CNMV
Comisión Nacional del Mercado de Valores

CNMV BULLETIN
Quarter III
2019

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

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The CNMV distributes its reports and publications via the Internet at www.cnmv.es.

ISSN (digital edition): 1988-2025

Layout: Cálamo y Cran

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Abbreviations

AA. PP.	Public Administration Services
ABS	Asset-Backed Security
ACGR	Annual Corporate Governance Report
AFC	Atypical Financial Contract
AIAF	Association of Financial Asset Brokers
AIF	Alternative Investment Funds
ANCV	Agencia Nacional de Codificación de Valores (Spain's national numbering agency)
ARDR	Annual Report on Director Remuneration
ASCRI	Asociación Española de Entidades de Capital, Crecimiento e Inversión (Spanish Association of Capital, Growth and Investment Entities)
ASR	Accelerated Share Repurchases
AV	Broker
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BME	Bolsas y Mercados Españoles
BMN	Banco Mare Nostrum
BO	Binary Options
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)
CC. AA.	Autonomous communities
CCC	Central Counterparty Clearing House
CCP	Central Counterparty
CCVO	Contrato de compraventa de opciones (Options trading contract)
CDS	Credit Default Swap
CDTI	Centro para el Desarrollo Tecnológico Industrial (Centre for the Development of Industrial Technology)
CFD	Contract For Differences
CIS	Collective Investment Scheme
CJEU	Court of Justice of the European Union
CNMV	Comisión Nacional del Mercado de Valores (Spain's National Securities Market Commission)
CSD	Central Securities Depository
CSDR	Central Securities Depository Regulation
DC	Defensor del cliente (Customer ombudsman)
DGSFP	Dirección General de Seguros y Fondos de Pensiones (Directorate-General of Insurance and Pension Funds)
EAF	Empresa de asesoramiento financiero (Financial advisory firm)
EBA	European Banking Authority
EC	European Commission
ECA	Entidad de crédito y ahorro (Credit and savings institutions)
ECB	European Central Bank
ECR	Entidad de capital riesgo (Venture capital firm)

EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EFSM	European Financial Stabilisation Mechanism
EICC	Entidad de inversión colectiva de tipo cerrado (Closed-ended collective investment entity)
EIOPA	European Insurance and Occupational Pensions Authority
EIP	Entidad de interés público (Public interest entity)
EMIR	Regulation (EU) No. 643/2012 / European Market Infrastructure Regulation
EMU	Economic and Monetary Union (euro area)
EP	European Parliament
ESAS	Other European supervisory authorities
ESFS	European System of Financial Supervisors
ESI	Empresa de servicios de inversión (IF Investment firm)
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-Traded Fund
EU	European Union
EuSEF	European Social Entrepreneurship Fund
EuVECA	European Venture Capital Fund
FATF	Financial Action Task Force
FCR	Fondo de capital riesgo (Venture capital fund)
FCR-pyme	Fondo de capital-riesgo pyme (SME venture capital fund)
FI	Fondo de inversión de carácter financiero (Mutual fund)
FICC	Fondo de inversión colectiva de tipo cerrado (Closed-ended investment firm)
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)
FIN-NET	Financial Dispute Resolution Network
FINTECH	Financial Technology
FOGAIN	Fondo General de Garantía de Inversiones (Investment Guarantee Fund)
FOMC	Federal Open Market Committee
FRA	Forward Rate Agreement
FROB	Fondo de Reestructuración Ordenada Bancaria (Fund for Orderly Bank Restructuring)
FSB	Financial Stability Board
FTA	Fondo de titulización de activos (Asset securitisation fund)
FTH	Fondo de titulización hipotecaria (Mortgage securitisation fund)
GDI	Gross Disposable Income
GLEIF	Global Legal Entity Identifier Foundation
GRV	Garantizados de renta variable (Guaranteed equity fund)
HFT	High Frequency Trading
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Board
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
ICO	Initial Coin Offerings
IESBA	International Ethics Standards Board for Accountants
IF	Investment Firm
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators

IFRS	International Financial Reporting Standards
IICIL	Institución de inversión colectiva de inversión libre (Hedge fund)
IIMV	Instituto Iberoamericano del Mercado de Valores (Ibero-American Securities Market Institute)
IMF	International Monetary Fund
INFO Network	International Network of Financial Services Ombudsman Schemes
IOSCO	International Organization of Securities Commissions
IRR	Internal Rate of Return
ISIN	International Securities Identification Number
KID	Key Investor Document
Latibex	Latin American Stock Market
LEI	Legal Entity Identifier
LMV	Ley del Mercado de Valores (Securities Market Act)
MAB	Mercado Alternativo Bursátil (Alternative Stock Market)
MAD	Market Abuse Directive
MAR	Market Abuse Regulation
MARF	Mercado Alternativo de Renta Fija (Alternative Fixed-Income Market)
MEFF	Mercado Español de Opciones y Futuros Financieros (Spanish Financial Futures and Options Market)
MFP	Maximum Fee Prospectus
MG	Monitoring Group
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MMU	CNMV Market Monitoring Unit
MOU	Memorandum of Understanding
MRO	Main Refinancing Operations
MTS	Market for Treasury Securities
NCA	National Competent Authority
NPGC	Nuevo Plan General de Contabilidad (New General Chart of Accounts)
OECD	Organization for Economic Cooperation and Development
OIS	Overnight Indexed Swaps
OPS	Public offering (for subscription of securities)
OPV	Public offering (for sale of securities)
OTC	Over the Counter
PER	Price-to-Earnings Ratio
PFP	Participatory Financing Platform
PIOB	Public Interest Oversight Board
PPI	Periodic Public Information
PSR	Pre-emptive Subscription Right
PUI	Préstamo de Última Instancia (Loan of Last Resort)
REIT	Real Estate Investment Trust
RENADE	Registro Nacional de los Derechos de Emisión de Gases de Efecto Invernadero (Spain's National Register of Greenhouse Gas Emission Allowances)
RFQ	Request for Quote
ROC	Regulatory Oversight Committee
ROE	Return on Equity
SAC	Servicio de atención al cliente (Customer service)
SAMMS	Sistema Avanzado de Monitorización de Mercados Secundarios (Advanced Secondary Market Tracking System)
SAREB	Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria (Asset Management Company for Assets Arising from Bank Restructuring)

SAV	Broker and broker-dealer companies
SCLV	Servicio de Compensación y Liquidación de Valores (Spain's Securities Clearing and Settlement System)
SCR	Sociedad de capital riesgo (Venture capital company)
SCR-pyme	Sociedad de capital riesgo pyme (SME venture capital company)
SEC	Securities Exchange Commission
SENAF	Sistema Electrónico de Negociación de Activos Financieros (Electronic Trading Platform in Spanish Government Bonds)
SEND	Sistema Electrónico de Negociación de Deuda (Electronic Debt Trading System)
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)
SGEIC	Sociedad gestora de entidades de inversión colectiva de tipo cerrado (Closed-ended investment scheme management company)
SGFT	Sociedad gestora de fondo de titulización (Asset securitisation trust management company)
SGIIC	Sociedad gestora de instituciones de inversión colectiva (CISMC Collective investment scheme management company)
SIBE	Sistema de Interconexión Bursátil Español (Spanish Stock Market Interconnection System)
SICAV	Sociedad de inversión de carácter financiero (Open-ended collective investment scheme)
SICC	Sociedad de inversión colectiva de tipo cerrado (Closed-ended investment undertaking)
SII	Sociedad de inversión inmobiliaria (Real estate investment company)
SIL	Sociedad de inversión libre (Hedge fund in the form of a company)
SLV	Sistema de liquidación de valores (Securities settlement system)
SMN	Sistema multilateral de negociación (MTF Multilateral trading facility)
SNCE	Sistema Nacional de Compensación Electrónica (National Electronic Clearing System)
SON	Sistema organizado de negociación (organised trading facility)
SRB	Single Resolution Board
SSB	Standard-Setting Boards
STOR	Suspicious Transaction and Order Report
SV	Sociedad de valores (Broker-dealer)
T2S	Target2-Securities
TER	Total Expense Ratio
TLTRO-III	Targeted Longer-Term Refinancing Operations
TRLMV	Consolidated text of the Securities Market Act (Royal Legislative Decree 4/2015, of 23 October)
TVR	Theoretical Value of Rights
UCITS	Undertakings for Collective Investment in Transferable Securities
WB	World Bank
WTO	World Trade Organization

I Securities markets and their agents: situation and outlook

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1 Executive summary

– The latest data is indicative of a global slowdown in activity that is largely explained by restrictions on trade. This downturn, which is more intense in some European countries and emerging regions, in an environment of low inflation rates, has resulted in a change in monetary policy in both the USA, where it has translated into two falls in the official interest rate in the third quarter of the year, and in the euro area, where a few months ago the expectation was of monetary normalisation, with the revival of the asset purchase programme and the decrease in the rate corresponding to the marginal lending facility. Uncertainty exists not only with respect to the degree of economic slowdown, but also with respect to other factors such as the end result of Brexit, the accumulation of some financial imbalances or the presence of certain geopolitical conflicts and political uncertainties.

– The international financial markets, which started the year making significant ground after the turbulence of 2018, moderated their increases as the year progressed due to the intensification of existing uncertainties. These uncertainties also influenced trading volumes, which show a downward trend that is also favoured by the low volatility observed in the market. In the third quarter of the year,[1] the indices showed variations that ranged between -0.2% of the UK index and 4.1% of the Italian index. The accumulated progress for the year is greater than 15% in most indices and exceeds the losses of the previous year. The stock exchanges of emerging economies have shown, in general terms, a behaviour similar to that of advanced economies, although their revaluation over the year is markedly lower.

– In the international debt markets, short-term rates declined in the third quarter, in line with the more expansive tone of monetary policy adopted on both sides of the Atlantic, although the fall was greater in the USA. The trend in long-term rates has also been on the downside for almost the whole year, influenced not only by the decisions of the central banks, but also by the consideration as safe haven assets for many of the assets that serve as a reference to determine these rates. In the first 3 quarters of the year, the yields of 10-year sovereign debt bonds of the largest economies have decreased between the figure of 78 basis points (bps) for the UK bond and 301 bps for the Greek bond (127 bps for the Spanish bond), these being very low levels, especially in Europe, where new historic lows have been recorded. As of the closing date of this report, the return on these assets was in negative territory in six countries

1 The closing date of this report is 30 September, although some subsequent information is presented due to its relevance.

in the euro area (including Germany, France and the Netherlands) and very close to zero in two others (Spain and Portugal). In the USA the yield of the 10-year bond stood at 1.67%, 102 bps less than at the end of 2018.

– In Spain, the latest quarterly National Accounting data confirm the downturn in GDP growth (2% in the second quarter, 2.4% on average in 2018), which remains, however, almost 1 point above those recorded for the euro area. The deceleration is caused by a relatively discreet increase in private consumption and, above all, in investment. Despite the slowdown in economic activity, job creation (2.5% in the second quarter) and the fall in the unemployment rate (14% in June) continue within a context of a sharp fall in inflation (reaching 0.1% in September). With regard to public accounts, in the first half of the year there was an increase in the deficit with respect to the same period of the previous year, but the lack of comparability of some relevant items makes it necessary to wait until the second half of the year to understand the impact on the annual figure of the slowdown in activity and the lack of agreement in forming a government. The latest forecasts are closer to 2.5% of GDP than the estimated 2% of a few months ago. Most of the risks facing the Spanish economy are common to those of other European economies, highlighting those related to trade barriers,[2] the performance of the banking sector and Brexit, but there are also significant own risks, especially of a political nature.

– The development of the banking business continues to be conditioned by very low interest rates, which are tending to be extended over time and which prevent improvements in the net interest income in an environment in which it is necessary to compete with new entities that have consolidated in the sector, some of which have a high technological nature. In the case of Spain, this environment is slightly more favourable due to the continuity of growth, which has a positive impact on the NPL ratio (5.2% in July), although the sector is not without risks, some of a legal nature.

– The aggregate market stress indicators of the Spanish financial markets, which had remained at low levels until May, experienced an upward trend from then until September, when they exceeded the threshold that separates an "average" stress level from a "low" level. At the end of the third quarter the indicator stood at 0.28, due to the maintenance of a high level of stress in segments such as financial intermediaries (banks) and debt, the increase in other less significant segments (money market or exchange rates) and the increase in correlation of stress between different parts of the system.

– The national equity markets, which had presented an upward trend until April, were subsequently subjected to the same sources of uncertainty as the rest of the European markets, added to which was the delay in the formation of the government. This caused the Ibex 35 to show minor variations from that point onwards, although it managed to close the third quarter in positive numbers (0.5%) due to the recovery of the quoted prices in September. The accumulated

2 The tariffs that the USA can adopt on certain products of the European Union could have an impact in certain European countries, including Spain.

appreciation for the year stands at 8.3%, well below the records of other European benchmarks, within a context that is still dominated by low levels of volatility and decreases in trading volumes.

– The evolution of Spanish fixed income markets has been affected by the latest monetary policy decisions of the European Central Bank (ECB). The different announcements and decisions by this institution over the year have caused the yields of the debt assets to show a downward trend that has been more intense over longer terms and has resulted in a significant flattening of the interest rate curve. In the case of sovereign debt, the negative returns extend to the 5-year term and for the 10-year term record figures of less than 0.10% were reached in the first days of September. Spanish companies continue to take advantage of the low interest rates to finance themselves through debt issuance, which have increased by 21% in the year to €124.6 billion (short scale billion, used hereinafter). Of this amount, 56% was generated abroad.

