively. The historical lows of government bond yields spell a substantial saving for the Spanish public sector. That said, the bond's very high prices leave it keenly exposed to unforeseen interest rate rises or upswings in financial market volatility.

Medium and long bond yields[1]

TABLE 10

%	Dec 11	Dec 12	Dec 13	Mar 14	Jun 14	Sep 14[2]
Government bonds						
3 year	4.01	3.40	2.00	1.26	0.85	0.50
5 year	4.65	4.22	2.68	1.96	1.36	0.93
10 year	5.62	5.35	4.15	3.34	2.70	2.24
Corporate bonds						
3 year	5.43	4.19	2.63	1.78	1.40	1.13
5 year	5.91	4.66	2.84	2.18	1.90	1.60
10 year	8.06	6.79	4.46	3.66	3.07	2.77

Source: Thomson Datastream, Reuters and CNMV.

1 Monthly average of daily data.

2 Data to 15 September.

Sovereign risk premiums fall by nearly 90 bp year to date…

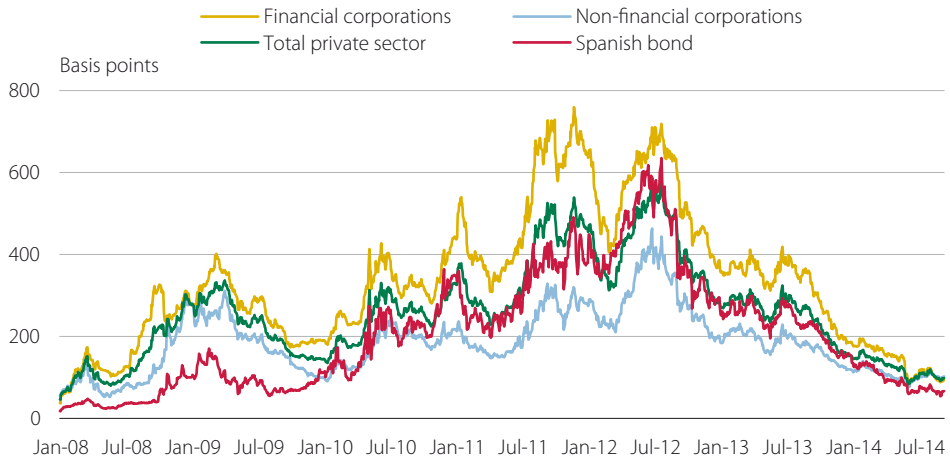
In line with this general downtrend in the interest rates of the economy, sovereign spreads relaxed further in the third quarter after the run-down of the first six months. The spread between the Spanish 10-year bond and equivalent German benchmark narrowed from 220 bp at end-December 2013 to 167 bp, 142 bp and 132 bp at the close of each quarter in 2014. Likewise, the CDS spread of the Spanish sovereign bond sank to 67 bp in mid-September from the 153 bp of year-end 2013.

… and those of financial corporations by a similar margin. Spreads of the non-financial sector, less affected by the crisis, narrow by just over 15 bp.

Credit risk premiums on corporate bonds have also narrowed sharply year to date, albeit with some levelling-off in the recent weeks. The average CDS spreads of financial corporations progressed from 186 bp at end-2013 to 165 bp, 107 bp and 94 bp at successive quarterly closes, and those of non-financial borrowers from 119 bp, to 112 bp, 99 bp and 103 bp.

Aggregate risk premium[1] based on the five-year CDS of Spanish issuers

FIGURE 17



Source: Thomson Datastream and CNMV.

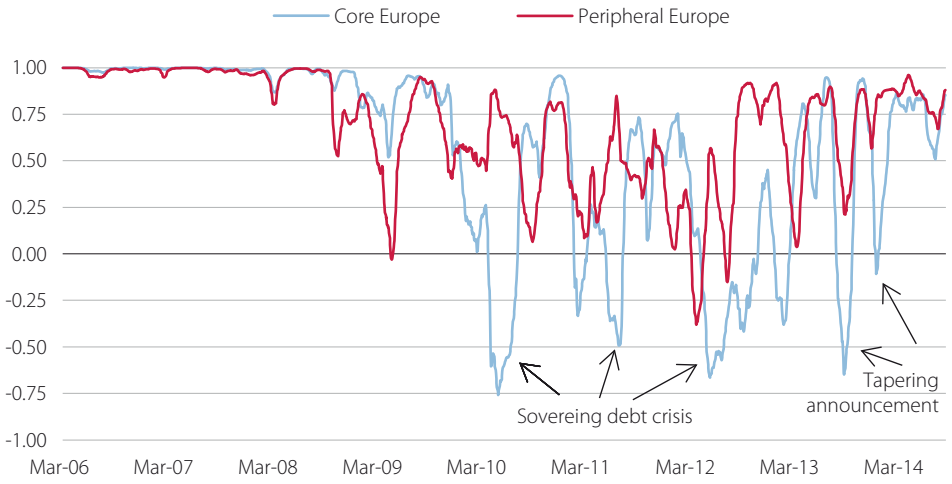
1 Simple average. Data to 15 September.

Elevated correlation between Spanish government bonds and other debt instruments and shares.

Spanish government bonds currently exhibit a strong correlation in prices with assets like the sovereign bonds of other European economies or equity securities. This is a step away from the dominant pattern during the European sovereign debt crisis of a clear decoupling between movements in these instruments and Spanish public

debt, which tended to mirror the trajectory of euro-area periphery sovereigns (see figure 18). Despite these high correlations, there is little indication of credit risk contagion, due partly to the reduced levels of government spreads.

Correlation between Spanish bond yields and those of other European sovereigns[1] FIGURE 18



Source: Thomson Datastream and CNMV. Data to 15 September 2014.

1 Correlation coefficient of ten-year government bond yields, measured over three-month windows. The Core Europe group includes Germany, France, Belgium and the Netherlands, Peripheral Europe comprises Italy, Ireland, Portugal and Greece. The correlation coefficients between the yield of the Spanish bond and the yields of each of the European bonds included is then averaged out for each group.

Fixed-income issues filed with the CNMV contract by 28.5% to 67 billion euros, or a lesser 11.5% factoring issuance abroad.

The gross volume of fixed-income issues registered with the CNMV summed 67.31 billion euros in the first three quarters, 28.5% less than in the same period last year. Part of the decline owes to lower issuance by the SAREB (asset management company for assets arising from bank restructuring) after the intense schedule of 2013[10], and part to Spanish companies' growing issuance abroad (up by 12%), with an accent on short-term instruments and preference shares. Adjusting for these factors, the decline lessens to 11.5%, with its origin essentially in issuers' lower financing needs. In the case of financial corporations, an additional reason is their growing preference for equity over debt financing.

Sharply falling sales of commercial paper…

Where issuance receded most in absolute terms was in the commercial paper segment, with year-to-date sales of twenty billion euros, 12.5 billion less than in 2013. Note, however, that commercial paper sales abroad rose by three billion in the same period to 11.3 billion euros (see table 11).

… non-convertible bonds (on the impact of SAREB issues) and mortgage and territorial covered bonds.

Gross non-convertible bond issues filed with the CNMV came to 13.20 billion euros, 33.6% less than in 2013. However, stripping out SAREB issues this turns around to a 57% increase as far as 9.12 billion. Covered bond sales also tailed off sharply in both their mortgage and territorial variants (down by 17.7% and 67% to 17.95 and 1.85 billion respectively).

10 SAREB issues summed 14.09 billion in the first three quarters of 2013, compared to 4.08 billion this year to date.

Sales of asset-backed securities declined by a smaller margin than other instruments to 13.34 billion in the first three quarters, compared to the 13.90 billion of 2013.

Sales of asset-backed securities on a par with last year's.

Gross fixed-income issues

TABLE 11

Registered[1] with the CNMV	2010	2011	2012	2013	2014 1Q	2014 2Q	2014 3Q[2]
NOMINAL AMOUNT (million euros)	**226,449**	**287,490**	**357,830**	**138,839**	**20,593**	**28,009**	**18,709**
Mortgage bonds	34,378	67,227	102,170	24,800	3,450	11,000	3,500
Territorial bonds	5,900	22,334	8,974	8,115	1,500	218	135
Non-convertible bonds and debentures	24,356	18,692	86,442	32,537	5,988	4,855	2,361
Convertible/exchangeable bonds and debentures	968	7,126	3,563	803	0	1,000	1
Asset-backed securities	63,261	68,410	23,800	28,593	1,850	3,855	7,640
Domestic tranche	62,743	63,453	20,627	24,980	1,389	3,573	7,550
International tranche	518	4,957	3,173	3,613	461	282	90
Commercial paper[3]	97,586	103,501	132,882	43,991	7,804	7,081	5,072
Securitised	5,057	2,366	1,821	1,410	200	420	0
Other commercial paper	92,529	101,135	131,061	42,581	7,604	6,661	5,072
Other fixed-income issues	0	0	0	0	0	0	0
Preference shares	0	200	0	0	0	0	0
Memorandum item:							
Subordinated issues	9,154	28,549	7,633	4,776	0	2,244	1,545
Covered issues	299	10	0	193	196	0	0

Abroad by Spanish issuers	2010	2011	2012	2013	2014 1Q	2014 2Q	2014 3Q[4]
NOMINAL AMOUNT (million euros)	**127,731**	**120,043**	**91,882**	**47,852**	**17,421**	**15,116**	**3,896**
Long-term	51,107	51,365	50,312	34,452	12,526	10,849	1,710
Preference shares	0	0	0	1,653	3,000	1,102	0
Subordinated debt	0	242	307	750	0	0	0
Bonds and debentures	50,807	51,123	50,005	32,049	9,526	9,746	1,710
Asset-backed securities	300	0	0	0	0	0	0
Short-term	76,624	68,677	41,570	13,400	4,896	4,267	2,186
Commercial paper	76,624	68,677	41,570	13,400	4,896	4,267	2,186
Securitised	248	322	11,590	0	0	0	0

Memorandum item: Gross issuance by subsidiaries of Spanish companies resident in the rest of the world

	2010	2011	2012	2013	2014 1Q	2014 2Q	2014 3Q[4]
NOMINAL AMOUNT (million euros)	**191,266**	**108,396**	**49,123**	**48,271**	**13,463**	**9,610**	**2,843**
Financial corporations	161,897	79,199	18,389	8,071	2,549	2,989	60
Non-financial corporations	29,369	29,197	30,734	40,200	10,914	6,621	2,783

Source: CNMV and Banco de España.

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

2 Data to 15 September.

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

4 Data to 31 July.

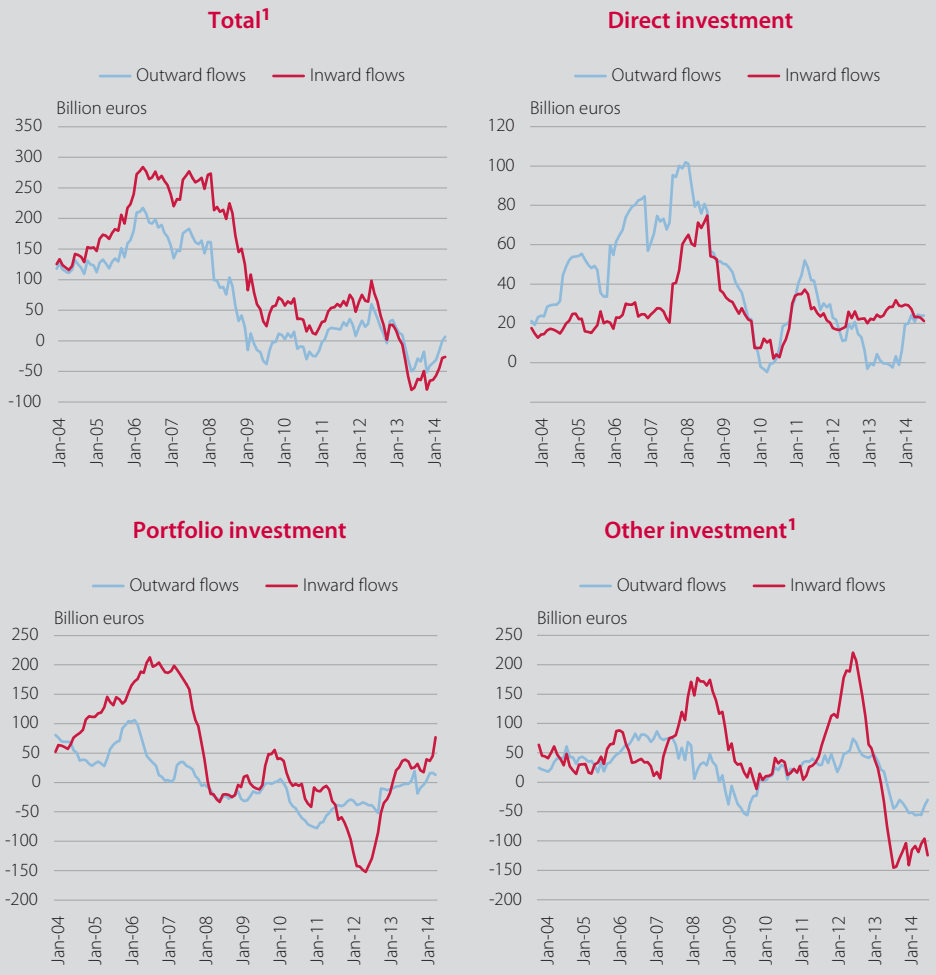
Foreign investment in Spain

EXHIBIT 3

In the years before the onset of the financial crisis, the Spanish economy was a major recipient of foreign investment. The country's financing requirement sprang from a high investment rate greatly outstripping the national savings rate. However, the correction of imbalances in the course of the recent crisis reduced financing needs to such an extent that Spain became a (net) lender to the rest of the world[1] at the end of 2012 (see upper left-hand panel of figure E.3.1). Financial account data reveal a new change in investment behaviour since mid-2013, consisting of large increases in both foreign investment in Spain and Spanish investment abroad. In this exhibit, we look briefly at the changing face of foreign investment in Spain, considering both modality and target sector.

Financial account: A breakdown by investment modality (Cumulative twelve-month data)

FIGURE E.3.1



Source: Banco de España, Balance of Payments. Data to June 2014.

1 Except derivatives and reserves, for which no Spain/Non-resident breakdown is available.

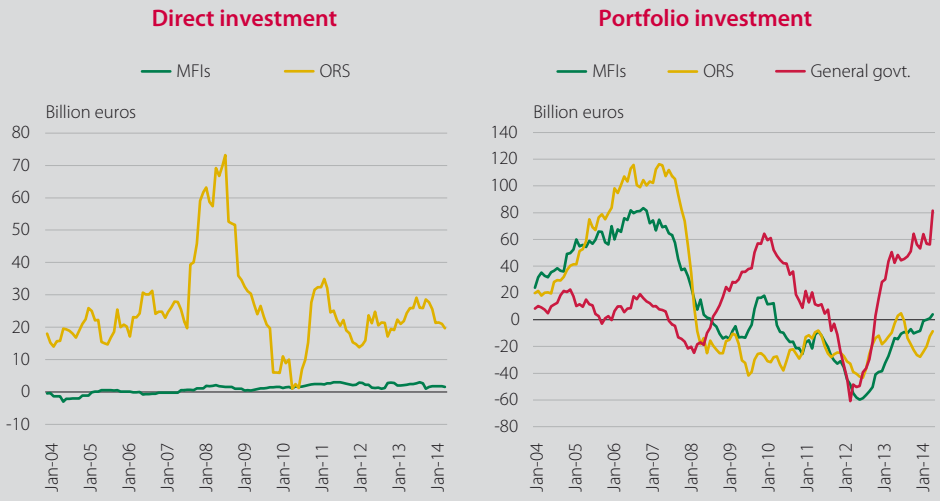
Non-resident investment flows have passed through various stages since the start of the crisis. In the first stage (see upper left-hand panel of figure E.3.1), stretching from early 2008 to mid-2009, foreign investment in the Spanish economy

plunged from over 250 billion (a year) to something under 25 billion. It then fluctuated less sharply during the episodes of turmoil accompanying the European sovereign debt crisis, before entering a new downward path in mid-2012. This was a time characterised by extreme uncertainty about the health of Spain's financial system and the economy's ability to exit recession. Since mid-2013, the easing of tensions around these points has permitted a notable recovery in non-resident investment volumes[2].

An analysis of investment modalities reveals differing patterns of behaviour. On the one hand, direct investment flows (upper right-hand panel of figure E.3.1), which receded sharply, in the non-financial corporate sector especially, between the end of 2008 and mid-2010, have since traced a steadier trajectory, while holding in positive terrain throughout the reference period (in cumulative twelve-month figures). This of course squares with the nature of foreign direct investment, with its longer time horizon. On the other, portfolio investment flows thinned out considerably in 2008, and tended to relapse again with subsequent outbreaks of sovereign debt market tensions. By mid-2012, portfolio outflows were up to more than 150 billion euros (in cumulative twelve-month figures). Since then, the restoral of confidence and an improved economic outlook have revived this investment modality, as far as almost 77 billion inflows in June 2014.

A breakdown of portfolio investment by sector reveals a recent shift in the destination of inward flows. Whereas in pre-crisis times, most funds found their way into private-sector corporations (financial and non-financial), the upswing of the last few months has been driven by acquisitions of public-sector instruments (see right-hand panel of E.3.2). Specifically, non-resident holdings of central government debt have recovered from a mid-2012 low of 32% to 44.6% in mid 2014[3] (see figure E.3.3).

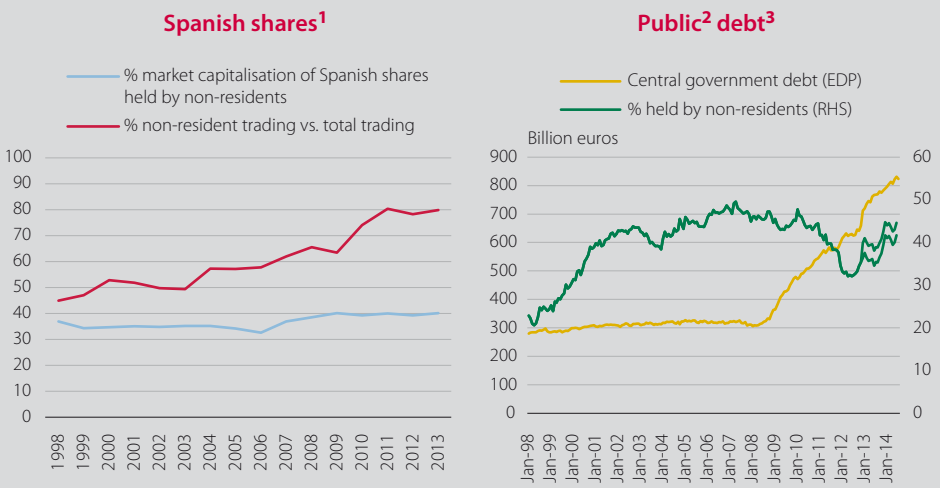
Foreign investment in Spain: Breakdown by economic sector (Cumulative twelve-month data) FIGURE E.3.2



Source: Banco de España, Balance of Payments. Data to June 2014.
MFIs: Monetary financial institutions, ex. Banco de España.

Two factors have heavily conditioned the evolution of foreign investment, with special bearing on the "other investment" category. As we can see from the lower right-hand panel of E.3.1, inflows under this head have recorded two peaks in recent years, tied in essentially with bank sector Eurosystem borrowings and the funds received from the European Stability Mechanism (ESM). During the crisis, Spanish banks made extensive use of the former channel, which took their net borrowings to a 388 billion euros high in August 2012. Meantime, ESM funding of over 41 billion euros (between December 2012 and February 2013) was earmarked for the clean-up and restructuring of Spanish credit institutions. The recent decrease in investment in this category reflects banks' lesser recourse to Eurosystem financing, since the first ESM payments have yet to show through in the statistics[4].

Non-resident holdings of: FIGURE E.3.3



Source: BME (data to 2013) and Banco de España (data to July 2014 for public debt outstanding and to June 2014 for the proportion of non-resident holdings).

1 Shares of Spanish listed companies.

2 Shown are the gross holdings of the non-resident sector, and non-resident holdings ex. ESM funding; 41.3 billion euros as of June 2014.

3 Debt according to the Excessive Deficit Procedure.

In conclusion, during these years of crisis Spain's economy has moved to a (net) lending position vs. the rest of the world after years as a large recipient of foreign investment. In recent months, however, improved confidence regarding economic activity and the strength of the banking sector have combined to push up incoming investment. For the moment, most of these funds are going into public debt. But if recovery firms, foreign investment could extend more strongly into private sectors of the economy. This is certainly the message from non-residents' growing share of bond and share issues registered with the CNMV, and in other financial products such as mutual funds.

1 The difference between Spanish investment abroad and foreign investment in Spain (cumulative 12-month figures) turned positive in December 2012. Not computing reserves and derivatives.

2 See the ECB's *Financial Stability Review* (May 2014), which sets out equity and bond portfolio flows for various economies in the past year, with Spain singled out as a major destination.

3 If we subtract the debt corresponding to ESM funding, this percentage stands at 41.7%.

4 Statistics run to June 2014 and the first ESM payments were scheduled for July.

4 Market agents

4.1 Investment vehicles

Financial UCITS[11]

Investment fund assets expand 16.6% in first-half 2014 to 182.7 billion euros. 80% of the increase comes from fund subscriptions.

Assets under management in investment funds grew 16.6% in the first six months of 2014, as far as 182.73 billion euros. This advance, which builds on the expansion trend of 2013, restores sector assets to around the levels of year-end 2008 (see table 13). Eighty percent of the first-half increase traced to net subscriptions summing over twenty billion euros (see table 12). The biggest inflows corresponded to balanced fixed-income (7.22 billion euros), fixed-income (6.64 billion) and passively managed (4.72 billion) funds, while net redemptions were heaviest in guaranteed funds in both their equity (2.95 billion) and fixed-income (1.46 billion) variants. This prolongs the pattern observed in previous quarters of investors shifting out of guaranteed funds and into fixed-income[12] and passively managed products.

Net investment fund subscriptions TABLE 12

				2013		2014	
Million euros	2011	2012	2013	3Q	4Q	1Q	2Q
Total investment funds inversión	**-10,838.6**	**-12,737.7**	**24,133.0**	**5,866.8**	**8,804.3**	**10,069.9**	**10,461.6**
Fixed income[1]	-10,427.7	-5,843.6	13,783.1	3,438.4	4,386.4	3,633.3	3,005.6
Balanced fixed income[2]	-1,925.7	-775.2	2,059.3	194.4	1,142.3	2,323.5	4,898.0
Balanced equity[3]	-320.5	-383.1	1,881.9	419.8	1,032.2	1,208.8	1,447.3
Euro equity [4]	152.0	-163.7	1,730.3	327.7	1,025.8	955.0	452.0
International equity[5]	-817.6	-420.6	900.2	197.3	430.0	422.8	388.9
Guaranteed fixed-income	7,228.3	-853.0	-4,469.2	-956.1	-3,706.3	-3,763.4	2,297.6
Guaranteed equity[6]	-3,061.6	-3,523.5	-2,070.2	-311.8	-343.0	-23.7	-2,926.0
Global funds	945.3	-7.5	847.4	178.3	288.7	413.7	-21.3
Passively managed[7]	-274.5	572.1	9,538.2	2,426.5	4,518.6	4,357.3	367.0
Absolute return[7]	-2,337.0	-1,339.4	-67.8	-47.8	29.9	542.7	552.5

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.

11 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 sub-section further ahead.

12 Since 2013, much of the cash withdrawn from guaranteed funds has found its way into fixed-income funds with target returns but no guarantee (for more details, see exhibit 3 in this chapter of the CNMV Bulletin for the third quarter of 2013).

Main investment fund variables*

TABLE 13

				2013		2014	
Number	**2011**	**2012**	**2013**	**3Q**	**4Q**	**I**	**2Q**
Total investment funds inversión	**2.310**	**2.185**	**2.045**	**2.070**	**2.045**	**2.037**	**2.023**
Fixed income[1]	508	454	384	388	384	374	375
Balanced fixed income[2]	140	125	122	125	122	119	119
Balanced equity[3]	128	117	128	128	128	127	126
Euro equity[4]	148	127	108	113	108	103	104
International equity[5]	220	211	193	192	193	190	190
Guaranteed fixed-income	351	398	374	391	374	355	336
Guaranteed equity[6]	420	361	308	316	308	307	297
Global funds	203	192	162	168	162	160	163
Passively managed[7]	59	85	169	148	169	205	217
Absolute return[7]	133	115	97	101	97	97	96
Assets (million euros)							
Total investment funds	**132,368.6**	**124,040.4**	**156,680.1**	**145,168.5**	**156,680.1**	**169,513.6**	**182,735.8**
Fixed income[1]	46,945.5	40,664.6	55,058.9	50,381.0	55,058.9	59,381.8	62,740.7
Balanced fixed income[2]	5,253.6	5,500.9	8,138.0	6,873.4	8,138.0	10,600.2	15,666.0
Balanced equity[3]	2,906.1	3,179.9	6,312.4	4,783.4	6,312.4	7,648.6	9,242.9
Euro equity[4]	4,829.2	5,270.2	8,632.8	7,021.5	8,632.8	7,753.1	8,601.7
International equity[5]	6,281.2	6,615.0	8,849.0	7,967.6	8,849.0	11,693.7	12,426.8
Guaranteed fixed-income	35,058.0	36,445.0	31,481.2	35,504.7	31,481.2	27,529.5	24,920.1
Guaranteed equity[6]	18,014.5	14,413.2	12,503.8	12,767.2	12,503.8	12,810.3	12,940.7
Global funds	5,104.7	4,358.6	4,528.1	4,352.8	4,528.1	5,007.9	5,650.3
Passively managed[7]	1,986.2	2,991.2	16,515.9	10,926.5	16,515.9	21,847.0	24,898.6
Absolute return[7]	5,989.7	4,601.9	4,659.9	4,590.4	4,659.9	5,241.5	5,648.0
Unit-holders							
Total investment funds	**4,835,193**	**4,410,771**	**5,050,719**	**4,799,719**	**5,050,719**	**5,410.205**	**5,814.175**
Fixed income[1]	1,384,946	1,261,634	1,508,009	1,410,867	1,508,009	1,612.002	1,712.747
Balanced fixed income[2]	206,938	188,574	240,676	205,034	240,676	314.879	425.424
Balanced equity[3]	145,150	138,096	182,223	161,099	182,223	211.810	252.255
Euro equity[4]	237,815	220,450	293,193	254,009	293,193	323.474	347.335
International equity[5]	448,539	398,664	457,606	435,571	457,606	531.270	601.531
Guaranteed fixed-income	1,042,658	1,075,852	1,002,458	1,091,051	1,002,458	871.622	796.983
Guaranteed equity[6]	912,298	727,880	608,051	628,100	608,051	613.296	602.530
Global funds	127,336	101,321	128,741	117,838	128,741	146.223	168.796
Passively managed[7]	100,416	125,003	441,705	321,669	441,705	575.262	673.166
Absolute return[7]	229,097	173,297	188,057	174,481	188,057	210.367	233.407
Return[8] (%)							
Total investment funds	**-0.08**	**5.50**	**6.50**	**2.50**	**1.85**	**1.71**	**1.41**
Fixed income[1]	1.56	3.54	2.28	0.65	0.54	0.89	0.67
Balanced fixed income[2]	-1.34	4.95	4.16	1.85	1.62	1.57	1.34
Balanced equity[3]	-5.64	7.83	10.85	4.78	3.52	1.69	1.89
Euro equity[4]	-11.71	12.31	28.06	13.71	7.99	5.01	3.04
International equity[5]	-10.83	13.05	20.30	6.87	5.54	2.22	2.92
Guaranteed fixed-income	3.28	4.85	4.96	1.46	0.89	1.56	0.71
Guaranteed equity[6]	0.14	5.07	6.15	2.62	1.83	1.26	1.59
Global funds	-4.64	7.44	8.71	3.80	3.25	1.65	1.69
Passively managed[7]	-7.33	7.10	8.88	4.13	2.58	3.45	2.64
Absolute return[7]	-1.87	3.84	2.46	1.07	1.04	0.82	0.75

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 2Q09. All absolute return funds were previously classed as global funds.

8 Annual return for 2011, 2012 and 2013. Quarterly data comprise non-annualised quarterly returns.

Investment fund returns held in positive territory (3.1%), though with some slippage versus the previous half-year (see table 13). The highest earning categories were euro equity and passively managed funds (8.2% and 6.2% respectively) on the back of share price rises in the period. These generally solid first-half returns did not stop fund numbers dropping further, albeit less intensely than before, with a total of 2,023 on the register at end-June, 22 fewer than in December 2013. The reduction was steepest (38) in the guaranteed fixed-income category, while passively managed funds confirmed their popularity with a jump from 169 at end-2013 to 217 in June 2014 (a difference of 48).

And the rest of the increase comes from portfolio returns.

Unit-holder numbers, meantime, climbed by over 760,000 to 5,814,175 between December 2013 and June 2014. Most of this new business found its way into the fastest-growing categories by assets, namely passively managed, fixed-income and balanced fixed-income funds (an additional 231,461, 204,738 and 184,748 unit-holders respectively vs. the last quarter of 2013). Only guaranteed funds lost investors in the period in both fixed-income and equity products.

An additional 760,000 unit-holders in first-half 2014 to more than 5.8 million.

Preliminary data for July 2014 point to further growth in industry assets and investor numbers, of around 2% in both cases with respect to the June figures. Also fund numbers, it seems, remain in decline, among guaranteed funds especially.

Growth in sector assets and unit-holders lasts through July, according to preliminary figures.

The liquidity conditions of fund fixed-income portfolios continued to improve over first-half 2014, with the sum of less-liquid assets down by over one billion euros (32.2%), from 3.32 billion in December 2013 to 2.25 billion in June 2014. On this showing, the ratio of less-liquid assets dropped from 2.1% of total fund assets at year-end 2013 to 1.2% in June 2014. As regards the composition of less-liquid assets, the big development was the declining weight (from 74% to 54%) of financial institution debt rated below AA, and the larger share falling to asset-backed securities (up from 14% to 23%).

The balance of less-liquid assets in fund portfolios shrinks by 32%, and stands at a bare 1.2% of industry assets in mid-year 2014.

Estimated liquidity of investment fund assets

TABLE 14

	Less-liquid investments					
	Million euros			% total portfolio		
Type of asset	Dec 13	Mar 14	Jun 14	Dec 13	Mar 14	Jun 14
Financial fixed income rated AAA/AA	177	216	202	18%	20%	18%
Financial fixed income rated below AAA/AA	2,457	2,360	1,214	15%	14%	6%
Non-financial fixed income	177	207	280	6%	6%	6%
Securitisations	509	522	554	23%	21%	21%
AAA-rated securitisations	33	33	40	100%	100%	100%
Other securitisations	476	489	514	22%	20%	20%
Total	**3,320**	**3,304**	**2,249**	**16%**	**14%**	**8%**
% of investment fund assets	**2.1**	**2.0**	**1.2**			

Source: CNMV.

Real estate schemes

The ongoing adjustment in Spanish construction and real estate continued to weigh on the real estate investment sector, with all main variables retreating further over the first half of 2014.

The downturn in Spanish real estate continues to weigh on the sector.

Real estate funds endure a further drain in assets and unit-holder numbers (down 2.5% and 15% respectively), but manage to reduce portfolio losses with respect to previous years.

Six real estate funds were in operation at mid-year, a total that has stayed unchanged since 2011. Only four, however, can be regarded as active, with the other two in the process of winding up. Both unit-holder numbers and assets under management continued in decline, with the former down by 15% to 4,090 at the end of June, and the latter slipping back 2.5% to 3.52 billion euros. Although fund returns stayed negative (-1.59% in the first and -2.31% in the second quarter), the scale of losses was less than in previous years, possibly reflecting the slower fall in real estate sector prices.

Real estate investment companies drop 3.1% in assets, while their numbers fall from ten to nine.

Real estate investment companies also suffered setbacks in all main variables. The number of entities dropped from ten to nine[13] between December 2013 and June 2014, while their assets fell back 3.1% to 828.9 million euros after the rebound of 2013[14]. The number of shareholders, finally, held more or less flat at just over 1,050.

Hedge funds

A divergent path for hedge fund industry participants.

The keynote in the Spanish hedge fund sector was again the divergent performance of hedge funds proper and funds of hedge funds, with the first group continuing its expansion and the second steering back to stability after the losses of the previous years.

Fund of hedge fund assets and unit-holders stay more or less flat from January to May…

As we can see from table 15, fund of hedge fund assets stood at end-May levels of 354 million euros, a bare 1.1% higher than in the fourth quarter of 2013, while unit-holder numbers were down by 1.6% to 2,973. Portfolio returns in this sub-sector came to 0.7% and 1.3% in the first and second quarter respectively, or just under 4% in annualised terms, on a par with full-year 2013.

Main hedge fund and fund of hedge fund variables

TABLE 15

				2013		2014	
	2011	2012	2013	3Q	4Q	1Q	2Q[1]
FUNDS OF HEDGE FUNDS							
Number[1]	27	24	22	22	22	21	20
Unit-holders	3,805	3,338	3,022	3,218	3,022	2,994	2.973
Assets (million euros)	573	540	350	418	350	352	354
Return (%)	-1.71	0.88	4.39	0.25	1.89	0.66	1.26
HEDGE FUNDS							
Number[1]	36	36	29	33	29	28	30
Unit-holders	2,047	2,427	2,415	2,333	2,415	2,513	2,569
Assets (million euros)	728.1	918.6	1,036.7	994.8	1,036.7	1,172.4	1,206.5
Return (%)	-2.56	7.17	16.48	5.33	5.41	4.21	1.01

Source: CNMV.

1 Data to May 2014.

13 One company deregistered in May.

14 Due to the transformation of one public limited company into a real estate investment company in early 2013.

Pure hedge funds, in contrast, grew their assets 16.4% to 1.21 billion at the end of May, while unit-holder numbers rose by 6.4% to 2,659. Asset growth drew on both portfolio returns (4.2% and 1% in the first two quarters respectively) and net investor subscriptions (113 million euros between January and May 2014).

… against 16.4% and 6.4% advances respectively among pure hedge funds.

