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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
PRIIPs	Packaged retail investment products and insurance-based investment products
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 Market survey (*)

(*) This article has been prepared by staff of the CNMV's Department of Research, Statistics and Publications.

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1 Overview

A series of uncertainties gripped international debt markets in the closing months of 2014, driving up the price volatility of many assets and the risk premiums of some debt instruments. Chief among them were doubts about the growth pace of certain economies, the turmoil sweeping Russia's financial markets, the unsettled political climate in Greece, the sharp descent in oil prices, and, above all, investors' disappointment at the timidity of the ECB's asset buying programme. In the realm of monetary policy, leading central banks progressed along their chosen paths. The Federal Reserve, whose monthly bond-buying programme concluded at the end of 2014, is studying when will be the right time to initiate a rates upcycle (possibly in the second half of 2015), in response to more dynamic activity and employment. Conversely, other central banks, like the ECB or Bank of Japan, have opted to maintain or extend their expansionary stances against a backdrop of frail growth and ultralow inflation.

In a 2014 still dominated by the abundance of liquidity, long-term sovereign bond yields headed lower with occasional reversals. The movement was most intense in the euro area, where a number of economies saw yields drop to mid-December levels near or below 1%, compared to the 2% plus of UK and US sovereign bonds. Meantime, high-yield corporate bond spreads switched to a widening trend in the second half in both the United States and Europe. In equity markets, the dominant note was the widening gap between US and Japanese stocks, with a year-long-advance, and European indices, which closed heavily in losses after the turbulence of the final weeks.

Spanish financial markets fared better overall on improved perceptions of the domestic macroeconomic environment, but were not immune to the tensions of the closing months. After a first-half surge of 10.2%, the Ibex 35 lost all that and more in the second half to close the year at -0.1% (ahead of remaining European indices). In debt markets, the yields on most types of assets reached historical lows, albeit with signs in the closing weeks that trend exhaustion might be setting in. Ten-year sovereign bond yields were trading below 2% for the first time in history at year-end 2014, with the risk premium down to 116 bp (220 bp in 2013). A final development of note was the 29% shrinkage in the volume of debt issues registered with the CNMV to 98.58 billion euros.

Key financial indicators

TABLE 1

	1Q 14	2Q 14	3Q 14	4Q 14[1]
Short-term interest rates (%)[2]				
Official interest rate	0.25	0.15	0.05	0.05
Euribor 3 months	0.31	0.24	0.10	0.08
Euribor 12 months	0.58	0.51	0.36	0.33
Exchange rates[3]				
Dollar/euro	1.38	1.37	1.26	1.24
Yen /euro	142.4	138.4	138.1	147.7
Medium and long government bond yields[4]				
Germany				
3 years	0.18	0.09	-0.03	-0.02
5 years	0.64	0.40	0.15	0.11
10 years	1.59	1.35	0.97	0.71
United States				
3 years	0.79	0.89	1.03	0.99
5 years	1.62	1.67	1.76	1.60
10 years	2.72	2.59	2.52	2.22
Corporate debt risk premium: spread over ten-year government bonds (bp)[4]				
Euro area				
High yield	365	350	430	498
BBB	120	104	113	137
AAA	31	17	4	13
United States				
High yield	343	317	377	471
BBB	103	93	106	154
AAA	59	52	53	58
Equity markets				
Performance of main world stock indices (%)[5]				
Eurostoxx 50	1.7	2.1	-0.1	-7.5
Dow Jones	-0.7	2.2	1.3	0.8
Nikkei	-9.0	2.3	6.7	5.7
Other indices (%)				
Merval (Argentina)	18.2	23.7	59.1	-39.6
Bovespa (Brazil)	-2.1	5.5	1.8	-13.1
Shanghai Comp. (China)	-3.9	0.7	15.4	24.9
BSE (India)	6.0	15.4	3.5	3.2
Spanish stock market				
Ibex 35 (%)	4.3	5.6	-0.9	-8.5
P/E of Ibex 35[6]	14.9	16.3	15.3	15.1
Volatility of Ibex 35 (%)[7]	20.1	17.7	17.4	22.0
SIBE trading volumes[8]	2,988	3,597	2,946	4,311

Source: CNMV, Thomson Datastream and Bolsa de Madrid.

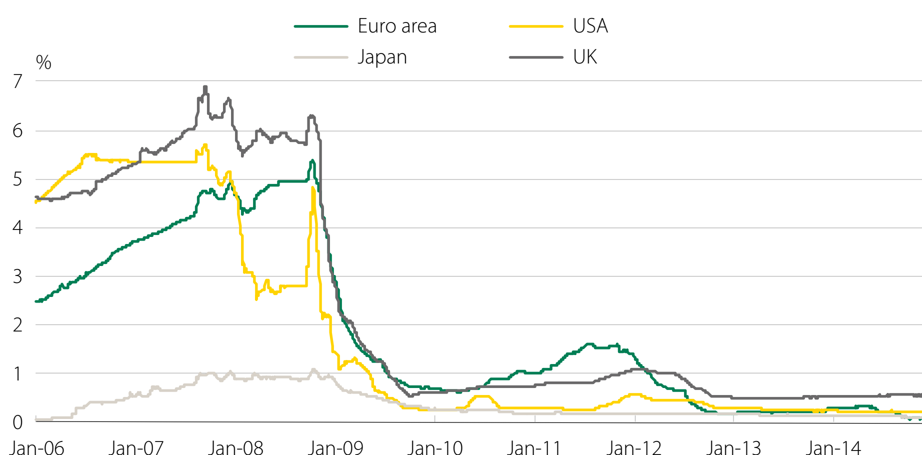
1. Data to 15 December.
2. Monthly average of daily data. The official interest rate corresponds to the marginal rate at weekly auctions at the period close.
3. Data at period end.
4. Monthly average of daily data.
5. Cumulative quarterly change in each period.
6. Price/earnings ratio.
7. Implied volatility. Arithmetical average for the quarter.
8. Daily average in million euros.

2 International financial background

2.1 Short-term interest rates

Short-term rates in the major advanced economies continued to reflect the markedly expansionary monetary stances of their central banks. Some policy divergence has emerged, particularly in the adoption of non-standard measures, which naturally varied in accordance with local inflation and activity parameters. Interest rates, however, have not budged from historical lows, ensuring that liquidity remains high on financial markets. As we can see from figure 1, three-month rates in the euro area, the United States, the United Kingdom and Japan registered no major changes in the year, continuing at historical lows throughout the fourth quarter. Levels were most reduced in the euro area (0.08%) and Japan (0.11%), and slightly higher in the United States and the United Kingdom (0.24% and 0.56% respectively).

Three-month interest rates FIGURE 1



Source: Thomson Datastream. Data to 15 December.

As regards differences in monetary policy decisions, we have, on the one hand, economies like the euro area or Japan coping with still weak economic activity and a growing deflation risk, and, on the other, those like the United States and the United Kingdom enjoying a more benign climate of growth and inflation. In the case of the euro area, the ECB cut its benchmark rate in September to an all-time low of 0.05%, and launched non-standard measures that included new asset-buying programmes (targeting covered bonds and certain asset-backed securities) and long-term financing operations[1]. Declarations from ECB officials, which set the pace for markets at various points in the closing quarter, evidence the extent of concerns about deflation risk in the euro area and the bank's willingness to step in with new measures as required. Although many investors believe new moves are imminent, possibly including the purchasing of government bonds, it seems the bank prefers to wait

1 Targeted longer-term refinancing operations, whereby banks can borrow money in line with the volume of their (non-mortgage) lending.

and see how these latest decisions pan out. At the closing date for this report, the ECB had purchased covered bonds and ABS under the programme for the sum of 25.54 billion euros[2].

The central banks of Japan and China also kept up their expansionary monetary measures. The Bank of Japan, which launched its expansionary programme in spring 2013, stepped it up a gear in late October with an agreement to enlarge the monetary base at an annual pace of eighty trillion yens in place of its previous target of between sixty and seventy billion. In China, meantime, the monetary authority slashed its one-year lending rate from 6% to 5.6% in order to boost economic activity, the first such move since July 2012.

Short-term interest rates[1] (%) TABLE 2

	Dec 11	Dec 12	Dec 13	Dec 14[1]	Mar 14	Jun 14	Sep 14	Dec 14[1]
Euro area								
Official[2]	1.00	0.75	0.25	0.05	0.25	0.15	0.05	0.05
3 months	1.43	0.19	0.28	0.08	0.31	0.24	0.10	0.08
6 months	1.67	0.32	0.37	0.18	0.41	0.33	0.20	0.18
12 months	2.00	0.55	0.54	0.33	0.58	0.51	0.36	0.33
United States								
Official[3]	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 months	0.56	0.31	0.24	0.24	0.23	0.23	0.23	0.24
6 months	0.78	0.51	0.35	0.33	0.33	0.32	0.33	0.33
12 months	1.10	0.85	0.58	0.59	0.56	0.54	0.58	0.59
United Kingdom								
Official	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3 months	1.06	0.52	0.52	0.56	0.52	0.54	0.56	0.56
6 months	1.35	0.67	0.61	0.68	0.62	0.67	0.71	0.68
12 months	1.85	1.02	0.89	0.98	0.90	1.00	1.05	0.98
Japan								
Official[4]	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 months	0.20	0.18	0.15	0.11	0.14	0.13	0.12	0.11
6 months	0.34	0.29	0.21	0.15	0.19	0.18	0.17	0.15
12 months	0.55	0.50	0.37	0.27	0.35	0.33	0.32	0.27

Source: Thomson Datastream. Monthly average of daily data except official rates, which correspond to the last day of the period.

1. Data to 15 December.
2. Marginal rate at weekly auctions.
3. Federal funds rate.
4. Monetary policy rate.

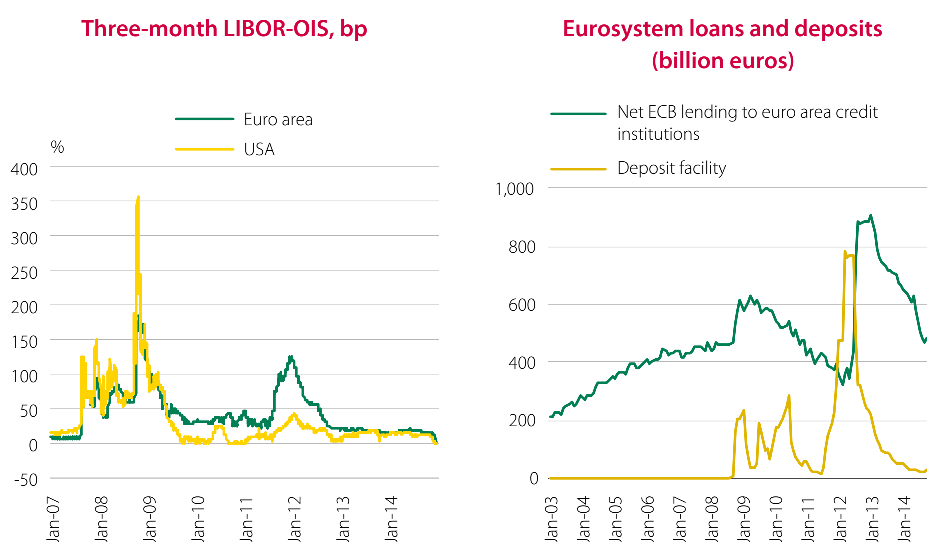
2 According to market estimates, the ECB has allotted over two hundred billion euros at the two TLTRO tenders held to date, though at the closing date for this report, the bank had only confirmed the 82.6 billion taken up at the first.

In the United States, the Federal Reserve declared the tapering of monthly asset purchases begun in January 2014 to be officially over at the late-October meeting of the FOMC (Federal Open Market Committee). The US authority thus enters a new phase in which its primordial mission is to calibrate when to start raising official rates. It has said that rates will stay within the 0-0.25% range prevailing since December 2008 for some time to come, but does not rule out an earlier-than-projected hike if this appears warranted by the data coming in on employment and inflation.

As we can see from table 2, short-term rates varied little in the year in either the United States or United Kingdom, while rates in the euro area and Japan decreased slightly in line with moderating domestic inflation. In the one-year tenor, mid-December rates were 0.27% in Japan, 0.33% in the euro area, 0.59% in the United States and 0.98% in the United Kingdom.

The three-month LIBOR-OIS spread continued at ultra-reduced levels in both the US and euro area over the fourth quarter of 2014. In Europe, the absence of tensions on interbank markets was also reflected in banks' lesser recourse to ECB funding (see right-hand panel of figure 2), aided in part by the results of the stress tests published at the annual close.

Interbank spreads and Eurosystem financing FIGURE 2



Source: Thomson Datastream and Banco de España.

As regards interest rate expectations, three-month forward rates are currently pricing in no change over the next year in euro-area official rates, while in the US, as stated, the prospect is for second-half hikes in the range of 25 bp to 50 bp.

Three-month forward rates (FRAs) (%)

TABLE 3

	Dec 11	Dec 12	Dec 13	Dec 14[1]	Mar 14	Jun 14	Sep 14	Dec 14[1]
Euro area								
Spot	1.36	0.19	0.29	0.08	0.31	0.21	0.08	0.08
FRA 3x6	1.06	0.17	0.28	0.09	0.29	0.18	0.08	0.10
FRA 6x9	0.93	0.17	0.29	0.07	0.29	0.16	0.07	0.09
FRA 9x12	0.90	0.20	0.33	0.09	0.29	0.17	0.08	0.21
FRA 12x15	0.91	0.23	0.38	0.12	0.32	0.20	0.20	0.12
United States								
Spot	0.58	0.31	0.25	0.23	0.23	0.23	0.24	0.24
FRA 3x6	0.65	0.30	0.28	0.25	0.24	0.24	0.25	0.29
FRA 6x9	0.71	0.33	0.32	0.34	0.26	0.29	0.36	0.41
FRA 9x12	0.75	0.35	0.38	0.49	0.34	0.38	0.58	0.59
FRA 12x15	0.75	0.38	0.45	0.70	0.46	0.54	0.86	0.81

Source: Thomson Datastream. Data at period end.

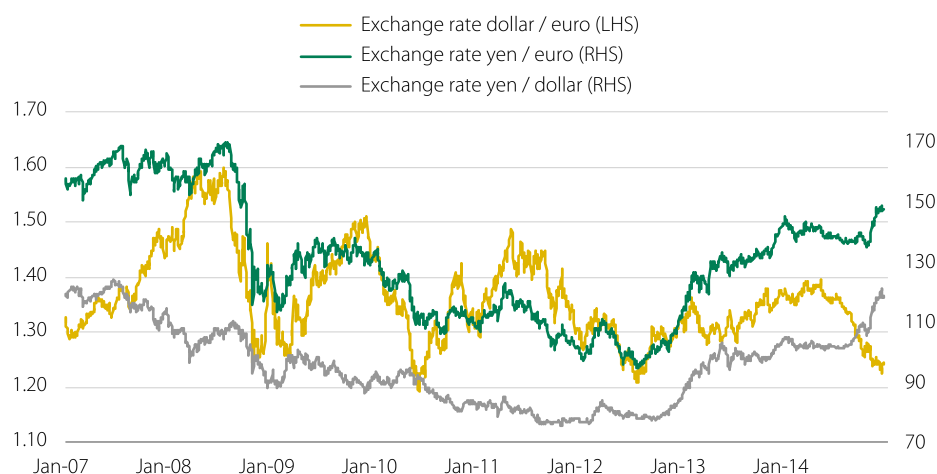
1. Data to 15 December.

2.2 Exchange rates

The main currency markets developments in recent months have been the euro's descent against the dollar, dating back to spring, and the steeply falling yen and ruble of the year's closing stretch. On the euro/dollar front, monetary policy switches in both zones and the more attractive yields of US assets were the main factors weighing on Europe's currency, which dropped from 1.40 dollars around mid-May to 1.24 dollars in the middle of December, a depreciation of 10.9%. Meantime, the yen began sinking against other major currencies in October 2014 due to the new monetary expansion policy adopted by the Bank of Japan. By mid-December, the Japanese currency had depreciated 8.6% and 10.9% respectively from its mid-October values against the euro and the dollar, as far as 148 and 119 yens (see figure 3).

Dollar/euro and yen/euro exchange rates

FIGURE 3



Source: Thomson Datastream. Data to 15 December.

Finally, the year's big news was the sharp depreciation suffered by the ruble, initially due to the conflict with Ukraine but aggravated towards year-end by downward spiralling oil prices and central bank projections of their deleterious impact on the economy. Finally, the Russian monetary authority had to step in to defend the currency by raising official interest rates from 10.5% to 17%[3]. By mid-December, the ruble was trading at 66 to the dollar, compared to the 35 rubles per dollar of halfway through the year.

2.3 Long-term interest rates

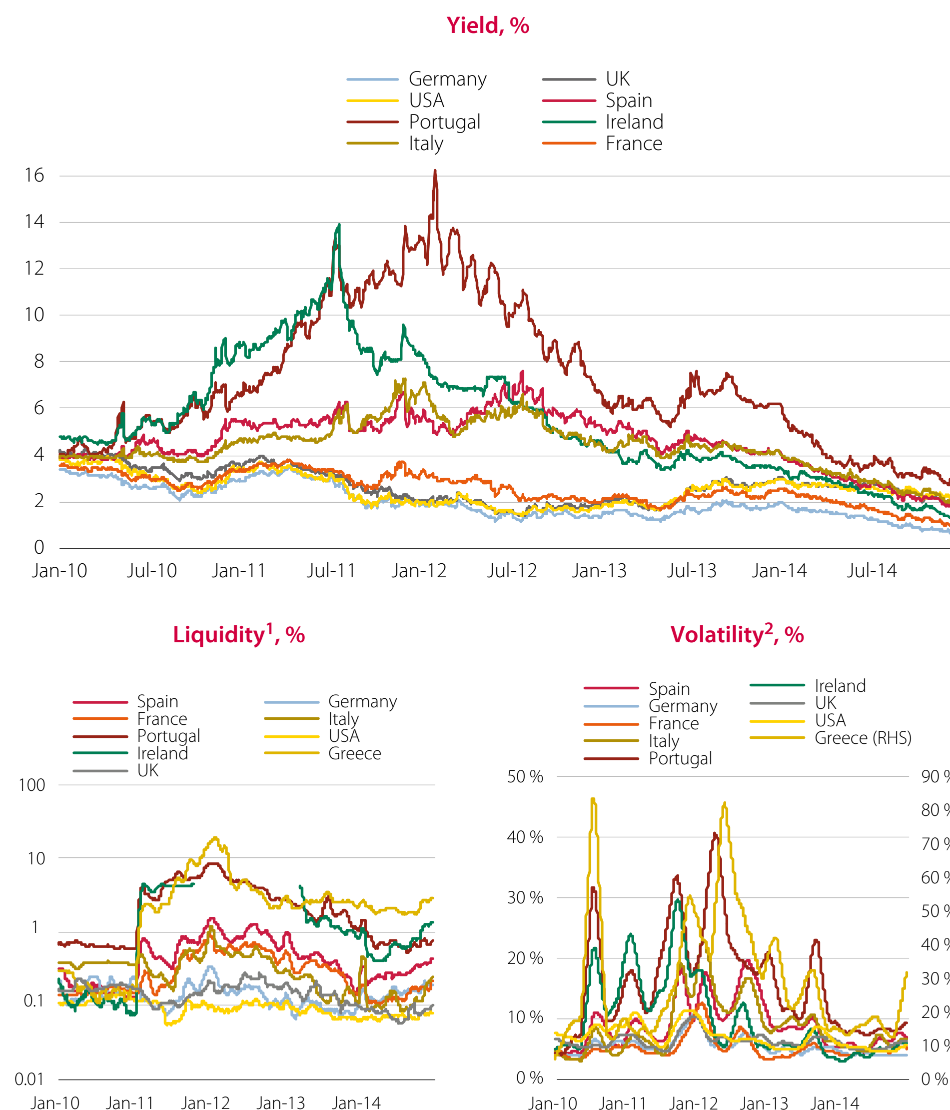
Long-term interest rates in leading advanced economies declined further in the closing quarter, prolonging the downtrend that has lasted almost uninterruptedly since the start of 2014. The only incident of note was a brief trend reversal in October in response to Europe's weak activity data and a feeling of let-down at the ECB chairman's declarations, with some investors hoping for a more ambitious program of asset purchases. Liquidity conditions on sovereign bond markets were less supportive in the closing months, although volatility stayed subdued, except in the case of Greece.

In the full-year period, despite the pause, yields on longer-dated government debt instruments headed steadily lower. The fall was steeper in the euro area, due to heavy purchasing of sovereign assets against a backdrop of stagnant activity and ultralow inflation. As we can see from figure 4, ten-year government yields in various European economies reached historical lows in mid-December, with the German, French, Dutch and Belgian bonds trading below 1%, and the Spanish and Italian benchmarks down to under 2%. The year-to-date fall in yields by that time ranged from the 131 bp of the German bond to the 328 of the Portuguese bond (235 bp for the Spanish *Bono*).

In the United States and the United Kingdom, bond yields fell by 89 and 120 bp respectively versus year-end 2013 to mid-December levels of 2.1% and 1.8%. Though low interest rates may be a structural reality in the new global macro setting, there is also evidence of resurgent market risk in certain financial market segments, due to the high prices of some fixed-income and equity instruments.

3 The early morning of 16 December.

Sovereign bond market indicators (ten years) FIGURE 4



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

1. Monthly average of the daily bid-ask spread of 10-year sovereign yields. Y axis on a logarithmic scale.
2. Annualised standard deviation of daily changes in 40-day sovereign bond prices. Moving average of 50 periods.

As figure 5 shows, for the first three quarters the decline in yields was accompanied by a sharp drop in sovereign spreads. From that point on, a combination of uncertainty factors prompted a contained increase in the risk premiums of several European economies. Where the increase ran higher was in the case of the Greek CDS, which was clearly pricing in the country's unsettled political climate. Elsewhere, the CDS spreads of European sovereigns at mid-December 2014 were on a par with those recorded in spring 2010, coinciding with the first round of turbulence in Greece. The spreads of European peripherals ran from 55 bp to 217 bp, between 15 and 127 bp lower than at end-2013.

Medium and long government bond yields (%)[1]

TABLE 4

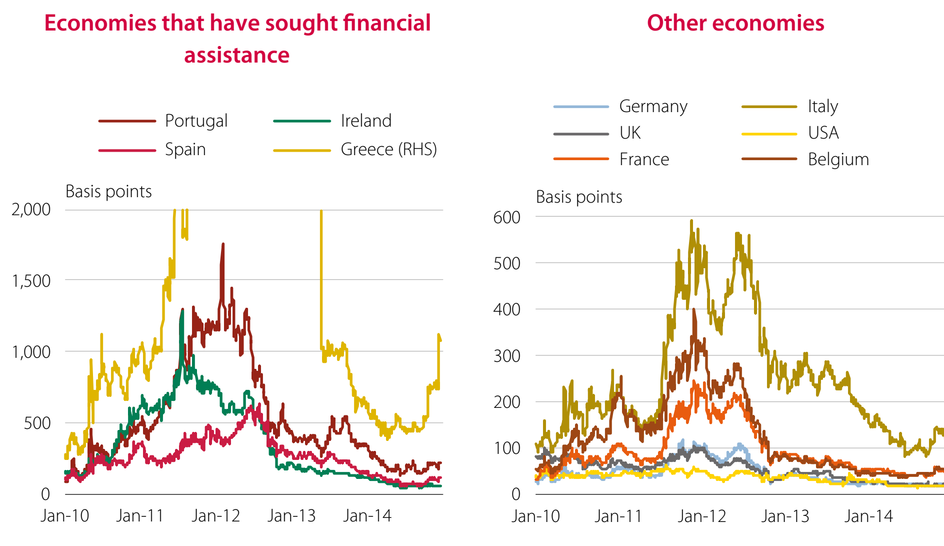
	Dec 11	Dec 12	Dec 13	Dec 14[1]	Mar 14	Jun 14	Sep 14	Dec 14[1]
Germany								
3 years	0.41	0.02	0.31	-0.03	0.18	0.09	-0.03	-0.02
5 years	0.92	0.35	0.84	0.12	0.64	0.40	0.15	0.11
10 years	1.99	1.36	1.85	0.80	1.59	1.35	0.97	0.71
United States								
3 years	0.38	0.35	0.67	0.94	0.79	0.89	1.03	0.99
5 years	0.88	0.69	1.56	1.61	1.62	1.67	1.76	1.60
10 years	1.97	1.71	2.90	2.32	2.72	2.59	2.52	2.22
United Kingdom								
3 years	0.55	0.50	0.84	0.93	0.82	1.19	1.28	0.82
5 years	0.82	0.85	1.72	1.41	1.63	2.02	1.80	1.28
10 years	2.12	1.85	2.93	2.13	2.72	2.70	2.49	1.93
Japan								
3 years	0.18	0.12	0.10	0.03	0.11	0.10	0.09	0.01
5 years	0.34	0.17	0.21	0.13	0.19	0.18	0.17	0.08
10 years	1.00	0.73	0.67	0.47	0.60	0.59	0.53	0.41

Source: Thomson Datastream. Monthly average of daily data.

1. Data to 15 December.

Sovereign credit spreads (5-year CDS)

FIGURE 5



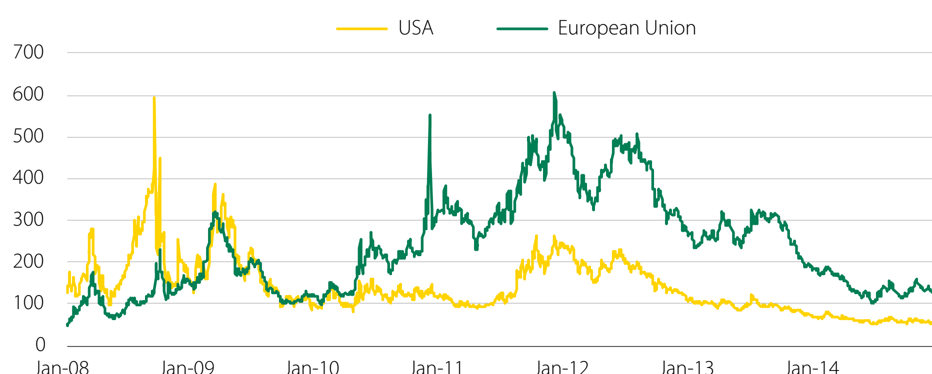
Source: Thomson Datastream. Data to 15 December.

The credit risk premiums of Europe's banking sector traced a similar course to sovereign spreads, namely a decline in the first half giving way to a subdued increase in the second. The end-October release of stress test results impacted favourably on bank CDS, though not enough to prevent the upswing of the closing months (see figure 6). By mid-December, CDS spreads were running at an average of 148 bp, almost 90 bp ahead of the average of US peers but sizeably below the levels of preceding years (185 bp at end-2013 and 271 bp at end-2012).

Risk premiums in the non-financial private sector experienced a change of trend that was most patent in higher-yield categories. The spreads of these instruments had been falling substantially for several years on a combination of plentiful liquidity and reduced interest rates which sent investors flocking into riskier assets; among them, corporate bonds. But these "search for yield" strategies began to lose lustre in the second half of 2014, driving up corporate bond spreads in the medium to low-quality bracket in both the euro area and the United States. As we can see from table 5, by the middle of December, high-yield bond spreads were running at 498 bp in the euro area and 471 bp in the United States, levels around 150 bp higher than at June 2014 that evidence a clear break with the downtrend prevailing since mid-year 2012.

Bank sector credit spreads (five-year CDS)

FIGURE 6



Source: Thomson Datastream, indices drawn up by CMA. Data to 15 December.

Corporate bond spreads

TABLE 5

Spread versus ten-year government bonds, in basis points

	Dec 11	Dec 12	Dec 13	Dec 14[1]	Mar 14	Jun 14	Sep 14	Dec 14[1]
Euro area[2]								
High yield	926	510	366	478	365	350	430	498
BBB	474	198	130	123	120	104	113	137
AAA	165	50	21	10	31	17	4	13
United States								
High yield	683	507	346	447	343	317	377	471
BBB	261	165	104	145	103	93	106	154
AAA	98	29	66	56	59	52	53	58

Source: Thomson Datastream. Monthly average of daily data.

1. Data to 15 December.
2. Spread over the German bond.

Net debt issuance in international markets summed 3.16 trillion dollars over full-year 2014 (data to 15 December), 5.6% more than in the previous year. This advance was wholly attributable to an increase in private sector issuance (financial and non-financial), since net sovereign issuance contracted 9.1% in the same period to 1.9 trillion dollars. The fall in public sector issuance was common to all main regions to some degree, with Europe and Japan especially registering near residual volumes in the second half (issuance almost on a par with redemptions).

The private sector was the source of 40% of 2014 issuance, with non-financial corporations strongly to the fore (net issue volumes of 814 billion euros, 6.1% more than in 2013). Sales in this sub-sector, accounting for 26% of the total, were higher in the United States, though European firms contributed a far from negligible amount. One welcome development here was the noticeable reduction since 2013 in the market fragmentation initiated with the crisis, which had inflated the borrowing costs of certain European economies. This fact, we can assume, encouraged more non-financial corporations to approach the markets in 2014 (see figure 8).

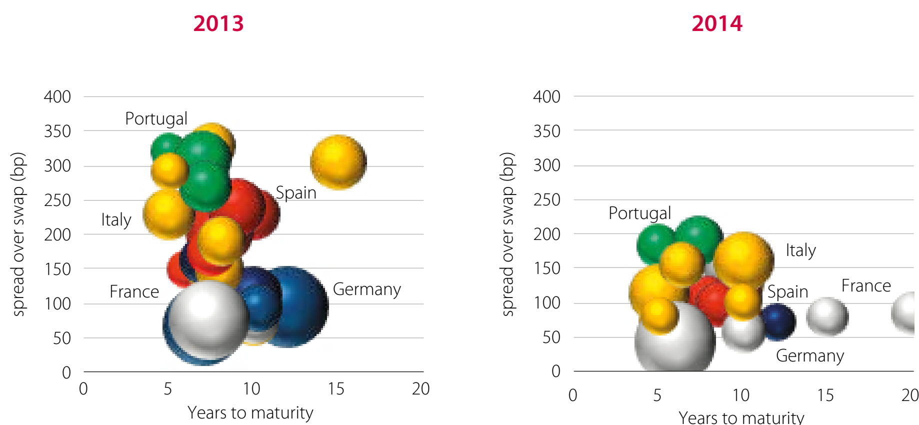
As regards financial sector issuance (14% of the total), we can again point to a notable divergence between European banks and their counterparts elsewhere. European institutions are still digesting the effects of the economic crisis of these past years, and either have fairly low-key financing requirements or prefer to fund themselves through other channels. Net issue volumes in the sector accordingly summed just 26 billion dollars (after a second half in negative numbers), compared to the 59 billion of 2013. Conversely, financial institutions in the United States, operating in a more dynamic economy and in better condition to tap debt markets, issued fixed-income securities for the amount of 167 billion dollars, up from 152 billion the year before (see figure 7).

Net international debt issuance FIGURE 7

Source: Dealogic. Half-yearly data. Figures for the second half of 2014, based on data to 15 December, are restated on a half-year basis for comparative purposes.

IG bond issuance of European energy utilities

FIGURE 8



Source: Dealogic. Data for 2014 to 15 December. Long-term investment-grade floating-rate bonds. The size of the bubble is proportional to the size of the issue. The chart shows a selection of representative issuers.

2.4 International stock markets

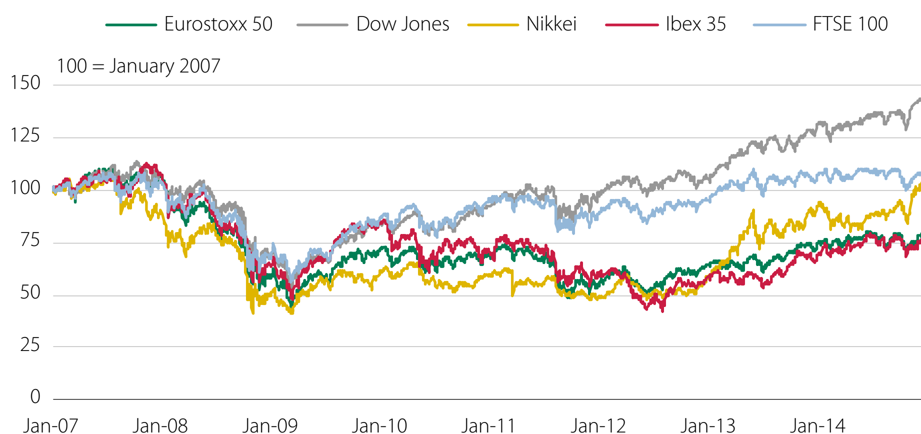
After a solid and fairly parallel progression in the first two quarters, leading stock indices began to pull apart from mid-year on to close the year with notable differences. Hence US and Japanese indices kept up their advance through the closing quarter, due, in the first case, to the greater strength of the national economy and, in the second, to the new monetary expansion embarked on by the central bank. European indices, in contrast, proved keenly sensitive to negative newsflow on the growth outlook for certain economies and the ECB's perceived tardiness in launching an asset-buying programme that many saw as insufficiently ambitious. And in the year's last weeks, equity prices were additionally pressured by the oil price slump, political uncertainty in Greece and the turmoil gripping Russia's financial markets.

Finally, US indices managed full-year gains ranging from the 3.6% of the Dow Jones to the Nasdaq's 10.3%, with advances in all four quarters. Meantime, Japan's main indices closed between 5% (Nikkei) and 5.9% (Topix) higher, after losing some ground in the opening quarter.

European indices (with the exception of the Italian MIB) traced a rising course in the first six months which tended to turn flat in the third quarter, before tipping into losses in the year's final stretch. The price tumble of the fourth quarter ranged from the 1.5% of the German Dax 30 to the 10.5% of Italy's Mib 30 (with the Ibex 35 shedding 8.5%). In the full-year period, European indices posted falls ranging from the 0.1% of the Ibex 35 to the 8.4% of UK index FTSE 100 (see table 6).

Performance of main stock indices

FIGURE 9



Source: Thomson Datastream. Data to 15 December.

Performance of main stock indices (%)

TABLE 6

	2010	2011	2012	2013	2014[1]	1Q 14	2Q 14	3Q 14	4Q 14[1]
World									
MSCI World	**9.6**	**-7.6**	**13.2**	**24.1**	**-0.4**	**0.8**	**4.2**	**-2.6**	**-2.6**
Euro area									
Eurostoxx 50	-5.8	-17.1	13.8	17.9	-4.1	1.7	2.1	-0.1	-7.5
Euronext 100	1.0	-14.2	14.8	19.0	-2.9	2.7	1.1	0.4	-6.8
Dax 30	16.1	-14.7	29.1	25.5	-2.3	0.0	2.9	-3.6	-1.5
Cac 40	-3.3	-17.0	15.2	18.0	-6.8	2.2	0.7	-0.1	-9.3
Mib 30	-8.7	-24.0	10.2	18.8	-3.8	13.6	-2.2	-3.2	-10.5
Ibex 35	-17.4	-13.1	-4.7	21.4	-0.1	4.3	5.6	-0.9	-8.5
United Kingdom									
FTSE 100	9.0	-5.6	5.8	14.4	-8.4	-2.2	2.2	-1.8	-6.6
United States									
Dow Jones	11.0	5.5	7.3	26.5	3.6	-0.7	2.2	1.3	0.8
S&P 500	12.8	0.0	13.4	29.6	7.6	1.3	4.7	0.6	0.9
Nasdaq-Cpte	16.9	-1.8	15.9	38.3	10.3	0.5	5.0	1.9	2.5
Japan									
Nikkei 225	-3.0	-17.3	22.9	56.7	5.0	-9.0	2.3	6.7	5.7
Topix	-1.0	-18.9	18.0	51.5	5.9	-7.6	5.0	5.0	4.0

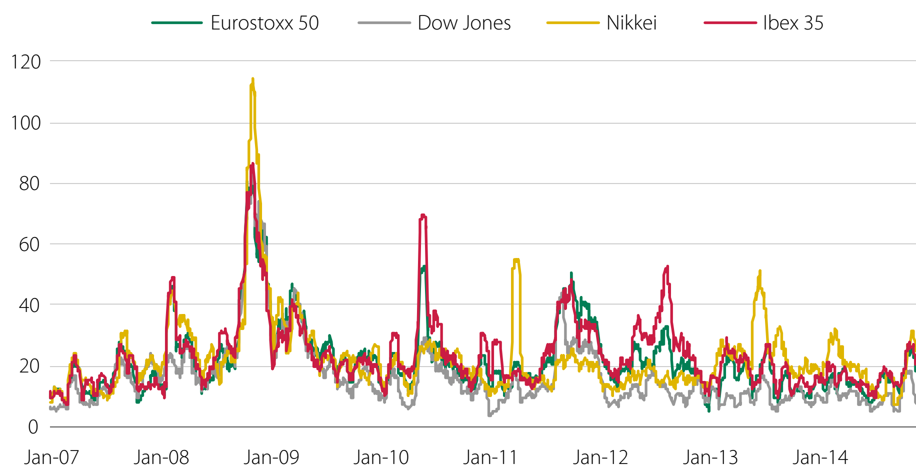
Source: Thomson Datastream. In local currency.

1. Data to 15 December.

Volatility tended to move erratically in the fourth quarter as new risk elements came into play. Hence the spikes observable in October and December. Note, however, that normal readings did not exceed 30% among European and Japanese indices or 20% in the United States (see figure 10).

Historical volatility of main stock indices (%)

FIGURE 10



Source: Thomson Datastream. Data to 15 December.

Dividend yields rose slightly with respect to the previous year in indices like the US's S&P 500 (up from 2.3% to 2.5%) or the Ibex 35 (up from 4.4% to 4.5%). In remaining European and Japanese indices, the trend was flat or even slightly downward in the cases of German and Italian yields. As table 7 shows, dividend yields remained substantially higher overall in Europe than in the US or Japan. At mid-December, specifically, the former stood between the 2.7% of the Dax 30 and 4.9% of the Cac 40, compared to the 1.7% of Japan's Topix or the 2.5% of the S&P 500.

Dividend yield of main stock indices (%)

TABLE 7

	2010	2011	2012	2013	2014[1]	Mar 14	Jun 14	Sep 14	Dec 14[1]
S&P 500	2.2	2.6	2.6	2.3	2.5	2.3	2.3	2.3	2.5
Topix	1.9	2.6	2.3	1.7	1.7	2.0	1.8	1.7	1.7
Eurostoxx 50	4.8	6.3	5.0	4.2	4.2	4.3	4.1	4.3	4.2
Euronext 100	4.3	5.6	4.8	4.2	4.2	4.4	4.0	4.2	4.2
FTSE 100	3.8	4.1	4.1	4.0	4.0	4.2	3.9	4.0	4.0
Dax 30	2.9	4.2	3.4	2.8	2.7	2.7	2.7	2.8	2.7
Cac 40	5.2	7.0	5.7	4.9	4.9	5.0	4.6	4.9	4.9
Mib 30	3.8	5.4	4.1	3.3	3.1	3.2	2.8	3.0	3.1
Ibex 35	5.9	6.9	5.4	4.4	4.5	4.1	4.5	4.5	4.5

Source: Thomson Datastream.

1. Data to 15 December.

The P/E ratios of leading stock indices to some extent mirrored the performance of equity prices in the last quarter; the case of the S&P 500, up from 15.6 to 16.3, or the Topix, up from 14.1 to 14.5 (see table 8). By the same token, European multiples moved more unevenly in tune with the divergent performance of share prices and expected earnings per share. Panning out to the full-year period, most P/E ratios recorded a degree of advance, significant in some cases. So, for instance, US indices have now recouped or overtaken their historical average levels (see figure 11), possibly signalling an increase in the market risk of certain types of assets.

P/E of main stock indices

TABLE 8

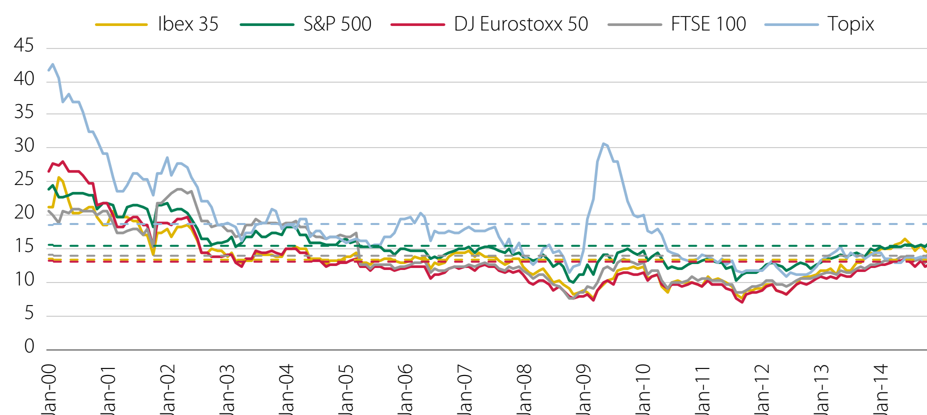
	2010	2011	2012	2013	2014[1]	Mar 14	Jun 14	Sep 14	Dec 14[1]
S&P 500	13.1	11.7	12.7	15.3	16.3	15.3	15.7	15.6	16.3
Topix	13.6	11.6	13.0	14.3	14.5	12.8	13.9	14.1	14.5
Eurostoxx 50	9.5	8.5	10.6	12.7	13.3	12.9	13.5	13.0	13.3
Euronext 100	10.6	9.4	11.2	13.3	14.3	13.9	14.5	14.0	14.3
FTSE 100	10.5	9.3	11.0	12.9	13.8	13.2	13.7	13.2	13.8
Dax 30	10.8	9.0	11.1	12.9	12.7	12.6	13.0	12.3	12.7
Cac 40	10.0	8.7	10.7	12.7	13.5	13.2	13.7	13.1	13.5
Mib 30	10.0	8.4	10.4	13.0	12.9	14.2	14.5	13.3	12.9
Ibex 35	9.7	9.2	11.7	14.9	15.1	14.9	16.3	15.3	15.1

Source: Thomson Datastream. The earnings per share making up the ratio denominator is based on 12-month forecasts.

1. Data to 15 December.

P/E of main stock indices

FIGURE 11



Source: Thomson Datastream. The earnings per share making up the ratio denominator is based on 12-month forecasts. The dashed lines show each index's historical average since 2000. Data for the last session in each month. Data to 15 December.