– The assets of the investment funds grew 4.5% in the first half of the year to stand at €270.916 billion and recover the entire loss of 2018 (-2.3%). The increase was entirely due to the revaluation of portfolio assets, given that investment flows between January and June were settled with net refunds of €76 million. The increased aversion to risk of the unitholders in a setting of doubts and the slowing down of the activity, resulted in significant sales of equity stakes in higher-risk funds and purchases of those from lower risk, especially in those for fixed-income. The volume of foreign collective investment schemes (CISs) marketed in Spain and which continue to expand and now accounts for more than 37% of the total assets of CISs marketed in Spain.

– The business of providing investment services is framed within a complex context in which, firstly, traditional business lines related to the intermediation or issuance of securities continue to deteriorate and, secondly, a growing competition by credit institutions and also of other foreign entities has been noticed. In this context, the data for the first half of this year corresponding to the activity of securities companies and agencies show a new decrease in profits (before taxes) of these entities, which were the lowest since 2012. This behaviour was not homogeneous between both types of entities, since the brokers registered an improvement in their profit and loss accounts that did not offset the deterioration of that of the broker dealers.

– This report contains three monographic exhibits:

  • The first describes the intervention measures adopted by the CNMV, which consist in prohibiting the commercialisation, distribution and sale of binary options and in restricting the marketing, distribution and sale of contracts for differences (CFD) among retail clients in Spain, which follow the spirit of the measures adopted by ESMA in 2018.

  • The second refers to the recent appointment of the vice-chairperson of the CNMV as co-chair of the Monitoring Group, an international body that ensures that audit standards are aligned with the public interest.

- The third summarises the preliminary results of a study being carried out by the CNMV on the costs and performance of investment funds in Spain in 2017 and 2018. The analysis takes into account the most important objectives of the funds and their orientation towards the wholesale or retail client.

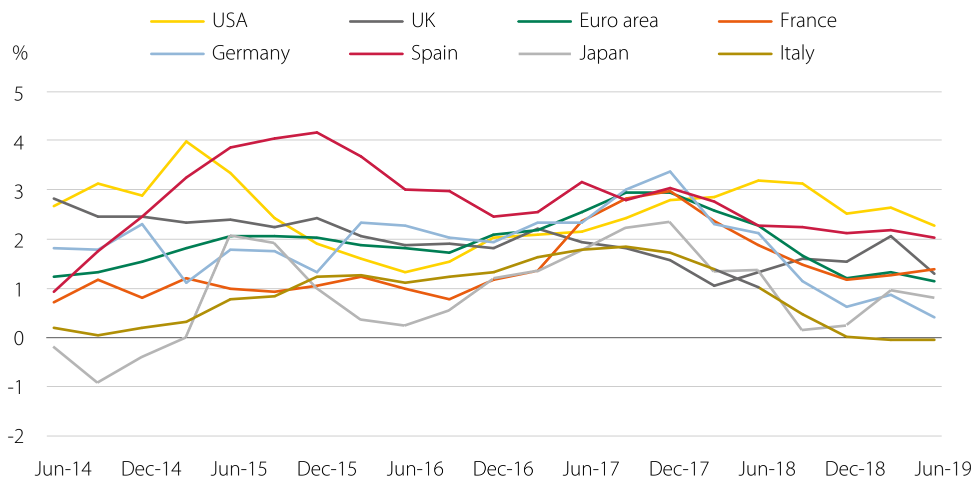
2 Macro-financial environment

2.1 International economic and financial performance

GDP growth data for the first half of the year confirmed the pattern of a global slowdown in activity, which is more intense in Europe compared to other advanced economies.

The global economic growth of the first half of the year confirmed the generalised downturn experienced by the largest economies for a few months, which largely has its origin in the restrictions to world trade. In this context, GDP growth in the USA remained higher than in the European economies, with interannual growth rates of 2.7% and 2.3% in the first and second quarter of the year (2.9% on average in 2018). The growth of the euro area was 1.3% and 1.2% in those same quarters (1.9% in 2018), with a great heterogeneity being observed between countries. The highest rates continued to be registered in Spain (2.2% and 2.0% in the first two quarters) and in France (1.3% and 1.4%), while the most modest growth occurred in Germany (0.9% and 0.4%) and in Italy (-0.1% in both quarters). These rates represent a notable slowdown: the two largest economies in the euro area were growing at over 3% at the end of 2017. In the case of the United Kingdom, where the result of Brexit is a major source of uncertainty for the economic performance of the country, GDP increased by 2.1% in the first quarter and 1.3% in the second, and in Japan the growth figures were close to 1%.

Annual % change in GDP FIGURE 1



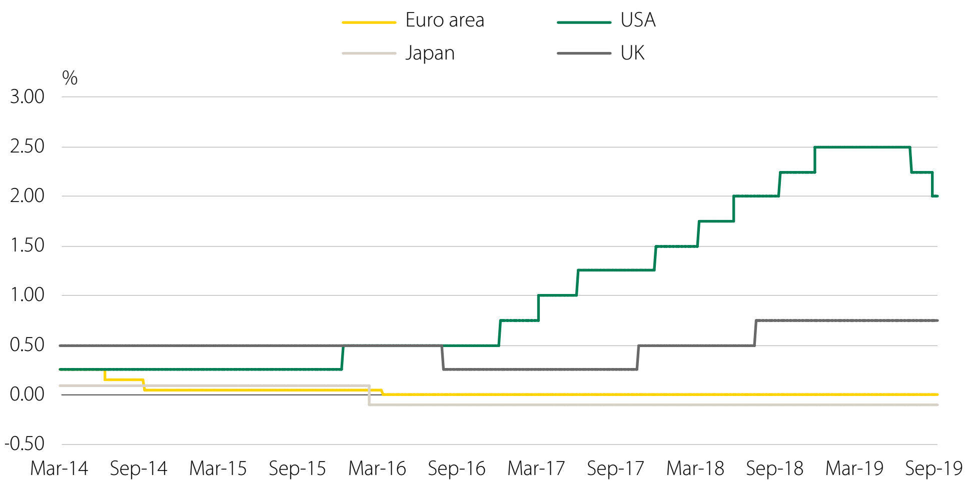
Source: Thomson Datastream.

The Federal Reserve cut official interest rates twice in the last quarter, to place them in the range of 1.75-2.0%…

In this context, the monetary authorities of the advanced economies, which had begun the process of reversing the expansionary tone of monetary policy or were close to doing so, have again adopted measures of an expansive nature. The Federal Reserve cut official interest rates by 25 bps twice in a row, both at its July meeting and in its most recent one in September, leaving the reference interest rate range at

1.75%-2.0%. These cuts, the first in more than a decade and with only a month and a half of difference between them, are explained by the uncertainty about the economic outlook and the weak inflation.[3] In fact, a new cut in the rates for the remainder of the year has not been ruled out, as can be seen from the forecast table of the committee members,[4] although these would not enter negative territory. The monetary authority decreased the interest rate at which it remunerates excess reserves by 20 bps, to 1.8%, to increase market liquidity[5] and encourage the rate at which banks lend not to stray too far from the target spread. In this regard, and on a temporary basis, it has also been executing open market operations to maintain this objective range and facilitate buyback transactions. Specifically, during the month of September it has carried out a series of very short-term interventions whose total accumulated amount stood at $US765 billion and which has continued in October.

Central bank interest rates FIGURE 2



Source: Thomson Datastream. Data until 30 September.

In September, the ECB announced its decision to reduce the interest rate applicable to the deposit facility by 10 bps, to -0.5%, while keeping the official interest rate unchanged at 0% and that of the credit facility at 0.25% with the aim of these rates remaining reduced until inflation levels[6] are in line with the institution's objective

… and the ECB announced its decision to reduce the interest rate applicable to the deposit facility by 10 bps, to -0.5%, and to keep the official interest rate and that of the credit facility unchanged.

3 According to the macroeconomic projections, inflation in 2019 is expected to be 1.5%, reach 1.9% in 2020 and it will not be until 2021 when the 2% target is achieved.

4 At meetings of the Federal Open Market Committee of the FED (FOMC), participants evaluate the appropriate monetary policy for the future by establishing what they expect the range the official interest rate will be in over the coming years. In the forecasts made at their last meeting in September, 7 of the 18 participants who voted (there was 1 abstention) considered that the rates should be lowered to the range of 1.5%-1.75%.

5 The Federal Reserve injected liquidity into the debt markets with the repurchase of Treasury bonds and other debt assets, being the first operation of this type since the 2008 crisis. In September the reduction of the monetary authority's balance sheet was completed, although the possibility of an organic growth of this sooner than expected has not been ruled out.

6 Inflation of the euro area during July and August 2019 was 1%, far from the objective of the ECB's monetary authority, which pursues an inflation rate below but close to 2%. The latest projections published by the ECB during the first weeks of September indicated that on average inflation will be 1.2% in 2019, 1% in 2020 and 1.5% in 2021.

(levels below but close to 2%). In relation to the targeted longer-term refinancing operations (TLTRO-III) announced in March, the ECB changed the calculation of the interest rate of these[7] and their expiry period from 2 to 3 years. Although the reinvestment of the debt due from the asset purchase programme was already planned for a prolonged period of time, the monetary authority decided to resume net purchases under this programme[8] at a monthly rate of €20 billion from November and for as long as necessary to reinforce the impact of low interest rates. As a final measure to stimulate the economy, it modified the system for the remuneration of reserves in order to compensate for the negative impact on banking of the reduced rates and support the transmission of monetary policy through credit institutions.[9] In short, the ECB has insisted that it will maintain an accommodative policy for a prolonged period and in its commitment to use all the instruments at its disposal to ensure the main objective of the institution with regard to inflation.[10]

Both the Bank of England and the Bank of Japan decided not to introduce changes in the official rates or in the amounts of their purchasing programs.

Lastly, the Bank of England at its September meeting also decided to keep the official interest rate unchanged, which has remained at 0.75% since August 2018, as well as the amounts of its asset purchase programme and stressed that its future monetary policy decisions will be directly linked to the evolution of the negotiations on the withdrawal of the United Kingdom from the European Union. The forecasts point to a contraction of growth and an increase in inflation in the event of a no deal Brexit. Similarly, official interest rates in Japan were kept at -0.1% (level recorded since February 2016). The central bank has expressed its intention to keep them unchanged for a long period of time and at least until the spring of 2020, due to uncertainty regarding economic activity and price developments, as well as in relation to the effects of the increase in consumption taxes planned for October of this year.

The differences between short-term interest rates in the advanced economies are reduced by the more intense fall in interest rates in the USA.

The differences between the short-term interest rates of the main advanced economies continued to be high but tended to decrease throughout the year, especially due to the fall in US rates. In this economy, the 3-month rates extended their bearish trend in the third quarter that began at the beginning of the year with a decrease of 23 bps, to stand at 2.09% at the end of September (the cumulative fall in 2019 is 72 bps). In the euro area, 3-month interest rates also accumulated a fall over the year (11 bps) but these are much less substantial than in the case of the USA, as it starts from a much lower level of rates and the change in monetary policy has been less intense.[11] In addition, it should be noted that in September there was a reversal of this downward trend explained by the ECB's decision not to apply the negative

7 In June, the ECB announced the details of the TLTRO-III programme, establishing that the interest rate for each operation would be set at 10 bps above the average rate applied to the main refinancing operations (MRO) of the Eurosystem during the entire term of the operation. It changed this interest rate at its last meeting in September, therefore it will generally be the average rate of the MRO during the entire term of the operation and for the entities in which the net variation of their computable loans exceeds a certain value, the interest rate applied will be lower than the previous one and may even be the average interest rate of the deposit facility.

8 The ECB ended the debt purchase programme at the end of 2018.

9 This system will be based on two tranches to remunerate the reserves of the entities and with it the negative interest rate of the deposit facility will not be applied to a part of the excess liquidity held by the entities.

10 In some European forums the context of interest rates, which in previous years was described as *low for long*, has become known as *low for longer*, implying the prolongation of this environment over time.