Foreign UCITS marketed in Spain

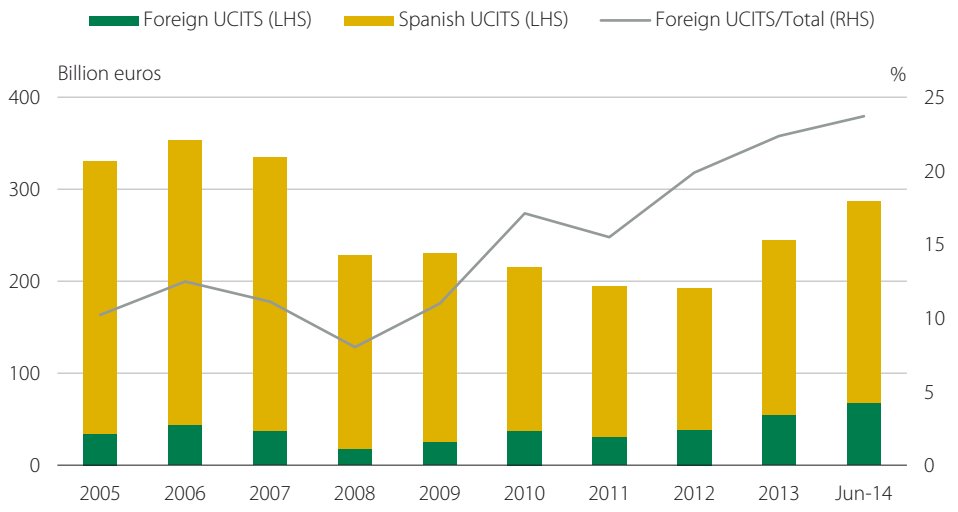
This segment kept up the strong expansion initiated in 2012, with a fresh surge that lifted assets under management to around 68 billion euros, 24.2% more than at end-2013. As we can see from figure 19, this amount represents almost 25% of the total assets under management in UCITS marketed in Spain, a long way from the 8% of 2008, at the start of the crisis.

Foreign UCITS make further headway in the Spanish market, with assets under management up by 24% to 68 billion euros…

Both funds and companies contributed to the jump in assets held by foreign UCITS, with growth of 12.7% and 26.3% as far as 9.61 billion and 58.37 billion euros respectively. Investor numbers rose by 18.4% to 1,263,699 and the number of schemes by 22 (eight funds and fourteen companies).

… and both funds and companies sharing in the advance.

Assets of foreign UCITS marketed in Spain FIGURE 19



Source: CNMV.

The outlook for the collective investment industry is globally positive, though certain constraints could limit its expansion going forward. Investor confidence has evidently rallied since last year, prompting a degree of asset rotation into investment funds and riskier products at the expense of more conservative options like bank deposits. This trend will likely firm in the coming months since the fund industry's offering targets both risk-averse profiles, through its fixed-income range (deposit rates remain unattractive), and more aggressive profiles through its equity, passively managed and hedge fund categories. That said, low private-sector saving will continue to curtail investment flows into the industry. And how saving responds will depend ultimately on the progress of disposable income; in other words, the speed at which the economy and employment can recover.

Renewed investor confidence augurs well for the industry, though growth, for the moment, remains curtailed by a dearth of private saving.

4.2 Investment firms

Buoyant financial markets in first-half 2014 power investment firm earnings 58.8% higher.

A more supportive climate on financial markets boosted investment firm earnings in the first half of 2014. The sector as a whole posted first-half profits before taxes of 345 million euros (in annual terms), a 58.8% increase with respect to 2013 (see figure 20). All groups of intermediaries –broker-dealers, brokers and portfolio management companies– shared in the advance. At the end of June, 85[15] firms were listed on the CNMV registers, two fewer than at end-2013 after one new entry and three deregistrations. Of this total, 46 were passported to operate in other EU countries, six of them via a branch (one fewer than at end-2013) and forty under the free provision of services.

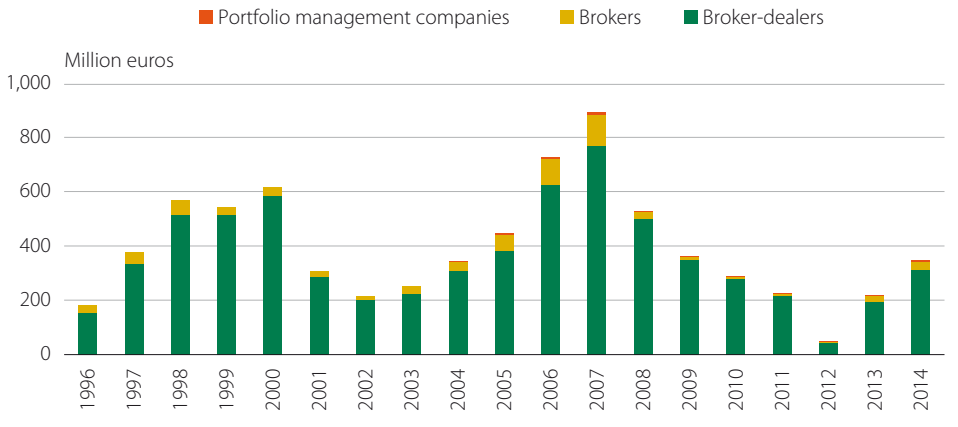
Broker-dealers double their profits with respect to first-half 2013 on the strength of higher fee income (16%) and lower costs.

Broker-dealers have seen business pick up since the first half of 2013. Their pre-tax profits, at 156.1 million euros, more than doubled the year-ago figure to account for 90% of the sector total (see table 16). Driving the improvement were higher fee income (15.9%) and a reduction in operating costs plus depreciation and other charges. Under the fee income caption, order processing and execution brought in 191.1 million euros, an additional 15 million euros –the largest increase in absolute terms. Portfolio management fees grew from modest levels to over 10 million euros, equating to a 45% increase between June 2013 and June 2014. By contrast, income from investment advising fell by 15.1% to 3.8 million euros, prolonging the downtrend of the past few years.

Broker-dealer gross income rises 26%, with strongly performing fee income and net exchange income offsetting the decline at the financial investment line.

Remaining items contributed unequally to the advance in gross income –up by 25.7% to 340.8 million euros– with a hefty 80% fall in the results of financial investments to 36.8 million euros offset by net exchange income, which returned to positive figures after three years in the red (43.4 million euros compared to 132.7 million losses in first-half 2013). Continuing down the income statement, a 3.3% decrease in operating costs (187.8 million euros) and 67.9% lower depreciation charges (two billion euros) lifted net operating income to 150.4 million in June, more than doubling the figure for the same period in 2013.

Investment firm[1] pre-tax profits[2] FIGURE 20



Source: CNMV.

1 Except investment advisory firms.

2 2014 earnings on an annualised basis.

15 Excluding investment advisory firms, which are dealt with separately in a later section in view of their different characteristics.

Brokers too managed a come-back in the first-half period, which closed with aggregate profits up by 60% to 14.6 million euros. Here too, the advance was led by fee income captions, notably order processing and execution, with an additional five million euros, and UCITS marketing, which brought in six million more. (These two items together account for over 60% of the total). Support also came from placement and underwriting fees, up by 96.8%, and investment advisory fees, up 48.5% (see table 16). Finally, brokerage firms closed the first-half period with gross income of 63.9 million euros (+23.9%), while operating costs climbed by 15.3% to over 48 million.

Broker pre-tax profits jump by 60% to 14.6 million euros, with resurgent fee income leading the advance.

Portfolio management companies performed similarly well, with growth in pre-tax profits of 88.5% to almost two million euros (see table 16). Improvement drew on a sizeable reduction in fees paid (down 76.8%) along with operating cost savings of 13.9%. Fee income, however, fell by 37.5% on the negative showing of portfolio management fees, which contracted in the period by 41.2%. This item makes up practically all the fee income earned by companies in this segment.

Portfolio management companies also grow their profits, but from different sources, as falling costs and fee expense outstrip the decrease in fee income.

Aggregate income statement (June 14)

TABLE 16

	Broker-dealers			Brokers			Portfolio managers		
Thousand euros	Jun 13	Jun 14	% var.	Jun 13	Jun 14	% var.	Jun 13	Jun 14	% var.
1. Net interest income	26,865	25,055	-6.7	923	615	-33.4	341	125	-63.3
2. Net fee income	187,136	229,051	22.4	51,268	63,355	23.6	4,102	4,635	13.0
2.1. Fee income	278,910	323,269	15.9	59,205	75,553	27.6	9,384	5,861	-37.5
2.1.1. Order processing and execution	175,651	191,070	8.8	20,177	25,577	26.8	–	–	–
2.1.2. Issue placement and underwriting	8,367	7,390	-11.7	1,957	3,851	96.8	–	–	–
2.1.3. Securities custody and administration	8,944	10,442	16.7	306	311	1.6	–	–	–
2.1.4. Portfolio management	6,960	10,094	45.0	6,341	6,995	10.3	8,564	5,035	-41.2
2.1.5. Investment advising	4,508	3,829	-15.1	1,800	2,673	48.5	819	514	-37.2
2.1.6. Search and placement	30	3,956	13,086.7	55	0	-100.0	–	–	–
2.1.7. Margin trading	84	0	-100.0	11	0	-100.0	–	–	–
2.1.8. UCITS marketing	24,433	30,549	25.0	15,402	21,667	40.7	0	0	–
2.1.9. Others	49,934	65,938	32.1	13,155	14,480	10.1	1	312	31.100
2.2. Fee expense	91,774	94,218	2.7	7,937	12,198	53.7	5,282	1,226	-76.8
3. Result of financial investments	184,105	36,828	-80.0	35	565	1,514.3	-11	46	–
4. Net exchange income	-132,712	43,447	–	-32	-3	90.6	7	227	3,142.9
5. Other operating income and expense	5,737	6,440	12.3	-643	-661	-2.8	-2	-170	-8,400.0
GROSS INCOME	**271,131**	**340,821**	**25.7**	**51,551**	**63,871**	**23.9**	**4,437**	**4,863**	**9.6**
6. Operating expenses	194,152	187,841	-3.3	41,906	48,322	15.3	3,379	2,911	-13.9
7. Depreciation and other charges	6,404	2,056	-67.9	901	944	4.8	34	22	-35.3
8. Impairment losses	447	471	5.4	8	-4	–	0	0	–
NET OPERATING INCOME	**70,127**	**150,453**	**114.5**	**8,736**	**14,609**	**67.2**	**1,024**	**1,930**	**88.5**
9. Other profit and loss	7,843	5,691	-27.4	390	-8	–	0	0	–
PROFITS BEFORE TAXES	**77,970**	**156,144**	**100.3**	**9,126**	**14,601**	**60.0**	**1,024**	**1,930**	**88.5**
10. Corporate income tax	15,869	34,483	117.3	580	802	38.3	337	550	63.2
PROFITS FROM ONGOING ACTIVITIES	**62,100**	**121,661**	**95.9**	**8,546**	**13,799**	**61.5**	**687**	**1,380**	**100.9**
11. Profits from discontinued activities	0	0	–	0	0	–	0	0	–
NET PROFIT FOR THE YEAR	**62,100**	**121,661**	**95.9**	**8,546**	**13,799**	**61.5**	**687**	**1,380**	**100.9**

Source: CNMV.

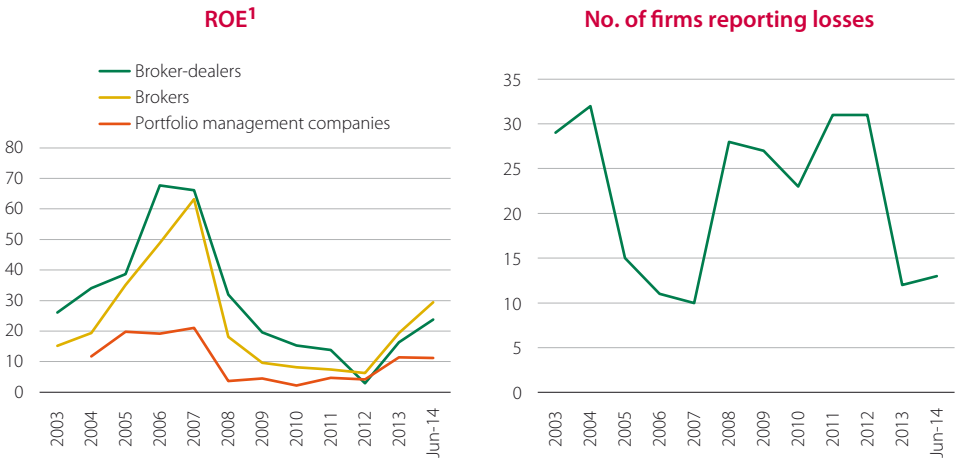
Investment firm ROE jumps from 16.5% to 23.8% on the back of first-half earnings growth…

Firms' strong earnings performance boosted sector return on equity (ROE) by a sizeable margin, from 16.5% in December 2013 to 23.8% in June 2014. By segment, the ROE of broker-dealers advanced from 16.4% to 23.7% and that of brokerage firms from 19.3% to 29.5%, while the ratio of portfolio management companies held more or less flat at just over 11% (see left-hand panel of figure 21).

… while sector losses shrink to almost half (albeit with a slightly higher number of loss-making entities).

Despite these advances, the number of firms reporting losses rose from twelve last December to thirteen in June 2014. The increase was confined to the broker segment, where the number of loss-making entities rose from seven to eleven, compared to only two firms among the broker-dealers, down from five at last year's close. As in the second-half of 2013, no portfolio management companies posted losses in the period. The result was to cut sector losses by almost half to less than eight million euros.

Pre-tax ROE of investment firms and loss-making entities FIGURE 21



Source: CNMV.

1 ROE based on annualised pre-tax earnings.

The sector's solvency conditions continue optimal under the reworked regulations.

Investment firms remain comfortably compliant with capital standards. It bears mention that since January this year, the solvency requirements for these entities are as set out in Regulation (EU) 575/2013, so the method for calculating eligible and required capital is slightly different. Under the new requirements, firms' capital adequacy ratio, defined as the surplus of eligible to required capital, stands at 4.4 for broker-dealers, 2.7 for brokers and 0.4 for portfolio management companies.

IAF business slows in the first half-year, with assets under advice down by 18%...

Investment advisory firms (IAFs) had a slow first half after doing lively business through 2013. The volume of assets under advice shrank by 18.1% with respect to last year's total of close to 14.4 billion euros[16] (see table 17). The customer mix also underwent substantial changes, with the advised assets of retail and professional clients up by 9.7% and 13.1% respectively, and those of eligible counterparties[17]

16 Note that this figure is based on data from the 95% of entities that had filed information by the closing date for this report.

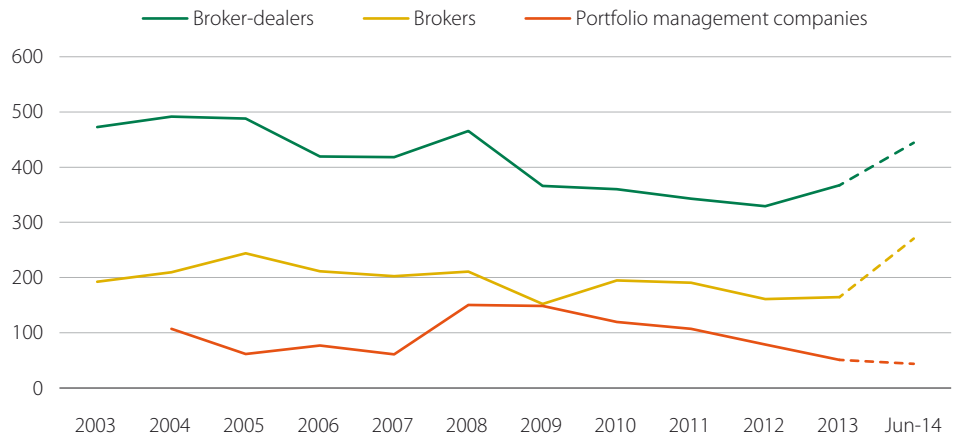
17 Eligible counterparty is a client category defined under the MiFID as requiring a lower degree of protection. It typically includes banks, other financial institutions and national governments.

(the "others" item) down by almost half. This steep fall, and the contraction in general, owed to one client cancelling a contract, without which total assets would have risen more than 5%.

Investment firm capital adequacy

FIGURE 22

(Surplus of eligible capital to the minimum requirement, %)



Source: CNMV.

Main investment advisory firm variables

TABLE 17

Thousand euros	2011	2012	2013	2013 1H	2013 2H	2014* 1H	% var. in year
NUMBER OF FIRMS	**82**	**101**	**126**	**112**	**126**	**134**	**19.6**
ASSETS UNDER ADVICE[1]	**16,033,108**	**14,776,498**	**17,630,081**	**15,442,297**	**17,630,081**	**14,444,024**	**-6.5**
Retail customers	2,181,943	3,267,079	4,991,653	3,975,400	4,991,653	5,476,008	37.7
Professional customers	3,151,565	3,594,287	3,947,782	3,476,305	3,947,782	4,465,564	28.5
Others	10,699,600	7,915,132	8,690,646	7,990,593	8,690,646	4,502,452	-43.7
NUMBER OF CONTRACTS	**3,677**	**3,484**	**4,002**	**3,672**	**4,002**	**4,321**	**17.7**
Retail customers	3,542	3,285	3,738	3,446	3,738	4,022	16.7
Professional customers	119	175	235	195	235	263	34.9
Others	16	24	29	31	29	36	16.1
FEE INCOME[2]	**31,053**	**26,177**	**33,273**	**14,700**	**33,273**	**21,670**	**47.4**
Fees received	**30,844**	**26,065**	**33,066**	**14,676**	**33,066**	**21,229**	**44.7**
From customers	26,037	20,977	26,530	12,074	26,530	17,494	44.9
From other entities	4,807	5,088	6,537	2,601	6,537	3,735	43.6
Other income	209	112	206	25	206	441	1.664.0
EQUITY	**12,320**	**13,402**	**21,498**	**15,119**	**21,498**	**22,897**	**51.4**
Share capital	3,895	4,365	5,156	4,820	5,156	5,227	8.4
Reserves and retained earnings	950	4,798	9,453	7,251	9,453	9,865	36.1
Profit/loss for the year[2]	7,474	4,239	6,890	3,048	6,890	7,805	156.1

* Provisional data (except number of entities) based on data from 95% of IAFs registered with the CNMV.

1 Period-end data at market value.

2 Cumulative data for the period.

… and retail business strongly to the fore.

One development of note is the retail segment's growing share of assets under advice since IAFs came into being. Hence by June 2014 retail clients accounted for 37.9% of industry assets, against just 13.6% at end-2011. Despite the lower volume of assets handled, firms grew their fee income 47.4% in the first six months (to 21.7 million euros) with respect to the same period in 2013. Finally, the number of IAFs rose from 124 to 136 between January and June.

Livelier market trading and growth in collective investment will continue to drive the recovery of investment firm business.

It appears that the investment firm sector is getting back on its feet after some tough years, helped by the stabler climate on equity markets. The trend should persist, moreover, in the short term if the business lines essentially driving the recovery –collective investment and market trading– continue to improve. Meantime, the restructuring of Spain's banking sector has so far made little mark on the sector's corporate structure. Hence while the seven deregistrations of 2012 and 2013 (three and four respectively) were a product of takeover deals, not one this year stated the same cause (of the four deregistrations to end-August, three corresponded to a change of corporate form and the other was a winding-up).

Results of CFD trading for clients of the firms promoting them most actively: Main conclusions of a CNMV review EXHIBIT 4

Background

In recent years, certain firms operating in Spain have prioritised the sale of contracts for differences (CFDs) aimed at the retail client.

These contracts stand out for the high risk carried, due to the multiplier effect produced by their leverage; the variety of underlying assets employed (marketable securities, indices, currencies, interest rates, commodities, etc.); their high short-term volatility, meaning investors must keep constant track of their positions; and the fact that these are bilaterally traded but not fully standardised products, meaning the CFD provider is free to apply its own fees and conditions. In light of these dangers, the European Securities and Markets Authority (ESMA) issued a warning to investors in February 2013, which was also published by the CNMV. In it, investors were advised that they should only consider trading in CFDs if they have extensive experience of trading in volatile markets, if they fully understand how the products operate (including the relevant risks and costs), and have sufficient time to manage their investment on an active basis.

These complex, risky products, it transpires, are being sold on the internet, with the aid of communication material and advertising campaigns that tend to stress their advantages, while playing down the fact that this is a sophisticated financial instrument not suitable for all investors.

Given the focus of supervisory interest on the sale of complex products to retail investors, particularly those carrying a high degree of risk, the CNMV has reviewed a sample of the advertising campaigns run by the firms most actively promoting CFDs.

To supplement the above review, it has analysed the results obtained by clients trading in these products. The main conclusions of this exercise are shown below, in view of their potential interest to retail investors.

Analyses were based on monthly data of the individual returns obtained by the clients of the most active CFD providers (three firms with a combined market share exceeding 85%), collected over a two-year period.

Main conclusions

– The number of clients transacting in CFDs over the reference period was around 8,000.

– The main conclusion of the analysis is that around 75% of clients incurred losses through CFD trading. This percentage varied from one provider to the next, and was in some cases higher than 85%.

– Turnover can be rated high in the case of clients holding CFDs, due, no doubt, to the frequency of advertising campaigns pushing the product, and, possibly, the negative returns obtained in trading. Around a quarter of the clients surveyed only concluded trades in one or two months of the reference period.

It appears, then, that investment in CFDs stands out for the high incidence of losses and customer turnover. The typical scenario is for clients to trade for a short time only, in which they obtain a loss, in some cases severe.

4.3 UCITS management companies

The recovery gains pace among UCITS managers, with asset growth of 16.4% in first-half 2014…

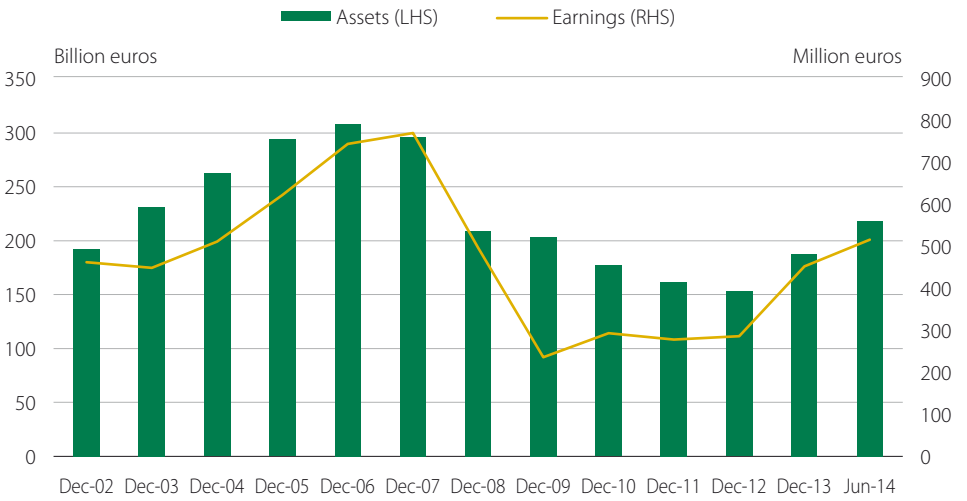
Assets under management in these companies rose by 16.4% to 218 billion euros in the first six months of 2014, building on the recovery that came in 2013 after five years of steady decline (see figure 23). As much as 84% of the improvement was sourced from the capital market fund segment, though investment companies too contributed strongly.

… translating as a 14% advance in profits and management fee income up by 17%.

The increase in assets under management fed through to sector income statements as a 14% increase in pre-tax profits to 518.5 million euros (in annualised terms), and a 16.7% increase in management fee income to 1.86 billion (annualised). Return on equity moved up in tandem from 38.7% at the 2013 close to 42.5% in June this year. Despite this strong performance, the number of loss-making companies rose from eleven to thirteen, with their combined losses summing an annualised 2.9 million versus the 2.1 million of 2013.

UCITS management companies: Assets under management and pre-tax profits

FIGURE 23



Source: CNMV. Results to June 2014 restated on an annual basis.

No change this year in UCITS manager numbers (96), as the effect of bank sector reorganisation begin to wear off.

The sector reorganisation prompted by bank sector restructuring appears to be nearing an end. In the first eight months of the year, only one deregistration was for this cause (the only one in the period). At the same time, one new manager entered the register, leaving the number unchanged, at ninety-six.

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

TABLE 18

Million euros

	Assets under management	UCITS management fee income[1]	Average UCITS management fee (%)[1]	Fee ratio (%)[2]
2007	295,922	3,194	1.08	70.50
2008	208,861	2,302	1.10	70.80
2009	203,730	1,717	0.84	68.08
2010	177,055	1,639	0.93	67.24
2011	161,481	1,503	0.93	65.60
2012	152,959	1,416	0.93	64.62
2013	189,433	1,594	0.84	61.94
Jun 14	218,011	1,860	0.85	61.26

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 UCITS management.

4.4 Other intermediaries: Venture capital

Venture capital entities increase their numbers from 334 to 344 to August 2014.

The number of venture capital entities (VCEs) moved up from 334 last December to 44 in August 2014 (see table 19). Of this number, 140 were venture capital funds (VCFs), 128 were venture capital companies (VCCs) and 76 were VCE management

companies. In all, 23 entities joined the register in the first eight months (sixteen VCFs, five VCCs and two VCE managers) against 13 retirals (two VCFs, seven VCCs and four VCE managers).

Movements in the VCE register in 2014 TABLE 19

	Situation at 31/12/2013	Entries	Retirals	Situation at 31/08/2014
Entities	**334**	**23**	**13**	**344**
Venture capital funds	126	16	2	140
Venture capital companies	130	5	7	128
Venture capital management companies	78	2	4	76

Source: CNMV.

VCF asset volumes vary only a fraction while those of VCCs fall by 6.5%.

VCEs lost 3% of their assets between December 2012 and December 2013, to close this last year at 8.26 billion euros. Industry sub-sectors performed divergently with VCF assets holding more or less flat at a little over 4.73 billion euros, against the 6.5% drop in VCC assets to 3.52 billion.

Key developments include a change in the VCE investor mix and lower VCC investment by banks and non-financial corporations, two of their big investor groups.

In the case of VCFs, one of last year's keynotes was a change in the investor mix. The savings banks cut back their investment (by 27% to 146 million de euros), as did pension funds (by 7% to 393 million) and foreign entities (by 3.2% to 897 million), contrasting with higher investment from the public authorities (up by 25% to 599 million) and other entities. Foreign entities remained the single most important investor group in the funds segment, with 19% of total assets (ahead of the 12.7% of public authorities, 12% of non-financial corporations and 11.3% of the banks). Turning to VCCs, two of the three biggest investor groups, non-financial corporations and banks, lowered their investment in 2013 (by 14.8% and 12.1% respectively), while the third (other financial corporations) raised its investment by 0.8% to 1.01 billion euros). Note in this respect that natural persons still account for less than 5% of venture capital assets in the case of VCFs and approximately 2% in VCCs.

The recovery begun in 2H 2013 has lasted through the first half of 2014, when VCE investment doubled to 1.20 billion euros.

Preliminary data furnished by industry association Asociación Española de Entidades de Capital Riesgo (ASCRI) for the opening months of 2014 appear to confirm that the recovery initiated in second-half 2013 is still safely under way. Investment in VCEs in Spain came to 1.20 billion over the first six months, more than doubling the figure for the same period in 2013. It bears mention that around 90% of this total corresponded to transactions of under five million euros in SMEs at the start-up or expansion stage. But the best news was undoubtedly the success of the industry's fund raising effort, which brought in 2.13 billion euros, a full 315% more than in first-half 2013. International funds enlarged their presence as far as 73% of the total invested vs. 47% in the same period last year.

Venture capital entities: Assets by investor group

TABLE 20

	VCFs		VCCs	
Million euros	**2012**	**2013**	**2012**	**2013**
Natural persons				
Residents	209.3	214.5	72.4	75.1
Non-residents	4.0	4.3	1.2	1.1
Legal persons				
Banks	524.6	536.0	915.1	804.1
Savings banks	198.8	145.7	41.5	39.1
Pension funds	422.0	392.5	14.2	14.7
Insurance corporations	130.2	125.6	30.4	27.0
Broker-dealers and brokers	0.0	0.0	0.1	0.1
UCITS	34.9	35.5	6.6	7.0
Domestic VCEs	225.7	234.6	32.3	35.9
Foreign VCEs	328.1	328.7	1.1	1.2
Public authorities	574.5	599.3	237.0	280.6
Sovereign funds	27.1	26.3	0.0	0.0
Other financial corporations	358.6	359.6	997.9	1,006.2
Non-financial corporations	586.3	568.9	1,307.4	1,113.5
Foreign entities	926.5	896.7	40.0	41.1
Others	191.7	267.4	73.8	78.3
TOTAL	**4,742.2**	**4,735.5**	**3,770.9**	**3,525.0**

Source: CNMV.

A more encouraging outlook as various factors combine to boost interest in the sector.

The outlook for venture capital is now decidedly better, with a number of factors combining to boost interest in the sector. On the one hand, support will be forthcoming from the new FOND-ICO Global tender and, on the other, the July approval of draft legislation[18] regulating venture capital entities will give the market a new operational framework with more flexible formats, including, for instance, the SME venture capital scheme.

18 Draft Law of 18 July 2014 corresponding to the transposition to Spanish legislation of the Alternative Investment Fund Managers Directive.

II Reports and analyses

Boards of Directors during crisis: A descriptive vision of the decision-making process

Alberto Lavín Fernández

Alberto Lavín Fernández is Doctor in Business Administration (DBA) IE Business School, Management Consultant and Adjunct Professor at IE Business School.

1 Introduction

Much has been written and spoken about the recent crisis and its organisational impact. However, the decision-making process during this period has been less explored. Now that we are starting to see some weak, although hopeful, signs of recovery, this seems a good time to make that reflection.

This article has been drawn up from a descriptive vision of the functioning of boardroom decision-making processes during this crisis[1]. It is a piece of exploratory research based on a sample of companies, essentially Spanish listed companies, which is described below.

The behaviour of management teams and the decision-making process have been recurring themes in a large part of academic literature on management over the last 40 years. For example, research on which Board characteristics make a positive impact on performance is among the most extensive in the literature on senior management teams (McDonald, Westphal & Graebner, 2008).

There is also a strong tradition of research on crisis management, which has mostly focused on shorter and more intense events than the current crisis: for example, the analysis of the Cuban missile conflict (Allison and Zelikow, 1999) or an examination of catastrophes such as forest fires or air accidents (Weick, 1990, 1993).

However, comparatively less research has been conducted into the internal processes of senior management, particularly when faced with situations of extreme adversity (a notable exception is Hillman, Cannella and Paetzold, 2000) and less attention has been focused on structural or long-term phenomena more similar to the current crisis (Staw, Sandelands and Dutton, 1981; Gladstein and Reilly, 1985). This article addresses precisely this aspect, that of the internal processes of senior management during this crisis, of which decision-making is an essential part.

The method used for this research has been predominantly ethnographic through in-depth interviews with directors and other respondents in search of the most nuanced description possible of the Board decision-making process during the crisis. To this end, the qualitative methodology of theoretical sampling –grounded theory (Glaser and Strauss, 1967; Locke, 2001)– was followed.

The final sample included 26 directors (chairpersons, executive directors and external/independent directors) who together represented 42 companies in various in-

1 This article is based on the DBA dissertation (unpublished) "The crisis on board: The effect of Spain's economic slowdown on boardroom composition and decision-making processes" (Alberto Lavín, 2012, IE Business School) and in the book by Lavín and Mazza (2014) "Boards under crisis: Board action under pressure", IE Business Publishing Series, Palgrave Macmillan.

dustries (energy, manufacturing, technology and communications, financial services and retail) with joint revenue of over 300 billion euros in the date of research. Most of the companies represented in the sample were incorporated in Spain (78%), while the remaining 22% were registered outside the country or with a dominant holding of international capital.

The average age of the directors interviewed at the time of the research was 56 years old. Three (11.5%) were women. 73% were directors of listed companies. 57% of the directors of unlisted companies had been directors of a listed company in the two years prior to the research. 20% of the participants were interviewed two or more times. The interviews took place over an approximate period of 35 weeks, between 2011 and the first quarter of 2012. The average duration of each interview was 58 minutes.

In order to increase the validity of the study, multiple interviews were also conducted with five experts in the area of corporate governance (former directors, specialised consultants and others with experience in regulatory environments) and five managing directors of listed companies reporting directly to the Board were also interviewed.

The ethnographic analysis was supplemented by secondary sources (public information and annual reports) as well as by research literature from the last four decades on senior management, crisis management and decision-making both as an additional source (Golding, 1998) and as a support resource to back up the findings.

The article is structured as follows:

This introduction presents the central issue under analysis, the methodology used and the structure of the article. Sections 2 to 5 describe the four major descriptive characteristics identified by the study with regard to Board decision-making during the crisis. Specifically, the Section 2 addresses the understanding of this episode by the Board and puts forward the difficulty (inherent to the crisis) of reaching and maintaining a single and common vision of the environment, which has made difficult to plan an appropriate and coordinated response. Section 3 addresses the centralisation of decision-making during the crisis (resulting from a greater perception of risk associated with uncertainty), which has implications that may be potentially negative on the cost and quality of the decision (such as slower or more costly decisions). Section 4 focuses on parochial interest (i.e. linked to a sub-group or faction of the Board) and conflict. These partial visions always exist and may be exacerbated by the crisis and might lead to a greater level of conflict (e.g. a higher risk of sacrifice of the collective interest in the benefit of parochial interests). Section 5 presents the short-term thinking that can be seen in decision-making in the crisis, postponing longer-term priorities as a greater focus is placed on tactical decisions.

All of the aforementioned aspects introduce risks to the Board decision-making process and may condition quality of decisions, precisely at a time when these are most important for organisational performance. Therefore, the sixth and final section presents some of the possible recommendations which would contribute to mitigating some of these effects in future crises.

2 The vision of the crisis from the Board: Crisis? What crisis?

Crises are low probability events with major consequences which threaten the fundamental objective of an organisation. However, "crisis" is a term which is frequently used with an imprecise meaning.