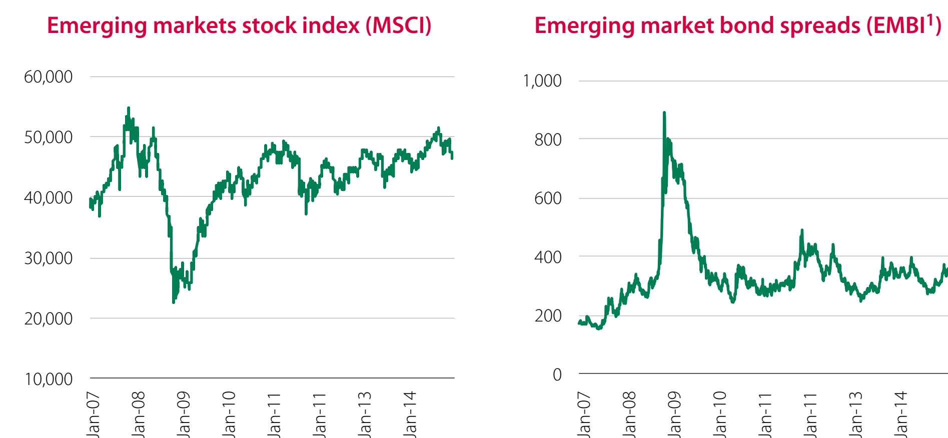
Main emerging economy stock indices followed up the gains of the first three quarters with a fourth-quarter price slide occasioned by the worsening outlook for some economies, falling crude oil prices, the end of the monetary stimulus in the United States and, in the final weeks, the unstable outlook for Russia. The upswing in the perceived risk of lending to emerging market regions drove up their risk premiums, as measured by the EMBI indices[4], to 460 bp at the closing date for this report[5], almost 200 bp more than at mid-year (see right-hand panel of figure 12). According to emerging market stock index MSCI[6], the losses of the closing quarter (-3.5%) wiped out the advances posted to that point leaving prices down by an annual 0.7%. Performances, however, varied sharply across markets, as is clear from the information in table 9.

4 15 December.

5 The Emerging Markets Bonds Index is the main country risk indicator for emerging market economies.

6 The Emerging Markets Index tracks the value of companies listed on emerging stock markets.

Risk valuation in emerging economies FIGURE 12



Source: Thomson Datastream and Bloomberg. Data to 15 December.

1. A country risk indicator computed as the difference between the yield of dollar-denominated emerging market sovereign bonds and the yield of the corresponding US bond.

The regions experiencing the sharpest fourth-quarter losses were Eastern Europe and Latin America with average falls, respectively, of 10.7% and 8.2%, under the dual pressure of falling oil prices[7], since many of their number are producer countries, and the ongoing uncertainty in Russia. In fact the share index of this last European economy tumbled 36.1% in the fourth quarter on top of third-quarter losses of 17.7% triggered by its conflict with Ukraine. Finally, the mass sell-off of ruble-denominated assets prompted the intervention of the country's central bank. In Latin America, one of the big stories was the fourth-quarter slump in Argentina's Merval index (-39.6%), brought on by the uncertainties caused by the victory in the US courts of "vulture" funds holding the country's defaulted bonds, and the expiry of the RUFO clause[8] in 2015. In Asia, finally, the Chinese index gained a further 24.9% on top of its third-quarter rise of 15.4%, followed at a distance by the Indian index. Elsewhere, price variations were minor only, except in the cases of the Malaysian and Thai indices, which shed 8.1% and 6.8% respectively in the last three months.

Asia was the best-performing region over the full-year period with at least five stock indices registering gains upwards of 13%, alongside Latin America, with a strong showing by both the Argentine and Venezuelan indices. Eastern European indices performed unevenly with only small movements in prices, the exception being the 50.2% losses of the Russian index.

7 At mid-December, the price per barrel was 61.2 dollars, a full 45% less than at end-2013 (111 dollars per barrel).

8 After the Argentine default of 2001, some holders of undervalued bonds ("vulture" funds) refused to accept the debt exchanges of 2005 and 2010. The new RUFO clause (Rights Upon Future Offers) rules out the additional payments that these funds claim. At the end of September, a court ruled that such bondholders should be paid in full; an amount equal to the whole of Argentina's international reserves which it is *a priori* unable to settle.

Performance of other leading world indices

TABLE 9

	Index	2011	2012	2013	2014[1]	1Q 14	2Q 14	3Q 14	4Q 14[1]
Latin America									
Argentina	Merval	-30.1	15.9	88.9	40.6	18.2	23.7	59.1	-39.6
Brazil	Bovespa	-18.1	7.4	-15.5	-8.7	-2.1	5.5	1.8	-13.1
Chile	IGPA	-12.4	4.7	-13.5	1.3	1.8	1.9	1.9	-4.1
Mexico	IPC	-3.8	17.9	-2.2	-5.6	-5.3	5.6	5.3	-10.3
Peru	IGRA	-16.7	5.9	-23.6	-8.4	-9.2	16.5	-2.6	-11.1
Venezuela	IBC	79.1	302.8	480.5	37.1	-7.8	-16.3	37.7	29.0
Asia									
China	Shanghai Comp.	-21.7	3.2	-6.7	39.6	-3.9	0.7	15.4	24.9
India	BSE	-25.7	30.0	5.9	30.8	6.0	15.4	3.5	3.2
South Korea	Korea Comp. Ex	-11.0	9.4	0.7	-4.5	-1.3	0.8	0.9	-4.9
Philippines	Manila Comp.	4.1	33.0	1.3	23.5	9.1	6.5	6.4	-0.1
Hong Kong	Hang Seng	-20.0	22.9	2.9	-1.2	-5.0	4.7	-1.1	0.4
Indonesia	Jakarta Comp.	3.2	12.9	-1.0	19.5	11.6	2.3	5.3	-0.6
Malaysia	Kuala Lumpur Comp.	0.8	10.3	10.5	-9.1	-1.0	1.8	-1.9	-8.1
Singapore	SES All-S'Pore	-17.0	19.7	0.0	4.0	0.7	2.1	0.6	0.5
Thailand	Bangkok SET	-0.7	35.8	-6.7	13.8	6.0	8.0	6.7	-6.8
Taiwan	Taiwan Weighted Pr.	-21.2	8.9	11.8	4.3	2.8	6.1	-4.5	0.2
Eastern Europe									
Russia	Russian RTS Index	-21.9	10.5	-5.5	-50.2	-15.0	11.4	-17.7	-36.1
Poland	Warsaw G. Index	-20.8	26.2	8.1	0.7	2.1	-0.8	5.7	-5.9
Romania	Romania BET	-17.7	18.7	26.1	2.7	-2.6	10.9	3.6	-8.2
Bulgaria	Sofix	-11.1	7.2	42.3	9.7	22.1	-8.1	-2.1	-0.2
Hungary	BUX	-20.4	7.1	2.2	-8.5	-5.6	6.1	-3.9	-5.0
Croatia	CROBEX	-17.6	0.0	3.1	-2.8	-2.0	1.9	7.1	-9.1

Source: Thomson Datastream.

1. Data to 15 December.

According to the World Federation of Exchanges (WFE)[9], worldwide stock market trading volumes came to 49.4 trillion dollars between January and October 2014, 11.9% more than in the year-ago period. By area, the largest rises corresponded to the United States, with 17.4%, and Europe, with 16.9%. Asian markets had more varied fortunes, with significant advances across the main Chinese exchanges and contractions in Japan. As we can see from table 10, the turnover of new regulated market operators like BATS Chi-X Europe, or multilateral trading facilities like Turquoise, now rivals that of many of Europe's traditional exchanges. Indeed by 2012 BATS Chi-X Europe had already overtaken NYSE Euronext and Deutsche Börse, and the operator is currently zeroing in on the London Stock Exchange Group (actually registering a higher turnover in fourth-quarter 2014).

9 WFE data does not include the turnover of the London Stock Exchange Group, which ceased to be a member at the end of 2013. The data for this group and other operators like BATS Chi-X or Turquoise have been obtained from the European Federation of Exchanges.

Trading volumes on main international stock markets

TABLE 10

Billion euros

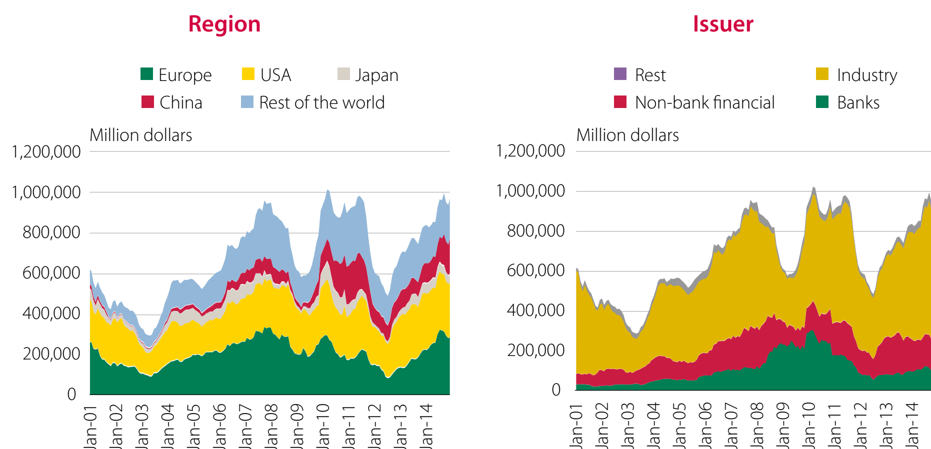
	2011	2012	2013	2014[1]	1Q 14	2Q 14	3Q 14	4Q 14[1]
Market operator								
United States [2]	21,940	17,995	17,511	17,498	5,211.8	4,770.6	4,866.8	2,649.1
NYSE	12,866	10,416	10,305	9,862	2,879.5	2,704.4	2,792.0	1,486.4
Japan Exchange Group[3]	2,831	2,787	4,913	3,371	1,082.6	919.3	971.1	398.1
London Stock Exchange Group[4]	2,021	1,698	1,830	1,926	597.8	502.2	472.5	397.0
NYSE Euronext	1,520	1,221	1,250	1,353	382.0	346.6	339.9	285.0
Deutsche Börse	1,252	987	1,004	1,022	304.5	251.3	255.5	210.3
BME [5]	926	699	704	849	190.5	225.2	196.3	237.1
BATS Chi-X Europe[6]	518	1,833	1,771	1,808	510.8	440.0	458.5	398.7
Multilateral trading facility (MTF)								
Turquoise	448	372	616	785	204.0	221.4	204.4	154.8

Source: World Federation of Exchanges, European Federation of Exchanges and CNMV.

1. Data to 15 December for BME, to November for European operators and to October for remaining operators.
2. As of 2009, the sum of the New York Stock Exchange (NYSE), Euronext and Nasdaq OMX; previously the New York Stock Exchange, Nasdaq OMX and the American Stock Exchange.
3. Including figures for the Japan Exchange Group-Osaka and Japan Exchange Group-Tokyo. The merger between the Tokyo Stock Exchange and Osaka Stock Exchange was approved in July 2012. The company Japan Exchange Group was incorporated in 2013 to operate these two platforms.
4. Incorporating Borsa Italiana as of 2010. As of 2013, figures for this exchange are obtained from the London Stock Exchange.
5. Bolsas y Mercados Españoles. Not including Latibex.
6. BATS Chi-X Europe operates as a recognised investment exchange since 20 May 2013.

The equity capital raised on international markets summed 983 billion dollars in 2014 (to 15 December), 18% more than in 2013. Not all regions shared in the advance: so while issuance surged in Europe (up 28.5% to 288 billion dollars) and China (up by 90.3% to 176 billion dollars), some shrinkage was observable in both the United States and Japan (see left-hand panel of figure 13). Specifically, equity issue volumes receded 3.2% in the United States to 271 billion dollars, and 14.3% in Japan to 43 billion dollars. Industrial firms were the most active issuers (670 billion dollars, 25.7% more than in the same period in 2013), while, in the financial sector, both banks and non-bank financial corporations increased their volumes in the year (by 0.6% and 1.2% respectively).

Global equity issuance FIGURE 13



Source: Dealogic. Twelve-month data to 15 December. Data for this last month are restated on a monthly basis for comparative purposes.

3 Spanish markets

3.1 Fixed-income markets

The headline developments in domestic fixed-income markets over 2014 were the continuing downward march of bond yields and risk premiums of both public and private-sector issuers. In general, markets prolonged their normalisation, helped by an abundance of liquidity and the increased attractiveness of Spanish assets in a clearly more propitious macro setting[10]. However, this stability was threatened in the closing months as a series of uncertainty factors came into play: doubts about the growth prospects of various economies, the ECB's delay in launching the local equivalent of the US's quantitative easing (QE), the turmoil erupting on Russia's financial markets, the slump in crude prices and political instability in Greece. At home, the volume of debt issues registered with the CNMV decreased by 29% in 2014[11] to 98.58 billion euros, due presumably to lower borrowing requirements, among the banks especially, and access to other markets and funding sources.

In this scenario, short-term government yields pulled slightly higher in the final quarter contrasting with a small decrease in corporate bonds. That said, mid-December yields were in both cases significantly lower than at the 2013 close. The interest rates on three-month, six-month and one-year Letras del Tesoro dropped by 47 bp on average in the period (see table 11) to 0.13%, 0.26% and 0.34% respectively, while average yields on short-term corporate bonds in the same tenors fell 58 bp to mid-December values of 0.43%, 0.93% and 0.95%.

10 According to figures published by the National Statistics Office (INE), GDP expanded 0.5% in quarter-on-quarter terms in the third quarter of the year, the fifth consecutive quarterly increase. Leading international analysts are now forecasting GDP growth of 1.7% in 2015 and 1.9% in 2016, and improvement in the unemployment rate to 23.5% and 21.9% respectively.

11 On data to 15 December.

Short-term interest rates (%) TABLE 11

	Dec 11	Dec 12	Dec 13	Dec 14[1]	Mar 14	Jun 14	Sep 14	Dec 14[1]
Letras del Tesoro								
3 months	2.20	1.14	0.54	0.13	0.26	0.14	0.05	0.13
6 months	3.47	1.68	0.70	0.26	0.41	0.20	0.10	0.26
One year	3.27	2.23	0.91	0.34	0.56	0.42	0.17	0.34
Commercial paper[2]								
3 months	2.74	2.83	1.09	0.43	1.01	0.93	0.83	0.43
6 months	3.52	3.58	1.36	0.93	1.34	1.23	1.25	0.93
One year	3.77	3.80	1.59	0.95	1.34	1.32	0.99	0.95

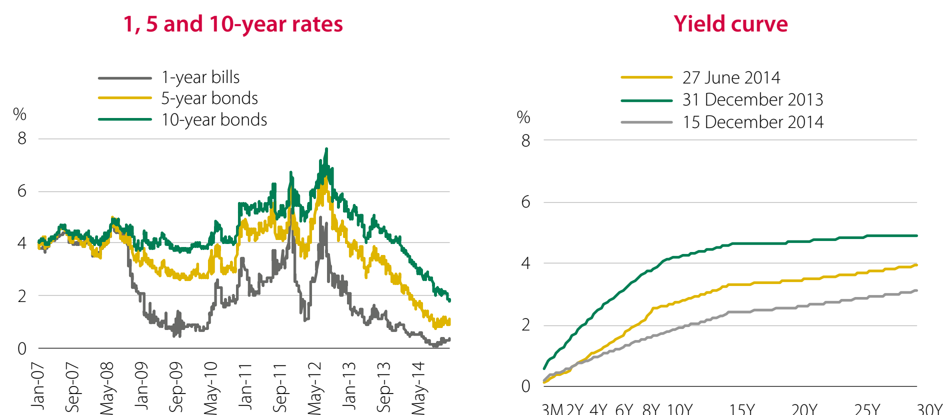
Source: Thomson Datastream and CNMV. Monthy average of daily data.

1. Data to 15 December.
2. Interest rate at issue.

Yields on long-term government and corporate bonds moved in differing directions over the fourth-quarter period. This was especially true in shorter-dated instruments like those in the three to five-year segment, where government yields rose slightly (by six to fourteen basis points) to the range of 0.66% to 1%, while corporate bond yields continued their descent. Conversely, ten-year yields headed lower in both sectors: by 36 bp to 1.84% in the case of public debt and by 17 bp to 2.60% in private fixed income.

As with short-term maturities, the mid-December yields on both long-term government and corporate bonds were substantially beneath the closing rates of the previous year, to the extent of zeroing in on all-time lows. Among public debt assets, the run-down in yields stretched from the 134 bp of the three-year bond to 230 bp in the ten-year maturity (see table 12). These steeper reductions further along the curve, the product in part of low-key domestic inflation, triggered a flattening movement which we can appreciate in the right-hand panel of figure 14. Among private fixed-income assets, the decline in yields ran from 111 bp to 186 bp.

Spanish government debt yields FIGURE 14



Source: Thomson Datastream and Bloomberg. Data to 15 December.

Medium and long bond yields (%)

TABLE 12

	Dec 11	Dec 12	Dec 13	Dec 14[1]	Mar 14	Jun 14	Sep 14	Dec 14[1]
Government bonds								
3 years	4.01	3.40	2.00	0.66	1.26	0.85	0.52	0.66
5 years	4.65	4.22	2.68	1.00	1.96	1.36	0.94	1.00
10 years	5.50	5.33	4.14	1.84	3.31	2.71	2.20	1.84
Corporate bonds								
3 years	5.43	4.19	2.63	0.86	1.78	1.40	0.96	0.86
5 years	5.91	4.66	2.84	1.73	2.18	1.90	1.80	1.73
10 years	8.06	6.79	4.46	2.60	3.66	3.07	2.77	2.60

Source: Thomson Datastream, Reuters and CNMV. Monthly average of daily data.

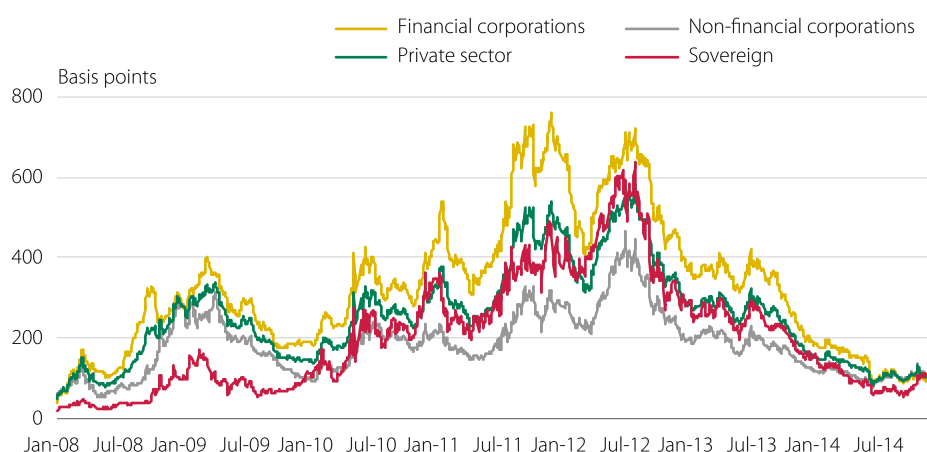
1. Data to 15 December.

The fourth quarter of 2014 saw a break in the downward march of Spain's sovereign risk premium (derived from the 5-year CDS of the Spanish bond or the ten-year spread between the Spanish and German benchmarks), which had restored it to the levels in place before the European debt crisis erupted in May 2010 (see figure 15). This break has its causes in factors mentioned earlier that have brought a deterioration in risk sentiment towards European markets; among them, mounting political uncertainties in Greece over the last weeks of the year. It bears stating here that sovereign credit risk contagion indicators show only the smallest spillover from Greece to other European economies (see the two panels of figure 16).

By mid-December 2014, the CDS spread of the Spanish bond had jumped to 113 bp from the 77 bp of end-September, while its spread over the German bond was down to 116 bp (127 bp in September). In any event, the year-long decline in the sovereign risk premium is noteworthy in both cases: around 104 bp in the yield spread and 40 bp in the CDS.

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

FIGURE 15

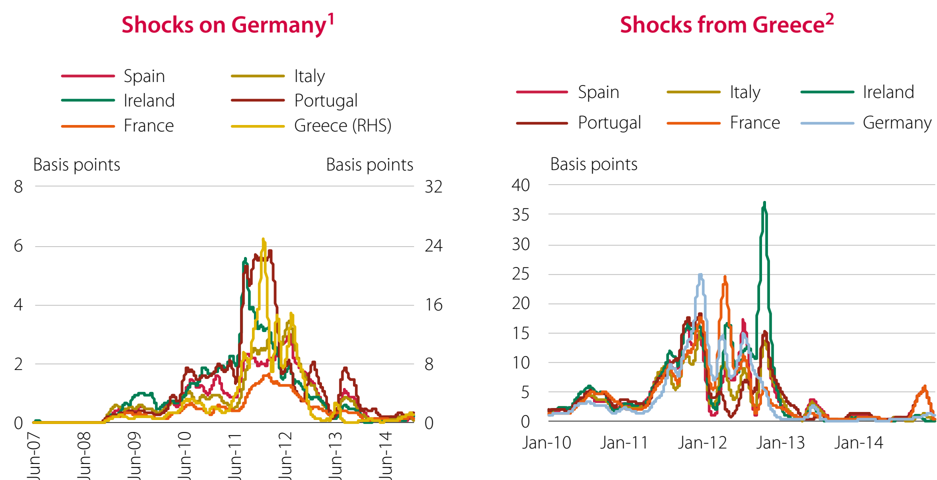


Source: Thomson Datastream. Data to 15 December. Levels for "Total private sector", "Financial corporations" and "Non-financial corporations" correspond to the simple average of component entities.

The credit spreads of Spanish private-sector borrowers evolved in tandem with public debt, namely a downtrend from January to September that was subsequently interrupted, with some temporary spikes in the last months of the year (see figure 15). The result was average corporate bond spreads at mid-December of 98 bp, in line with the average for September (99 bp), slightly below the sovereign CDS, and 54 bp lower than the levels demanded at end-2013. On the basis of this information, we can consider the perceived (average) credit risk of the public and private sector to be roughly on a par.

A breakdown between financial and non-financial issuers shows that the narrowing movement in CDS spreads was stronger among the former. Specifically, the average CDS spreads of financial institutions were 102 bp at mid-December, 85 bp less than at end-2013, while those of non-financial corporations stood at 95 bp, a decrease of 24 bp. This vastly improved risk sentiment vis à vis the domestic financial sector has to do with the progress made in bank recapitalisation and restructuring, and Spanish institutions' strong performance in the stress tests on European banks whose results were published at the end of the year.

Indicators of sovereign credit risk contagion in the euro area FIGURE 16



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

1. Defined as the impact on the German sovereign CDS of contemporaneous shocks in the CDS of Spain, Italy, Ireland, Portugal, Greece and France equivalent to 1% of the CDS spread at that point in time. Results are the product of two components. The first measures the degree of contagion from one country to another, taken as the percentage change in the CDS of the German sovereign bond that is exclusively explained by a contemporaneous variation in the CDS spread of one of the above six countries. This percentage is based on the decomposition of the variance of the estimated prediction error using an autoregressive vector model (ARV) with two variables –the impacted variable (change in the German sovereign CDS) and the shock-generating variable (change in the sovereign CDS of Spain, Italy, Ireland, Portugal, Greece or France)– and two retardations. Estimates are implemented through a moving window of the one hundred periods prior to the first prediction period. The second component measures the credit risk of the shock emitter, as approximated from its CDS. Finally, the resulting series is smoothed using a moving average of thirty trading sessions.
2. Defined as the impact on the sovereign CDS of Spain, Italy, Ireland, Portugal, Germany and France of a contemporaneous shock in the Greek CDS equivalent to 1% of the CDS spread. The result is arrived at by combining two components in a similar manner to note 1 above.

As in previous quarters, financial sector issuance continued in retreat despite the easier conditions available, due to banks' lower funding needs and the existence of alternative sources. The only products registering an issuance upturn, near the end of the year, were asset-backed securities, on the back of the ECB's announced purchasing programme, and convertible bonds. One highlight of the quarterly calendar, towards the end of October, was the first securitisation issue admitted to trading on new market MARF, with a value of ten million euros.

Fixed-income issues registered with the CNMV in 2014[12] summed 98.58 billion euros, 29% down vs. the prior year (see table 13). The steepest declines in straight-money terms were in the non-convertible bond segment (17.49 billion euros), commercial paper (16.15 billion euros) and, in smaller measure, territorial covered bonds (6.26 billion euros). Primary market activity, mostly the province of financial institutions, reflected the slack in banking business, which has kept funding needs low-key, as well as the existence of competing sources like the Eurosystem or other issuance markets.

Commercial paper sales dropped by 36.7% in the year to 27.84 billion euros. Although the decrease was partly offset by higher sales abroad, it appears that the less-than-attractive yield of these instruments has dampened primary market activity.

Issuance of non-convertible bonds contracted sharply in comparison to other longer-dated instruments as far as an annual volume of 15.04 billion euros, 53.8% less than in 2013. Part of the reason is the fall-off in issuance by the asset management company for assets arising from bank restructuring (SAREB), from 24.57 billion euros in 2013 to just 4.08 billion in 2014. Covered bond issue volumes also declined: by 3.9% in their mortgage variant to 23.84 billion euros, and 77.2% in their territorial variant[13], to 1.85 billion.

Sales of asset-backed securities rose by 1.5% to 29.01 billion euros, after a late spurt ensuing in part from their inclusion, alongside covered bonds, in the ECB's new asset-buying programme. Note, however, that over 80% of fourth-quarter issuance traced to one financial institution.

Convertible bonds were the second class of fixed-income assets whose issuance expanded year on year (up by 24.5% to one billion euros), albeit from extremely low baseline levels.

For the third year running, no preference share issues were registered with the CNMV.

12 To 15 December.

13 Instruments secured on loans to public authorities.

Gross fixed-income issues

TABLE 13

Registered[1] with the CNMV

	2011	2012	2013	2014[2]	2014 1Q	2Q	3Q	4Q[2]
NOMINAL AMOUNT (million euros)	**287,492**	**357,830**	**138,839**	**98,582**	**20,593**	**27,934**	**19,886**	**30,168**
Mortgage bonds	67,227	102,170	24,800	23,838	3,450	11,000	3,750	5,638
Territorial bonds	22,334	8,974	8,115	1,853	1,500	218	135	0
Non-convertible bonds and debentures	18,692	86,442	32,537	15,042	5,988	4,855	2,536	1,663
Convertible/exchangeable bonds and debentures	7,126	3,563	803	1,000	0	1,000	0	0
Asset-backed securities	68,413	23,800	28,593	29,008	1,850	3,855	7,640	15,663
Domestic tranche	63,456	20,627	24,980	28,175	1,389	3,573	7,550	15,663
International tranche	4,957	3,173	3,613	833	461	282	90	0
Commercial paper [3]	103,501	132,882	43,991	27,840	7,804	7,006	5,825	7,205
Securitised	2,366	1,821	1,410	620	200	420	0	0
Other	101,135	131,061	42,581	27,220	7,604	6,586	5,825	7,205
Other fixed-income issues	0	0	0	0	0	0	0	0
Preference shares	200	0	0	0	0	0	0	0
Memorandum items:				0				
Subordinated debt issues	29,199	7,633	4,776	7,999	0	2,244	1,545	4,211
Underwritten issues	10	0	193	196	196	0	0	0

Abroad by Spanish issuers

	2011	2012	2013	2014[4]	2014 1Q	2Q	3Q	4Q[4]
NOMINAL AMOUNT (million euros)	**120,043**	**91,882**	**47,852**	**47,083**	**17,421**	**15,127**	**11,941**	**2,599**
Long term	51,365	50,312	34,452	30,594	12,526	10,860	5,918	1,290
Preference shares	0	0	1,653	5,602	3,000	1,102	1,500	0
Subordinated debt	242	307	750	3,000	0	1,500	1,500	0
Bonds and debentures	51,123	50,005	32,049	21,992	9,526	8,258	2,918	1,290
Asset-backed securities	0	0	0	0	0	0	0	0
Short term	68,677	41,570	13,400	16,489	4,896	4,267	6,023	1,308
Commercial paper	68,677	41,570	13,400	16,489	4,896	4,267	6,023	1,308
Securitised	322	11,590	0	0	0	0	0	0

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

	2011	2012	2013	2014[4]	2014 1Q	2Q	3Q	4Q[4]
NOMINAL AMOUNT (million euros)	**108,538**	**49,151**	**48,271**	**34,667**	**13,463**	**9,610**	**9,196**	**2,398**
Financial institutions	79,342	18,418	8,071	8,968	2,549	2,989	3,259	170
Non-financial corporations	29,197	30,734	40,200	25,669	10,914	6,621	5,937	2,228

Source: CNMV and Banco de España.

1. Including those admitted to trading without an issue prospectus.
2. Data to 15 December.
3. Figures for commercial paper issuance correspond to the amount placed.
4. Data to 30 October.

Debt issuance abroad by Spanish issuers summed 47.08 billion euros from January to October, 13.9% more than in the same period in 2013. Driving the advance were short-term issues, up by 40.2% to 16.49 billion euros, along with certain modalities of long-term debt like preference shares and subordinated debentures, with sales of 5.60 and 3 billion euros respectively. Conversely, issuance of bonds and debentures sank back 21.1% in the same period. Finally, non-resident subsidiaries of Spanish firms reduced their issuance overall, despite the increased activity of financial corporation subsidiaries (see table 13).

3.2 Equity markets

3.2.1 Prices

Equity markets performed unevenly over the two halves of 2014. In the first six months, a surfeit of liquidity, coupled with improved economic prospects and investors' increased appetite for risk, drove share prices and turnover sharply higher. The second half, however, brought a reversal in prices, although trading volumes held up strongly. The reasons for the price slide lay in the stagnation of the euro-area economy, the recent volatility caused by Greece's uncertain political future and the price slump in oil, which is hampering the recovery of economies like Russia.

The Ibex 35 fell by 0.9% and 8.5% in the last two quarters of 2014 respectively after the 10.1% gains of the first six months (see table 14) for a practically flat outcome year-to-date (a loss of 0.1%). The Ibex Medium Cap also started well, only to close the year down by 7.5% after a price tumble in the second half, while the Ibex Small Cap index, the most volatile in the year, suffered a steep second-half run-down that took it 12.8% into negative territory. The indices grouping the Latin American securities traded on Latibex managed a sizeable advance in the two central quarters, bracketed, however, by quarterly losses that reached their steepest in the closing months. Finally, the FTSE Latibex All-Share and FTSE Latibex Top shed 25.6% and 20.5% of their value respectively.

Performance of Spanish stock indices (%) TABLE 14

	2011	2012	2013	2014[1]	1Q 14	2Q 14	3Q 14	4Q 14[1]
Ibex 35	-13.1	-4.7	21.4	-0.1	4.3	5.6	-0.9	-8.5
Madrid	-14.6	-3.8	22.7	-0.7	4.4	5.7	-1.0	-9.1
Ibex Medium Cap	-20.7	13.8	52.0	-7.5	6.8	2.4	-8.6	-7.4
Ibex Small Cap	-25.1	-24.4	44.3	-12.8	20.5	-1.3	-13.6	-15.1
FTSE Latibex All-Share	-23.3	-10.7	-20.0	-25.6	-5.6	6.9	5.0	-29.7
FTSE Latibex Top	-17.1	-2.6	-12.4	-20.5	-6.3	7.2	3.8	-23.8

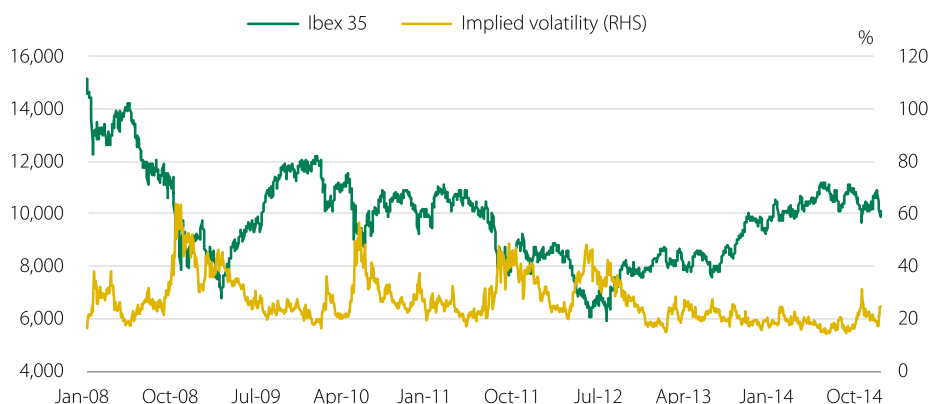
Source: Thomson Datastream.

1. Data to 15 December.

The implied volatility of the Ibex 35 remained more or less flat through the third quarter, with readings in the neighbourhood of 17%. However, the more uncertain climate of the closing quarter caused a series of spikes, the highest touching 30% (in mid-October). Finally, Ibex volatility in the fourth-quarter averaged 22%, well below the registers of earlier turmoil episodes when this indicator at times exceeded 50% (see figure 17).

Ibex 35 performance and implied volatility

FIGURE 17



Source: Thomson Datastream and MEFF. Data to 15 December. Implied at-the-money (ATM) volatility on nearest expiry.

As we can see from 15, the sectors making up the Madrid General Index (IGBM) fared worse in the second-half period, due mainly to the price falls of the closing months. Only one sector, consumer services, managed a positive second-half performance, with a price gain of 1.1%. Of remaining sectors, the worst performers from July to December were basic materials, industry and construction (-21.7%), followed by finance and real estate (-13.3%). Within the latter sector, real estate services sagged 12% in the last six months after a bull run from June 2013 to June 2014 that carried share prices over 150% higher. Finally, oil and energy contracted by 8.3%, consumer goods by 6.6% and technology and telecommunications by 2.3%.

Performance of the Madrid Stock Exchange by sector and leading shares[1]

TABLE 15

	Weighting[1]	2014[2]	1Q 14	2Q 14	3Q 14	4Q 14[2]
Financial and real estate services	**44.75**	**-2.2**	**6.4**	**6.1**	**0.8**	**-14.0**
Real estate and others	0.37	38.7	42.3	10.8	-5.8	-6.7
Banks	42.29	-2.1	6.5	6.3	1.3	-14.6
BBVA	12.66	-11.3	-0.7	6.8	3.5	-19.1
Santander	20.76	11.1	8.8	12.6	1.8	-10.9
Oil and energy	**16.50**	**8.4**	**8.8**	**8.6**	**1.6**	**-9.7**
Iberdrola	7.24	24.9	12.6	10.0	3.7	-2.7
Repsol YPF	3.54	-12.1	1.1	6.6	-2.4	-16.5
Basic materials, industry and construction	**7.91**	**-7.2**	**11.6**	**6.2**	**-8.2**	**-14.7**
Construction	4.49	2.1	16.0	6.5	-8.4	-9.7
Technology and telecommunications	**15.17**	**2.5**	**-1.3**	**6.3**	**-1.5**	**-0.8**
Telefónica	11.84	4.9	-3.0	9.0	-2.1	1.4
Consumer goods	**9.83**	**-8.2**	**-4.3**	**2.8**	**-5.5**	**-1.2**
Inditex	6.47	-7.9	-9.1	3.2	-2.7	0.9
Consumer services	**5.84**	**2.4**	**2.8**	**-1.4**	**-3.6**	**4.9**

Source: Thomson Datastream, Bolsa de Madrid and BME. Shares capitalising at more than 3% of the IGBM, adjusted for free float.

1. Relative weight (%) in the IGBM as of 1 July 2014.
2. Data to 15 December.

The generalised share price slide of second-half 2014 drove three of the six sectors into full-year losses (to mid-December) despite a good first-half run. Consumer goods lost most ground (-8.2%) after performing poorly in both six-month periods (being the sole sector with price falls from January to June). The other two sectors ending the year in negative numbers were basic materials, industry and construction, with a price slide of 7.2% (after the 18.5% increase of the first six months), and financial and real estate services, down by 2.2% (+12.9% in the first six months). Conversely, oil and energy, technology and telecommunications and consumer services managed to close with year with gains. In the first two cases, the price falls of the second half could not totally undo the solid advance of the six previous months, permitting year-long rises of 8.4% and 2.5% respectively. Finally, consumer services was the only sector that managed to gain value in the year's two halves to close with a modest advance of 2.4%.

Only a fifth of the shares listed on the IGBM posted price rises in the closing quarter, of which those contributing most positively to index performance were the only listed airline group and the largest firm in technology and telecommunications (see table 16). Eleven shares exerted a negative IGBM impact of over 0.15%; six of them banks (with the two largest cap banking groups detracting more than 2%) and three belonging to the oil and energy sector. The remaining two were a construction company and a firm in the engineering sub-sector.

Shares with greatest impact on IGBM change TABLE 16

		Dec 2014	
Share	**Sector**	**Change (p.p.)**	
Positive impact		**/prior quarter**	**/Jun 14**
IAG	Consumer services	0.41	0.46
Telefónica	Technology and telecommunications	0.16	-0.09
Negative impact			
BBVA	Financial and real estate services	-2.42	-3.39
Banco Santander	Financial and real estate services	-2.27	-0.33
Repsol	Oil and energy	-0.58	-0.35
Banco Popular	Financial and real estate services	-0.30	-0.34
Gas Natural	Oil and energy	-0.28	-0.28
Caixabank	Financial and real estate services	-0.27	-0.02
Abengoa	Basic materials, industry and construction	-0.25	-0.74
Bankia	Financial and real estate services	-0.24	-0.26
Banco de Sabadell	Financial and real estate services	-0.21	-1.12
Iberdrola	Oil and energy	-0.20	0.01
ACS	Basic materials, industry and construction	-0.19	-0.07

Source: Thomson Datastream and Bolsa de Madrid. Data to 15 December. The shares listed are those having most impact (equal to or more than 0.15 points in absolute terms) on the quarterly change in the IGBM. The sample comprises all shares that were neither delisted nor suspended from trading at the start of the last quarter considered.

After this erratic price progression, by the end of the year five of the six IGBM sectors, the same number as at end-2013, were trading sizeably below the levels

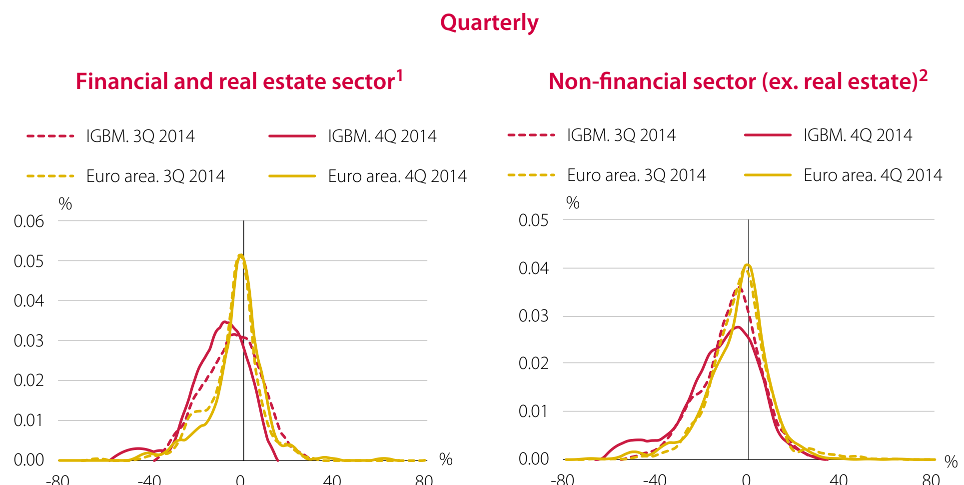
of July 2007, at the start of the subprime crisis. The sectors furthest behind this pre-crisis baseline were financial and real estate services and basic materials, industry and construction, by margins ranging in both cases from 50% to 60%. Consumer goods was the only sector trading ahead of its summer 2007 prices, by a margin of 79%.

As we can see from the upper panels of figure 18, the distribution of financial and real estate company returns shifted leftwards in the fourth quarter, reflecting the extensive price falls recorded in the period. By contrast, the distribution of non-financial corporations' fourth-quarter returns is similar on average to that of the third quarter, despite the higher proportion posting heavy losses. It is clear from this that the turbulence of the closing months did not affect all shares with equal intensity. Return distribution held steadier over the same two quarters among euro-area listed firms.

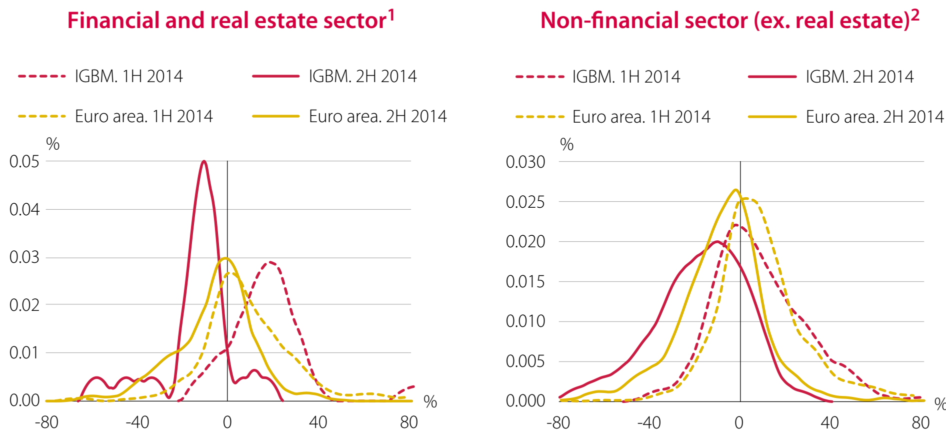
A look at the half-yearly distribution of returns reveals greater differences in light of the strong price surge experienced by Spanish shares in the first three months and the price tumble of the closing quarter (see bottom-left panel of figure 18). In the case of financial and real estate firms, average returns (above 20% in the first half) shifted visibly leftwards into negative terrain (below -10%). And we can also observe a marked peakedness in second-half distribution around this negative average. The average distribution of non-financial corporations likewise turned negative from mid-year onwards although the leftward shift was smaller in scale. After trailing those of financial and real estate corporations in the first months of the year, the returns of these companies exhibited a wider second-half dispersion, with around 20% holding in positive territory (compared to 10% of financial and real estate firms). Among European firms, finally, a leftward shift was also appreciable in the curve of both sectors.