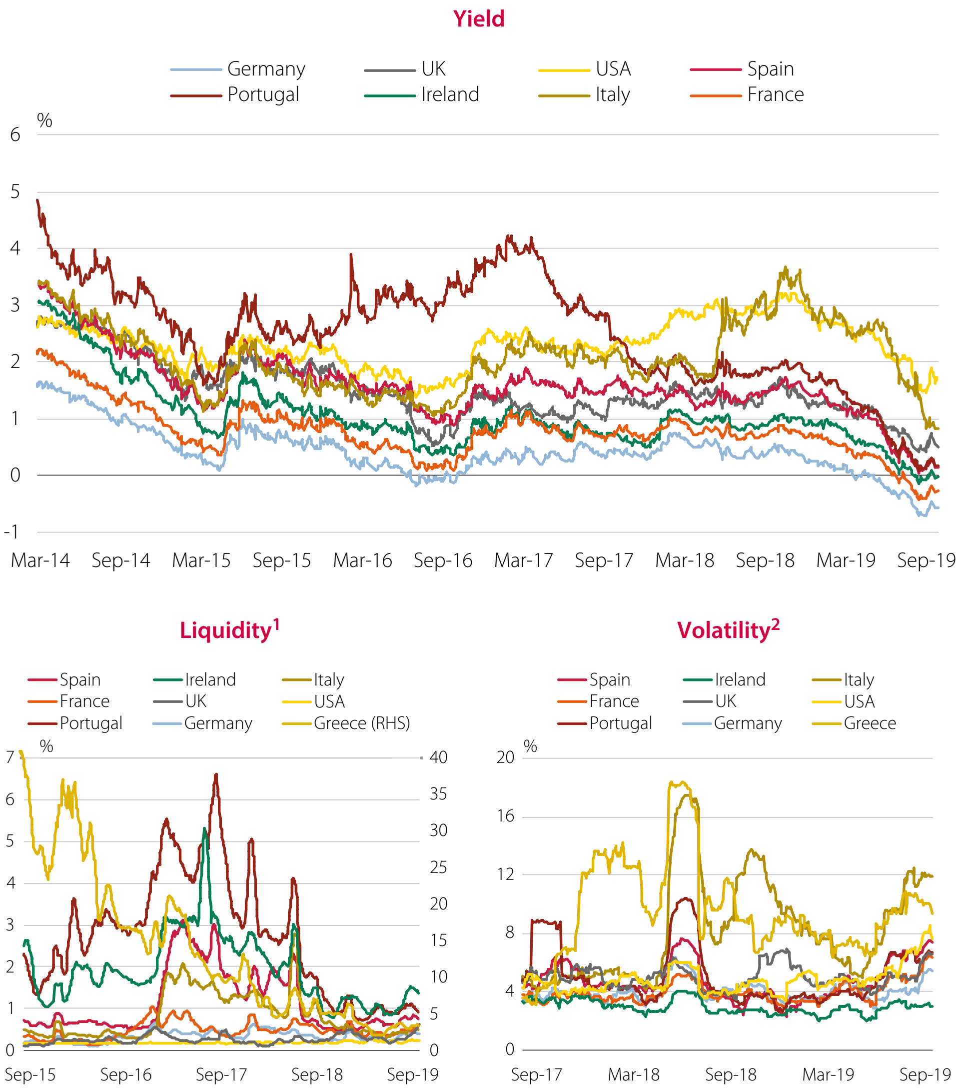
11 In addition, a remarkable compression of the levels of the short-term rate has been observed, so that at specific times the difference between the rate at 3 months and at 12 months has been 2 bps.

interest of the deposit facility to a part of the excess liquidity held by the banks. In the United Kingdom, the 3-month rates remained stable in the third quarter and ended at 0.76%, although they did accumulate a decrease of 15 bps over the year.

The consideration of a safe haven and the U-turn in monetary policy in the euro area and in the USA have resulted in decreases in the return on long-term debt assets throughout the year…

The open uncertainties in relation to trade negotiations between the USA and China, as well as with the rate of deceleration of the world economy, the end result of Brexit and some geopolitical conflicts have resulted in purchases of debt assets considered safe haven assets with the consequent increase in their prices and decrease in their returns. These declines have been strengthened by the announcements of a more expansive monetary policy by the ECB and the Federal Reserve, which undermined the forecasts which at the beginning of the year predicted increases in the yield on debt assets. In this context, the evolution of long-term rates has been quite homogeneous among the different advanced economies, with notable decreases in all quarters of the year and a flattening of the interest rate curves.

Indicators of the 10-year sovereign bond market FIGURE 3



Source: Bloomberg, Thomson Datastream and CNMV. Data until 30 September.

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

2 Standardised annual deviation of daily changes in the prices of 40-day sovereign bonds.

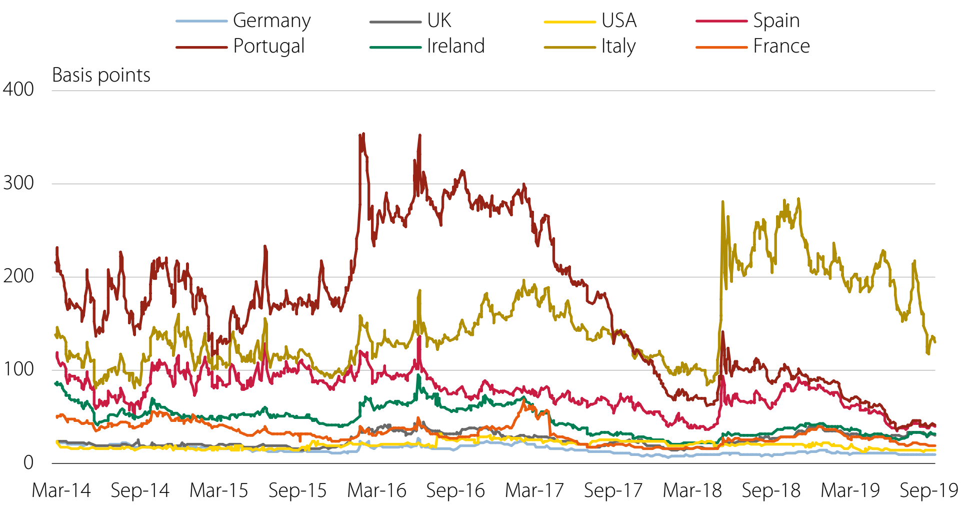
...which have oscillated between 78 bps and 301 bps. In the case of European economies, where new historical lows are being observed, the yield of the 10-year sovereign debt bond is in negative territory in many countries.

The decrease in the yields of 10-year public debt references in the third quarter ranged between 21 bps for the Irish bond and 126 bps for the Italian bond (25 bps for the Spanish), which increased the annual fall to the range that oscillates between 78 bps for the UK bond and 301 bps for the Greek (127 bps Spanish). The levels of debt yields are very low, especially in Europe, where new historical lows have been reached. At the end of September, the 10-year sovereign debt bond in Germany, Netherlands, France, Finland, Austria and Ireland was in negative territory, very close to zero in Spain and Portugal and just below 1% in Italy. In the USA the yield of the 10-year bond stood at 1.67%, 102 bps less than at the end of 2018.

Sovereign credit risk premiums remained stable throughout the third quarter, with the exception of those in Italy and Greece, which showed notable declines.

The sovereign credit risk premiums (assessed through the 5-year CDS contracts) of the advanced economies remained stable throughout the third quarter of 2019 following the trend shown since the beginning of the year, with the exception of some peripheral countries of the euro area where decreases were observed, such as Greece or Italy. Therefore, the CDS of the Greek bond registered a gradual decrease in the year of 248 bps, to 210 bps (96 bps in the first quarter, 97 bps in the second and 56 bps in the third) and that of the Italian bond, from 74 bps to 132 bps, a decline that took place to a greater extent during this last quarter. In the whole of the year Spain and Portugal also registered decreases but of smaller amounts; around 45 bps in both cases, up to 40 bps and 41 bps, respectively.

Credit risk premiums on public debt (5-year CDS) FIGURE 4



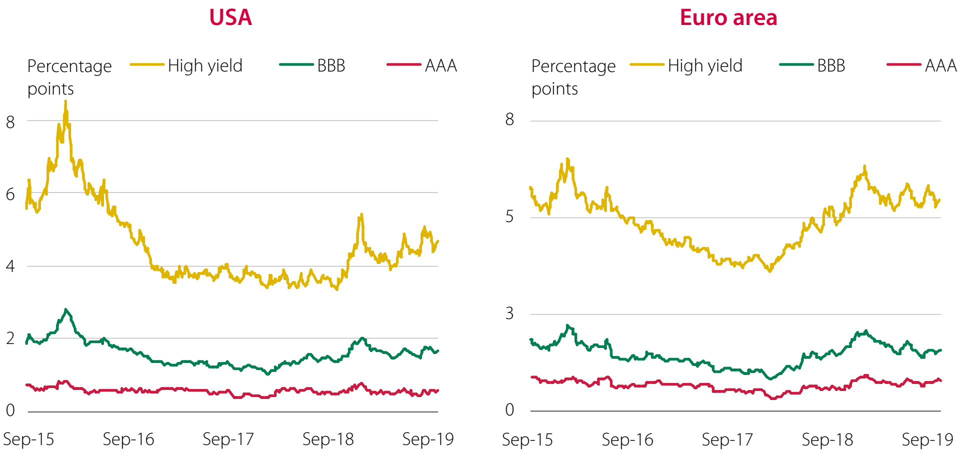
Source: Thomson Datastream. Data until 30 September.

In private fixed income markets, credit risk premiums increased slightly in the third quarter of the year, but for the whole of 2019 the balance sheet shows a fall in all debt segments.

In the private fixed income markets, credit risk premiums, which had been stressed in the final part of 2018 coinciding with the moments of greatest uncertainty in financial markets, have shown a somewhat irregular trend in 2019 but in the year as a whole accumulated slight falls in all debt segments, both in the USA and in Europe. These decreases, more intense in high yield debt - between 64 bps and 74 bps - would be compatible with the prolongation of strategies related to the search for yield strategies in a context marked by continuity in a time of reduced interest rates. Within this irregular trend, the behaviour of risk premiums was slightly bullish in the third quarter of the year: in the USA it increased 24 bps to 468 bps in the high yield segment, while in the BBB and AAA segments it increased 9 and 11 bps, to 168 bps and 60 bps, respectively. In the euro area, there were slight decreases in credit risk premiums for corporate debt: 2 bps in both the high yield segment and the BBB segment, up to 543 bps and 157 bps, respectively. The assets with better credit rating experienced a slight increase of 6 bps, up to 81 bps.

Corporate bond spreads
Spread vs. the 10-year sovereign debt[1]

FIGURE 5



Source: Thomson Datastream and CNMV. Data until 30 September.

1 In the euro area versus the German sovereign debt.

Gross long-term debt issuances carried out in international markets during the third quarter (half-yearly data) registered a substantial decrease compared to the second half of 2018 and stood at US$4.177 billion (19% down on the same period from the previous year). This drop was due to the sharp decrease in public sector issuances, which fell 38.6%. Whereas in the private sector, issuances increased by 8.9% in the financial sector and 32.8% in the non-financial sector, causing the total decrease to be less pronounced. The reduction of issuances in all geographies, accompanied by an increase in maturities, caused an even greater fall in total net issuances.

Debt issuance made in international markets during the second half of 2019 registered a substantial decrease, due to the decline in public sector issues.

The reduction in the amount of gross sovereign issuances was widespread in all regions, although more intense in the USA with a fall of 64.5% compared to the second half of 2018 (up to an amount of US$488 billion). The amounts issued in Europe and Japan were also lower than the volumes recorded in the second half of 2018 (down US$217 billion and US$61 billion, respectively) and resulted in the total fall already mentioned (38.6%). For the year so far, the decrease is somewhat lower (21%).

The reduction in the amount of sovereign debt issues occurred in all regions but with a special impact on the USA.

In relation to debt issuances made by private sectors, the trend was homogeneous among subsectors, although with a greater increase on those made by the non-financial sector. In the latter, total gross issuances increased from US$760 billion in the second half of 2018 to US$1 trillion (short scale trillion, used hereafter where applicable) in 2019, with an increase originating mostly in the USA and Europe. For the year as a whole, these issuances have increased by 17.6%. The increase in debt issuances in the corporate financial sphere was determined by the rise in issuances in Japan and the USA. This growth was 8.9% compared to the second half of 2018, reaching US$1.1 trillion (short scale). The balance of annual issuances is similar to the previous year.

The gross issuances of the private sector increased in a homogeneous manner, but with a greater increase on those made by the non-financial sector.

Gross international debt issuances

FIGURE 6

Source: Dealogic. Half-yearly data. The data for the second half of 2019 are until 30 September but are shown in their half-yearly equivalences for comparative purposes.

The main equity indices, which began the year with significant gains, slowed down their increases against the backdrop of growing uncertainties…

In the international equity markets, the main indices - which started the year with significant gains - began moderating their increases during the course of the year. Its performance was conditioned by the trade tensions between the USA and China, set to negotiate at the beginning of October, doubts about the slowdown of some economies, the end result of Brexit and the renewed expansive nature of monetary policies on both sides of the Atlantic. Within this context, the main international indices showed slight revaluations in the third quarter of the year which, together with the outstanding gains of the first half of the year, were sufficient to recover the losses of the previous year.

…although the annual balance sheet shows substantial revaluations in most of them, which compensate for the losses of 2018.

The revaluation of the US stock indices in the third quarter was the same for the Dow Jones and S&P (1.2%), while Nasdaq fell slightly by 0.1%. The accumulated growth in the year of these indices ranges between 15.4% and 20.6%. The main European indices behaved heterogeneously, since the idiosyncratic factors of each country played an important role in the performance of the markets. Accordingly, the French and Italian indices, the CAC 40 and the MIB 30, experienced increases of 2.5% and 4.1% respectively, reflecting, in the case of Italy, the positive reception of the new coalition government. The German DAX 30 index made a slight gain of

0.2%, showing the concern of the markets about the possibility of a recession affecting the economy and the IBEX 35 gained 0.5%, influenced at least in part for the lack of agreement to form a government and the repetition of elections in November. In the first three quarters of the year, the European stock markets show revaluations close to 20% except in the case of Spain, where the IBEX 35 accumulates an increase of 8.3%.

The emerging stock markets had an unfavourable performance in the third quarter of 2019, although the accumulated balance of the year is positive.

The emerging stock markets performed unfavourably in the third quarter of 2019, reflecting a 3% fall for the MSCI index for emerging equity. However, the accumulated trend in 2019 is positive (5.5%) - as in the case of the indexes of advanced economies - due to the revaluations of the first months. By region, Asian indexes showed declines in the third quarter in most cases, with the exception of the Taiwan index, which increased slightly (0.9%). These falls reflected both the uncertainty surrounding the trade agreement negotiations and other factors of domestic instability. The Hong Kong Hang Seng index fell by 8.6%, the Singapore SES All-S'Pore by 6.1% and the Chinese Shanghai Composite did so by 2.5%. In Latin America the only index that presented a slight revaluation was the Brazilian Bovespa (3.7%). For the most part, the other indices showed slight falls during the quarter except for the Argentinean Merval, which fell 30.5% after holding primary elections in the country and the collapse of the peso. Among the economies of Eastern Europe, the increase of 8.6% in the Romanian index stood out, but other main indices registered falls: the Russian index (RTS) lost 3.4% and the Polish index (Warsaw General Index), 4.8%.