The directors interviewed are aware of the impact of diverse external factors associated with the crisis (e.g. the collapse in demand and credit restrictions) on their businesses, as well as, obviously, their effect on the Boards.

However, directors do not all interpret the term "crisis" in the same way or, at least, they do not necessarily equate external crises with crises on the Board. Therefore, the functioning of the Board may be fairly unaffected even in the midst of profound external turmoil as in the current situation.

One executive director indicates, "There is never such a thing as bad news for the Board. Nothing happens. Ever. If anything actually happens, it doesn't happen. It is not talked about. There is another discourse, another rhetoric. If things are going well, they go well, and if not, they say the necessary measures are being taken to resolve the problems and that the results are on the way. Therefore, there may be a deep external crisis but the issue, we might say, goes unnoticed. Crisis means something else for the Board. It may be the case that it is the external crisis which concerns the Board, but there are crises in the true sense of the word when there is a situation which affects or threatens the Board itself, for example a hostile takeover bid or fights between key shareholders. That is often a crisis for the board rather than what we usually understand by crisis".

In other words, the crisis is (in addition to an objective reality) a "social" construction. It is, to a certain extent, "in the eye of the beholder" and, therefore, varies in type and intensity depending on the perceptions of the individual participants. What is a crisis for one individual or group may not be for another (Weick, 1988; Kupperman, Wilcox and Smith, 1975; Smart and Vertinsky, 1984). This fact may have consequences on the appropriateness of the decision, as it makes more difficult to reach a consensus on what is "objective" in a specific situation.

The previous passages also suggest during the crisis the existence –well established in academic literature– of significant symbolic actions not related to substantive actions[2] (Westphal and Zajac, 1994, 1998, 2001). Therefore, a second issue, partly related to the subjective nature of the crisis, is the issue of the decoupling between symbolic and substantive behaviour of the Board and the effectiveness of its response to the crisis. In the words of one independent director, "If we had looked (from the Boards) at things before as carefully as we do now, the intensity of the crisis would be much lower than it is today". Another independent director states with a certain amount of self-criticism, "I don't see any way out of this crisis without making some changes to [the composition of] the Boards. There were obvious errors

2 In other words, the message is sometimes more important than substantive action, something well known both in the corporate world and in politics.

previously". One executive director agrees with the above, "The people that brought us here are not the ones to lead us out of the situation".

Although there are many factors which caused the crisis, especially institutional and macroeconomic reasons (Davies, 2010), this clear gap between the Board's activity and business performance also suggests that the intensity of the crisis is at least partly based on the lack of appropriate action in the functioning of Boards prior to the crisis and also when it began.

In any event, the interpretation that Boards make of the crisis condition decision-making and, through their decisions, organisational reactions. In short, the moment when the crisis will be fully left behind.

3 Power in decision-making: Centralisation and control during the crisis

Although the Board's functions include providing resources and "overseeing" senior management (Hillman and Dalziel, 2003; Johnson, Daily and Ellstrand, 1996; Zahra and Pearce, 1989), during the crisis this control may be overdone (Pfeffer, 1978); all the members of the Board place greater focus on control and develop a series of strategies to this end.

(a) Centralisation of the information process

More management information is requested by the Board (and by the board committees, for example, the Audit Committee).

In the words of one CEO, "[The Board] requests reviews from the executives, more forecasts and plans, further information on loss-making activities or activities which might generate losses in the future, more opinions on things that are going well, those which make money and those which do not. There is much more criticism, and this questioning is carried out across all activities, irrespective of whether they are strategic or not".

With some nuances, one chairman suggests something similar, "The depth of the information [used in the decision-making process] may be the same. But there is more variety of information. Other issues are requested. Questions are asked more often and things which would normally be asked once a year are now asked twice or three times a year".

(b) Centralisation of the decision

It is not simply the case that information is centralised, but there is also greater control (and consequently less discretionary executive action). This centralisation and the increase in dependence on leaders in decision-making is an adaptation response to the threats of the environment since it makes this reaction the responsibility of those considered more important for the organisational values and objectives

(Staw et al., 1981; Driskell and Salas, 1991). This centralisation has two different origins: it may come from the CEO or from the Board itself, and not only from the chief executive.

First of all, we will cover the first case, when it is the CEO or chairperson who increases centralisation. For example, the local chairperson of a multinational suggests, "There is undoubtedly more work. Now I have to analyse issues in more depth than I would during growth stages".

Another executive chairperson mentions the following, "In the case that I know best [i.e. this company], the Board has been very involved; I wanted to keep the Board explicitly informed and to authorise some removals of key staff, both due to their significance and due to the cost [x millions on severance pay] which would have a major effect on results".

There are obviously other variables, such as Board composition and the degree of active participation of its members, the nature of the shareholders and the company's size (e.g. executives generally have more influence in large companies with diluted capital) which may facilitate –or complicate– the exercising of power. Therefore, despite this trend towards centralisation, it is not always the chief executive that takes the final decision.

This centralisation may also come from the Board. This often implies higher direct costs with the aim of reducing uncertainty (for example, an increase in the expenditure on external advisers). One independent director describes this behaviour, "Executives, and the Board, demand a greater level of analysis. They end up requesting an external opinion, a consultant or a lawyer, for example, to compare it with the executive opinion so that everybody on the Board feels comfortable". One executive director verifies this type of action, "There is absolute fear. It is a genuine cost spiral so as to have other opinions and to limit liabilities, etc. A true snowball effect".

Although more costly, a more elaborate process might well be positive for better quality decision-making. Unfortunately, there are other unwanted results which offset this theoretical benefit.

One of the worst of these is the inevitable delay (or even failure) of decision-making because speed is crucial in dynamic environments such as a crisis (Bourgeois and Eisenhardt, 1988). One executive director describes this delay, "Postponing, even killing, decisions is often an intentional strategy (by the Board) to eliminate [personal] risks for them". One independent director confirms this, "Advisers are hired and [their use] is a classic manner of saying no, of the creation of the 'no' discourse. It is the most elegant and convenient way to say 'no', because somebody else, who is in theory external and impartial, is the one that says it".

Either by concentrating information or curtailing the power of executives and centralising decision-making power, two main strategies are used for this increase in intervention.

On the one hand, there is an increase in formalisation (e.g. a greater use of formal mechanisms in the manner in which the Board operates, such as a more precise re-

gister of minutes and votes). Board meetings and secretaries play a crucial role in this formalisation process, often legitimising the resolutions reached 'outside' the meeting room. The role of the Board secretary (who in Spain is often a non-director) is essential in this formalisation process (although the final mandate may come from the chairperson). Ultimately, part of this increase in formalisation may be simply due to the greater need for individual self-protection by the members of the Board during crisis (Mayer & Gavin, 2005).

The second approach for increasing the level of intervention and control is linked to use of the organisation's structure for this purpose. Consequently, a *de facto* bureaucratisation (Blau, 1955) appears through structural changes that increase control over decisions (such as simplification or elimination of intermediate levels). Alternative committees arise (e.g. reduced executive committees replacing traditionally more numerous executive committees) in theory to reduce the workload for the Board, for the executive committee itself or even to become swifter in response to the crisis, but in fact leading to greater centralisation and control.

One executive director describes an example of the situation, "We had an executive committee, but it wasn't working. Now only the chairman and I will meet when necessary and with the management team/committee instead of using this executive committee".

One phenomenon which has coincided with the crisis in the emergence of new types of committees (e.g. committees for various issues such as Technology, Sales or Sustainability) which, in some cases, reflect essential reactions to the crisis (such as needs for commercial development or assimilation of new technologies), or the proliferation of Advisory Boards with functions similar to the Boards in drawing up the strategy, but with no legal liability whatsoever.

Although some of these reactions may seem to be the result of institutional pressures existing prior to the crisis (e.g. changes in regulation or other factors such as corporate governance practices and codes), the main variable that explains this increase in centralisation during the crisis seems to be risk aversion, as a natural reaction to uncertainty. One executive describes it as follows, "When things are going well, there is no arguing [...]. We want to shun risk, but we simply can't do that because it would mean avoiding responsibility and, in political jargon, it means being left "out of the picture". Therefore, in order to avoid risk, we generate a 'mess' with the collaboration of consultants and auditors. [We create] greater complexity in order to reduce risks. More costs. Opportunities are lost and errors may arise".

This type of Board strategy may be a logical reaction of decision-makers to reduce the equivocality of the environment (Weick, 1969) or simply a reaction resulting from self-interest (Williamson, 1975) because the crisis involves clearer individual risks for each director (e.g. reputation risk). Although both motivations are compatible, the previous passages seem to more clearly support the second of these options.

(c) Implications of centralisation

A balanced level of centralisation can undoubtedly be healthy (for example, when the Board intervenes to understand the problems and to propose a recommendation

to executives and then subsequently returns control to them), but excessive control has adverse implications. A substantial opportunity cost of this centralisation is its impact on executive motivation. Vicious circles may appear in the relationship between the Board and the management team, forming spirals of overload –on the Board because it takes on activities which it would delegate were it not for the crisis– and of de-motivation –for the executives (for example, if decisions are delayed as a result of the intervention of the Board). This may lead to a reduction in the management team's effectiveness due to valuable staff leaving or as a result of their "emotional" desertion or so-called 'checkout'.

One independent director describes the depressive mood of many executives during the crisis, "The management team [reporting to the Board] starts to think "fire me or trust me", but stop driving me crazy".

In line with the above argument, this centralisation generates an overload for the Board (e.g. greater risk analysis), which often involves a delay in decision-making which may lead to missed opportunities.

One executive director agrees –there is more work which is more complex– and sees it as a general phenomenon not limited to aspects of risk, "There is more work in the committees on all fronts". According to one executive director, that is the situation, "Everybody finds a reason to request further information and carry out a more thorough analysis. It's like a tangle of cables; at the end the problem is impossible to untie. It is a strategy, not necessarily conscious, of postponing or not making decisions".

One independent director at various multinationals reinforced this point, "[In crises,] things are analysed in more depth and more projects are rejected. Management becomes de-motivated and the company's growth is limited". And he concludes that, "Boards [in the event of a crisis] suffer major castration [in the scope of their activity], management control increases, growth is limited and the company's evolution is affected. This could kill an organisation".

When there is no delay in the decision (for example, due to the pressure of executives towards the Board not to postpone the action), the greater concentration of tasks involved in centralisation more often leads to a higher likelihood of errors. In the words of one independent director, "There are more errors or decisions which have to be "swallowed" by the Board only six months, or even less, after being taken".

These strategies to increase control have other unwanted consequences. The attention of the Board (or its committees) is often moved to less substantial issues. In the interpretation of one chairman, "In the end, the Board spends time discussing how to reduce travelling expenses by €20,000 in country X, which is ridiculous and, furthermore, this displaces the role of the executives who are employed to do this."

At the centre of this centralisation process, there may be a lack of trust in the people (for example, between the Board and the management team). One independent director with an extensive professional background is clear with regard to this, "A key force for this centralisation in the Boardroom is often a lack of trust in the decision-making capacity of subordinates".

In the words of another executive director, "Crises generate anxiety. It is difficult to be the chief executive officer when there is a Board in which "no" is often the main reaction on the table. It is clear to me that the Board should oversee management. That is a noble task. It should be alert and ask the CEO more or less incisive questions. But it should not be micro-management, which it now often is".

Aside from the trust factor, the implicit assumption of this increase in centralisation seems to be that intervention and excessive control will lead to better quality decisions. Paradoxically, previous research (Harshbarger, 1971) maintained that centralised communication channels have led to more efficient solutions to simple problems, while decentralised communication channels have led to more effective solutions to complex problems (as are, by definition, crises).

4 The decision-making process: Partial interests and conflict

Although the environment of the Board is, in principle, hierarchical (there is a main formal power: CEO or chairperson), this research has identified several of the distinctive features of the 'garbage can' model of decision-making in organised anarchies (Cohen, March and Olsen, 1972).

The central premise of the 'garbage can' is that specific decisions do not follow the ideal flow of 'problem identification-decision process-solution selection', but are often 'solutions looking for problems'. In other words, the matching of 'streams' of problems and solutions is more a question of a random meeting between the two –in a specific context of decision and deciders– than a logical and sequential process.

(a) The decision-making context

It is difficult to achieve balance between the priorities of the different agents: during the crisis it is even more difficult for the Board to remain a unified team and to balance all the objectives (individual aspirations with common objectives), which is similar to the concept of the problematic preferences in organised anarchies (Cohen, March and Olsen, 1972). This dynamic drives a more imprecise connection between decisions and results and leads to a decision-making model which is similar to the 'garbage can'. One independent director provides a similar vision, "A Board during the crisis is like a madhouse".

Individual interest becomes more noticeable during the crisis perhaps because, by definition, resources are inadequate or insufficient to deal with the situation (Starbuck and Hedberg, 1977; Webb, 1994). In the words of one independent director, "The crisis often brings out the worst and most predatory behaviour; it often brings out the worst in people".

Having said that, people seem to avoid confrontation if they can (e.g. directors do not usually openly and visibly resist the chairperson, except if the decision will irredeemably harm their reputation). There are, therefore, more internal movements

(shortcuts or detours) in order to balance individual and group interests, "There are more calls, lunches, dinners and conversations", explains one independent director. "You simply cannot afford to enter a Board meeting without knowing what the others think about an issue". Another independent director adds, "There are always conversations behind the scenes, but now there are many more".

(b) Participants: Contradictory preferences and fluid participation

In this context, each participant in the Board meetings manoeuvres to protect and counterbalance individual interests (e.g. remuneration, position, roles) and collective interests (ROI, risk control, workload, etc.).

Aspects such as the composition of the team affect both the result and the process (Hambrick and Mason, 1984). One chairman stresses this idea in a very evocative manner, "There are people on any Board who, even when everyone is in agreement, create conflict and others who, even when rejecting or arguing something, make everybody feel good". One independent director theorises about the same idea, "The Board is a small group and there are many things which are related more to personality than to ideas themselves".

The description of the strategies of the participants during the crisis confirms both the ambiguous nature of their preferences and their involvement, which is sometimes arbitrary, in the decision-making process. As will be seen, a certain gap arises (occasionally, a real confrontation) between the theoretical objectives of the Board (for example, defending shareholders) and those revealed by an analysis of the interventions of different participants in the collective result of the Board. This dichotomy between theoretical objectives and those revealed by subsequent analysis of the different participants on the Board suggest that preferences are unclear, as in the 'garbage can' model (Cohen, March and Olsen, 1972).

a. Proprietary Directors

Proprietary directors design their strategies during the crisis with the fundamental interest of protecting their own investment (or that of their owners), sometimes putting these before the interests of the company itself. The chairman of one technology company states, "The nature of the shareholders is important –open market, institutional, listed companies, private equity firms, etc. –, and this may change the extent to which the Board acts with a short-term focus. For example, listed companies only think about short-term profit and loss and, often forget organic or human considerations [...], but, at any event, the owners usually bring their mood to the Board meetings".

Proprietary directors exercise their influence (through their vote or veto) to decide the key issues to be decided, especially when they represent large shareholdings. One CEO describes it as follows, "It is generally owners or proprietary directors that also propose the key issues in times of crisis". They therefore exert considerable pressure for executives, apart from the crisis itself –or perhaps as a result of it– often at a high personal cost for the executives.

One executive director bitterly regrets the situation, "All other businesses, even those proprietary directors manage directly, have lost 30-40% of their volume during the crisis, but in the case of companies on whose Boards they sit, they blame the executives for everything". And he continues, "Sometimes, more so in crises, proprietary directors are more interested in their own future than the company's. It seems to me that during the crisis, proprietary directors are more part of the problem than of the solution".

This pressure is particularly noticeable when there is only one executive director (normally the CEO) or perhaps two, which is very common on Spanish boards. One executive director with an extensive international career sees it as follows, "It is more difficult to be balanced and the vision will be more biased when there is only one [executive]. This is a terrible mistake in the governance of our companies". In addition, as described below, the attitude of independent directors does not always contribute to counterbalancing this pressure.

b. Independent directors

In appearance, independent directors predominantly follow their own interests, which is none other than preserving their function and status. This is debatable but reasonable: being an independent director (particularly in a large company) is an attractive position, although the risk might be considerable. The remuneration for external directors in large companies may be fairly high in nominal terms (PwC, 2011) without adjusting for risk –which is higher during the crisis–, in addition to the considerable social value attached to the role.

In the words of one executive director, "The issue for independent directors is not to maximise shareholder value, but to minimise personal risk and threats to their own reputation, with the aim of being members of several Boards of Directors and of being invited to new Boards in other places".

One independent director describes it cuttingly, "The truth is that historically when someone was appointed director, he/she had "arrived", as is usually said. The only subsequent concern was to remain on the Board, it didn't matter how. Eternal gratitude to the person who decided on the appointment, in general the chairperson, self-defence of their position and saying 'yes' to the boss".

The above passage harshly describes how, on occasions, there is little stimulus (when that is not directly negative) towards independence. This type of mechanism for joining the Board –based on relations or affinity– together with other issues which may affect independence (e.g. areas of improvement in the evaluation and remuneration of the Board) are aspects pre-dating the crisis (PwC, 2011), but which clearly do not strengthen the in-depth debate (e.g. of independent directors with the chairman or with proprietary directors), which is necessary to resolve problems. Neither does this difficulty in exercising independence promote risk-taking, which is often a key element for successfully dealing with the complexity of the crisis.

These obstacles to independence can be divided into two major blocks: one internal (of the companies themselves) and another institutional (in the wider group of company directors, who are highly interconnected).

In the internal aspect, the barriers to independence take the form of internal pressures from the chairperson/CEO (or the owner). One director provides a good example of this, "Our chairman was very angry because some independent directors had not followed his criteria.[...] He was very angry and did not truly realise that they were doing the right thing, defending what they thought most appropriate for the company instead of behaving as simple employees. External directors are not employees".

These internal barriers to independence are sometimes related to the social pressure of a particular organisation ("the way we do things here"). Accordingly, independent directors do not usually take the initiative in debates, as this may involve greater political risk for them. Instead, they prefer to influence the discussion through a proprietary director or shareholder (or through an independent director with a direct influence over them). One independent director describes this dynamic, "Independent directors never confront executives; instead, they communicate their points through proprietary directors". One CEO assumes implicitly and naturally that this, and no other, is the "right" pattern of conduct within the Board, "Independent directors do not take the initiative in the debate, not even during crises, obviously [emphasis added]".

From the point of view of the environment, the situation is not very different, where independence is also difficult. Unwanted notoriety (e.g. "social noise" around a director) does not help to create a long-lasting career as an independent director and therefore these directors may see their independence restricted almost from the moment they join the Board. This is accentuated due to the major connection ("interlocking directorates") between Boards and directors (Mizruchi, 1996).

One director describes this socialisation process in a somewhat cynical manner, "If you do not make any "mistakes", you have the chance of reaching other positions on other Boards". Another director goes further and indicates, "If you do not "obey", you are out, and being out may cost you a lot of money".

One external (non-director) expert observes, "Some international head-hunters mentioned that when selecting directors, companies are often more concerned about the social and market relations of the candidates than their real talent (management capacity and experience), and even though connections are important, there should be more balance between the two aspects".

Ceteris paribus, the risks for independent directors seem higher during the crisis due to greater uncertainty and growing political pressures. One executive director supports this statement, "[Independent directors] who most boast [about their appointments] are often the first to get frightened and leave voluntarily. There are plenty of examples of people quickly leaving their roles when faced with the risk of liabilities. Sometimes, the loss of 'big names' does not weaken the team, quite the opposite, with less well-known "names" there may be a better team on the Board".

Therefore, behaving in a truly independent manner requires more maturity and courage than before. Independent directors sometimes go through very difficult times (they have to put up with high levels of conflict) to maintain a truly impartial perspective.

One independent director explains it as follows: "Polarisation within the Board? Yes, I myself suffered from open conflict between proprietary directors and independent directors. Yes. I have suffered a lot from this. I went through some very bad moments. I don't want and I cannot talk about this [...]. I would say not only in the crisis. In the crisis too, yes". He stops for a moment and thinks, "The crisis may enhance differences. For example, if for any other reason some proprietary directors need money in cash and the company cannot contribute towards resolving this situation, for example via dividends". One executive director indicates some reasons for this dilemma, "I do not truly believe that it is a problem of independence if we are talking about good directors. Real tension is between independent directors and proprietary directors when there are crises and completely opposing criteria. These major conflicts take place as a result of the polarisation between groups with different interests. Good independent directors do not want to see their names on the front page of the newspaper, for example, because they did not act quickly in their function". And he continues, "Therefore, with good names and independent roles, the adjustment mechanism cannot be remaining silent; that is not possible and therefore they are forced to leave".

This dynamic promotes a certain risk of adverse selection and that the influence of independent directors could be lower in crises then during boom times, which seems counter-productive for effective management of the crisis[3].

As is to be expected, independent directors use various strategies to defend their position or reduce their personal risk: for example they use legal advisory services or civil insurance policies. One former executive director (now independent) explains this vision, "You can bet that insurance policies have grown during the crisis. But this has logical implications for the manner in which decisions are taken, because people are more concerned".

As mentioned above, directors use other tactics (above all independent directors, but not only them) through formalising (or attempting to) all types of decisions with the aim of being certain about the agreements and everybody's position and thus reducing their own perception of risk. Of course, this is not always an easy strategy as it may mean taking an uncomfortable position against other members of the Board and, particularly, in front of the chairperson, which –as suggested above– may be lethal for the long-term aspirations of an independent director.

The Boardroom becomes a highly political environment during a crisis. Therefore, another strategy to survive, which is well known in Boardroom literature (Westphal and Stern, 2007), is to ingratiate yourself with other highly influential directors (for example, proprietary directors or the chairperson/CEO; rarely with other independent directors unless they are very close to key executives and shareholders). One

3 The total annual turnover rate as at the research date stood at approximately 10% for listed companies - including all the reasons for leaving and all types of directors (independent, executive, proprietary) - and it does not seem to have changed significantly with regard to past rates, probably due to - in addition to the individual reasons referred to above - the potential impact that changes in the Boards have on public relations and the rest of the organisational eco-system - regulators, employees, investors and the market in general. Another explanation of this apparent stability is simply that the changes have taken place subsequent to the crisis period.

independent director offers a clear image of these movements, "Talking in the corridors and the entrance halls of the offices is always important. Inevitably there is now more tension, more arguments and all the processes are more politically charged. During the breaks in Board meetings, people talk about how each one is going to vote in defence of everybody's best interest. At other times [...], people spend that break time in praising and saying how incredible this company is".

Obviously, all of the above does not prevent there being truly independent directors, but if to be so is always difficult, it will be especially problematic during crisis.

c. The chairperson or the CEO

Chairpersons and CEOs are also sensitive to a greater perception of risk during the crisis (e.g. legal liabilities or dismissals). They, therefore, implement new strategies both inside and outside Board meetings.

Outside the Board, chief executives carry out more intensive searches for information (e.g. more one-on-one questions and group questions) and more closely oversee the business than in a period of expansion. They also promote new meeting opportunities with similar purposes, such as Board activities outside the office to extend discussions about certain issues.

Within the Boards, the chief executive's attitude also seems to change. There is a greater incentive for participation. One independent director mentions, "Before the CEO did not do that, but now they are truly interested in what others have to say to them, not only to influence them, as before, but to truly understand their points of view".

The implementation of these strategies means that they dedicate more time to the Board then during a period of expansion, which implies more time and energy and a closer interaction with the other directors, both in view and behind-the-scenes. Chief executives then act (and some described their own role in this manner) as "creators of political balance" more than managers.

The pattern of CEO's reporting to the Board also changes, probably as a result of this increased perception of risk. Accordingly, they increase the frequency of reporting and tend to inform on those decisions which help to create a closer relationship with their Board and, in particular, higher risk decisions (so that nobody can later say they were unaware of them).

One independent director describes it as follows, "CEOs often promote greater participation of shareholders [proprietary directors] during the crisis, for example to create a better relationship with them and to share responsibilities". Another independent director confirms this, "The CEO informs the Board more frequently and so he releases tension and feels more comfortable".

In addition to the factors indicated in literature on dominance in Boards (Haleblian and Finkelstein, 1993) or on arrogant CEOs (Hayward, Rindova and Pollock, 2004), there are other reasons which facilitate the CEO exercising power during the crisis.

For example, they have more management information access, especially those holding dual positions (chairperson and CEO), a situation which is fairly common in Spain. During the crisis, chief executives often develop their strategies from a situation of dominance (e.g. insider access to key management information) with the aim of promoting the participation of the rest so as to protect their own role and "share" responsibility. One potential risk of this consensus creation process is the encouragement of herding on the Board (Banerjee, 1992).

There is other executive conduct during a crisis. For example, some of these executive directors still look for obedience and flattery (Westphal and Stern, 2006, 2007). One independent director describes this need for praise, "The role which I have most often seen is the chairperson who speaks, who wants to be listened to and who asks the others to speak later. But there are also good leaders and I have seen some. The truth is that the style of the top executive is a hallmark for the team".

Other chief executives use symbolism[4] in their own interest (Westphal and Zajac, 1994; Zajac and Westphal, 1995). One expert in corporate governance with extensive experience in Boards mentions an example of the above, "Some important executives have "betrayed" their shareholders by saying that they were reducing their severance pay clauses or golden parachutes and putting a limit to the amount. But at the same time, they were significantly increasing their long-term compensation, for example, through funds or other deferred remuneration".

These more political forces (discretional reporting, external symbolism, etc.) also imply that not everything is internal in these changes in conduct. There are many more external activities to deal with during the crisis, above all for large listed companies. For example, external communication becomes a crucial element.

(c) Problems

There are other more urgent problems during the crisis but, as indicated above, there is also more information available so as to reduce uncertainty in decision-making. However, this information is not always sufficient or timely. This is vital, as if the Board is not sufficiently prepared; it runs the risk of becoming little more than the rubber-stamping of decisions that have already been taken.

Two major blocks of limits have been identified with regard to the use of the management information provided to directors. The first of these relates to the quality and timeliness of that information, while the second is related to the preparation and participation of the directors on the Boards (and other committees).

The first group of limits includes the bias with which this information is collected. One chairperson declares, "The manner in which information is collected is often not neutral. The solution is often implicit in the manner in which information is

4 Symbolism sometimes means that Boards disguise their intention through stratagems (or actions or plans are announced which are never executed). As indicated above, symbolism is not a conduct exclusive of crisis periods.

gathered to solve a problem". Such "availability" biases (Tversky and Kahneman, 1974) also increase the risks of bias in the decision. One executive chairperson describes it as follows, "Things attempt to follow the logical sequence of identifying the problem, collecting data and generating solution options, but the stages are rarely so rigid and the sequence is not so clear".

The information packages are often not balanced (they contain too much or too little information) and they are not submitted at the right time. In the words of one independent director with extensive experience, "Why the hell do we need the deviation and consumption of raw material X for product Y in factory Z in Germany? It is useless. On the contrary, it makes you lose focus on what is truly important". Another director offers some more general conclusions based on his experience, "The quality and depth of the information provided to directors in most Boards here [in Spain] is limited, if not scarce, compared with what is received in most Boards in US/UK companies. I would say that it only reaches the level of a pass". One chairman gives a local based interpretation for this problem, "People spend very little time on this [Board work]. They only do so because they believe it is a necessary evil; corporate governance is still not yet taken sufficiently seriously".

In addition to the quality of the information, it is essential that it is timely. However, the deadline for submitting information to directors is not always the most appropriate (information is generally provided only a short time in advance, which is important during the crisis). This is the case for a significant percentage of Spanish companies (PwC, 2011). One independent director indicates, "It depends a lot on the company. Some provide a good information system with sufficient submission time and some even have a microsite or adapted website for their Board; others do not".

There is a second group of areas for improvement. This is related to the actual level of preparation and participation of the directors. For example, directors often make limited use of the information provided, which has a decisive impact on the final quality of the decision. In fact, the amount of time spent in Board preparation is low, and even non-existent, even in large listed companies (PwC, 2011).

One executive director makes a severe self-criticism, "Little effort at preparation together with a very low number of meetings results in little thoroughness in decision-making". There is agreement with this statement in the words of one experienced independent director, "If the information is limited or excessive and the meeting is not well prepared, because we do not spend enough time..., then it is of no use at all... It is much better to receive a suitable amount of information which is relevant for the issues at hand and to prepare it well".

Inevitably, all the aforementioned obstacles reduce the quality of preparation for the meetings, which may in the end reduce the subsequent quality of the debate.

(d) The decision-making process during the crisis: the debate in the Boardroom

The intensity of the debate is not only influenced by the participants, but is also related to the number and complexity of the issues to be addressed. Although

there are differences between companies (probably resulting from the type and nature of their main executives), the debate in the Boardroom is more intense during the crisis.

As commented above, there are small signs of self-criticism: for example, certain acceptance of responsibility at the start of the crisis, encouraging greater rigour in the debate. One director admits, "There is partly a clear causal factor of the crisis in the behaviour of the Board". One independent director indicates, "This is a very unique crisis; truly deep and long; things which were working before don't work now. Before the Board was a more bureaucratic process, but now there is more in-depth debate".

Perhaps this is why there is clearer self-awareness of the importance of the director's role. One executive reflects, "I believe that Boards are much more important now: before [in the expansion] the aim was to make more or less money, but now the aim is survival". And he continues, "A weak Board is a real risk in crisis situations, particularly for large listed companies".

As a result of all of the above, the debate is generally more intense. The nature of meetings changes: they are usually longer and are often more intense even though their frequency does not always change. One executive director maintains the same idea, "With regard to the dynamic of the Board, there is no doubt that meetings are longer and the debates more intense, much more. [...] Everything lies in the review process. Debates are much broader; everything is in question".

Inevitably and as suggested above, there are still situations of little debate, in which a dominant executive (or a coalition on the Board) reduce the intensity of this discussion. As commented above, this may lead to certain "herding" and lead to a lower quality in decision-making. In the words of one independent expert on corporate governance, "There are Boards in which [...] they only concentrate on renewal of the Board, compensation and salaries and less on corporate governance for example, in company X, a strongly chairman-focused large company, this is what happens".

The effectiveness of the Board is obviously more difficult if it is not cohesive (e.g. as a result of tensions between its members) or if its composition, skills or size are not the most appropriate.

A significant issue (not specific to the crisis, but more important during times of crisis) is whether the Directors actually take decisions. They do so, but it does not always (and not everything) take place in the Boardroom: the meeting is the "last mile" in the process. One independent director in various sectors reflects as follows, "Key decisions, for example a significant acquisition, are often pre-prepared. But [...] This is logical. It is impossible to decide about something important without prior thorough analysis".

All of this is often established outside the strict scope of Board meetings. In the words of one executive director, "There is a golden rule. Nothing is decided in the Board meeting. Nothing is ever taken to a meeting about which it is not 100% sure that it is going to be accepted. These are the real problems for CEOs and where they can receive a serious upset".

In short, the concept of decision-making, vital during the crisis, changes with regard to less turbulent times. The results may be wide-ranging or unpredictable due to the time connection –more than the causal connection– between decisions and problems. This means that critical decisions may be taken by means of a less sequenced and logical process for resolving problems and that chance may play a significant role.

In addition, the debate intensifies substantially and emotionally during a crisis. The increase in tension and emotions are inherent to difficult times (Gladstein and Reilly, 1985) and tension seems to be a clear result –and mostly invariable– of decision-making in crises.

We will now explore which structural and process factors are behind this increase in tension.

a. Structural factors and tension on Boards

There are various structural factors (e.g. from the position) behind this tension. The logical difference in interests and asymmetry between directors (e.g. greater power of owners or block-holders) or in access to information (e.g. executives and the rest) are accentuated by the tension inherent to the functioning of small groups in a crisis.

The dominant role of proprietary directors (owners) often acts as a trigger for the analysis process of a specific decision. In addition, as indicated above, the "overall" and the "specific" objectives of different participants may clash and this may create tension (e.g. the position of one shareholder against the interests of the company).

One chairperson offers a clear example of this contradiction, "Some months ago we had a good investment opportunity, but some shareholders did not have the money to act. And not by chance, those who did not have money [...] to invest in the new opportunity saw many more problems with the investment; in reality they were defending their position so as not to dilute their power of control".

Another example of the structural differences is the case of confrontation in ownership (for example, when two or more large shareholders compete for control of the Board) or when an executive director controls the Board, altering the (theoretical) participation of a significant shareholder.

There are clearly asymmetries in access to management information between executives and others. One independent director indicates, "Only executives and, occasionally, some independent directors, have real knowledge of the company. Sometimes in the case of external directors, some of them know less about the company than the external analysts following the company". This aspect, the real distance of many independent directors from the reality of the companies on whose Boards they sit has been indicated (Martin, 2011) as a fundamental barrier to effective governance.

b. The dynamic of the process and tension on Boards

In addition to structural factors, there are process aspects which contribute towards this increase in tension. Everything seems more politically charged during a crisis.

Accordingly, from a process point of view, there are several factors which contribute towards this tension. For example, the individual differences in risk aversion, a more difficult balance between personal and common interests, plus the coalitions on the Board inevitably lead to tension. The individual objectives of the different participants or groups may clash and generate tension, even with good previous personal relations.

The dynamic and interaction are also dependent on the personalities ("egos") of the directors and on their participation. In the words of one independent director with extensive previous executive experience, "We are not talking now about simple management, but about psychology and groups: egos are a key aspect".

The effective participation of directors in Board discussions was not always the rule prior to the crisis. One experienced independent director states, "I am on the Board with someone [proprietary director] who has well-formed criteria about most issues and who speaks openly about these issues everywhere. Except in Board meetings. I have never heard him say one single word there except hello and goodbye". Another independent director states, "I always speak. But this is not always the case. There are people who never speak. I'm thinking of one clear example, although it is a little silly. For example, we find an acronym, which we do not know the meaning of in the documents, and nobody asks. I always ask".

Nevertheless, the level of participation increases during a crisis, even of those who did not participate previously: there is more at stake, sometimes even the very survival of the business, and very often the position and reputation of everyone.

More debate and greater participation may also be precursors of greater tension. Even the simple presence in the Boardroom influences this participation and the type of discussion which takes place. One independent director tells us, "I am fairly sure that some decisions could have had a different result, and obviously the process might have been different, depending on attendance".