The price/earnings ratio (P/E) of the Ibex 35 dropped from 16.3 in June to 15.1 in December, on a combination of falling share prices and higher expected earnings per share. It nonetheless conserved its lead versus remaining European indices (see table 8 and figure 11) and its own average reading since 1999 (13.5).

Distribution of share returns FIGURE 18



Half-yearly



Source: Bolsa de Madrid and Thomson Datastream. Data to 15 December 2014. Analysis run on the companies forming each index on 15 December, when the Spanish IGBM comprised 108 companies against the 1,368 of the euro-area index.

1. The financial and real estate sector comprises credit institutions, insurance undertakings, portfolio and holding companies, other investment service providers and real estate companies: 20 companies in Spain (18.5% of index members) against 284 (20.8%) in the euro area.
2. The non-financial sector (ex. real estate) comprises listed companies not included in the financial and real estate sector.

3.2.2 Activity: Trading, issuance and liquidity

Turnover on the Spanish stock market swelled by 25.7% in 2014 to 849.12 billion euros. One late development was the fourth-quarter surge in average daily volume to 4.31 billion euros, comparable to the level of 2010 and improving on 2009. The daily average for full-year 2014 was finally 3.48 billion euros, well ahead of the 2.73 and 2.76 billion respectively of 2012 and 2013. Despite this increase, turnover has yet to recoup the levels observed at the start of the financial crisis (see table 17).

Confining ourselves to turnover in Spanish shares, what stands out is the considerable shift in business away from domestic regulated markets to alternative trading venues. Spanish securities have been caught up in this broader trend, shared with other European exchanges, since the first quarter of 2013. According to Bloomberg, trades in Spanish shares on these alternative venues accounted for 15.2% of 2014 turnover (some 146.70 billion euros), up from 10.1% the previous year (see table 17).

Trading in Spanish shares listed on Spanish exchanges

TABLE 17

Million euros

	2011	2012	2013	2014[1]	3Q 14	4Q 14[1]
Total	**926,873.7**	**709,902.0**	**764,986.6**	**964,573.4**	**224,569.2**	**274,827.4**
Listed on SIBE	**926,828.6**	**709,851.7**	**764,933.4**	**964,493.6**	**224,529.9**	**274,815.1**
BME	912,176.9	687,456.1	687,527.6	817,831.6	188,289.5	228,542.9
Chi-X	11,120.3	16,601.3	53,396.7	93,026.6	19,523.4	28,005.8
Turquoise	707.7	3,519.6	11,707.9	27,470.1	8,296.4	8,520.3
BATS	1,276.4	2,261.9	10,632.1	17,954.5	4,124.7	4,502.2
Other[2]	1,547.3	12.8	1,669.2	8,211.0	4,295.8	5,244.0
Open outcry	**42.8**	**49.9**	**51.4**	**79.1**	**39.1**	**12.2**
Madrid	16.1	3.0	7.3	32.3	27.0	0.6
Bilbao	0.1	8.5	0.1	14.3	0.0	0.1
Barcelona	26.4	37.7	44.1	32.2	12.1	11.5
Valencia	0.3	0.7	0.0	0.6	0.0	0.4
Second market	**2.3**	**0.4**	**1.7**	**0.6**	**0.2**	**0.0**
Memorandum items						
BME trading of foreign shares[2]	5,206	4,102	5,640	13,921.9	3,681.8	3,241.9
MAB	4,379.9	4,329.6	5,896.3	7,378.2	1,704.3	1,483.7
Latibex	357.7	313.2	367.3	362.0	76.6	71.3
ETFs	3,495.4	2,736.0	4,283.9	9,545.8	2,476.1	1,858.4
Total BME trading	925,661.3	698,987.5	703,768.7	849,119.2	196,267.6	237,124.6
% Spanish shares on BME vs. total Spanish shares	98.4	96.8	89.9	84.8	83.9	83.2

Source: Bloomberg and CNMV. 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.

1. Data to 16 December.
2. 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.

Equity issuance on domestic markets came to 31.13 billion euros to mid-December 2014, 20.5% less than in the same period in 2013 (see table 18). It should be remembered, however, that last year's largest operations were capital increases involving banks intervened by the Fund for Orderly Bank Restructuring (FROB), while only one such operation took place in 2014 for a relatively small amount. The number of issuers, meantime, increased by 32.6%, from 46 to 61. Another feature of 2014 issuance was the prevalence of capital increases to cover scrip in place of cash dividends, a trend that has been gathering force since the start of the crisis, and especially since 2012. This modality accounted for 38.2% of capital increases undertaken in the year. Finally, fourth-quarter issuance, at 11.27 billion euros, was over 50% higher than in the year-ago period.

Capital increases and public offerings

TABLE 18

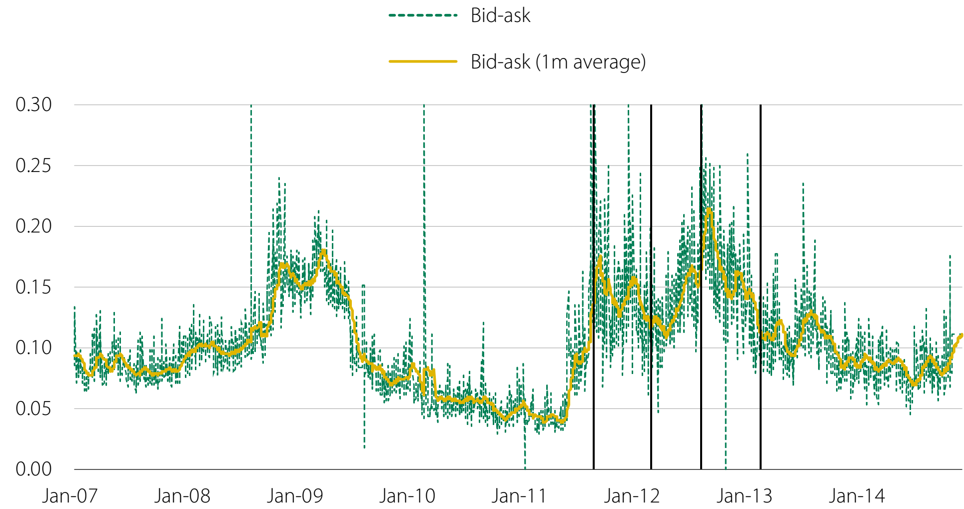
	2012	2013	2014[1]	1Q 14	2Q 14	3Q 14	4Q 14[1]
CASH AMOUNTS (million euros)	**29,557.4**	**39,171.9**	**31,133.4**	**4,829.1**	**9,113.3**	**5,916.8**	**11,274.2**
Capital increases	28,326.0	39,171.9	26,246.4	4,829.1	7,877.0	5,399.1	8,141.2
Of which, scrip dividend alternative	8,357.8	9,869.4	11,843.7	2,867.5	2,439.5	2,931.7	3,605.0
Of which, through public offer for subscription	2,457.3	1,744.6	2,956.5	900.0	1,655.0	401.5	0.0
National tranche	2,457.3	1,744.6	455.6	98.7	348.1	8.9	0.0
International tranche	0.0	0.0	2,500.9	801.3	1,306.9	392.7	0.0
Public offering of shares	1,231.4	0.0	4,886.9	0.0	1,236.2	517.7	3,132.9
National tranche	1,231.4	0.0	797.1	0.0	55.7	58.5	682.9
International tranche	0.0	0.0	4,089.8	0.0	1,180.5	459.2	2,450.0
NO. OF FILINGS	**106**	**159**	**153**	**35**	**46**	**43**	**29**
Capital increases	103	159	146	35	43	41	27
Of which, bonus issues	24	38	34	7	7	11	9
Of which, through public offer for subscription	7	6	9	2	5	2	0
Public offering of shares	3	0	7	0	3	2	2
NO. OF ISSUERS	**39**	**46**	**61**	**21**	**30**	**29**	**20**
Capital increases	39	46	59	21	30	28	19
Of which, through public offer for subscription	7	6	7	2	5	2	2
Public offering of shares	3	0	4	0	2	1	1

Source: CNMV.

1. Data to 15 December.

Liquidity conditions remained comfortable all year, as figure 19 shows, with bid-ask spreads averaging under 0.10% even at times when the index was moving higher. Ibex 35 liquidity was unaffected by the market turbulences of the closing months. So much so that the average monthly spread was down to 0.07% in mid-December, below the average for both the full-year period (0.08%) and since 2003 (0.10%).

Ibex 35 liquidity. Bid-ask spread FIGURE 19



Source: Bloomberg. Data to 15 December. The chart shows the daily bid-ask spread of the Ibex 35 and its monthly average. The vertical lines refer to the introduction and lifting of the precautionary 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.

II Reports and analyses

Economic and financial performance of listed companies in the first half of 2014

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1 Introduction

This article gathers and analyses the key highlights of the periodic financial information for the first half of 2014 submitted to the CNMV[1] by issuers.

The aggregate information analysed relates to the results, financial position, cash flows, number of employees and dividends paid. The 147 companies included in the study operate in the following sectors: energy (9 companies), manufacturing (47 companies), retail and services (42 companies), construction and real estate (28 companies), credit institutions (19 companies), and insurance (2 companies).

The analysis is carried out on the following basis:

- The data are obtained from the consolidated or individual periodic financial reports[2] submitted to the CNMV by the issuers of shares or debt[3] that are listed on a regulated Spanish market, where Spain is the home Member State.
- The aggregate figures exclude issuers that are subsidiaries of another listed group. However, when such issuers carry on their activity in a sector other than that of the parent company, their financial data are included in the figures for their sector.
- Data relating to periods other than the first half of 2014 in the historical series have been calculated for the representative sample of the companies that were listed in the reference period.

In Section 2 of this article we analyse the development of turnover since 2010, in Sections 3 and 4 we present the behaviour of earnings and the return on equity and investment. In Section 5, we look at the debt of non-financial companies. In Section 6, we analyse the non-performing loans and solvency of credit institutions, and in Sections 7, 8 and 9, we present the development of cash flows, workforce and dividends paid, respectively. The last section presents the main conclusions.

1 As provided in Article 35 of the Securities Market Act 24/1988, of 28 July, when Spain is the home Member State, issuers whose shares or debt securities are admitted to trading on an official secondary market or on another regulated market in the European Union must publish and disseminate a half-yearly financial report and a second financial report covering the full financial year.

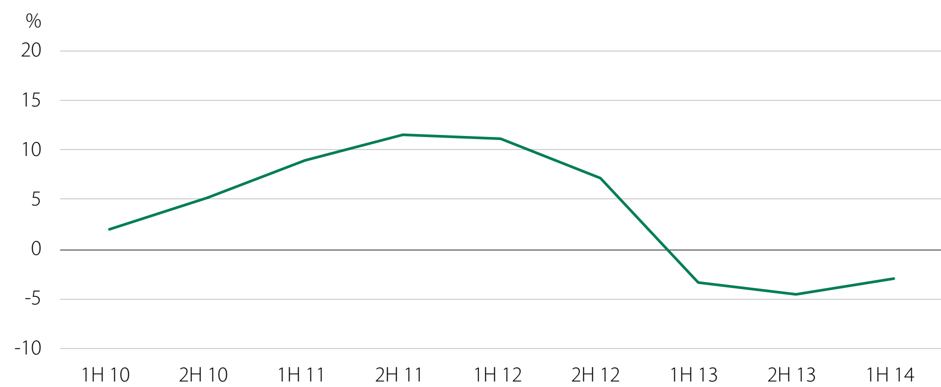
2 Submitted in the form provided for in Circular 1/2008.

3 Except for entities that have issued preferred shares and other special purpose entities incorporated for the issuance of fixed-income securities.

2 Net turnover

As shown in Figure 1, following three years of positive growth rates, net turnover[4] began a downward trend in the first half of 2013, which continued in the first half of 2014. However, the rate of the fall dropped to 3%, compared with 4.5% in the previous year.

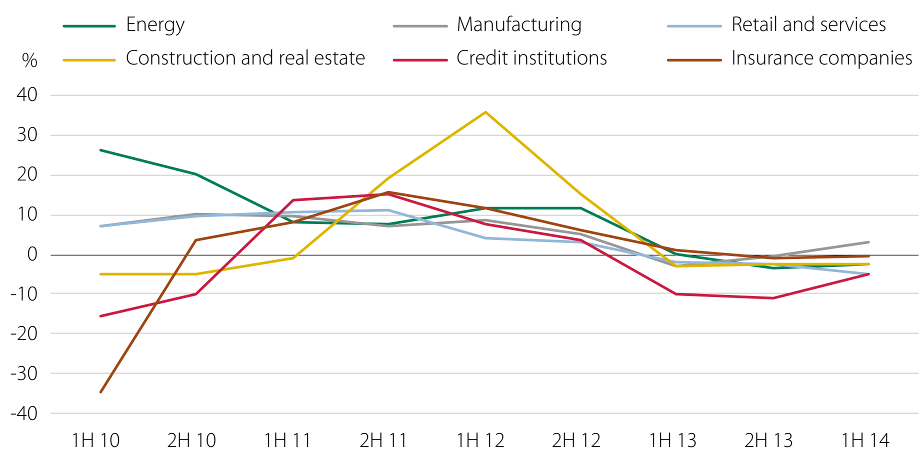
Rate of change in net turnover FIGURE 1



Source: CNMV.

Figure 2 shows the development of net turnover for the different sectors. All sectors, except the manufacturing sector, recorded negative year-on-year rates of change in the first half of 2014. As in the last two half-year periods, the largest fall was recorded by credit institutions, with a year-on-year rate of change of -4.8% (-11.2% in 2013), which were joined in this half-year period by the retail and services sector, with a rate of -5%.

Rates of change in turnover by sector FIGURE 2



Source: CNMV.

4 For credit institutions, net turnover has been taken to comprise interest and similar revenue, and for insurance companies, premium income for the year from life and non-life insurance net of reinsurance.

By sector, the highlights in the first half of 2014 were as follows:

- **Energy.** In 2014, net turnover continued the fall which began in 2013. Electricity companies saw their revenue fall mainly as a result of the following reasons: (i) weakness in the demand for electricity and gas in the Eurozone; (ii) the negative effect of the depreciation of local Latin American currencies, and (iii) the recent regulatory and tax modifications in Spain and the United Kingdom, which have reduced the revenues of liberalised businesses in both countries. In the case of Spain, we can highlight Royal Decree-Law 9/2013, of 12 July, on the adoption of urgent measures to guarantee the financial stability of the electricity system.

  For their part, the sales figures of oil companies were negatively affected by the production halts in Libya, which were partially offset by the favourable evolution of the businesses engaged in marketing oil and chemical products and the gas business in North America. The sales figures for the sector were not affected by the changes in the average price of Brent oil, which remained stable in the first half of the year, but they were affected by the depreciation of the dollar against the euro (4.5%).

- **Manufacturing.** The development of net turnover in manufacturing companies was uneven, with an overall increase of 2.9% recorded in the period compared with falls in the previous two half-year periods.

  Turnover rose in some companies and sub-sectors. There was a noteworthy rise of 4.5% in the textile manufacturing sub-sector due to the 5.6% increase in the turnover of its main company, which was a result of its international expansion. This company alone accounts for 31.6% of the total revenue of the manufacturing sector. Other sub-sectors which saw an increase in sales were base metals and metal processing (2.66%), emerging wind power markets (13.1%), the chemical industry (6%) and the food sub-sector (0.5%), which account for around 58% of total manufacturing revenue. The increase in these sectors was mainly due to the following factors: (i) improvement in global demand; (ii) increase in the order book of projects for engineering and construction of industrial facilities in areas of oil and natural gas; (iii) sluggish recovery in private consumption in the Eurozone, which led to a slight increase in sales in the food sector, and (iv) contribution to revenue of businesses acquired at the end of 2013 and the beginning of 2014.

  In the opposite direction, there was a noteworthy fall in companies engaged in paper and graphic arts (11.3%) and construction activities (3.5%) and those related to renewable energies in Spain and those which are undergoing bankruptcy procedures, with the aggregate weighting of these companies in total manufacturing revenue accounting for approximately 9%.

- **Retail and services.** Turnover in this sector fell by 5%. This rate would be positive (1.9%) if we excluded the communications sub-sector, which accounts for 43.8% of the sector's total revenue.

  Sales in this sub-sector fell by 12.6%, mainly as a result of the exchange rate effect (with a noteworthy depreciation of the Venezuelan bolivar and the Ar-

gentinean peso, partially offset by the appreciation of the Brazilian real and the pound sterling in the first half of 2014), the hyperinflation in Venezuela and the changes in the consolidation scope.

With regard to the rest of the sector, the net increase in sales is largely due to two factors: (i) an increase in air transport fare revenue (7.8%) thanks to the increase in capacity and despite the fall in unit revenue and the adverse exchange rate effect, and (ii) the positive evolution of revenue in new technology companies (2.4%) and highway activities (4.5%).

- **Construction and real estate**. The net turnover of this sector fell by 2.3% in the first half of the year compared with the same period of 2013. The fall was concentrated in the construction sub-sector, which recorded a rate of change of -2.6% compared with an increase of 31.8% in real estate companies, although the revenue of the latter accounts for only 1.3% of total revenue of the sector.

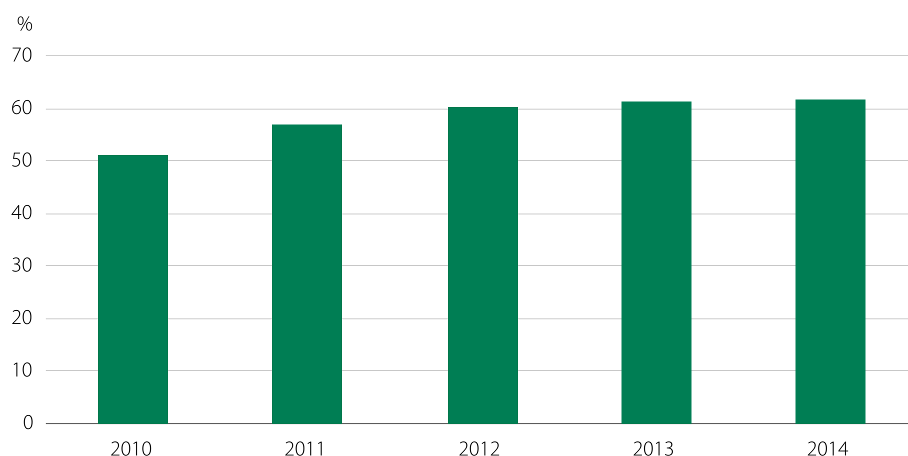
  In the construction sub-sector, turnover fell in practically every company as a result of the sharp fall in their activity in Spain. The main company in this segment, which accounts for 58.4% of the total sales of the sub-sector, saw a fall in turnover of 5% as a result of the impact of the depreciation of the Australian dollar and the sale of assets in 2013.

- **Credit institutions.** Revenue from interest and similar revenue recorded by credit institutions fell by 4.8% compared with the same period of the previous year. This fall was essentially due to the impact of the interest-rate curve on the revision of mortgage lending rates, the elimination of so-called "floor clauses" for certain mortgage loans, the effect of non-performing loans and the processes of balance sheet optimisation conducted by credit institutions.

- **Insurance companies.** The aggregate volume of premiums net of reinsurance fell at a year-on-year rate of 0.3%. Premiums in the life insurance business rose by 3.8%, while premiums in the non-life insurance business fell by 2%.

Figure 3 shows the percentage of net turnover generated abroad by non-financial companies since 2010. The upward trend in the percentage recorded over recent periods continued in the first half of 2014, with foreign operations generating 61.5% of total net turnover, 0.3 percentage points up on 2013. However, the increase was exclusively concentrated in the manufacturing sector, as shown in Table 1. The proportion of revenue generated exclusively in Spain has fallen significantly since 2003, the first year for which this information is available, from 67.7% to 38.5%.

Net turnover generated abroad by non-financial companies FIGURE 3



Source: CNMV.

Table 1 shows the sector breakdown of the proportion of net turnover generated abroad by non-financial companies. As indicated, all sectors, except the manufacturing sector, recorded a fall in the proportion of revenue generated abroad.

Following three consecutive years in which sales abroad recorded increases of close to 20%, 2013 saw a fall of 0.7% in the volume of sales compared with 2012. This trend intensified in the first half of 2014, in which a fall of 2.3% was recorded. Nevertheless, the performance of revenue abroad was better than in Spain, where sales fell by 3%.

Net turnover of non-financial companies generated from foreign operations: breakdown by sector TABLE 1

	2010	2011	2012	2013	1H 14
Energy	44.8	47.0	45.2	45.0	44.2
Manufacturing	65.8	69.0	73.1	74.5	78.5
Retail and services	57.1	62.5	67.8	68.8	68.4
Construction and real estate	44.5	59.1	69.0	72.1	71.1
Subtotal, non-financial companies	51.0	57.0	60.3	61.2	61.5

Source: CNMV.

3 Results

The aggregate profits of the companies in the sample fell by 452 million euros, a reduction of 2.3% on the first half of the previous year. This reduction was mainly due to the lower profits obtained in the retail and services, and credit institution sectors. In the opposite direction, there was noteworthy positive growth in the construction and real estate sector, which moved from recording losses to recording profits.

The percentage of loss-making companies in the sample fell by 1.4 percentage points on the first half of the previous year. Total losses amounted to 3.35 billion euros compared with 2.89 billion euros in 2013.

The percentage of companies with profits stood at 68.7% of the sample. A significant number of companies increased their profits by over 20% (40 companies), a similar number to that in 2013 (43).

EBITDA[1], operating profit and profit for the year

TABLE 2

Million euros

	EBITDA			Operating profit			Profit (loss) for the year		
	1H 13	1H 14	Change (%)	1H 13	1H 14	Change (%)	1H 13	1H 14	Change (%)
Energy	10,471	11,775	12.5%	6,176	7,282	17.9%	5,690	5,479	-3.7%
Manufacturing	3,712	3,856	3.9%	2,523	2,607	3.3%	1,576	1,594	1.1%
Retail and services	13,809	13,754	-0.4%	6,486	7,227	11.4%	2,447	1,592	-34.9%
Construction and real estate	3,182	3,021	-5.1%	1,654	1,850	11.9%	-517	829	–
Credit institutions	–	–	–	7,235	10,395	43.7%	9,476	8,642	-8.8%
Insurance companies	–	–	–	1,096	1,210	10.4%	751	811	8.0%
Total[2]	**31,105**	**32,348**	**4.0%**	**25,149**	**30,553**	**21.5%**	**19,431**	**18,979**	**-2.3%**

Source: CNMV.

1. EBITDA = Operating profit/loss + depreciation/amortisation of fixed assets.
2. For groups, the total only includes the consolidated data provided by the parent company, excluding any other listed company in the group. The total may differ from the sum of the values shown for each sector as a result of the adjustments made.

As shown in Table 2, non-financial companies recorded a 4% increase in their EBITDA. This increase, which contrasts with the 2.6% drop in net turnover, was essentially due to (i) the positive effect of the comparison with the first half of 2013, a period in which significant impairment of tangible assets, intangible assets and goodwill was recorded, mostly relating to electricity generation with renewable energy and gas storage in the United States and Canada, and (ii) the fall in personnel expenses and other operating expenses, which was the result of the efficiency and cost optimisation plans carried out in 2013, particularly in the retail and services sector.

Operating profit recorded a slight improvement both for financial and for non-financial companies, which was particularly significant in the case of the former. For non-financial companies, the improvement in profit was the result of a substantial reduction in depreciation/amortisation charges, particularly in the retail and services sector, the sales of non-strategic assets, the effect of exchange rates and changes in the consolidation scope.

The profit for the year of non-financial companies improved by 3.5%, mainly as a result of the construction and real estate sector, which moved from recording losses to recording profits in the first half of 2014. However, the growth in this heading was lower than that of the operating profit for two reasons: (i) the increase in the corporate income tax expense as in 2013 the tax effects resulting from recording the update

of non-financial assets located in Spain under Law 16/2012, of 27 December, adopting various tax measures aimed at consolidating public finances and boosting economic activity, were recorded, and (ii) the higher losses for discontinued operations recorded in 2014, mainly in the retail and services sector.

In total, the profit for the year for the sample as a whole fell by 2.3% as a result of the profits of credit institutions falling by 8.8%.

By sector, the highlights were as follows:

- **Energy**. The rise in operating profit (17.9%) contrasted with the fall in turnover (2.6%). The improvement in this margin was mainly due to the impact in the first half of 2013 of the impairment recorded by one company as a result of the revision of its plans in the United States and Canada. If we exclude this effect, EBIT in the first half of 2014 would have fallen by 7.7% on the same period of the previous year. This fall is explained by the fact that the negative impact of regulatory modifications was greater than the reductions in supplies and fixed costs for the period.

  Profit before tax improved by 33.7% due to the following reasons: (i) the positive impact of the gains obtained in the divestments undertaken in the period; (ii) the improvement in the net financial income (expense) as a result of the reduction in debt and the average cost of financing, and (iii) the increase in the profits contributed by companies accounted for using the equity method.

  Finally, the 3.7% fall in profit for the year was due to the positive impact on the corporate income tax expense for 2013 resulting from the update of balance sheets performed by several companies in the sector under Law 16/2012.

- **Manufacturing.** EBITDA and operating profit rose by 3.9% and 3.3%, respectively, a little above the increase in sales (2.9%).

  There was a noteworthy improvement in the EBITDA/sales ratio of companies related to the base metals and metal processing sub-sector and the chemical sub-sector, as well as other non-textile manufacturing. The increase in these cases was due to three factors: (i) the high levels of production efficiency achieved following the start-up of fixed cost savings programmes and optimisation of variable costs; (ii) the non-recurring impacts associated with the reversal of impairments recorded the previous year, and (iii) the recording of lower non-recurring expenses compared with the previous period.

  However, the main textile manufacturing company –which accounts for 45.8% of the sector's operating profit– recorded a slight fall in EBITDA and operating profit as a result of the growth in operating expenses, which in turn was the result of the increase in sales and the new commercial area opened.

  There was also a noteworthy fall in the EBITDA/sales ratio of companies engaged in paper and graphic arts, as well as cement, as a result of two issues: (i) non-recurring expenses for impairment related to the change in electricity regulations for renewable energy sources, co-generation and waste, in addition to

those already recorded in the second half of 2013, and (ii) lower margins of the acquired companies which were not fully consolidated in the first half of 2013.

Finally, profit for the year rose by 1.1%, a lower figure than the increase in sales or the operating profit, as a result of the increase in the tax expense compared with 2013, when the figures were affected by the balance sheet updates recorded by some companies, the restructuring of tax credits in the first half of 2014 and lower losses for discontinued operations.

- **Retail and services.** Aggregate EBITDA for the sector fell by 0.4% largely due to the communications sub-sector, where aggregate EBITDA fell by 14.5%, mainly as a result of the drop in sales. If we exclude this sub-sector, EBITDA would have risen by 30.9%, mainly as a result of the fall in fuel and staff costs in the airline sector.

  Other positive effects on EBITDA were: (i) continuity in the implementation of improvements in efficiency and cost optimisation in concessions; (ii) the improvement of margins in the sales of concession-related infrastructures and sales of bio-energy, and (iii) the gains obtained in the sale of shareholdings.

  Aggregate operating profit for the sector rose by 11.4% as there was a significant decrease in the depreciation/amortisation charge, with two opposing effects: (i) the positive effect of exchange rates, the removals from the scope and sales of non-strategic assets, and (ii) the increase in the average expense recorded by companies in the sector for registrations of assets and business combinations.

  On the other hand, net profit for the half-year fell by 34.9% due to the sharp fall in profits for discontinued operations, mainly in the media sector.

- **Construction and real estate.** EBITDA for the sector fell by 5.1% due to the drop recorded by construction companies (-6.1%) and despite the positive performance of the real estate sub-sector, where EBITDA improved (15.9%) but still remained in negative figures.

  There was a noteworthy fall in EBITDA of the main company in the construction sector as result of the reduction in turnover due to the negative impact of exchange rates and the sale of assets in 2013.

  Although EBITDA in the real estate sub-sector remained negative, this improvement was driven by the dation in payment of assets resulting from the cancellation of financial debt with a carrying amount above the sale price of said assets, as well as the reduction in impairment of properties recorded in 2013.

  Operating profit rose by 11.9%, with a positive trend in both sectors. Specifically, operating profit rose by 6.8% in the construction sub-sector, to 2.16 billion euros, while the operating profit of real estate companies improved by 15.9%, although it remains negative at -314 million euros.

  Finally, the sector recorded a profit of 829 million euros compared with a loss of 517 million euros in the first half of 2013. It is worth noting that both the

construction sub-sector and the real estate sub-sector recorded profits (785 and 44 million euros, respectively). There was a noteworthy positive impact of discontinued operations, mainly as a result of one group no longer consolidating following the loss of its control in exchange for compensation of loans with creditor companies, with an effect of 704 million euros.

- **Credit institutions.** The interest margin increased by 4.2% on the same period of the previous year. This change was the result of the 13.6% reduction in the expense for interest and similar charges, which was sharper than the 4.8% reduction in revenue from interest and similar revenue.

This fall in the interest revenue in the first half of 2014 was, as indicated above, due to the impact of the interest-rate curve on the revision of mortgage lending rates, the elimination of so-called "floor clauses" for certain mortgage loans, the effect of the processes of balance sheet optimisation conducted by credit institutions and non-performing loans. As a result of the difficult economic environment, the new regulatory requirements and the restructuring process of the financial sector, with the transfer of the assets of nationalised banks to the Asset Management Company for Assets Arising from Bank Restructuring (Spanish acronym: SAREB), there was a significant fall in the volumes of lending to the private sector, as well as a move in the portfolio mix towards lower risk, and lower return, products. Finally, the high NPL ratios, with an increase in non-performing assets, also contributed to the drop in revenue from interest.

In a scenario characterised by high levels of liquidity, after market tensions were overcome thanks to the measures adopted by the European Central Bank (ECB), the reduction in the expense for interest and similar charges, which was greater than the reduction in revenue from interest, was essentially due to the optimisation of the cost of financing a) from customers, as a result of the reduction in deposit rates, and b) wholesale, as a result of the downward revision of interest rates.

However, the increase in the interest margin was not sufficient to prevent a reduction in the gross margin of 2.1%. This fall was essentially the result of the drop in profits from financial operations and the results of exchange differences.

In general terms, the lower profits from financial operations were the result of certain operations which took place in the first half of 2013 but which were not repeated in the same period of 2014. These include the swaps of hybrid instruments, buybacks of securitisation bonds and mortgage-covered bonds, divestments of non-strategic assets, the sale of fixed-income assets available for sale and of the held-to-maturity portfolio and the results of the trading portfolio.

Notwithstanding the above, in the first half of 2014, certain credit institutions also recorded significant profits from financial operations resulting from the sale of investments in public debt acquired in previous periods, taking advantage of the opportunities offered by the debt market as a result of the favourable evolution of the risk premium, and with the aim of materialising gains so as to comply with new regulatory and capital requirements.

The reduction in profits from exchange differences was mainly due to the depreciation of the Venezuelan bolivar and the Argentinean peso.

Despite the fall in gross margin, operating profit in the first half of 2014 rose by 43.7%, favoured by a 9.2 % reduction in personnel expenses and a fall in net losses for impairment of financial assets of 13.2% compared with the same period of the previous year. The lower impairment losses are a result of the provisions which, over the first half of 2013, institutions needed to record as a result of the dramatic worsening of the quality of assets, and the ending in said period of the 100% provision required under Royal Decree-Law 18/2012, of 11 May, on the restructuring and sale of real estate assets in the financial sector.

The credit institutions in the sample as a whole obtained an aggregate profit before tax of 11.74 billion euros in the first half of 2014, compared with 9.33 billion euros in the same period of the previous year.

In addition to the improvement in operating profit, this growth reflects: (i) the reduction in losses resulting from non-current assets for sale (which include foreclosed properties); the improvement in the positive results from the deregistration of assets not classified as non-current assets for sale, and (iii) the low impact of negative consolidation differences, which were particularly significant during the previous period in some institutions due to the sales process performed by the FROB.

- **Insurance companies.** In the first half of 2014, the aggregate profit of the technical account was 10.2% up on the same period of the previous year. It rose by 2.1% in the non-life insurance business due to operating costs falling to a greater extent than premiums. Similarly, the technical account of the life insurance business grew by 31.8% as a result of the growth in revenue from premiums and the reduction in net operating expenses, while the level of expenses for claims remained stable. Consequently, the aggregate profit before tax in the first half of 2014 rose by 10.3% on the same period of the previous year, as a result of greater revenue from savings management and the noteworthy increase in the volume of mutual funds and portfolios under management.

4 Return on equity (ROE) and return on investment (ROI)

Figure 5 shows the ROE and ROI[5] since 2010. ROE and ROI for the first half of 2014 stood at 8.6% and 2.3%, respectively, thus consolidating the recovery of 2011 levels which began in 2013.

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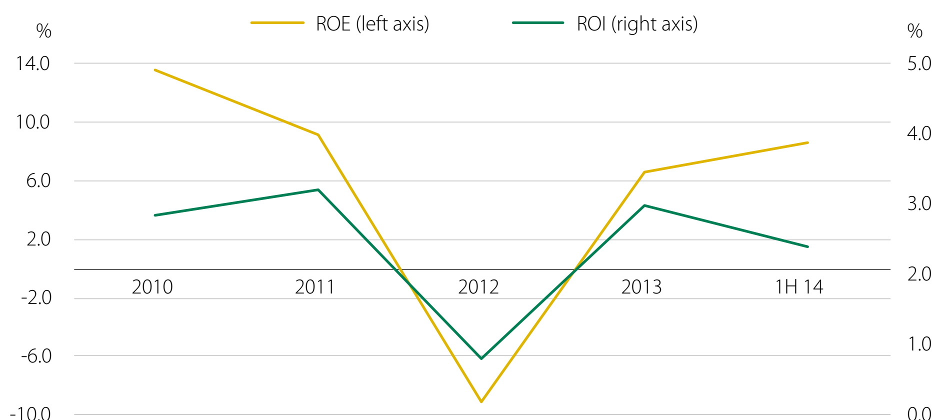
5 For the definitions of ROE and ROI used in this article, see Belén de Anta Montero and Óscar Casado Galán (2009). "Economic and financial performance of listed companies in the first half of 2009", in CNMV Bulletin, fourth quarter, pp. 41-58. Available at http://www.cnmv.es/DocPortal/Publicaciones/Boletin/Bulletin-QIV_weben.pdf

ROE and ROI

FIGURE 5



Source: CNMV.

Tables 3 and 4 show the trend of ROE and ROI respectively for the different sectors. In the first half of 2014, all sectors recorded positive return on equity and assets. Particularly noteworthy was the construction and real estate sector, which moved from a negative ROE to a positive ROE. The retail and services sector was the only sector where ratios were worse than in 2013.

ROE (%)

TABLE 3

	2010	2011	2012	2013	1H 14
Energy	16.2	10.7	9.9	7.7	10.0
Manufacturing	13.8	10.4	8.4	10.9	12.0
Retail and services	21.9	16.4	7.9	10.5	5.6
Construction and real estate	6.6	-0.7	-20.9	-22.9	10.3
Total non-financial companies	16.9	10.9	5.8	6.4	9.2
Credit institutions and insurance companies	10.3	7.1	-24.4	6.8	8.1
Total	**13.6**	**9.2**	**-9.1**	**6.6**	**8.6**

Source: CNMV.

ROI (%)

TABLE 4

	2010	2011	2012	2013	1H 14
Energy	8.2	6.0	5.8	5.1	6.1
Manufacturing	9.0	7.4	6.2	7.7	8.2
Retail and services	8.5	7.8	4.8	5.5	4.4
Construction and real estate	4.8	2.9	-0.7	2.2	3.0
Total non-financial companies	7.7	5.9	3.9	4.4	5.4
Credit institutions and insurance companies	2.0	2.4	0.2	2.6	1.7
Total	**2.9**	**3.1**	**0.8**	**2.9**	**2.3**

Source: CNMV.

As shown in Table 5, the average financial cost of borrowing net of tax fell by 10 basis points on 2013, with a noteworthy fall in the energy sector. The other sectors remain at between 3% and 4%.

Financial cost of borrowing net of taxes of non-financial companies (%) TABLE 5

	2010	2011	2012	2013	1H 14
Energy	2.9	2.8	2.8	3.0	2.6
Manufacturing	3.4	3.8	3.6	3.9	3.9
Retail and services	2.8	4.1	3.5	3.5	3.9
Construction and real estate[2]	4.4	3.8	4.3	3.5	3.4
Total non-financial companies	**3.1**	**3.4**	**3.0**	**3.4**	**3.3**

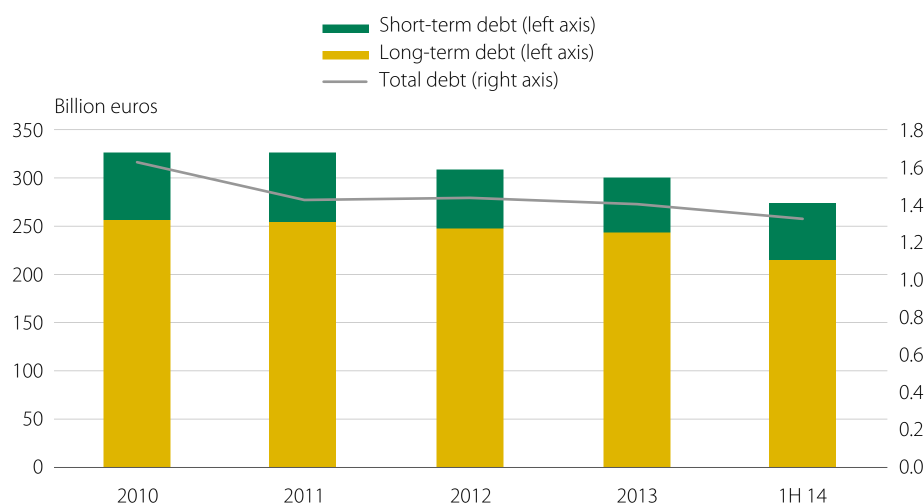
Source: CNMV.

1. Percentage which represents the financial expense for interest and similar charges over the average debt for the period.
2. In the case of the construction and real estate sector, this ratio has been calculated in 2013 by taking the legal tax rate and not the effective tax rate because, on an aggregate level, the sector records a corporate income tax expense despite the losses in the period. The ratio corresponding to the total number of non-financial companies has been adjusted appropriately.

5 Debt

Figure 6 shows the trend of gross financial debt[6] for the non-financial companies in the sample.

Debt structure and leverage ratio of non-financial listed companies FIGURE 6



Source: CNMV.

6 Gross financial debt is defined as the sum of debts with credit institutions and issues of debentures and other tradable debt securities.

The level of aggregate financial debt of the companies in the sample fell significantly in the first half of 2014, thus extending the trend which began in 2010. The debt of these companies at 30 June 2014 amounted to 268.04 billion euros, a fall of 2.3% on year-end 2013.

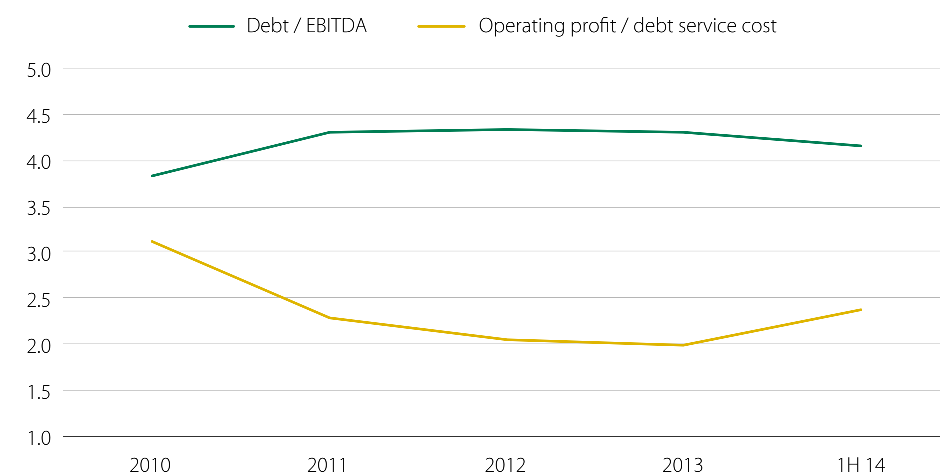
This trend of falling debt was seen in all sectors, except the manufacturing sector where debt rose (9.4%) due to the financing of assets acquired over the period.

There was a noteworthy fall in the energy sector (10.4%), mainly as a result of the application, as from 1 January 2014, of IFRS 11 "Joint Arrangements", which led to the proportional consolidation method no longer being applied to joint ventures, which are now measured using the equity method. If we exclude this effect, the estimated fall in the sector's debt would amount to 1%.

The percentage of short-term debt (21.6%) and long-term debt (78.4%) remains stable with regard to year-end 2013. This is also the case with the leverage ratio, which stands at 1.27 compared with 1.33 at the end of the previous period.

Figure 7 shows the trend in debt-to-EBITDA and the debt service coverage ratios. The former (total debt/EBITDA)[7] improved slightly, standing at 4.14 years in the first half of 2014, compared with 4.29 in 2013. The debt service coverage ratio (EBIT/financial expenses) rose slightly to 2.37 times (1.99 times in 2013).

Debt-to-EBITDA ratio FIGURE 7



Source: CNMV.

Table 6 shows the trend in the level of debt and some key related ratios by sector. All sectors reduced their level of debt in the first half of 2014 except the manufacturing sector.

Debt in the energy sector fell by 8.3% in the first half of 2014, thus extending the trend that began in 2009, as a result of the application of IFRS 11, which has had a significant impact in several companies.

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7 This ratio shows the number of years necessary to pay the debt if EBITDA remains stable.