Performance of main stock indices[1] TABLE 1

%	2015	2016	2017	2018	I 19	II 19	III 19	% / Dec-18
World								
MSCI World	-2.7	5.3	20.1	-10.4	11.9	3.3	0.1	15.7
Euro area								
Eurostoxx 50	3.8	0.7	6.5	-14.3	11.7	3.6	2.8	18.9
Euronext 100	8.0	3.0	10.6	-11.2	13.7	2.8	2.6	19.9
Dax 30	9.6	6.9	12.5	-18.3	9.2	7.6	0.2	17.7
Cac 40	8.5	4.9	9.3	-11.0	13.1	3.5	2.5	20.0
Mib 30	12.7	-10.2	13.6	-16.1	16.2	-0.2	4.1	20.6
Ibex 35	-7.2	-2.0	7.4	-15.0	8.2	-0.4	0.5	8.3
United Kingdom								
FTSE 100	-4.9	14.4	7.6	-12.5	8.2	2.0	-0.2	10.1
USA								
Dow Jones	-2.2	13.4	25.1	-5.6	11.2	2.6	1.2	15.4
S&P 500	-0.7	9.5	19.4	-6.2	13.1	3.8	1.2	18.7
Nasdaq-Composite	5.7	7.5	28.2	-3.9	16.5	3.6	-0.1	20.6
Japan								
Nikkei 225	9.1	0.4	19.1	-12.1	6.0	0.3	2.3	8.7
Topix	9.9	-1.9	19.7	-17.8	6.5	-2.5	2.4	6.3

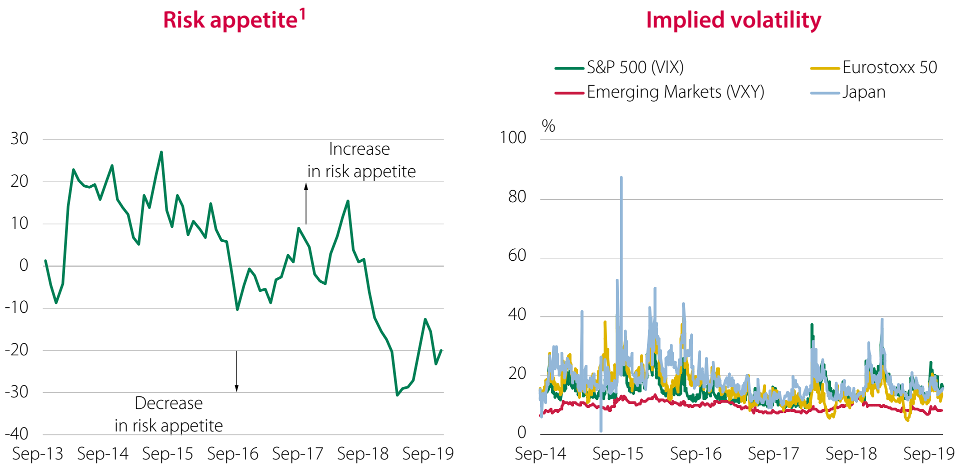
Source: Thomson Datastream.

1 In local currency. Data until 30 September.

The implied volatility measures for equities registered a small spike in August, but subsequently fell to very low values.

The implied volatility measures of the most significant stock indices experienced a slight spike in August but ended the third quarter with reduced values which were similar to those of the second quarter. In general, implied volatility levels were close to 15% (see right panel of Figure 7).

Financial market indicators FIGURE 7



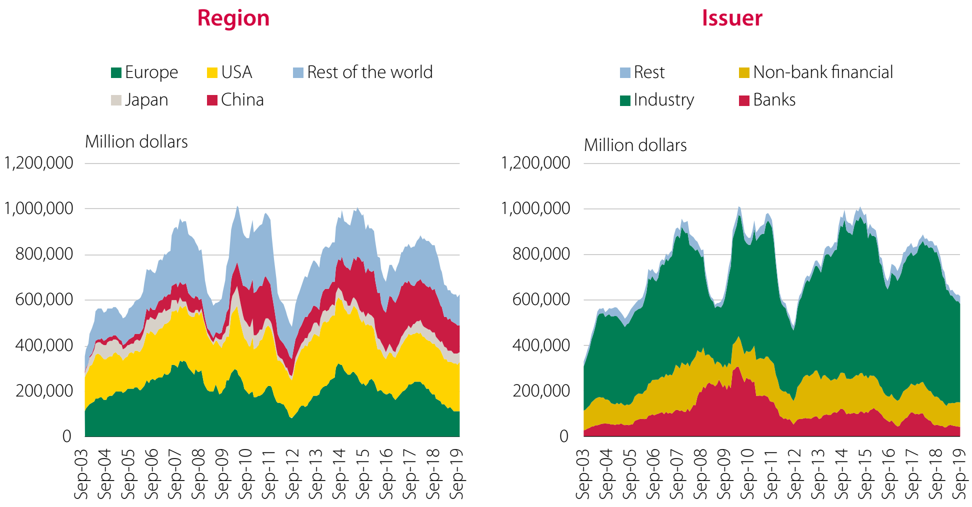
Source: Thomson Datastream and CNMV.

1 State Street indicator.

The volume of equity issuances stabilised in the third quarter of the year, but this is part of a downward trend that began in 2017.

Equity issuances in international financial markets continue to decline, prolonging a trend that began in 2017 and are partly responsible for the reasons related to the slowdown in economic activity and the presence of some uncertainties. Although the volume of issuances in the third quarter of the year (US$161 billion) was similar to that of the third quarter of 2018, the issuances made in the last 12 months stood at US$625 billion (well below the figure of US$800 billion reached in the same period of 2018 or of the maximum figures close to US$1 trillion (short scale) registered in 2014 and 2015). Differences were observed between the regions contemplated, with notable declines in China and Japan (35.2% and 19.6%, respectively) and, to a lesser extent, in Europe (-6%), while in the USA and other regions around the world there were increases (34.3% in the first and 15.0% in the latter). By sectors, the equity issuances of (non-bank) financial institutions and in particular the utility companies grew, with an amount that exceeded twice that issued during the same period of the previous year. The other sectors witnessed decreases, which were more significant for the banks.

Global equity issuance FIGURE 8



Source: Dealogic. Accumulated data for 12 months up to 30 September.

2.2 Domestic economic and financial performance

The GDP of the Spanish economy had an interannual variation of 2% in the second quarter of 2019, 0.2 pp down on the first quarter, but above that recorded for the euro area in the same period (1.2%). It should be noted that both in Spain and in the euro area there has been a notable slowdown in activity in recent months, motivated by uncertainty regarding trade negotiations between the USA and China, the proximity of the Brexit date and other sources of internal tensions. However, the Spanish economy maintains a growth differential close to 1 percentage point (pp) compared to the European average.

The GDP of the Spanish economy continues to slow down (growth in the second quarter was 2%), but it maintains a differential with the euro area of close to 1 pp.

In the second quarter, the contribution of domestic and foreign sector demand to growth was similar in both cases (1 pp). However, their trends are different; the contribution of domestic demand was 0.9 pp lower than that of the first quarter while that of the foreign sector was 0.8 pp higher. The performance of the components of domestic demand shows a notable slowdown in private consumption (from 1.1% to 0.6%) and, above all, from gross fixed capital formation (from 4.8% to 1%). The annual variation in public consumption remained stable at 2.2%. Within the performance of gross fixed capital formation, the fall in investment in capital goods (from 8% to -2.2%) and the slower pace in construction growth (from 4.2% to 2.9%) were of particular note. As for the foreign sector, there was a slight recovery in exports (from 0.2% to 1%), while imports intensified their rate of decline (from -0.4% to -0.7%).

Domestic demand and the foreign sector contributed equally to the growth of the second quarter (1 pp) but with opposite trends, since the first reduces its contribution and the second increases it.

From the point of view of supply, the sectors that presented the weakest behaviour were industry, whose added value only grew 0.2% in the second quarter (0.5% in 2018), and branches of the primary sector, which showed a 4.6% decline (+5.9% in 2018). Whereas the added value of the construction and services sectors registered notable progress, 5.2% in the first case and 2.8% in the second, in line with the average increases observed in 2018 (5.7% and 2.7%, respectively).

On the supply side, industry and the branches of the primary sector showed weaker growth, while construction and services advanced significantly.

Spain: main macroeconomic variables

TABLE 2

% annual variation

					EC[1]	
	2015	2016	2017	2018	2019	2020
GDP	**3.8**	**3.0**	**2.9**	**2.4**	**2.1**	**1.9**
Private consumption	2.9	2.6	3.0	1.8	1.9	1.6
Public consumption	2.0	1.0	1.0	1.9	1.7	1.5
Gross fixed capital formation, of which:	4.9	2.4	5.9	5.3	3.6	2.9
Construction	1.5	1.6	5.9	6.6	n/a	n/a
Capital goods and others	9.1	1.8	8.5	5.7	3.0	3.1
Exports	4.3	5.4	5.6	2.2	2.3	2.9
Imports	5.1	2.7	6.6	3.3	2.7	3.0
Foreign sector (contribution to growth, pp)	-0.1	1.0	-0.1	-0.3	-0.1	0.0
Employment[2]	3.2	2.8	2.8	2.5	**2.0**	**1.7**
Unemployment rate	22.1	19.6	17.2	15.3	**13.5**	**12.2**
Consumer Price Index[3]	0.0	1.6	1.1	1.2	**1.1**	**1.4**
Balance of the current account (% GDP)	2.0	3.2	2.7	1.9	**0.9**	**0.9**
Balance of the Public Administrations (% GDP)[4]	-5.3	-4.7	-3.1	-2.5	**-2.3**	**-2.0**
Sovereign debt (% GDP)	99.3	99.2	98.6	97.6	**96.3**	**95.7**
Net international investment position (% GDP)	-79.1	-71.4	-68.6	-62.9	**n/a**	**n/a**

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

1 The forecasts of the European Commission correspond to the spring of 2019.

2 In terms of full-time equivalent jobs.

3 The European Commission forecasts are from the harmonised consumer price index.

4 Includes the public aid to credit institutions in 2015, 2016, 2017 and 2018 is included for an amount of 0.1%, 0.2%, 0.04% and 0.01% of GDP respectively.

n/a: [data] not available.

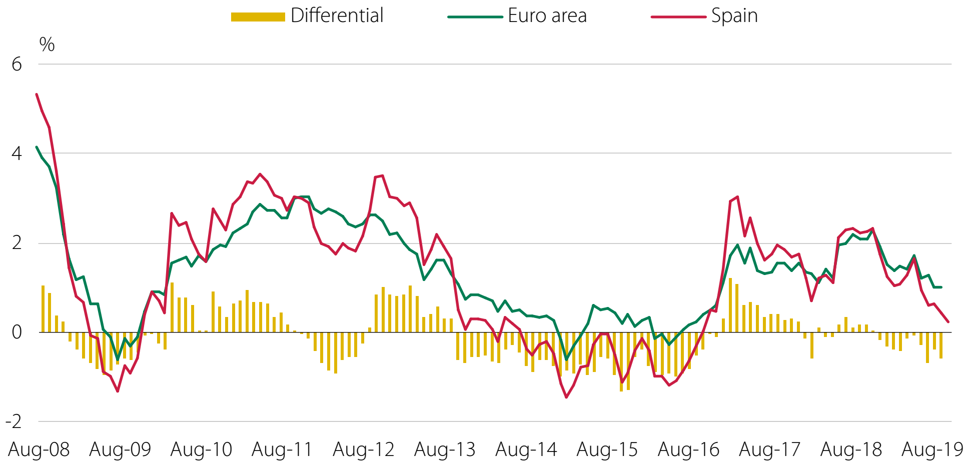
Inflation shows a noticeable decline since May, which is mainly due to the fall in energy inflation. In September, the annual rate was 0.1% and the underlying rate was 0.9%.

The inflation rate, which during the first four months of 2019 had increased from 1% to 1.5%, has shown a strong downward trend since then to remain at 0.1% in the month of September. This fall is mainly due to the evolution of the energy rate, which went from 5.6% per year in March to -4.5% in August, although a less inflationary behaviour of other variable components of the index, such as fresh food, was also observed. The core inflation rate, which excludes energy goods and fresh food, registered a slight upward trend in the year but remains at reduced levels, below 1%. This trend is caused by the small increase in inflation of processed foods and industrial (non-energy) goods. However, the inflation differential with the euro area, in negative values at the end of the previous year (-0.3 pp in December), has been increasing during the year (-0.6 pp in August).

Job creation continued, although at a slightly more moderate pace and resulted in a further decrease in the unemployment rate, to 14.0% in June.

The progress of the economic activity, although in deceleration, continued to favour the dynamism of the employment market. In this context, the job creation process continued, although at a somewhat more moderate pace than in recent months (2.5% in the second quarter and 2.7% in the last quarter of the previous year). Thus, the number of full-time employees increased by 187,000 in the first half of the year and the unemployment rate decreased to 14.0% in June (compared to 14.5% in December 2018). Unit labour costs also increased in the first quarter of the year to an annual rate of 2.1% (0.8% on average in 2018), since the increase in salary per employee (1.6%) was accompanied by a decrease in productivity (-0.4%).

Harmonised CPI: Spain vs. euro area FIGURE 9



Source: Thomson Datastream. Data until September in Spain and August in the euro area.

…and the accumulated deficit of the Public Administrations until June stood at 2.10% of GDP (0.24 pp less than in the same period of 2018).