There are many other factors in the life of the Board in a crisis, some subtle, but which are still important due to this rising tension. An important one is the mood. Executives may be subject to greater stress or proprietary directors may see their fortunes at greater risk. In the words of one executive chairman, "Humour is collapsing. It is necessary to encourage people and tell them that the world is not over. It is not a case of justifying and regretting; it is a case of overcoming this situation, not complaining about it".

Attention to non-verbal language is always relevant, but it is even more crucial during a crisis. To the extent that looks or movements may sometimes condition discussions. One independent director provides a vivid example, "Sometimes the most important participant in a meeting is not easy to identify. There are times in which you do not actually understand what is happening, you have to read the looks, see who the chairman is looking at, or what member X is doing or saying, because he/she may only be an independent director, but one with significant influence on the dominant shareholder or on the chairperson".

(e) The result of the process and the quality of the decision

The true paradox is that this one-off connection between streams of participants, problems, choices and solutions may lead to decisions which are not necessarily the most rigorous, but which is the consequence of these streams coinciding. It is a classic feature of the 'garbage can' (Cohen, March and Olsen, 1972). One independent director provides practical support to this statement, "When deciding about a strategic acquisition to expand into other places, one might think that this follows a thorough analysis. But this is not necessarily the case. The decision may well be influenced by who dropped the first name of a potential target. This is often more important than the thorough and rational analysis of the potential targets".

Four main results have been identified for crisis decision-making in view of the aforementioned process: (a) delay, (b) abandonment, (c) inappropriate resolution, and (d) successful resolution (hereinafter, resolution).

The most likely result is a delay in decision-making in accordance with the previous logic. The flow described above makes the process longer, which may even lead to frustration or failure.

In fact, abandonment of the decision is another possible result (whether intentional or not). The delay may also be a symbolic strategy of the Board so as to abandon decision-making. In the words of one former executive chairman, still an independent director, "In many places, things are never rejected. They are accepted or proposed". One executive agrees with this vision, "Boards are often masters at saying no without doing so".

Survival (or extremely critical) decisions are more frequent in crises. The organisation has to move quickly and, therefore, it is easy to make the wrong decision. One independent director with extensive executive experience mentions, "Decisions on survival are speeded up, although it is not always easy to discern which are survival decisions and which are growth decisions".

The size of the company is also relevant because when it is small it can (and must) run faster to survive. An executive in small caps mentions, "Crises are much worse for SMEs. Large companies have the inertia which smaller companies do not have. This means that you could make a loss more easily and be faced with the need to restructure".

On the other hand, larger companies may become trapped by inertia (Ocasio, 1995), which may be counter-productive if the search for solutions to similar problems by other companies (e.g. smaller but more innovative companies) leads to superior solutions.

Therefore, an inappropriate resolution is the third possible result. There are other decisions to take –or more complex ones– in the same or less time and therefore there is less reflection and more workload and consequently more risk of error. If there is no postponement (executives often pressure the Board not to postpone decisions) then errors will be more likely. If the Board does not devote more time (e.g. a greater investment of time at each meeting or more meetings), the speed of decision-making will suffer.

Finally, the decision by resolution becomes less likely due to the delay in the process, because the decision's success also depends on the time (the quality of the decision is obviously affected by its timeliness). Research (Bourgeois and Eisenhardt, 1988; Baum and Wally, 2003) suggests that taking strategic decisions quickly predicts some performance measures (e.g. subsequent growth and profit).

In addition, it has been known for some time (Trull, 1966) that the success of decisions does not only depend on their accuracy, but also on the effective use of other variables, for example, skilful management of their implementation. In other words, the decision's success equals its accuracy plus the success of its execution.

There are sometimes real decisions by resolution although the decision is not "good" (the decision is adequate and timely, but for the wrong reasons), a classic random result of the 'garbage can' theory (Cohen, March y Olsen, 1972).

One executive director relates an excellent example of this logic, "One person from another Board told me that at their company there was a situation in which they needed funding for a new project. Finally, the Board voted in favour of the option of issuing debt instead of bank financing. The underlying intention, not well hidden by some directors, was to have somebody say "no"[5]. So the hidden interest was basically to kill the project so as not to take on more risk. He told me, in turn, that the final decision was a success but for the wrong reasons: the debt was well received by the market, while the cost of bank funding rose and became more difficult due to the subsequent lack of credit".

(f) Summary of implications of the process: The result of the decision-making process and implementation of the decision

Decisions and the manner in which they are taken may end up hindering their effectiveness "downstream" (for example as a result of the impact on motivation or capacity of subsequent implementation). All of this should be considered in the accounting of the real quality and cost of decision-making. There are two potential consequences of the process.

The first is emotional erosion for the team (more pressure, increase in workload in preparation, more arguing, more difficult decisions, etc.). One executive director gives us a vision of this phenomenon, "The frequency of meetings, at least here, has not changed too much. But the duration [of these meetings] is very long. Meetings are longer, with more debate, and problems are a damn sight more difficult".

Postponing decisions may cause frustration among the management, because any threat to the personal feeling of control leads to psychological reactance (Erez and Kanfer, 1983). In addition, the 'no' is stated more frequently (more executive proposals are rejected by the Board) and, when they are accepted, the unanimity of the Board may be lower, which may erode the executives' motivation.

5 Issuing of debt requires a rating and logically more external examination.

The second possible implication is the effect of this dynamic on the implementation capacity of the organisation. Less unanimity in Board decisions (e.g. only simple majorities or opposition from part of the board) could lead to a certain tension and influence the motivation of executives reporting to the Board. This introduces possible implementation risks (such as less unity of action or weaker morale). One chairperson agrees with this prediction, "Arguments and the lack of unanimity work in this way. And executives see that there is no unity. This demotivates; in addition to the fact that it is generally more difficult to implement things when they are not widely accepted". This creates a downward spiral (e.g. reducing the energy of the executives), especially in those closest to the CEO –or to other executive directors– which could hinder implementation of the decisions taken.

5 Short-termism and strategic myopia: The time perspective of the decision

It is not easy to worry about the long-term when survival is at stake. Our interviewees estimate that concentrating on the short term (e.g. by cost reduction) to prepare subsequent strategic movements is a classic sequence in the corporate management of previous crises. This one is no exception.

(a) Types of short-termism

During a crisis, organisations choose four major reactions aimed at the short term: (a) Reduction of general and operating costs, (b) minimisation of investments in working capital and preservation of cash, (c) selective divestiture, and (d) divestiture of critical assets.

a. Reduction of general and operating costs

Although this dynamic occurs in other items (e.g. supplies, general expenses, etc.), the reduction in staff is a good example of the process of containing or reducing operating costs and has often been used in the management of this crisis. One executive director corroborates this; "We have made a conscious effort, as far as possible, not to dismiss people by freezing hiring and natural attrition management".

The social cost of the unemployment rate and the importance of talent for the business often seem to be secondary concerns to pure cost management, perhaps due to the high redundancy costs in Spain which –at least until recently– had one of the most rigid employment regulations in the developed world (Pissarides, 2011). Therefore, reducing the workforce is often a resource authorised by the Board when there seems to be no other clear remedy for survival. One executive director comments, "We started to suffer at the end of 2010 and I had to reduce the workforce subsequently. This is not what I wanted due to the importance (of some people) and the cost; some key people had to leave".

b. Minimisation of investments in working capital and protection of cash (optimisation of operating funding requirements)

The second tactic aimed at the short term is to optimise the operating funding requirements, by minimising investments in working capital and cash outflows ("protecting cash"). In the words of one independent director, "Many of the decisions these days are related to survival. Therefore, we think that we will take care of the most important things later, but now we have to save ourselves". And he continues, "The short-term focus is to protect cash, which is very important in a situation of limited funding, as in the current situation".

One independent director also mentions working capital management as a fundamental variable in the crisis despite its potential negative consequences, for example for subsequent commercial relations, "Reducing costs becomes key, often through the use of multiple auctions or public tenders. And later to batter [suppliers] with the payment conditions".

Another potentially negative consequence of this type of reaction is its influence on strategic decisions (M&A operations). One executive director mentions a similar example, "We had X million in cash, but we were not initially allowed to invest in several acquisition opportunities".

One executive director of a multinational suggests a similar idea, "We have to protect cash. This is the mantra. Consuming cash is penalised by the market. This is the dominant idea for many Boards and it led us to rule out some good opportunities".

c. Selective divestiture

Accessing funds was less difficult in the recent past. There was abundant cheap money. The subsequent situation has been very different with a tightening of credit (Bank of Spain, 2011), which still exists. One independent director expresses it as follows: "What decisions do we take now more quickly? Those relating to survival and divestiture". That is why getting rid of assets considered as auxiliary or non-core is frequently carried out to improve the financial position during the crisis.

The chief executive of one global company confesses, "During this crisis we have carried out selective divestiture [in certain activities and countries] to achieve a better use of resources". This is also the case of another of our interviewees, an independent director who mentions, "The aim is to reduce non-essential assets and the situation is related to the reduction of leverage. For example, we had certain business activity with very specific assets [in country X], where we knew that we could sell, we had an idea of the price to be obtained and we thought that [this asset] was not critical for the business and that geographical area".

d. Divestiture of critical assets

Pressure for the short term, whether for reasons of strict survival or for compliance with external expectations (e.g. stock market or shareholder perspectives) is materialised in decisions which might compromise the capacity for achieving

long-term results. This short-termism (Laverty, 1996; Marginson and McAulay, 2008) becomes more common during crises and leads to some companies getting rid of assets which are irreplaceable for their future generation of results. One executive director indicates, "We say that we are selling non-critical assets, but sometimes during the crisis we get rid of key assets thinking that we will replace them later".

Unfortunately, that is not always possible and the conditions in which these key assets are sold are not always the best (e.g. bear markets which are unlikely to compensate the acquisition value or future replacement value of those assets).

(b) Reasons for short-termism during the crisis

Undoubtedly, most of the short-term pressures in the pre-crisis situation (Dobbin and Jung, 2010) are still here, both external factors (e.g. the stock market, rating agencies, etc.) and internal reasons (e.g. short-term executive remuneration plans or risk preferences of the shareholder), which are all forces that do not generally encourage the long-term view in their decision process.

Another possible reason for short-termism is the objective deterioration of strategic options, especially if there is no specific long-term planning process. This is intensified because, in general, the immediate environment does not provide as many opportunities as before. One chief executive expresses it as follows, "When things are going well, every day you have bankers and consultants queuing at your door to propose [new] businesses [...], which doesn't happen now. However, it is essential to have a serious process for developing strategies and the chief executive needs to demonstrate that she is a real strategist. It is not easy to start from zero on a piece of blank paper with less, or very little, external inspiration".

In addition to the above, there are also individual and additional causes of short-termism (Laverty, 1996; Marginson and McAulay, 2008). Accordingly, in crisis situations two particularly strong reasons emerge. Firstly, limited rationality (Simon, 1945) may be behind this short-term focused behaviour. Humans have cognitive limits which, when faced with the increase in uncertainty typical of crises, become an unwanted driver of Board conduct.

Secondly, although closely linked to the point above, the amount of time and energy spent by the Board is, by definition, limited. This is an essential issue in crises, because there are more problems and they are, in turn, more complicated.

(c) Implications of short-termism

The sad paradox is that concentrating on the short term does not necessarily mean being stronger following the crisis. In fact, many people state that the opposite is more likely. One executive director expresses it in a counter-intuitive but clear manner, "You should behave in crisis mode during the expansion, which is when the problems originate, and in expansion mode during the crisis, so as to take advantage of the opportunities which every crisis offers". And he concludes by saying,

"Boards reduce their level of ambition in crisis situations; this is what I have seen most. Boards pursue more modest objectives, anchored in the most immediate issues, instead of observing longer-term perspectives and more strategic, and therefore riskier, projects".

A crucial opportunity cost of this behaviour is the postponement of key decisions (such as growth decisions), although it might be argued that in certain circumstances (e.g. when generated cash flows are greater than the volume of profitable investment opportunities), the reduction of corporate activity (such as M&As) may be beneficial for avoiding empire-building[6] by executives (Jensen, 1986).

However, this postponement of more strategic issues may also lead to a loss of competitive position. In the words of one executive director at various multinationals, "The issue is that they may be postponing strategic decisions and this pushes the company to a dead end".

Another executive director recognises this risk as follows, "I believe that the companies that will survive and come out of this crisis better prepared are those which take advantage of opportunities and take on more risks, looking at the longer term. The qualitative aspects are very important; you have to look beyond mere numbers".

6 Some routes for future exploration

In this section we present some practical recommendations resulting from the above evidence. They are grouped around six major areas which are relevant for the governance of organisations during crises.

(a) Quick identification of the crisis and timely reaction

We commented above that, beyond their objective dimension, crises are a socially "constructed" phenomenon, i.e. the intensity depends on the perception of the observer and the decisions adopted depending on that perception. It is therefore more difficult to decide during the crisis since circumstances may have multiple interpretations for the different members of the Board and, in extreme cases, they may even perceive the environment in contradictory ways. This equivocality of the context makes it difficult for Boards to react in a unified manner.

The existence of specific procedures in reaction to the crisis –robust and internally well-known programmes for early crisis detection and the quick launch of action plans– is part of the wider concept of strategy and risk analysis tools, and could have helped towards a faster reaction to the crisis (Weick, 1993; Mitroff, Shrivastava and Udwadia, 1987; Frigo, 2009).

6 We refer here to empire-building as executive conduct which is separate from pure corporate interests and focused on their own growth or "showing off" (relating to power, prestige or social relevance).

One aspect to be highlighted is that not all the organisations represented in our sample had developed specific protocols for risk analysis and crisis management (and they are unlikely to have done so later as the pure reaction to the crisis has consumed –and still does– a large part of the available time and energy of the Board). In the worst case, this could mean repeating some bad experiences in the future.

(b) Balance of the composition of the Board teams with the challenges of the crisis

In theory, the larger the Board, the more effective it will be (Judge and Zeithaml, 1992) because, in theory, the capacities are dependent on the number of members. In practice, teams are more effective when they have sufficient –but not too many– resources to discharge their duties.

The vision of "upper echelons" (Hambrick and Mason, 1984; Hambrick, 2001, 2007) assumes that the organisation is the "reflection" of its leaders: the quality of the decision is dependent on the quality of the team which takes the decision. Therefore, the size and, above all, capacity of the team has a major effect on the quality of the decision (even admitting relevant process factors, such as those relating to the internal operating procedures of the Board and group dynamics).

Greater flexibility in the management and the Board and greater resilience throughout the organisation seem to be effective attributes for dealing with the changing circumstances resulting from the crisis. Accordingly, a fundamental governance task for organisations in crisis is to align the composition and size of the teams to the challenges of the environment. With regard to the Board, this means reassessing the process for appointment and removal of directors so as to maintain at all times the most appropriate balance between available capacities and challenges. A fundamental aspect, thus, for assessing the performance of the chief executive or chairperson in the crisis is precisely their capacity to assemble and maintain the most appropriate team of directors.

Although the evolution of the composition of Boards during the crisis has not been explored longitudinally in this article, the evidence collected here seems to just suggest that it has not been adapted swiftly. During the research, a surprised (and surprising) question of some interviewees was, "But, why does the Board have to change only because the environment changes and we are in crisis?"

That is why an interesting focus for research when the crisis is firmly behind us would be a longitudinal and comparative analysis of the results of companies over the crisis and the composition of their Boards (e.g. their turnover).

(c) Maintenance (development) of the strategic process during the crisis

Short-termism may have been a cause (and also a consequence) of the crisis. The crisis is strongly linked to uncertainty and, inevitably, it converts the strategic management process into something more ambiguous and difficult to sustain.

We should remember the words of interviewees suggesting that the victors in the crisis will be those who act in a counter-cyclical manner: more prudent in the expansion and more daring –thinking in the longer term– during the crisis. Therefore, and despite the difficulty, maintaining (and even strengthening) strategic decision dynamics during crisis seems to be a fundamental area for Board attention.

Given the pressure from the environment for short-term results (e.g. as a result of market expectations in the case of listed companies or the direct requirements of the owners in non-listed companies), maintaining formal counterweights which "push" the Board towards long-term thinking seems to be essential always, but particularly during the crisis.

The introduction of specific planning dynamics and tools –such as strategic audits– (Donaldson, 1995) may help to contribute towards this. By adding, or strengthening, Board evaluation mechanisms (on an individual and group level), the items relating to a long-term focus may make them "raise their eyes" from the short term. As one of the interviewed directors confessed, "Why do we need the Board if it does not look beyond the management team during the crisis?"

In addition, greater concentration of the workload during the crisis (more tactical priorities together with time spent on the strategic decisions inherent to the nature of the Board) will most likely require more time from directors.

In addition to the above measures, another additional via for sustaining the strategic process is to selectively maintain external support (consultants, experts) or the creation of specific internal committees which challenge, promote or act as a catalyst for strategic thinking during the crisis (without reaching "paralysis through analysis"). This is more relevant because the crisis often reduces the external stimuli to think in the longer term (e.g. less apparent opportunities for new businesses and greater pressure to protect existing business).

(d) Adaptation of the role of the CEO/Chairperson during the crisis

Maintaining a balance between centralisation and delegation is fundamental for reacting during a crisis. The crisis imposes greater demands on the CEO/chairperson and their Board, and maintaining the appropriate control-delegation balance is not less important. Perhaps that is why the role of the CEO/chairperson is even more important in a crisis, and the demands of the role even greater.

Achieving that balance is not easy because it must involve adequate oversight of executives (not their micro-management, which would harm their effectiveness) together with quick and flexible responses. For example, a good measure of the leader's effectiveness in a crisis will be their ability to combine centralisation and control in a swift and effective operating model.

Ideally, crisis management requires the chairperson/CEO to develop –or to have him/herself or in the team of directors– capacities in four different dimensions: (a) strategic thinking, (b) capacity for mobilisation, (c) capacity for execution, and (d) self-awareness of capacities and weaknesses (Useem, Cook and Sutton, 2005). Strength-

ening their profile in all these areas will help them in the decision process (e.g. through their own individual development or by altering in the most appropriate manner the composition and internal processes of the Board so as to mobilise the appropriate resources). In this regard, the Board's evaluation tools may help the chief executive to identify his/her strengths and weaknesses (and those of his/her team) and to launch the most appropriate actions for developing them.

The introduction of composition measures, mentioned above, and process measures which offset the power of the chief executive or owners (and which maintain the influence of the perspective of independent directors) seems fundamental for effective decision-making during the crisis. We will address this below.

(e) Strengthening of internal routines and procedures in the functioning of the Board

During the crisis, the quality of decision-making may benefit from a balance between the profiles of the directors (depending on their competencies and capacities) and between their distinct interests (e.g. those of the owners, executives and the rest of the organisation). In addition to maintaining a balanced composition of the Board, maintaining a stable and planned dynamic of activities during the year is important during the crisis and also seems to be relevant after the crisis (*McKinsey Quarterly,* 2014).

Although it seems that the frequency of meetings has remained relatively stable during the crisis, Board routines may have been affected: the crisis has often altered some regular priorities, forcing the Board to work on more tactical aspects and postponing more "strategic" activities (e.g. it is more likely that unexpected or simply tactical events 'escalate' to the Board).

The use of the formal mechanisms available to the Board (such as calling Board meetings) may help to maintain this balance in the activity, both in the form of a predefined content (e.g. structured or planned agendas which include fiduciary priorities and tactical priorities together with more strategic priorities: competitive position, business portfolio, talent, risks, etc.) and by strengthening schedules, procedures and stable practices which allow available time for all of the above items, including those relating to the Board's self-evaluation.

In addition, the internal process is fundamental. Some changes in its functioning (e.g. strengthening the role of the lead director) may be one option for maintaining adequate dynamics on the Board during the crisis. The key agents in planning these dynamics (in addition to the chairperson or CEO) are usually the secretary of the Board or the lead director who, as far as possible, must (particularly, the lead director) constitute a real counterweight to the executive directors (especially the CEO/chairperson) and the owners. In other words, strengthening an independent figure that "shakes up" the Board, promotes better use of the available capacities in the team and encourages focusing on specific tasks (such as strategic issues) may help the effectiveness of the CEO/chairperson and of the Board during the crisis.

In principle, in addition to suppressing parochial visions (and "factional" visions), of which we have already spoken, and which are more frequent during the crisis, the key aspect for protecting these internal dynamics is independence (which is more affected by the pressure of the crisis). At the same time, it is important to remember that a 'distant' independent (i.e. one not closely linked to the business) may also mean greater 'distance' from reality, which it has been suggested may be behind the intensity of the crisis: for example, when the issues being studied are very technical and far from the set of knowledge of the directors (Davies, 2010).

Therefore, the tactical focus (i.e. monitoring operations) of the Board over time should not be lost, while the strategic vision is maintained. This implies improvements in both areas, such as in the quality of the information provided to directors: more prospective, analytical and forward-looking information, not only historic information as is still common on many Boards.

(f) Other measures for developing Board effectiveness during the crisis

There is another set of institutional aspects (e.g. the specific codes and regulations of corporate governance in practices such as diversity, remuneration, etc.) which may play a key role in mitigating the negative effects of future crises on decision-making.

It is also likely that the future will see phenomena of isomorphism (standardisation of ways of action between countries and companies in corporate governance practices) and that these will be increasingly similar. For example, a major separation of the roles between chairperson and CEO, a growing weight of independent directors and the existence of more systematic and formal models for evaluating Boards and directors.

Furthermore, other institutional agents, such as the community of executives and directors (who are often highly interconnected) and other agents such as business academies and schools will likely play a significant role in analysing the impact of this crisis on the effectiveness of decision-making processes (Lavín and Mazza, 2014) and in the development of new management and corporate governance practices which will help reduce the effect of future crises on the quality of decision-making.

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Mandatory transparency regimes in the secondary market for speculative debt

María del Rosario Martín Martín

María del Rosario Martín Martín is a member of the CNMV's Research, Statistics and Publications Department

1 Introduction

Following the banking crisis, with reduced availability of credit, companies are increasingly turning to the debt market. The growth of this market indicates a structural change in business financing, even in economic areas which are traditionally dependent on banking, such as Europe.

This move by companies towards markets is encouraged by the positive response of investors to new issues. After several years in which safety has been the priority in their investment strategies, investors are starting to seek out assets that will provide them with higher yields. The expectations that the current low interest rates will be maintained for a long time have accentuated the prevalence of the yield-seeking strategies which can be seen in the different markets.

This matching of interests between issuers and investors has benefited debt markets, which have undergone significant growth over recent years. The expansion does not only affect issues which receive an investment-grade credit rating (ratings between AAA y BBB-), but also those rated as speculative or high-yield debt (rating below BBB- and unrated issues).

Although both segments are undergoing significant increases, the growth is more significant in speculative debt despite the risk inherent to this type of security. According to data published by the Association for Financial Markets in Europe (AFME), which represents a significant part of the financial industry specialised in fixed-income markets, issuance of high-yield bonds in Europe rose from 44.6 billion euros in 2010 to 105.7 billion euros in 2013, which represents growth of 137% in only three years.

High-yield bonds, which up until recently were only bought by investors specialised in exposures to high-risk securities, such as hedge funds, are starting to find a place in the portfolios of much more conservative investors, such as pension funds and insurance companies. The benefits which portfolio managers put forward to defend taking positions in speculative debt include obtaining yields, portfolio diversification and the hedging provided by this type of asset against possible interest rate rises or inflation. Despite these positive aspects, some experts warn that investors might be underestimating the risks of these securities.

One of these risks is their limited liquidity in secondary markets. High-yield bonds are mainly traded through bilateral contracts on over-the-counter (OTC) markets. In general, OTC markets provide little information on the executed transactions, unlike other more transparent markets, such as equity markets, which provide pre-trade information (best bid and ask prices) and post-trade information (prices and volumes executed), which contributes towards price discovery in futures contracts and helps investors to value their portfolios.

Secondary markets which are opaque and with little liquidity are shown to be very sensitive to changes and, therefore, investors are exposed to higher levels of volatility in uncertain or adverse scenarios. For example, the announcement by the US Federal Reserve of the withdrawal of the economic stimulus programmes in the middle of last year led to a sharp fall in bond prices in secondary markets, forcing many investors to record a provision for the securities which they held in their portfolios and to reassess their strategy within that market.

The introduction of mandatory transparency rules is one of the mechanisms which regulators are using to provide greater transparency to activities in these markets and, consequently, to increase their activity, improve price discovery and allow accurate valuation of financial products. In the United States, there has been a legislative framework since 2002; while in the European Union, following a long drafting process, this has now been included in the reform of the Markets in Financial Instruments Directive (MiFID), which was approved last May.

However, not all economic agents agree that more information will necessarily lead to positive effects on the functioning of certain markets, and some agents indicate that, at any event, the pre-trade and post-trade transparency frameworks should vary depending on the type of security.

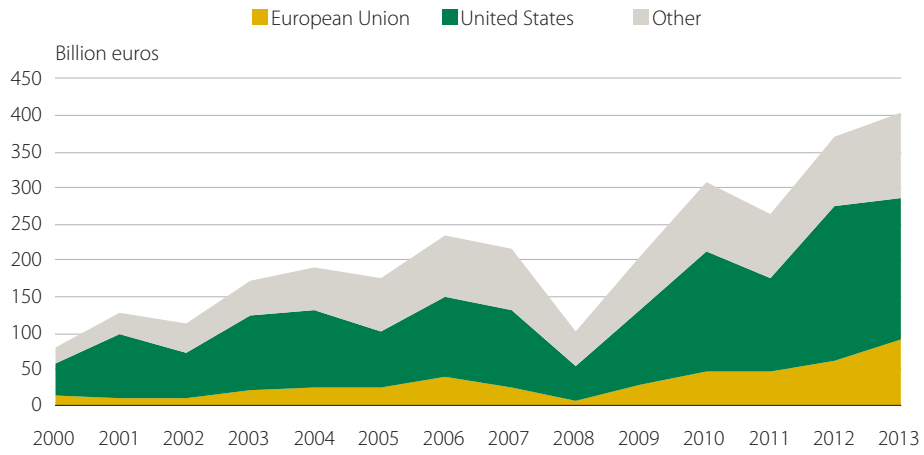
This paper addresses the possible effects of mandatory transparency on the trading of high-yield bonds. Section 2 shows the development of the speculative debt market over recent years. Section 3 reviews the main characteristics of the secondary markets for these bonds, comparing them with those of other markets, particularly equity markets, and it highlights some patterns of behaviour with regard to yield, volatility and correlation with other financial assets. Section 4 discusses the debate on the effects of introducing a mandatory transparency framework, with a review of the results of empirical studies which have been carried out, the changes included in the revision of the MiFID, the pleadings of the industry during the reform discussion process and the actual experience, the only one available so far, of the US market. The final section presents the conclusions.

2 The dynamism of the primary market

As already commented, issues of high-yield bonds have not stopped growing over the last few years despite their inherent risk. The issued amount doubled between 2009 in 2013 from 201.85 billion euros to 402.78 billion euros. In the first half of 2014, issues amounted to 226.59 billion euros, a similar figure to that recorded in the same period of the previous year.

The US market was the most important, generating 48.8% of the total in 2013 (see Figure 1). Even so, the high-yield segment remains relatively small: last year it accounted for 13% of total fixed-income issuance.

Issuance of high-yield bonds 2000-2013 FIGURE 1



Source: Dealogic.

The expansion of debt markets in general, and of the high-yield segment in particular, is closely related to the restructuring of company debt, which is in turn associated with the restriction on bank credit[1].

The debt restructuring process has been favoured by the fact that the bonds have been well received by investors, who, following the periods of volatility and uncertainty which led them to take shelter in safe assets, are now looking for a higher yield in their investments even if this means taking higher risk positions. Last June, the interest rates of issues of five-year German and Spanish debt stood at around 0.3% and 1.6% respectively, while the weighted average rate set for new European high-yield bonds in the first quarter of 2014 stood at 4.5%. Consequently, against the current backdrop of low interest rates, high-risk bonds are positioned as a very interesting alternative for investors.

The pressure from demand is allowing issuers to reduce the interest rate paid, as shown by the fact that the average interest rate of issues in Europe has fallen by one percentage point over the last year[2]. Another of the factors which is favouring the fall in interest rates is the low level of default recorded by speculative debt since 2009. Specifically, in 2013, European bonds recorded a default rate of 3.3% and US bonds a default rate of 2.12%.

There has also been a fall in guarantees and the scope of covenants restricting the debtor's actions. For example, some issues in the United States have withdrawn the covenants that allow banks to intervene if the issuer's financial position deteriorates, allow buyback of shares or incorporate covenants for payment of coupons or principal in cash or in securities, at the discretion of the issuer[3]. The result is an increase in issues rated

1 Specifically, S&P indicates that 31% of the high-yield bond issues carried out in 2014 were used for refinancing bonds, 10% for refinancing loans and 12% for other types of refinancing. See S&P Capital IQ/LCD, available at http://www.highyieldbond.com/primer/#!the-leveraged-loan-investor-market

2 Fitch Ratings (2014), *European High-Yield Chart Book,* February 2014.

3 In Spain, there has also been a reduction in the scope of covenants in some cases. For example, a bond issue carried out by ACS in October last year included an option in favour of the investors for early ex-

below BB. In the European market, these issues rose from accounting for 29% of the total of high-yield bonds in 2012 to 37% in 2013, while in the United States they rose from 42.7% in April 2013 to 56.5% in April 2014.

Some experts[4] suggest that investors, under pressure to increase the yields of their portfolios, may be underestimating the risk inherent to these securities. If this is the case, should their expectations not be met, they would expose investors to significant losses in the future, which could occur both if they maintain the securities on the balance sheet (potential losses from defaults of coupon or principal) and if they sell them on the secondary market (potential increase of the risk premium required by the buyers).

The risk of losses could be amplified by the low level of trading transparency in OTC markets, where the bulk of secondary market trading of speculative debt is concentrated, as well as by the generally low level of liquidity of the securities. It should be remembered that these two factors, together with deficient exercising of due diligence practices by investors, played a significant role in the collapse of wholesale markets following the breakout of the financial crisis in 2007. Some of the affected markets, especially the securitisation bond market, have not yet recovered. Although the speculative debt market is very far from the size reached by securitisation in its best moments[5], some experts are calling for attention to be paid to this segment, indicating the existence of a certain level of overheating[6].

3 The secondary market

Before considering the possible effects of a mandatory transparency regime in secondary markets for high-yield bonds, it is important to highlight the marked differences between these bonds and the trading of other securities, such as equity, which has long been subject to such a regime. This section highlights, firstly, the most important differences and then, secondly, describes some patterns followed by the behaviour of high-yield bonds in the secondary market, with regard to yield, volatility and correlation with other assets.

The particular features of the market

Equity trading is concentrated on stock markets or specific organised markets. In fact, in 2013, one single market, the New York Stock Exchange, accounted for 28%

change of the bonds for Iberdrola shares. However, the issuer has reserved the right to give shares, cash or a combination of both in the event that said option is exercised.

4 In its *Quarterly Review* of December 2012, the Bank for International Settlements, referring to some corporate debt segments, indicated that some assets seem to be overvalued in relation to their risk. For its part, the International Monetary Fund, in the *Global Stability Report* of April this year, indicates that the proportion of high-yield bonds with lower quality standards had increased and that this could contribute towards higher default rates and lower levels of recovery if the economic cycle changes.

5 The issue of securitisation bonds, without considering issues of US governmental mortgage agencies, accounted for 55% of long-term fixed-income issues in 2005. Source: Dealogic.

6 See Fitch Ratings (2012), "The Bond Bubble: Risks and Mitigants", available at http://www.sifma.org/uploadedfiles/for_members/thought_leader_library/2012/fitch-bond-bubble.pdf?n=34035

of world stock-market capitalisation, while the 10 main exchanges in the world accounted for 74%. Fixed income, on the other hand, is not traded in such concentrated scenarios as a large part of the trades continue to be made through bilateral contracts on OTC markets. Specifically, it is estimated that 90% of the volume traded on the US bond market is carried out through direct contacts between professional investors acting on their own account or between financial intermediaries acting on behalf of their clients.

Fixed income bilateral trading may be carried out through a wide variety of methods, from the telephone to electronic trading platforms and including individual portals belonging to trading houses in which bid/ask prices are requested. According to a survey conducted in 2012 by the AFME among institutional investors, 35% of transactions carried out on the secondary market with fixed-income securities were conducted through electronic means, while the rest were conducted through telephone contacts.

For its part, equity is mainly traded through electronic systems under the order book model. Market participants anonymously enter their buy or sell orders in said book, normally with certain limits, and the computer system matches them according to a certain protocol.

Order-book based electronic trading is also used in some fixed-income trading systems particularly aimed at retail investors, such as the Electronic Debt Trading System (Spanish acronym: SEND) operated by Bolsas y Mercados Españoles (BME). In this case, the securities traded often have liquidity providers i.e. intermediaries which are required to provide minimum counterparty volumes over a session. However, the specific weight of the retail segment in secondary bond markets is very low, given that these markets are mainly focused on exchanges between institutional agents.

The preponderance of wholesale trading contributes towards secondary fixed-income markets having a lot fewer, but larger, trades than equity markets[7]. While the average size of share trades on stock markets was around 6,520 euros in 2013[8], the bulk of trading on European fixed-income markets consisted of transactions with an average size ranging between 1 and 2 million euros, with many being recorded for over five million euros[9].

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7 The size of transactions on fixed-income markets is also influenced by the larger size of the issues and the lower number of initial subscribers. The difficulty in exchanging securities requires investors to buy or sell their full positions of a certain security. In addition, it is important to bear in mind the influence which high-frequency trading is currently having on the equity market. This trading is characterised by launching a high number of orders of a small amount in a brief period of time, which leads to a considerable fall in the average size of the transactions.