Debt by sector

TABLE 6

Million euros

		2010	2011	2012	2013	1H 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	2.81	3.27	3.26	3.41	6.40
	Operating profit/debt service cost	4.15	3.30	3.14	2.90	3.48
Manufacturing	Debt	14,948	17,586	17,232	16,609	18,182
	Debt/equity	0.58	0.63	0.63	0.62	0.69
	Debt / EBITDA	2.11	2.54	2.38	2.17	4.72
	Operating profit/debt service cost	5.00	3.90	3.82	4.56	4.39
Retail and services	Debt	115,413	113,142	117,359	111,795	112,238
	Debt/equity	1.60	2.01	2.00	1.99	1.98
	Debt / EBITDA	3.38	3.78	4.01	3.90	8.16
	Operating profit/debt service cost	3.94	2.45	2.02	2.08	2.17
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	21.06
	Operating profit/debt service cost	0.98	0.52	0.32	0.09	0.92
Adjustments*		-1,792	-1,404	-1,429	-1,395	-1,377
Total	Debt	326,769	308,893	300,633	274,221	268,043
	Debt/equity	1.43	1.44	1.41	1.33	1.27
	Debt / EBITDA	3.84	4.29	4.32	4.29	4.14
	Operating profit/debt service cost	3.12	2.30	2.06	1.99	2.37

Source: CNMV.

* In the adjustment row, the data on issuers that are subsidiaries of another listed company belonging to a different sector are eliminated.

The level of debt in the manufacturing sector grew by 9.5% as a result of the significant increase in the financial debt of one group as a consequence of the acquisition of assets over the period. The other companies maintained or reduced their level of debt.

The aggregate debt of the retail and services sector fell by 0.4%. Particularly noteworthy was the communications sub-sector, whose gross debt fell mainly as a result of asset sales.

Finally, the construction and real estate sector reduced its level of gross debt by 2.2% compared with year-end 2013, mainly as a result of the application of IFRS 11 in 2014. Without taking this effect into account, there would still be a slight reduction in debt, specifically of 0.4%. It should be pointed out that the ratios of the construction and real estate sector continue recording the highest levels of financial risk, with figures which are very far from the values seen in other sectors and those seen in 2005.

6 Non-performing loans and capital of credit institutions

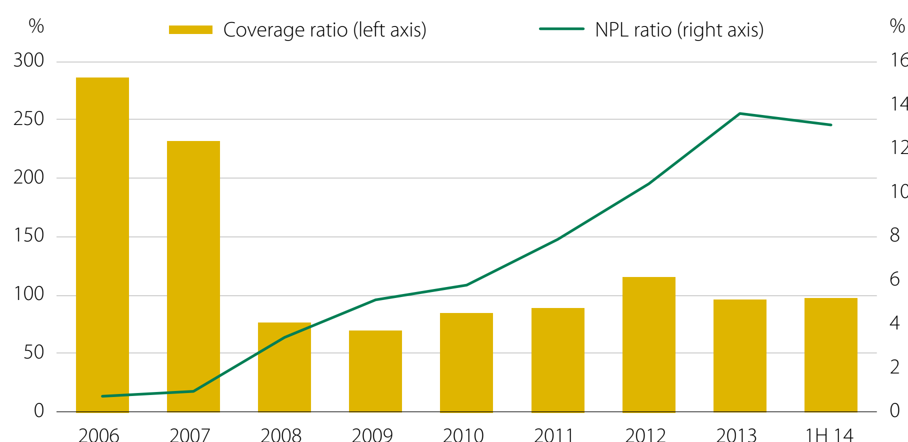
As in previous reports, a specific section is included on the performance of credit institutions and, in particular, on their ratios regarding growth in lending, non-performing loans and solvency.

The first half of 2014 saw a break in the downward trend of previous half-year periods in the aggregate volume of the lending of credit institutions, with growth of 2.3% on year-end 2013. This increase is essentially a result of the improvements in solvency and in the financing structure of credit institutions, whose access to financing markets has tended to return to normal in a context marked by the absence of liquidity tensions. However, these improvements are still only very slowly being passed on to lending.

It should be pointed out that a very significant part of the financial support granted by the ECB to Spanish credit institutions as a whole has been used for financing the public sector. In fact, according to statistics on Outstanding Government Debt of the General Secretariat of the Treasury and Financial Policy, the sector's investment in government debt continued to rise in the first half of 2014 (11.92%) compared with a fall of 2.46% in 2013. At 30 June, Spanish credit institutions held 32.75% of government issued debt (30.98% in December 2013). On the same date, their aggregate exposure to the public sector stood at 12.66% of assets, well above the 4.17% recorded in December 2007 before the start of the crisis.

Figure 8 shows the development of the NPL ratio of credit institutions in lending to other resident sectors since 2006, as well as the coverage ratio of doubtful assets[8].

NPL and coverage ratios FIGURE 8



Source: Bank of Spain.

During the first half of 2014, and for the first time since the start of the crisis, the NPL ratio fell, although only slightly, to 13.1%. This fall is related to the budding

8 Defined as the ratio of the accumulated value adjustments for asset impairments over the doubtful balance.

improvement in the key macro-economic figures, in particular those of the job market and GDP.

The fall in the coverage ratio in 2008 and 2009 mirrored the sharp increase in the NPL ratio. There was a change in trend in 2010, which continued in 2011, as a result of the processes of integration and restructuring against reserves of the assets of savings banks. This increase was even more significant in 2012 as a result of the impact of the requirements established by Royal Decree-Law 2/2012, of 3 February, on restructuring of the financial sector, and of Law 8/2012, of 30 October, on the restructuring and sale of assets of the financial sector. The coverage ratio fell once again in 2013 in line with the increase in the NPL ratio. Finally, the coverage ratio increased slightly in 2014 in line with the reduction in the NPL ratio.

The ongoing rise in the NPL ratio since 2007 went hand-in-hand with an increase in the volume of refinancings and asset acquisitions or foreclosed assets, especially real estate assets. Assets received as payment of debts are classified in the balance sheets of credit institutions under the heading of "non-current assets for sale", although developments in progress and leased assets are classified under "inventory" and "investment property", respectively.

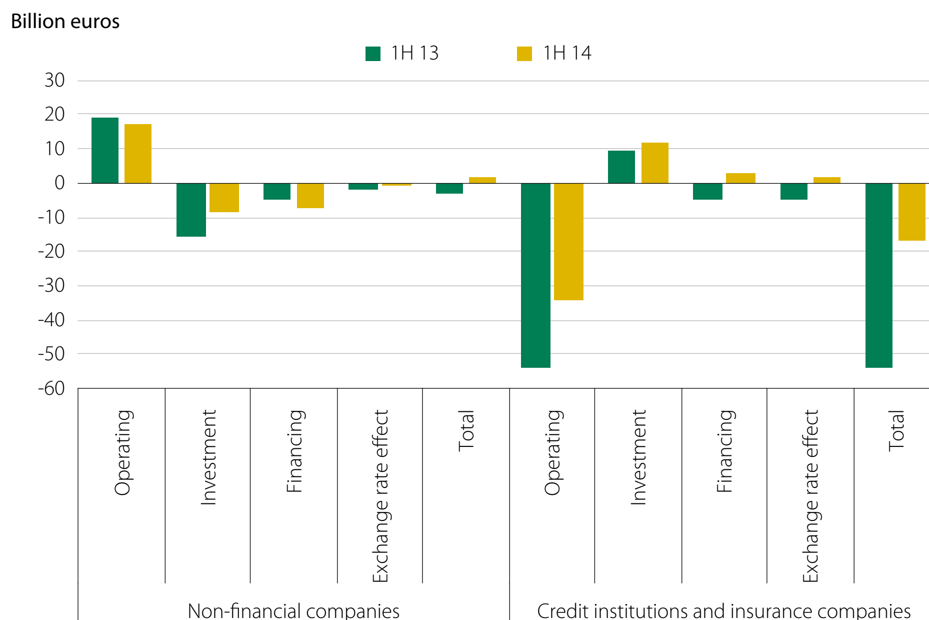
This is why the annual changes of the carrying amount of "non-current assets for sale" have been positive since 2008. The largest increase took place in 2012. Together with the foreclosed assets in the period, that year saw the effect of institutions undergoing restructuring processes reclassifying non-strategic assets and non-performing assets transferable to SAREB as non-current assets for sale. However, in 2013, as a consequence of the divestment processes and transfers of assets to SAREB, the carrying amount of this heading fell to 1.4% of aggregate assets of the institutions in the sample. Their carrying amount rose once again in the first half of 2014, specifically by 11.6%, to 1.56% of total assets, largely due to the reclassification of the loans made by one institution and others performed as a result of certain integration processes involving credit institutions.

Finally, the evolution of the different components of equity in the first half of 2014 was as follows: (i) the carrying amount of capital and reserves rose by 3.6% on year-end 2013 as a result of the measures adopted by institutions to strengthen their solvency and comply with new regulatory requirements; (ii) the net losses recorded under valuation adjustments of financial assets available for sale, which was the result of the volatility in capital markets and, above all, the European sovereign debt crisis, fell by 35.1%, and (iii) minority interests rose by 11.1%.

7 Cash flows

Figure 9 shows the aggregate changes in cash flows generated in the first half of 2013 and 2014 by the companies in the sample, distinguishing between flows arising from operations, investment and financing. The totals correspond to the changes in cash and cash equivalents over the periods. The Figure distinguishes between non-financial companies, and credit institutions and insurance companies.

Generated cash flows FIGURE 9



Source: CNMV.

The development of cash flows is analysed below:

- **Non-financial companies.** In non-financial sectors, cash flows generated in operating activities in the first half of 2014 (17.53 billion euros) fell by 9.4% on the same period of 2013. There were falls in all sectors, with the most significant taking place in the retail and services sector (9.7%, for an amount of 956 million euros).

  This fall was due to lower sales, as well as the fall in the gross margin generated by operating activities, which was only partially offset by the reduction in personnel expenses and other operating expenses.

  The cash flows generated by operating activities were used for net investments of 8.06 billion euros and net outflows for financing of 7.18 billion euros. The balance of cash and cash equivalents at the end of the period rose by 1.78 billion euros, with a negative exchange rate effect of 509 million euros.

  Aggregate net outflows for investment fell by 48.2% as a result of the reduction in flows used for investments (-11.4%) which affected every sector except the manufacturing sector, and as a result of the increase in inflows for divestments (36%), most of which were carried out in the energy and retail and services sectors.

  For their part, financing outflows rose by 49% as a result of the continuation in debt payments to reduce financial leverage, as well as the increase in dividend payments (110.6%). These outflows were offset by the income received in financing operations carried out over the period by various companies by means of issuing financial instruments (bonds).

- **Credit institutions and insurance companies.** The aggregate cash flow statement of the companies in the sample reflected a net decrease in cash and cash equivalents of 16.82 billion euros at the end of the first half of 2014, compared with a decrease of 53.61 billion euros recorded in the same period of the previous year.

  This cash outflow was essentially due to the net payments made for operating activities in the period, which amounted to 33.71 billion euros, compared with net outflows of 53.81 billion euros in the same period of 2013. This growth on the same period of the previous year was in turn due to the reduction in the credit gap, as lending rose by 2.3% and funds from customers rose by 2.7%. This reduction in financing needs allowed credit institutions to amortise a large part of the financing obtained from the European Central Bank and to reduce the use of wholesale financing.

  Net inflows for financing amounted to 3.05 billion euros, which contrasts with the net outflows of 4.81 billion euros recorded in the same period of the previous year. This change in sign was essentially due to the issues of subordinate debt and disposals of equity instruments.

  As a consequence of investment activities, the net inflows of the institutions in the sample amounted to 12.04 billion euros, compared with net inflows of 9.67 billion euros in the same period of the previous year.

  Finally, the effect of exchange differences led to a net inflow of 1.8 billion euros.

  The aggregate cash flow statement clearly reflects the policy followed by most Spanish credit institutions of divesting non-performing and non-strategic assets and optimising the lending portfolio, in addition to access to wholesale financial markets returning to normal.

8 Number of employees

Table 7 shows the average aggregate workforce for each of the six sectors considered in the sample in the first half of 2013 and 2014. The table shows that the first half of 2014 saw a 1.8% year-on-year reduction in the average staff of the companies.

The average aggregate workforce of the non-financial companies in the sample fell by 1.6%. The number of companies which have reduced their workforce (68 companies) is higher than the number of companies which have increased their workforce (44 companies).

By sector, the largest fall was recorded in the construction and real estate sector (-4.6%), which was concentrated in two large companies in the construction subsector, as a result of sales of business lines and changes in the consolidation scope for sales by subsidiaries abroad.

The retail and services sector also recorded a fall in the average workforce (2.4%), which was mainly concentrated in one company which at the end of 2013 disposed of a business abroad.

Average workforce by sector

TABLE 7

Number of people

	1H2014	1H2013	Change (%)
Energy	93,013	92,957	0.1%
Manufacturing	268,510	258,231	4.0%
Retail and services	614,495	629,384	-2.4%
Construction and real estate	366,303	383,985	-4.6%
Credit institutions	429,916	441,728	-2.7%
Insurance companies	42,111	41,285	2.0%
Adjustments*	-2,590	-3,273	–
Total	**1,811,758**	**1,844,297**	**-1.8%**

Source: CNMV.

* In the adjustment row, the data on issuers that are subsidiaries of another listed company belonging to a different sector are eliminated.

The workforce of the manufacturing sector rose by 4%, largely due to the recent corporate operations involving business acquisitions.

The average aggregate workforce of credit institutions fell by 2.7% on the same period of the previous year, while the number of branches fell by 9.9%[9]. These reductions were the result of various concentration processes, capacity reduction policies and the promotion of electronic banking.

9 Dividends

As shown in Table 8, dividends paid in the first half of 2014 rose by 47.9% on the same period of the previous year and amounted to 7.99 billion euros.

Dividends paid by sector

TABLE 8

Million euros

	1H2014	1H2013	Change (%)
Energy	3,414	547	524.1%
Manufacturing	1,017	1,058	-3.9%
Retail and services	2,602	2,181	19.3%
Construction and real estate	70	304	-77.0%
Credit institutions	581	1,052	-44.8%
Insurance companies	305	271	12.5%
Adjustments*	–	-13	–
Total	**7,989**	**5,400**	**47.9%**

Source: CNMV.

* In the adjustment row, the data on issuers that are subsidiaries of another listed company belonging to a different sector are eliminated.

9 Source: Statistical Report of the Bank of Spain.

In the first half of 2014, 38.3% of companies paid dividends, similar to the percentage recorded in the same period of the previous year (32.2%). Of the 49 companies which paid dividends, 65.3% increased the remuneration paid to shareholders, 20.4% reduced it, while the remaining 14.3% kept it at the same level.

It should be pointed out that 92.3% of the dividends paid out in the first half of 2014 were paid from profits, significantly above the figure for the same period of the previous year (73.9%).

Companies have continued introducing scrip dividends, which consist of giving paid-up shares, with the specific feature that the company offers to buy the free allotment rights at a fixed price. Shareholders may therefore choose between receiving the shares, selling the rights on the market or selling the shares back to the company. The main advantage for issuers is that they reduce cash outflows while, at the same time, giving remuneration to their shareholders.

Nine companies decided to use scrip dividends in the first half of 2014, two fewer than in 2013. 16.5% of the shareholders of these companies chose to sell the free allotment rights granted by the issuer so as to receive the remuneration in cash (1.16 billion euros), while the remaining shareholders subscribed the scrip shares.

This mechanism allowed companies to save paying 5.52 billion euros in cash. If all the shareholders had chosen the option of selling their free allotment rights, the companies would have had to pay out 6.68 billion euros.

There was a noteworthy trend towards a fall in the percentage of shareholders which request the buyback of free allotment rights: this percentage stood at 35.9% in 2012 and 19.2% in 2013. This is clearly a beneficial trend for issuers in a context marked by the limited capacity to generate liquidity surpluses.

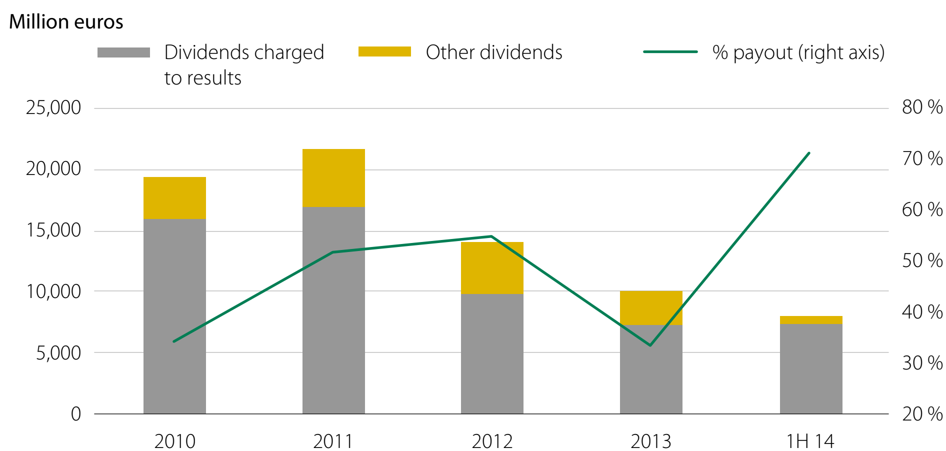
The aggregate payout of companies –correcting for the dividends not paid from profits– stood at 71% in the first half of 2014, a percentage figure which is significantly higher than in previous periods[10].

Figure 10 shows the dividends paid in the last five years, distinguishing those paid from profits, as well as the evolution of the payout.

In order to analyse the evolution of the payout, it is important to bear in mind that the numerator of this ratio also includes the supplementary dividend relating to profit from the previous year. The particular case of the increase in dividends paid in the first half of 2014 is largely due to the extraordinary remuneration decisions agreed by two companies in the energy sector, which are not in line with a significant improvement in results.

10 The 'payout' is the percentage of the dividend effectively paid in the period over the consolidated profit attributed to the parent company. We have only considered those companies which paid dividends in the period.

Dividends paid and payout FIGURE 10



Source: CNMV.

10 Conclusions

The aggregate profits of the companies in the sample fell by 452 million euros in the first half of 2014 compared with the same period of the previous year, a fall of 2.3%.

This reduction was largely the result of the lower profits obtained by credit institutions, which fell from 9.48 billion euros to 8.64 billion euros. The aggregate profits of non-financial companies rose by 3.5%, with a noteworthy positive contribution by the construction and real estate sector, with profits of 829 million euros compared with losses of 517 million euros recorded in the same period of 2013.

Although the sales figures of non-financial companies fell by 2.6%, there was an increase in both EBITDA (4%) and operating profit (12.7%). The main factors for the improvement in the figures were: (i) the impairment of non-financial assets recorded in the first half of 2013; (ii) the reduction in personnel expenses and other operating expenses in 2014 resulting from the efficiency and cost optimisation plans carried out over 2013, and (iii) the reduction in depreciation/amortisation charges as a result of the sales of non-strategic assets, the effect of exchange rates and changes in the consolidation scope. The lower increase in net profit compared with operating profit was mainly due to the following factors: (i) the increase in the corporate income tax expense as in 2013 the tax effect resulting from the update of non-financial assets in Spain (Law 16/2012) was recorded, and (ii) losses for discontinued operations recorded in 2014.

Non-financial companies continued to demonstrate a significant capacity to obtain revenue in international markets. Even though this revenue fell by 2.3%, maintaining the downward trend which began 2013, it accounted for 61.5% of total net turnover. The fall in revenue abroad was lower than in Spain, where sales fell by 3%.

The debt of non-financial companies continued to fall in the first half of 2014, although part of the fall was due to the application, as from 1 January 2014, of IFRS

11 "Joint Arrangements", which establishes a change from the proportional consolidation method to the equity method.

The interest margin of credit institutions rose by 4.2%. However, this increase was not enough to prevent a 2.1% reduction in the gross margin, which was mainly due to the fall in results from financial operations. Nevertheless, operating results improved significantly, which led to credit institutions as a whole obtaining profits. The three main factors which explain the performance of operating profit are as follows: (i) the reduction in personnel expenses; (ii) the fall in losses for impairment of financial assets and losses resulting from non-current assets for sale, and (iii) the improvement in the results of assets not classified as non-current for sale. The evolution of results suggests that the banking sector is starting to gather the fruits of the strict restructuring and recapitalisation process in which it has been immersed. It is also worth pointing out that in the first half of 2014 credit institutions continued with their policies of de-leveraging, restructuring their balance sheets and strengthening their solvency.

Dividends paid by listed companies rose by 47.9% on the first half of 2013, largely due to the extraordinary remuneration agreed by two companies in the energy sector. Companies have continued using alternative formulas to remunerate shareholders which involve a lower cash outflow, such as scrip dividends.

Finally, it should be pointed out that the average workforce of the companies included in the sample fell by 1.8%. The average workforce of financial institutions fell by 2.7% as a result of the various concentration processes, the reduction in capacity and the promotion of electronic banking. The average workforce of non-financial companies fell by 1.6%, with a significant impact from the sales of business lines and changes in the consolidation scope for sales by subsidiaries abroad, mainly in the construction and real estate sector and in the communications sub-sector.

The market power of mutual fund managers in the Spanish retail market

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1 Introduction

According to the OECD: "Market power refers to the ability of a firm (or group of firms) to raise and maintain prices above the level that would prevail under competition"[1]. Economic theory shows how social welfare is higher in countries whose markets have perfect competition than in those in which firms enjoy market power. Therefore, governments use regulation in an attempt to reduce market power, especially in industries with structures that facilitate its presence, as in the case of utilities.

The mutual fund industry is characterised by high concentration, quick entry and exit of funds in the market and by dynamic marketing to retail investors through bank branches. In principle, the type of competition within this industry might be considered as monopolistic[2]; however, the existence of a competitive framework of this type is not a sufficient condition for fund managers to enjoy market power.

The classic description of monopolistic competition is where there are many companies and consumers in the market and each of them has certain power when establishing the price of their products, and so they are therefore not price accepting. In addition, consumers have perfect information on the products which are offered in the market and barriers to entry and exit of competitors are almost non-existent. In this situation, although there may sometimes be companies with high profits, these cannot be maintained in the long term as other companies would enter in order to take advantage of that market niche. On the contrary, the result of monopolistic competition in industries with few fixed costs might be expected to be similar to that of perfect competition.

Although the barriers to entry and exit are minimal in the fund industry, minority investors do not enjoy what is referred to in economic theory as perfect information about the funds which are offered in the market. These investors face significant search costs and, as a result, costs when changing provider. Consequently, they are usually loyal to one single banking institution, in which they perform almost all their purchases of financial products. These frictions might establish the basis for managers to enjoy market power. Another of the key characteristics of fund markets may also contribute to this: the large number of funds offered by most managers. Gavazza (2011) and Cambón and Losada (2014) show that this extensive supply negatively affects competition.

1 See: http://stats.oecd.org/glossary/detail.asp?ID=3256

2 Monopolistic competition is a type of imperfect competition where many producers sell products that are differentiated from one another (e.g. by branding or quality) and hence are not perfect substitutes. See Chamberlain (1933).

The aim of this article is to conclude, by means of a structural econometric model which takes into account competition in the sector, whether managers enjoy market power and, in the event that empirical evidence supporting this assumption is found, what its scope is[3]. The model allows us to estimate the price elasticities of the demand for mutual funds in the retail segment and, based on this, the margin on price charged by managers according to different situations of competitive behaviour.

Over recent years, according to the information submitted by mutual fund managers to the CNMV, the aggregate margin for the sector, measured by the Lerner index, would have stood at between 25% and 28%. However, the margins deduced from the demand elasticities estimated through the econometric model used in this study are considerably higher, which raises doubts about the effectiveness of the maximum fees established in the sector's regulation. This article is structured as follows: Section 2 describes the industry of mutual funds for retailer investors; Section 3 presents the data used to study the Spanish market; Section 4 explains the empirical methodology used and analyses the results obtained, and the final section presents the conclusions.

2 The industry of mutual funds for retail investors

A mutual fund is a type of investment company that pools money from many investors to buy securities[4]. Mutual funds have advantages for investors compared with directly investing in securities, particularly the increase in diversification, daily liquidity and professional management. In exchange for these advantages, investors must pay fees, mainly to the managers which administer the funds.

The units or shares issued by these collective investment vehicles are placed among the general public. This is the main reason why mutual funds are subject to regulation[5]. In addition to preventing and pursuing fraud, the most important aim of the regulation is to reduce asymmetric information between investors and managers with regard to the fund's investments and results. The legislation aims to protect, above all, retail investors, as it is reasonable to think that this group may be more affected by the existence of asymmetric information than wholesale investors, who are assumed to be better informed. The differences between the two groups mean we can consider that there are two different markets: the retail market and the wholesale market[6]. In Spain, as in most countries, mutual funds and their managers must be registered with the relevant supervisory authority, in this case the CNMV.

Unlike in the United States and the United Kingdom, where other distribution channels are used, in most European countries funds are placed through the retail net-

3 The article summarises in a non-technical manner a forthcoming CNMV working document.

4 Definition used by the Securities and Exchange Commission of the United States (http://www.sec.gov/answers/mutfund.htm).

5 The main Spanish regulation on mutual funds is Law 31/2011, of 4 October, amending Law 35/2003, of 4 November, on collective investment undertakings and Royal Decree 1082/2012, implementing Law 35/2003, of 4 November, on collective investment undertakings.

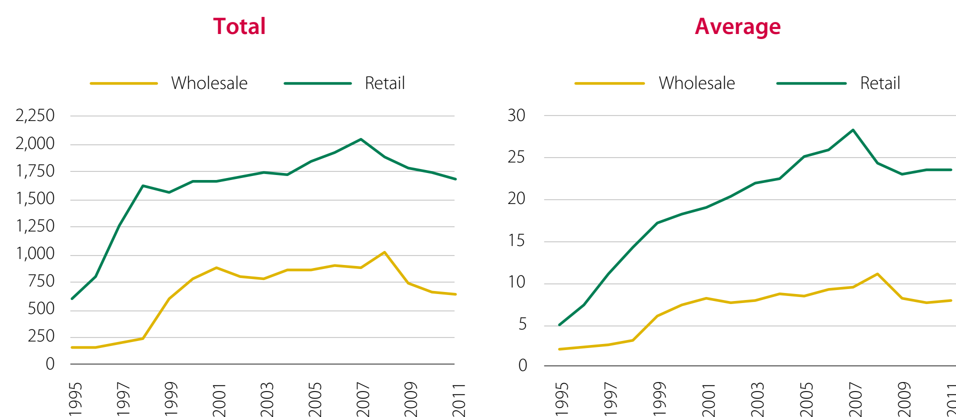
6 In Gavazza (2011) and Cambón and Losada (2014), the authors found different supply and demand patterns in the wholesale and in the retail mutual fund markets.

work of the credit institutions to which the managers belong. This characteristic makes most of the sector a vertically integrated industry[7]. As will be shown later, this could be one of the reasons why managers enjoy high margins.

In the Spanish market, the number and the assets of mutual funds grew substantially between 1995 and 2011. This growth was particularly due to the increased popularity of this type of vehicle among retail investors. In addition, during this period, the bulk of mutual fund assets, specifically between 91% and 95% of the total, were managed by managers belonging to credit institutions. Independent managers only have a significant presence in the segments of equity and mixed funds, essentially those aimed at wholesale investors[8].

As shown in Figure 1, the total number of funds administered by managers in the retail market was over double that supplied in the wholesale market, as was the case with the average number of funds per manager. This is an important fact given that the retail market accounted for an average of 76.9% of total assets managed by mutual funds in the period under consideration[9]. As shown in Gavazza (2011) and Cambón and Losada (2014), the presence of an extensive supply of funds is a variable which indicates that the competitive conditions in this industry may be far from the perfect competition paradigm.

Number of funds administered by managers in the retail and wholesale markets FIGURE 1



Source: CNMV.

7 A vertically integrated industry can be defined as one in which companies own the entire production chain. In most cases, this means that the same company produces and sells the product.

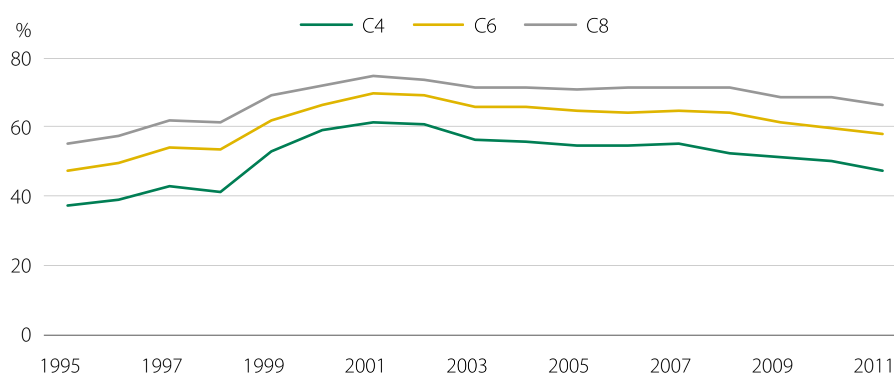
8 Following the criteria used by Cambón and Losada (2012), funds with a percentage of over 50% in the hands of investors with an investment of over 180,000 euros are considered to be aimed at the wholesale market. Between 1999 and 2011, as a result of a regulatory change, the criteria to distinguish retail funds from wholesale funds changed. In this period, money-market funds and short-term fixed-income funds are considered wholesale when over 50% of their assets are in the hands of investors with holdings greater than 300,000 euros. The other types of funds are considered as wholesale when over 50% of the assets are in the hands of investors whose holdings are greater than 150,000 euros.

9 For further information on the supply of mutual funds in Spain in the period between 1995 and 2010, see Cambón and Losada (2012).

We have already seen that the financial industry is characterised by the fact that investors, particularly retail investors, tend to concentrate their product purchases in one single supplier. This behaviour could be due to the high search costs involved in finding suitable financial products from among several suppliers. As shown in Klemperer and Padilla (1997), in industries which share this characteristic, as is the case of the supermarket sector, variety in the supply of products is a strategic variable for companies which weakens competition. Therefore, it is interesting to study how competition is developed in the mutual fund market.

Figure 2 shows the market shares (measured through the volume of assets under management) of the fourth, sixth and eighth largest managers in the retail market between 1995 and 2011. We can see that this market is highly concentrated, particularly as from 2000. The increase in concentration from that year was partly due to the wave of mergers and acquisitions between credit institutions which took place at the end of the 1990s[10]. High concentration in industries is generally considered to be a bad sign for the sector as it usually increases the market power of the leading companies, which leads to losses in social welfare.

Market shares in the retail mutual fund market FIGURE 2



Source: CNMV.

Market power is not an exclusive characteristic of the Spanish mutual fund market. For example, Gruber (1996) and Korkeamaki and Smythe (2004) found evidence in the Finnish and US industries of the existence of economies of scale which final investors did not benefit from. Similarly, Ferreira and Ramos (2009) calculated a Herfindahl index for the Spanish bond industry of 0.1 in 2006, very close to the average index, of 0.12, of a group of Eurozone countries made up of Austria, Belgium, Finland, France, Germany, Italy, Holland and Portugal[11]. Bearing in mind this backdrop, although the results of this article cannot be directly extrapolated to other countries due to the differences existing between their retail markets, the levels of

10 For example, in 1999 Banco Santander and Banco Central Hispano merged and that same year Banco Bilbao Vizcaya and Argentaria also merged.

11 The Herfindahl index is calculated by squaring the market share which each company has and adding together those quantities. This index makes it possible to measure the level of competition existing in the industry. Possible values go from 0, which reflects perfect competition, to 1, which reflects the existence of an industry dominated by a monopoly.

concentration obtained here for the case of Spain suggest that those markets may also be far from the perfect competition paradigm.

3 Description of the data

The model used in this paper has been estimated for the Spanish retail mutual fund market. The sources of the database used are the CNMV, the Spanish Banking Association (AEB), the Spanish Confederation of Savings Banks (CECA) and the National Union of Credit Cooperatives (UNACC). The main source is the CNMV. The supervisory work of this institution means that it receives regular information on collective investment undertakings. Specifically, annual CNMV data from 1995 to 2011 is used, particularly as regards the mutual funds and managers existing in the Spanish market, including those which have disappeared. The other data sources provide information on the characteristics of the credit institutions to which non-independent managers belong. As will be shown later, this data is essential for developing reliable instruments for making estimates, which mitigate the risk of endogeneity.

Although the CNMV has data on all the funds registered in Spain, this article focuses on those marketed mainly to retail investors[12]. The total number of funds in the sample is 3,504. If the data of each one of the funds in each one of the years is treated as an observation, the size of the sample is 24,397 observations. The information obtained for each one of the funds is as follows:

- Market share: ratio between the assets which are managed in each fund (j-th fund) over total assets owned by funds considered as retail funds in year t.
- Fees: sum of management fees, deposit fees, 1/7 of subscription fees and 1/7 of redemption fees for each fund and in each one of the years under consideration[13].
- Return: percentage of change in net value of one unit of each fund between the close of one year and the close of the previous year.
- Volatility: typical annualised deviation of the fund's monthly return over the last 12 months. This is the standard risk measure used for evaluating the profile of mutual funds.
- Type of fund: binary variable which takes the value of 1 for equity funds and 0 when the fund is conservative. The definition of equity funds includes equity funds in the strictest sense, mixed funds and global funds. Conservative funds are money-market funds, fixed-income funds and guaranteed funds.

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12 See note 8.

13 The calculation of the subscription and redemption fees follows the criteria adopted by Gavazza (2011) and Cambón and Losada (2014), where it is assumed that investors make their investments by considering a time horizon of seven years.

With regard to the managers administering the funds, the information used is as follows:

- Variety: ratio between the number of investment categories offered by the manager and the total number of categories available in the market that year.

- Type of manager: binary variable which takes the value of 1 when the manager belongs to a credit institution and 0 when it is independent.

In addition to the variables which characterise mutual funds and managers, other variables are used as instruments for estimating the econometric model:

- The return of other funds belonging to the same category as j in period t.

- The number of branches of the credit institution to which the manager belongs.

- The number of employees of the credit institution to which the manager belongs.

- The marketing expenses which managers pay to place their funds.

Finally, information from the National Institute of Statistics (INE) and from the Bank of Spain is also used for the analysis. The INE provides data on the distribution of Spanish income per capita (mean and standard deviation)[14]. The Bank of Spain provides data on household deposits, which are considered in the empirical analysis as the alternative investment to mutual funds.

As shown in Ispierto and Villanueva (2010), the characteristic which best describes the decisions of Spanish retail investors when configuring their portfolio is net wealth. However, as there is no data available on this variable covering the sample period, in order to describe the heterogeneity of Spanish investors, income is used as an alternative. The decision to use deposits as an alternative investment may be thought of as restrictive. Although Spanish retail investors might have equity in their portfolios, there are three reasons why only deposits have been considered as an alternative investment. Firstly, as argued by Ispierto and Villanueva (2010), the average Spanish retail investor is very conservative: most retail investors only consider deposits as an alternative to investing in funds. Secondly, the Bank of Spain only provides aggregate data on investments in private and public equity of retail investors. Most of the equity held by retailers is private, issued by companies in which the investors often work and therefore they cannot be considered as a purely financial investment. Thirdly, other possible investment instruments, such as pension funds, are usually used with a different time horizon, which rules them out as a direct competitor for mutual funds.

Table 1 shows a summary of the main descriptive statistics of the variables considered in the empirical analysis. Accordingly, in the variables which characterise the

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14 The income distribution is assumed to be lognormal. INE data has been used to estimate its parameters. In this case, the study considers the sample averages of each one of the years and one standard deviation for the whole period being studied.

funds, the average of the market share and of the investment alternatives in the study period was of 0.015% and 76.32%, respectively. The average return was 3.17%, while the average fee paid by retail investors was 1.61%. It is also important to highlight that the average volatility was high, which reflects that the number of equity funds in the sample is high. With regard to the variables that characterise the managers, the average percentage of categories offered was 68.31%. Spanish managers cover a large percentage of categories and, by extension, offer a high number of funds to retail investors.

Descriptive statistics of the database TABLE 1

	Mean	Standard deviation
Market share (funds)	0.015%	0.045%
Market share (managers)	76.32%	8.19%
Fee	1.6083%	0.5863%
Number of Categories	68.31%	23.86%
Return	3.1764%	13.442%
Volatility	6.0414%	7.383%
Marketing expenses (thousand euros)	9,352	15,241
Number of branches	116	143
Number of employees	819	999
Return (instrument)	3.3964%	11.5478%
Number of observations	24,397	
Number of funds	3,504	

Source: CNMV, AEB, CECA and UNACC.

4 Empirical model

The empirical framework used to analyse the aforementioned data is that developed in Nevo (2001), taking into consideration different models of conduct for the fund managers. The steps for estimating the margins of the managers are as follows: firstly, an estimate is made of the demand model for mutual funds and, subsequently, given this demand, the margins are calculated which result from the different models of conduct of the fund managers in the study.

Demand is estimated by modelling it as a function of the characteristics of the funds and the preferences of investors[15]. For this purpose, a *logit* model of random coefficients has been used, where the preferences of each investor are differentiated by the willingness to pay fees for investing in mutual funds. In this type of model, the market share of the funds is considered to be a function of their characteristics and the characteristics of their managers presented in the previous section. Similarly, both fees and the number of categories offered by the manager are considered to be endogenous variables, as they are variables of strategic decision-making by manag-

15 This empirical framework is thoroughly explained in Nevo (2000) and Rasmusen (2007).

ers to position themselves in the market. In order to ensure that the estimates are consistent, the instruments used for these variables are those described in the previous section.

The aim of this modelling is to conclude whether the different investors, who are differentiated by their income level, are willing to invest their savings in funds instead of in other alternatives, deposits, where in theory there is no explicit fee. As demonstrated, for example in Berry *et ál.* (1995) and Nevo (2001), this type of modelling makes it possible to estimate realistic price elasticities for industries whose companies operate in a framework of monopolistic competition[16].

After estimating the demand elasticities, three possible models of conduct of the managers will be considered in which the managers compete in prices, with the aim of estimating the margin that would correspond to each of them. In the first, it is assumed that each manager sells one single fund. According to this hypothesis, it is possible to determine the margin that investors are prepared to pay for the fund which they believe best matches their investor profile. It is a manner of evaluating whether investors perceive funds as substitutes. The lower the margin, the higher the perception that there are close substitutes for that fund. In the second model of conduct, an attempt is made to replicate the current structure of the industry, where most managers sell several funds of several categories. The difference between the margin obtained in this second model and the margin obtained in the first allows us to calculate which part of the margin enjoyed by the manager comes from the fact that it is a multi-product company. This characteristic supposes that each manager should bear in mind when setting prices that it may sell substitute funds and that prices which are too low in any of its products may mean that its other funds will hardly be sold amongst retail clients. This generates incentives for the manager to set prices so as not to cannibalise its products and not harm itself, and thus obtain a higher margin for its range of funds. Finally, a model is considered in which one single manager controls the market, managing all funds. This last structure makes it possible to estimate what the margins would be in the event of perfect collusion between managers.

An important aspect of the models of conduct considered is that, although there are maximum fees in force, these have not been taken into account in the analysis. This is because the results of the estimate of the demand show that it is not necessary to include them in order to achieve an adequate evaluation of market power in this industry as they do not constitute an effective restriction for fund managers[17].

16 Price elasticity measures the percentage change in the balance quantity sold of a product when the price changes by 1%.

17 Currently, the main maximum fees in the fund market are as follows: for money-market funds, 1% in the management fee and 0.15% in the deposit fee; for other funds, the maximum management fee is 2.25% and the deposit fee is 0.2%.

5 Results

One of the most significant results of the demand estimate is that, even though retail investors have been considered as heterogeneous, their pattern of behaviour when investing in mutual funds is very similar. This is an important issue which deserves an explanation. In principle, the sensitivity with regard to fees can be expected to vary depending on the different characteristics of the investors. Investors with lower incomes, who are normally less knowledgeable, could be expected to have less elastic demand than others. However, from an analysis of the data, we can deduce that all retail investors behave in a homogenous manner. Given that the sellers of the distribution network may discriminate perfectly between the different types of retail client, we might think that the staff in the branches of credit institutions may have influenced them without taking into account their heterogeneity so as to extract the maximum possible income from all of them. This result could be a reflection of the market power of managers with regard to their retail clients.

Another important result of the estimate is the relevance for managers of offering a wide variety of funds to their clients. This ensures that they have abundant demand. Although for the analysis of this article, a more general framework has been considered, where investors may invest in deposits in addition to funds, this result is obtained in previous articles; specifically, in Gavazza (2011) and Cambón and Losada (2014), the authors find evidence that the funds of managers that offer a greater variety to their clients have higher market shares.

We can also derive from the demand estimate that retail investors prefer the funds of managers that belong to credit institutions and that they have a lower tendency to invest in equity funds. The first result may reflect the greater market power of managers which are subsidiaries of credit institutions. Even when the characteristics of the funds are the same, these types of managers find it easier to place their funds than independent managers. The second result provides evidence that retail investors tend to have a conservative and risk averse profile, in line with the results of Ispierto and Villanueva (2010).

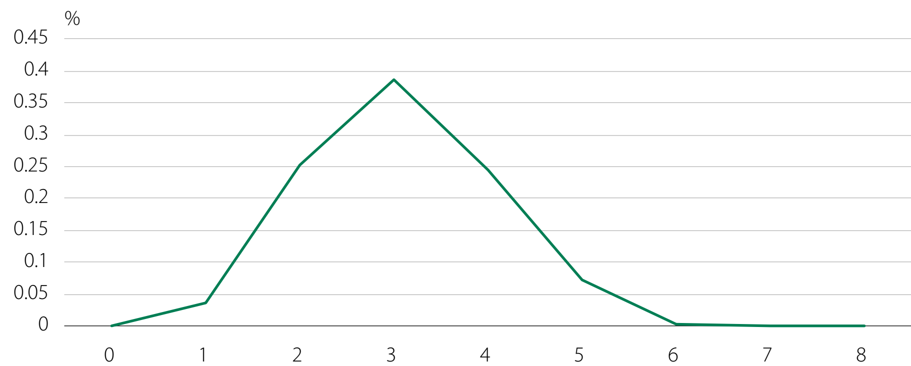
After estimating the demand of each one of the mutual funds, it is possible to calculate the price elasticity of each of them. Figure 3 shows the distribution of the elasticities of the funds in the database. Most of the funds have elasticities in absolute values of between two and four, which means that managers enjoy high margins in most of their funds. If we consider the Lerner index as a measure to evaluate the margins, managers would enjoy a margin for each one of their funds as shown in the following formula:

$$\frac{p - mc}{p} = \frac{1}{\text{price elasticity}}$$

where p is a total fee paid by investors and mc is the marginal cost of the manager for that fund as a percentage of total assets.

Function of sampling density of the price elasticities of mutual funds in the retail market

FIGURE 3



Source: CNMV.