The accumulated deficit of the Public Administrations (not including local corporations) for the first half of the year stood at 2.10% of GDP,[12] somewhat above the 2018 figure (1.86% of GDP). The data is not fully comparable since the increases in the remuneration of employees and pensions for this year do not have their equivalence for the first months of 2018, when they were computed after the approval of the Budgets in July. Therefore, it is foreseeable that this difference will be diluted over the remainder of the year. This seems to indicate the amount of the State deficit accumulated until July, which stood at 1.11% of GDP, 0.35 pp less than in 2018. The breakdown by Administrations shows that the increase in the deficit was widespread in the first half of the year. Subsequently, both the deficit of the Central Administration grew (from 0.78% to 0.92%) and that of the social security funds (from 0.49% to 0.54%) and to a lesser degree that of the autonomous communities (from 0.60% to 0.63%). The latest forecasts[13] indicate a deficit of 2.4% of GDP for the year as a whole. The leading data for the second quarter indicates that the level of government debt according to the Excessive Deficit Procedure stood at 98.9% of GDP, the same level as in the first quarter and 1.3 pp more than at the end of 2018.

The banking sector must face a longer period of very low interest rates, in a strongly competitive context in which large leading technology companies are coming into play.

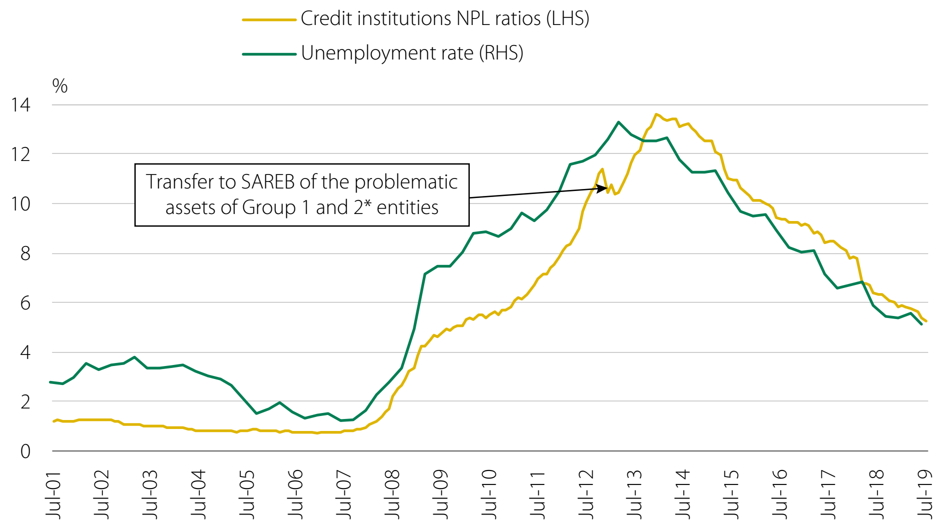
The banking sector continues to operate in a context of very low interest rates that will be extended longer than was expected a few months ago and this continues to prevent any significant improvements in net interest income. This sector faces a complicated competitive environment characterised by the entry of new players leading the technological revolution and other legal uncertainties, such as the forthcoming ruling of the Court of Justice of the European Union (CJEU) on IRPH linked mortgages. On the positive side, the behaviour of the labour market continues to be favourable, which has allowed us to continue reducing the NPL ratio of the sector to 5.2% in July (5.8% at the end of 2018). In addition, Spanish banks maintained a

12 Excludes the amount of financial aid.

13 Bank of Spain.

better efficiency ratio than the average of the European Union in the first quarter of 2019: the ratio between costs and revenues stood at 51.6% in Spain compared to the average of 66.3% recorded in the Union.

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



Source: Bank of Spain and INE. Delinquency data until July and unemployment rate until June.

1 Regarding the active population.

* The transfers of Group 1 entities took place in December 2012 (€36.695 billion) and those of Group 2 in February 2013 (€14.086 billion).

Therefore, the aggregate profit of credit institutions stood at €5.325 billion in the first half, 20% less than in 2018.

Within this context, the aggregate profit of the Spanish credit institutions stood at €5.326 billion in the first half of the year, 20% less than in the same period last year (€6.657 billion). The net interest income remained stable, weighed down by low interest rates, while the operating result decreased due to, for example, the fall in net profits from foreign currency transactions and the significant increase in net allocations. The increase in losses for activities performed outside the operating activity also influenced the decrease in the total profits for the sector.

Bank financing granted to both companies and households grew in the first months of the year, but more intensely in companies.

The aggregate bank financing granted to companies and resident households showed a year-on-year growth of 1.2% in July, mainly due to the increase in financing granted to non-financial companies (1.9%), which took place fundamentally through debt securities. Household financing continued to increase at rates relatively similar to those observed in previous months (0.3% in July), a performance that is explained, for the most part, by the growth in consumer credit (4.6%). In the euro area, loans to companies grew at annual rates of 3.5% in August and to households at 3.2%.

The size of the banking sector increased 1.6% between December and July, to €2.62 trillion.

The size of the banking sector increased 1.6% between December and July, to €2.62 trillion in assets (€2.57 trillion at the end of 2018), mainly due to the increase in loans granted to the foreign sector and in the fair value of derivatives that are not part of hedge accounting. The main sources of financing - deposits and debt - also showed slight increases (0.3% and 2.5%, respectively), while equity fell by -1%, to €325 billion.

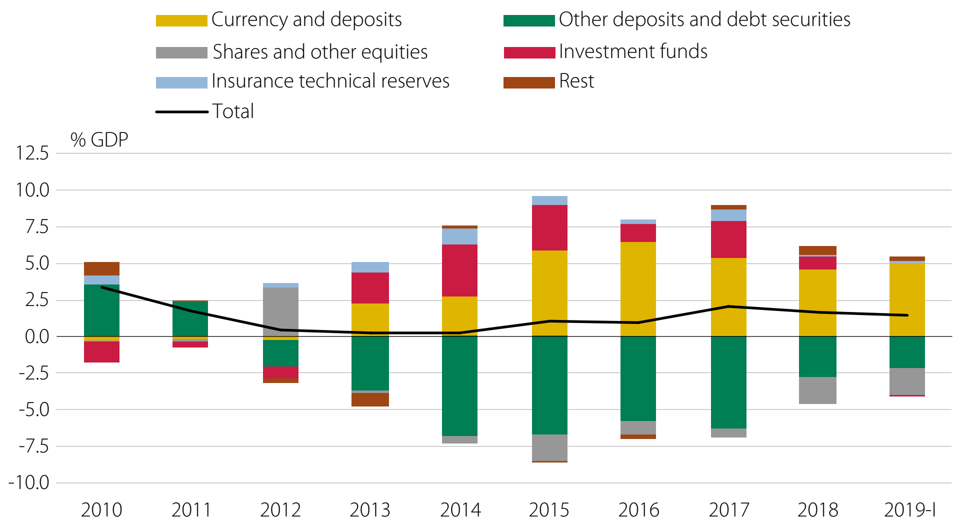
The most recent data on the financial position of households indicate that the savings ratio continued to increase in the second quarter of the year, reaching 7.2% of its gross disposable income (GDI) (at the beginning of 2018 it had set a minimum 5.5%). Whereas the debt ratio experienced a slight decrease in the first quarter of the year, reaching 96.1% of the GDI (97.1% at the end of 2018 and 100.4% at the end of 2017) and household wealth increased over the same period of time due to the revaluation of both financial assets and real estate.

The household savings ratio increased in the first quarter (up to 7.2% of its GDI), while its debt ratio experienced a slight decrease and its net wealth increased.

The net financial investments of households stood at 1.5% of GDP in the first quarter of the year[14] (1.6% in 2018 and 2.1% in 2017). The investment pattern was similar to that observed in recent years. There was a considerable divestment in fixed income securities and term deposits (2.1% of GDP) - unattractive products in an environment of very low interest rates - and also in stocks and other shareholdings (1.8% of GDP), in line with the turbulence of the stock markets at the end of 2018. That said, investment in the more liquid assets was significant (5% of GDP), a pattern that has been maintained since 2015. The decrease in the net subscriptions of the unitholders in investment funds as a result of the uncertainty in the financial markets over the last few months is a differentiating factor of the last period. Between 2013 and 2017, households invested an annual average of 2.5% of GDP in investment funds, a percentage that fell to 0.9% in 2018 and seems to continue to decline so far in 2019, though it is not widespread among the different categories. Although net subscriptions in funds accrued in the first half of the year are not very significant (-€76 million), they arise as a result of significant investments in fixed income funds (€5.466 billion) and mixed equity funds (€2.597 billion) and important net repayments in euro equity funds (-€2.604 billion), absolute return (-€2.552 billion) and mixed fixed income (-€2.175 billion).

Household financial investments stood at 1.5% of GDP in the first quarter of 2019. It highlighted the investment in the most liquid assets and the divestment in fixed income securities, term deposits and in shares.

Households: net financial asset acquisitions FIGURE 11



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

14 Accumulated data for four quarters, up to I-2019.

CNMV intervention measures in relation to binary options and financial contracts for differences EXHIBIT 1

On 29 June 2019, the CNMV approved several intervention measures in relation to binary options (BOs) and financial contracts for differences (CFDs) consisting of the prohibition of the marketing, distribution and sale of BOs and restrictions on the marketing, distribution and sale of CFDs among retail clients in Spain. This resolution applies to all entities marketing these products in Spain - regardless of their country of origin - and entered into force on 2 July 2019 for BOs and on 1 August 2019 for CFDs.

Due to their sophisticated nature and the difficulty involved in understanding the risks of these products, their marketing among retail clients has been an ongoing concern for the CNMV and the European Securities and Markets Authority (ESMA). In fact, several studies carried out by the CNMV and other securities supervisory bodies have shown that, in the vast majority of cases, clients who have operated with this type of product have lost the money invested.

It should be remembered that the measures adopted in Spain give continuity to the various temporary measures agreed by ESMA from a year ago (22 May 2018), which affected retail clients in the European Union and were renewed three times. The European authority said in its day that it expected the national competent authorities (NCA) - including the CNMV - to adopt similar measures that would take effect after the expiration of the temporary ones. Therefore, it was considered appropriate to approve a resolution that would allow its implementation in Spain indefinitely, subject to revision if market circumstances changed or if they were generally reconsidered at European level.

The measures adopted by the CNMV, which apply to the provision of services in Spain (including the freedom to provide services without a branch), are exactly as follows:

– Prohibition of the marketing, distribution or sale of BOs to retail investors.

– Establishment of limitations and requirements in relation to the marketing, distribution or sale of CFDs to retail investors: i) leverage limits at the time of opening a position ranging between 30:1 (for changes between major currencies) and 2:1 (for cryptocurrencies), depending on the volatility of the underlying asset; ii) an obligation to close positions on behalf of the client in case of consumption of collateral provided, with the establishment of the percentage at which suppliers are obliged to close one or more open CFD positions (50% of the minimum collateral required); iii) a negative balance protection mechanism for the client. A general guaranteed limit is established for the losses of retail clients; iv) a restriction on the incentives that suppliers offer to clients for trading with CFDs; and v) standardised warnings about risk, including the percentage of losses in the accounts of retail investors of the CFD provider.

The requirement to collect the handwritten expression of recognition of the special complexity of the CFDs by the clients - as provided in Circular 1/2018 - is maintained and this requirement is extended to the entities that operate under the freedom to provide services in Spain. The CNMV considers it good practice for entities to have adequate procedures to request additional collateral from clients before the threshold for closing positions is reached, so that they are informed and can provide such collateral or, where applicable, close the position, before reaching said threshold.

The decision taken by the CNMV is based mainly on the following grounds:

– OBs and CFDs are financial instruments that are characterised by their complexity and high risk, as well as their high short-term volatility. In the case of CFDs, these are also leveraged instruments where the investor may incur losses greater than the amount initially disbursed.

– The trading conditions of CFDs and OBs are not often sufficiently transparent, which impairs the ability of retail investors to properly understand the terms of the products and to assess their expected return and the risks assumed.

– CFDs and OBs are products that are generally offered to retail investors through electronic trading venues, without the provision of investment advice or portfolio management services.

– Leverage is the factor that most contributes to the fact that a large proportion of retail clients are unaware of the high risk they are exposed to when they invest in CFDs. This is because it increases the likelihood that the investor does not have sufficient collateral to keep their positions open in the event of fluctuations in the prices of the underlying assets, therefore there is often an automatic closing of their positions and losses that exceed the amounts initially disbursed by clients as collateral.

– Likewise, this leverage also makes it difficult for the investor to understand the impact on the foreseeable performance of the fees and the differentials that it supports, since these are usually applied on the notional amount of the transaction and not on the collateral provided by the client.

2.3 Outlook

The IMF forecasts a global economic growth of 3.2% in 2019 and 3.5% in 2020, below that registered for the last 2 years.

The forecasts published by the International Monetary Fund (IMF) in July confirmed the slowdown in global growth with a forecast of 3.2% and 3.5% for this year and the next one (3.6% in 2018 and 3.8% in 2017), due to the intensification of trade tensions between the USA and China and its impact on world trade. In fact, in the first days of October the institution pointed out that the world economy has entered a phase of synchronised deceleration due to the trade war, whose total impact could be close to US$700 billion in 2020 (0.8% of the world's GDP). According to the institution's estimates, 90% of the world's GDP would be slowing down. This body expects the US GDP to grow 2.6% this year (0.3 pp more than in its April prediction) - driven by the fiscal stimulus - and 1.9% next year, whereas the forecast for the euro area has remained at 1.3% for this year and has been revised slightly upwards for 2020, to 1.6% (0.1 pp more). The improvement in the forecast for the euro area next year is based on the recovery of the economies that have performed worse this year: Germany and Italy. Lastly, the bloc of emerging countries as a whole is expected to experience growth of 4.1% in 2019 and 4.7% in 2020, 0.3 pp and 0.1 pp less than expected in April, with a general deceleration observed in the emerging economies of all the geographical areas, most intense in Latin America, the Middle East and North Africa.