8 According to data published by the World Federation of Exchanges, available at http://www.world-exchanges.org/files/2013_WFE_Market_Highlights.pdf

9 Data included in the report of the International Capital Market Association (ICMA) "Economic importance of the Corporate Bond Markets", published in 2013 and available at http://www.google.es/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&cad=rja&ved=0CDMQFjAA&url=http%3A%2F%2Fwww.icmagroup.org%2Fassets%2Fdocuments%2FMedia%2FBrochures%2F2013%2FCorporate-Bond-Markets-March-2013.pdf&ei=FPBkUresO8ap7QbqyoDYDg&usg=AFQjCNHau3vTKRbj0VQQWQFMwagIYPVOkw

The difference with the equity market is accentuated when considering the high-yield bond segment, as shown, for example, by the data provided by investors through the TRACE (Trade Reporting and Compliance Engine) mandatory reporting system in force in the United States, which is discussed below. Although it is true that this segment contains a significant number of relatively small transactions, which follow the usual practice among market makers of cutting up their security inventories to meet the requests made by their clients[10], the most important trading segment is that of transactions with an amount between 1 and 25 million dollars. Trading frequency is another differential feature compared with equity: it is much lower in secondary fixed-income markets. For example, a report drawn up by the TABB Group in 2012 for the AFME[11] includes a comparison between fixed-income and equity trading for five of the most active European companies in financial markets[12]. The results obtained showed that between the last quarter of 2011 and the first quarter of 2012, the number of transactions performed with the shares of these companies was 167 times greater than those performed with debt securities. In one specific case relating to a large issuer, Deutsche Telekom, for each transaction with one of its bonds, there were 3,500 transactions with shares.

How does the frequency of high-yield bond trading compare with that of other fixed-income securities? In principle, we could think that high-yield bonds should be traded less frequently than other assets considered as less risky and whose issues are generally larger, such as securitisation bonds or covered bonds. However, this is not necessarily the case. As shown in Table 1, in the period July 2010-June 2011, the percentage of high-yield bonds traded less than 20 times a month was clearly lower than that of said securities and even that corresponding to corporate debt as a whole.

Distribution of the number of fixed-income securities with a certain number of transactions between July 2010 and June 2011 TABLE 1

Monthly average (%)

	<20 transactions	20-50 transactions	50-100 transactions	100-200 transactions	200-400 transactions	>400 transactions
Government bonds	7.6%	1.3%	7.8%	22.9%	29.9%	30.3%
Corporate bonds	63.8%	21.1%	10.1%	4.4%	0.6%	0%
Covered bonds	82.2%	14.3%	2.9%	0.5%	0%	0.1%
High-yield bonds	53.8%	32.3%	10.4%	2.5%	0.9%	0%
Securitisation	99.7%	0.3%	0%	0%	0%	0%

Source: AFME[13].

10 TRACE recorded a daily average of 8,550 transactions for under 100,000 dollars in 2013.

11 TABB Group (2012), "MiFID II and Fixed-Income Price Transparency: Panacea or Problem?", available at http://www.afme.eu/workarea/downloadasset.aspx?id=6165

12 The companies included in the sample were: France Telecom SA, Belgacom SA, Deutsche Telekom AG, Koninklijke KPN NV and Vivendi SA.

13 AFME (2012): "An analysis of fixed-income trading activity in the context of MiFID II", available at http://www.afme.eu/workarea/downloadasset.aspx?id=6821

Among the possible reasons for this difference, the AFME indicates that high-yield bonds have a greater proportion of investors who manage their portfolios actively, while other securities tend to have investors with a long-term perspective who were more likely to maintain the investment until maturity. In addition, assets with low ratings usually circulate more than those with a better rating as they are more sensitive both to changes in macroeconomic or market conditions and to changes relating to the issuer.

Despite the higher turnover of high-yield bonds, many asset managers are currently opting to maintain the securities in their portfolios to maturity because they are not sure that they can replace them with other newly-issued bonds which come with the same level of risk or lower which will offer them the same yield. This is due to the progressive fall in the interest rates offered by issuers of these bonds as a result of the growing demand.

Within speculative debt, the bonds with the best ratings are usually traded more frequently[14], normally at a price around par, except for small fluctuations due to interest-rate movements.

It is difficult to estimate the overall volume of transactions carried out with high-yield bonds annually in secondary markets and, therefore, to study in sufficient depth their evolution and the factors behind this because, as mentioned earlier, there are no organised reference markets and trading is largely performed on OTC markets.

One of the few sources of available data is the FINRA (Financial Industry Regulatory Authority), an association of the US brokerage industry which acts as a self-regulation organisation recognised by the SEC (Securities and Exchange Commission) in the area of brokers and markets. Among other functions, this organisation must oversee compliance with the transparency obligations provided for in the aforementioned TRACE operating system. According to data published by the FINRA, the average daily trading volume in 2013 amounted to 9.79 billion dollars, 13% up on the previous year. If we take into account an average of 251 business days of trading, the trading volume that year stood at around 2.5 trillion dollars[15].

The upward trend in prices

A good approximation for knowing the evolution of the secondary market of high-yield bonds is to analyse the behaviour of some of the most important indices which are taken as references in this segment. Specifically, this section will use the following indices prepared by Bank of America-Merrill Lynch: the High-yield US Master II Index, which tracks the behaviour of corporate debt with a speculative rating, issued in dollars, in the United States; its counterpart for the European market, the

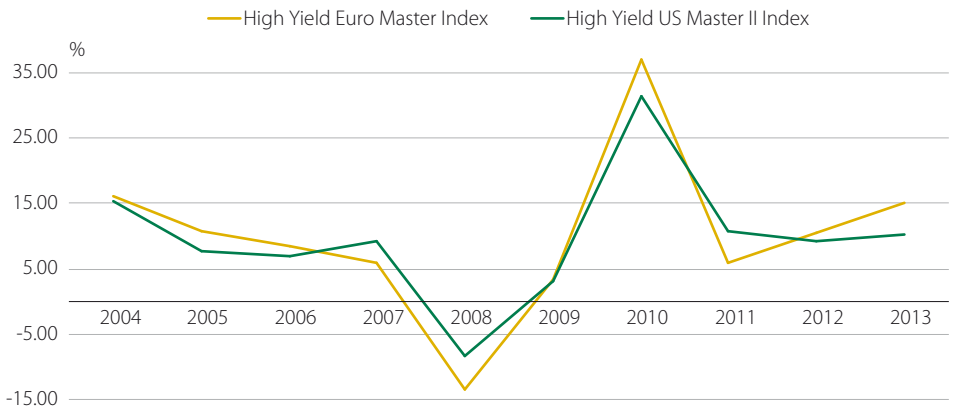
14 In 2013 in the United States, 56% of the trading of this segment was performed with bonds rated BB or B.

15 This data does not include trades of convertible fixed income or assignments made in the primary market and sold on the first day of trading by one single subscriber or by the global coordinators of a placement.

High-yield Euro Master Index; and the US Corporate Master Index, which reflects the behaviour of corporate debt issued in the United States with ratings above investment grade.

In general, there has been an upward trend in the market value of high-yield bonds over the last 10 years (see Figure 2), with the main exception of 2008. In an environment of low interest rates and unstable market conditions, the appeal of this type of bond for investors who are seeking to increase their yields, even at the expense of accepting higher levels of risk, raises market prices. In 2008, as a result of the uncertainty prevailing in financial markets, bond prices fell significantly, by 8.3% in the US market and by 13.5% in the European market, mainly since many investors replaced them with other, safer products. However, unlike other markets, the high-yield bond market started to recover in 2009 and prices have followed an upward trend since then.

Yield of European and US high-yield bond indices FIGURE 2



Source: Bank of America-Merrill Lynch.

It should be pointed out that the European market has been recording higher returns than the US market over recent years. In 2012, the average yield of the European index was 11%, compared with 9% recorded across the Atlantic, and since 2009 it has grown by 84.3% compared with 75.4% for the US index.

Some of the reasons which might explain the growing appeal of the European market are the fall in the default rate over recent months (although in 2013 it was still higher than in the US: 3.33% compared with 2.12%[16]), together with the higher yield offered (in 2013 with a spread of 570 basis points over sovereign debt, compared with 493 basis points in the United States). The effective price of European bonds on the market is also lower and there is therefore a greater margin for capital appreciation before the issuer can execute the early purchase option which is usually incorporated into these bonds.

16 Default rates corresponding to 2013, published by Standard & Poors in its "2013 Annual Global Corporate Default Study And Rating Transitions" report, available at https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1279609&SctArtId=222966&from=CM&nsl_code=LIME&sourceObjectId=8509688&sourceRevId=1&fee_ind=N&exp_date=20240319-20:08:30

Volatility and correlation with the yields of other assets

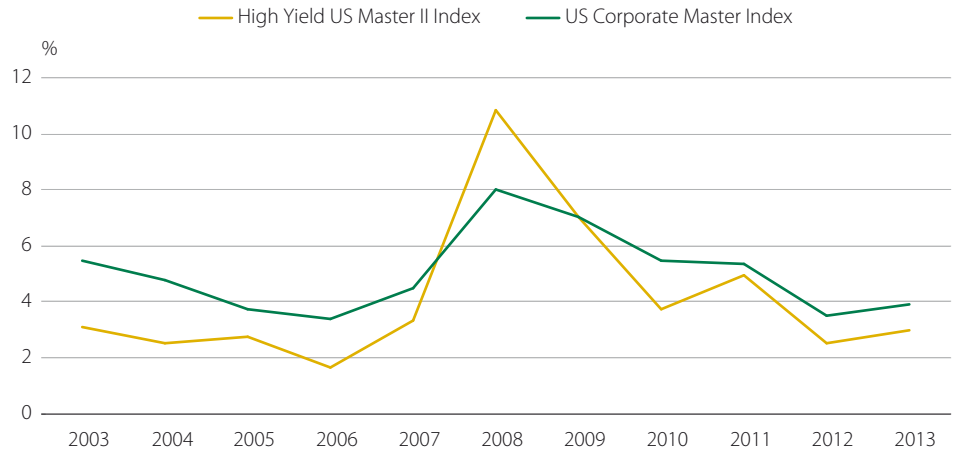
The overall yield of speculative debt is made up of two components: the coupon received by investors and the price set in the market. The higher remuneration offered by this type of security gives them a cushion against market fluctuations and, consequently, allows speculative debt to record lower levels of volatility than investment-grade debt under normal market conditions.

Similarly, the price of this debt in the market is shown to be less sensitive to interest rate movements. The reason for this lies in the fact that the coupon offered by these securities is based on the real non-risk interest rate plus a premium which depends on the issuer's credit risk and expected inflation, among other factors. The proportion of this risk premium in the coupon as a whole paid by these entities is higher than the risk-free benchmark interest rate used and, therefore, the market price will be less affected by monetary policy decisions than other debt with a higher credit rating, for which that component accounts for a higher proportion of its remuneration.

Figure 3 shows these factors. During periods of greater stability in financial markets, up to 2007 and as from 2010, US high-yield bonds recorded lower volatility than fixed income with a higher credit rating, between 1.5% and 4.5%, which means around one percentage point less than other corporate debt.

In contrast, between 2007 and 2009, speculative debt recorded higher levels of volatility than other corporate debt as to a greater extent investors abandoned this type of investment considered as risky in order to take shelter in safe securities, such as the sovereign debt of certain countries. Specifically, the volatility of US speculative debt reached 10.8%, while that of other debt was less than 8%.

Volatility of high-yield bonds and corporate bonds as a whole FIGURE 3



Note: Volatility has been calculated as the standard deviation of the daily yields of the index, annualised according to effective trading days in the year.

Source: Bank of America-Merrill Lynch and author.

Investors are currently moving in the opposite direction, from public debt towards high-yield bonds, in search of higher yields for their portfolios and a diversification

of the financial products on their balance sheets in line with current economic and financial conditions.

One of the statistical measures most taken into consideration by investors in order to assess the suitability of the composition of an investment portfolio is the correlation existing between the securities making up the portfolio[17]. The less correlated the assets of a portfolio, the more effective the reduction in risk of incurring losses and the greater the benefit which can be obtained from diversification. The correlations between financial assets change as a result of business movements or changes in the economic and financial situation.

Numerous studies have analysed the correlation of high-yield bonds with other assets during different economic periods[18]. These studies have shown that high-yield bonds are significantly correlated to other corporate debt. Similarly, they have shown a positive and significant correlation with equity, which is sometimes even greater than that obtained for investment-grade debt, but only during years of greater stability. This is due to the fact that speculative debt is more dependent on the company's evolution, as is the case of equity, than high-quality fixed income.

However, in periods of uncertainty, such as that between 2008 and 2011, the link between both types of security is much lower and the behaviour of these two groups of securities in the market is significantly different. Over those years, speculative debt lost less value than shares and recovered earlier. A key factor which largely explains this uneven development is the fact that high-yield bonds continued providing investors with profitability by means of the periodic coupon payments, while shares, in addition to a drop in their price, often suspended payment of dividends so as to ensure sufficient cash volume for the company against a backdrop of greater difficulty in accessing external, particularly bank, financing.

The correlation between speculative debt and public debt is lower compared with the other two groups of financial assets, although in recent years there has been a high level of substitution between these assets within investment portfolios. Between 2008 and 2010, the movement of investments towards securities considered as safe at a time of high uncertainty with regard to the economy and financial institutions led to an increase in the prices of public debt and a fall in those of speculative debt. As from 2011, the situation has reversed: the low interest rates of safe assets in a context of lower perception of risk are leading investors to get rid of their positions in public debt and replace it with high-yield bonds.

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17 Correlation measures the relationship between two financial assets and the level of dependence between them.

18 Recent studies include: Tuysuz, S. (2013), "Conditional Correlations between Stock Index, Investment Grade Yield, High Yield and Commodities (Gold and Oil) during Stable and Crisis Periods", *International Journal of Economics and Finance,* vol. 5, No. 9; Fridson, M. S. (2010), "How Research from the High-Yield Market Can Enhance Equity Analysis", available at http://www.cfapubs.org/doi/pdf/10.2469/cp.v27.n2.2; or Reilly, F. K., D. J. Wright & J. A. Gentry (2009), "Historic changes in the high-yield bond market", *Journal of Applied Corporate Finance,* 21(3), pp. 65-79.

4 The debate around the transparency regime

An old debate which is reactivated following the financial crisis

The debate about the introduction of a trading transparency regime in OTC markets is not new, but the financial crisis has brought it back with remarkable intensity. As indicated above, most bond trading in the secondary market is conducted through direct contacts between counterparties. Market participants do not generally have information on the volume and prices of the trades carried out (post-trade transparency), and obtaining information on bid and ask prices and volumes (pre-trade transparency) may be significantly costly.

The withdrawal of liquidity in financial markets following the breakout of the crisis may be interpreted as a failure in the functioning of the system as it prevented investors from getting rid of their positions, reduced the availability of information and affected the valuation of asset portfolios. The standstill in markets affected both retail investors and institutional investors, who are assumed to have greater access to information and to analyse it.

It cannot be said that the lack of trading transparency in secondary markets has been the main cause for their standstill, but we can ask whether better access to quality information could have contributed towards reducing the uncertainty in which agents operated at that time.

In fact, in the initial moments of the financial crisis, the G-20 already set an improvement in market transparency as one of its objectives[19]. Specifically, it charged the pertinent bodies with introducing the necessary regulatory modifications to increase the transparency of financial products and to ensure that authorities have accurate information about the situation of market participants. The aim was ultimately to guarantee an adequate level of prudential supervision by regulators and adequate risk management by participants. The introduction of greater transparency in OTC markets could contribute towards this aim.

In general, there is a certain consensus that transparency requirements in secondary fixed-income markets might contribute towards reducing transaction costs and reducing the spreads between buy and sell prices. However, there is no unanimity on other issues, such as for example, whether transparency might contribute towards softening the instability of financial markets or increasing the number of trades executed.

Among the most recent studies relating to this issue, we can highlight that performed by the CFA Institute in 2011[20], which identifies potential benefits and costs associated with mandatory transparency regimes. The points in favour include promoting investor protection and improving market efficiency by reducing information

19 Resolutions adopted at the Washington Summit, in October 2008, and the Pittsburgh Summit, in September 2009.

20 CFA Institute (2011), "An Examination of Transparency in European Bonds Markets", available at http://www.cfainstitute.org/learning/products/publications/ccb/Pages/ccb.v2011.n5.1.aspx

asymmetries between investors. This would lead to greater participation in the market, an increase in the number of traded securities and a reduction in the spreads between buy and sell prices. With more information, investors could also more easily verify whether brokers apply the best execution principle to their orders.

That study highlights another two positive effects. Firstly, it assesses that mandatory reporting would facilitate price discovery in the market and therefore portfolio valuation as reference market prices would be available. Similarly, it would help enable regulators to detect fraud, price manipulation and other market abuse practices. Secondly, the study indicates that the measure would encourage competition between market makers and intermediaries, giving them incentives to provide the best prices possible, which would lead to much tighter market price spreads.

Among the negative effects, the CFA highlights, above all, that the exposure of market makers to pressure from other participants from the moment in which they have to publish their transactions would lead to a lower tendency to assume own account positions, therefore draining liquidity from the system and leading to an increase in the price of transactions.

The potential adverse effect on market makers is one of the traditional elements of the debate around this issue, but not all market agents have the same opinion about the level of transparency that would be desirable. This is noted, for example, in Biais et al. (2007)[21], a paper which analyses the microstructure of the European speculative debt market from a sample of 200 bonds. The research includes a survey asking different types of market agent about whether they agreed with the level of information available in their work: while larger agents reported being satisfied, smaller agents were more critical and indicated the existence of certain opacity.

This paper concluded that, for a market based on telephone contact between participants, the introduction of pre-trade transparency requirements seemed unacceptable. However, their conclusions were more modest with respect to post-trade transparency, indicating that sharp changes should be avoided and that, at any event, they should be agreed with the industry.

The debate around the MiFID II

The debate on the costs and benefits of mandatory trading transparency regimes has taken on major importance recently in Europe as a result of the revision of the MiFID[22]. The current version of this directive, approved in 2004, does not include this type of requirement for transactions performed on OTC debt markets. However, the painstaking process of revising the directive was completed last May with the

21 Biais, B. & R. C. Green (2007), "The Microstructure of the Bond Market in the 20th Century", available at http://idei.fr/doc/wp/2007/bondmarket.pdf

22 Directive 2004/39/EC, of the European Parliament and of the Council, of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC, of the European Parliament and of the Council, and repealing Council Directive 93/22/EEC.

approval of a new directive, known as MiFID II[23], and a regulation, known as MiFIR[24], which provides a wide range of measures to improve the level of transparency of these transactions, which will affect, among other instruments, the high-yield segment. These rules will generally be applied as from 2017.

The new legislation provides for similar transparency requirements for the different trading venues: regulated markets, Multilateral Trading Facilities (MTFs) and the new category of Organised Trading Facilities (OTFs)[25]. The MiFIR establishes that market operators and investment firms operating a trading venue shall make public current bid and offer prices and the depth of trading interests at those prices which are advertised through their systems. This requirement will also apply to actionable indication of interests (IOI). The information shall be made available to the public on a continuous basis during normal trading hours. They shall also make public the price, volume and time of the transactions executed as close to real-time as is technically possible.

Market operators and investment firms operating a trading venue shall make the aforementioned data available to the public on reasonable commercial terms and on a non-discriminatory basis. At any event, such information shall be made available free of charge 15 minutes after publication.

The transparency requirements introduced by the MiFIR also affect the transactions of investment firms, including systematic internalisers, with bonds traded on a trading venue. These agents must make public, under certain conditions, the firm quotes requested by their clients and the main characteristics of (prices, volumes and time) of the transactions concluded on own account or on behalf of clients. This information will be made public through an approved publication arrangement.

The legislation allows deferred publication for transactions or actionable indication of interests in trading systems which are large in scale compared with the normal market size.

The European Securities and Market Authority (ESMA) will develop draft regulatory technical standards to specify, *inter alia*, the offering of pre-trade and post-trade transparency data, the size of orders that are large in scale and the time limit that will be deemed in compliance with the obligation to publish as close to real-time as possible. On 22 May, ESMA published a document to collect the industry's opinion on specific aspects which will be included in the draft regulatory technical standards.

ESMA expects to submit the draft technical standards to public consultation at the end of 2014 or the start of 2015. Once this process has been completed, it will pass on the draft technical standards to the European Commission for its approval, which,

23 Directive 2014/65/EU, of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

24 Regulation (EU) No. 600/2014, of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments and amending Regulation (EU) No. 648/2012.

25 OTFs are multilateral trading platforms which bring together buying and selling interests in a way that results in a contract. Unlike other multilateral trading systems (regulated markets and MTFs), OTFs only operate in securities such as bonds, structured products, emission allowances and derivatives. The operator of an OTF enjoys a certain amount of discretion when executing orders for its clients.

in turn, will send them to the European Parliament and to the Council. If there is no opposition, the regulatory or implementing technical standards will be approved by means of regulation.

While waiting to discover the industry's opinion on the definitive text of the MiFID reform, the public consultations carried out throughout the procedure revealed the concern of participants about the effects of mandatory transparency requirements in fixed-income markets where liquidity is usually low[26]. Bearing in mind that a large part of that liquidity comes from the actions of dealers, industry representatives believe that publication of the positions of these agents in the market would mean revealing the management strategy of their portfolios. And in the event that they were unable to hedge the risk of those investments before complying with their reporting obligations, other agents could take the opposite position, thus committing the dealer's capital. Accordingly, these investors would be discouraged in the future from taking own account positions, with them being limited to act as simple brokers between other investors, which would drain liquidity from the market and increase the price passed on to clients.

With market makers reluctant to commit their capital, other investors would find it difficult to get rid of their positions and, in the primary market, demand would end up being concentrated in the most liquid securities. These usually correspond to issues which are large enough for the security to acquire depth in the market performed by issuers of recognised solvency. In the opinion of industry representatives, this would have a significant impact on the access of small companies to the debt market and, in general, companies which have credit ratings within the speculative range.

The industry also stated that the pre-trade transparency requirements, particularly the obligation to publish indicative prices would lead to the disappearance of telephone trading in this type of product. Even though electronic trading systems have gradually taken on a significant share of the transactions, most (around 65%) are still performed by telephone contact. Based on this fact, the industry maintained in the debate around the MiFID II that the disappearance of this activity could significantly reduce market liquidity.

According to a survey carried out in February 2013 for the main industry association –AFME[27]– the participants which form part of the so-called buy side of the market (institutional investors and, in general, the dealers' clients) also believe that transparency requirements, particularly pre-trade requirements, could have a negative effect on the market in terms of lower exchange volumes, smaller transactions, increase in transaction costs and gradual disappearance of telephone trading of securities.

The experience of TRACE in the United States

Until now, regardless of the arguments in favour or against the introduction of a mandatory trading transparency regime, only the United States has real experience

26 TABB Group (2012), "MiFID II and Fixed-Income Price Transparency: Panacea or Problem?", available at http://www.afme.eu/workarea/downloadasset.aspx?id=6165

27 AFME (2013), "Investor survey of fixed income liquidity 2013", available at http://www.afme.eu/workarea/downloadasset.aspx?id=7721

to assess its impact on the secondary debt market. It is important therefore for us to take it into account.

The United States started up the TRACE operating system in 2002. Market agents must report all transactions in US bonds in which they participate through this system, managed by FINRA. This self-regulation organisation subsequently publishes the prices and volumes of the traded bonds. The TRACE platform includes both corporate bonds with an investment rating and high-yield bonds, as well as securitised products.

The reporting requirements were incorporated into the different corporate bond segments in various phases. It started with the most liquid securities, specifically investment-grade bonds with an initial issue of 1 billion dollars or greater, and ended in 2005 with bonds with a lower credit rating and issue size. According to estimates of the regulator, as from that year, real-time information has been provided on volumes and prices of 99% of trades of US corporate bonds.

Several studies have already been performed on the effects of this system on the fixed-income market. The first was by Bessembinder et al. (2006)[28], which focuses on the effect of public transaction reporting on trade execution costs. The authors analysed a sample of 92,322 trades in corporate bonds carried out by insurance companies in 2002[29], 39,040 of which were trades which had to be reported through TRACE. The results of the study indicate a 50% reduction in the costs of trades reported through this mechanism compared with the others. Similarly, the authors observed a 20% reduction in the cost of the latter following the introduction of TRACE. They suggest that this is due to the fact that the existence of improved information on price discovery of the securities subject to reporting had an impact on the valuation and execution process of trades performed with similar securities.

Another two studies, Edwards et al. (2007)[30] and Goldstein et al. (2007)[31], support the hypothesis of the reduction in transaction costs. Both studies used samples of bonds incorporated in TRACE after completion of Phase 2, i.e. when the requirement to report data on the trades applied to all investment-grade bonds, both those of large issues and those of small placements. An analysis was conducted of the transaction prices of different groups of bonds, classified both by their characteristics and by their trading frequency, observing progressive reductions in transaction costs, although these were sharper in more liquid bonds.

Finally, a more recent paper by Asquit et al. (2013)[32], analyses the impact of transparency requirements on two specific aspects of trading in corporate bonds: the le-

28 Bessembinder, H., W. Maxwell & K. Venkataraman (2006), "Market Transparency, Liquidity Externalities, and Institutional Trading Costs in Corporate Bonds", available at http://home.business.utah.edu/hank.bessembinder/publications/bondtransparency.pdf

29 Prior to the start-up of TRACE, insurance companies were required to provide information on their fixed-income trading to the National Association of Insurance Commissioners (NAIC).

30 Edwards, A. K., L. E. Harris & M. S. Piwowar (2007), "Corporate Bond Market Transaction Costs and Transparency", available at http://citeseerx.ist.psu.edu/viewdoc/download;jsessionid=FCE2C741EF88657013A1EA6C5567EF08?doi=10.1.1.177.340&rep=rep1&type=pdf

31 Goldstein, M. A., E. S. Hotchkiss & E. R. Sirri (2007), "Transparency and Liquidity: A Controlled Experiment on Corporate Bonds", available at http://faculty.babson.edu/sirri/research/bbb%20rfs.pdf

32 Asquith, P., T. R. Covert & P. Pathak (2013): "The Effects of Mandatory Transparency in Financial Market Design: Evidence from the Corporate Bond Market", available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2320623

vel of trading activity and price dispersion. To this end, they took a sample of 16,821 bonds which were traded between 2002 and 2006, the period which covers the four phases for incorporating corporate bonds into the TRACE system.

The authors conclude that the publication of data on the transactions performed did not lead to a greater volume of trading in any case. In addition, market activity for the less liquid bonds fell drastically: 41.3% in the 90 days following the publication of prices on volumes traded. However, the results obtained suggest a decrease in price dispersion following publication of the data.

The results of Asquith et al. (2013) seem to support the idea that the trading transparency requirements introduced in the United States have had a limited impact on the trading activity of the most liquid bond segments as no increase in trading volume has been observed.

With regard to the performance of the segment of higher-risk bonds, the results may have different interpretations. On the one hand, taking into account the lack of information on exchanges of high-yield bonds prior to implementation of TRACE, it is likely that the system was actually providing specific data on the few exchanges that were happening in this segment both before and after the start of the publication requirements, without these having altered their low level of activity.

On the other hand, the bond market, above all in the segment of less liquid bonds, is based on the activity of dealers, and these dealers only maintain bonds in their portfolios whose trading provides a benefit which covers the maintenance cost. On reducing the brokerage margins of the trade with the introduction of transparency requirements, the benefit is reduced and therefore dealers may have less incentive to be active in this market segment.

In summary, we can say that the study's authors indicate that transparency is not necessarily beneficial for all financial instruments and they suggest that it would not be recommendable to require the same level of transparency in all market segments.

5 Conclusions

The recent evolution of financial markets has been characterised by interest rates remaining low and a lower perception of risk by investors. In this context, security is no longer a priority in investors' strategies, and they are now coming to the market looking for products which allow them to increase the yield of their portfolios. Speculative debt has been one of the assets that has been most favoured by this change in trend and it has become an attractive option not only for investors used to high-risk products, but also for more conservative investors, such as pension funds and insurance companies. Some experts suggest that the pressure to achieve better yields could be leading investors to underestimate the risks inherent in this type of security.

In particular, investors might not be taking into sufficient consideration the particular features of the secondary markets on which the securities are traded. Although

some of them are admitted to trading on organised markets, there are no reference markets as in the case of equity and, in practice, most transactions are performed on OTC markets through bilateral contacts. A typical feature of these markets is that they disseminate little information on the terms in which the trade has concluded, thus providing little contribution to price discovery in futures contracts and making it difficult for investors to value their portfolios. Pre-trade transparency is also scarce and therefore investors may incur not inconsiderable search costs in order to obtain information on bid and ask prices. In addition, due to their particular features, high-yield bonds will tend to have little liquidity in the secondary market. As was shown at the most critical moment of the last financial crisis, market opacity and low liquidity may expose investors to higher levels of volatility.

Regulators are exploring various methods for improving the functioning of fixed-income OTC markets. One of the most important methods is the introduction of both pre-trade and post-trade transparency requirements. This is not a new problem: the advantages and disadvantages of introducing this type of requirement in a market which has very different characteristics from those of equity markets has been discussed for a long time.

Up to now, the only real experience with regard to a mandatory transparency framework in fixed-income markets is recorded in the United States, through the TRACE system, which was progressively implemented as from 2002. The studies performed to date on its effects suggest a positive impact on price discovery and on trade execution costs. However, they are less conclusive with regard to the effect on traded volumes or on the participation of investors in a market in which they now have more information.

The European Union has just adopted significant trading transparency measures, together with other measures which will substantially affect fixed income, through the MiFID II and accompanying regulation, which were both approved in May. During the complex process of drawing up the directive and regulation, industry representatives expressed their concern about the implication of transparency requirements for market-making activities, which are essential in their opinion for providing liquidity to the market and strengthening issuing activity.

The directive and regulation will be applicable as from 3 January 2017 and their implementation will require previous development of technical standards by the European Securities and Market Authority. In this regard, according to its calendar, ESMA expects to complete the draft technical standards at the end of 2014 or the start of 2015 so as to submit them to public consultation and, after they have been drawn up, send them to the Commission and to the European Parliament for their final approval.

III Legislative annex

New legislation since publication of the CNMV bulletin for the second quarter of 2014 is as follows:

Spanish legislation

– CNMV Circular 2/2014, of 23 June, on the exercise of various regulatory options regarding the solvency of investment firms and their consolidated groups.

  This Circular implements the authorisation contained in the fifth final provision of Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation on supervision and solvency of financial institutions. The aforementioned authorisation provided in the fifth final provision was established so that competent authorities could implement the options attributed to them in Regulation (EU) No. 575/2013.

  The aim of CNMV Circular 2/2014 is to regulate the options which Regulation (EU) No. 575/2013 attributes to national competent authorities, applicable to the consolidated group of investment firms and to Spanish investment firms whether or not they form part of a consolidated group, relating to those matters which are required for application of the aforementioned Regulation (EU) No. 575/2013 as from 1 January 2014. However, it may be considered useful for investment firms or their groups to implement other provisions not provided for in this Circular in the future.

  Without prejudice to the exceptions provided in Rule 1 of the Circular, the scope of this Circular includes the following entities subject to CNMV supervision:

  – The consolidated groups of investment firms.

  – Individual investment firms whether or not they form part of a consolidated group.

  This Circular exempts certain investment firms and their consolidated groups from compliance with the liquidity requirements established in Part 6 of Regulation (EU) No. 575/2013 until the European Commission publishes its report on whether these requirements should be applied to the investment firm sector. These companies will still be subject to the liquidity ratio laid down in CNMV Circular 7/2008, of 26 October.

  It also regulates the treatment of certain shareholdings in financial institutions and of qualifying holdings in non-financial companies, respectively, for the purposes of calculating own fund requirements. It also establishes that the own funds of an institution may not fall below the initial capital required at the time of their authorisation. In addition, the Circular specifies the treatment which entities should apply for the purposes of assessing whether their activity has changed significantly with regard to the previous year, until entry into force of the regulatory technical standards of the European Banking Authority (EBA).

It regulates certain discretionary powers associated with calculating own fund requirements for credit risk. Specifically, it establishes rules for powers relating to advanced calculation methods and to securitisations, the method which institutions should use to determine the value of certain exposures with regard to hedging counterparty risk and the treatment which entities should continue applying to positions in stock market indices until entry into force of the regulatory technical standards drawn up by the EBA.

It also regulates certain aspects relating to large exposures (the treatment of positions held in collective investment undertakings or in other exposures with an equivalent level of diversification and the exemption from certain exposures which Regulation (EU) No. 575/2013 leaves to the discretion of the competent authority).

– Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions.

The main objective of Law 10/2014 is to adapt Spanish regulation to legislative changes imposed internationally and by the European Union, continuing the transposition initiated by Royal Decree-Law 14/2013, of 29 November. In this regard, Regulation (EU) No. 575/2013, of 26 June, and Directive 2013/36/EU, of 26 June, involve a substantial change to the legislation applicable to credit institutions as they modify such important aspects as the supervisory regime, capital requirements and the penalty system.

In order to guarantee the consistency of legislation as a whole and to transpose the legislation recently approved by the European Union, the main supervisory and disciplinary rules for credit institutions are brought together in one single text. Consequently, this Law contains the essential core of the law applicable to credit institutions, without prejudice to other special rules which regulate specific aspects of their activity or the particular legal regime of one specific type of credit institution, such as savings banks or credit cooperatives.

The main structure of this text consists of four Titles: Title 1 focuses on the general legal regime for credit institutions; Title II focuses on the solvency of credit institutions; Title III addresses the supervisory regime; and Title IV establishes the penalty system.

Title I includes the general provisions of the legal regime for credit institutions. For this purpose, it defines what constitutes a credit institution, lists those entities considered as credit institutions and establishes the nature of the business reserved exclusively to them. Similarly, this title regulates the system for granting and revoking authorisation, the rules on significant shareholdings, the suitability of members of the governing bodies and incompatibilities to which they are subject and the rules on corporate governance and remuneration policy.

Independently from the provisions contained in Regulation (EU) No. 575/2013, Title II lays down the provisions on solvency which are to be included in Spanish legislation. These provisions mainly refer to assessing the capital ad-

equacy of credit institutions relating to the risks they assume according to the criteria of the Bank of Spain for setting possible liquidity requirements and capital buffers.

Title III designates the Bank of Spain as the supervisory authority for credit institutions, granting it the powers necessary to discharge said functions. With regard to accounting issues, it allows the Ministry of Economic Affairs and Competitiveness to authorise the Bank of Spain, the CNMV or the Institute of Accounting and Account Auditing to establish and modify the accounting standards and forms governing the financial statements of credit institutions and the entities regulated under Article 84.1 of the Securities Market Act 24/1988, of 28 July, as well as the consolidated groups of certain investment firms and other entities.