Figure 3 shows that managers enjoy a margin of at least 25% in most funds. These margins are far from what could be expected in perfect competition paradigms, which raises doubts about the effectiveness of the maximum fees which the regulation currently sets in this market. One possible explanation is that managers and especially the credit institutions to which they belong act as multi-product companies which have the ability to price discriminate with investors and only place mutual funds with retail investors when they cannot place a financial product with a higher margin.

In addition, based on the estimate of fund demand, we can calculate the margins predicted by the aforementioned three different models of conduct of the managers. Table 2 presents the average of the estimated margins weighted by the assets of the funds for each one of these models.

Weighted average of the margins according to different models of behaviour of managers[1]

TABLE 2

	Average (%)
Each fund is sold by one manager	43.06
Real structure of the industry: Multiproduct managers	43.99
Perfect collusion	55.70

Source: CNMV.

1. The margins are defined using the Lerner index: (p-mc)/p.

These predictions lead us to conclude that managers would enjoy a very high margin in any of the market structures considered. This also allows us to make some interesting observations. The first is that even though the managers are multi-product companies, they hardly obtain any benefit from this condition: the portfolio effect, measured as the difference between the margin under the model which approximates the current structure of the industry and that of the model in which each fund is considered as sold by one different manager, is almost insignificant to this industry. This result suggests that retail investors consider the different funds sold by each manager as not very substitutable with each other, although many of

them are objectively very similar in terms of category and investment portfolio. One possible reason is the ability of the retail network of credit institutions to influence the perception of their clients with regard to the funds.

The second observation is that managers are able to differentiate their funds with regard to those of their rivals even though the range of funds they offer is very similar, except in the case of some independent managers. We can therefore highlight the major importance in this industry of brand image and the breadth of the range of funds offered. These mechanisms allow managers, and by extension, credit institutions, to relax the competition and obtain profits from their base of retail investors.

The third observation comes from a comparison of the estimated margins of Table 2 and the margins which can be derived from managers' public accounts. In the period between 2006 and 2011, Spanish managers had an accounting margin for all the fund market (retail and wholesale) of between 24.8% and 27.4%[18]. These percentages are much lower than those corresponding to the estimated margins. The difference, which cannot only be due to the fact that the margin in the retail market may be higher (the models used focus on the retail market), would be the result of one of these two possibilities: 1) that the market structures considered in the analysis are not realistic for this industry, or 2) that the vertical structure predominating in the industry leads to the generation of excessive fees in favour of the main providers of management services, in particular, the retail commercial network of credit institutions.

With regard to the first possibility, it is important to bear in mind that price competition is the most competitive scenario possible. Any other alternative, such as competition by quantity, involves a lower level of competition[19]. The three models of behaviour used herein are models of price competition and therefore the estimated margins should be considered as a lower level than the actual margins enjoyed by the managers.

With regard to the second alternative, it is important to highlight that the fees charged to retail investors are a positive function of the marginal costs which managers reflect in their final fees[20]. Accordingly, it is easier for managers to maintain high fees when their marginal costs are high. In addition, companies which are vertically integrated are likely to be able to establish cross subsidies with each other. In this case, it is possible for there to be significant subsidies from managers to the parent company through the marketing fees. This practice also encourages credit institutions to charge high fees to other managers, in particular independent managers, for placing funds through their network.

18 These margins have been calculated by subtracting from the total revenue of the managers the fees paid to third parties, in addition to staff costs. The result is divided by the total revenue received by the managers.

19 See, for example, Tirole (1998).

20 For example, if we consider a market for a homogenous product where there is perfect competition, the price paid by consumers is $p=mc$. If there is a monopoly and linear demand is assumed whereby $p=a-q$, the final price is $p=(a+mc)/2$. Accordingly in any market, the final price is always a growing function of marginal costs.

It is also interesting to notice the difference existing between the margins charged by managers which are subsidiaries of credit institutions and independent managers. In the estimate, we can see that the former enjoy a margin of 44.04%, while the latter charge a margin of 43.34%. At first it may seem strange that both types of managers charge almost the same margin. However, it is important to bear in mind two factors. The first is that most independent managers are specialised in equity funds, which are placed with a higher margin than conservative funds. The second factor is that the charge only represents part of the profits as it is also important to bear in mind the market share and the total size of the market. Although independent managers may charge similar margins to subsidiaries of credit institutions, their profits are much lower. The difference comes from two different sources. As is derived from the demand estimate, when both types of managers charge similar fees for funds which are also similar, the demand for the managers of credit institutions is higher. This is due to the fact that this type of manager has a better brand image and a more extensive investor base. In addition, independent managers do not find it possible to offer lower fees than their rivals, as this strategy would not attract a substantial number of new investors. Accordingly, although new managers may enter the market, their effect on competition will be very limited. Therefore, the structure of the mutual fund industry means that fees are not an important strategic variable for managers when competing.

6 Conclusions

The retail mutual fund industry is highly concentrated. Over recent years, the four largest managers, all owned by credit institutions, accounted for over 50% of the market. In addition, the high costs for changing and searching mean that retail investors tend to concentrate their purchases of financial assets in one single supplier. The supplier is generally a credit institution that offers a wide range of products, which includes mutual funds. These two characteristics of the sector may restrict competition in the mutual fund market.

According to the results of the structural econometric model estimated in this article, the average profit margin of Spanish managers, measured using the Lerner index is at least 43%. Such a percentage suggests that this market is far from a perfect competition paradigm. Accordingly, the main conclusion of this article is that managers enjoy a high level of market power in the retail mutual fund segment.

Spanish legislation sets maximum levels for fees charged to unitholders. However, in view of the estimated demand elasticities of mutual funds, their effectiveness may be questionable. Managers enjoy margins in most of their funds of at least 25%. These entities and, above all, the banks of which many of them are subsidiaries, are multi-product companies which may have the capacity necessary to price and/or product discriminate with their retail clients.

When comparing the estimated margins with the margins deduced from the accounting information of managers for the fund market as a whole (retail and wholesale), we can say that the latter are much lower. Although in principle the distinctive characteristics of the retail market might be thought to justify the existence of high-

er margins in this market, the difference between the estimated margins for the retail market and those deduced from the accounting information is too high. This could be explained by the vertical structure of most participants in the industry. Credit institutions administer mutual funds through their managers and sell them through their commercial network to retail clients. As it is the credit institutions that set the fees paid by managers for placing funds, there are incentives for them to be high as the fees paid by retail investors are a positive function of those paid in turn by managers. This strategic behaviour might help credit institutions to maintain high fees in this market.

Another important result from the study/analysis is that the margins of independent managers and the margins of managers belonging to credit institutions are similar. However, this does not mean that they enjoy a similar level of profit. The latter obtain higher profits because they have a higher market share, which comes from their wide base of loyal customers. This leads us to draw two important conclusions. The first is that new managers entering the market only increase competition on a limited basis. The second is that fees do not represent the main strategic variable for managers when competing in the market. These would find it more beneficial to compete in other areas, for example, by offering a wide variety of funds.

The limited level of competition and the associated loss of social welfare suggest that there is room for public intervention, which could come in the form of measures aimed at both demand and supply.

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MiFID II: Changes and implications for securities markets

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1 Introduction

Directive 2004/39/EC[1] on markets in financial instruments (hereinafter, MiFID), which began to be applied as from November 2007, chiefly aimed to improve the efficiency and transparency of European financial markets. One of the most important instruments of this directive to increase efficiency was the opening of competition between different types of organised securities trading venues. To this end, MiFID recognised and regulated the activity of two new categories of trading infrastructure –multilateral trading facilities and systemic internalisers– which subsequently competed with each other and with traditional markets, which were classified thereon as regulated markets.

The entry into force of MiFID coincided with the first signs of the financial crisis, whose causes and effects have triggered an unprecedented and coordinated initiative towards reform of the international financial system which is based around the principles agreed at various G20 summits. Furthermore, at the same time, there were very significant changes in trading techniques and strategies on securities markets, with the entry of new participants, such as high-frequency traders and dark pools.

The new legislative environment triggered by MiFID, together with the changes in the operations and nature of securities market participants, has led to one of the biggest transformations in the functioning and microstructure of secondary securities markets since their creation in the 15th Century and has revealed the need to cover so far unaddressed aspects in the EU regulatory and supervisory framework. Although MiFID enabled competition between different trading venues, the emergence of new trading strategies and new participants has led to a transfer of part of the trading to dark pools, which fall outside the supervisory scope, and requires legislation to be adapted so as to prevent the negative effects of the lack of transparency in these segments. In addition, the new algorithmic trading strategies require a legislative and supervisory treatment which ensures orderly functioning of the market. In addition, competition between alternative venues is not perfect as there are restrictions to access to settlement systems, which the new directive aims to correct.

The weaknesses in the financial system detected following the international crisis and the profound reform of the regulatory and supervisory framework promoted by the G20 are all sufficient reasons to justify the revision of the legislative framework based on MiFID. The directive revision process began in 2009, only two years following its transposition, and after the G20 Summit held in Pittsburgh, it was com-

1 Directive 2004/39/EC of the European Parliament and of the Council, of 21 April 2004 on markets in financial instruments (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2004L0039:20110104:ES:PDF). Transposed to Spanish law by means of Law 47/2007, of 20 December, amending the Securities Market Act and Royal Decree 217/2008, of 15 February.

pleted in June 2014 with its approval by the European Parliament and Council. An impact assessment was previously conducted[2].

One of the weaknesses of the directive approved in 2004 was that it granted discretionary powers to Member States that have prevented the existence of effectively harmonised rules for market functioning, without legislative advantages for markets, intermediaries and other participants based on the State where operations are conducted.

With regard to investor protection, the principles included in MiFID were not sufficient to prevent the misselling of financial products to retail investors. The new regulatory framework will provide authorities with a very powerful preventive tool (product intervention), which will make it possible to restrict and even ban certain activities and financial products that may represent a threat to financial stability, orderly functioning of the market or investor protection. Readers will find another article in this issue of the Quarterly Bulletin with an analysis of the main new aspects of the recent reform of MiFID in relation to intermediaries and investment products[3].

This article analyses the main amendments introduced by the reform within the scope of secondary markets. This is being carried out by means of a new directive, Directive 2014/65/EU[4] (hereinafter, MiFID II), which will enter into force in January 2017, and a regulation, Regulation No. 600/2014[5] (MiFIR), both issued by the European Parliament and the Council. The overall aim of these pieces of legislation is to make European financial markets more efficient, transparent and resilient in the face of financial instability.

The analysis offered herein is divided into four sections: factors which have led to the amendments and new provisions of the legislation; main changes in legislation relating to securities market; requirements applicable to algorithmic trading, and conclusions.

2 Factors which have led to reform of MiFID

The directive which is still in force –the 2004 MiFID– established a harmonised legislative framework in the EU for the provision of financial services and the functioning of securities trading infrastructures. It particularly focused on share markets and most of its articles referred to regulated markets and new trading venues. The other financial instruments (fixed-income and derivative products) were covered to a lesser extent.

In developing MiFID, one of the priority objectives was to open the competition of trading infrastructures, which was justified by the higher transaction costs in European share markets compared with US markets.

2 http://ec.europa.eu/internal_market/securities/docs/isd/mifid/SEC_2011_1226_en.pdf

3 Elena Bravo San Juan: "New aspects of MiFID II investor protection", pages 105-122.

4 Published in the Official Journal of the European Union on 12 June 2014.

5 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 (http://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=CELEX:32014R0600&from=EN)

The most significant proportion of fixed-income and derivatives trading is currently still conducted outside organised markets, with the negative implications which this brings for price formation and supervision[6]. This is one of the aspects which the new legislation aims to improve by increasing transparency in fixed-income and derivative markets, but taking into account the implications on liquidity of their particular features, such as the wide range of differences in the issues.

An important aspect that should be considered before moving forward with a legislative change is the costs of implementation and compliance. According to estimates by the European Commission, adaptation costs would range between 500 and 700 million euros, which represents around 0.15% of the total operating costs of European banks (total estimated cost for implementation of the 2004 MiFID would be approximately 0.6%). Annual compliance costs, including the new provisions of the directive, would be between 300 and 600 million euros.

Over the last decade, financial markets have undergone one of the greatest transformations since their origins five centuries ago. Technological advances have facilitated the expansion of the supply of trading infrastructures, leading to the appearance of new types of venue, such as multilateral trading facilities, which were recognised by MiFID in 2004. The demand for trading and post-trading services has also expanded, and in this regard it is important to highlight the entry of new participants, such as high-frequency traders, who have achieved a considerable market share in only a few years.

We can add to this the backdrop of the start of the crisis in 2007, which coincided with the entry into force of MiFID.

2.1 Developments in trading systems

Advances in information and communication systems have made it possible to develop applications which enable multilateral trading in securities in a similar manner to that which occurs on traditional stock markets. Firstly, electronic trading systems allowed remote access to securities markets and the subsequent globalisation of trading services. Subsequently, the fall in the operating costs of trading facilities enabled by the advances in information and communication technologies have led to the emergence of competitors for stock markets. In many cases, the emergence of these competitors has been driven and promoted by investment banks which were searching for an alternative to traditional markets both for their proprietary trading and that of their clients.

These include multilateral trading facilities (MTFs), which are already recognised in MiFID. However, investment firms have been using broker crossing networks with similar functionalities to those of MTFs, without being subject to any of the regula-

6 According to estimates by the European Commission in its 2011 impact assessment of the reform of MiFID, 89% of derivatives were traded on OTC markets in 2009. It also estimated an identical percentage for private fixed-income trading in the non-regulated segment of the main European market, that of the United Kingdom.

tory and supervisory requirements applicable to the latter. It is estimated that broker crossing networks account for over half of the trading performed in dark pools.

The asymmetry in the treatment of trading infrastructures penalises markets subject to regulation compared with those not subject to such regulation and is not in line with the harmonisation objectives set by European legislation. Furthermore, it leaves a number of transactions which may be significant in terms of their representational nature and leadership in bringing information to the market outside the supervisory scope and price formation systems.

2.2 Entry of new participants and transfer of trading to dark pools

As has been indicated, one of the priority objectives of MiFID was to achieve greater competition between traditional stock markets (regulated markets, RMs) and the new alternative trading venues (multilateral trading facilities and systematic internalisers). The aim is ultimately to reduce direct transaction costs (commissions) paid by European investors, which are considerably higher than in the US. However, should this reduction be achieved, it could also be expected that stock markets would lose market share in favour of MTFs)

In terms of direct trading costs (i.e. the commissions which securities markets charge per transaction), the high level of competition has in effect led to a reduction in fees applied to trading[7]. However, the fragmentation of liquidity between different venues might have increased indirect costs (impact on the price of transactions) and hinder the execution of large transactions for institutional investors. Large transactions also represent a potential target for high-frequency traders, which attempt to detect market movements in advance by means of algorithms.

The fragmentation of trading across multiple venues also brings new challenges from the point of view of transparency and, in general, supervisory objectives, as it makes it more difficult for national authorities to obtain and consolidate trading data.

Another of the structural changes in securities market was the appearance at the start of the century of algorithmic operators, especially high-frequency traders, whose main differentiating feature compared with other agents is the speed with which they can enter orders and execute or cancel them using algorithms which automatically determine the conditions and the moment for entering and exiting the market. This new trading strategy, which has grown sharply over recent years, makes it necessary to adapt legislation so as to ensure that the activity of participants who use such trading is conducted without compromising the orderly functioning of the markets.

There are, therefore, two circumstances which are very significant with regard to their impact on the microstructure of securities markets, especially in share markets. On the one hand, the fragmentation of liquidity across multiple trading venues (MRs,

7 Monitoring Prices, Costs and Volumes of Trading and Post-trading Services, Oxera, 2011: http://ec.europa.eu/internal_market/financial-markets/docs/clearing/2011_oxera_study_en.pdf

MTFs and systematic internalisers) and, on the other hand, the growing participation of algorithmic and high-frequency traders. Although this article does not aim to analyse the effects of these circumstances, we can conclude that one of the main consequences has been the movement of part of the trading to dark pools as a result of the growing difficulty in executing orders of such a significant volume quickly and with minimal impact on price formation. It is estimated that in the US, dark pools trade 14% of total market transactions, while in Europe the figure is below 10%, although with consistent growth over recent years. These percentages would rise if we also include the transactions performed under the four transparency waivers recognised by MiFID. These transactions are not included in order books and consequently do not interact with other agents and hence do not contribute to the price formation process, and the information which they may generate is not passed on to the market.

3 Amendments relating to markets

In short, the strategic objectives of the reform of MiFID are to:

- Ensure homogenous legislative treatment for all market participants (trading infrastructures and investors).
- Promote financial stability and improve orderly functioning of markets (high-frequency trading and commodity derivatives).
- Increase the transparency required from market participants with the aim of facilitating better supervision and achieving greater compliance with the best execution principle.
- Increase coordination between supervisors within the EU and strengthen their powers.
- Improve investor protection.
- Address organisational and control deficiencies, as well as investment firms and organised market operators taking on excessive risk.
- Facilitate access to financing, through capital, for small- and medium-sized enterprises.

This section offers a summary of the most significant changes incorporated into MiFID II and MiFIR relating to secondary markets and derivative products, grouping them into five major blocks.

3.1 Amendments which affect the structure of trading facilities and their operators

- A new multilateral trading platform is included: the organised trading facility (OTF) for financial instruments other than shares.

An OTF is defined as a multilateral system in which multiple third-party buying and selling interests in bonds, structured finance products, emission allowances or derivatives interact. It is expected that this new type of platform, subject to legislation and oversight by supervisors, will incorporate the trading which is currently performed in broker crossing systems.

Given that they will provide similar services to MTFs, the new legislative treatment will also be similar with regard to requirements. Otherwise, and as is the case currently, they will enjoy competitive advantages with respect to MTFs (absence of requirements on functioning, trading transparency, and supervision).

Investment firms operating OTFs are not allowed to deal on their own account except in the specific case of sovereign debt instruments which do not have a liquid market. This operating restriction, which is also applicable to regulated markets and multilateral facilities, aims to prevent trading venues taking on risk and to differentiate them from systematic internalisers, which can perform this activity. An investment firm may not operate within the same legal company as an organised facility or a systematic internaliser.

The following table summarises the trading alternatives included in MiFID II and the main specific features of each market.

Trading alternatives provided for in MiFID II TABLE

	Regulated Market	MTF	OTF	SI	OTC
Venue operator	Stock market	Stock market or investment firm	Stock market or investment firm	Investment firm credit institution	Investment firm credit institution
Use proprietary capital client trading	No	No	No	Yes	Yes
Assets traded	All	All	Other than shares	All	All
Order execution	Non-discretionary	Non-discretionary	Discretionary	Discretionary	Discretionary
Access to market	Objective criteria Transparent rules and non-discriminatory	Objective criteria Transparent rules and non-discriminatory	Objective criteria Transparent rules and non-discriminatory	Commercial criteria	Commercial criteria
Admission securities trading	Transparent rules	Transparent rules	Transparent rules	–	–
Pre-trade transparency	Yes	Yes	Yes	Yes	No
Post-trade transparency	Yes	Yes	Yes	Yes	Yes
Minimum tick size	Yes	Yes	Yes	No	No
Resilience requirements trading system and auction volatility	Yes	Yes	Yes	No	No
Ability of authorities to suspend trading	Yes	Yes	Yes	Yes	Yes

Source: CNMV.

- The articles relating to systematic internalisers are rewritten. These are investment firms which, on an organised, frequent, systematic and substantial basis, deal on their own account when executing client orders outside a regu-

lated market, an MTF or an OTF without managing a multilateral facility. This new definition aims to establish more objective criteria to differentiate this activity from others relating to securities trading. ESMA must establish these criteria; in particular, it should establish with quantitative criteria what is meant by "frequent and systematic" (reference to the number of trades on unregulated OTC markets performed on own account when the intermediary executes client orders) and "substantial" (for the size of OTC trading performed by the company with regard to the total traded in specific financial instruments in the EU). MiFID II also establishes new transparency requirements for systematic internalisers as it now includes instruments other than shares.

- New requirements and risk control systems for trading venues are included, as well as controls on algorithmic trading (see Section 4 of this article).

- A new section is included (Section 4 of MiFID II) relating to MTFs specialised in small- and medium-sized enterprises and growth companies.

  This is a specific and differentiated category of trading infrastructures in which at least half of the issuers of financial instruments admitted to trading must be small- and medium-sized enterprises, both at the time of authorisation of the market and at any subsequent time.

- Measures are established to increase the resilience of trading facilities at times of market stress.

  With this aim, a series of requirements is added applicable to operators of trading infrastructures, which includes the need to have controls and mechanisms that ensure trading systems have sufficient capacity to assimilate high peaks in orders and messages and that will allow orderly functioning at times of tension. This provision aims to avoid possible saturations and interruptions in trading triggered by faults or a high number of simultaneous purchase and sale orders initiated by algorithms.

  ESMA has to implement the requirements aimed at verifying that the algorithms used by operators of automated systems and high-frequency traders cannot generate or contribute towards generating the disorderly functioning of markets.

  The trading systems will include predetermined filters which reject orders that exceed certain limits on prices and volumes. Similarly, they must have systems which automatically suspend trading when there is a significant variation in prices in a particular financial instrument (circuit breakers). Accordingly, MiFID II incorporates the IOSCO[8] recommendations to promote market efficiency and integrity and to reduce potential risks of new technological developments in markets, including high-frequency trading.

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8 Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency, of October 2011 (http://www.iosco.org/news/pdf/IOSCONEWS215.pdf).

In the US, the SEC published new rules[9] in November 2004 to ensure the integrity of electronic securities markets, thus adopting the IOSCO recommendations and including provisions to prevent faults in trading systems so that when these occur, procedures are established for them to be reported to the market and authorities.

3.2 Limits to operations in dark pools and measures to strengthen transparency[10]

- The functioning of waivers in pre-trade transparency reporting is revised.

MiFID provides for certain waivers to prevent trading being diverted towards dark venues. These waivers are subject to compliance with a series of requirements, which include that the transactions must use the price of the market with highest liquidity, that they be performed within a price band or that they possess a high volume compared with the normal market size. This last point is the waiver that is most used to delay publication of trading data in share markets.

Over recent years there has been a movement of share trading towards dark venues and an increase in trades executed under the pre-trade transparency reporting waivers provided for in MiFID. This trend could lead to a loss of the representative nature and informational content of share prices in regulated markets and MTFs, which will be affected by the existence of an increasingly less substantial part of the total supply and demand of shares. For this reason, MiFIR establishes limits to the use of waivers which aim to reduce the transfer of trading. The new regulation establishes two types of limits for each financial instrument:

1) There will be a maximum percentage of trading of the instrument carried out on a trading venue under the waivers. This is set at 4% of the total volume of trading in a financial instrument at all trading venues across the European Union over the previous 12 months.

2) There will be a limit to trading under those waivers across the EU. Overall EU trading in a financial instrument carried out under those waivers shall be limited to 8% of the total volume of trading in that financial instrument at all trading venues across the European Union over the previous 12 months.

These limits may be interpreted as a new rule on concentration of liquidity in dark venues with the aim of improving the price formation process and facili-

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9 Regulation Systems Compliance and Integrity (http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370543496356#.VlgZerGDNXu).

10 MiFID establishes pre-trade and post-trade transparency requirements. The former refer to the disclosure of current bid and ask prices and the depth of the trading positions of said prices on an ongoing basis during the normal times of trading. The latter make reference to disclosures on price, volume and time of the trades performed.

tating supervision of marketing integrity and compliance with the best execution principle.

The application of these two limits has one exception: professional trading which does not contribute to price formation. However, it has not yet been specified which trading is considered professional and which can be said not to contribute towards price formation, and this is therefore pending implementing rules by ESMA.

- The pre-trade and post-trade transparency requirements are extended.

The previous directive focused exclusively on transparency requirements applicable to share markets. MiFID II now provides similar requirements for other financial instruments. Specifically, transparency requirements are established which are applicable, firstly, to instruments similar to shares –exchange traded funds (ETFs) and depositary receipts– and, secondly, to fixed income and derivatives.

The new transparency requirements applicable to fixed-income and derivative markets will be applied depending on the instrument's liquidity in the market. In the case of fixed-income instruments, the new directive takes into account their particular features with respect to shares and requires that ESMA analyses and establishes the requirements based on the liquidity of each instrument.

Accordingly, while shares enjoy ongoing trading throughout the trading session, which is usually materialised in a high number of trades with a relatively low volume, corporate bonds tend to be subject to a smaller number of transactions, but with a much higher unit volume. Fixed-income markets are largely markets led by prices in which market-makers play a fundamental role, while equity markets are based on the central order book. In addition, banks play a very important role in these markets, as market-makers and investors, acting as counterparty to the trades. Therefore, the more demanding treatment provided in the different prudential banking reforms[11], in terms of the use of capital, the separation of activities and restrictions on own account trading of the financial instruments might harm liquidity in fixed-income markets, with the subsequent widening of big-ask spreads. ESMA will have to take into account the type of trading system and price formation –price led markets, orders with the intervention of market-makers, hybrids (i.e. markets led by price but with the participation of market-makers in auctions in specific periods), etc.– to adapt the transparency requirements to each type of market and asset so that the disclosure of all the prices does not lead to a fall in liquidity.

Under the previous legislation, the pre-trade and post-trade transparency system for fixed-income and derivative markets was left to the criteria of Member States. The directive now covers over 100,000 financial instruments, compared with the 6,000 instruments in the previous legislation (shares), which will un-

11 Basel III, Volker rule in US and the Vickers Commission on Banking in the UK.

doubtedly require supervisory authorities to conduct significant developments in information technology to be able to validate and exploit the data received.

The new legislation will bring about the harmonisation of pre-trade and post-trade requirements of bonds and structured products with issue prospectuses or admitted to trading on an authorised market (RM and MTF) and of derivative instruments which are cleared and settled in central counterparties (CCPs) with those applicable to share markets. The competent national authorities may suspend compliance with pre-trade transparency requirements when the liquidity of financial instruments (except shares) falls below a certain threshold.

- A consolidated register of trades for all financial instruments covered by the directive is created.

The fragmentation of liquidity and of trading of financial instruments across multiple trading venues (RMs, MTFs, systematic internalisers and OTFs) hinders both monitoring of the price formation process of the different assets and their supervision and does not ensure that the process is conducted in line with the market integrity principal.

The 2004 MiFID already provided for the disclosure and reporting of transactions by investment firms. However, in the current environment of fragmented trading between different trading alternatives, it is necessary to have a mechanism which integrates, groups together and discloses the transactions performed on all markets as fast as possible. Otherwise, the current fragmentation of information would continue and there would be no unified register consolidating all the information received from different trading venues.

In order to achieve greater information and facilitate supervision of compliance with the best execution principle and market abuse legislation, a consolidated register is created to which all trades executed in the different markets will be reported for their immediate disclosure.

The consolidated register of trades is essential for the different supervisory authorities of each country to be able to monitor the trading of financial instruments in their scope when the trading is performed in venues in different countries. With the entry into force of MiFID II in 2017, it will only be mandatory to have a consolidated register for shares; for the other financial instruments this will not enter into force until September 2018.

The creation of this register is in line with the recommendations of IOSCO, which in a report from December 2013 on regulatory issues raised by changes in market structure, such as liquidity fragmentation, proposed aggregating and disclosing information on the trades performed in markets within a minimal time period as close as possible to real time[12].

12 In the *Report on Regulatory Issues Raised by Changes in Market Structure* (2013): http://www.iosco.org/library/pubdocs/pdf/IOSCOPD431.pdf

The entities which aggregate and subsequently disclose the trades in share markets will be subject to approval by the authorities of each country. The trades will be made public as soon as possible following execution. Provision of trade reporting services is open to competition. This activity may be performed by investment firms or companies that operate a market (RM, MTF).

- Flags are included for trades performed through the short selling of shares and sovereign bonds and those performed using waivers. These flags will be visible to market supervisors.

- Systems will be adopted for minimum tick sizes in shares, depository receipts, exchange-traded funds, certificates and other similar financial instruments.

  Member States will require regulated markets to comply with this requirement. ESMA will establish the minimum tick size, which will be calibrated in such a manner as to reflect the liquidity profile of the financial instruments in different markets and the average spread between bid and ask price.

  Over recent years, the minimum tick size of the different regulated markets has fallen in a clear attempt to attract high-frequency traders, especially those who perform arbitrage strategies and need very small ticks to facilitate their operations. However, high-frequency traders which act as market-makers prefer higher minimum tick sizes, as with these they obtain greater margins for the bid-ask spreads. It therefore seems that the adoption of homogenous minimum tick sizes of a greater size between different groups of shares in Europe might favour the activity of market-makers. Accordingly, one of the objectives will be to increase market liquidity.

3.3 Amendments relating to OTC markets for derivative products

- Trading on organised venues or markets (RM, MTF, OTF or SI) is required for those derivative instruments which must be settled in central counterparties according to Article 28 of MiFIR. To this end, three conditions are established which must be met by the derivative contract, the details of which must be established by ESMA:

  1) Be subject, according to ESMA, to mandatory settlement in a central counterparty.

  2) Be admitted to trading on at least one official market in the EU or a third country.

  3) Be sufficiently liquid.

  Accordingly, through MiFIR, the new legislation complies with one of the principles of the G20 Summit held in Pittsburgh and which supplements the aforementioned amendments relating to the transfer of trading from dark pools to organised markets.

3.4 New aspects relating to commodity contracts

- The scope of supervision for these contracts is extended. Energy derivatives contracts which are delivered physically are defined as a financial instrument when traded on an organised trading system.

  MiFIR grants national supervisors the power to suspend trading in commodity derivatives when it may distort price formation in physical spot markets.

  Previously, the competent national authority needed to consult the measure with the supervisory bodies of the physical commodity markets.

- Harmonised limits are included for open positions in commodity derivatives so as to increase transparency and financial stability, as well as orderly functioning of the markets.

  The existence of high open positions in derivatives markets where they account for a significant percentage of the available supply of the product may have a negative impact on the price formation of commodities in spot markets. In addition, if the derivatives markets allow settlement of contracts through physical delivery, this may not be possible if the futures market is much larger than the available physical supply.

  In order to avoid these situations, ESMA shall establish and calculate the limits to net positions per holder in both regulated and OTC commodity derivatives markets. For this purpose, it will take into account, among other criteria, the available supply of the commodity, the maturity of the contracts and the number and size of the participants in the market.

  In the US, the commodity derivatives market supervisor –the Commodities Futures Trading Commission– already established limits of this type since its creation in 1975, and recently it has extended these to include energy and metal derivatives, in line with the Dodd-Frank reform.

3.5 Access to central counterparties

One of the key objectives of the transposition of MiFID in 2007 was to put an end to the so-called order concentration principal, whereby sales trades had to be executed in traditional stock markets. This eliminated the possibility that Member States of the EU might require trading of financial instruments in a specific market. MiFID, as has been commented, enabled trading in three organised markets (regulated markets, multilateral trading facilities and systematic internalisers), which then competed with each other.

Difficulties in accessing clearing and settlement systems may limit the effective competition between venues in the same way that access to the final client by traditional suppliers conditions the entry of new competitors in utilities markets.

One of the objectives of MiFID II is for access to the different trading venues to be provided on a non-discriminatory and transparent basis. To this end, regulated mar-

kets, multilateral trading facilities and organised trading facilities are required to include in their regulations the requirements for access to their systems. It also establishes that investment firms and trading venues must have access in a transparent and non-discriminatory manner to European clearing and settlement systems.

The new directive establishes symmetric treatment for freedom of access with trading venues:

- Trading venues have the right to obtain non-discriminatory access to the different CCPs with regard to commissions, required margins, and netting.

  Netting is an essential aspect for competition between different markets. Its existence makes it possible to deposit lower margins for opposing positions in different markets/assets as the overall risk of the client's portfolio is mitigated. If netting is not recognised, the requirement for margins is higher, thus making it more expensive to trade in the different markets.

- The CCPs have the right to settle financial instruments traded on the different market venues (RMs, MTFs and OTFs) on a non-discriminatory basis, as well as to obtain information and licences from the owners of benchmark indexes.

4 Algorithmic trading in MiFID II

Given its importance and recent emergence, this section is dedicated to analysing in depth the treatment given to algorithmic trading in the new legislative framework.

As mentioned above, the emergence at the end of the last century of algorithmic trading[13], which includes the sub-category of high-frequency trading (HFT)[14], was one of the most important developments since the creation of securities markets and introduced a significant transformation to their functioning. Although HFT is recent, its impact is already very strong, up to the point that traditional operators have also started to use these trading techniques so as not to compete at a disadvantage with those who already used them from the start. HFT is expected to trigger a structural change in markets, as was the case with the emergence of electronic trading venues.

In the case of Europe, the growth of algorithmic trading coincided with the transposition of MiFID and the possibility of trading securities on different alternative venues from the traditional regulated markets.

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13 The directive considers algorithmic trading as that whereby an algorithm automatically determines aspects of a purchase or sale order without, or with minimal, human intervention. For its part, HFT is a category of algorithmic trading that is characterised by the very short time period that positions are held (often less than one second) and their closing before the end of the session, the sending and cancellation of a high number of orders to the market and the use of co-location, which reduces the time from which a purchase or sale order is sent until it reaches the market server.

14 According to EC estimates in its impact assessment of 2011, the market share of HFT trading in Europe in 2011 ranged between 20% on the Italian Borsa, 20-25% on the BME and 40% on the SMN Chi-X.

It is impossible to rule out that poor use of the algorithms used in high-frequency trading, or errors in the algorithms, may generate instability in the market, including with systemic effects, although only temporary and reversible in nature, as was seen in the US in the flash crash of 6 May 2010[15]. This type of incident represents a risk for the integrity of securities markets.

Another of the aspects that has created controversy with regard to high-frequency trading is the possibility that these techniques may be used for manipulative purposes to send and cancel a high number of orders to the market, thus generating fictitious signals about possible trends which HFT operators may take advantage of. This activity, known as spoofing, is in no way new[16], but it is true that the technologies associated with HFT allow it to be performed much faster. In the US, the first criminal case for spoofing has started against a high-frequency operator, who faces a prison sentence of up to 25 years.

Consequently, Article 17 of MiFID II includes a series of legislative provisions applicable to investment firms which perform algorithmic trading and the trading venues on which it is performed. The aim is to ensure that the functioning of algorithmic trading is conducted as safely as possible for the orderly functioning of markets and to prevent situations with potential adverse systemic effects.

Another of the concerns that has led to the inclusion of risk controls for operators and markets are the possible tensions in the capacity of markets to receive and execute the high number of orders which high-frequency trading involves. In order to mitigate them, trading venues will be required to establish order-to-trade ratios. This aims to prevent avalanches of orders in trading systems, launched with the intention of cancelling them immediately, which may collapse the system and send misleading signals to the market.

The new directive incorporates risk control requirements for this trading which affect trading venues and high-frequency operators, as well as the investment firms which provide them with access and interconnection to markets. In particular, we can highlight the following requirements:

1) Investment firms which engage in algorithmic trading must have implemented effective risk control systems that are appropriate for the activity which, among other problems, avoid the sending of incorrect purchase and sale orders to the market.

2) Investment firms which perform algorithmic trading must report this to the supervisory authorities of the Member States and to the markets on which this trading is conducted.

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15 In an environment of high volatility as a result of the sovereign debt crisis in Europe, the Dow Jones index lost close to 1,000 points (9%) between 2:30 pm and 3 pm as a consequence of the incorrect functioning of an algorithm of one investment firm. The algorithm, without human intervention, launched in a period of 20 minutes high volume sales orders, when as a result of their size and liquidity and volatility circumstances at that time, they should have been fragmented over several hours and even days as a result of their potential effect on price formation.

16 US legislation classified this as an unauthorised activity as from 2002 and the Dodd-Frank Act banned it in 2010.

3) The supervisory authority of the country in which the firm is domiciled may on a regular or *ad hoc* basis require a description of the nature of the trading strategies, details of the parameters and limits of the system and essential aspects of risk control, as well as any other additional information on algorithmic trading and the systems used to conduct it.

4) The supervisor may also request the above information from the investment firm when requested by the market in which it operates.

5) An investment firm which operates with algorithmic trading will be considered to perform market-maker functions when, on its own account, it sends firm purchase and sale orders which are comparable in terms of price and volume and whose result is the provision of liquidity on a regular and frequent basis. Depending on the specific nature of the financial instrument traded, these investment firms must:

    a) Perform market-maker functions on an ongoing basis during a specific interval of the trading time, except in exceptional circumstances. ESMA shall determine by means of implementing regulations which circumstances are considered as exceptional, but in general this may refer to circumstances of extreme volatility and certain macro-economic, political or operational situations.

    b) Reach a binding agreement with the market venue which will cover the obligations to provide liquidity in the trading times. ESMA will draft the standards establishing the circumstances that make it necessary to have a market-maker contract and the content of said contract.

    c) Establish effective systems and controls that ensure compliance with the market-maker agreement.

With regard to co-location[17] services offered by trading venues, MiFID II requires that they are performed in a fair, non-discriminatory and transparent manner with the aim that all users of this operating facility have access to it under identical conditions and without any type of advantage for any firm.

Some EU countries already have specific legislation applicable to high-frequency trading. This is the case of Germany, where, as from May 2013, HFT is considered to be an activity which requires authorisation even when performed on own account and not as a service for third parties. This authorisation will be granted by the German supervisor, which may accept, or not, the authorisation granted by another Member States of the EU. In addition, the German supervisor may request that operators provide a description of the parameters used by the algorithms and even ban them if it believes that their use may compromise market integrity. It is also provided that fees be collected when high-frequency operators make "excessive use" of the sending and cancellation of orders not executed in the market.

17 Co-location is a service offered by markets that guarantees access to the order book in equal time conditions for all members who place their servers in facilities enabled for this purpose.

In Italy, as from March 2013, orders generated by algorithms have a fee of 0.02% of their nominal value.

5 Conclusions

Almost seven years after the entry into force of Directive 2004/39/EC on markets in financial instruments (MiFID), two legal texts (MiFID II and MiFIR) have been approved to reform it. Since the directive was transposed to the different EU national legislations, financial markets have undergone one of the greatest transformations in their history, provoked by the financial crisis, greater competition between trading venues, globalisation and interconnection, and the emergence of new participants and markets.

This change in market structure and the need to increase their resilience and transparency have triggered a large part of the amendments of the legislative framework introduced by MiFID in 2007.

The amendments, on the one hand, aim to adapt legislation to the new structure of securities market; increase their transparency; transfer trading from dark venues (dark pools and waivers in markets) to organised markets; enable greater competition between markets by eliminating frictions in access to clearing and settlement systems; and improve investor protection, adopting a very strong power known as product intervention. In addition, a new chapter focuses on the regulation and supervision of high-frequency trading, which involves a structural change in the manner of trading on markets and which requires new rules which minimise the risks for market integrity.

In addition, the reform of MiFID also aims to extend the supervisory scope and harmonise the legislative treatment of trading venues which perform similar functions. Accordingly, the directive includes limits on open positions in commodity derivatives and covers within its scope organised trading facilities for instruments other than shares, which are currently operated by investment firms and are not subject to supervision.

The specific evolutionary nature of securities markets and their participants will require new and frequent revisions so as to adapt legislation and supervision to the changing reality of trading. The long process from the start of the review of a directive until its transposition to national legislations makes it difficult to fully adapt regulation to the changing reality of markets. This circumstance gives an essential role to ESMA, the European Securities Market Authority, in implementing the reformed directive in order to adapt it to new supervisory needs without having a negative effect on market development and the investment industry.

New aspects of MiFID II relating to investor protection

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1 Introduction

The European Union, through Directive 2004/39/EC (known as MiFID)[1] and Directive 2006/73/EC[2], implementing the former, established a general regulatory framework for the organised execution of trading by investors on stock markets, other trading facilities and for investment firms. The aim was twofold: to improve the competitiveness of European financial markets and, at the same time, to strengthen investor protection through the harmonisation of conduct of business rules in the provision of investment services. These rules, which started to be applied in 2008, formed the basis of the Spanish regulatory framework in relations between entities and their clients.

Application of MiFID coincided with the crisis of the financial system, a scenario which revealed, among other issues, the need to strengthen investor protection, as established in the final declaration of the Seoul G20 summit in 2013[3]. The accumulated experience in supervising compliance with conduct of business rules over the first three years of application of the directive –in cases such as the distribution of structured products of Lehman Brothers to retail clients[4]– made it possible to carry out extensive level 3 work for MiFID, i.e., technical recommendations or standards aimed at facilitating application of the directive and identifying the aspects which require clarification or amendment. Accordingly, the Committee of European Securities Regulators –CESR (currently, European Securities and Markets Authority, ESMA)– has issued numerous recommendations, guidelines and opinions to clarify interpretation of the current conduct of business rules and to improve convergence in their application. For its part, the European Commission, with the aim of guaranteeing a stronger regulatory framework which makes it possible to address the problems of an increasingly complex market, undertook the revision of MiFID, which started out with a public consultation aimed at all interested parties in 2010, which was followed by the proposal for a new level 1 directive, i.e., a directive of the European Parliament and of the Council, and of a regulation in November 2011.

The revision of MiFID has culminated in the adoption of a new regulatory framework for markets in financial instruments: Directive 2014/65/EU[5] and Regulation

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1 Directive 2004/39/EC (MiFID) 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.

2 Commission Directive 2006/73/EC, of 10 August 2006, implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that directive.

3 https://www.g20.org/sites/default/files/g20_resources/library/Seoul_Summit_Leaders_Declaration.pdf

4 http://www.esma.europa.eu/system/files/09_255.pdf

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

(EU) No. 600/2014[6], known as MiFID II and MiFIR, respectively. These pieces of legislation were approved by European co-legislators on 15 May 2014 and will be applicable as from January 2017. In accordance with the established deadlines, the directive must be transposed to Spanish legislation by June 2016.

ESMA is already working on the implementing standards for MiFID II and MiFIR (level 2 standards). Firstly it will provide technical advice to the European Commission based on a mandate issued by the latter in April 2014[7], and secondly, it is drawing up binding technical standards. In May 2014, ESMA submitted two documents to public consultation containing its proposals on both lines of work so as to gather the opinion of the participants in financial markets. Following an analysis of the responses, ESMA published its final proposals of technical advice to the European Commission on 19 December 2014[8]. With regard to the technical standards, following a new public consultation, ESMA will send the Commission its proposal on regulatory technical standards in July 2015 and its proposal for implementing technical standards in January 2016.