The downside risks to global growth have intensified and are related to trade tensions, the prolongation of very low interest rates and the result of Brexit.

The downside risks with respect to the economic growth scenario have intensified over the year due to the ups and downs of trade tensions between the USA and other economies[15] and the possibility of the lengthening over time of an environment of very low interest rates that will result in generating undesirable investor behaviour and give rise to certain financial vulnerabilities. Certain significant uncertainties also persist concerning the end result of Brexit, the presence of various geopolitical tensions and the process of adaptation to climate change. The materialisation of some of the aforementioned risks or the interaction of several of them could trigger increases in credit risk premiums, which are currently very compressed in the case of some assets, and adjustments in the prices of international fixed income and equity instruments.

Gross Domestic Product

TABLE 3

% annual variation

					IMF[1]	
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Global	3.4	3.4	3.8	3.6	3.2 (-0.1)	3.5 (-0.1)
USA	2.9	1.6	2.4	2.9	2.6 (0.3)	1.9 (0.0)
Euro area	2.0	1.9	2.7	1.9	1.3 (0.0)	1.6 (0.1)
Germany	1.5	2.1	2.8	1.6	0.7 (-0.1)	1.7 (0.3)
France	1.0	1.0	2.4	1.7	1.3 (0.0)	1.4 (0.0)
Italy	0.8	1.2	1.8	0.7	0.1 (0.0)	0.8 (-0.1)
Spain	3.8	3.0	2.9	2.4	2.3 (0.2)	1.9 (0.0)
United Kingdom	2.4	1.9	1.9	1.4	1.3 (0.1)	1.4 (0.0)
Japan	1.3	0.6	1.9	0.8	0.9 (-0.1)	0.4 (-0.1)
Emerging	4.3	4.6	4.8	4.5	4.1 (-0.3)	4.7 (-0.1)

Source: Thomson Datastream and IMF.

1 In parentheses, the variation compared to the last published forecast (IMF, forecasts published in July 2019 with respect to April 2019).

15 During the first days of October the decision of the World Trade Organisation (WTO) was made known, which accepted the possibility of the USA imposing tariffs on the European Union in response to subsidies granted by several Member States - including Spain - to Airbus in the past. This fact represents a source of additional uncertainty about the economic performance of the affected countries.

According to the forecast published in July by the IMF, the Spanish economy will grow 2.3% this year and 1.9% in 2020.Somewhat less favourable are other more recent forecasts such as those of the Bank of Spain, which in September lowered its growth forecast for this year to 2.0% and to 1.7% for next year (down 0.4 pp and 0.2 pp respectively), as a consequence of the loss of vigour of the domestic demand and of the export markets of Spain, in a context of increasing global uncertainty. The Spanish economy continues to face relevant risks, some more novel and related to the possibility of USA imposing tariffs on certain Spanish products and other previous risks, which are related with the need to reduce the high - albeit declining - level of unemployment and intensify the process of fiscal consolidation. In this last matter the most recent forecasts[16] place the public deficit at 2.4% of GDP in 2019 (0.4 pp above the projections of the budget plan published by the Government in 2019). The degree of soundness of the banking system, which, as in other European economies, is facing the challenges rising from operating in an environment of very low interest rates and increasing competition, is also a matter for concern. All these risks are framed in a context of political uncertainty deriving from the lack of agreement in the Government formation process, with the consequent call for new elections.

The latest forecasts reduce the growth forecasts for the Spanish economy to 2%, due to the slowdown in domestic demand, the deterioration of some export markets and political uncertainty.

3 The performance of the domestic markets

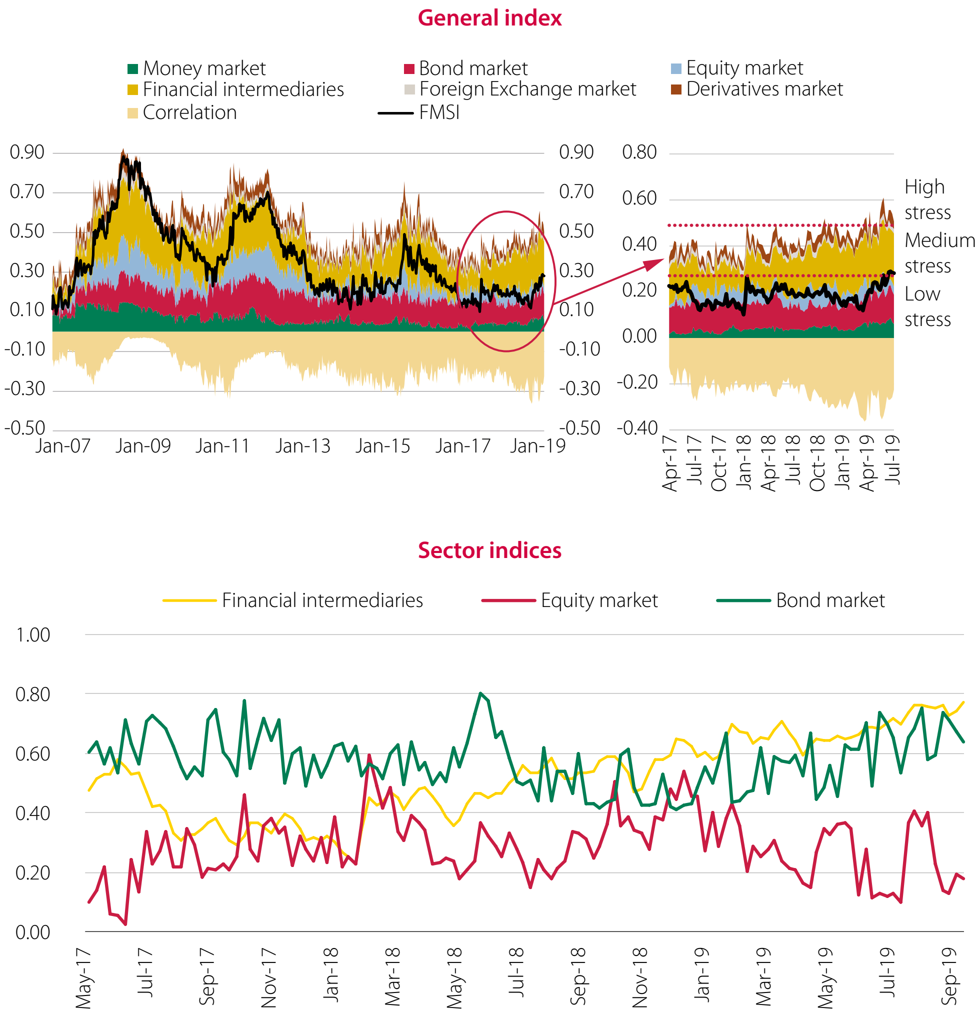
The aggregate stress indicator for the Spanish financial markets[17] has shown a fairly stable trend until May, registering stress levels that are considered low despite the fact that two of the most important segments (banks and debt) showed high values. The low correlation between the movements of the different components of the indicator explains this behaviour. Since May, the indicator has moved from values close to 0.10 to others higher than 0.28 since the beginning of September, thus exceeding the threshold that separates the low level of stress from the medium. This increase is explained both by the slight increase in the stress level of other segments with a lower weight in the index - for example, money markets or derivatives - and the increase in the correlation between them. Therefore, a high level of stress is maintained in sectors that already showed indications, such as banking, due to low quoted prices, and debt, due to the deterioration in liquidity and volatility, and an increase in other sectors is perceived within a context in which markets face several sources of uncertainty. The evolution of the correlation between the different components of the financial system will be key in the coming weeks to determine greater increases in the total stress level.

At the beginning of September, the aggregate stress indicator of the Spanish financial markets exceeded the threshold that separates the low level of stress from the medium. This increase is explained by the more generalised growth of stress in most components within the current context of uncertainties. At the end of September its value was 0.29.

16 Bank of Spain.

17 For more details on the recent evolution of this indicator and its components, see the statistical series of the CNMV (Market stress indicators), available at http://www.cnmv.es/portal/menu/Publicaciones-Estadisticas-Investigation.aspx. For more information on the methodology of this indicator, see Cambón, MI and Estéves, L. (2016) "A Spanish Financial Market Stress Index (FMSI)". *Spanish Review of Financial Economics,* Vol.14, No. 1, pp. 23-41 or as CNMV Working Document No. 60 (http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/Monografia_60_en.pdf).

Spanish financial markets stress index FIGURE 12



Source: CNMV.

3.1 The stock markets

The equity markets showed significant increases in the first quarter, which stopped as the year progressed, and sources of economic and political uncertainty intensified globally.

The national equity markets displayed bullish behaviour until April, which was interrupted as the trade confrontation between the USA and China worsened, while other sources of uncertainty such as the slowdown in activity in the euro area and doubts about the end result of Brexit intensified. They finished the third quarter with slight increases after the recovery of prices experienced in September - when the Ibex 35 index had its best performance since January - thanks to the new monetary stimulus measures adopted by the European monetary authority[18] and the new fall in rates announced by the Federal Reserve. Accordingly, the Ibex 35, which had risen 8.2% in the first quarter of the year, registered

18 The ECB lowered the rates of the marginal lending facility by 10 bps, to -0.50%, and announced that in November it will resume net purchases of debt for an amount of €20 billion per month, in addition to extending the term of the bank refinancing operations (TLTRO-III) for 2 to 3 years. In turn, the Federal Reserve lowered its interest rates by 25 bps in the second half of September (the second cut in the year), positioning them in the 1.75% -2% range.

decreases of 0.4% in the second to once again increase by 0.5% in the third, which left the accumulated revaluation in the year at 8.3%.[19] This record, which is significantly lower than other European benchmarks,[20] may also have been affected by internal factors related to the delay in the formation of the government[21] although at least a significant part of the differential is due to the composition of the Spanish index, with greater weight of sectors that have performed relatively worse, such as banking or real estate. The slight increase in the prices took place within a context of lower trading and a very slight deterioration of liquidity in the market.

The performance of the prices was not generalised between sectors or companies, with significant revaluations being observed in consumer goods, construction and electricity companies, etc.

As can be seen in Table 4, this evolution was not homogeneous between sectors nor was it based on the size of the listed companies. Regarding this last factor, it is worth noting the uneven behaviour observed throughout the year among the smallest companies in the market, which accumulate a revaluation of 6.5% for the year, and medium-sized companies, which have lost 2.5% of their value. In the first case, they are companies that are more closely linked to the evolution of domestic economic activity, which is more dynamic than that of the euro area, whereas in the second there are more companies with a greater presence and export activity in European markets, which are affected by the decline in economic activity and trade with the region.

…and falls in real estate and banks, the latter affected by the extremely low level of interest rates and other sources of uncertainty.

In relation to the sector's performance, the highest revaluations are observed in the consumer goods sector, with advances exceeding 20% in the year; among which stands out the revaluation of Inditex thanks to its ability to adapt to the new competitive market environment and the digitalisation of the company. Also, of particular note are the advances in the quoted prices of pharmaceutical and biotechnology companies, favoured because their demand is less tied to the performance of the economic cycle. In addition, the positive performance of the construction and engineering sectors is remarkable, with gains of close to 30% and 20%, respectively, and so too the companies in the electricity and gas sector, which benefit from the environment of reduced interest rates, the dynamism of the internal demand of the Spanish economy and the stable nature of their revenue. To the contrary, the falls in the quoted prices of real estate companies are notable because of the fear of investors of a change of cycle in the real estate sector (-9.8%), companies in the metals and minerals sector (-4.1%) and banks (-7%). The performance of the latter is conditional on the maintenance of low interest rates - with a likelihood of being extended for a prolonged period - that does not benefit its profits, in a context of economic slowdown, as well as the presence of other uncertainties.[22]

19 On 2 October, the resurgence of doubts about the slowdown in global activity led to significant losses in the stock exchanges, with them losing between 2% and 3% of their value in a single day (the Ibex 35 index lost 2.8%).

20 The main European stock indexes presented positive records both in the third quarter and for the year to date: Eurostoxx 50 (2.6% and 18.9%, respectively), Dax 30 (0.2% and 17.7%, respectively), of particular mention being the revaluations of French Cac 40 (2.5% and 20%, respectively) and the Italian Mib 30 (4.1% and 20.6%, respectively).

21 At the end of September, the King signed the dissolution of the Cortes (Spanish Parliament) and the call for new elections for 10 November.