Title IV establishes the penalty procedure applicable to credit institutions, following the system of the previous legislation. It introduces the specific amendments for transposition of Directive 2013/36/EU and hence includes new types of penalties and an amendment of the amount and calculation method for the applicable infringements, as well as their public disclosure.

The additional provisions contain, *inter alia*, the system for preferred shares and the rules applicable to institutional protection systems. It includes a significant number of transitional rules relating to transposed European Union legislation. It also modifies the composition of the Management Board of the Deposit Guarantee Fund by including ministerial representatives.

The final provisions make wide-ranging amendments to the Securities Market Act 24/1988, of 28 July, in order to bring investment firms within the scope of the prudential supervision system provided for credit institutions under Directive 2013/36/EU. It also strengthens coordination of the CNMV with other Spanish and international supervisors and updates the current penalty system to include the relevant infringements and penalties resulting from a failure to comply with solvency rules.

It also updates the regulation on central counterparties to make it compatible with Regulation (EU) No. 648/2012, of the European Parliament and of the Council, of 4 July, on OTC derivatives, central counterparties and trade repositories and its implementing regulations, and it enhances the penalty system applicable to breaches of European Union rules on short selling.

Law 10/2014 repeals the following provisions, as well as all of those of an equal or lower level which contradict this Law:

– The Banking Act of 31 December 1946.

– Law 31/1968, of 27 July, on incompatibility and limits of chairpersons, directors and senior executives of private banks.

– Law 13/1985, of 25 May, on investment ratios, own funds and reporting obligations of financial intermediaries.

- Royal Legislative Decree 1298/1986, of 28 June, adapting legal rules on credit establishments to the legal system of the European Economic Community.

- Law 26/1988, of 29 July, on Discipline and Intervention of Credit Institutions.

- Article 29(2) of Law 2/2011, of 4 March, on the Sustainable Economy.

- Final Provision 13(g) of Law 14/2013, of 27 September, on support for entrepreneurs and their internationalisation.

– Royal Decree 579/2014, of 4 July, implementing certain aspects of Law 14/2013, of 27 September, on support for entrepreneurs and their internationalisation, with regard to internationalisation bonds and covered bonds.

  This Royal Decree culminates the regulatory implementation of matters relating to internationalisation bonds and covered bonds regulated in Article 34 of Law 14/2013, of 27 September.

  It is divided into three main parts:

  - The first, relating to issues of internationalisation bonds and covered bonds, establishes the information which must be contained by internationalisation covered bonds, the information which must be contained by internationalisation bonds, the method for calculating the maximum limit of issues and the mechanisms to re-establish said limits when they are exceeded. It also establishes the requirement for entities to register the assets which guarantee their issues.

  - The second part relates to the secondary market for internationalisation bonds and covered bonds. In this regard, the Royal Decree places special emphasis on regulating the transactions which the issuer may conduct with its own internationalisation bonds and covered bonds, without prejudice to the provisions established in the Securities Market Act.

  - The final part, relating to supervision, establishes that the Bank of Spain will supervise the conditions required for the collateral of internationalisation bonds and covered bonds, while the CNMV will supervise issues relating to public offerings of these instruments and their development in the secondary market.

  The single additional provision of this Royal Decree establishes the requirement that issuers of territorial covered bonds should keep a special accounting register, which must be continually updated, with the content specified by the Bank of Spain and which will record all the credits and loans which meet the established requirements.

– CNMV Board Resolution of 23 July 2014, on the delegation of powers.

  Pursuant to this Resolution and in accordance with the provisions of Article 18 of the Securities Market Act and Article 13 of Law 30/1992, of 26 November,

on the Legal Regime of Public Administrations and the Common Administrative Procedure, with regard to the delegation of powers, the CNMV Board delegates certain powers in favour of its Chairperson, Vice-Chairperson and Executive Committee.

This delegation of powers is given in the scope of the Directorate-General of Markets, in the scope of the Department of the Chairperson's Office, in the scope of the Directorate-General of Entities and in the scope of the Directorate-General of the Legal Service and Secretariat of the Board. It also provides for other general delegations of powers.

– Royal Decree 6/2014, of 25 July, creating the head office of economic-financial information of the public administrations and regulating the sending of information by the Bank of Spain and financial institutions to the Ministry of Finance and Public Administrations.

This Royal Decree is passed as a result of the need to have coordinated, organised and clear economic-financial information drawn up with certain standardised criteria relating to the different public administrations and in compliance with the principle of transparency in public information. It creates a head office of economic-financial information which simplifies access to public information and the manner in which it is offered.

The creation and start-up of the head office for economic-financial information of the public administrations will lead to a reduction in information search times, it will improve the quantity and quality of economic, budgetary, financial and statistical information published by the Ministry of Finance and Public Administrations, it will increase interoperability and the re-use of such information and it will avoid duplication and dispersion of publications.

It further implements Constitutional Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability by regulating the reporting obligations of the Bank of Spain and banks, savings banks and other financial institutions to the Ministry of Finance and Public Administrations with regard to the indebtedness of public administrations and their related or dependent entities or bodies.

In accordance with Article 5 of this Royal Decree 636/2014, the following are required to report to the manager of the head office of economic-financial information of the public administrations, through the head office itself:

- The management centres of the Ministry of Finance and Public Administrations which are responsible for the information, as well as their dependent or related entities or bodies.

- The management centres of the other ministerial departments into which the central government is structured, as well as their dependent or related entities or bodies.

– Bank of Spain Circular 3/2014, of 30 July, for credit institutions and authorised appraisal firms and services, establishing measures to promote the indepen-

dence of appraisal services through amendments to Circulars 7/2010, 3/1998 and 4/2004, and exercising regulatory options relating to the deduction of intangible assets through the amendment of Circular 2/2014.

This Circular implements, *inter alia*, the ban on credit institutions holding significant shareholdings in appraisal companies and increases mechanisms aimed at strengthening the independence of said companies. It also regulates the internal code of conduct required for the appraisal services of credit institutions and it introduces various provisions on the financial statements of appraisal firms.

– Royal Decree-Law 11/2014, of 5 September, regarding urgent measures on insolvency.

This Royal Decree-Law extends the flexibility which Royal Decree-Law 4/2014, of 7 March, adopting urgent measures on refinancing and restructuring of business debt, gave to the regime on pre-bankruptcy arrangements prior to the bankruptcy arrangement. This included considering the continuity of economically viable companies as beneficial not only for the companies, but also for the economy in general and for job maintenance; adapting legal privilege to the underlying economic reality; and respecting as far as possible the legal nature of *in rem* guarantees (while always taking into account the budget for adapting legal privilege to the underlying economic reality in accordance with its true economic value).

It also adopts a series of measures to increase flexibility in transferring the business of the insolvent debtor or some of its business lines as there are currently certain obstacles which either during the insolvency procedure or when liquidation of the insolvent debtor is inevitable, prevent their sale.

European legislation

– Commission Implementing Regulation (EU) No. 710/2014, of 23 June, laying down implementing technical standards with regard to conditions of application of the joint decision process for institution-specific prudential requirements according to Directive 2013/36/EU, of the European Parliament and of the Council.

This regulates the process for competent authorities to reach a joint decision on the adequacy of own funds and measures relating to liquidity supervision. The aim of the legislation is for the consolidating supervisor to have an overview of the activities carried out by all the institutions within the group, including institutions operating outside the Union. Interaction between competent authorities in the EU and third-country supervisors should therefore be promoted.

– Regulation (EU) No. 806/2014, of the European Parliament and of the Council, of 15 July, establishing uniform rules and a uniform procedure for the resolu-

tion of credit institutions and certain investment firms within the framework of a Single Resolution Mechanism and a Single Resolution Fund, and amending Regulation (EU) No. 1093/2010.

This Regulation establishes uniform rules and a uniform procedure for the resolution of entities included in its scope which are established in the participating Member States in accordance with Article 4.

The scope of this Regulation includes the following entities:

- Credit institutions established in the participating Member States.

- Parent undertakings, including financial holding companies and mixed financial holding companies, established in a participating Member State, where they are subject to consolidated supervision carried out by the ECB in accordance with Article 4(1)(g) of Regulation (EU) No. 1024/2013

- Investment firms and financial institutions established in a participating Member State, where they are covered by the consolidated supervision of the parent undertaking carried out by the ECB in accordance with Article 4(1)(g) of Regulation (EU) No. 1024/2013.

The Regulation is divided into four parts:

- Part I covers the general provisions and includes the subject matter, scope, definitions and other general aspects.

- Part II contains specific provisions relating to functions within the Single Resolution Mechanism (SRM), planning, early intervention, resolution, cooperation, investigatory powers and penalties.

- Part III, relating to the institutional framework, regulates the Board and, particularly, its plenary sessions, its executive sessions and its Chair. It also regulates the Single Resolution Fund, particularly its constitution, its administration and use.

- Part IV regulates the powers of execution.

– Regulation (EU) No. 909/2014, of the European Parliament and of the Council, of 23 July, on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012.

This Regulation 909/2014 lays down uniform requirements for the settlement of financial instruments in the European Union and rules on the organisation and conduct of central securities depositories (CSDs) to promote safe, efficient and smooth settlement.

It will apply to the settlement of all financial instruments and activities of CSDs unless otherwise specified in the regulation.

It is structured into six titles:

- Title I covers the subject matter, scope and definitions.

- Title II, on security settlement, establishes the requirement for securities to be represented in book-entry form and recorded in a CSD and the obligation to settle on intended settlement dates. It also establishes measures to solve settlement failures and it regulates internalised settlement.

- Title III focuses on CSDs. It regulates the authorisation and supervision of CSDs and, in this regard, establishes the competent authorities, the conditions and procedures for granting authorisation, supervision, the system for provision of services in another Member State and relations with third countries.

This title also establishes the requirements applicable to CSDs, specifically organisational requirements and conduct-of-business rules, and the requirements applicable to CSD services, prudential requirements and requirements for CSD links.

It also regulates access to CSDs both of issuers and between CSDs.

- Title IV regulates the provision of banking-type ancillary services for CSD participants. For this purpose, it mainly establishes the requirements for authorisation to provide the services, the procedure for granting and refusing authorisation, the extension of the banking-type ancillary services and the withdrawal of authorisation.

- Title V relates to sanctions. Among other aspects, it regulates administrative sanctions and other measures, the publication of decisions, effective application of sanctions and reporting of infringements.

- Title VI relates to the delegation of powers, implementing powers, and transitional, amending and final provisions.

– Directive 2014/91/EU, of the European Parliament and of the Council, of 23 July, amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions.

This Directive amends Directive 2009/65/EC, of the European Parliament and of the Council, in order to take into account market developments and experiences of market participants and supervisors gathered so far to address discrepancies between national provisions.

For this purpose, the main amendments focus on the duties and liability of depositories, remuneration policy and sanctions.

This Directive regulates the following aspects relating to undertakings for collective investment in transferable securities (UCITS):

– It regulates remuneration policies so as to ensure sound risk management.

– It establishes that UCITS should appoint a single depository and it introduces a list of oversight duties that are incumbent on depositaries in relation to UCITS, including the proper monitoring of the cash flows of the UCITS.

– It allows the delegation of custody functions, but not oversight duties or control of cash flows. It also establishes the requirement for external audits to be performed to ensure that the assets remain in their possession.

– It introduces rules on sanctions, with regard to their amount and publication and on reporting irregular practices.

IV Statistics annex

1 Markets

1.1 Equity

Share issues and public offerings[1]

TABLE 1.1

	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[2]
CASH VALUE (million euro)								
Total	20,970.3	29,557.4	39,171.9	8,010.3	4,982.5	4,829.1	9,113.3	5,542.9
Capital increases	20,843.3	28,326.0	39,171.9	8,010.3	4,982.5	4,829.1	7,877.0	5,025.2
Of which, scrip dividend	3,862.0	8,357.8	9,869.4	2,607.9	2,466.6	2,867.5	2,439.5	2,931.7
Of which, primary offerings	6,238.8	2,457.3	1,744.6	689.8	0.0	900.0	1,655.0	401.5
With Spanish tranche	5,827.1	2,457.3	1,744.6	689.8	0.0	98.7	348.1	8.9
With international tranche	411.7	0.0	0.0	0.0	0.0	801.3	1,306.9	392.7
Secondary offerings	127.0	1,231.4	0.0	0.0	0.0	0.0	1,236.2	517.7
With Spanish tranche	124.7	1,231.4	0.0	0.0	0.0	0.0	55.7	58.5
With international tranche	2.3	0.0	0.0	0.0	0.0	0.0	1,180.5	459.2
NOMINAL VALUE (million euro)								
Total	5,702.3	4,705.5	20,150.9	2,400.1	668.8	616.0	2,003.5	966.2
Capital increases	5,696.3	4,594.8	20,150.9	2,400.1	668.8	616.0	1,994.0	958.2
Of which, primary offerings	2,070.6	613.1	989.4	421.2	0.0	130.0	132.7	364.2
With Spanish tranche	1,888.4	613.1	989.4	421.2	0.0	16.8	33.3	8.9
With international tranche	182.2	0.0	0.0	0.0	0.0	113.2	99.5	355.3
Secondary offerings	6.0	110.6	0.0	0.0	0.0	0.0	9.5	8.0
With Spanish tranche	5.9	110.6	0.0	0.0	0.0	0.0	0.5	0.9
With international tranche	0.1	0.0	0.0	0.0	0.0	0.0	9.0	7.1
NO. OF FILES								
Total	91	106	159	43	49	35	46	31
Capital increases	90	103	159	43	49	35	43	29
Of which, bonus issues	24	24	38	13	7	7	7	10
Of which, primary offerings	8	7	6	3	0	2	5	2
Secondary offerings	1	3	0	0	0	0	3	2
NO. OF ISSUERS								
Total	44	39	46	27	23	21	30	24
Capital increases	44	39	46	27	23	21	30	23
Of which, primary offerings	8	7	6	3	0	2	5	2
Secondary offerings	1	3	0	0	0	0	2	1

1 Includes registered offerings with issuance prospectuses and listings admitted to trading without register issuance prospectuses.
2 Available data: August 2014.

Primary and secondary offerings. By type of subscriber

TABLE 1.2

Million euro	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[1]
PRIMARY OFFERINGS								
Total	6,238.8	2,457.3	1,744.6	689.8	0.0	900.0	1,655.0	401.5
Spanish tranche	5,815.7	6.8	1.8	1.8	0.0	98.7	348.1	8.9
Private subscribers	2,206.3	4.1	0.0	0.0	0.0	3.3	44.6	1.0
Institutional subscribers	3,609.4	2.8	1.8	1.8	0.0	95.4	303.5	7.9
International tranche	411.7	0.0	0.0	0.0	0.0	801.3	1,306.9	392.7
Employees	11.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	2,450.5	1,742.8	688.0	0.0	0.0	0.0	0.0
SECONDARY OFFERINGS								
Total	127.0	1,231.4	0.0	0.0	0.0	0.0	1,236.2	517.7
Spanish tranche	124.7	0.0	0.0	0.0	0.0	0.0	55.7	58.5
Private subscribers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Institutional subscribers	124.7	0.0	0.0	0.0	0.0	0.0	55.7	58.5
International tranche	2.3	0.0	0.0	0.0	0.0	0.0	1,180.5	459.2
Employees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	1,231.4	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2014.

Companies listed[1]

TABLE 1.3

	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[2]
Total electronic market[3]	130	127	123	123	123	125	128	130
Of which, without Nuevo Mercado	130	127	123	123	123	125	128	130
Of which, Nuevo Mercado	0	0	0	0	0	0	0	0
Of which, foreign companies	7	7	7	7	7	7	8	8
Second Market	7	8	7	8	7	7	7	7
Madrid	2	2	2	2	2	2	2	2
Barcelona	5	6	5	6	5	5	5	5
Bilbao	0	0	0	0	0	0	0	0
Valencia	0	0	0	0	0	0	0	0
Open outcry ex SICAVs	27	23	23	23	23	23	22	21
Madrid	13	11	11	11	11	11	10	10
Barcelona	17	13	13	13	13	13	13	12
Bilbao	8	7	7	7	7	7	7	7
Valencia	6	4	4	4	4	4	4	4
Open outcry SICAVs	0	0	0	0	0	0	0	0
MAB[4]	3,083	3,015	3,066	3,065	3,066	3,083	3,140	3,203
Latibex	29	27	26	27	26	26	26	26

1 Data at the end of period.
2 Available data: August 2014.
3 Without ETFs (Exchange Traded Funds).
4 Alternative Stock Market.

Capitalisation[1]

TABLE 1.4

Million euro	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[2]
Total electronic market[3]	531,194.2	532,039.7	705,162.3	626,782.9	705,162.3	732,860.8	770,655.0	762,886.5
Of which, without Nuevo Mercado	531,194.2	532,039.7	705,162.3	626,782.9	705,162.3	732,860.8	770,655.0	762,886.5
Of which, Nuevo Mercado	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies[4]	61,317.5	99,072.0	141,142.4	119,037.5	141,142.4	136,774.1	137,141.6	133,468.8
Ibex 35	322,806.6	324,442.0	430,932.9	383,121.6	430,932.9	430,932.9	491,230.1	484,940.0
Second Market	109.9	20.6	67.5	72.0	67.5	53.6	31.6	32.3
Madrid	22.8	20.3	18.3	22.7	18.3	16.9	17.2	17.9
Barcelona	87.1	0.3	49.3	49.3	49.3	36.8	14.4	14.4
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAVs	5,340.7	3,233.0	2,906.2	2,898.2	2,906.2	2,753.9	2,211.3	2,203.6
Madrid	1,454.7	667.1	519.4	532.3	519.4	503.2	436.7	438.4
Barcelona	3,580.2	2,945.9	2,749.5	2,734.8	2,749.5	2,597.7	2,921.1	3,667.6
Bilbao	45.9	77.8	183.6	236.6	183.6	183.6	169.2	388.5
Valencia	760.4	350.9	342.5	282.4	342.5	344.1	323.5	353.4
Open outcry SICAVs[5]	126.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MAB[5,6]	24,718.6	23,776.0	27,572.2	26,181.9	27,572.2	28,783.3	30,224.8	30,813.8
Latibex	210,773.5	350,635.5	270,926.9	297,925.7	270,926.9	259,328.5	343,369.1	339,082.0

1 Data at the end of period.
2 Available data: August 2014.
3 Without ETFs (Exchange Traded Funds).
4 Foreign companies capitalisation includes their entire shares, whether they are deposited in Spain or not.
5 Calculated only with outstanding shares, not including treasury shares, because capital stock is not reported until the end of the year.
6 Alternative Stock Market.

Trading

TABLE 1.5

				2013		2014		
Million euro	2011	2012	2013	III	IV	I	II	III[1]
Total electronic market[2]	917,383.3	691,558.3	693,168.0	155,689.7	215,132.1	185,571.8	221,131.3	131,027.8
Of which, without Nuevo Mercado	917,383.3	691,558.3	693,168.0	155,689.7	215,132.1	185,571.8	221,131.3	131,027.8
Of which, Nuevo Mercado	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies	5,206.3	4,102.1	5,640.5	1,445.7	1,828.8	2,576.7	3,127.2	1,605.3
Second Market	2.3	0.4	1.7	0.5	0.8	0.2	0.2	0.2
Madrid	1.7	0.4	1.4	0.4	0.8	0.2	0.2	0.1
Barcelona	0.5	0.0	0.3	0.1	0.0	0.0	0.0	0.2
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAVs	42.8	49.9	51.4	29.5	12.5	20.9	6.8	13.7
Madrid	16.1	3.0	7.3	0.5	3.9	1.0	3.7	2.4
Barcelona	26.4	37.7	44.1	29.1	8.5	5.7	2.9	11.3
Bilbao	0.1	8.5	0.1	0.0	0.0	14.2	0.0	0.0
Valencia	0.3	0.7	0.0	0.0	0.0	0.0	0.2	0.0
Open outcry SICAVs	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MAB[3]	4,379.9	4,329.6	5,896.3	1,269.5	2,217.7	2,092.1	2,098.2	1,318.5
Latibex	357.7	313.2	367.3	81.7	86.4	137.3	76.7	44.6

1 Available data: August 2014.
2 Without ETFs (Exchange Traded Funds).
3 Alternative Stock Market.

Trading on the electronic market by type of transaction[1]

TABLE 1.6

				2013		2014		
Million euro	2011	2012	2013	III	IV	I	II	III[2]
Regular trading	873,485.4	658,891.4	668,553.2	150,925.4	206,433.3	179,931.3	209,766.0	127,595.4
Orders	505,870.1	299,022.0	346,049.6	80,420.5	97,827.4	114,916.9	106,745.8	65,658.0
Put-throughs	69,410.4	80,617.0	56,565.3	12,329.6	14,940.2	17,555.2	18,815.3	11,160.9
Block trades	298,204.9	279,252.4	265,938.3	58,175.3	93,665.7	47,459.2	84,205.0	50,776.5
Off-hours	9,801.8	9,630.0	7,654.7	1,048.4	1,720.3	959.4	5,803.9	485.8
Authorised trades	3,492.6	7,936.9	4,839.9	2,029.7	1,005.3	1,219.7	856.7	1,188.5
Art. 36.1 SML trades	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tender offers	4,216.8	9.6	326.5	104.3	0.0	0.0	92.8	0.0
Public offerings for sale	3,922.1	0.0	396.1	0.0	393.5	850.0	1,642.7	517.7
Declared trades	2,212.7	545.0	379.7	0.0	376.6	400.0	9.9	0.0
Options	11,730.3	9,603.4	7,083.5	908.9	4,145.7	1,493.3	1,945.8	854.0
Hedge transactions	8,521.5	4,942.0	3,934.4	672.9	1,057.4	718.2	1,013.5	386.5

1 Without ETFs (Exchange Traded Funds).
2 Available data: August 2014.

Margin trading for sales and securities lending

TABLE 1.7

				2013		2014		
Million euro	2011	2012	2013	III	IV	I	II	III[1]
TRADING								
Securities lending[2]	493,602.4	395,859.3	464,521.5	93,603.3	154,048.6	116,399.9	173,562.6	105,730.8
Margin trading for sales of securities[3]	518.3	199.2	326.8	110.6	69.5	72.6	100.8	59.5
Margin trading for securities purchases[3]	73.0	44.4	34.1	8.8	5.2	8.2	2.1	0.9
OUTSTANDING BALANCE								
Securities lending[2]	35,626.7	34,915.1	43,398.9	43,274.9	43,398.9	45,982.9	54,428.2	52,944.7
Margin trading for sales of securities[3]	7.0	1.2	7.3	20.9	7.3	14.9	17.2	9.9
Margin trading for securities purchases[3]	3.9	2.5	0.6	3.2	0.6	1.2	0.2	0.1

1 Available data: August 2014.
2 Regulated by Article 36.7 of the Securities Market Law and Order ECO/764/2004.
3 Transactions performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions.

1.2 Fixed-income

Gross issues registered at the CNMV

TABLE 1.8

	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[1]
NO. OF ISSUERS								
Total	101	71	49	14	23	16	21	18
Mortgage covered bonds	30	26	12	1	5	5	6	5
Territorial covered bonds	7	11	5	1	1	1	1	1
Non-convertible bonds and debentures	23	24	11	3	5	9	13	10
Convertible bonds and debentures	5	3	4	0	2	0	2	1
Backed securities	34	16	18	3	9	1	3	3
Commercial paper	49	35	20	6	5	6	4	4
Of which, asset-backed	2	1	0	0	0	1	0	0
Of which, non-asset-backed	47	34	20	6	5	5	4	4
Other fixed-income issues	0	0	0	0	0	0	0	0
Preference shares	1	0	0	0	0	0	0	0
NO. OF ISSUES								
Total	395	349	297	53	99	85	181	126
Mortgage covered bonds	115	94	40	6	5	6	8	5
Territorial covered bonds	42	18	6	2	1	1	1	1
Non-convertible bonds and debentures	86	134	170	33	63	69	158	109
Convertible bonds and debentures	9	7	8	0	4	0	2	1
Backed securities	88	50	53	6	21	3	8	6
Commercial paper[2]	53	46	20	6	5	6	4	4
Of which, asset-backed	2	1	0	0	0	1	0	0
Of which, non-asset-backed	51	45	20	6	5	5	4	4
Other fixed-income issues	0	0	0	0	0	0	0	0
Preference shares	2	0	0	0	0	0	0	0
NOMINAL AMOUNT (million euro)								
Total	287,489.6	357,830.2	138,838.6	21,545.1	42,425.2	20,592.5	28,009.1	17,530.6
Mortgage covered bonds	67,226.5	102,170.0	24,799.7	6,014.7	2,250.0	3,450.0	11,000.0	3,500.0
Territorial covered bonds	22,334.2	8,974.0	8,115.0	4,000.0	2,500.0	1,500.0	218.3	135.0
Non-convertible bonds and debentures	18,691.7	86,441.5	32,536.9	171.9	12,633.4	5,988.3	4,855.0	1,881.5
Convertible bonds and debentures	7,125.9	3,563.1	803.3	0.0	363.4	0.0	1,000.0	1.0
Backed securities	68,410.4	23,799.6	28,592.9	904.0	14,694.9	1,850.0	3,855.0	7,640.0
Spanish tranche	63,453.5	20,627.1	24,980.1	904.0	12,802.3	1,388.8	3,573.3	7,550.0
International tranche	4,956.9	3,172.5	3,612.8	0.0	1,892.6	461.2	281.7	90.0
Commercial paper[3]	103,501.0	132,882.0	43,990.8	10,454.6	9,983.5	7,804.3	7,080.8	4,373.1
Of which, asset-backed	2,366.0	1,821.0	1,410.0	440.0	400.0	200.0	420.0	0.0
Of which, non-asset-backed	101,135.0	131,061.0	42,580.8	10,014.6	9,583.5	7,604.3	6,660.8	4,373.1
Other fixed-income issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preference shares	200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pro memoria:								
Subordinated issues	28,548.9	7,633.5	4,776.0	91.9	2,149.0	0.0	2,243.8	1,545.0
Underwritten issues	10.0	0.0	193.0	0.0	0.0	195.8	0.0	0.0

1 Available data: August 2014.
2 Shelf registrations.
3 The figures for commercial paper refer to the amount placed.

Issues admitted to trading on AIAF[1]

TABLE 1.9

Nominal amount in million euro	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[2]
Total	278,553.6	363,944.5	130,467.7	25,031.8	30,697.4	29,151.5	28,532.2	18,455.6
Commercial paper	101,939.6	134,346.9	45,228.6	10,578.4	10,112.8	7,453.5	7,334.6	3,740.6
Bonds and debentures	12,311.9	92,725.5	22,414.4	1,667.7	2,191.2	16,346.5	5,119.3	1,945.0
Mortgage covered bonds	68,346.5	103,470.0	25,399.7	7,114.7	1,650.0	3,050.0	12,000.0	3,500.0
Territorial covered bonds	20,334.2	8,974.0	8,115.0	4,000.0	2,500.0	0.0	1,718.3	135.0
Backed securities	75,421.4	24,428.1	29,309.9	1,671.0	14,243.4	2,301.5	2,360.0	9,135.0
Preference shares	200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Matador bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Includes only corporate bonds.
2 Available data: August 2014.

AIAF. Issuers, issues and outstanding balance

TABLE 1.10

	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[1]
NO. OF ISSUERS								
Total	613	568	494	511	494	486	480	484
Corporate bonds	613	568	493	510	493	485	479	483
Commercial paper	45	42	30	28	30	24	22	21
Bonds and debentures	91	95	90	92	90	89	89	88
Mortgage covered bonds	43	49	48	48	48	48	48	49
Territorial covered bonds	13	18	12	12	12	11	10	10
Backed securities	437	385	341	356	341	335	331	334
Preference shares	60	60	34	35	34	34	31	31
Matador bonds	12	11	9	10	9	9	9	9
Government bonds	–	–	1	1	1	1	1	1
Letras del Tesoro	–	–	1	1	1	1	1	1
Long Government bonds	–	–	1	1	1	1	1	1
NO. OF ISSUES								
Total	3,630	4,382	3,345	3,653	3,345	3,074	2,922	2,890
Corporate bonds	3,630	4,382	3,192	3,505	3,192	2,922	2,771	2,741
Commercial paper	958	1,778	1,130	1,377	1,130	888	707	596
Bonds and debentures	645	624	495	506	495	512	570	646
Mortgage covered bonds	253	296	283	298	283	273	265	267
Territorial covered bonds	26	49	39	40	39	37	36	37
Backed securities	1,641	1,527	1,188	1,224	1,188	1,155	1,139	1,141
Preference shares	93	94	47	49	47	47	44	44
Matador bonds	14	14	10	11	10	10	10	10
Government bonds	–	–	153	148	153	152	151	149
Letras del Tesoro	–	–	12	12	12	12	12	12
Long Government bonds	–	–	141	136	141	140	139	137
OUTSTANDING BALANCE[2] (million euro)								
Total	882,395.1	879,627.5	1,442,270.2	1,479,979.9	1,442,270.2	1,426,374.9	1,415,557.2	1,404,641.5
Corporate bonds	882,395.1	879,627.5	708,601.8	754,998.9	708,601.8	669,134.9	639,440.5	630,416.7
Commercial paper	37,549.1	64,927.5	28,816.3	33,196.5	28,816.3	21,886.1	20,663.1	18,899.8
Bonds and debentures	131,756.8	161,225.4	132,076.6	150,121.9	132,076.6	128,478.4	122,652.2	111,470.9
Mortgage covered bonds	241,149.7	293,142.8	246,967.9	262,277.9	246,967.9	233,067.9	220,443.2	220,550.2
Territorial covered bonds	31,884.2	33,314.3	29,793.5	29,532.3	29,793.5	26,768.5	25,625.3	25,760.3
Backed securities	407,908.0	315,373.5	269,176.8	277,947.6	269,176.8	257,186.4	248,398.0	252,076.7
Preference shares	31,088.6	10,813.4	1,076.2	1,128.2	1,076.2	1,053.0	964.2	964.2
Matador bonds	1,058.8	830.7	694.6	794.6	694.6	694.6	694.6	694.6
Government bonds	–	–	733,668.3	724,981.0	733,668.3	757,240.0	776,116.8	774,224.8
Letras del Tesoro	–	–	89,174.4	90,987.0	89,174.4	82,521.4	74,639.7	74,850.3
Long Government bonds	–	–	644,493.9	633,994.0	644,493.9	674,718.6	701,477.1	699,374.5

1 Available data: August 2014.

2 Nominal amount.

AIAF. Trading

TABLE 1.11

Nominal amount in million euro	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[1]
BY TYPE OF ASSET								
Total	7,388,185.7	3,119,755.1	1,400,757.7	276,318.4	296,729.3	405,073.2	350,277.6	148,523.6
Corporate bonds	7,388,185.7	3,119,755.1	1,400,601.6	276,274.6	296,647.5	405,012.8	350,215.9	148,464.3
Commercial paper	227,534.5	199,794.9	112,559.8	22,824.1	21,315.6	19,546.3	11,997.0	5,389.4
Bonds and debentures	484,705.8	164,098.6	295,191.7	67,158.7	58,576.8	76,360.7	122,206.2	49,107.7
Mortgage covered bonds	662,177.0	994,071.3	341,674.0	46,754.0	87,380.6	111,030.6	101,392.2	52,219.9
Territorial covered bonds	544,780.9	595,599.6	86,758.6	10,242.1	16,897.7	41,879.4	23,688.5	7,723.2
Backed securities	5,462,806.2	1,136,966.1	538,064.8	119,412.6	112,374.1	156,164.4	90,902.0	33,998.0
Preference shares	6,065.0	28,781.3	26,256.0	9,883.0	97.5	26.8	29.6	12.0
Matador bonds	116.3	443.2	96.7	0.0	5.3	4.6	0.5	14.2
Government bonds	–	–	156.1	43.8	81.8	60.4	61.8	59.3
Letras del Tesoro	–	–	11.6	3.5	3.4	4.2	5.5	4.7
Long Government bonds	–	–	144.4	40.3	78.4	56.1	56.2	54.5
BY TYPE OF TRANSACTION								
Total	7,388,185.7	3,119,755.1	1,400,757.6	276,318.4	296,729.3	405,073.2	350,277.6	148,523.6
Outright	343,099.6	428,838.0	290,633.0	61,297.8	66,253.1	76,348.3	111,059.5	65,877.9
Repos	198,514.7	108,771.9	69,063.3	17,733.1	16,606.1	8,928.1	7,613.5	4,199.6
Sell-buybacks/Buy-sellbacks	6,846,571.5	2,582,145.2	1,041,061.3	197,287.4	213,870.1	319,796.8	231,604.6	78,446.1

1 Available data: August 2014.

AIAF. Third-party trading. By purchaser sector

TABLE 1.12

Nominal amount in million euro	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[1]
Total	487,543.3	454,385.7	259,251.2	61,279.3	63,644.7	69,066.4	65,260.9	30,263.4
Non-financial companies	131,765.2	77,452.1	34,803.5	7,336.2	9,450.5	9,030.1	8,986.7	3,414.8
Financial institutions	256,975.8	282,733.9	143,936.0	40,443.1	38,589.3	34,851.9	30,051.6	16,303.0
Credit institutions	139,538.2	207,555.6	83,270.8	21,786.8	18,444.9	23,260.3	19,778.9	11,467.6
IICs[2], insurance and pension funds	103,899.9	69,568.7	54,126.1	16,958.6	18,938.3	9,977.0	8,252.4	4,404.5
Other financial institutions	13,537.7	5,609.6	6,539.1	1,697.8	1,206.2	1,614.7	2,020.4	431.0
General government	2,602.7	5,448.2	3,390.0	621.9	452.1	982.5	1,333.6	437.0
Households and NPISHs[3]	10,230.3	11,517.9	4,901.9	1,943.3	1,164.8	1,046.4	747.4	302.9
Rest of the world	85,969.3	77,233.7	72,219.8	10,934.8	13,988.0	23,155.5	24,141.5	9,805.7

1 Available data: August 2014.
2 IICs: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.
3 Non-profit institutions serving households.