The aim of this article is to analyse the new aspects of MiFID II from the point of view of investor protection. These may be grouped together under three main headings: extension of the scope of application; strengthening of the organisational requirements applied to entities and strengthening of the conduct of business rules. In addition, special attention should be paid to the power given to competent authorities with regard to intervention in products and practices or financial activities included in MiFIR.

2 Scope

The financial crisis has revealed the need to guarantee effective and similar consumer protection in all financial sectors, especially in the case of investment products whose return depends on the evolution of one or several financial assets and which have close substitutes from the investor's point of view. However, this issue was already on the table of the European Commission, as in 2007 the ECOFIN requested an analysis of the consistency of European legislation applied to different types of financial instrument. It was mainly concerned about the asymmetry existing in information on products available to clients and the procedures for their marketing. This process culminated with the proposal for a regulation on the key information documents relating to packaged retail investment and insurance-based investment products, PRIIP), which was recently approved[9]; the revision of Direc-

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

7 http://ec.europa.eu/internal_market/securities/docs/isd/mifid/140423-esma-request_en.pdf

8 Final Report. ESMA's Technical Advice to the Commission on MiFID II and MiFIR (http://www.esma.europa.eu/system/files/2014-1569_final_report_-_esmas_technical_advice_to_the_commission_on_mifid_ii_and_mifir.pdf).

9 Regulation (EU) No. 1286/2014 of the European Parliament and of the Council, of 26 November 2014, on key information documents for packaged retail and insurance-based investment products (PRIIP)s: http://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=OJ:JOL_2014_352_R_0001&from=EN

tive 2002/92/EC on insurance mediation[10], and the extension of the scope of application of MiFID II.

The revision of MiFID addresses both the incorporation of products belonging to the typical banking business and the incorporation of insurance-based investment products. With regard to the former, it was decided to include structured deposits within the scope of the directive so that they will be subject to conduct of business rules and certain organisational requirements of MiFID. Specifically, the new legislation includes those deposits which are fully repayable at maturity whose remuneration is linked to the evolution of a financial instrument, commodity, exchange rate or index –excluding variable-rate deposits whose return is directly linked to an interest-rate index such as the Euribor or Libor.

Therefore, entities which sell structured deposits to their clients or provide them with advice about such products will have to act honestly, fairly and professionally in accordance with the best interests of their clients; obtain sufficient information on the knowledge and experience of each client in order to assess whether the product is appropriate, as well as on their financial situation and their investment objectives so as to recommend, or not, a specific purchase. In addition, they must have appropriate measures to detect and prevent or manage any conflicts of interest which might arise, expressly including the remuneration of the commercial network, as well as having adequate procedures to approve and launch these products, which should identify the target market.

With regard to insurance products, MiFID II introduces an amendment to Directive 2002/92/EC which affects investment products that have the form of insurance, to which some of the conduct of business rules of MiFID will be applied. Specifically, we are referring to insurance products which offer a maturity or surrender value which is wholly or partially exposed, directly or indirectly, to market fluctuations. These insurance products may be an investment alternative to the financial instruments included in MiFID and therefore their distribution must be subject to similar rules on client protection. The directive expressly excludes from the scope of the directive non-life insurance products, life insurance contracts where the benefits under the contract are payable only on death or in respect of incapacity due to injury, and pension products which have the primary purpose of providing an income during retirement.

As was the case with structured deposits, entities must also act honestly, fairly and professionally in favour of the best interests of their clients when distributing insurance-based investment products. Information aimed at clients must be fair, clear and not misleading.

Similarly, insurance intermediaries and undertakings will be subject to the general principles for preventing conflicts of interest and therefore must identify those which may arise, establish reasonable measures aimed at preventing them from harming the interests of their clients and, in the event that these are not suf-

10 Directive 2002/92/EC of the European Parliament and of the Council, of 9 December 2002 on insurance mediation.

ficient, disclose the nature and origin of the conflicts to the client prior to acting on their behalf. The directive empowers the European Commission to adopt delegated acts relating to these obligations and hence the EIOPA (European Insurance and Occupational Pensions Authority) has been asked to give technical advice on this matter.

Finally, the amendments to Directive 2002/92/EC include the possibility that Member States may prohibit the receipt of incentives, i.e., acceptance of any fees, commissions or other monetary benefits paid to insurance intermediaries or insurance undertakings by any third party with regard to the distribution of insurance-based investment products.

As a conclusion, we should highlight that although the new directive provides for the application of certain fundamental principles of MiFID to the scope of insurance distribution, other principles are missing, such as collecting sufficient information on the client's knowledge, experience, financial situation and investment objectives, which are necessary to assess whether the product is appropriate for the client and in order to recommend the purchase, or not. In other words, the directive is missing the appropriateness and suitability tests which are now required for financial instruments. Similarly, it would have been preferable if it had established the obligation to have adequate procedures for the approval of insurance-based investment products, the identification of the target market and establishment of procedures relating to remuneration for sales forces.

Directive 2002/90/EC is currently being revised and it seems possible that the aspects mentioned above may be remedied so as to eliminate at least the most important sectoral differences which remain in the distribution of financial products.

3 Organisational requirements

In MiFID, obligations which are organisational requirements applicable to entities providing investment services are separate from the conduct of business rules which such entities must follow. The former refer to the organisational structure and procedures; the latter refer to obligations in dealing with clients. However, following the revision of the directive, this separation is not so clear and certain obligations are included both from the point of view of organisational requirements and from the point of view of conduct of business rules. This is particularly the case with the governance requirements applicable to investment products, remuneration and the knowledge and skills of employees.

This issue may be relevant from the perspective of dividing out supervisory powers between the authorities of the home and host country with regard to the cross-border activities of entities providing investment services. We should remember that supervision of conduct of business rules of branches lies with the authority of the host country and therefore this authority may require compliance with obligations which until now were included under organisational requirements.

3.1 The management body

MiFID II has opted to strengthen the management bodies of entities providing investment services with the aim of guaranteeing adequate and prudent management, promoting market integrity and protecting investors' interests. As a new aspect, we should highlight that the management bodies of these entities are subject to the same requirements as provided for credit institutions in Directive 2013/36/EU[11]. In particular, members must devote sufficient time to performing their functions, and possess adequate collective knowledge, skills and experience to be able to understand the activity and the main risks. In addition, it includes the diversity criteria for the composition of management bodies. The European Banking Authority (EBA) and ESMA will establish these concepts through guidelines.

The responsibility of management bodies is expressly included in the definition, approval and supervision necessary of companies' overall strategy. The ultimate aim is to improve control over the activities and products offered by each entity so as to take into account both their risk profile and the characteristics and needs of their clients. It also specifies the responsibility of entities for their own organisation, which includes the adequacy of the knowledge and experience of employees and the remuneration policy applicable to employees. In short, MiFID II aims for management bodies to provide incentives to promote a responsible business culture which encourages fair dealings with clients and avoids conflicts of interest.

3.2 Product governance

The introduction of this principle establishes for the first time various requirements applicable to the product development and launch stages. It is therefore a new aspect, as previously MiFID focused on the conduct of entities at the time of the sale. As a background to this initiative we can cite the "Joint Position of the European Supervisory Authorities on Manufacturers' Product Oversight and Governance Processes"[12], reached in 2013, the IOSCO report "Regulation of Retail Structured Products"[13], published in December 2013, and the ESMA opinion entitled "Structured Retail Products: Good Practices for Product Governance Arrangements"[14], issued in March 2014.

The objective of these obligations is for the supply of financial products to match the needs of clients and, in addition, for consistent distribution strategies to be used. Every entity which designs or issues a financial product must have a product approval procedure which includes the need to define a target market for this financial instrument in such a way that the risks are assessed for that client category, as well as the consistency of the planned distribution strategy. In addition, there will be

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11 Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

12 http://www.esma.europa.eu/system/files/jc-2013-77_pog_-_joint_position_0.pdf

13 http://www.iosco.org/library/pubdocs/pdf/IOSCOPD434.pdf

14 http://www.esma.europa.eu/system/files/2014-332_esma_opinion__structured_retail_products_-_good_practices_for_product_governance_arrangements.pdf

periodic obligations as it will be necessary to review whether, in view of the potential risks that may arise, the financial instrument continues to match the needs of the identified target market and whether the distribution strategy remains appropriate. This therefore aims to improve regulation in a preventive sense i.e. to avoid the damage which may result from incorrect distribution of the product to a target market for which it is not appropriate.

Defining the target market is a supplementary process which does not replace the product suitability and appropriate tests that must be performed by entities when providing investment services. In these cases, the entity analyses the compatibility of the product with the knowledge and experience, investment objectives and financial situation of the specific client. However, in the product approval process, the aim is to identify a group of clients whose needs, determined in general, may be covered by the product in question. Entities must assess the compatibility of the financial instruments which they offer or recommend with the needs of the clients, bearing in mind the defined target market.

The obligations relating to this approval process affect both product designers and issuers, and distributors. ESMA, in its work establishing the level 2 standards, has tried to specify the obligations of both types of agents.

With regard to the obligations of the entities that design or issue products covered in the ESMA proposal for level 2 legislation, we can highlight the following:

- Identifying a target market in sufficient detail so as to avoid including investors with which the product is not compatible, based on their characteristics, needs and objectives.

- Analysing performance of the product in different scenarios so as to assess the risk of adverse results for the investor and the circumstances in which these results would take place. For example, what would happen if there was a deterioration in market conditions, if the issuer underwent financial difficulties or if counterparty risk should arise.

- Entities should assess, among other issues, whether the costs and charges are compatible with the needs of the target market, whether their level undermines the product's return and whether the cost structure is transparent and understandable for the target market.

- Product designers or issuers must give sufficient information to distributors so that they may understand and sell financial products suitably. This information should include determining the appropriate sales channel for this product, as well as an assessment of the target market.

Finally, it is noteworthy that, taking into account the importance of these product governance principles, the powers of the corresponding authorities include that of suspending the marketing or sale of financial products when an entity has not developed or applied an effective product approval process.

3.3 Knowledge and skills

The need for employees of entities providing investment services to have the necessary qualifications, knowledge and experience to perform their functions is not a totally new aspect in MiFID given that it is framed within the general organisational requirements of entities providing investment services.

However, in this revision of MiFID, given the complexity of investment products and their ongoing innovation, emphasis has been placed on the need for employees providing investment advice or selling financial instruments to possess a sufficient level of knowledge and skills. If an employee does not understand a particular product, it is difficult for them to recommend or provide information about this to clients and to comply with the requirements on investor protection. MiFID II requires entities to ensure that the employees providing advice and information on financial instruments or services have sufficient knowledge to comply with the guarantees and principles of MiFID on information to clients and assess appropriateness and suitability, and be able to demonstrate this to the competent authorities if requested.

In this framework, the Member States are required to publish the criteria used for assessing the knowledge and skills of employees. ESMA will draw up the guidelines specifying these criteria, which will be approved in January 2016 prior to application of the directive.

3.4 Remuneration

Since 2010, different initiatives have been undertaken with regard to remuneration in various areas of the financial system because establishing inappropriate incentive schemes in entities' remuneration schemes was considered to be one of the causes of the financial crisis. From a prudential perspective, Directive 2013/36/EU[15] requires banks to develop policies that are better aligned with their medium-term risks. For this purpose, this directive establishes criteria which should be applied when setting the variable components of remuneration, for example, as a general rule, the variable component of remuneration should not be greater than 100% of the fixed component.

With regard to the relationship between the entity and the client, inaccurate definitions of the remuneration which the commercial network should receive have contributed towards generating inappropriate incentives in the sale of financial products that did not match investors' needs. In order to increase investor protection, MiFID II incorporates the need for entities providing investment services not to remunerate or evaluate the performance of their employees in such a way that hinders the obligation to act in the clients' best interests. Specifically, entities should not establish remuneration, sales targets or any other element that might encourage employees to recommend a financial instrument when another different instrument may be offered that better satisfies the client's needs.

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15 Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

The guidelines on remuneration policies and practices issued by ESMA[16] in June 2013 emphasise the expectations of European supervisors on entities' compliance with best practices in this area. The ESMA proposal for level 2 implementation of MiFID II is based on these guidelines. It defines a wider scope of action so as to cover all those persons who may be directly or indirectly related to service provision. It explicitly assigns responsibility to management bodies for designing remuneration policies and senior management is responsible for their application and risk control. Finally, it highlights the importance of taking into account, when determining the variable remuneration, criteria that reflect compliance with conduct of business rules and fair dealings with the client, and not only the entity's commercial targets, as well as maintenance of an adequate balance between fixed and variable remuneration.

3.5 Conflicts of interest

An environment of greater complexity also increases the likelihood of a conflict of interests. Consequently, the revision of MiFID maintains the principles of detection and prevention and, where appropriate, of management and mitigation of conflicts of interest already existing in the legislation since its approval in 2004. It also maintains the obligation of disclosing to the client the origin and nature of the conflict when there is any residual risk. This aspect is particularly highlighted in the ESMA proposal for level 2 implementation of the directive, where it indicates that the disclosure of the conflict should be a last resort, and entities cannot choose to report the conflict when they could have easily prevented it.

4 Conduct of business rules

4.1 Incentives from third parties

The receipt of commissions or, in general, incentives from third parties in relation to the distribution of financial instruments has been the most controversial issue in processing MiFID II due to its impact on the business model of entities providing investment services.

Directive 2006/73/EC, which implements MiFID, regulated incentives as a type of conflict of interest that was subject to specific rules according to which several requirements have to be met to allow these commissions to be received. It is necessary to justify that the commissions were designed to improve the quality of the service provided without hindering compliance with the entity's obligation to act in the best interest of the client. In addition, it is necessary to inform the client, at least on a summarised basis, of the existence and amount and method of calculating these commissions before providing the service.

In 2010, CESR conducted work on incentives in which it analysed compliance in practice with the requirements referred to in the previous paragraph. In its conclu-

16 http://www.esma.europa.eu/system/files/2013-606_final_report_guidelines_on_remuneration_policies_and_practices_mifid.pdf

sions, it highlighted the asymmetry and conflicts of interest that were generated in the entity receiving periodic commissions as a result of the sale of financial instruments or providing advice relating to such instruments (incentives for maintaining client positions). It also highlighted the difficulty of complying with the obligation of acting in the best interests of the client when commissions are received from a third party for recommending a product or for the selection of financial instruments in discharging a mandate of portfolio management.

Since then, the United Kingdom and Holland, making use of the discretionary powers provided for in MiFID, established a stricter national regime which banned the receipt of incentives. In the rest of Europe, the regular receipt of incentives continues to be very well established, and in many cases they can be the exclusive source of revenue. This is particularly the case in collective investment schemes, where it is common practice for the mutual fund operators to assign part of the commission received to the entity distributing the funds.

In this context, and following an intense debate between co-legislators, MiFID II establishes that entities providing portfolio management services and independent advice –as defined and regulated for the first time in EU legislation, as shown in the following section– may not retain incentives and must return them if they are received. In the event that they are received, they should be fully returned to the client. Only non-monetary benefits of a small amount may be accepted, providing the client is informed, such as invitations to conferences or training sessions relating to the financial instrument or service.

For other services, the former system is maintained, i.e., entities must demonstrate that the incentives are designed to improve the quality of the service provided and do not hinder compliance with the entity's obligation to act in the best interests of the client. However, as a new aspect, a power is given to the European Commission to specifically establish the criteria to evaluate whether a company that receives incentives from third parties complies with the obligation to act honestly, fairly and professionally in the best interests of its client.

Making use of this power, the European Commission has requested technical advice from ESMA to inform on those conditions in which the incentives received for providing investment services other than independent advice and portfolio management might not comply with the requirement of increasing the quality of the service. It is noteworthy that in its request, the Commission declares that the criterion of increasing the quality of the service must be strictly interpreted.

The ESMA proposal of technical advice submitted to consultation[17] includes restrictions on the receipt of incentives when these are used to pay for essential goods or services for the entity's ordinary activity. Similarly, it highlighted the need for the commissions received to allow extra quality in the services with respect to MiFID requirements. These limits would not be applied in the event of a recurrent advisory service when the range of suitable products analysed by the adviser is sufficiently wide, in which case the requirement of increasing quality will be considered as met.

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17 Consultation Paper MiFID II/ MiFIR of 22 May 2014: http://www.esma.europa.eu/system/files/2014-549_-_consultation_paper_mifid_ii_-_mifir.pdf

After being submitted to public consultation, the reaction to the ESMA proposal has been noteworthy, as a large part of the industry has considered the new conditions as imposing a *de facto* ban on the receipt of commissions and that, therefore, they infringe the provisions of the level 1 legislation. However, EU authorities have publicly declared that the planned implementation of MiFID II should not bring about a prohibition of incentives in providing non-independent advisory services or in the marketing of financial instruments. We can therefore deduce that the condition that the commissions may not finance essential goods and services will not be required in the end.

In its technical advice, ESMA also placed in doubt the legitimacy of the financial analyses received by entities managing portfolios or independent advisers of brokers when they are paid directly with the brokerage commissions charged to clients. This opinion has also generated noteworthy reaction from the industry, which has indicated the major impact that this restriction might have on entities.

From the points analysed so far, we can deduce that the level 2 legislation might have a major impact on the distribution system for financial instruments and therefore assessing the final result of MiFID II will require taking into account the decision taken by the European Commission in exercising the delegated acts in this matter. It can also be highlighted that receipt of commissions in distributing insurance is also being analysed by EIOPA in the level 2 implementations of the amendments introduced by MiFID II in Directive 2002/92/EC on insurance mediation, and it would therefore be desirable for the Commission's final decisions to be consistent in both sectors.

At any event, the directive includes the power of Member States, in exceptional circumstances and in a proportional and justified manner, to impose requirements on entities which are additional to those provided for in the directive. It would therefore be possible for Member States to prohibit the receipt of incentives in areas other than portfolio management and independent advice, as has already been done by the United Kingdom and Holland.

Finally, with regard to transparency in incentives, MiFID II represents significant progress compared with the previous directive in force. Firstly, it eliminates the possibility that the prior information on incentives which the investor receives be presented in a summarised manner. In addition, it establishes the requirement for precise periodic information on the amount of the incentives received by the entity within the general rules on costs and charges –an issue which will be analysed later on in this article. All of this leads to a considerable improvement on the prior and subsequent information on the cost of the service to be paid by the client through this structure of implicit commissions.

4.2 Investment advice

Investment advice was recognised by MiFID as an investment service and no longer as an incidental activity as in previous legislation[18]. MiFID II has continued to move

18 Directive 93/22/EEC of the Council, of 10 May, on investment services related to marketable securities.

forward in the regulation of this service, strengthening the applicable conduct of business rules, above all relating to information given to investors and suitability assessments.

In the area of information to clients, the new directive establishes the conditions required for this service when entities inform clients that the service is independent. Entities must identify what type of advice they offer and may only classify the service as independent when they assess a sufficient number of products of different types and issuers before offering a personal recommendation. The aim is not for them to assess the products from every issuer or provider offered in the market, but the set of financial instruments analysed should not be limited to own products or the products of third parties with which the entity might have close links. The concept of "close links" is defined in MiFID II[19], but in this case it also includes any type of legal or economic relationship, such as a contractual relationship which is so close that it may place the independence of the advice provided at risk.

It should also be pointed out that independence automatically applies a ban on receiving incentives from third parties, as indicated above.

The proposal for level 2 implementation published by ESMA contains two suggestions which might have a significant impact on the definition of entities' business models. The first is that independent advice, when certain requirements are met, may be limited to a specific range of financial instruments. Therefore, this would open the door to independent advisory services specialised, for example, in mutual funds. The second is the possibility that one single entity may provide both independent and non-independent advisory services, providing they adequately inform their clients and comply with the organisational requirements necessary to ensure that both types of services are clearly separated, as well as the employees providing such services.

4.3 Suitability and appropriateness assessment

MiFID II has strengthened certain aspects relating to assessing the suitability of the financial service or instrument for the client. On the one hand, it specifies that entities should gather information on the client's capacity to take losses and their risk tolerance, as essential elements for assessing their financial situation and investment objectives. On the other hand, it requires that clients be given a statement on suitability before they take an investment decision. This must specify the recommendation made and how it matches the preferences, objectives and other characteristics of the client which have been taken into consideration. It should be pointed out that this requirement had already been included in Spanish legislation by Law 9/2012[20].

With regard to the appropriateness assessment, the most significant change is the extension of the list of complex instruments –instruments for which the service of

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19 Article 4, section 1, number 35) of Directive 2014/65/EU.

20 Third final provision of Law 9/2012, 14 November, on restructuring and resolution of credit institutions, amending Article 79(b) of the Securities Market Act 24/1988.

order receipt, transmission and execution cannot be provided without previously assessing whether the client has sufficient knowledge and experience to understand the risks– as it includes new instruments within this category.

Accordingly, the following are now considered complex: i) shares in non-UCITS collective investment undertakings; ii) structured UCITS, which includes guaranteed equity funds and funds with a non-guaranteed specific target return and equity funds in the case of Spain, and iii) financial instruments and structured deposits which incorporate a structure that makes it difficult for clients to understand the risks. Similarly, in the case of deposits, when determining whether they should be treated as complex products, it is necessary to take into account the difficulty of understanding the cost of exiting the product before term. These new aspects will be implemented by ESMA through the corresponding guidelines.

Finally, it should be highlighted that MiFID II also establishes criteria which makes it possible to classify purchases and sales in which the entity providing the service grants credit or loans to the client as complex.

4.4 Information on costs and charges

As in the previous legislation, but now with more detail, the new legislation includes the obligation to inform the client about the costs and expenses associated with the investment services and ancillary services, as well as those of the financial instruments themselves. The aim is to improve the transparency and comparison both of financial instruments and of investment services. Indeed, we can say the directive establishes a new information regime.

According to MiFID II, the information on costs and expenses should reflect all those generated both by the service provided and by the financial instrument providing they are not the result of an underlying market risk. The commissions which the entity receives from third parties –incentives– should appear in the cost information given to the investor.

The different cost items will be aggregated so as to show the cumulative effect on the investment's return and clients may request a breakdown by item. Member States have the power to establish harmonised standard forms for this type of information.

Particularly relevant is the fact that the directive includes the intention of the co-legislators to reflect all the costs paid by the investor. This new information scheme is based on a wide definition of cost, which includes implicit costs, and it would undoubtedly be beneficial for this approach to be extended to other related European legislation. For example, we are thinking about structuring costs and margins incorporated into structured products.

In addition, although the directive recognises the suitability of information standardised by sectoral rules, such as the content of the information document for harmonised investment funds (undertakings for collective investment transferable securities, UCITS), it also requires that the information given to the investor

should include all the costs and expenses resulting from the transaction, even when they do not appear in the standardised information documents. This point is important for investors to receive information on the transaction costs of investment firms as these are currently not included in the key information document of UCITS funds.

The delegated acts and the binding technical standards of the regulation on key information documents on packaged retail and insurance-based investment products are still under development. Information on costs and charges will form part of the content of the information document. It can therefore be expected that the European Commission will pay special attention to development of the level 2 standards of these two pieces of legislation which have so much in common (MiFID II and the regulation on PRIIP) so as to ensure the necessary consistency.

4.5 Cross-selling

MiFID II regulates, for the first time, certain aspects relating to cross-selling, whereby clients are offered, generally on a binding basis, two or more products in one package. Although these may offer advantages for clients, they may also negatively affect competition and therefore need to be regulated. For example, they may reduce client mobility and their capacity to choose between different entities providing investment services.

The directive establishes that entities must inform clients of whether it is possible to buy the different products separately and what the costs and commissions would be for purchasing each one of them. They must also be informed of the individual risks of the products and of their interaction with the risks of other products if they are different from the risks associated with the package. Furthermore, the appropriateness and suitability assessment will refer to the bundle of products.

ESMA, in cooperation with EBA and EIOPA, will have to draw up guidelines on cross-selling practices to assess whether the general principles of acting in the best interests of the client are being met.

4.6 Extension to professionals and eligible counterparties

MiFID previously established three categories of client (retail, professional and eligible counterparties), setting for each of them proportional application of the conduct of business rules.

Accumulated experience over recent years has led European legislators to believe that, as with retail clients, non-retail clients have sometimes failed to sufficiently calibrate the risks associated with their investments. Therefore, MiFID II extends to this type of investor some of the principles and requirements that up to now were only applied to the relations of investment firms with retail clients. In particular, it now specifies that the obligation to act honestly, fairly and professionally, as well as the key information requirements (these must be fair, clear and not misleading) must be applied to all types of clients. In addition, it eliminates the possibility for

local and municipal public authorities to waive being treated as retail clients and the protection resulting from this classification.

Similarly, MiFID II extends certain information requirements traditionally reserved for retail clients to professional clients and eligible counterparties, especially in the case of complex financial products. It will be necessary to pay attention to the delegated acts issued in this regard by the European Commission as they may have a significant impact on the financial industry.

5 Product intervention

The distribution of complex products –such as certain structured instruments and hybrid instruments– among retail investors, bearing in mind the possible impact on the functioning of financial markets, has led legislators to consider the need for strengthening the powers of competent national and European authorities relating to product and service intervention. Accordingly, both national supervisors and European supervisory agencies may prohibit or restrict the marketing, distribution and sale of any financial instrument or structured deposit that raises significant concern as regards investor protection or a threat to the orderly functioning and integrity of financial or commodity markets.

Taking on this new capacity for intervention means that supervisors must monitor the instruments which are marketed. It is important to clarify that this power does not necessarily mean that there must be a prior authorisation or approval from the CNMV and other supervisors of the products that are to be marketed.

Product intervention is incorporated into EU legislation in MiFIR, in such a way that its direct application ensures uniform conditions in all Member States of the European Union, which prevents the emergence of differences in transposition to national legislation.

The negative consequences of this new power that have been discussed include the possibility that it may limit the development of investment opportunities and financial innovation. However, the power of intervention aims to provide a safer framework for market investors and participants, which will increase confidence in financial markets. In any event, application of these powers will involve a challenge both for supervisory authorities and for the supervised entities.

The exercise of this power is subject to compliance with strict requirements as these provisions and restrictions will undoubtedly have an impact on market participants. In practice, product intervention will be conceived as a last resort measure.

These requirements mean that, firstly, authorities may not order the prohibition or restriction of a product if there are other applicable EU legislative rules that adequately respond to the identified risk or if this risk may be solved with more adequate supervision. Secondly, the measures that may be adopted must be proportionate, taking into account the risks identified, the level of investor sophistication and the likely impact. Finally, in order to avoid regulatory arbitrage, prior to

adopting measures of this type, competent national authorities will have to consult the authorities of a Member States which may be affected and ensure that their actions will not have any discriminatory effects on the services of another Member State.

The regulation establishes a formal process which must be followed before imposing prohibition or restriction measures. The competent authorities will have to report the details of the measure to the other competent authorities and to ESMA, at least one month before they take effect. They will need to explain the nature of the prohibition or restriction imposed and the affected instruments or practices, as well as the evidence on which the decision is based. They must also demonstrate that the conditions mentioned in the above paragraph are met.

The powers of national authorities have been supplemented by establishing a Europe-wide mechanism which acts in the event that any national authority has not done so. This role falls to ESMA in the case of financial instruments and to EBA for structured deposits. Both agencies have the capacity to exercise this power in a similar manner as that of the competent national authorities. The measures adopted by European agencies must be reviewed every three months, while no such period is established for measures established by national authorities.

Finally, a transparency regime is established for the reasoned decisions taken by competent national authorities, ESMA or EBA. Authorities must publish their reasoned decision and ESMA or, where appropriate, EBA will have to issue a public decision determining whether the prohibition or restriction agreed by the competent national authority is justified and proportionate. In the event that the national authority acts against the decision of the European supervisory agencies, it must publish a notification explaining its reasons.

In the area of insurance-based investment products, the intervention powers of competent national authorities and EIOPA have been regulated in similar terms to those of MiFID II in the regulation on key information documents relating to packaged retail and insurance-based investment products.

There are currently jurisdictions in which authorities are already exercising similar powers to those described above. For example, in the United Kingdom, the Financial Conduct Authority has already proposed limits to the distribution to retail clients of certain financial products, particularly convertible bonds which may be calculated as Additional Tier 1 Capital.

6 Conclusions

The new regulatory framework of MiFID II, which will be applicable as from January 2017, introduces certain organisational requirements and conduct of business rules to structured deposits and insurance-based investment products, which will contribute to improving investor protection. Accordingly, to a certain extent it establishes a common protection standard for these products, which are financially the equivalent to certain securities market products, although they have a different

legal form. However, it is necessary that further work be continued in the revision process of Directive 2002/92/EC and in the development of level 2 legislation.

MiFID establishes transparency as one of the basic principles in the relationship between entities and their clients and a fundamental pillar for mitigating information asymmetries. In this regard, MiFID II strengthens the information obligations and incorporates a new cost and expense information regime which aims to identify and group together all the costs which investors will pay so as to make it easier to compare financial products and services. Application of this measure, however, involves technical difficulties that will need to be solved.

In addition, firms providing independent investment services and discretionary portfolio management are prohibited from receiving incentives from third parties, such as, for example, the commissions which mutual funds operators give them for placing their products. This will force a considerable percentage of entities to adjust their business model as they currently often receive a significant part of their revenue from these commissions. Such a prohibition aims to achieve a greater level of transparency and reduce conflicts of interest.

In addition to strengthening transparency, MiFID II establishes a set of organisational requirements aimed at strengthening honesty in the conduct of entities in providing investment services. Firstly, it specifies the responsibility of management bodies in complying with certain obligations so as to promote a business culture which encourages fair dealings with clients and avoids conflict of interest. The most evident example of this trend is the establishment of an internal product approval process adapted to the needs of clients and the use of distribution strategies which are in line with the identified target market. Similarly, staff remuneration and sales targets need to be carefully designed so as not to compromise the obligation of acting in the best interests of the client.

Finally, in order to provide a safer framework for investors and market participants, new powers are given both to national and to European supervisors (in the latter case intervention will be temporary), which may prohibit or restrict the marketing of certain products, types of practices or financial activities when there is reasonable concern about investor protection or a threat to the integrity and orderly functioning of markets. These powers are likely to be used as a last resort, although some Member States are already making use of this type of mechanism to restrict the marketing of certain instruments, especially complex instruments aimed at retail clients.

III Legislative Annex

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

Spanish legislation

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

  This Royal Decree-Law introduces a series of measures on insolvency so as to allow business activity to continue, not for the benefit of the company, but of the employees and creditors, among others. In addition, it adopts a series of measures to increase the flexibility of the transfer of the insolvent company's business or any of its lines of business in order to overcome obstacles that currently exist and which hinder their sale.

  Its fourth additional provision includes a new aspect on the trading of asset securitisation funds aimed at institutional investors on multilateral trading facilities. For this purpose, it establishes that when the securities issued by said funds are targeted exclusively at institutional investors, the transfer may only be made between investors belonging to that category or on a multilateral trading facility in which subscription and trading are restricted to qualified investors.

  The final provisions of Royal Decree-Law 11/2014 make the following legislative amendments:

  – Amendment of the transitional provision of the Consolidated Text of the Capital Companies Act.

  – Amendment of Law 9/2012, of 14 November, on the restructuring and resolution of credit institutions.

  – Amendment of the Civil Procedure Act 1/2000, of 7 January.

– Law 16/2014, of 30 September, regulating CNMV fees.

  This law seeks to establish the legal structure of the fees applicable for performing activities and providing services. This law will enter into force on 1 January 2015.

  This law repeals Article 13 of Law 22/1993, of 29 December, on tax measures, reform of the legal system of the civil service and unemployment protection (fees applicable for the performance of activities or provision of services by the CNMV), as well as Royal Decree 1732/1998, of 31 July, on fees applicable for activities and services provided by the CNMV.

– Law 17/2014, of 30 September, adopting urgent measures on the refinancing and restructuring of business debt.

  This law amends various provisions of the Insolvency Act 22/2003, of 9 July. The aim of this law is for public authorities to adopt measures in favour of re-

lieving the financial load or de-deleveraging companies in order to restructure them from a financial point of view so as to make the remaining debt bearable. This will thus allow the company to continue meeting its commitments in its business operations, generating wealth and creating jobs. This is done with the utmost respect for creditors' legitimate expectations.

The final part of this law contains various provisions, noteworthy among which are the amendments to Law 3/2009, of 3 April, on structural modifications to commercial companies, with the aim of abolishing the requirement of a director's report on draft terms of merger in the cases of acquisitions of a company in which a shareholding of over 90% is held in the case of a cross-border EU merger. This is a requirement which is no longer provided for in Article 15.2 of Directive 2005/56/EC, following its amendment by Directive 2009/109/EC, as regards reporting and documentation requirements in the case of mergers and spin-offs. Similarly, it amends Article 8 of Royal Decree 1066/2007, of 27 July, on rules applicable to takeover bids for securities, exempting the takeover bid and the need to request, as the case may be, a waiver from the CNMV, in the case of operations performed as a direct consequence of a court-approved re-financing agreement providing a favourable report has been given by an independent expert.

- CNMV Circular 3/2014, of 22 October, amending Circular 1/2010, of 28 July, on reserved information of entities providing investment services and Circular 7/2008, of 26 November, on accounting standards, annual accounts and statements of reserved information of investment firms, management companies of collective investment undertakings and management companies of venture capital vehicles.

  This Circular aims to provide the CNMV with the resources necessary so as to more efficiently monitor the types of instruments marketed to retail clients. This requires, *inter alia*, increasing the frequency with which entities submit certain reserved statements or adding relevant descriptive information with regard to some characteristics of certain instruments.

  Accordingly, the amendment to Circular 1/2010 carried out through rule one of this Circular 3/2012 aims to update the information collected through the reserved statements established by said circular. The following amendments are carried out with this aim:

  - Certain entities (basically those which have a high volume of retail clients, or those which appear to be more active in marketing complex products) are required to submit certain reserved statements on a more regular basis. Accordingly, in addition to annual information, they will be required to submit quarterly information.

  - Some of the standard forms for the reserved statements are modified by requesting more specific information about certain characteristics of the financial instruments, especially those which make it possible to identify the level of complexity of such products. Similarly, the circular standardises the information collected so as to make it easier to compare and handle.

– With the aim of standardising the information provided by companies providing investment services, the requirement to submit certain statements is extended to broker-dealers and brokers and to portfolio management companies.

Furthermore, rule two of this Circular 3/2014 makes the following amendments to Circular 7/2008:

– It eliminates certain statements so as to avoid overlapping with the reserved statements which broker-dealers, brokers and portfolio management companies are required to submit.

– It modifies the statement of activity which must be submitted by financial advisory firms by eliminating the section relating to the value of the assets under management and changing its frequency, from half-yearly to annual.

– It includes a new reserved statement for the management companies of collective investment undertakings with the aim of more efficiently monitoring the activities which they perform.

Entry into force of the circular is set for the day following its publication. However, a specific transitional regime is established for the different amendments.

– CNMV Board Resolution of 22 October 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.

– CNMV Circular 4/2014, of 27 October, amending Circular 1/2007, of 11 July, on statistical information requirements for Collective Investment Undertakings of the European Union, which partially amends Circular 2/1998, of 27 July, on statistical information requirements for Collective Investment Undertakings of the European Union.

This circular aims to amend Circular 1/2007 to adapt the EMU (Economic and Monetary Union) standard forms to the new information requirements for monitoring monetary policy established by the European Central Bank in its Regulation (EU) No. 1071/2013.

- CNMV Circular 5/2014, of 27 October, amending Circular 5/2008, of 5 November, on statistical information requirements on assets and liabilities of collective investment undertakings of the European Union.

  Circular 5/2014 amends Circular 5/2008 with the aim of adapting the OIF (Other Financial Intermediaries) standard forms to the new information requirements of the European Central Bank, which it establishes in its Regulation (EU) No. 1073/2013.

  It also extends the regulation to include venture capital vehicles and other types of collective investment undertakings which may be created as a consequence of possible subsequent legislative changes and which comply with the definition of investment fund contained in Article 1 of the aforementioned Regulation (EU) No. 1073/2013.

- CNMV Circular 6/2014, of 27 October, partially amending Circular 2/2009, of 25 March, on accounting standards, annual accounts, public financial statements and reserved statements of statistical information of securitisation funds.

  Circular 6/2014 amends Circular 2/2009 with the aim of incorporating the amendments introduced by European Central Bank Regulation (EU) No. 1075/2013 and, consequently, to adapt the forms regulated in said circular to the new information requirements of the European Central Bank. These new requirements essentially refer to the information which, in order to contribute to the statistics of the European Central Back, must be submitted on the financial vehicle corporations engaged in securitisation transactions, which includes asset securitisation funds and bank asset funds.

- CNMV Circular 7/2014, of 27 October, amending Circular 6/2013, of 25 September, on accounting standards, annual accounts, public financial statements and reserved statements of statistical information of Bank Asset Funds.

  Circular 7/2014 amends Circular 6/2013 with the aim of adapting the standard forms regulated therein to the new information requirements of the European Central Bank, by introducing modifications in the information which, in order to contribute to the statistics of the European Central Back, must be submitted on the financial vehicle corporations engaged in securitisation transactions, which includes bank asset funds. These new information requirements are established in European Central Bank Regulation (EU) No. 1075/2013, which repeals European Central Bank Regulation (EC) No. 24/2009 with the aim of adapting to the EU's new European System of National and Regional Accounts (ESA 2010), established by Regulation (EU) No. 549/2013 of the European Parliament and of the Council, of 21 May 2013.

- Law 22/2014, of 12 November, regulating venture capital vehicles, other closed-end collective investment undertakings and management companies of closed-end collective investment undertakings, and amending Law 35/2003, of 4 November, on Collective Investment Undertakings (Corrigendum published on 14 November).

The aim of this law is to regulate the legal system for venture capital vehicles, other closed-end collective investment undertakings and the management companies of closed-end investment undertakings. This law revises the legal framework for venture capital so as to encourage greater fund raising which will allow a larger number of companies to be financed, particularly small and medium-sized enterprises in their first development and expansion stages. The need to adapt the legal framework to new European Union legislation and to promote balanced growth in the sector leads to the approval of this law, which repeals Law 25/2005, of 24 November, regulating venture capital vehicles and their management companies. This law applies to collective investment undertakings which obtain capital from a series of investors in order to invest it according to a defined investment policy, which are considered as closed-end in accordance with their divestment policies and which are not regulated under Law 35/2003, of 4 November, which mainly regulates open-end collective investment undertakings.

It almost completely eliminates the framework for the administrative intervention of the CNMV in venture capital vehicles and closed-end collective investment undertakings.

In addition, the first final provision of Law 22/2014 amends Law 35/2003, of 4 November, on Collective Investment Undertakings, with the aim of adapting the legal framework of management companies operating alternative collective investment undertakings to Directive 2011/61/EU of the European Parliament and of the Council, of 8 June 2011, on alternative investment fund managers, and amending Directive 2003/41/EC and 2009/65/EC and Regulations (EC) No. 1060/2009 and (EU) No. 1095/2010.

This introduces a clear differentiation between collective investment undertakings harmonised by Directive 2009/65/EC, of 13 July 2009, and alternative collective investment undertakings. Accordingly, the structure of Law 35/2003, of 4 November, is maintained and it continues containing the regulation of open-end collective investment undertakings and their management companies, leaving the regulation of venture capital vehicles and closed-end collective investment undertakings and their management companies to the new law.

As a significant new aspect, Title III of this law includes the requirements for cross-border marketing and management, which includes the European passport for alternative investment funds of Member States of the European Union operated by alternative investment fund managers authorised in Member States of the European Union in accordance with Directive 2011/61/EU of the European Parliament and of the Council, of 8 June 2011.

– Law 31/2014, of 3 December, amending the Capital Companies Act to enhance corporate governance.

Law 31/2014 has been drawn up based on the report of 14 October 2013 prepared by the Commission of Experts on corporate governance created to propose legislative initiatives and reforms considered suitable for ensuring the good governance of companies and to provide support and advice to the CNMV

in amending the Unified Good Governance Code of Listed Companies. The final aim of this work was to ensure adequate functioning of the governance and management bodies of Spanish companies with the aim of maximising competitiveness, generating confidence and transparency for Spanish and foreign shareholders and investors, improving the internal control and corporate responsibility of Spanish companies, and ensuring the appropriate segregation of functions, duties and responsibilities in companies, from a perspective of the highest level of professionalism and standards.

With these aims, the sole article of this law introduces amendments to the Consolidated Text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July, which may be mainly grouped into two categories: those relating to general shareholders' meeting and those relating to the board of directors.

Amendments relating to the general shareholders' meeting aim to strengthen the role of this company body and to open the way for increased shareholder participation. With this aim, it introduces amendments relating to the powers of the general meeting, minority rights in listed companies, conflicts of interest, the calling and adoption of resolutions, shareholders' rights to information and challenges to corporate resolutions. The key amendments are as follows:

- It extends to all capital companies the possibility that the shareholders' meeting may give management instructions, without prejudice to company articles of association that state the opposite.

- It extends the powers of companies' shareholders' meetings to reserve for their approval those corporate operations which, as a result of their importance, have similar effects to structural modifications, such as the acquisition, disposal or contribution to the company of essential assets.

- In listed companies it reduces the necessary threshold for shareholders to be able to exercise certain rights to 3% of capital and it establishes the maximum number of shares required by company articles of association for attending the general meeting to one thousand.

- It guarantees that shareholders may give their opinion separately on the appointment, re-election or removal of directors or on modifications to the articles of association, and that they may issue their vote in a differentiated manner.

- It reforms the legal treatment of conflicts of interest. For this purpose, it extends to public limited companies the ban on exercising the right to vote in the most serious cases of conflicts of interest and it provides an assumption of a breach of corporate interests in the event that the corporate resolution has been adopted with the determining vote of any shareholder subject to a conflict of interest.

- It clarifies the information that must be published with regard to resolution proposals.

- It expressly establishes that the criteria for calculating the majority necessary for the valid adoption of a resolution by the general meeting is a simple majority, which removes doubts over interpretation that existed in practice.

- It amends the framework for the right of shareholders to information so as to differentiate between the legal consequences of the different categories of this right. In the case of listed companies, the time period in which shareholders may exercise the right to prior information before the general meeting is extended to five days.

- The legal framework for challenging corporate resolutions is amended by unifying all the challenges under one single general cancellation system, with an expiry deadline of one year, except for resolutions which go against public order with no statute of limitations. For listed companies, this expiry deadline is reduced to three months.

- A minority shareholding threshold of 1% is established in the case of unlisted companies, and of 0.1% in the case of listed companies, in order to be allowed to challenge corporate resolutions.