22 For example, legal risks remain, such as those related to the CJEU's ruling on IRPH.

Performance of Spanish stock market indices and sectors

TABLE 4

Indices	2016	2017	2018	III 18[1]	IV 18[1]	I 19[1]	II 19[1]	III 19[1]	% / Dec-18
Ibex 35	-2.0	7.4	-15.0	-2.4	-9.0	8.2	-0.4	0.5	8.3
Madrid	-2.2	7.6	-15.0	-2.5	-9.3	8.0	-0.6	-0.3	7.0
Ibex Medium Cap	-6.6	4.0	-13.7	0.8	-14.8	4.7	-1.5	-5.5	-2.5
Ibex Small Cap	8.9	31.4	-7.5	-5.6	-16.4	9.4	-1.3	-1.3	6.5
FTSE Latibex All-Share	71.0	9.0	10.3	11.4	1.8	14.0	0.9	-6.2	7.9
FTSE Latibex Top	67.8	7.3	14.8	12.9	4.5	11.7	1.1	-5.8	6.3
Sectors[2]									
Financial and real estate services	**-1.6**	**10.5**	**-27.1**	**-5.1**	**-12.6**	**2.7**	**-3.0**	**-6.3**	**-6.6**
Banking	-1.8	10.6	-29.0	-5.3	-12.9	2.7	-3.1	-6.5	-7.0
Insurance	15.5	0.1	-12.8	2.3	-13.8	2.9	3.9	-6.0	0.5
Real Estate and others	-2.3	17.6	-26.1	-10.9	-15.0	-2.9	-6.7	-0.5	-9.8
Oil and energy	**0.8**	**3.9**	**6.1**	**-1.4**	**0.9**	**9.6**	**2.3**	**5.4**	**18.2**
Petroleum	32.6	9.9	-4.5	2.4	-18.0	8.4	-9.7	4.0	1.8
Electricity and gas	-4.3	2.0	8.9	-2.5	7.6	9.9	5.6	5.7	22.7
Basic mats., industry and construction	**2.0**	**2.6**	**-8.6**	**2.7**	**-11.5**	**18.2**	**-0.6**	**2.1**	**20.0**
Construction	-7.9	9.9	-3.4	4.5	-6.5	18.7	-1.3	10.1	28.9
Manufacture and assembly of capital goods	7.8	-19.3	-10.4	-5.2	-6.8	19.9	-1.0	-12.0	4.5
Minerals, metals and metal products processing	48.8	14.2	-25.3	7.5	-27.2	7.5	0.8	-11.6	-4.1
Engineering and others	9.9	-9.9	-21.3	-1.4	-23.9	14.4	5.0	-2.2	17.5
Technology and telecommunications	**-9.0**	**7.5**	**-5.5**	**4.8**	**-8.8**	**9.0**	**-1.4**	**-2.5**	**4.8**
Telecommunications and others	-14.2	-5.1	-8.2	-5.3	6.1	3.7	-0.5	-0.5	2.6
Electronics and software	7.9	36.6	-0.1	17.4	-23.7	17.3	-2.6	-5.8	7.6
Consumer goods	**0.2**	**-2.1**	**-16.7**	**-6.5**	**-13.5**	**14.3**	**0.9**	**5.0**	**21.1**
Textile, clothing and footwear	2.6	-10.4	-23.1	-10.8	-14.4	17.2	1.0	7.4	27.0
Food and drink	-5.4	5.2	-8.4	1.4	-14.4	12.2	-9.7	-3.4	-2.2
Pharmaceutical products and biotechnology	-6.4	14.6	-6.4	-0.8	-10.3	11.6	5.0	3.4	21.2
Consumer services	**-8.0**	**23.3**	**-19.7**	**-4.9**	**-11.1**	**2.0**	**-1.4**	**-3.9**	**-3.3**
Motorways and parking	-3.1	39.5	-34.7	-9.9	-27.2	2.7	4.3	-2.6	4.4
Transportation and distribution	-15.7	32.3	-11.5	-2.7	-7.5	0.3	-0.5	-2.5	-2.6

Source: BME and Thomson Datastream.

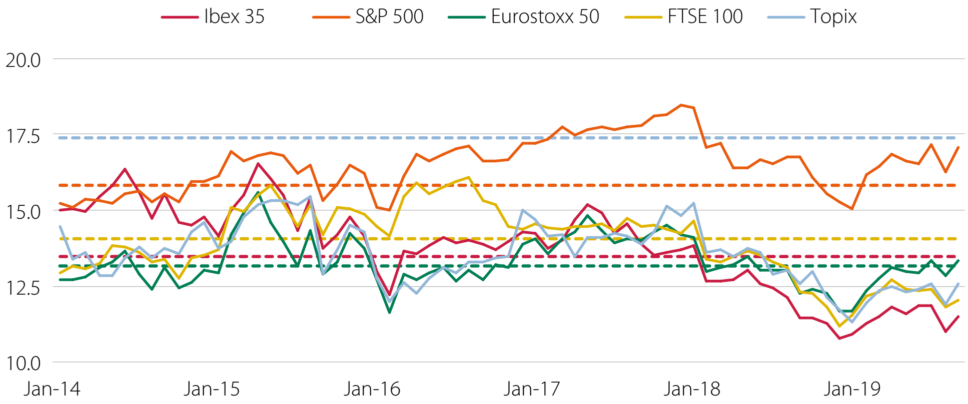
1 Variation compared to the previous quarter.

2 Sectors belonging to the IGBM (Madrid Stock Exchange General Index). The information corresponding to the most representative subsectors is displayed within each sector.

The ratio between the price and the expected earnings per share (PER) of the Ibex 35 showed an increasing trend in the first half of the year, originating in the revaluation of the shares at the beginning of the period and then in the slowdown in the growth of the expected business benefits for the coming months. By the third quarter, this trend had slightly reversed and left the value of this ratio at 11.5x, still above that recorded at the end of 2018 (10.8x) but well below its historical average (13.5x). As can be seen in Figure 13, the trend of the PER ratio of the Spanish index is somewhat different from those of the most significant global indices, which increased slightly favoured by the greater increases in their quoted prices. The Spanish ratio is lower than that of other indices and its distance from the average for the indicator is high. A PER ratio that is so below its average is only observed in the Asian Topix index and in the British FTSE, which has been affected by significant price falls within the context of Brexit.

After a few months of increases, the PER ratio of the Ibex 35 stood at 11.5x in September, above the 2018 closing values but well below its historical average (13.5x).

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



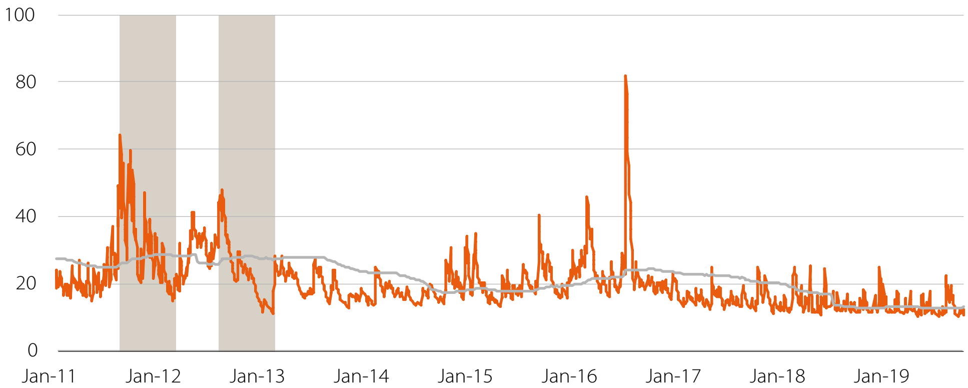
Source: Thomson Datastream. Data until 15 September.

1 With forecast earnings for 12 months.

The volatility of the Ibex 35 has moved at low levels (below 15%) during most of the year, experiencing only a slight upturn to reach values of around 20% in August, as a result of the intensification of some uncertainties of an international nature. At the end of the third quarter, the volatility of Ibex 35 fell to values close to 10%, slightly below the average value of the period (12.2%) and the average for the year 2018 (15.1%). The behaviour of the volatility of the Spanish market has been similar to that of other benchmarks, the upticks of the latter being slightly higher than the Spanish index (above 20% in the case of Eurostoxx 50 and the Dow Jones). Despite this slight resurgence, the different volatility indicators have been oscillating in small ranges from a historical point of view for several quarters.

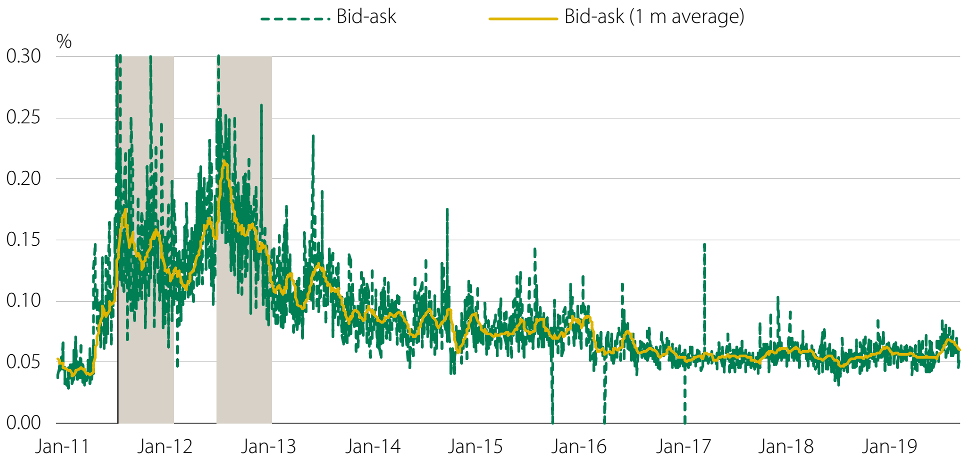
Market volatility remained at low levels, although the intensification of some uncertainties in August temporarily increased its value moderately, to close to 20%.

Historical volatility of the Ibex 35 FIGURE 14



Source: Thomson Datastream and CNMV. Conditional volatility is shown in blue and unconditional volatility is shown in red. The vertical lines of the graph refer to the introduction of the precautionary prohibition on short selling dated 11 August 2011, its subsequent lifting on 16 February 2012, the new prohibition of 23 July 2012 and its lifting on 1 February 2013. The first ban affected financial institutions and the second all entities.

Ibex 35 liquidity. Bid-ask spread FIGURE 15



Source: Thomson Datastream and CNMV. Information on the bid-ask spread of the Ibex 35 and the average of the last month is presented here. The vertical lines of the graph refer to the introduction of the precautionary prohibition on short selling dated 11 August 2011, its subsequent lifting on 16 February 2012, the new prohibition of 23 July 2012 and its lifting on 1 February 2013. The first ban affected financial institutions and the second all entities.

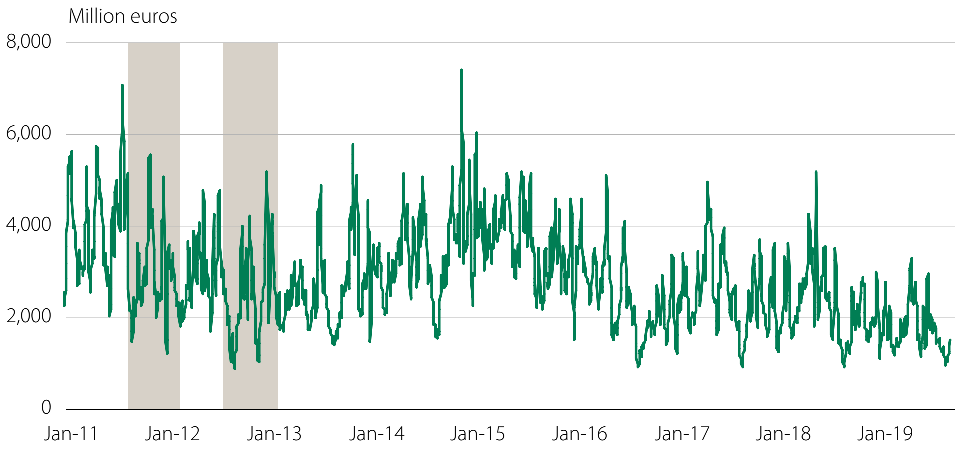
Liquidity conditions experienced a slight deterioration in August but remain at satisfactory levels.

The liquidity conditions of the Ibex 35, measured through the bid-ask spread, remained stable in the first half of the year, but tended to deteriorate slightly in August, coinciding with the slight rise in volatility in the market and the decrease in traded volumes. The bid-ask spread was very close to 0.070% at the end of that month, above the range at which it had moved throughout most of the year (0.053%-0.058%) and its average (0.058%), but still well below the historical average of the indicator (0.091%).

Trading in Spanish equities exceeded €181 billion in the third quarter of the year, 6.5% less than in the same period of the previous year. This consolidates a trend of falling trading volumes, which is also occurring at other European venues,[23] and in which certain trading methods such as algorithmic and high frequency are finding fewer incentives due to the low volatility environment. For the year to date, trading in these securities stood at €597 billion, 15.9% less than in 2018. The average daily trading of the continuous market in the third quarter reached €1.522 billion (-15.4% year-on-year), lower than that registered for the previous quarters (€1.696 billion in the first and €2.094 billion in the second).

Trading in Spanish securities fell by 6.5% in the third quarter of the year in year-on-year terms and 15.9% for the year to date, consolidating a downward trend in contracting.

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



Source: CNMV. The vertical lines of the graph refer to the introduction of the precautionary prohibition on short selling dated 11 August 2011, its subsequent lifting on 16 February 2012, the new prohibition of 23 July 2012 and its lifting on 1 February 2013.

1 Mobile average of five business sessions.

Of the total traded amount of Spanish securities in the year, €334.518 billion corresponded to the Spanish regulated market and the rest, to other trading venues and competing markets. The amount traded via BME in the first three quarters of the year fell 25.4% year-on-year, placing its market share at 55.2%, very close to its historical minimum of 55.1% in the first quarter (almost 5 percentage points less than at the end of 2018). Despite the ups and downs that have occurred throughout the year, its trend continues to be downward (its market share was 62.6% in 2018, 68.2% in 2017 and 72.7% in 2016). On the other hand, the amount negotiated in other competing venues (€262.24 billion) barely varied (up 0.3%), therefore, despite the decrease in equities trading, BME's trading venues and competing markets have been able to maintain their traded volumes at the cost of eroding the latter's market share. Despite this, the distribution of trading was not homogeneous among the competitors, with decreases in Chi-X and Turquoise, which were compensated with increases in BATS and the rest of the competitors, which almost doubled their traded volume (see Table 5).