Issues admitted to trading on equity markets[1]

TABLE 1.13

	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[2]
NOMINAL AMOUNTS (million euro)								
Total	2,681.6	7,522.0	779.3	0.0	0.0	0.0	0.0	0.0
Non-convertible bonds and debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Convertible bonds and debentures	2,681.6	7,522.0	779.3	0.0	0.0	0.0	0.0	0.0
Backed securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NO. OF ISSUES								
Total	6	7	2	0	0	0	0	0
Non-convertible bonds and debentures	0	0	0	0	0	0	0	0
Convertible bonds and debentures	6	7	2	0	0	0	0	0
Backed securities	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0

1 Includes only corporate bonds.
2 Available data: August 2014.

Equity markets. Issuers, issues and outstanding balances

TABLE 1.14

	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[1]
NO. OF ISSUERS								
Total	59	52	40	47	40	38	36	35
Private issuers	46	39	27	34	27	25	23	22
Non-financial companies	4	3	2	2	2	1	1	1
Financial institutions	42	36	25	32	25	24	22	21
General government[2]	13	13	13	13	13	13	13	13
Regional governments	3	3	3	3	3	3	3	3
NO. OF ISSUES								
Total	240	220	197	209	197	195	189	183
Private issuers	133	122	89	109	89	84	79	78
Non-financial companies	6	3	2	2	2	1	1	1
Financial institutions	127	119	87	107	87	83	78	77
General government[2]	107	98	108	100	108	111	110	105
Regional governments	74	67	64	62	64	63	62	58
OUTSTANDING BALANCES[3] (million euro)								
Total	43,817.5	37,636.4	25,284.5	28,021.9	25,284.5	23,578.4	21,160.2	17,818.3
Private issuers	17,759.6	13,625.4	8,317.5	9,035.1	8,317.5	7,216.1	5,603.1	4,039.1
Non-financial companies	375.4	194.9	2.0	2.0	2.0	0.0	0.0	0.0
Financial institutions	17,384.2	13,430.6	8,315.5	9,033.1	8,315.5	7,216.0	5,603.0	4,039.0
General government[2]	26,057.8	24,010.9	16,967.0	18,986.8	16,967.0	16,362.4	15,557.1	13,779.2
Regional governments	24,014.4	22,145.0	15,716.3	17,519.0	15,716.3	15,066.5	14,285.0	12,496.2

1 Available data: August 2014.
2 Without public book-entry debt.
3 Nominal amount.

Trading on equity markets

TABLE 1.15

Nominal amounts in million euro	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[1]
Electronic market	386.1	1,198.3	1,592.6	100.9	378.5	761.3	78.6	2.0
Open outcry	4,942.5	3,746.6	3,388.3	63.4	1,258.2	512.2	142.2	13.3
Madrid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Barcelona	4,885.4	3,407.8	3,197.4	49.8	1,249.5	508.0	140.0	12.7
Bilbao	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	56.6	338.7	190.9	13.6	8.7	4.2	2.2	0.6
Public book-entry debt	883.4	1,189.0	137.1	44.0	54.4	0.0	0.0	0.0
Regional governments debt	63,443.7	54,015.1	41,062.2	7,751.3	10,971.0	7,634.1	8,685.9	15,703.6

1 Available data: August 2014.

Organised trading systems: SENAF y MTS. Public debt trading by type

TABLE 1.16

Nominal amounts in million euro	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[1]
Total	84,090.9	40,034.0	64,011.0	13,881.0	24,347.0	26,252.0	28,346.0	17,034.0
Outright	81,905.0	40,034.0	64,011.0	13,881.0	24,347.0	26,252.0	28,346.0	17,034.0
Sell-buybacks/Buy-sellbacks	2,185.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2014.

1.3 Derivatives and other products

1.3.1 Financial derivatives markets: MEFF

Trading on MEFF

TABLE 1.17

Number of contracts	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[1]
Debt products	18	45,240	13,667	3,080	1,360	1,282	409	347
Debt futures[2]	18	45,240	13,667	3,080	1,360	1,282	409	347
Ibex 35 products[3,4]	5,819,264	5,410,311	6,416,073	1,471,795	1,707,112	1,906,039	1,792,870	1,186,437
Ibex 35 plus futures	5,291,956	4,745,067	5,578,607	1,305,317	1,525,195	1,698,044	1,564,905	1,078,846
Ibex 35 mini futures	307,411	242,477	198,736	45,600	54,344	67,358	64,491	47,177
Ibex 35 dividend impact futures	3,154	2,162	3,520	128	2,714	5,638	1,920	7,867
Call mini options	86,096	225,704	308,084	80,239	85,780	88,798	98,102	37,225
Put mini options	133,801	194,902	327,126	40,511	39,079	46,201	63,453	15,323
Stock products[5]	55,082,944	55,753,236	35,884,393	8,596,470	11,717,195	10,519,859	5,847,529	2,467,958
Futures	24,758,956	21,220,876	14,927,659	2,770,452	4,536,618	4,536,363	3,547,198	720,140
Stock dividend futures	–	25,000	66,650	12,350	30,000	23,705	41,485	10,350
Call options	12,050,946	14,994,283	10,534,741	3,234,368	3,643,255	1,900,418	1,208,118	745,139
Put options	18,273,042	19,513,077	10,355,343	2,579,300	3,507,322	4,059,373	1,050,728	992,329
Pro-memoria: MEFF trading on Eurex								
Debt products[6]	267,713	161,376	167,827	39,075	40,667	49,145	45,558	10,718
Index products[7]	451,016	266,422	111,924	22,543	27,962	16,378	12,441	7,346

1 Available data: August 2014.
2 Contract size: 100 thousand euros.
3 The number of Ibex 35 mini futures (multiples of 1 euro) was standardised to the size of the Ibex 35 plus futures (multiples of 10 euro).
4 Contract size: Ibex 35, 10 euros.
5 Contract size: 100 Stocks.
6 Bund, Bobl and Schatz futures.
7 Dax 30, DJ Eurostoxx 50 and DJ Stoxx 50 futures.

1.3.2 Warrants, option buying and selling contracts, and ETF (Exchange-Traded Funds)

Issues registered at the CNMV

TABLE 1.18

				2013		2014		
	2011	2012	2013	III	IV	I	II	III[1]
WARRANTS[2]								
Premium amount (million euro)	5,544.6	3,834.3	3,621.2	307.5	984.2	881.4	1,431.7	223.8
On stocks	3,211.7	2,231.7	2,211.8	196.4	590.5	475.9	579.3	115.1
On indexes	1,786.8	1,273.5	1,122.6	81.6	288.2	335.1	826.3	104.1
Other underlyings[3]	546.0	329.1	286.8	29.5	105.5	70.4	26.1	4.6
Number of issues	9,237	7,073	8,347	1,165	2,244	1,921	2,820	735
Number of issuers	9	7	7	3	5	5	6	4
OPTION BUYING AND SELLING CONTRACTS								
Nominal amounts (million euro)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On indexes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other underlyings[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Number of issues	0	0	0	0	0	0	0	0
Number of issuers	0	0	0	0	0	0	0	0

1 Available data: August 2014.
2 Includes issuance and trading prospectuses.
3 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.

Equity markets. Warrants and ETF trading

TABLE 1.19

				2013		2014		
	2011	2012	2013	III	IV	I	II	III[1]
WARRANTS								
Trading (million euro)	1,550.2	762.9	752.7	178.8	166.7	208.1	215.5	121.4
On Spanish stocks	654.2	349.0	379.4	97.0	98.3	118.2	110.3	47.0
On foreign stocks	97.8	87.6	86.3	13.7	18.6	16.9	14.9	5.8
On indexes	518.2	268.6	255.4	60.9	43.1	66.9	84.6	67.0
Other underlyings[2]	280.0	57.7	31.6	7.1	6.7	6.1	5.7	1.6
Number of issues[3]	8,328	7,419	7,299	2,969	2,966	3,173	3,141	2,309
Number of issuers[3]	10	10	8	7	8	8	8	7
CERTIFICATES	1,550.2	762.9	752.7	178.8	166.7	208.1	215.5	121.4
Trading (million euro)	92.1	16.8	1.0	0.1	0.1	0.6	0.8	0.0
Number of issues[3]	13	4	2	2	1	2	2	2
Number of issuers[3]	2	2	1	1	1	1	1	1
ETFs								
Trading (million euro)	3,495.4	2,935.7	2,736.0	454.0	639.1	1,170.1	472.8	563.0
Number of funds	75	74	72	75	72	72	70	70
Assets[4] (million euro)	327.2	274.7	382.0	320.4	382.0	404.9	435.4	n. a.

1 Available data: August 2014.
2 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.
3 Issues or issuers which were traded in each period.
4 Assets from national collective investment schemes is only included because assets from foreign ones are not available.
n.a.: Not available.

1.3.3 Non-financial derivatives

Trading on MFAO[1]

TABLE 1.20

				2013		2014		
Number of contracts	2011	2012	2013	III	IV	I	II	III[2]
On olive oil								
Extra-virgin olive oil futures[3]	63,173	78,566	88,605	20,561	13,269	9,999	10,832	10,341

1 Olive oil futures market.
2 Available data: August 2014.
3 Nominal amount of the contract: 1,000 kg.

2 Investment services

Investment services. Spanish firms, branches and agents

TABLE 2.1

	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[1]
BROKER-DEALERS								
Spanish firms	49	46	41	45	41	41	40	40
Branches	78	16	20	20	20	20	20	20
Agents	6,589	6,264	6,269	6,252	6,269	6,297	6,292	6,293
BROKERS								
Spanish firms	45	41	41	42	41	40	40	42
Branches	14	12	11	11	11	18	16	15
Agents	655	590	520	539	520	464	481	495
PORTFOLIO MANAGEMENT COMPANIES								
Spanish firms	6	6	5	5	5	5	5	5
Branches	5	5	5	5	5	5	5	5
Agents	2	2	1	1	1	1	1	1
FINANCIAL ADVISORY FIRMS								
Spanish firms	82	101	126	121	126	130	134	137
Branches	5	5	9	8	9	9	10	10
CREDIT INSTITUTIONS[2]								
Spanish firms	187	147	141	143	141	143	143	141

1 Available data: August 2014.
2 Source: Banco de España.

Investment services. Foreign firms

TABLE 2.2

	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[1]
Total	2,814	2,992	3,132	3,109	3,132	3,147	3,171	3,159
Investment services firms	2,380	2,537	2,681	2,652	2,681	2,694	2,717	2,701
From EU member states	2,377	2,534	2,678	2,649	2,678	2,691	2,714	2,698
Branches	36	37	38	37	38	38	38	36
Free provision of services	2,341	2,497	2,640	2,612	2,640	2,653	2,676	2,662
From non-EU states	3	3	3	3	3	3	3	3
Branches	0	0	0	0	0	0	0	0
Free provision of services	3	3	3	3	3	3	3	3
Credit institutions[2]	437	458	454	460	454	456	457	461
From EU member states	429	448	444	450	444	447	448	452
Branches	55	55	52	55	52	53	53	54
Free provision of services	374	390	392	395	392	394	395	398
Subsidiaries of free provision of services institutions	0	0	0	0	0	0	0	0
From non-EU states	8	10	10	10	10	9	9	9
Branches	7	8	8	8	8	7	7	7
Free provision of services	1	2	2	2	2	2	2	2

1 Available data: August 2014.
2 Source: Banco de España and CNMV.

Intermediation of spot transactions[1]

TABLE 2.3

Million euro	2011	2012	2013	2013 II	2013 III	2013 IV	2014 I	2014 II
FIXED-INCOME								
Total	13,609,652.0	10,508,139.1	10,492,026.8	2,718,987.6	2,552,857.9	2,752,115.4	2,842,302.0	2,462,930.4
Broker-dealers	3,759,229.2	2,900,770.8	5,217,059.4	1,410,101.5	1,250,338.3	1,369,758.1	1,500,575.6	1,227,460.1
Spanish organised markets	436,875.9	556,756.0	2,597,608.6	683,222.7	618,834.2	693,929.8	715,449.1	573,262.8
Other Spanish markets	2,764,344.5	1,943,730.6	2,310,403.7	644,733.3	568,187.4	598,095.6	710,743.9	584,995.5
Foreign markets	558,008.8	400,284.2	309,047.1	82,145.5	63,316.7	77,732.7	74,382.6	69,201.8
Brokers	9,850,422.8	7,607,368.3	5,274,967.4	1,308,886.1	1,302,519.6	1,382,357.3	1,341,726.4	1,235,470.3
Spanish organised markets	2,931,505.5	2,521,310.9	69,066.6	15,521.4	11,980.2	26,945.1	30,851.4	23,638.3
Other Spanish markets	6,741,733.6	4,883,226.6	5,007,723.4	1,246,976.9	1,224,718.9	1,304,977.4	1,237,155.8	1,150,873.0
Foreign markets	177,183.7	202,830.8	198,177.4	46,387.8	65,820.5	50,434.8	73,719.2	60,959.0
EQUITY								
Total	977,126.1	736,602.3	692,872.0	166,996.5	160,370.6	206,856.8	211,344.9	225,722.2
Broker-dealers	952,388.7	692,058.6	650,094.9	158,671.5	149,470.0	191,524.2	202,296.1	211,503.8
Spanish organised markets	882,143.3	639,498.2	590,027.1	144,150.0	136,808.1	170,842.4	188,015.6	194,806.0
Other Spanish markets	3,418.3	1,806.3	2,585.4	735.9	555.7	814.1	642.6	755.8
Foreign markets	66,827.1	50,754.1	57,482.4	13,785.6	12,106.2	19,867.7	13,637.9	15,942.0
Brokers	24,737.4	44,543.7	42,777.1	8,325.0	10,900.6	15,332.6	9,048.8	14,218.4
Spanish organised markets	19,372.7	14,532.5	14,677.2	2,880.2	3,095.1	3,734.1	4,227.9	4,125.2
Other Spanish markets	508.5	6,695.5	9,140.4	1,592.4	2,764.7	4,158.1	1,359.7	2,730.7
Foreign markets	4,856.2	23,315.7	18,959.5	3,852.4	5,040.8	7,440.4	3,461.2	7,362.5

1 Period accumulated data. Quarterly.

Intermediation of derivative transactions[1, 2]

TABLE 2.4

Million euro	2011	2012	2013	2013 II	2013 III	2013 IV	2014 I	2014 II
Total	11,827,144.3	6,536,223.6	6,316,221.8	1,428,048.1	1,495,263.5	1,716,839.8	1,926,896.5	1,922,535.5
Broker-dealers	9,113,831.5	5,777,847.8	6,110,753.4	1,387,106.6	1,451,485.8	1,672,029.8	1,879,980.7	1,872,909.0
Spanish organised markets	3,005,801.7	1,819,388.6	2,410,367.9	572,353.3	537,497.8	723,628.7	790,796.4	758,339.0
Foreign organised markets	5,658,687.9	3,718,052.1	3,423,638.5	765,383.5	834,843.8	868,983.4	969,114.4	1,024,667.0
Non-organised markets	449,341.9	240,407.1	276,747.0	49,369.8	79,144.2	79,417.7	120,069.9	89,903.0
Brokers	2,713,312.8	758,375.8	205,468.4	40,941.5	43,777.7	44,810.0	46,915.8	49,626.5
Spanish organised markets	6,818.6	5,371.0	4,668.8	1,198.5	732.7	1,036.8	1,071.4	2,234.6
Foreign organised markets	2,451,637.6	566,337.3	29,584.9	8,837.8	9,357.0	3,587.0	3,514.2	8,605.3
Non-organised markets	254,856.6	186,667.5	171,214.7	30,905.2	33,688.0	40,186.2	42,330.2	38,786.6

1 The amount of the buy and sell transactions of financial assets, financial futures on values and interest rates, and other transactions on interest rates will be the securities nominal or notional value or the principal to which the contract reaches. The amount of the transactions on options will be the strike price of the underlying asset multiplied by the number of instruments committed.

2 Period accumulated data. Quarterly.

Portfolio management. Number of portfolios and assets under management[1]

TABLE 2.5

	2011	2012	2013	2013 II	2013 III	2013 IV	2014 I	2014 II
NUMBER OF PORTFOLIOS								
Total	13,409	10,985	11,380	11,909	11,907	11,380	12,584	13,286
Broker-dealers. Total	6,483	4,122	4,001	3,986	3,931	4,001	4,248	4,496
IIC[2]	89	68	59	71	66	59	58	60
Other[3]	6,394	4,054	3,942	3,915	3,865	3,942	4,190	4,436
Brokers. Total	3,637	3,680	3,699	4,371	4,385	3,699	4,447	4,697
IIC[2]	53	51	57	54	58	57	57	62
Other[3]	3,584	3,629	3,642	4,317	4,327	3,642	4,390	4,635
Portfolio management companies. Total	3,289	3,183	3,680	3,552	3,591	3,680	3,889	4,093
IIC[2]	5	5	12	5	5	12	12	12
Other[3]	3,284	3,178	3,668	3,547	3,586	3,668	3,877	4,081
ASSETS UNDER MANAGEMENT (thousand euro)								
Total	9,554,589	9,350,841	10,692,140	10,225,139	10,744,372	10,692,140	11,480,629	12,243,199
Broker-dealers. Total	4,166,167	3,578,436	4,171,331	3,768,661	4,018,413	4,171,331	4,476,143	4,788,421
IIC[2]	961,931	965,479	1,160,986	1,100,775	1,185,098	1,160,986	1,241,865	1,413,549
Other[3]	3,204,236	2,612,957	3,010,345	2,667,886	2,833,315	3,010,345	3,234,278	3,374,871
Brokers. Total	2,361,944	1,927,219	2,284,773	2,219,817	2,790,102	2,284,773	2,463,693	2,632,958
IIC[2]	863,856	417,981	610,839	506,408	568,414	610,839	656,435	778,850
Other[3]	1,498,088	1,509,238	1,673,934	1,713,409	2,221,688	1,673,934	1,807,259	1,854,107
Portfolio management companies. Total	3,026,478	3,845,186	4,236,036	4,236,661	3,935,857	4,236,036	4,540,793	4,821,820
IIC[2]	98,645	107,691	195,735	108,919	111,496	195,735	201,528	206,687
Other[3]	2,927,833	3,737,495	4,040,301	4,127,742	3,824,361	4,040,301	4,339,265	4,615,133

1 Data at the end of period. Quarterly.
2 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes. Includes both resident and non resident IICs management.
3 Includes the rest of clients, both covered and not covered by the Investment Guarantee Fund, an investor compensation scheme regulated by Royal Decree 948/2001.

Financial advice. Number of contracts and assets advised[1]

TABLE 2.6

	2011	2012	2013	2013 II	2013 III	2013 IV	2014 I	2014 II
NUMBER OF CONTRACTS								
Total	7,748	9,362	9,918	9,977	10,113	9,918	9,434	11,702
Broker-dealers. Total[2]	1,509	1,198	1,221	1,426	1,437	1,221	1,250	2,840
Retail clients	1,492	1,183	1,197	1,407	1,415	1,197	1,234	2,811
Professional clients	12	13	17	14	17	17	7	8
Brokers. Total[2]	4,855	6,445	6,961	6,829	6,933	6,961	6,495	7,151
Retail clients	4,736	6,019	6,674	6,552	6,658	6,674	6,213	6,880
Professional clients	102	406	264	254	251	264	259	248
Portfolio management companies. Total[2]	1,384	1,719	1,736	1,722	1,743	1,736	1,689	1,711
Retail clients	1,374	1,712	1,731	1,717	1,738	1,731	1,684	1,706
Professional clients	10	7	5	5	5	5	5	5
ASSETS ADVISED (thousand euro)								
Total	8,156,953	7,589,555	8,547,601	7,669,724	7,808,777	8,547,601	8,869,694	10,170,516
Broker-dealers. Total[2]	1,213,014	820,465	739,401	917,210	922,948	739,401	989,484	2,126,680
Retail clients	863,386	568,359	452,458	660,825	657,597	452,458	480,996	1,191,393
Professional clients	61,711	27,613	44,804	24,259	42,916	44,804	38,407	53,561
Brokers. Total[2]	2,963,397	5,598,708	6,828,313	5,609,395	5,884,830	6,828,313	6,919,775	7,242,376
Retail clients	1,875,867	3,590,416	3,897,689	3,885,782	4,026,339	3,897,689	4,808,503	5,226,643
Professional clients	1,018,647	1,899,566	1,908,486	1,601,814	1,743,956	1,908,486	1,921,458	1,822,436
Portfolio management companies. Total[2]	3,980,542	1,170,382	979,887	1,143,119	1,000,999	979,887	960,435	801,460
Retail clients	594,195	705,185	742,043	715,290	740,544	742,043	712,376	770,208
Professional clients	3,386,347	465,197	237,844	427,829	260,455	237,844	248,059	31,252

1 Data at the end of period. Quarterly.
2 Includes retail, professional and other clients.

Aggregated income statement. Broker-dealers

TABLE 2.7

Thousand euro[1]	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[2]
I. Interest income	91,542	56,161	67,333	46,461	67,333	7,821	25,055	46,454
II. Net commission	490,517	410,740	387,216	277,293	387,216	114,475	229,051	271,606
Commission revenues	776,641	589,027	565,787	411,478	565,787	161,023	323,269	383,973
Brokering	529,711	348,403	347,522	254,621	347,522	98,931	191,070	222,611
Placement and underwriting	7,446	6,869	4,824	4,518	4,824	5,703	7,390	18,266
Securities deposit and recording	21,060	19,775	17,987	13,151	17,987	5,098	10,442	12,309
Portfolio management	16,186	14,883	15,581	10,521	15,581	6,017	10,094	11,910
Design and advising	60,712	12,067	18,597	13,294	18,597	5,002	8,728	9,739
Stocks search and placement	485	50	8,659	7,973	8,659	53	3,956	4,336
Market credit transactions	8	8	22	19	22	0	0	0
IICs[3] marketing	59,588	45,050	51,766	37,532	51,766	14,517	30,549	35,412
Other	81,446	141,924	100,829	69,847	100,829	25,702	61,039	69,391
Commission expenses	286,124	178,287	178,571	134,185	178,571	46,548	94,218	112,367
III. Financial investment income	271,956	9,403	256,110	229,454	256,110	2,765	36,828	68,914
IV. Net exchange differences and other operating products and expenses	-194,355	-28,522	-138,467	-155,814	-138,467	52,098	49,887	31,902
V. Gross income	659,659	447,782	572,192	397,395	572,192	177,159	340,821	418,876
VI. Operating income	207,379	35,304	185,040	113,752	185,040	84,355	150,453	191,285
VII. Earnings from continuous activities	148,553	-12,057	140,805	96,165	140,805	66,720	121,661	151,594
VIII. Net earnings of the period	148,553	-12,057	140,805	96,165	140,805	66,720	121,661	151,594

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
2 Available data: July 2014.
3 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

Results of proprietary trading. Broker-dealers

TABLE 2.8

Thousand euro[1]	2011	2012	2013	2013 II	2013 III	2013 IV	2014 I	2014 II
TOTAL								
Total	158,070	21,318	192,753	81,363	126,456	192,753	63,697	112,779
Money market assets and public debt	16,458	18,936	17,163	11,646	14,421	17,163	4,410	6,993
Other fixed-income securities	79,041	16	55,096	38,246	50,933	55,096	11,962	17,253
Domestic portfolio	67,052	-14,813	42,328	31,665	42,557	42,328	7,588	9,786
Foreign portfolio	11,989	14,829	12,768	6,581	8,376	12,768	4,374	7,467
Equities	-406,742	356,595	17,869	-148,956	-145,147	17,869	137,295	534,591
Domestic portfolio	10,381	8,003	44,517	3,474	39,373	44,517	30,193	68,998
Foreign portfolio	-417,123	348,592	-26,648	-152,430	-184,520	-26,648	107,102	465,593
Derivatives	669,747	-308,833	207,347	304,823	344,568	207,347	-145,356	-502,994
Repurchase agreements	785	-3,871	1,378	-514	-520	1,378	168	298
Market credit transactions	0	0	0	32	48	0	0	0
Deposits and other transactions with financial Intermediaries	16,668	5,383	3,405	1,463	2,610	3,405	475	-47
Net exchange differences	-198,307	-37,363	-149,034	-132,712	-163,785	-149,034	49,363	43,447
Other operating products and expenses	3,952	8,841	10,565	5,737	7,970	10,565	2,735	6,441
Other transactions	-23,532	-18,386	28,964	1,598	15,358	28,964	2,645	6,797
INTEREST INCOME								
Total	91,541	56,160	67,333	28,021	46,460	67,333	7,821	25,055
Money market assets and public debt	2,327	4,055	4,356	3,560	4,796	4,356	731	1,265
Other fixed-income securities	20,241	17,089	4,572	1,870	3,239	4,572	1,268	2,275
Domestic portfolio	17,903	15,180	3,149	1,223	2,264	3,149	971	1,593
Foreign portfolio	2,338	1,909	1,423	647	975	1,423	297	682
Equities	54,249	35,220	40,163	18,541	30,343	40,163	4,954	18,630
Domestic portfolio	36,991	19,064	14,672	2,741	8,739	14,672	16	6,737
Foreign portfolio	17,258	16,156	25,491	15,800	21,604	25,491	4,938	11,893
Repurchase agreements	785	-3,871	1,378	-514	-520	1,378	168	298
Market credit transactions	0	0	0	32	48	0	0	0
Deposits and other transactions with financial Intermediaries	16,668	5,383	3,405	1,463	2,610	3,405	475	-47
Other transactions	-2,729	-1,716	13,459	3,069	5,944	13,459	225	2,634
FINANCIAL INVEST INCOME								
Total	271,956	9,404	256,109	182,949	229,454	256,109	2,765	36,828
Money market assets and public debt	14,131	14,881	12,807	8,086	9,625	12,807	3,679	5,728
Other fixed-income securities	58,800	-17,073	50,524	36,376	47,694	50,524	10,694	14,978
Domestic portfolio	49,149	-29,993	39,179	30,442	40,293	39,179	6,617	8,193
Foreign portfolio	9,651	12,920	11,345	5,934	7,401	11,345	4,077	6,785
Equities	-460,991	321,375	-22,294	-167,497	-175,490	-22,294	132,341	515,961
Domestic portfolio	-26,610	-11,061	29,845	733	30,634	29,845	30,177	62,261
Foreign portfolio	-434,381	332,436	-52,139	-168,230	-206,124	-52,139	102,164	453,700
Derivatives	669,747	-308,833	207,347	304,823	344,568	207,347	-145,356	-502,994
Other transactions	-9,731	-946	7,725	1,161	3,057	7,725	1,407	3,155
EXCHANGE DIFFERENCES AND OTHER ITEMS								
Total	-205,427	-44,246	-130,689	-129,607	-149,458	-130,689	53,111	50,896
Net exchange differences	-198,307	-37,363	-149,034	-132,712	-163,785	-149,034	49,363	43,447
Other operating products and expenses	3,952	8,841	10,565	5,737	7,970	10,565	2,735	6,441
Other transactions	-11,072	-15,724	7,780	-2,632	6,357	7,780	1,013	1,008

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.

Aggregated income statement. Brokers

TABLE 2.9

				2013		2014		
Thousand euro[1]	2011	2012	2013	III	IV	I	II	III[2]
I. Interest income	2,481	1,912	1,799	1,327	1,799	284	615	691
II. Net commission	97,886	93,246	110,422	75,050	110,422	30,650	63,355	74,332
Commission revenues	112,351	108,198	130,738	87,618	130,738	36,017	75,553	88,800
Brokering	36,354	38,112	40,196	28,429	40,196	14,456	25,577	28,839
Placement and underwriting	2,870	3,128	4,715	2,764	4,715	634	3,851	5,159
Securities deposit and recording	441	576	505	394	505	101	311	389
Portfolio management	12,352	14,476	16,267	10,090	16,267	3,624	6,995	8,075
Design and advising	5,349	3,123	5,894	3,345	5,894	1,377	2,803	3,152
Stocks search and placement	61	88	55	55	55	0	0	0
Market credit transactions	42	30	11	11	11	0	0	0
IICs[3] marketing	21,381	25,949	35,823	23,835	35,823	9,705	21,667	25,481
Other	33,500	22,715	27,272	18,694	27,272	6,120	14,350	17,706
Commission expenses	14,465	14,952	20,316	12,568	20,316	5,366	12,198	14,468
III. Financial investment income	622	1,255	5	273	5	203	565	893
IV. Net exchange differences and other operating products and expenses	-1,539	-1,459	-1,633	-1,307	-1,633	-261	-664	-632
V. Gross income	99,450	94,954	110,593	75,343	110,593	30,874	63,871	75,283
VI. Operating income	7,758	4,598	18,422	11,500	18,422	6,871	14,609	17,426
VII. Earnings from continuous activities	5,489	3,583	14,321	11,064	14,321	6,490	13,799	16,374
VIII. Net earnings of the period	5,489	3,583	14,321	11,064	14,321	6,490	13,799	16,374

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
2 Available data: July 2014.
3 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

Aggregated income statement. Portfolio management companies

TABLE 2.10

				2013		2014		
Thousand euro[1]	2011	2012	2013	III	IV	I	II	III[2]
I. Interest income	682	733	667	501	667	174	125	376
II. Net commission	7,988	7,879	9,362	6,413	9,362	2,202	4,635	5,799
Commission revenues	18,477	17,887	18,603	14,385	18,603	2,753	5,861	7,322
Portfolio management	16,582	16,307	17,028	13,170	17,028	2,167	5,035	6,305
Design and advising	1,894	1,579	1,575	1,214	1,575	458	514	570
IICs[3] marketing	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	128	312	447
Commission expenses	10,489	10,008	9,241	7,972	9,241	551	1,226	1,523
III. Financial investment income	186	4	9	26	9	23	46	42
IV. Net exchange differences and other operating products and expenses	-11	-1	-32	1	-32	-48	57	-191
V. Gross income	8,845	8,615	10,006	6,941	10,006	2,351	4,863	6,026
VI. Operating income	1,526	1,406	3,554	2,116	3,554	1,088	1,930	2,708
VII. Earnings from continuous activities	1,042	953	2,472	1,473	2,472	770	1,380	1,928
VIII. Net earnings of the period	1,042	953	2,472	1,473	2,472	770	1,380	1,928

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
2 Available data: July 2014.
3 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

Capital adequacy and capital ratio

TABLE 2.11

	2011	2012	2013	2013 II	2013 III	2013 IV	2014 I[2]	2014 II[2]
TOTAL								
Total capital ratio[3]	–	–	–	–	–	–	31.37	39.61
Own funds surplus (thousand euro)	1,219,553	1,085,783	1,033,669	1,043,016	1,059,449	1,033,669	1,005,114	1,123,569
Surplus (%)[4]	321.37	300.76	322.58	293.44	315.41	322.58	292.09	395.12
Number of companies according to its surplus percentage								
≤100%	36	37	34	31	32	34	21	15
>100-≤300%	23	24	22	30	28	22	24	24
>300-≤500%	19	17	17	16	19	17	8	11
>500%	22	15	14	15	13	14	33	35
BROKER-DEALERS								
Total capital ratio[3]	–	–	–	–	–	–	33.16	43.55
Own funds surplus (thousand euro)	1,134,406	1,017,597	960,624	969,750	977,300	960,624	926,453	1,043,030
Surplus (%)[4]	345.52	329.03	367.43	321.70	346.46	367.43	314.48	444.34
Number of companies according to its surplus percentage								
≤100%	12	7	9	10	10	9	6	4
>100-≤300%	10	17	11	15	14	11	13	10
>300-≤500%	13	12	13	12	13	13	4	6
>500%	14	10	8	9	8	8	18	20
BROKERS								
Total capital ratio[3]	–	–	–	–	–	–	28.25	29.66
Own funds surplus (thousand euro)	68,007	53,531	62,199	59,966	66,126	62,199	68,175	70,184
Surplus (%)[4]	189.22	161.23	164.46	184.41	175.77	164.46	253.09	270.75
Number of companies according to its surplus percentage								
≤100%	21	27	22	18	20	22	14	10
>100-≤300%	12	6	10	14	12	10	9	12
>300-≤500%	5	4	3	3	5	3	4	5
>500%	7	4	6	5	5	6	13	13
PORTFOLIO MANAGEMENT COMPANIES								
Total capital ratio[3]	–	–	–	–	–	–	11.72	11.49
Own funds surplus (thousand euro)	17,140	14,655	10,846	13,300	16,023	10,846	10,486	10,355
Surplus (%)[4]	112.61	79.01	51.21	61.94	98.92	51.21	46.44	43.68
Number of companies according to its surplus percentage								
≤100%	3	3	3	3	2	3	1	1
>100-≤300%	1	1	1	1	2	1	2	2
>300-≤500%	1	1	1	1	1	1	0	0
>500%	1	1	0	1	0	0	2	2

1 On January 1st 2014 entered into force the Regulation (EU) N º 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, which has changed the own funds requirements calculation.
2 Provisional data.
3 Total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount. This ratio should be under 8%.
4 Average surplus percentage is weighted by the required equity of each company. It is an indicator of the number of times, in percentage terms, that the surplus contains the required equity in an average company.

Return on equity (ROE) before taxes[1]

TABLE 2.12

	2011	2012	2013	2013 II	2013 III	2013 IV	2014 I	2014 II
TOTAL								
Average (%)[2]	13.22	3.19	16.49	12.18	13.12	16.49	25.56	23.82
Number of companies according to its annualized return								
Losses	32	31	13	25	22	13	15	13
0-≤15%	44	33	37	32	41	37	32	29
>15-≤45%	14	24	22	24	21	22	23	26
>45-≤75%	5	3	9	5	4	9	8	9
>75%	5	2	6	6	4	6	8	8
BROKER-DEALERS								
Average (%)[2]	13.79	2.97	16.39	11.78	12.98	16.39	25.96	23.73
Number of companies according to its annualized return								
Losses	13	14	5	13	12	5	5	2
0-≤15%	24	18	15	17	17	15	17	16
>15-≤45%	7	11	16	12	13	16	11	16
>45-≤75%	2	2	4	2	1	4	5	4
>75%	3	1	1	2	2	1	3	2
BROKERS								
Average (%)[2]	7.46	6.25	19.34	20.26	15.92	19.34	24.77	29.45
Number of companies according to its annualized return								
Losses	18	15	8	10	9	8	10	11
0-≤15%	16	11	18	11	21	18	12	10
>15-≤45%	6	13	5	12	7	5	10	8
>45-≤75%	3	1	5	3	3	5	3	5
>75%	2	1	5	4	2	5	5	6
PORTFOLIO MANAGEMENT COMPANIES								
Average (%)[2]	4.70	6.59	11.41	5.87	9.25	11.41	12.55	11.16
Number of companies according to its annualized return								
Losses	1	2	0	2	1	0	0	0
0-≤15%	4	4	4	4	3	4	3	3
>15-≤45%	1	0	1	0	1	1	2	2
>45-≤75%	0	0	0	0	0	0	0	0
>75%	0	0	0	0	0	0	0	0

1 ROE has been calculated as:

$$ROE = \frac{Earnings\ before\ taxes\ (annualized)}{Own\ Funds}$$

Own Funds= Share capital + Paid-in surplus + Reserves – Own shares + Prior year profits and retained earnings – Interim dividend.