With regard to the board of directors, it was necessary to regulate certain increasingly important aspects, such as the transparency of governance bodies, fair treatment of all shareholders, risk management and the independence, participation and professionalism of board members. With this purpose, the key amendments are as follows:

- The powers of the board of directors which may not be delegated are established as those decisions corresponding to essential core management and supervision.

- It establishes that the board of directors must meet at least once a quarter.

- A series of measures is introduced aimed at contributing towards the correct functioning of the board. Noteworthy among the other measures is the requirement of board members to personally attend meeting sessions, certain conditions for directors to delegate their vote and the information which they must receive in order to deliberate and adopt the resolutions.

- The law regulates the functions of the chair and the secretary of the board of directors, providing for possible extension in the articles of association, and limits the maximum term, which may not exceed four years.

- It allows the board of directors to establish specialised committees, with it being mandatory to establish an audit committee and one, or two separate, committees for appointments and remuneration. The committees will be made up of non-executive directors and chaired by an independent director.

Similarly, it is important to highlight the amendment to the additional seventh provision of the Consolidated Text of the Capital Companies Act for the pur-

poses of amending the allocation of the necessary powers to the CNMV to carry out the supervision and, consequently, to bring and investigate disciplinary proceedings resulting from breaches of certain requirements established in the law.

Similarly, it adds a ninth additional provision to the Consolidated Text of the Capital Companies Act which extends the legal framework for the committees of the board of directors and the audit committee to entities issuing securities other than shares admitted to trading on official secondary markets.

Law 31/2014 also makes amendments to the Securities Market Act 24/1998, of 28 July, which include:

- Article 61 *bis* and 61 *ter*, Article 100 b) *ter* and b) *quáter* and the eighteenth additional provision are repealed.

- Article 100 b) is rewritten.

European legislation

- Guidelines and recommendations regarding the implementation of the CPSS-IOSCO Principles for Financial Market Infrastructures in respect of Central Counterparties, published on 4 September 2014. (Compliance therewith was notified to ESMA on 30 October 2014).

  These guidelines and recommendations concern the implementation of the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMIs) by competent authorities as part of the exercise of their duties resulting from EMIR for the authorisation and supervision of CCPs pursuant to Article 22(1) of EMIR.

- ESMA Guidelines on enforcement of financial information, published on 28 October 2014. (Compliance therewith was notified to ESMA on 15 December 2014).

  These guidelines apply in relation to the enforcement of financial information under the Transparency Directive to ensure that financial information in harmonised documents provided by issuers whose securities are admitted to trading on a regulated market comply with the requirements resulting from the Transparency Directive.

  They are applicable to all competent authorities of the Member States of the European Union responsible for supervising financial information in accordance with the Transparency Directive. They are also applicable to the competent authorities of countries in the European Economic Area that are not Member States of the EU to the extent that the Transparency Directive is applicable in such countries.

– Joint Guidelines on the convergence of supervisory practices relating to the consistency of supervisory coordination arrangements for financial conglomerates, published on 22 December 2014. (Compliance therewith was notified to ESMA on 29 December 2014).

These guidelines aim to clarify and enhance cooperation between competent authorities on a cross-border and a cross-sectoral basis and to supplement the functioning of sectoral colleges (if any) where a cross-border group has been identified as a financial conglomerate in accordance with Directive 2002/87/EC. These guidelines also aim to enhance a level playing field in the internal market, thus guaranteeing the existence of consistent supervisory coordination.

IV Statistics Annex

1 Markets

1.1 Equity

Share issues and public offerings[1]

TABLE 1.1

	2011	2012	2013	2013 IV	2014 I	II	III	IV[2]
CASH VALUE (million euro)								
Total	20,970.3	29,557.4	39,171.9	4,982.5	4,829.1	9,113.3	5,916.8	10,024.1
Capital increases	20,843.3	28,326.0	39,171.9	4,982.5	4,829.1	7,877.0	5,399.1	6,891.1
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	2,356.3
Of which, primary offerings	6,238.8	2,457.3	1,744.6	0.0	900.0	1,655.0	401.5	0.0
With Spanish tranche	5,827.1	2,457.3	1,744.6	0.0	98.7	348.1	8.9	0.0
With international tranche	411.7	0.0	0.0	0.0	801.3	1,306.9	392.7	0.0
Secondary offerings	127.0	1,231.4	0.0	0.0	0.0	1,236.2	517.7	3,132.9
With Spanish tranche	124.7	1,231.4	0.0	0.0	0.0	55.7	58.5	682.9
With international tranche	2.3	0.0	0.0	0.0	0.0	1,180.5	459.2	2,450.0
NOMINAL VALUE (million euro)								
Total	5,702.3	4,705.5	20,150.9	668.8	616.0	2,003.5	1,004.5	789.0
Capital increases	5,696.3	4,594.8	20,150.9	668.8	616.0	1,994.0	996.5	510.5
Of which, primary offerings	2,070.6	613.1	989.4	0.0	130.0	132.7	364.2	0.0
With Spanish tranche	1,888.4	613.1	989.4	0.0	16.8	33.3	8.9	0.0
With international tranche	182.2	0.0	0.0	0.0	113.2	99.5	355.3	0.0
Secondary offerings	6.0	110.6	0.0	0.0	0.0	9.5	8.0	278.5
With Spanish tranche	5.9	110.6	0.0	0.0	0.0	0.5	0.9	60.7
With international tranche	0.1	0.0	0.0	0.0	0.0	9.0	7.1	217.8
NO. OF FILES								
Total	91	106	159	49	35	46	43	25
Capital increases	90	103	159	49	35	43	41	23
Of which, bonus issues	24	24	38	7	7	7	11	7
Of which, primary offerings	8	7	6	0	2	5	2	0
Secondary offerings	1	3	0	0	0	3	2	2
NO. OF ISSUERS								
Total	44	39	46	23	21	30	29	18
Capital increases	44	39	46	23	21	30	28	17
Of which, primary offerings	8	7	6	0	2	5	2	2
Secondary offerings	1	3	0	0	0	2	1	1

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

Primary and secondary offerings. By type of subscriber

TABLE 1.2

Million euro	2011	2012	2013	2013 IV	2014 I	II	III	IV[1]
PRIMARY OFFERINGS								
Total	6,238.8	2,457.3	1,744.6	0.0	900.0	1,655.0	401.5	0.0
Spanish tranche	5,815.7	6.8	1.8	0.0	98.7	348.1	8.9	0.0
Private subscribers	2,206.3	4.1	0.0	0.0	3.3	44.6	1.0	0.0
Institutional subscribers	3,609.4	2.8	1.8	0.0	95.4	303.5	7.9	0.0
International tranche	411.7	0.0	0.0	0.0	801.3	1,306.9	392.7	0.0
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	0.0	0.0	0.0	0.0	0.0
SECONDARY OFFERINGS								
Total	127.0	1,231.4	0.0	0.0	0.0	1,236.2	517.7	3,132.9
Spanish tranche	124.7	0.0	0.0	0.0	0.0	55.7	58.5	682.9
Private subscribers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	469.9
Institutional subscribers	124.7	0.0	0.0	0.0	0.0	55.7	58.5	213.0
International tranche	2.3	0.0	0.0	0.0	0.0	1,180.5	459.2	2,450.0
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: November 2014.

Companies listed[1]

TABLE 1.3

				2013	2014			
	2011	2012	2013	IV	I	II	III	IV[2]
Total electronic market[3]	130	127	123	123	125	128	129	129
Of which, without Nuevo Mercado	130	127	123	123	125	128	129	129
Of which, Nuevo Mercado	0	0	0	0	0	0	0	0
Of which, foreign companies	7	7	7	7	7	8	8	8
Second Market	7	8	7	7	7	7	7	7
Madrid	2	2	2	2	2	2	2	2
Barcelona	5	6	5	5	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	22	20	20
Madrid	13	11	11	11	11	10	9	9
Barcelona	17	13	13	13	13	13	12	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	3,066	3,083	3,140	3,220	3,253
Latibex	29	27	26	26	26	26	26	26

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

Capitalisation[1]

TABLE 1.4

				2013	2014			
Million euro	2011	2012	2013	IV	I	II	III	IV[2]
Total electronic market[3]	531,194.2	532,039.7	705,162.3	705,162.3	732,860.8	770,655.0	777,202.8	764,959.3
Of which, without Nuevo Mercado	531,194.2	532,039.7	705,162.3	705,162.3	732,860.8	770,655.0	777,202.8	764,959.3
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	141,142.4	136,774.1	137,141.6	142,761.6	142,561.2
Ibex 35	322,806.6	324,442.0	430,932.9	430,932.9	430,932.9	491,230.1	489,544.0	493,305.9
Second Market	109.9	20.6	67.5	67.5	53.6	31.6	32.9	30.8
Madrid	22.8	20.3	18.3	18.3	16.9	17.2	18.5	16.4
Barcelona	87.1	0.3	49.3	49.3	36.8	14.4	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	2,906.2	2,753.9	2,211.3	2,102.4	2,463.6
Madrid	1,454.7	667.1	519.4	519.4	503.2	436.7	396.8	398.4
Barcelona	3,580.2	2,945.9	2,749.5	2,749.5	2,597.7	2,921.1	2,006.5	13,546.4
Bilbao	45.9	77.8	183.6	183.6	183.6	169.2	171.0	161.8
Valencia	760.4	350.9	342.5	342.5	344.1	323.5	329.9	330.4
Open outcry SICAVs[5]	126.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MAB[6]	24,367.6	24,606.7	32,171.2	32,171.2	32,837.8	33,746.7	33,782.2	34,280.0
Latibex	210,773.5	350,635.5	270,926.9	270,926.9	259,328.5	343,369.1	300,549.1	307,325.4

1 Data at the end of period.
2 Available data: November 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

Million euro	2011	2012	2013	2013 IV	2014 I	II	III	IV[1]
Total electronic market[2]	917,383.3	691,558.3	693,168.0	215,132.1	185,571.8	221,131.3	191,971.3	186,827.0
Of which, without Nuevo Mercado	917,383.3	691,558.3	693,168.0	215,132.1	185,571.8	221,131.3	191,971.3	186,827.0
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	1,828.8	2,576.7	3,127.2	3,681.8	3,241.9
Second Market	2.3	0.4	1.7	0.8	0.2	0.2	0.2	0.0
Madrid	1.7	0.4	1.4	0.8	0.2	0.2	0.1	0.0
Barcelona	0.5	0.0	0.3	0.0	0.0	0.0	0.2	0.0
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	12.5	20.9	6.8	39.1	9.0
Madrid	16.1	3.0	7.3	3.9	1.0	3.7	27.1	0.4
Barcelona	26.4	37.7	44.1	8.5	5.7	2.9	12.0	8.6
Bilbao	0.1	8.5	0.1	0.0	14.2	0.0	0.0	0.0
Valencia	0.3	0.7	0.0	0.0	0.0	0.2	0.0	0.1
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	2,217.7	2,092.1	2,098.2	1,704.3	983.0
Latibex	357.7	313.2	367.3	86.4	137.3	76.7	76.6	51.5

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

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

TABLE 1.6

Million euro	2011	2012	2013	2013 IV	2014 I	II	III	IV[2]
Regular trading	873,485.4	658,891.4	668,553.2	206,433.3	179,931.3	209,766.0	187,072.7	178,999.2
Orders	505,870.1	299,022.0	346,049.6	97,827.4	114,916.9	106,745.8	102,588.5	88,829.0
Put-throughs	69,410.4	80,617.0	56,565.3	14,940.2	17,555.2	18,815.3	16,303.0	14,285.1
Block trades	298,204.9	279,252.4	265,938.3	93,665.7	47,459.2	84,205.0	68,181.2	75,885.1
Off-hours	9,801.8	9,630.0	7,654.7	1,720.3	959.4	5,803.9	534.0	107.0
Authorised trades	3,492.6	7,936.9	4,839.9	1,005.3	1,219.7	856.7	1,574.6	3,376.2
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	0.0	0.0	92.8	0.0	0.0
Public offerings for sale	3,922.1	0.0	396.1	393.5	850.0	1,642.7	517.7	3,132.9
Declared trades	2,212.7	545.0	379.7	376.6	400.0	9.9	0.0	0.0
Options	11,730.3	9,603.4	7,083.5	4,145.7	1,493.3	1,945.8	1,489.5	524.1
Hedge transactions	8,521.5	4,942.0	3,934.4	1,057.4	718.2	1,013.5	782.7	687.7

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

Margin trading for sales and securities lending

TABLE 1.7

Million euro	2011	2012	2013	2013 IV	2014 I	II	III	IV[1]
TRADING								
Securities lending[2]	493,602.4	395,859.3	464,521.5	154,048.6	116,399.9	173,562.6	140,620.0	111,701.4
Margin trading for sales of securities[3]	518.3	199.2	326.8	69.5	72.6	100.8	103.6	60.8
Margin trading for securities purchases[3]	73.0	44.4	34.1	5.2	8.2	2.1	1.2	1.4
OUTSTANDING BALANCE								
Securities lending[2]	35,626.7	34,915.1	43,398.9	43,398.9	45,982.9	54,428.2	53,174.3	60,042.6
Margin trading for sales of securities[3]	7.0	1.2	7.3	7.3	14.9	17.2	12.1	12.7
Margin trading for securities purchases[3]	3.9	2.5	0.6	0.6	1.2	0.2	0.1	0.4

1 Available data: November 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 IV	2014 I	II	III	IV[1]
NO. OF ISSUERS								
Total	101	71	49	23	16	21	18	19
Mortgage covered bonds	30	26	12	5	5	6	6	2
Territorial covered bonds	7	11	5	1	1	1	1	0
Non-convertible bonds and debentures	23	24	11	5	9	13	10	8
Convertible bonds and debentures	5	3	4	2	0	2	0	0
Backed securities	34	16	18	9	1	3	3	6
Commercial paper	49	35	20	5	6	4	4	4
Of which, asset-backed	2	1	0	0	1	0	0	0
Of which, non-asset-backed	47	34	20	5	5	4	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	99	85	181	182	178
Mortgage covered bonds	115	94	40	5	6	8	6	4
Territorial covered bonds	42	18	6	1	1	1	1	0
Non-convertible bonds and debentures	86	134	170	63	69	158	165	127
Convertible bonds and debentures	9	7	8	4	0	2	0	0
Backed securities	88	50	53	21	3	8	6	17
Commercial paper[2]	53	46	20	5	6	4	4	4
Of which, asset-backed	2	1	0	0	1	0	0	0
Of which, non-asset-backed	51	45	20	5	5	4	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	42,425.2	20,592.5	27,934.1	19,886.5	25,940.8
Mortgage covered bonds	67,226.5	102,170.0	24,799.7	2,250.0	3,450.0	11,000.0	3,750.0	2,538.0
Territorial covered bonds	22,334.2	8,974.0	8,115.0	2,500.0	1,500.0	218.3	135.0	0.0
Non-convertible bonds and debentures	18,691.7	86,441.5	32,536.9	12,633.4	5,988.3	4,855.0	2,536.3	1,515.7
Convertible bonds and debentures	7,125.9	3,563.1	803.3	363.4	0.0	1,000.0	0.0	0.0
Backed securities	68,410.4	23,799.6	28,592.9	14,694.9	1,850.0	3,855.0	7,640.0	15,663.0
Spanish tranche	63,453.5	20,627.1	24,980.1	12,802.3	1,388.8	3,573.3	7,550.0	15,663.0
International tranche	4,956.9	3,172.5	3,612.8	1,892.6	461.2	281.7	90.0	0.0
Commercial paper[3]	103,501.0	132,882.0	43,990.8	9,983.5	7,804.3	7,005.8	5,825.2	6,224.1
Of which, asset-backed	2,366.0	1,821.0	1,410.0	400.0	200.0	420.0	0.0	0.0
Of which, non-asset-backed	101,135.0	131,061.0	42,580.8	9,583.5	7,604.3	6,585.8	5,825.2	6,224.1
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	2,149.0	0.0	2,243.8	1,545.0	4,210.5
Underwritten issues	10.0	0.0	193.0	0.0	195.8	0.0	0.0	0.0

1 Available data: November 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 IV	2014 I	II	III	IV[2]
Total	278,553.6	363,944.5	130,467.7	30,697.4	29,151.5	28,532.2	20,870.7	7,677.1
Commercial paper	101,939.6	134,346.9	45,228.6	10,112.8	7,453.5	7,334.6	5,734.9	4,168.8
Bonds and debentures	12,311.9	92,725.5	22,414.4	2,191.2	16,346.5	5,119.3	2,365.8	1,420.3
Mortgage covered bonds	68,346.5	103,470.0	25,399.7	1,650.0	3,050.0	12,000.0	3,500.0	1,788.0
Territorial covered bonds	20,334.2	8,974.0	8,115.0	2,500.0	0.0	1,718.3	135.0	0.0
Backed securities	75,421.4	24,428.1	29,309.9	14,243.4	2,301.5	2,360.0	9,135.0	300.0
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: November 2014.

AIAF. Issuers, issues and outstanding balance

TABLE 1.10

	2011	2012	2013	2013 IV	2014 I	II	III	IV[1]
NO. OF ISSUERS								
Total	613	568	494	494	486	480	482	469
Corporate bonds	613	568	493	493	485	479	481	468
Commercial paper	45	42	30	30	24	22	20	20
Bonds and debentures	91	95	90	90	89	89	86	83
Mortgage covered bonds	43	49	48	48	48	48	49	49
Territorial covered bonds	13	18	12	12	11	10	10	10
Backed securities	437	385	341	341	335	331	333	327
Preference shares	60	60	34	34	34	31	31	26
Matador bonds	12	11	9	9	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	3,345	3,074	2,922	2,877	2,847
Corporate bonds	3,630	4,382	3,192	3,192	2,922	2,771	2,712	2,684
Commercial paper	958	1,778	1,130	1,130	888	707	545	464
Bonds and debentures	645	624	495	495	512	570	682	771
Mortgage covered bonds	253	296	283	283	273	265	262	253
Territorial covered bonds	26	49	39	39	37	36	36	36
Backed securities	1,641	1,527	1,188	1,188	1,155	1,139	1,133	1,114
Preference shares	93	94	47	47	47	44	44	37
Matador bonds	14	14	10	10	10	10	10	9
Government bonds	–	–	153	153	152	151	165	163
Letras del Tesoro	–	–	12	12	12	12	12	12
Long Government bonds	–	–	141	141	140	139	153	151
OUTSTANDING BALANCE[2] (million euro)								
Total	882,395.1	879,627.5	1,442,270.2	1,442,270.2	1,426,374.9	1,415,557.2	1,405,130.1	1,374,081.7
Corporate bonds	882,395.1	879,627.5	708,601.8	708,601.8	669,134.9	639,440.5	619,043.1	588,666.9
Commercial paper	37,549.1	64,927.5	28,816.3	28,816.3	21,886.1	20,663.1	15,647.3	13,792.8
Bonds and debentures	131,756.8	161,225.4	132,076.6	132,076.6	128,478.4	122,652.2	110,385.6	101,636.6
Mortgage covered bonds	241,149.7	293,142.8	246,967.9	246,967.9	233,067.9	220,443.2	216,445.2	205,214.2
Territorial covered bonds	31,884.2	33,314.3	29,793.5	29,793.5	26,768.5	25,625.3	25,268.3	25,268.3
Backed securities	407,908.0	315,373.5	269,176.8	269,176.8	257,186.4	248,398.0	249,638.1	241,276.0
Preference shares	31,088.6	10,813.4	1,076.2	1,076.2	1,053.0	964.2	964.1	904.6
Matador bonds	1,058.8	830.7	694.6	694.6	694.6	694.6	694.6	574.4
Government bonds	–	–	733,668.3	733,668.3	757,240.0	776,116.8	786,087.0	785,414.8
Letras del Tesoro	–	–	89,174.4	89,174.4	82,521.4	74,639.7	77,128.8	77,344.0
Long Government bonds	–	–	644,493.9	644,493.9	674,718.6	701,477.1	708,958.3	708,070.7

1 Available data: November 2014.
2 Nominal amount.

AIAF. Trading

TABLE 1.11

Nominal amount in million euro	2011	2012	2013	2013 IV	2014 I	II	III	IV[1]
BY TYPE OF ASSET								
Total	7,388,185.7	3,119,755.1	1,400,757.7	296,729.3	405,073.2	350,277.6	204,278.0	98,219.0
Corporate bonds	7,388,185.7	3,119,755.1	1,400,601.6	296,647.5	405,012.8	350,215.9	204,205.1	98,190.6
Commercial paper	227,534.5	199,794.9	112,559.8	21,315.6	19,546.3	11,997.0	10,327.5	4,365.6
Bonds and debentures	484,705.8	164,098.6	295,191.7	58,576.8	76,360.7	122,206.2	52,855.8	11,797.4
Mortgage covered bonds	662,177.0	994,071.3	341,674.0	87,380.6	111,030.6	101,392.2	76,429.9	52,611.3
Territorial covered bonds	544,780.9	595,599.6	86,758.6	16,897.7	41,879.4	23,688.5	9,958.1	4,490.5
Backed securities	5,462,806.2	1,136,966.1	538,064.8	112,374.1	156,164.4	90,902.0	54,601.2	24,910.5
Preference shares	6,065.0	28,781.3	26,256.0	97.5	26.8	29.6	18.5	14.2
Matador bonds	116.3	443.2	96.7	5.3	4.6	0.5	14.2	1.2
Government bonds	–	–	156.1	81.8	60.4	61.8	72.9	28.4
Letras del Tesoro	–	–	11.6	3.4	4.2	5.5	7.5	3.5
Long Government bonds	–	–	144.4	78.4	56.1	56.2	65.4	24.9
BY TYPE OF TRANSACTION								
Total	7,388,185.7	3,119,755.1	1,400,757.6	296,729.3	405,073.2	350,277.6	204,278.0	98,219.0
Outright	343,099.6	428,838.0	290,633.0	66,253.1	76,348.3	111,059.5	99,239.3	64,602.8
Repos	198,514.7	108,771.9	69,063.3	16,606.1	8,928.1	7,613.5	6,114.3	4,560.9
Sell-buybacks/Buy-sellbacks	6,846,571.5	2,582,145.2	1,041,061.3	213,870.1	319,796.8	231,604.6	98,924.4	29,055.3

1 Available data: November 2014.

AIAF. Third-party trading. By purchaser sector

TABLE 1.12

Nominal amount in million euro	2011	2012	2013	2013 IV	2014 I	II	III	IV[1]
Total	487,543.3	454,385.7	275,939.0	63,644.7	69,066.4	65,260.9	55,628.8	38,790.7
Non-financial companies	131,765.2	77,452.1	45,351.7	9,450.5	9,030.1	8,986.7	6,253.9	3,483.9
Financial institutions	256,975.8	282,733.9	163,671.3	38,589.3	34,851.9	30,051.6	29,701.8	20,616.6
Credit institutions	139,538.2	207,555.6	97,674.3	18,444.9	23,260.3	19,778.9	22,000.3	10,878.5
IICs[2], insurance and pension funds	103,899.9	69,568.7	59,371.8	18,938.3	9,977.0	8,252.4	6,802.1	7,362.7
Other financial institutions	13,537.7	5,609.6	6,625.2	1,206.2	1,614.7	2,020.4	899.3	2,375.3
General government	2,602.7	5,448.2	2,438.8	452.1	982.5	1,333.6	586.3	1,073.3
Households and NPISHs[3]	10,230.3	11,517.9	8,598.4	1,164.8	1,046.4	747.4	415.1	285.3
Rest of the world	85,969.3	77,233.7	55,878.8	13,988.0	23,155.5	24,141.5	18,671.7	13,331.6

1 Available data: November 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 IV	2014 I	II	III	IV[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: November 2014.

Equity markets. Issuers, issues and outstanding balances

TABLE 1.14

	2011	2012	2013	2013 IV	2014 I	II	III	IV[1]
NO. OF ISSUERS								
Total	59	52	40	40	38	36	34	33
Private issuers	46	39	27	27	25	23	21	20
Non-financial companies	4	3	2	2	1	1	1	1
Financial institutions	42	36	25	25	24	22	20	19
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	197	195	189	183	174
Private issuers	133	122	89	89	84	79	76	71
Non-financial companies	6	3	2	2	1	1	1	1
Financial institutions	127	119	87	87	83	78	75	70
General government[2]	107	98	108	108	111	110	107	103
Regional governments	74	67	64	64	63	62	60	56
OUTSTANDING BALANCES[3] (million euro)								
Total	43,817.5	37,636.4	25,284.5	25,284.5	23,578.4	21,160.2	17,533.6	17,110.4
Private issuers	17,759.6	13,625.4	8,317.5	8,317.5	7,216.1	5,603.1	3,760.5	3,606.9
Non-financial companies	375.4	194.9	2.0	2.0	0.0	0.0	0.0	0.0
Financial institutions	17,384.2	13,430.6	8,315.5	8,315.5	7,216.0	5,603.0	3,760.4	3,606.9
General government[2]	26,057.8	24,010.9	16,967.0	16,967.0	16,362.4	15,557.1	13,773.2	13,503.5
Regional governments	24,014.4	22,145.0	15,716.3	15,716.3	15,066.5	14,285.0	12,496.3	12,227.2

1 Available data: November 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 IV	2014 I	II	III	IV[1]
Electronic market	386.1	1,198.3	1,592.6	378.5	761.3	78.6	5.0	11.7
Open outcry	4,942.5	3,746.6	3,388.3	1,258.2	512.2	142.2	25.1	922.6
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	1,249.5	508.0	140.0	24.5	922.6
Bilbao	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	56.6	338.7	190.9	8.7	4.2	2.2	0.6	0.0
Public book-entry debt	883.4	1,189.0	137.1	54.4	0.0	0.0	0.0	0.0
Regional governments debt	63,443.7	54,015.1	41,062.2	10,971.0	7,634.1	8,685.9	18,212.5	5,570.3

1 Available data: November 2014.

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

TABLE 1.16

Nominal amounts in million euro	2011	2012	2013	2013 IV	2014 I	II	III	IV[1]
Total	84,090.9	40,034.0	64,011.0	24,347.0	26,252.0	28,346.0	25,998.0	17,009.0
Outright	81,905.0	40,034.0	64,011.0	24,347.0	26,252.0	28,346.0	25,998.0	17,009.0
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: November 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 IV	2014 I	II	III	IV[1]
Debt products	18	45,240	13,667	1,360	1,282	409	1,356	759
Debt futures[2]	18	45,240	13,667	1,360	1,282	409	1,356	759
Ibex 35 products[3,4]	5,819,264	5,410,311	6,416,073	1,707,112	1,906,039	1,792,870	1,807,250	1,560,684
Ibex 35 plus futures	5,291,956	4,745,067	5,578,607	1,525,195	1,698,044	1,564,905	1,638,231	1,422,515
Ibex 35 mini futures	307,411	242,477	198,736	54,344	67,358	64,491	70,135	73,448
Ibex 35 dividend impact futures	3,154	2,162	3,520	2,714	5,638	1,920	11,817	1,900
Call mini options	86,096	225,704	308,084	85,780	88,798	98,102	59,376	38,989
Put mini options	133,801	194,902	327,126	39,079	46,201	63,453	27,692	23,832
Stock products[5]	55,082,944	55,753,236	35,884,393	11,717,195	10,519,859	5,847,529	5,106,522	2,996,170
Futures	24,758,956	21,220,876	14,927,659	4,536,618	4,536,363	3,547,198	2,302,945	655,668
Stock dividend futures	–	25,000	66,650	30,000	23,705	41,485	46,001	46,055
Call options	12,050,946	14,994,283	10,534,741	3,643,255	1,900,418	1,208,118	1,224,941	862,728
Put options	18,273,042	19,513,077	10,355,343	3,507,322	4,059,373	1,050,728	1,532,635	1,431,719
Pro-memoria: MEFF trading on Eurex								
Debt products[6]	267,713	161,376	167,827	40,667	49,145	45,558	28,097	26,899
Index products[7]	451,016	266,422	111,924	27,962	16,378	12,441	12,740	10,618

1 Available data: November 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

	2011	2012	2013	2013 IV	2014 I	II	III	IV[1]
WARRANTS[2]								
Premium amount (million euro)	5,544.6	3,834.3	3,621.2	984.2	881.4	1,431.7	583.2	435.2
On stocks	3,211.7	2,231.7	2,211.8	590.5	475.9	579.3	364.8	198.7
On indexes	1,786.8	1,273.5	1,122.6	288.2	335.1	826.3	183.6	198.8
Other underlyings[3]	546.0	329.1	286.8	105.5	70.4	26.1	34.9	37.7
Number of issues	9,237	7,073	8,347	2,244	1,921	2,820	1,919	1,375
Number of issuers	9	7	7	5	5	6	5	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: November 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

	2011	2012	2013	2013 IV	2014 I	II	III	IV[1]
WARRANTS								
Trading (million euro)	1,550.2	762.9	752.7	166.7	208.1	215.5	186.0	131.3
On Spanish stocks	654.2	349.0	379.4	98.3	118.2	110.3	72.4	53.0
On foreign stocks	97.8	87.6	86.3	18.6	16.9	14.9	9.5	6.9
On indexes	518.2	268.6	255.4	43.1	66.9	84.6	100.2	67.6
Other underlyings[2]	280.0	57.7	31.6	6.7	6.1	5.7	3.9	3.8
Number of issues[3]	8,328	7,419	7,299	2,966	3,173	3,141	2,854	2,486
Number of issuers[3]	10	10	8	8	8	8	7	7
CERTIFICATES								
Trading (million euro)	92.1	16.8	1.0	0.1	0.6	0.8	0.1	0.1
Number of issues[3]	13	4	2	1	2	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	1,043.3	2,696.6	1,894.9	2,476.1	1,858.4
Number of funds	75	74	72	72	72	70	70	70
Assets[4] (million euro)	327.2	274.7	382.0	382.0	404.9	435.4	446.0	n. a.

1 Available data: November 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

Number of contracts	2011	2012	2013	2013 IV	2014 I	II	III	IV[2]
On olive oil								
Extra-virgin olive oil futures[3]	63,173	78,566	88,605	13,269	9,999	10,832	15,030	3,103

1 Olive oil futures market.
2 Available data: November 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 IV	2014 I	II	III	IV[1]
BROKER-DEALERS								
Spanish firms	49	46	41	41	41	40	41	40
Branches	78	16	20	20	20	20	22	22
Agents	6,589	6,264	6,269	6,269	6,297	6,292	6,292	6,312
BROKERS								
Spanish firms	45	41	41	41	40	40	40	38
Branches	14	12	11	11	18	16	18	19
Agents	655	590	520	520	464	481	489	492
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	126	130	134	138	143
Branches	5	5	9	9	9	10	10	10
CREDIT INSTITUTIONS[2]								
Spanish firms	187	147	141	141	143	141	139	138

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

Investment services. Foreign firms

TABLE 2.2

	2011	2012	2013	2013 IV	2014 I	II	III	IV[1]
Total	2,817	2,992	3,135	3,135	3,150	3,174	3,162	3,138
Investment services firms	2,380	2,537	2,681	2,681	2,694	2,717	2,700	2,676
From EU member states	2,377	2,534	2,678	2,678	2,691	2,714	2,697	2,673
Branches	36	37	38	38	38	38	36	39
Free provision of services	2,341	2,497	2,640	2,640	2,653	2,676	2,661	2,634
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	455	454	454	456	457	462	462
From EU member states	429	445	444	444	447	448	453	453
Branches	55	55	52	52	53	53	54	55
Free provision of services	374	390	392	392	394	395	399	398
Subsidiaries of free provision of services institutions	0	0	0	0	0	0	0	0
From non-EU states	8	10	10	10	9	9	9	9
Branches	7	8	8	8	7	7	7	6
Free provision of services	1	2	2	2	2	2	2	3

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

Intermediation of spot transactions[1]

TABLE 2.3

Million euro	2011	2012	2013	2013 III	IV	2014 I	II	III
FIXED-INCOME								
Total	13,609,652.0	10,508,139.1	10,492,026.8	2,552,857.9	2,752,115.4	2,842,302.0	2,462,930.4	2,239,416.0
Broker-dealers	3,759,229.2	2,900,770.8	5,217,059.4	1,250,338.3	1,369,758.1	1,500,575.6	1,227,460.1	1,107,755.5
Spanish organised markets	436,875.9	556,756.0	2,597,608.6	618,834.2	693,929.8	715,449.1	573,262.8	526,040.3
Other Spanish markets	2,764,344.5	1,943,730.6	2,310,403.7	568,187.4	598,095.6	710,743.9	584,995.5	539,193.5
Foreign markets	558,008.8	400,284.2	309,047.1	63,316.7	77,732.7	74,382.6	69,201.8	42,521.7
Brokers	9,850,422.8	7,607,368.3	5,274,967.4	1,302,519.6	1,382,357.3	1,341,726.4	1,235,470.3	1,131,660.5
Spanish organised markets	2,931,505.5	2,521,310.9	69,066.6	11,980.2	26,945.1	30,851.4	23,638.3	21,585.0
Other Spanish markets	6,741,733.6	4,883,226.6	5,007,723.4	1,224,718.9	1,304,977.4	1,237,155.8	1,150,873.0	1,060,523.5
Foreign markets	177,183.7	202,830.8	198,177.4	65,820.5	50,434.8	73,719.2	60,959.0	49,552.0
EQUITY								
Total	977,126.1	736,602.3	692,872.0	160,370.6	206,856.8	211,344.9	225,722.2	215,751.6
Broker-dealers	952,388.7	692,058.6	650,094.9	149,470.0	191,524.2	202,296.1	211,503.8	199,921.7
Spanish organised markets	882,143.3	639,498.2	590,027.1	136,808.1	170,842.4	188,015.6	194,806.0	185,880.7
Other Spanish markets	3,418.3	1,806.3	2,585.4	555.7	814.1	642.6	755.8	627.9
Foreign markets	66,827.1	50,754.1	57,482.4	12,106.2	19,867.7	13,637.9	15,942.0	13,413.1
Brokers	24,737.4	44,543.7	42,777.1	10,900.6	15,332.6	9,048.8	14,218.4	15,829.9
Spanish organised markets	19,372.7	14,532.5	14,677.2	3,095.1	3,734.1	4,227.9	4,125.2	3,952.3
Other Spanish markets	508.5	6,695.5	9,140.4	2,764.7	4,158.1	1,359.7	2,730.7	3,720.0
Foreign markets	4,856.2	23,315.7	18,959.5	5,040.8	7,440.4	3,461.2	7,362.5	8,157.6

1 Period accumulated data. Quarterly.

Intermediation of derivative transactions[1,2]

TABLE 2.4

Million euro	2011	2012	2013	2013 III	IV	2014 I	II	III
Total	11,827,144.3	6,536,223.6	6,316,221.8	1,495,263.5	1,716,839.8	1,926,896.5	1,922,535.5	2,326,464.6
Broker-dealers	9,113,831.5	5,777,847.8	6,110,753.4	1,451,485.8	1,672,029.8	1,879,980.7	1,872,909.0	2,287,850.1
Spanish organised markets	3,005,801.7	1,819,388.6	2,410,367.9	537,497.8	723,628.7	790,796.4	758,339.0	1,329,782.1
Foreign organised markets	5,658,687.9	3,718,052.1	3,423,638.5	834,843.8	868,983.4	969,114.4	1,024,667.0	876,714.8
Non-organised markets	449,341.9	240,407.1	276,747.0	79,144.2	79,417.7	120,069.9	89,903.0	81,353.2
Brokers	2,713,312.8	758,375.8	205,468.4	43,777.7	44,810.0	46,915.8	49,626.5	38,614.5
Spanish organised markets	6,818.6	5,371.0	4,668.8	732.7	1,036.8	1,071.4	2,234.6	3,026.5
Foreign organised markets	2,451,637.6	566,337.3	29,584.9	9,357.0	3,587.0	3,514.2	8,605.3	10,869.2
Non-organised markets	254,856.6	186,667.5	171,214.7	33,688.0	40,186.2	42,330.2	38,786.6	24,718.8

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

				2013		2014		
	2011	2012	2013	III	IV	I	II	III
NUMBER OF PORTFOLIOS								
Total	13,409	10,985	11,380	11,907	11,380	12,584	13,286	13,893
Broker-dealers. Total	6,483	4,122	4,001	3,931	4,001	4,248	4,496	4,739
IIC[2]	89	68	59	66	59	58	60	62
Other[3]	6,394	4,054	3,942	3,865	3,942	4,190	4,436	4,677
Brokers. Total	3,637	3,680	3,699	4,385	3,699	4,447	4,697	4,935
IIC[2]	53	51	57	58	57	57	62	64
Other[3]	3,584	3,629	3,642	4,327	3,642	4,390	4,635	4,871
Portfolio management companies. Total	3,289	3,183	3,680	3,591	3,680	3,889	4,093	4,219
IIC[2]	5	5	12	5	12	12	12	13
Other[3]	3,284	3,178	3,668	3,586	3,668	3,877	4,081	4,206
ASSETS UNDER MANAGEMENT (thousand euro)								
Total	9,554,589	9,350,841	10,692,140	10,744,372	10,692,140	11,480,629	12,243,199	12,736,538
Broker-dealers. Total	4,166,167	3,578,436	4,171,331	4,018,413	4,171,331	4,476,143	4,788,421	4,951,046
IIC[2]	961,931	965,479	1,160,986	1,185,098	1,160,986	1,241,865	1,413,549	1,466,770
Other[3]	3,204,236	2,612,957	3,010,345	2,833,315	3,010,345	3,234,278	3,374,871	3,484,276
Brokers. Total	2,361,944	1,927,219	2,284,773	2,790,102	2,284,773	2,463,693	2,632,958	2,743,601
IIC[2]	863,856	417,981	610,839	568,414	610,839	656,435	778,850	820,023
Other[3]	1,498,088	1,509,238	1,673,934	2,221,688	1,673,934	1,807,259	1,854,107	1,923,579
Portfolio management companies. Total	3,026,478	3,845,186	4,236,036	3,935,857	4,236,036	4,540,793	4,821,820	5,041,891
IIC[2]	98,645	107,691	195,735	111,496	195,735	201,528	206,687	211,117
Other[3]	2,927,833	3,737,495	4,040,301	3,824,361	4,040,301	4,339,265	4,615,133	4,830,774

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

				2013		2014		
	2011	2012	2013	III	IV	I	II	III
NUMBER OF CONTRACTS								
Total	7,748	9,362	9,918	10,113	9,918	9,434	11,702	13,154
Broker-dealers. Total[2]	1,509	1,198	1,221	1,437	1,221	1,250	2,840	4,096
Retail clients	1,492	1,183	1,197	1,415	1,197	1,234	2,811	4,050
Professional clients	12	13	17	17	17	7	8	8
Brokers. Total[2]	4,855	6,445	6,961	6,933	6,961	6,495	7,151	7,328
Retail clients	4,736	6,019	6,674	6,658	6,674	6,213	6,880	7,062
Professional clients	102	406	264	251	264	259	248	243
Portfolio management companies. Total[2]	1,384	1,719	1,736	1,743	1,736	1,689	1,711	1,730
Retail clients	1,374	1,712	1,731	1,738	1,731	1,684	1,706	1,723
Professional clients	10	7	5	5	5	5	5	7
ASSETS ADVISED (thousand euro)								
Total	8,156,953	7,589,555	8,547,601	7,808,777	8,547,601	8,869,694	10,170,516	10,847,146
Broker-dealers. Total[2]	1,213,014	820,465	739,401	922,948	739,401	989,484	2,126,680	2,576,310
Retail clients	863,386	568,359	452,458	657,597	452,458	480,996	1,191,393	1,540,094
Professional clients	61,711	27,613	44,804	42,916	44,804	38,407	53,561	53,051
Brokers. Total[2]	2,963,397	5,598,708	6,828,313	5,884,830	6,828,313	6,919,775	7,242,376	7,342,505
Retail clients	1,875,867	3,590,416	3,897,689	4,026,339	3,897,689	4,808,503	5,226,643	5,388,616
Professional clients	1,018,647	1,899,566	1,908,486	1,743,956	1,908,486	1,921,458	1,822,436	1,748,396
Portfolio management companies. Total[2]	3,980,542	1,170,382	979,887	1,000,999	979,887	960,435	801,460	928,332
Retail clients	594,195	705,185	742,043	740,544	742,043	712,376	770,208	802,319
Professional clients	3,386,347	465,197	237,844	260,455	237,844	248,059	31,252	126,013

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	2014			
				IV	I	II	III	IV[2]
I. Interest income	91,542	56,161	67,333	67,333	7,821	25,055	59,668	62,796
II. Net commission	490,517	410,740	387,216	387,216	114,475	229,051	340,718	363,481
Commission revenues	776,641	589,027	565,787	565,787	161,023	323,269	481,400	525,974
Brokering	529,711	348,403	347,522	347,522	98,931	191,070	266,627	290,539
Placement and underwriting	7,446	6,869	4,824	4,824	5,703	7,390	18,953	20,752
Securities deposit and recording	21,060	19,775	17,987	17,987	5,098	10,442	15,896	17,796
Portfolio management	16,186	14,883	15,581	15,581	6,017	10,094	15,203	16,970
Design and advising	60,712	12,067	18,597	18,597	5,002	8,728	15,101	16,752
Stocks search and placement	485	50	8,659	8,659	53	3,956	4,347	4,352
Market credit transactions	8	8	22	22	0	0	0	0
IICs[3] marketing	59,588	45,050	51,766	51,766	14,517	30,549	46,442	51,674
Other	81,446	141,924	100,829	100,829	25,702	61,039	98,833	107,139
Commission expenses	286,124	178,287	178,571	178,571	46,548	94,218	140,682	162,493
III. Financial investment income	271,956	9,403	256,110	256,110	2,765	36,828	135,612	139,840
IV. Net exchange differences and other operating products and expenses	-194,355	-28,522	-138,467	-138,467	52,098	49,887	-29,544	-24,866
V. Gross income	659,659	447,782	572,192	572,192	177,159	340,821	506,454	541,251
VI. Operating income	207,379	35,304	185,040	185,040	84,355	150,453	220,265	228,373
VII. Earnings from continuous activities	148,553	-12,057	140,805	140,805	66,720	121,661	175,824	180,802
VIII. Net earnings of the period	148,553	-12,057	140,805	140,805	66,720	121,661	175,824	180,802