2 Average weighted by equity, %.

Financial advisory firms. Main figures

TABLE 2.13

Thousand euro	2011	2012	2013	2012 II	2013 I	2013 II	2014 I[1]
ASSETS ADVISED[2]							
Total	16,033,108	14,776,498	17,630,081	14,776,498	15,442,297	17,630,081	14,444,024
Retail clients	2,181,943	3,267,079	4,991,653	3,267,079	3,975,400	4,991,653	5,476,008
Professional	3,151,565	3,594,287	3,947,782	3,594,287	3,476,305	3,947,782	4,465,564
Other	10,699,600	7,915,132	8,690,646	7,915,132	7,990,593	8,690,646	4,502,452
COMMISSION INCOME[3]							
Total	31,053	26,177	33,273	26,177	14,700	33,273	21,670
Commission revenues	30,844	26,065	33,066	26,065	14,676	33,066	21,229
Other income	209	112	206	112	25	206	441
EQUITY							
Total	12,320	13,402	21,498	13,402	15,119	21,498	22,897
Share capital	3,895	4,365	5,156	4,365	4,820	5,156	5,227
Reserves and retained earnings	950	4,798	9,453	4,798	7,251	9,453	9,865
Income for the year[2]	7,474	4,239	6,890	4,239	3,048	6,890	7,805

1 Advance data including 95% of financial advisory firms registered at the CNMV.
2 Data at the end of each period. Half-yearly.
3 Accumulated data from the beginning of the year to the last day of every semester.

3 Collective investment schemes (IICs)[a, b]

Number, management companies and depositories of collective investment schemes registered at the CNMV

TABLE 3.1

				2013		2014		
	2011	2012	2013	III	IV	I	II	III[1]
Total financial IICs	5,460	5,246	5,129	5,178	5,129	5,156	5,176	5,225
Mutual funds	2,341	2,205	2,043	2,084	2,043	2,049	2,012	2,009
Investment companies	3,056	2,981	3,035	3,039	3,035	3,058	3,114	3,163
Funds of hedge funds	27	24	22	22	22	21	20	20
Hedge funds	36	36	29	33	29	28	30	33
Total real estate IICs	14	14	16	16	16	16	15	15
Real estate investment funds	6	6	6	6	6	6	6	6
Real estate investment companies	8	8	10	10	10	10	9	9
Total foreign IICs marketed in Spain	739	754	780	772	780	796	802	810
Foreign funds marketed in Spain	426	421	408	409	408	414	416	418
Foreign companies marketed in Spain	313	333	372	363	372	382	386	392
Management companies	114	105	96	101	96	96	97	96
IIC depositories	97	84	77	78	77	76	74	74

1 Available data: August 2014.

Number of IICs investors and shareholders

TABLE 3.2

				2013		2014		
	2011	2012	2013	III	IV	I	II[1]	III[2]
Total financial IICs	5,249,813	4,815,628	5,463,820	5,209,038	5,463,820	5,831,525	6,241,005	6,393,532
Mutual funds	4,835,193	4,410,763	5,050,556	4,799,634	5,050,556	5,409,951	5,813,853	5,960,834
Investment companies	414,620	404,865	413,264	409,404	413,264	421,574	427,152	432,698
Total real estate IICs	30,678	26,155	6,773	22,484	6,773	5,849	5,142	5,153
Real estate investment funds	29,735	25,218	5,750	21,466	5,750	4,798	4,090	4,101
Real estate investment companies	943	937	1,023	1,018	1,023	1,051	1,052	1,052
Total foreign IICs marketed in Spain[3]	761,380	819,485	1,067,708	1,002,131	1,067,708	1,037,958	1,263,669	–
Foreign funds marketed in Spain	177,832	163,805	204,067	194,697	204,067	194,846	228,168	–
Foreign companies marketed in Spain	583,548	655,680	863,641	807,434	863,641	843,112	1,035,501	–

1 Provisional data for foreign IICs.
2 Available data: July 2014.
3 Exchange traded funds (ETFs) data is not included.

IICs total net assets

TABLE 3.3

				2013		2014		
Million euro	2011	2012	2013	III	IV	I	II[1]	III[2]
Total financial IICs	155,982.6	147,722.2	184,300.9	171,271.9	184,300.9	198,351.8	212,946.1	216,494.8
Mutual funds[3]	132,368.6	124,040.4	156,680.1	145,168.5	156,680.1	169,513.6	182,735.8	186,176.5
Investment companies	23,614.0	23,681.8	27,620.8	26,103.4	27,620.8	28,838.2	30,210.3	30,318.3
Total real estate IICs	4,807.1	4,485.5	4,536.2	4,759.1	4,536.2	4,464.0	4,354.7	4,342.9
Real estate investment funds	4,494.6	4,201.5	3,682.6	3,899.2	3,682.6	3,614.7	3,525.8	3,516.6
Real estate investment companies	312.5	284.1	853.7	859.9	853.7	849.3	828.9	826.3
Total foreign IICs marketed in Spain[4]	29,969.5	38,075.3	54,727.2	50,468.8	54,727.2	60,859.6	67,979.9	–
Foreign funds marketed in Spain	6,382.9	6,271.5	8,523.2	8,284.4	8,523.2	9,151.9	9,608.7	–
Foreign companies marketed in Spain	23,586.6	31,803.8	46,204.0	42,184.4	46,204.0	51,707.6	58,371.2	–

1 Provisional data for foreign IICs.
2 Available data: July 2014.
3 For June 2014, mutual funds investments in financial IICs reached 5.08 billion euro.
4 Exchange traded funds (ETFs) data is not included.

a IICs: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

b In this document, neither hedge funds nor funds of hedge funds are included in the figures referred to mutual funds.

Mutual funds asset allocation[1]

TABLE 3.4

				2013			2014	
Million euro	2011	2012	2013	II	III	IV	I	II[2]
Asset	132,368.6	124,040.4	156,680.1	135,933.5	145,168.5	156,680.1	169,513.6	182,735.8
Portfolio investment	126,370.0	118,446.5	149,343.3	129,370.9	137,908.9	149,343.3	161,847.5	174,368.0
Domestic securities	90,394.4	82,929.6	108,312.7	94,936.5	100,290.1	108,312.7	113,479.1	118,229.3
Debt securities	72,076.1	65,999.1	79,480.4	71,448.3	74,392.1	79,480.4	82,222.1	84,391.7
Shares	3,087.0	3,140.8	5,367.4	3,518.9	4,328.2	5,367.4	6,479.8	7,685.1
Investment collective schemes	6,038.5	3,170.7	4,498.1	3,913.4	4,066.6	4,498.1	4,973.1	5,432.6
Deposits in Credit institutions	8,961.2	10,333.3	18,443.7	15,750.8	17,078.0	18,443.7	19,264.4	20,102.2
Derivatives	231.5	285.7	523.0	305.1	425.1	523.0	523.3	602.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	16.3	15.2
Foreign securities	35,968.1	35,512.7	41,029.5	34,431.2	37,616.5	41,029.5	48,367.5	56,138.0
Debt securities	22,713.5	20,493.9	20,312.8	18,053.8	19,303.0	20,312.8	24,821.9	28,967.5
Shares	7,037.3	7,668.6	11,034.2	8,458.3	9,531.3	11,034.2	12,343.9	13,379.4
Investment collective schemes	6,061.6	7,112.3	9,286.0	7,726.3	8,461.8	9,286.0	10,747.8	13,266.4
Deposits in Credit institutions	23.0	45.8	45.6	39.3	36.2	45.6	37.6	37.9
Derivatives	131.6	191.6	350.9	153.3	284.0	350.9	410.9	481.3
Other	1.1	0.6	0.0	0.1	0.0	0.0	5.5	5.5
Doubtful assets and matured investment	7.5	4.2	1.2	3.2	2.4	1.2	0.9	0.7
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash	5,837.6	5,374.7	7,062.3	6,264.0	7,034.6	7,062.3	7,651.2	8,485.2
Net balance (Debtors - Creditors)	161.1	219.2	274.4	298.7	225.0	274.4	14.9	-117.3

1 Hedge funds and funds of hedge funds are not included in these figures due to the entry into force, on 31 December 2008, of Circular CR CNMV 3/2008 which establishes a different deadline in reporting accounting information to CNMV.
2 Provisional data.

Investment companies asset allocation

TABLE 3.5

				2013			2014	
Million euro	2011	2012	2013	II	III	IV	I	II[1]
Asset	23,614.0	23,681.8	27,620.8	24,771.1	26,103.4	27,620.8	28,838.2	30,210.3
Portfolio investment	22,521.9	22,512.4	26,105.6	23,438.8	24,596.6	26,105.6	27,223.3	28,425.9
Domestic securities	12,385.3	11,568.0	12,118.9	11,939.5	12,370.8	12,118.9	12,081.9	12,086.2
Debt securities	7,460.8	6,021.4	6,304.3	6,092.5	6,342.6	6,304.3	6,253.8	5,964.2
Shares	2,508.5	2,271.7	3,005.5	2,332.0	2,696.3	3,005.5	3,184.6	3,372.5
Investment collective schemes	667.4	701.0	1,134.9	805.7	1,031.8	1,134.9	1,317.5	1,462.4
Deposits in Credit institutions	1,721.7	2,531.9	1,645.4	2,671.3	2,258.6	1,645.4	1,298.4	1,256.8
Derivatives	-5.2	7.7	1.4	4.9	9.9	1.4	-1.8	-1.5
Other	32.2	34.3	27.4	33.1	31.6	27.4	29.3	31.8
Foreign securities	10,131.1	10,940.2	13,985.1	11,495.8	12,223.4	13,985.1	15,137.9	16,337.0
Debt securities	3,070.6	2,489.2	2,613.7	2,041.9	2,154.8	2,613.7	2,963.3	3,352.8
Shares	3,384.3	3,587.8	5,085.5	3,955.9	4,372.5	5,085.5	5,476.2	5,822.3
Investment collective schemes	3,516.3	4,700.2	6,119.8	5,359.0	5,536.6	6,119.8	6,559.8	7,026.6
Deposits in Credit institutions	10.8	14.0	5.5	10.6	8.6	5.5	6.3	4.7
Derivatives	145.1	147.1	152.5	126.7	144.7	152.5	124.2	122.4
Other	3.9	1.8	8.1	1.8	6.2	8.1	8.1	8.2
Doubtful assets and matured investment	5.5	4.3	1.5	3.5	2.4	1.5	3.5	2.7
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fixed assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Cash	854.6	959.7	1,302.0	1,127.9	1,300.3	1,302.0	1,408.3	1,605.4
Net balance (Debtors - Creditors)	237.4	209.6	213.1	204.2	206.4	213.1	206.5	178.9

1 Provisional data.

Financial mutual funds: number, investors and total net assets by category[1]

TABLE 3.6

	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[2]
NO. OF FUNDS								
Total financial mutual funds	2,310	2,185	2,045	2,070	2,045	2,037	2,023	2,006
Fixed-income[3]	508	454	384	388	384	374	375	376
Mixed fixed-income[4]	140	125	122	125	122	119	119	119
Mixed equity[5]	128	117	128	128	128	127	126	126
Euro equity	148	127	108	113	108	103	104	102
Foreign equity	220	211	193	192	193	190	190	187
Guaranteed fixed-income	351	398	374	391	374	355	336	319
Guaranteed equity[6]	420	361	308	316	308	307	297	296
Global funds	203	192	162	168	162	160	163	164
Passive management	59	85	169	148	169	205	217	220
Absolute return	133	115	97	101	97	97	96	97
INVESTORS								
Total financial mutual funds	4,835,193	4,410,771	5,050,719	4,799,719	5,050,719	5,410,205	5,814,175	5,961,233
Fixed-income[3]	1,384,946	1,261,634	1,508,009	1,410,867	1,508,009	1,612,002	1,712,747	1,750,109
Mixed fixed-income[4]	206,938	188,574	240,676	205,034	240,676	314,879	425,424	465,975
Mixed equity[5]	145,150	138,096	182,223	161,099	182,223	211,810	252,255	270,576
Euro equity	237,815	220,450	293,193	254,009	293,193	323,474	347,335	361,243
Foreign equity	448,539	398,664	457,606	435,571	457,606	531,270	601,531	631,082
Guaranteed fixed-income	1,042,658	1,075,852	1,002,458	1,091,051	1,002,458	871,622	796,983	775,521
Guaranteed equity[6]	912,298	727,880	608,051	628,100	608,051	613,296	602,530	600,653
Global funds	127,336	101,321	128,741	117,838	128,741	146,223	168,796	180,598
Passive management	100,416	125,003	441,705	321,669	441,705	575,262	673,166	683,357
Absolute return	229,097	173,297	188,057	174,481	188,057	210,367	233,407	242,119
TOTAL NET ASSETS (million euro)								
Total financial mutual funds	132,368.6	124,040.4	156,680.1	145,168.5	156,680.1	169,513.6	182,735.8	186,176.5
Fixed-income[3]	46,945.5	40,664.6	55,058.9	50,381.0	55,058.9	59,381.8	62,740.7	64,180.8
Mixed fixed-income[4]	5,253.6	5,500.9	8,138.0	6,873.4	8,138.0	10,600.2	15,666.0	17,382.8
Mixed equity[5]	2,906.1	3,179.9	6,312.4	4,783.4	6,312.4	7,648.6	9,242.9	10,078.3
Euro equity	4,829.2	5,270.2	8,632.8	7,021.5	8,632.8	7,753.1	8,601.7	8,513.7
Foreign equity	6,281.2	6,615.0	8,849.0	7,967.6	8,849.0	11,693.7	12,426.8	12,459.0
Guaranteed fixed-income	35,058.0	36,445.0	31,481.2	35,504.7	31,481.2	27,529.5	24,920.1	24,097.7
Guaranteed equity[6]	18,014.5	14,413.2	12,503.8	12,767.2	12,503.8	12,810.3	12,940.7	12,916.6
Global funds	5,104.7	4,358.6	4,528.1	4,352.8	4,528.1	5,007.9	5,650.3	5,920.0
Passive management	1,986.2	2,991.2	16,515.9	10,926.5	16,515.9	21,847.0	24,898.6	24,806.2
Absolute return	5,989.7	4,601.9	4,659.9	4,590.4	4,659.9	5,241.5	5,648.0	5,821.4

1 Sub-funds which have sent reports to the CNMV, excluding those in process of dissolution or liquidation.
2 Available data: July 2014.
3 From III 2011 on includes: Fixed income euro, Foreign fixed-income, Monetary market funds and Short-term monetary market funds. Until II 2011 included: Fixed income euro, Foreign fixed-income and Monetary market funds.
4 Mixed euro fixed-income and Foreign mixed fixed-income.
5 Mixed euro equity and Foreign mixed equity.
6 Guaranteed equity and partial guarantee.

Financial mutual funds: Detail of investors and total net assets by type of investors

TABLE 3.7

	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[1]
INVESTORS								
Total financial mutual funds	4,835,193	4,410,771	5,050,719	4,799,719	5,050,719	5,410,205	5,814,175	5,961,233
Individuals	4,706,193	4,293,071	4,906,380	4,665,265	4,906,380	5,254,889	5,649,064	5,793,374
Residents	4,645,384	4,237,534	4,848,184	4,608,356	4,848,184	5,194,854	5,587,276	5,729,814
Non-residents	60,809	55,537	58,196	56,909	58,196	60,035	61,788	63,560
Legal entities	129,000	117,700	144,339	134,454	144,339	155,316	165,111	167,859
Credit Institutions	490	473	521	520	521	589	590	618
Other resident Institutions	127,765	116,589	143,083	133,198	143,083	153,950	163,695	166,431
Non-resident Institutions	745	638	735	736	735	777	826	810
TOTAL NET ASSETS (million euro)								
Total financial mutual funds	132,368.6	124,040.4	156,680.1	145,168.5	156,680.1	169,513.6	182,735.8	186,176.5
Individuals	106,627.6	101,963.8	125,957.2	117,097.2	125,957.2	135,612.9	145,852.7	148,679.2
Residents	105,088.0	100,515.7	124,175.3	115,454.6	124,175.3	133,674.6	143,752.0	146,527.3
Non-residents	1,539.6	1,448.0	1,781.9	1,642.5	1,781.9	1,938.3	2,100.7	2,152.0
Legal entities	25,741.1	22,076.6	30,722.9	28,071.3	30,722.9	33,900.7	36,883.2	37,497.3
Credit Institutions	1,446.7	1,075.4	547.6	568.2	547.6	519.0	524.5	625.0
Other resident Institutions	23,880.7	20,657.1	29,743.3	27,044.1	29,743.3	32,922.7	35,871.5	36,376.2
Non-resident Institutions	413.7	344.1	431.9	459.0	431.9	459.0	487.1	496.2

1 Available data: July 2014.

Subscriptions and redemptions of financial mutual funds by category[1]

TABLE 3.8

Million euro	2011	2012	2013	2013 II	2013 III	2013 IV	2014 I	2014 II
SUBSCRIPTIONS								
Total financial mutual funds	58,145.0	51,006.7	91,115.7	24,368.4	19,197.3	29,650.2	34,856.3	32,927.4
Fixed-income	27,206.2	32,924.2	50,154.7	15,803.3	10,626.0	14,459.2	16,218.9	15,222.9
Mixed fixed-income	1,332.4	1,440.2	4,569.8	1,009.0	766.6	2,009.3	3,126.7	5,853.9
Mixed equity	815.7	590.0	3,021.8	496.0	656.0	1,473.2	1,615.8	1,973.9
Euro equity	2,085.0	1,257.5	4,082.8	866.6	793.8	1,722.5	1,921.3	1,665.8
Foreign equity	3,835.1	1,693.8	3,697.4	984.9	826.5	1,187.7	1,425.9	1,323.2
Guaranteed fixed-income	13,965.7	7,976.3	5,964.0	1,763.8	908.8	335.4	287.2	125.2
Guaranteed equity	2,570.7	1,420.7	1,937.5	502.7	524.5	441.0	1,141.2	966.6
Global funds	3,261.6	1,270.9	2,175.2	496.7	439.0	738.7	766.5	836.4
Passive management	924.7	1,402.2	13,627.5	1,969.8	3,274.0	6,693.8	7,394.1	4,087.3
Absolute return	2,147.7	1,031.0	1,885.0	475.6	382.0	589.5	958.7	872.3
REDEMPTIONS								
Total financial mutual funds	68,983.6	63,744.4	66,982.7	19,151.6	13,330.5	20,845.9	24,786.4	22,161.4
Fixed-income	37,633.9	38,767.8	36,371.6	11,758.0	7,187.6	10,072.8	12,585.6	12,265.9
Mixed fixed-income	3,258.1	2,215.4	2,510.5	599.6	572.2	867.0	803.2	952.2
Mixed equity	1,136.2	973.1	1,139.9	277.5	236.2	441.0	407.0	534.8
Euro equity	1,933.0	1,421.2	2,352.5	764.4	466.1	696.7	966.3	882.9
Foreign equity	4,652.7	2,114.4	2,797.2	827.3	629.2	757.7	1,003.1	946.7
Guaranteed fixed-income	6,737.4	8,829.3	10,433.2	2,099.3	1,864.9	4,041.7	4,050.6	2,787.9
Guaranteed equity	5,632.3	4,944.2	4,007.7	1,357.1	836.3	784.0	1,164.9	1,010.0
Global funds	2,316.3	1,278.4	1,327.8	316.0	260.7	450.0	352.8	301.9
Passive management	1,199.2	830.1	4,089.3	599.4	847.5	2,175.2	3,036.8	2,002.4
Absolute return	4,484.7	2,370.4	1,952.8	553.0	429.8	559.6	416.0	476.7

1 Estimated data.

Financial mutual funds asset change by category: Net subscriptions/redemptions and return on assets

TABLE 3.9

Million euro	2011	2012	2013	2013 II	2013 III	2013 IV	2014 I	2014 II
NET SUBSCRIPTIONS/REDEMPTIONS								
Total financial mutual funds	-10,853.1	-14,597.3	24,086.2	5,205.5	5,847.4	8,808.9	10,082.0	10,766.6
Fixed-income	-10,423.6	-7,739.7	13,405.0	3,934.9	3,329.4	4,411.2	3,831.2	2,955.3
Mixed fixed-income	-1,980.4	-18.8	2,369.7	668.7	132.6	1,149.4	2,319.5	4,897.1
Mixed equity	-375.5	35.8	2,673.3	315.7	668.0	1,340.6	1,216.3	1,441.5
Euro equity	142.0	-115.4	1,733.5	104.6	328.0	1,025.9	-1,220.2	607.3
Foreign equity	-796.0	-425.3	865.9	133.3	175.4	434.9	2,605.7	389.7
Guaranteed fixed-income	7,809.3	-338.8	-6,717.5	-602.6	-2,334.0	-4,318.7	-4,399.8	-2,796.8
Guaranteed equity	-4,053.9	-4,225.9	-2,689.1	-952.7	-593.3	-491.2	149.1	-72.9
Global funds	972.2	-1,021.0	-176.7	-197.9	42.0	40.2	400.7	554.9
Passive management	60.8	823.8	12,675.2	1,851.1	4,150.7	5,196.4	4,636.7	2,423.8
Absolute return	-2,207.9	-1,571.9	-53.2	-49.5	-51.4	20.0	542.8	366.7
RETURN ON ASSETS								
Total financial mutual funds	-673.3	6,289.3	8,566.5	433.0	3,395.2	2,703.1	2,757.7	2,456.0
Fixed-income	744.9	1,459.6	990.0	111.7	315.0	266.9	492.0	403.8
Mixed fixed-income	-85.1	266.1	267.6	-15.8	122.4	115.2	142.6	168.9
Mixed equity	-189.0	238.2	459.3	2.6	203.5	188.5	119.8	152.8
Euro equity	-666.9	558.8	1,629.1	71.4	825.7	585.5	340.4	241.4
Foreign equity	-947.2	759.1	1,368.1	-60.0	494.9	446.5	239.0	343.4
Guaranteed fixed-income	1,070.4	1,727.4	1,754.3	265.8	522.7	295.3	448.1	187.4
Guaranteed equity	21.8	624.5	779.8	59.4	328.4	227.8	157.5	203.3
Global funds	-307.8	274.9	346.2	-11.7	153.5	135.1	79.1	87.5
Passive management	-163.9	196.8	861.0	39.9	380.7	393.0	700.3	627.8
Absolute return	-150.5	184.1	111.1	-30.4	48.4	49.4	38.9	39.8

Financial mutual funds return on assets. Detail by category

TABLE 3.10

				2013			2014	
% of daily average total net assets	2011	2012	2013	II	III	IV	I	II
MANAGEMENT YIELDS								
Total financial mutual funds	0.45	6.03	7.37	0.61	2.67	2.05	1.97	1.68
Fixed-income	2.28	4.33	2.96	0.47	0.84	0.70	1.06	0.86
Mixed fixed-income	-0.15	6.05	5.20	0.05	2.10	1.87	1.86	1.63
Mixed equity	-4.3	9.2	11.84	0.50	4.93	3.72	2.09	2.24
Euro equity	-10.77	12.84	28.36	1.94	13.16	7.93	5.32	3.54
Foreign equity	-11.05	13.51	21.47	-0.21	6.94	5.82	2.64	3.46
Guaranteed fixed-income	3.77	5.30	5.80	0.93	1.66	1.09	1.81	0.95
Guaranteed equity	1.29	5.26	7.34	0.77	2.89	2.05	1.60	1.94
Global funds	-4.55	7.8	9.86	0.05	4.03	3.51	2.01	1.99
Passive management	-6.27	7.99	9.84	0.92	4.20	2.99	3.79	2.87
Absolute return	-0.90	4.93	3.61	-0.41	1.35	1.39	1.07	1.02
EXPENSES. MANAGEMENT FEE								
Total financial mutual funds	0.93	0.94	0.98	0.24	0.25	0.25	0.24	0.24
Fixed-income	0.64	0.66	0.68	0.18	0.17	0.16	0.17	0.17
Mixed fixed-income	1.17	1.10	1.13	0.28	0.28	0.29	0.29	0.30
Mixed equity	1.59	1.51	1.51	0.37	0.40	0.36	0.36	0.36
Euro equity	1.80	1.77	1.85	0.44	0.50	0.47	0.47	0.44
Foreign equity	1.77	1.74	1.83	0.43	0.47	0.46	0.43	0.44
Guaranteed fixed-income	0.72	0.79	0.86	0.21	0.22	0.22	0.22	0.22
Guaranteed equity	1.24	1.23	1.25	0.31	0.31	0.32	0.30	0.30
Global funds	1.11	1.01	1.32	0.28	0.36	0.36	0.32	0.30
Passive management	0.75	0.81	0.72	0.18	0.17	0.19	0.16	0.16
Absolute return	1.08	1.03	1.13	0.26	0.29	0.29	0.28	0.27
EXPENSES. DEPOSITORY FEE								
Total financial mutual funds	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Fixed-income	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Mixed fixed-income	0.12	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Mixed equity	0.12	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Euro equity	0.12	0.12	0.09	0.02	0.02	0.02	0.03	0.03
Foreign equity	0.12	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Guaranteed fixed-income	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Guaranteed equity	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Global funds	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Passive management	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Absolute return	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02

Mutual funds quarterly returns. Detail by category

TABLE 3.11

				2013			2014	
In %	2011	2012	2013	II	III	IV	I	II
Total financial mutual funds	-0.08	5.50	6.50	0.36	2.50	1.85	1.71	1.41
Fixed-income	1.56	3.54	2.28	0.31	0.65	0.54	0.89	0.67
Mixed fixed-income	-1.34	4.95	4.16	-0.19	1.85	1.62	1.57	1.34
Mixed equity	-5.64	7.83	10.85	0.17	4.78	3.52	1.69	1.89
Euro equity	-11.71	12.31	28.06	1.30	13.71	7.99	5.01	3.04
Foreign equity	-10.83	13.05	20.3	-0.69	6.87	5.54	2.22	2.92
Guaranteed fixed-income	3.28	4.85	4.96	0.70	1.46	0.89	1.56	0.71
Guaranteed equity	0.14	5.07	6.15	0.42	2.62	1.83	1.26	1.59
Global funds	-4.64	7.44	8.71	-0.26	3.80	3.25	1.65	1.69
Passive management	-7.33	7.10	8.88	0.86	4.13	2.58	3.45	2.64
Absolute return	-1.87	3.84	2.46	-0.62	1.07	1.04	0.82	0.75

Hedge funds and funds of hedge funds

TABLE 3.12

	2011	2012	2013	2013 II	2013 III	2013 IV	2014 I	2014 II[1]
HEDGE FUNDS								
Investors/shareholders	2,047	2,427	2,415	2,374	2,333	2,415	2,513	2,569
Total net assets (million euro)	728.1	918.6	1,036.7	981.3	994.8	1,036.7	1,172.4	1,206.5
Subscriptions (million euro)	201.1	347.6	401.7	76.3	132.6	97.0	134.5	65.3
Redemptions (million euro)	92.5	212.7	414.3	69.4	167.0	95.7	44.1	42.7
Net subscriptions/redemptions (million euro)	108.6	134.8	-12.6	6.9	-34.4	1.3	90.4	22.6
Return on assets (million euro)	-26.5	55.7	130.0	9.6	47.9	40.5	45.3	11.6
Returns (%)	-2.60	7.17	16.48	1.03	5.33	5.41	4.21	1.01
Management yields (%)[2]	-1.88	8.00	17.22	1.73	5.97	4.64	5.02	1.39
Management fee (%)[2]	1.66	1.38	2.87	0.58	0.98	0.74	0.94	0.30
Financial expenses (%)[2]	0.06	0.04	0.04	0.01	0.01	0.01	0.01	0.01
FUNDS OF HEDGE FUNDS								
Investors/shareholders	3,805	3,338	3,022	3,230	3,218	3,022	2,994	2,973
Total net assets (million euro)	573	540	350.3	468.0	418.3	350.3	352.1	354.0
Subscriptions (million euro)	10.6	23.6	4.9	3.6	0.0	0.4	1.5	–
Redemptions (million euro)	120.1	74.3	215.2	69.0	50.8	76.3	2.0	–
Net subscriptions/redemptions (million euro)	-109.6	-50.8	-210.3	-65.4	-50.8	-75.9	-0.5	–
Return on assets (million euro)	-12.3	17.6	20.6	-2.8	1.2	7.9	2.3	–
Returns (%)	-1.70	0.88	4.39	-0.52	0.25	1.89	0.66	1.26
Management yields (%)[3]	-0.47	4.56	5.78	-0.21	0.59	2.28	1.00	–
Management fee (%)[3]	1.25	1.28	1.28	0.31	0.31	0.33	0.27	–
Depository fee (%)[3]	0.08	0.08	0.08	0.02	0.02	0.02	0.02	–

1 Available data: May 2014. Return refers to the period March-May.
2 % of monthly average total net assets.
3 % of daily average total net assets.

Management companies. Number of portfolios and assets under management[1]

TABLE 3.13

	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[2]
NUMBER OF PORTFOLIOS[3]								
Mutual funds	2,341	2,205	2,043	2,084	2,043	2,049	2,012	2,008
Investment companies	3,002	2,922	2,975	2,977	2,975	3,000	3,053	3,094
Funds of hedge funds	27	24	22	22	22	21	20	–
Hedge funds	35	35	29	33	29	27	28	–
Real estate investment fund	6	6	6	6	6	6	6	6
Real estate investment companies	8	8	10	10	10	10	9	9
ASSETS UNDER MANAGEMENT (million euro)								
Mutual funds	132,368.6	124,040.4	156,680.1	145,168.5	156,680.1	169,513.6	182,735.8	186,159.9
Investment companies	23,037.6	23,011.0	26,830.1	25,374.0	26,830.1	28,007.0	29,395.0	29,499.6
Funds of hedge funds[4]	573.0	539.9	350.3	418.3	350.3	352.1	354.0	–
Hedge funds[4]	694.7	881.4	1,036.6	994.8	1,036.6	1,138.4	1,171.3	–
Real estate investment fund	4,494.6	4,201.5	3,682.6	3,899.2	3,682.6	3,614.7	3,525.8	3,516.6
Real estate investment companies	312.5	284.1	853.7	859.9	853.7	849.3	828.9	826.3

1 It is considered as "assets under management" all the assets of the investment companies which are co-managed by management companies and other different companies.
2 Available data: July 2014.
3 Data source: Collective Investment Schemes Registers.
4 Available data for II Quarter 2014: May 2014.

Foreign Collective Investment Schemes marketed in Spain[1]

TABLE 3.14

	2011	2012	2013	2013 II	2013 III	2013 IV	2014 I	2014 II[2]
INVESTMENT VOLUME[3] (million euro)								
Total	29,969.5	38,075.3	54,727.2	47,202.7	50,468.8	54,727.2	60,859.6	67,979.9
Mutual funds	6,382.9	6,271.5	8,523.2	7,537.5	8,284.4	8,523.2	9,151.9	9,608.7
Investment companies	23,586.6	31,803.8	46,204.0	39,665.2	42,184.4	46,204.0	51,707.6	58,371.2
INVESTORS/SHAREHOLDERS								
Total	761,380	819,485	1,067,708	935,431	1,002,131	1,067,708	1,037,958	1,263,669
Mutual funds	177,832	163,805	204,067	181,158	194,697	204,067	194,846	228,168
Investment companies	583,548	655,680	863,641	754,273	807,434	863,641	843,112	1,035,501
NUMBER OF SCHEMES								
Total	739	754	780	753	772	780	796	802
Mutual funds	426	421	408	406	409	408	414	416
Investment companies	313	333	372	347	363	372	382	386
COUNTRY								
Luxembourg	297	310	320	308	317	320	325	326
France	284	272	260	271	274	260	274	276
Ireland	87	90	102	93	97	102	109	109
Germany	20	31	32	30	30	32	32	33
UK	19	22	22	22	22	22	24	26
The Netherlands	1	1	2	2	2	2	2	2
Austria	25	23	24	22	24	24	24	24
Belgium	5	3	4	3	4	4	4	4
Malta	1	1	1	1	1	1	1	1
Denmark	0	1	1	1	1	1	1	1

1 Exchange traded funds (ETFs) data is not included.
2 Provisional data.
3 Investment volume: participations or shares owned by the investors/shareholders at the end of the period valued at that moment.

Real estate investment schemes[1]

TABLE 3.15

	2011	2012	2013	2013 III	2013 IV	2014 I	2014 II	2014 III[2]
REAL ESTATE MUTUAL FUNDS								
Number	6	6	6	6	6	6	6	6
Investors	29,735	25,218	5,750	21,466	5,750	4,798	4,090	4,101
Asset (million euro)	4,494.6	4,201.5	3,682.6	3,899.2	3,682.6	3,614.7	3,525.8	3,516.6
Return on assets (%)	-3.23	-5.53	-11.28	-2.13	-5.15	-1.59	-2.31	-0.26
REAL ESTATE INVESTMENT COMPANIES								
Number	8	8	10	10	10	10	9	9
Shareholders	943	937	1,023	1,018	1,023	1,051	1,052	1,052
Asset (million euro)	312.5	284.1	853.7	859.9	853.7	849.3	828.9	826.3

1 Real estate investment schemes which have sent reports to the CNMV, excluding those in process of dissolution or liquidation.
2 Available data: July 2014. In this case, return on assets is monthly.