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: October 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 III	IV	2014 I	II	III
TOTAL								
Total	158,070	21,318	192,753	126,456	192,753	63,697	112,779	165,322
Money market assets and public debt	16,458	18,936	17,163	14,421	17,163	4,410	6,993	9,618
Other fixed-income securities	79,041	16	55,096	50,933	55,096	11,962	17,253	24,840
Domestic portfolio	67,052	-14,813	42,328	42,557	42,328	7,588	9,786	16,820
Foreign portfolio	11,989	14,829	12,768	8,376	12,768	4,374	7,467	8,020
Equities	-406,742	356,595	17,869	-145,147	17,869	137,295	534,591	635,288
Domestic portfolio	10,381	8,003	44,517	39,373	44,517	30,193	68,998	106,074
Foreign portfolio	-417,123	348,592	-26,648	-184,520	-26,648	107,102	465,593	529,214
Derivatives	669,747	-308,833	207,347	344,568	207,347	-145,356	-502,994	-486,606
Repurchase agreements	785	-3,871	1,378	-520	1,378	168	298	336
Market credit transactions	0	0	0	48	0	0	0	1
Deposits and other transactions with financial Intermediaries	16,668	5,383	3,405	2,610	3,405	475	-47	279
Net exchange differences	-198,307	-37,363	-149,034	-163,785	-149,034	49,363	43,447	-39,367
Other operating products and expenses	3,952	8,841	10,565	7,970	10,565	2,735	6,441	9,822
Other transactions	-23,532	-18,386	28,964	15,358	28,964	2,645	6,797	11,111
INTEREST INCOME								
Total	91,541	56,160	67,333	46,460	67,333	7,821	25,055	59,670
Money market assets and public debt	2,327	4,055	4,356	4,796	4,356	731	1,265	1,811
Other fixed-income securities	20,241	17,089	4,572	3,239	4,572	1,268	2,275	3,017
Domestic portfolio	17,903	15,180	3,149	2,264	3,149	971	1,593	2,024
Foreign portfolio	2,338	1,909	1,423	975	1,423	297	682	993
Equities	54,249	35,220	40,163	30,343	40,163	4,954	18,630	50,485
Domestic portfolio	36,991	19,064	14,672	8,739	14,672	16	6,737	17,377
Foreign portfolio	17,258	16,156	25,491	21,604	25,491	4,938	11,893	33,108
Repurchase agreements	785	-3,871	1,378	-520	1,378	168	298	336
Market credit transactions	0	0	0	48	0	0	0	1
Deposits and other transactions with financial Intermediaries	16,668	5,383	3,405	2,610	3,405	475	-47	279
Other transactions	-2,729	-1,716	13,459	5,944	13,459	225	2,634	3,741
FINANCIAL INVEST INCOME								
Total	271,956	9,404	256,109	229,454	256,109	2,765	36,828	135,611
Money market assets and public debt	14,131	14,881	12,807	9,625	12,807	3,679	5,728	7,807
Other fixed-income securities	58,800	-17,073	50,524	47,694	50,524	10,694	14,978	21,823
Domestic portfolio	49,149	-29,993	39,179	40,293	39,179	6,617	8,193	14,796
Foreign portfolio	9,651	12,920	11,345	7,401	11,345	4,077	6,785	7,027
Equities	-460,991	321,375	-22,294	-175,490	-22,294	132,341	515,961	584,803
Domestic portfolio	-26,610	-11,061	29,845	30,634	29,845	30,177	62,261	88,697
Foreign portfolio	-434,381	332,436	-52,139	-206,124	-52,139	102,164	453,700	496,106
Derivatives	669,747	-308,833	207,347	344,568	207,347	-145,356	-502,994	-486,606
Other transactions	-9,731	-946	7,725	3,057	7,725	1,407	3,155	7,784
EXCHANGE DIFFERENCES AND OTHER ITEMS								
Total	-205,427	-44,246	-130,689	-149,458	-130,689	53,111	50,896	-29,959
Net exchange differences	-198,307	-37,363	-149,034	-163,785	-149,034	49,363	43,447	-39,367
Other operating products and expenses	3,952	8,841	10,565	7,970	10,565	2,735	6,441	9,822
Other transactions	-11,072	-15,724	7,780	6,357	7,780	1,013	1,008	-414

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

Thousand euro[1]	2011	2012	2013	2013 IV	2014 I	II	III	IV[2]
I. Interest income	2,481	1,912	1,799	1,799	284	615	844	958
II. Net commission	97,886	93,246	110,422	110,422	30,650	63,355	90,974	104,099
Commission revenues	112,351	108,198	130,738	130,738	36,017	75,553	109,352	125,738
Brokering	36,354	38,112	40,196	40,196	14,456	25,577	33,728	43,253
Placement and underwriting	2,870	3,128	4,715	4,715	634	3,851	6,366	6,871
Securities deposit and recording	441	576	505	505	101	311	474	488
Portfolio management	12,352	14,476	16,267	16,267	3,624	6,995	9,650	10,512
Design and advising	5,349	3,123	5,894	5,894	1,377	2,803	4,183	4,730
Stocks search and placement	61	88	55	55	0	0	0	0
Market credit transactions	42	30	11	11	0	0	0	0
IICs[3] marketing	21,381	25,949	35,823	35,823	9,705	21,667	33,200	37,198
Other	33,500	22,715	27,272	27,272	6,120	14,350	21,751	22,686
Commission expenses	14,465	14,952	20,316	20,316	5,366	12,198	18,378	21,639
III. Financial investment income	622	1,255	5	5	203	565	674	1,632
IV. Net exchange differences and other operating products and expenses	-1,539	-1,459	-1,633	-1,633	-261	-664	-691	694
V. Gross income	99,450	94,954	110,593	110,593	30,874	63,871	91,801	107,383
VI. Operating income	7,758	4,598	18,422	18,422	6,871	14,609	19,689	24,251
VII. Earnings from continuous activities	5,489	3,583	14,321	14,321	6,490	13,799	18,281	22,672
VIII. Net earnings of the period	5,489	3,583	14,321	14,321	6,490	13,799	18,281	22,672

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: October 2014.
3 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

Aggregated income statement. Portfolio management companies

TABLE 2.10

Thousand euro[1]	2011	2012	2013	2013 IV	2014 I	II	III	IV[2]
I. Interest income	682	733	667	667	174	125	443	495
II. Net commission	7,988	7,879	9,362	9,362	2,202	4,635	7,182	8,051
Commission revenues	18,477	17,887	18,603	18,603	2,753	5,861	9,553	10,904
Portfolio management	16,582	16,307	17,028	17,028	2,167	5,035	8,239	9,436
Design and advising	1,894	1,579	1,575	1,575	458	514	683	737
IICs[3] marketing	0	0	0	0	0	0	0	0
Other	0	0	0	0	128	312	630	731
Commission expenses	10,489	10,008	9,241	9,241	551	1,226	2,371	2,853
III. Financial investment income	186	4	9	9	23	46	38	28
IV. Net exchange differences and other operating products and expenses	-11	-1	-32	-32	-48	57	-238	-242
V. Gross income	8,845	8,615	10,006	10,006	2,351	4,863	7,425	8,332
VI. Operating income	1,526	1,406	3,554	3,554	1,088	1,930	3,328	3,775
VII. Earnings from continuous activities	1,042	953	2,472	2,472	770	1,380	2,367	2,648
VIII. Net earnings of the period	1,042	953	2,472	2,472	770	1,380	2,367	2,648

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: October 2014.
3 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

Capital adequacy and capital ratio

TABLE 2.11

	2011	2012	2013	2013		2014[1]		
				III	IV	I[2]	II[2]	III[2]
TOTAL								
Total capital ratio[3]	–	–	–	–	–	38.66	40.59	40.94
Own funds surplus (thousand euro)	1,219,553	1,085,783	1,033,669	1,059,449	1,033,669	1,058,049	1,112,076	1,099,960
Surplus (%)[4]	321.37	300.76	322.58	315.41	322.58	383.20	407.36	411.73
Number of companies according to its surplus percentage								
≤100%[5]	36	37	34	32	34	17	15	21
>100-≤300%	23	24	22	28	22	32	31	28
>300-≤500%	19	17	17	19	17	12	14	14
>500%	22	15	14	13	14	25	25	23
BROKER-DEALERS								
Total capital ratio[3]	–	–	–	–	–	39.20	41.35	41.63
Own funds surplus (thousand euro)	1,134,406	1,017,597	960,624	977,300	960,624	961,362	1,015,707	1,016,996
Surplus (%)[4]	345.52	329.03	367.43	346.46	367.43	390.02	416.91	420.43
Number of companies according to its surplus percentage								
≤100%[5]	12	7	9	10	9	5	4	2
>100-≤300%	10	17	11	14	11	15	14	16
>300-≤500%	13	12	13	13	13	4	5	7
>500%	14	10	8	8	8	17	17	16
BROKERS								
Total capital ratio[3]	–	–	–	–	–	26.76	26.55	24.87
Own funds surplus (thousand euro)	68,007	53,531	62,199	66,126	62,199	65,385	64,056	49,495
Surplus (%)[4]	189.22	161.23	164.46	175.77	164.46	234.50	231.87	210.87
Number of companies according to its surplus percentage								
≤100%[5]	21	27	22	20	22	12	11	19
>100-≤300%	12	6	10	12	10	15	15	10
>300-≤500%	5	4	3	5	3	8	9	7
>500%	7	4	6	5	6	5	5	4
PORTFOLIO MANAGEMENT COMPANIES								
Total capital ratio[3]	–	–	–	–	–	152.19	156.03	157.61
Own funds surplus (thousand euro)	17,140	14,655	10,846	16,023	10,846	31,301	32,314	33,469
Surplus (%)[4]	112.61	79.01	51.21	98.92	51.21	1,802.32	1,850.39	1,870.13
Number of companies according to its surplus percentage								
≤100%[5]	3	3	3	2	3	0	0	0
>100-≤300%	1	1	1	2	1	2	2	2
>300-≤500%	1	1	1	1	1	0	0	0
>500%	1	1	0	0	0	3	3	3

1 On January 1st 2014 entered into force the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, 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.
5 Includes registered companies which have not sent information.

Return on equity (ROE) before taxes[1]

TABLE 2.12

	2011	2012	2013	2013 III	IV	2014 I	II	III
TOTAL								
Average (%)[2]	13.22	3.19	16.49	13.12	16.49	25.56	23.82	23.54
Number of companies according to its annualized return								
Losses	32	31	13	22	13	15	13	13
0-≤15%	44	33	37	41	37	32	29	31
>15-≤45%	14	24	22	21	22	23	26	27
>45-≤75%	5	3	9	4	9	8	9	7
>75%	5	2	6	4	6	8	8	8
BROKER-DEALERS								
Average (%)[2]	13.79	2.97	16.39	12.98	16.39	25.96	23.73	23.87
Number of companies according to its annualized return								
Losses	13	14	5	12	5	5	2	3
0-≤15%	24	18	15	17	15	17	16	18
>15-≤45%	7	11	16	13	16	11	16	13
>45-≤75%	2	2	4	1	4	5	4	4
>75%	3	1	1	2	1	3	2	3
BROKERS								
Average (%)[2]	7.46	6.25	19.34	15.92	19.34	24.77	29.45	23.06
Number of companies according to its annualized return								
Losses	18	15	8	9	8	10	11	10
0-≤15%	16	11	18	21	18	12	10	11
>15-≤45%	6	13	5	7	5	10	8	11
>45-≤75%	3	1	5	3	5	3	5	3
>75%	2	1	5	2	5	5	6	5
PORTFOLIO MANAGEMENT COMPANIES								
Average (%)[2]	4.70	6.59	11.41	9.25	11.41	12.55	11.16	12.83
Number of companies according to its annualized return								
Losses	1	2	0	1	0	0	0	0
0-≤15%	4	4	4	3	4	3	3	2
>15-≤45%	1	0	1	1	1	2	2	3
>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:

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

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	II	2014 I
ASSETS ADVISED[1]							
Total	16,033,108	14,776,498	17,630,081	14,776,498	15,442,297	17,630,081	14,462,415
Retail clients	2,181,943	3,267,079	4,991,653	3,267,079	3,975,400	4,991,653	5,488,399
Professional	3,151,565	3,594,287	3,947,782	3,594,287	3,476,305	3,947,782	4,471,564
Other	10,699,600	7,915,132	8,690,646	7,915,132	7,990,593	8,690,646	4,502,452
COMMISSION INCOME[2]							
Total	31,053	26,177	33,273	26,177	14,700	33,273	21,801
Commission revenues	30,844	26,065	33,066	26,065	14,676	33,066	21,359
Other income	209	112	206	112	25	206	442
EQUITY							
Total	12,320	13,402	21,498	13,402	15,119	21,498	23,068
Share capital	3,895	4,365	5,156	4,365	4,820	5,156	5,390
Reserves and retained earnings	950	4,798	9,453	4,798	7,251	9,453	9,902
Income for the year[2]	7,474	4,239	6,890	4,239	3,048	6,890	7,775

1 Data at the end of each period. Half-yearly.
2 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	IV	I	II	III	IV[1]
Total financial IICs	5,460	5,246	5,129	5,129	5,156	5,176	5,208	5,220
Mutual funds	2,341	2,205	2,043	2,043	2,049	2,012	1,973	1,952
Investment companies	3,056	2,981	3,035	3,035	3,058	3,114	3,182	3,214
Funds of hedge funds	27	24	22	22	21	20	20	18
Hedge funds	36	36	29	29	28	30	33	36
Total real estate IICs	14	14	16	16	16	15	15	13
Real estate investment funds	6	6	6	6	6	6	6	5
Real estate investment companies	8	8	10	10	10	9	9	8
Total foreign IICs marketed in Spain	739	754	780	780	796	802	810	813
Foreign funds marketed in Spain	426	421	408	408	414	416	415	412
Foreign companies marketed in Spain	313	333	372	372	382	386	395	401
Management companies	114	105	96	96	96	97	96	96
IIC depositories	97	84	77	77	76	74	75	71

1 Available data: November 2014.

Number of IICs investors and shareholders

TABLE 3.2

				2013	2014			
	2011	2012	2013	IV	I	II	III[1]	IV[2]
Total financial IICs	5,249,813	4,815,628	5,463,820	5,463,820	5,831,525	6,241,005	6,572,632	6,657,763
Mutual funds	4,835,193	4,410,763	5,050,556	5,050,556	5,409,951	5,813,853	6,134,260	6,217,687
Investment companies	414,620	404,865	413,264	413,264	421,574	427,152	438,372	440,076
Total real estate IICs	30,678	26,155	6,773	6,773	5,849	5,142	5,139	5,118
Real estate investment funds	29,735	25,218	5,750	5,750	4,798	4,090	4,093	4,072
Real estate investment companies	943	937	1,023	1,023	1,051	1,052	1,046	1,046
Total foreign IICs marketed in Spain[3]	761,380	819,485	1,067,708	1,067,708	1,037,958	1,263,915	1,233,507	–
Foreign funds marketed in Spain	177,832	163,805	204,067	204,067	194,846	228,201	219,098	–
Foreign companies marketed in Spain	583,548	655,680	863,641	863,641	843,112	1,035,714	1,014,409	–

1 Provisional data for foreign IICs.
2 Available data: October 2014.
3 Exchange traded funds (ETFs) data is not included.

IICs total net assets

TABLE 3.3

				2013	2014			
Million euro	2011	2012	2013	IV	I	II	III[1]	IV[2]
Total financial IICs	155,982.6	147,722.2	184,300.9	184,300.9	198,351.8	212,946.1	223,212.3	224,778.1
Mutual funds[3]	132,368.6	124,040.4	156,680.1	156,680.1	169,513.6	182,735.8	192,199.6	193,785.4
Investment companies	23,614.0	23,681.8	27,620.8	27,620.8	28,838.2	30,210.3	31,012.7	30,992.7
Total real estate IICs	4,807.1	4,485.5	4,536.2	4,536.2	4,464.0	4,354.7	4,317.5	3,958.1
Real estate investment funds	4,494.6	4,201.5	3,682.6	3,682.6	3,614.7	3,525.8	3,495.1	3,137.9
Real estate investment companies	312.5	284.1	853.7	853.7	849.3	828.9	822.4	820.2
Total foreign IICs marketed in Spain[4]	29,969.5	38,075.3	54,727.2	54,727.2	60,859.6	68,004.5	72,631.0	–
Foreign funds marketed in Spain	6,382.9	6,271.5	8,523.2	8,523.2	9,151.9	9,613.9	10,344.7	–
Foreign companies marketed in Spain	23,586.6	31,803.8	46,204.0	46,204.0	51,707.6	58,390.6	62,286.3	–

1 Provisional data for foreign IICs.
2 Available data: October 2014.
3 For September 2014, mutual funds investments in financial IICs reached 5.2 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	III	IV	I	II	III[2]
Asset	132,368.6	124,040.4	156,680.1	145,168.5	156,680.1	169,513.6	182,735.8	192,199.6
Portfolio investment	126,370.0	118,446.5	149,343.3	137,908.9	149,343.3	161,847.5	174,368.0	181,660.6
Domestic securities	90,394.4	82,929.6	108,312.7	100,290.1	108,312.7	113,479.1	118,229.2	118,676.1
Debt securities	72,076.1	65,999.1	79,480.4	74,392.1	79,480.4	82,222.1	84,391.7	83,033.9
Shares	3,087.0	3,140.8	5,367.4	4,328.2	5,367.4	6,479.8	7,685.0	8,287.4
Investment collective schemes	6,038.5	3,170.7	4,498.1	4,066.6	4,498.1	4,973.1	5,432.6	5,580.8
Deposits in Credit institutions	8,961.2	10,333.3	18,443.7	17,078.0	18,443.7	19,264.4	20,102.2	21,150.6
Derivatives	231.5	285.7	523.0	425.1	523.0	523.3	602.4	609.3
Other	0.0	0.0	0.0	0.0	0.0	16.3	15.2	14.1
Foreign securities	35,968.1	35,512.7	41,029.5	37,616.5	41,029.5	48,367.5	56,138.0	62,983.2
Debt securities	22,713.5	20,493.9	20,312.8	19,303.0	20,312.8	24,821.9	28,967.5	33,079.9
Shares	7,037.3	7,668.6	11,034.2	9,531.3	11,034.2	12,343.9	13,379.4	13,201.6
Investment collective schemes	6,061.6	7,112.3	9,286.0	8,461.8	9,286.0	10,747.8	13,266.4	16,032.9
Deposits in Credit institutions	23.0	45.8	45.6	36.2	45.6	37.6	37.9	238.8
Derivatives	131.6	191.6	350.9	284.0	350.9	410.9	481.3	424.4
Other	1.1	0.6	0.0	0.0	0.0	5.5	5.5	5.6
Doubtful assets and matured investment	7.5	4.2	1.2	2.4	1.2	0.9	0.8	1.3
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	7,034.6	7,062.3	7,651.2	8,485.2	10,342.1
Net balance (Debtors - Creditors)	161.1	219.2	274.4	225.0	274.4	14.9	-117.3	196.8

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	III	IV	I	II	III[1]
Asset	23,614.0	23,681.8	27,620.8	26,103.4	27,620.8	28,838.2	30,210.3	31,012.7
Portfolio investment	22,521.9	22,512.4	26,105.6	24,596.6	26,105.6	27,223.3	28,425.9	28,549.7
Domestic securities	12,385.3	11,568.0	12,118.9	12,370.8	12,118.9	12,081.9	12,086.1	11,564.1
Debt securities	7,460.8	6,021.4	6,304.3	6,342.6	6,304.3	6,253.8	5,964.2	5,286.4
Shares	2,508.5	2,271.7	3,005.5	2,696.3	3,005.5	3,184.6	3,372.5	3,457.5
Investment collective schemes	667.4	701.0	1,134.9	1,031.8	1,134.9	1,317.5	1,462.4	1,486.0
Deposits in Credit institutions	1,721.7	2,531.9	1,645.4	2,258.6	1,645.4	1,298.4	1,256.8	1,306.6
Derivatives	-5.2	7.7	1.4	9.9	1.4	-1.8	-1.5	-3.3
Other	32.2	34.3	27.4	31.6	27.4	29.3	31.8	30.9
Foreign securities	10,131.1	10,940.2	13,985.1	12,223.4	13,985.1	15,137.9	16,337.0	16,982.7
Debt securities	3,070.6	2,489.2	2,613.7	2,154.8	2,613.7	2,963.3	3,352.8	3,568.2
Shares	3,384.3	3,587.8	5,085.5	4,372.5	5,085.5	5,476.2	5,822.3	6,004.4
Investment collective schemes	3,516.3	4,700.2	6,119.8	5,536.6	6,119.8	6,559.8	7,026.6	7,285.8
Deposits in Credit institutions	10.8	14.0	5.5	8.6	5.5	6.3	4.7	0.8
Derivatives	145.1	147.1	152.5	144.7	152.5	124.2	122.4	115.7
Other	3.9	1.8	8.1	6.2	8.1	8.1	8.2	7.8
Doubtful assets and matured investment	5.5	4.3	1.5	2.4	1.5	3.5	2.7	2.9
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	1,300.3	1,302.0	1,408.3	1,605.4	2,153.9
Net balance (Debtors - Creditors)	237.4	209.6	213.1	206.4	213.1	206.5	178.9	309.0

1 Provisional data.

Financial mutual funds: Number, investors and total net assets by category[1]

TABLE 3.6

	2011	2012	2013	2013 IV	2014 I	II	III	IV[2]
NO. OF FUNDS								
Total financial mutual funds	2,310	2,185	2,045	2,045	2,037	2,023	1,959	1,971
Fixed-income[3]	508	454	384	384	374	375	367	366
Mixed fixed-income[4]	140	125	122	122	119	119	117	120
Mixed equity[5]	128	117	128	128	127	126	125	127
Euro equity	148	127	108	108	103	104	103	104
Foreign equity	220	211	193	193	190	190	186	187
Guaranteed fixed-income	351	398	374	374	355	336	303	297
Guaranteed equity[6]	420	361	308	308	307	297	275	278
Global funds	203	192	162	162	160	163	165	168
Passive management	59	85	169	169	205	217	222	225
Absolute return	133	115	97	97	97	96	96	99
INVESTORS								
Total financial mutual funds	4,835,193	4,410,771	5,050,719	5,050,719	5,410,205	5,814,175	6,134,711	6,218,102
Fixed-income[3]	1,384,946	1,261,634	1,508,009	1,508,009	1,612,002	1,712,748	1,818,308	1,861,032
Mixed fixed-income[4]	206,938	188,574	240,676	240,676	314,879	425,424	506,220	542,509
Mixed equity[5]	145,150	138,096	182,223	182,223	211,810	252,255	313,796	329,842
Euro equity	237,815	220,450	293,193	293,193	323,474	347,335	384,252	380,230
Foreign equity	448,539	398,664	457,606	457,606	531,270	601,531	651,495	666,235
Guaranteed fixed-income	1,042,658	1,075,852	1,002,458	1,002,458	871,622	796,983	744,545	712,531
Guaranteed equity[6]	912,298	727,880	608,051	608,051	613,296	602,530	577,616	571,155
Global funds	127,336	101,321	128,741	128,741	146,223	168,796	195,290	202,504
Passive management	100,416	125,003	441,705	441,705	575,262	673,166	692,827	692,420
Absolute return	229,097	173,297	188,057	188,057	210,367	233,407	250,362	259,644
TOTAL NET ASSETS (million euro)								
Total financial mutual funds	132,368.6	124,040.4	156,680.1	156,680.1	169,513.6	182,735.8	192,199.6	193,785.4
Fixed-income[3]	46,945.5	40,664.6	55,058.9	55,058.9	59,381.8	62,740.7	66,841.2	68,736.7
Mixed fixed-income[4]	5,253.6	5,500.9	8,138.0	8,138.0	10,600.2	15,666.0	19,917.0	21,448.9
Mixed equity[5]	2,906.1	3,179.9	6,312.4	6,312.4	7,648.6	9,242.9	11,668.9	12,162.3
Euro equity	4,829.2	5,270.2	8,632.8	8,632.8	7,753.1	8,601.7	8,693.6	8,479.5
Foreign equity	6,281.2	6,615.0	8,849.0	8,849.0	11,693.7	12,426.8	12,151.9	11,687.6
Guaranteed fixed-income	35,058.0	36,445.0	31,481.2	31,481.2	27,529.5	24,920.1	23,122.1	21,899.1
Guaranteed equity[6]	18,014.5	14,413.2	12,503.8	12,503.8	12,810.3	12,940.7	12,497.2	12,277.2
Global funds	5,104.7	4,358.6	4,528.1	4,528.1	5,007.9	5,650.3	6,255.6	6,450.3
Passive management	1,986.2	2,991.2	16,515.9	16,515.9	21,847.0	24,898.6	24,971.5	24,489.2
Absolute return	5,989.7	4,601.9	4,659.9	4,659.9	5,241.5	5,648.0	6,080.4	6,154.6

1 Sub-funds which have sent reports to the CNMV, excluding those in process of dissolution or liquidation.
2 Available data: October 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 IV	2014 I	II	III	IV[1]
INVESTORS								
Total financial mutual funds	4,835,193	4,410,771	5,050,719	5,050,719	5,410,205	5,814,175	6,134,711	6,218,102
Individuals	4,706,193	4,293,071	4,906,380	4,906,380	5,254,889	5,649,064	5,964,341	6,045,176
Residents	4,645,384	4,237,534	4,848,184	4,848,184	5,194,854	5,587,276	5,900,929	5,981,034
Non-residents	60,809	55,537	58,196	58,196	60,035	61,788	63,412	64,142
Legal entities	129,000	117,700	144,339	144,339	155,316	165,111	170,370	172,926
Credit Institutions	490	473	521	521	589	590	608	620
Other resident Institutions	127,765	116,589	143,083	143,083	153,950	163,695	168,950	171,494
Non-resident Institutions	745	638	735	735	777	826	812	812
TOTAL NET ASSETS (million euro)								
Total financial mutual funds	132,368.6	124,040.4	156,680.1	156,680.1	169,513.6	182,735.8	192,199.6	193,785.4
Individuals	106,627.6	101,963.8	125,957.2	125,957.2	135,612.9	145,852.7	153,655.2	154,778.6
Residents	105,088.0	100,515.7	124,175.3	124,175.3	133,674.6	143,752.0	151,456.3	152,545.8
Non-residents	1,539.6	1,448.0	1,781.9	1,781.9	1,938.3	2,100.7	2,198.9	2,232.8
Legal entities	25,741.1	22,076.6	30,722.9	30,722.9	33,900.7	36,883.2	38,544.3	39,006.7
Credit Institutions	1,446.7	1,075.4	547.6	547.6	519.0	524.5	528.3	577.1
Other resident Institutions	23,880.7	20,657.1	29,743.3	29,743.3	32,922.7	35,871.5	37,486.3	37,901.8
Non-resident Institutions	413.7	344.1	431.9	431.9	459.0	487.1	529.8	527.8

1 Available data: October 2014.

Subscriptions and redemptions of financial mutual funds by category[1]

TABLE 3.8

Million euro	2011	2012	2013	2013 III	IV	2014 I	II	III
SUBSCRIPTIONS								
Total financial mutual funds	58,145.0	51,006.7	91,115.7	19,197.3	29,650.2	34,856.3	32,927.4	31,564.2
Fixed-income	27,206.2	32,924.2	50,154.7	10,626.0	14,459.2	16,218.9	15,222.9	15,127.6
Mixed fixed-income	1,332.4	1,440.2	4,569.8	766.6	2,009.3	3,126.7	5,853.9	5,919.4
Mixed equity	815.7	590.0	3,021.8	656.0	1,473.2	1,615.8	1,973.9	2,856.4
Euro equity	2,085.0	1,257.5	4,082.8	793.8	1,722.5	1,921.3	1,665.8	1,536.4
Foreign equity	3,835.1	1,693.8	3,697.4	826.5	1,187.7	1,425.9	1,323.2	1,325.8
Guaranteed fixed-income	13,965.7	7,976.3	5,964.0	908.8	335.4	287.2	125.2	141.2
Guaranteed equity	2,570.7	1,420.7	1,937.5	524.5	441.0	1,141.2	966.6	697.3
Global funds	3,261.6	1,270.9	2,175.2	439.0	738.7	766.5	836.4	939.5
Passive management	924.7	1,402.2	13,627.5	3,274.0	6,693.8	7,394.1	4,087.3	2,083.0
Absolute return	2,147.7	1,031.0	1,885.0	382.0	589.5	958.7	872.3	937.7
REDEMPTIONS								
Total financial mutual funds	68,983.6	63,744.4	66,982.7	13,330.5	20,845.9	24,786.4	22,161.4	22,735.9
Fixed-income	37,633.9	38,767.8	36,371.6	7,187.6	10,072.8	12,585.6	12,265.9	11,449.0
Mixed fixed-income	3,258.1	2,215.4	2,510.5	572.2	867.0	803.2	952.2	1,815.7
Mixed equity	1,136.2	973.1	1,139.9	236.2	441.0	407.0	534.8	506.7
Euro equity	1,933.0	1,421.2	2,352.5	466.1	696.7	966.3	882.9	1,075.8
Foreign equity	4,652.7	2,114.4	2,797.2	629.2	757.7	1,003.1	946.7	1,471.4
Guaranteed fixed-income	6,737.4	8,829.3	10,433.2	1,864.9	4,041.7	4,050.6	2,787.9	1,848.7
Guaranteed equity	5,632.3	4,944.2	4,007.7	836.3	784.0	1,164.9	1,010.0	1,263.3
Global funds	2,316.3	1,278.4	1,327.8	260.7	450.0	352.8	301.9	362.9
Passive management	1,199.2	830.1	4,089.3	847.5	2,175.2	3,036.8	2,002.4	2,426.8
Absolute return	4,484.7	2,370.4	1,952.8	429.8	559.6	416.0	476.7	515.5

1 Estimated data.

Financial mutual funds asset change by category: Net subscriptions/redemptions and return on assets

TABLE 3.9

				2013		2014		
Million euro	2011	2012	2013	III	IV	I	II	III
NET SUBSCRIPTIONS/REDEMPTIONS								
Total financial mutual funds	-10,853.1	-14,597.3	24,086.2	5,847.4	8,808.9	10,082.0	10,766.6	8,666.6
Fixed-income	-10,423.6	-7,739.7	13,405.0	3,329.4	4,411.2	3,831.2	2,955.3	3,746.7
Mixed fixed-income	-1,980.4	-18.8	2,369.7	132.6	1,149.4	2,319.5	4,897.1	4,123.4
Mixed equity	-375.5	35.8	2,673.3	668.0	1,340.6	1,216.3	1,441.5	2,350.5
Euro equity	142.0	-115.4	1,733.5	328.0	1,025.9	-1,220.2	607.3	288.8
Foreign equity	-796.0	-425.3	865.9	175.4	434.9	2,605.7	389.7	-148.1
Guaranteed fixed-income	7,809.3	-338.8	-6,717.5	-2,334.0	-4,318.7	-4,399.8	-2,796.8	-1,889.9
Guaranteed equity	-4,053.9	-4,225.9	-2,689.1	-593.3	-491.2	149.1	-72.9	-491.0
Global funds	972.2	-1,021.0	-176.7	42.0	40.2	400.7	554.9	563.3
Passive management	60.8	823.8	12,675.2	4,150.7	5,196.4	4,636.7	2,423.8	-299.1
Absolute return	-2,207.9	-1,571.9	-53.2	-51.4	20.0	542.8	366.7	422.0
RETURN ON ASSETS								
Total financial mutual funds	-673.3	6,289.3	8,566.5	3,395.2	2,703.1	2,757.7	2,456.0	806.6
Fixed-income	744.9	1,459.6	990.0	315.0	266.9	492.0	403.8	354.0
Mixed fixed-income	-85.1	266.1	267.6	122.4	115.2	142.6	168.9	127.6
Mixed equity	-189.0	238.2	459.3	203.5	188.5	119.8	152.8	75.4
Euro equity	-666.9	558.8	1,629.1	825.7	585.5	340.4	241.4	-196.9
Foreign equity	-947.2	759.1	1,368.1	494.9	446.5	239.0	343.4	-126.8
Guaranteed fixed-income	1,070.4	1,727.4	1,754.3	522.7	295.3	448.1	187.4	92.0
Guaranteed equity	21.8	624.5	779.8	328.4	227.8	157.5	203.3	47.6
Global funds	-307.8	274.9	346.2	153.5	135.1	79.1	87.5	42.0
Passive management	-163.9	196.8	861.0	380.7	393.0	700.3	627.8	381.3
Absolute return	-150.5	184.1	111.1	48.4	49.4	38.9	39.8	10.4

Financial mutual funds return on assets. Detail by category

TABLE 3.10

% of daily average total net assets	2011	2012	2013	2013 III	IV	2014 I	II	III
MANAGEMENT YIELDS								
Total financial mutual funds	0.45	6.03	7.37	2.67	2.05	1.97	1.68	0.71
Fixed-income	2.28	4.33	2.96	0.84	0.70	1.06	0.86	0.76
Mixed fixed-income	-0.15	6.05	5.20	2.10	1.87	1.86	1.63	1.06
Mixed equity	-4.3	9.2	11.84	4.93	3.72	2.09	2.24	1.09
Euro equity	-10.77	12.84	28.36	13.16	7.93	5.32	3.54	-1.82
Foreign equity	-11.05	13.51	21.47	6.94	5.82	2.64	3.46	-0.52
Guaranteed fixed-income	3.77	5.30	5.80	1.66	1.09	1.81	0.95	0.63
Guaranteed equity	1.29	5.26	7.34	2.89	2.05	1.60	1.94	0.71
Global funds	-4.55	7.8	9.86	4.03	3.51	2.01	1.99	1.01
Passive management	-6.27	7.99	9.84	4.20	2.99	3.79	2.87	1.73
Absolute return	-0.90	4.93	3.61	1.35	1.39	1.07	1.02	0.49
EXPENSES. MANAGEMENT FEE								
Total financial mutual funds	0.93	0.94	0.98	0.25	0.25	0.24	0.24	0.25
Fixed-income	0.64	0.66	0.68	0.17	0.16	0.17	0.17	0.18
Mixed fixed-income	1.17	1.10	1.13	0.28	0.29	0.29	0.30	0.30
Mixed equity	1.59	1.51	1.51	0.40	0.36	0.36	0.36	0.35
Euro equity	1.80	1.77	1.85	0.50	0.47	0.47	0.44	0.44
Foreign equity	1.77	1.74	1.83	0.47	0.46	0.43	0.44	0.45
Guaranteed fixed-income	0.72	0.79	0.86	0.22	0.22	0.22	0.22	0.22
Guaranteed equity	1.24	1.23	1.25	0.31	0.32	0.30	0.30	0.30
Global funds	1.11	1.01	1.32	0.36	0.36	0.32	0.30	0.29
Passive management	0.75	0.81	0.72	0.17	0.19	0.16	0.16	0.16
Absolute return	1.08	1.03	1.13	0.29	0.29	0.28	0.27	0.26
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	0.03	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

In %	2011	2012	2013	2013 III	IV	2014 I	II	III
Total financial mutual funds	-0.08	5.50	6.50	2.50	1.85	1.71	1.41	0.43
Fixed-income	1.56	3.54	2.28	0.65	0.54	0.89	0.67	0.55
Mixed fixed-income	-1.34	4.95	4.16	1.85	1.62	1.57	1.34	0.71
Mixed equity	-5.64	7.83	10.85	4.78	3.52	1.69	1.89	0.77
Euro equity	-11.71	12.31	28.06	13.71	7.99	5.01	3.04	-2.35
Foreign equity	-10.83	13.05	20.3	6.87	5.54	2.22	2.92	-0.91
Guaranteed fixed-income	3.28	4.85	4.96	1.46	0.89	1.56	0.71	0.39
Guaranteed equity	0.14	5.07	6.15	2.62	1.83	1.26	1.59	0.38
Global funds	-4.64	7.44	8.71	3.80	3.25	1.65	1.69	0.68
Passive management	-7.33	7.10	8.88	4.13	2.58	3.45	2.64	1.49
Absolute return	-1.87	3.84	2.46	1.07	1.04	0.82	0.75	0.18

Hedge funds and funds of hedge funds

TABLE 3.12

				2013		2014		
	2011	2012	2013	III	IV	I	II	III[1]
HEDGE FUNDS								
Investors/shareholders	2,047	2,427	2,415	2,333	2,415	2,513	2,631	2,649
Total net assets (million euro)	728.1	918.6	1,036.7	994.8	1,036.7	1,172.4	1,261.5	1,316.1
Subscriptions (million euro)	201.1	347.6	401.7	132.6	97.0	134.5	125.1	82.2
Redemptions (million euro)	92.5	212.7	414.3	167.0	95.7	44.1	58.5	22.1
Net subscriptions/redemptions (million euro)	108.6	134.8	-12.6	-34.4	1.3	90.4	66.6	60.1
Return on assets (million euro)	-26.5	55.7	130.0	47.9	40.5	45.3	22.5	-5.5
Returns (%)	-2.56	7.17	16.48	5.33	5.41	4.21	1.97	-0.34
Management yields (%)[2]	-1.88	8.00	17.22	5.97	4.64	5.02	2.53	-0.06
Management fee (%)[2]	1.66	1.38	2.87	0.98	0.74	0.94	0.50	0.30
Financial expenses (%)[2]	0.06	0.04	0.04	0.01	0.01	0.01	0.01	0.09
FUNDS OF HEDGE FUNDS								
Investors/shareholders	3,805	3,338	3,022	3,218	3,022	2,994	2,972	2,744
Total net assets (million euro)	573	540	350.3	418.3	350.3	352.1	354.0	359.4
Subscriptions (million euro)	10.6	23.6	4.9	0.0	0.4	1.5	1.5	–
Redemptions (million euro)	120.1	74.3	215.2	50.8	76.3	2.0	4.5	–
Net subscriptions/redemptions (million euro)	-109.6	-50.8	-210.3	-50.8	-75.9	-0.5	-3.0	–
Return on assets (million euro)	-12.3	17.6	20.6	1.2	7.9	2.3	4.9	–
Returns (%)	-1.71	0.88	4.39	0.25	1.89	0.66	1.42	2.14
Management yields (%)[3]	-0.47	4.56	5.78	0.59	2.28	1.00	1.73	–
Management fee (%)[3]	1.25	1.28	1.28	0.31	0.33	0.27	0.28	–
Depository fee (%)[3]	0.08	0.08	0.08	0.02	0.02	0.02	0.02	–

1 Available data: August 2014. Return refers to the period June-August.
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

				2013	2014			
	2011	2012	2013	IV	I	II	III	IV[2]
NUMBER OF PORTFOLIOS[3]								
Mutual funds	2,341	2,205	2,043	2,043	2,049	2,012	1,973	1,959
Investment companies	3,002	2,922	2,975	2,975	3,000	3,053	3,119	3,135
Funds of hedge funds	27	24	22	22	21	20	20	–
Hedge funds	35	35	29	29	27	28	31	–
Real estate investment fund	6	6	6	6	6	6	6	6
Real estate investment companies	8	8	10	10	10	9	9	9
ASSETS UNDER MANAGEMENT (million euro)								
Mutual funds	132,368.6	124,040.4	156,680.1	156,680.1	169,513.6	182,735.8	192,199.6	193,785.4
Investment companies	23,037.6	23,011.0	26,830.1	26,830.1	28,007.0	29,395.0	30,149.9	30,149.2
Funds of hedge funds[4]	573.0	539.9	350.3	350.3	352.1	354.0	359.4	–
Hedge funds[4]	694.7	881.4	1,036.6	1,036.6	1,138.4	1,221.1	1,276.1	–
Real estate investment fund	4,494.6	4,201.5	3,682.6	3,682.6	3,614.7	3,525.8	3,495.1	3,137.9
Real estate investment companies	312.5	284.1	853.7	853.7	849.3	828.9	822.4	820.2

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: October 2014.
3 Data source: Collective Investment Schemes Registers.
4 Available data for III Quarter 2014: August 2014.

Foreign Collective Investment Schemes marketed in Spain[1]

TABLE 3.14

	2011	2012	2013	2013 III	IV	2014 I	II	III[2]
INVESTMENT VOLUME[3] (million euro)								
Total	29,969.5	38,075.3	54,727.2	50,468.8	54,727.2	60,859.6	68,004.5	72,631.0
Mutual funds	6,382.9	6,271.5	8,523.2	8,284.4	8,523.2	9,151.9	9,613.9	10,344.7
Investment companies	23,586.6	31,803.8	46,204.0	42,184.4	46,204.0	51,707.6	58,390.6	62,286.3
INVESTORS/SHAREHOLDERS								
Total	761,380	819,485	1,067,708	1,002,131	1,067,708	1,037,958	1,263,915	1,233,507
Mutual funds	177,832	163,805	204,067	194,697	204,067	194,846	228,201	219,098
Investment companies	583,548	655,680	863,641	807,434	863,641	843,112	1,035,714	1,014,409
NUMBER OF SCHEMES								
Total	739	754	780	772	780	796	802	810
Mutual funds	426	421	408	409	408	414	416	415
Investment companies	313	333	372	363	372	382	386	395
COUNTRY								
Luxembourg	297	310	320	317	320	325	326	332
France	284	272	260	274	260	274	276	274
Ireland	87	90	102	97	102	109	109	113
Germany	20	31	32	30	32	32	33	33
UK	19	22	22	22	22	24	26	26
The Netherlands	1	1	2	2	2	2	2	2
Austria	25	23	24	24	24	24	24	24
Belgium	5	3	4	4	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 IV	2014 I	II	III	IV[2]
REAL ESTATE MUTUAL FUNDS								
Number	6	6	6	6	6	6	6	6
Investors	29,735	25,218	5,750	5,750	4,798	4,090	4,093	4,072
Asset (million euro)	4,494.6	4,201.5	3,682.6	3,682.6	3,614.7	3,525.8	3,495.1	3,137.9
Return on assets (%)	-3.23	-5.53	-11.28	-5.15	-1.59	-2.31	-0.85	-0.24
REAL ESTATE INVESTMENT COMPANIES								
Number	8	8	10	10	10	9	9	9
Shareholders	943	937	1,023	1,023	1,051	1,052	1,046	1,046
Asset (million euro)	312.5	284.1	853.7	853.7	849.3	828.9	822.4	820.2

1 Real estate investment schemes which have sent reports to the CNMV, excluding those in process of dissolution or liquidation.
2 Available data: October 2014. In this case, return on assets is monthly.