Trading in Spanish securities fell in most of the trading venues, but was more pronounced at BME, subsequently its market share decreased to values close to 55%.

23 According to data from the World Federation of Exchanges, the accumulated trading up until August fell significantly in year-on-year terms in the main European stock markets: 24.3% in Euronext, 34.2% in London Stock Exchange Group (London and Italy) and 27.4% in Deutsche Borse.

In parallel, there is a notable increase in the trading that occurs through systematic internalisers, a trading method not subject to market rules.

Although one of the objectives of the MiFID II regulation was to displace part of the trading not subject to market rules that takes place in trading venues where if it was subject to them, a more or less widespread increase in the trading carried out through systematic internalisers after the entry into force of said regulations would be observed in Europe. This trading method, which is not subject to market rules, has increased in Spain and, according to preliminary estimates, would be above 15% of total trading in 2019, from values slightly below 5% which it reached in early 2018.

Trading in Spanish shares listed on Spanish exchanges[1] TABLE 5

Amounts in millions of euros

	2015	2016	2017	2018	I 19	II 19	III 19
Total	**1,161,482.8**	**877,413.8**	**932,771.9**	**930,616.1**	**193,634.8**	**221,735.7**	**181,393.0**
Admitted to SIBE	**1,161,222.9**	**877,402.7**	**932,763.1**	**930,607.1**	**193,633.8**	**221,732.4**	**181,391.6**
BME	925,978.7	634,908.8	633,385.7	579,810.4	106,068.5	128,897.2	99,552.2
Chi-X	150,139.9	117,419.4	117,899.2	106,869.7	22,921.2	21,392.1	20,312.6
Turquoise	35,680.5	51,051.8	44,720.1	42,883.4	9,520.5	8,587.9	6,730.5
BATS	35,857.6	44,839.8	75,411.6	171,491.3	45,011.1	48,830.8	42,557.4
Other[2]	13,566.2	29,182.9	61,346.5	29,552.2	10,112.5	14,024.5	12,238.9
Corros	**246.1**	**7.9**	**8.1**	**8.2**	**0.9**	**3.2**	**1.4**
Madrid	19.4	3.2	1.8	0.8	0.0	0.6	0.2
Bilbao	7.5	0.0	0.0	0.0	0.0	2.0	0.1
Barcelona	219.1	4.6	6.3	7.4	0.9	0.5	1.1
Valencia	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Secondary market	**13.8**	**3.2**	**0.7**	**0.8**	**0.1**	**0.1**	**0.0**
Pro memoria							
Trading in foreign equities, BME[3]	12,417.7	6,033.0	6,908.0	3,517.1	901.5	918.9	698.0
MAB	6,441.7	5,066.2	4,987.9	4,216.3	932.6	1,018.9	710.4
Latibex	258.7	156.7	130.8	151.6	38.8	26.0	32.8
ETF	12,633.8	6,045.2	4,464.1	3,027.6	467.1	375.9	415.9
Total BME trading	957,990.5	652,220.9	649,885.3	590,732.0	108,409.4	131,240.2	101,410.7
% Spanish equities in BME compared to the total Spanish RV	80.1	72.7	68.2	62.6	55.1	58.4	55.2

Source: Bloomberg and CNMV.

1 This includes the trading of Spanish equities subject to market rules or MTF (lit plus dark). The Spanish equity on the Spanish exchanges is the one with the Spanish ISIN that is admitted to trading in the regulated BME market, therefore it is not included in the Alternative Stock Market (MAB). Foreign equities are those admitted to trading in the regulated BME market whose ISIN is not Spanish.

Equity issuances made in the first 3 quarters of the year reached €5.67 billion, 25.5% less than in 2018. In addition, there has been no IPO during the year.

The amount of equity issuances made in the markets so far this year stood at €5.67 billion, 25.5% less than in the same period of 2018. This decrease is explained exclusively by the scrip issue (without raising funds), the amount of which was €1.562 billion, less than half of what was issued in 2018. The use of extensions under the dividend selection method has decreased in relation to the trend of previous years. The amount of capital increases with fund-raising was somewhat higher than €4.1 billion, practically the same figure as in 2018.Among the latter, a certain change in composition was observed in favour of capital increases with pre-emptive rights and to the detriment of non-monetary counterparty increases.[24] Furthermore, there was no IPO during the quarter, maintaining the apathy of the previous two quarters. Thus, although several companies are preparing their launch onto the market, they seem to be waiting for the right moment to do it, given the current uncertainties.

Capital increases and public offerings TABLE 6

	2016	2017	2018	IV 18	I 19	II 19	III 19
NUMBER OF ISSUERS[1]							
Total	**45**	**47**	**46**	**24**	**14**	**11**	**10**
Capital increases	45	45	45	24	14	11	10
Public offering (for subscription of securities)	3	3	2	2	1	0	0
Initial public offering (IPO)	2	4	1	0	0	0	0
NUMBER OF ISSUANCES[1]							
Total	**81**	**91**	**81**	**26**	**14**	**13**	**10**
Capital increases	79	84	80	26	14	13	10
Public offering (for subscription of securities)	4	4	2	2	1	0	0
Initial public offering (IPO)[2]	2	7	1	0	0	0	0
CASH AMOUNT[1] (millions of euros)							
Capital increases with fund-raising	**13,846.7**	**25,787.7**	**7,389.9**	**3,288.2**	**1,386.2**	**973.3**	**1,748.3**
With pre-emptive right	6,513.3	7,831.4	888.4	141.5	1,352.7	199.8	44.6
No pre-emptive right	807.6	956.2	200.1	200.1	10.0	0.0	0.0
Accelerated placements	0.0	821.8	1,999.1	1,910.1	0.0	0.0	0.0
Expansion with non-monetary counterpart[3]	1,791.7	8,469.3	2,999.7	557.3	0.0	351.6	1,682.6
Capital increases via conversion	2,343.9	1,648.8	388.7	9.9	13.0	0.0	0.7
Other	2,390.2	6,060.2	913.9	469.4	10.5	421.9	20.4
Scrip issue[4]	**5,898.3**	**3,807.3**	**3,939.7**	**323.5**	**347.5**	**140.4**	**1,074.9**
Of which, dividend choice	5,898.3	3,807.3	3,915.2	299.0	347.5	140.4	1,074.9
Total capital increases	**19,745.1**	**29,595.0**	**11,329.6**	**3,586.7**	**1,733.7**	**1,113.7**	**2,823.1**
Initial public offering	**506.6**	**2,944.5**	**733.7**	**0.0**	**0.0**	**0.0**	**0.0**
***Pro memoria:* transactions on the MAB[5]**							
Number of issuers	15	13	8	2	5	2	5
Number of issuances	21	15	12	2	5	2	6
Cash amount (millions of euros)	219.7	129.9	164.5	3.4	20.3	3.4	74.1
Capital increases	219.7	129.9	164.5	3.4	20.3	3.4	74.1
Of them, through PAHO	9.7	17.1	0.0	0.0	0.0	0.0	0.0
Initial public offering for shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: BME and CNMV.

1 Trades registered with the CNMV. Does not include data from MAB, ETF or Latibex.

2 In this section, trades related to the exercise of what is known as a green shoe are recorded independently.

3 The non-monetary counterparty capital increases have been accounted for at their market value.

4 In these increases, also called scrip dividends, the issuer grants its shareholders rights that allow the collection of a monetary dividend or its conversion into shares in a scrip issue.

5 Trades not registered with the CNMV.

24 Last year, the expansion with the non-monetary counterparty corresponding to the issuance of Bankia shares for the takeover of Banco Mare Nostrum (BMN) took place.

The SEC and the CNMV will preside over the Monitoring Group, an international body that ensures that auditing standards are aligned with the public interest EXHIBIT 2

On 9 July 2019 the IOSCO Board appointed the vice-chairperson of the CNMV, Ana María Martínez-Pina García, Co-chair of the Monitoring Group. Sagar Teotia, Chief Accountant of the US Securities Exchange Commission (SEC) of the USA is the other Co-chair of this Group.

The Monitoring Group, composed of regulatory authorities and international financial institutions, was established following the reforms designed in 2003 by the International Federation of Accountants (IFAC),[1] in order to establish a mechanism that took into account, to a greater extent, the public interest in the issuance of international standards of auditing and ethics. The members of the Monitoring Group are: the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO) and the World Bank (WB).

To meet the objectives of the Monitoring Group, the Public Interest Oversight Board (PIOB) was established in 2005, an independent body, based in Madrid, responsible for overseeing that international auditing and ethics standards were taking into account the public interest, considering the opinion of the different stakeholders.

Therefore, the supervisory architecture of the process for developing international standards that affect auditors is structured into three levels: the Monitoring Group, the PIOB and the Standard Setting Boards (SSB).

The main responsibilities entrusted to the Monitoring Group are the following:

– Ensure the establishment of high-quality international standards for auditing, ethics and education.

– Monitor the implementation and effectiveness of IFAC reforms and, in this regard, evaluate the effectiveness of these reforms and other aspects of IFAC activity related to the public interest.

– Appoint the members of the PIOB, through its Appointments Committee.

– Monitor the execution of the PIOB mandate.

– Advise the PIOB on aspects related to public interest supervision and related to regulatory, legal and political development.

– Share points of view and discuss issues related to the quality of audits and the regulatory and market development that have an impact on the audit.

The PIOB exercises direct supervision of the processes for the elaboration of international standards concerning auditing and ethics, ensuring compliance with the public interest and wide acceptance by interested parties, in order to maintain the technical credibility of the SSBs.

These SSBs are the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board (IAESB). These three boards are supported and advised by their respective consultative advisory groups.

The appointment of the vice-chairperson of the CNMV comes at a key moment, during the reform process to improve the supervision and governance of SSBs linked to the issuance of international standards for auditing and ethics. The objective of this reform process is to establish a more independent, sustainable and effective governance structure; expand the professional experience and diversity of SSB members; reduce the influence of the auditing profession in the development of auditing and ethical standards; and strengthen the consideration of the public interest in the process of issuing these norms, in order to encourage the development of high quality norms that adapt in a timely manner to changes in the environment.

The Monitoring Group launched a public consultation in November 2017 in which it established different options to improve the governance structure and the supervision of the process for issuing auditing and ethics standards, for which it received 179 responses. According to the summary of responses published by the Monitoring Group in May 2018, there is broad support among the various stakeholders to undertake the reform, in order to increase accountability and transparency in the process for the development of auditing and ethical standards and move to a multi-stakeholder representation in the SSB and a more independent sustainable financing model of the auditing profession.

The responses showed different points of view regarding how to carry out the reforms in the most effective and efficient way and whether the reform should be carried out in stages or not. The Monitoring Group, under the coordination of the newly appointed Co-chairs, aims to drive this reform forward.

1 The IFAC was established in 1977 to strengthen the worldwide audit profession for the public interest and through the development of high-quality international standards in the field of auditing, ethics, education and public sector accounting.

3.2 Fixed income markets

The reorientation of the monetary policy of the ECB to give it a renewed expansionary character, as a result of the environment of decelerating growth and low inflation rates, has had an impact on the performance of the fixed income markets in recent months…

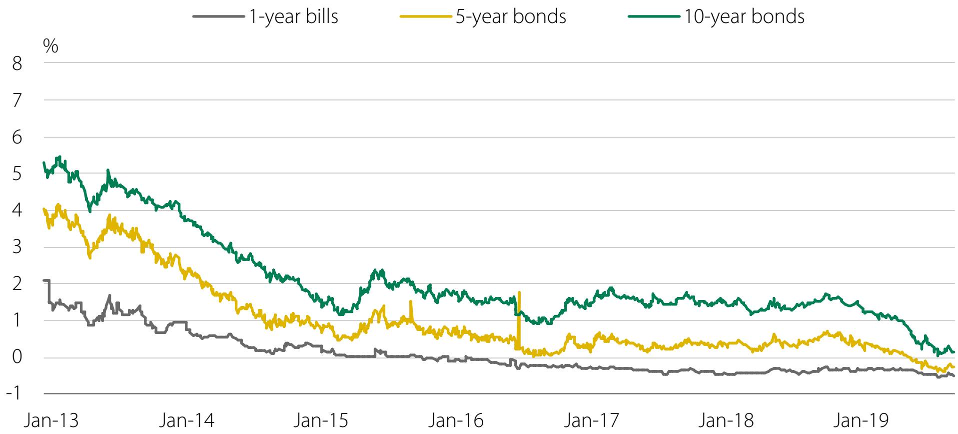
The evolution of the fixed income markets is framed within a context characterised by the interruption and subsequent reversal of the ECB's monetary policy expected in 2019 and the first tightening of its measures. The forecasts related to the moment of the first rise in interest rates in 2019 ceased after passing into a situation characterised by an intense slowdown in economic activity, accompanied by inflation rates well below the monetary authority's objective. This caused the ECB to start the year by delaying the moment of the first rate increase, in March it announced a new programme of long-term refinancing operations (TLTRO-III), in June it did not rule out further interest rate reductions and finally, in September it will specify some expansive measures, including the reduction of the marginal deposit facility (up to

-0.5%) and the resumption of the debt purchase programme (for a monthly amount of €20 billion).[25]

…and has caused new historic lows throughout the interest rate curve and decreases in the risk premiums of Spanish issuers.

In this context, the short-term interest rates, which had increased slightly in the first quarter of the year, fell again in subsequent months to reach new historic lows in their longer terms. In the case of long debt term, yields decreased with greater intensity (that of the long-term debt bond fell below 0.10% at the beginning of September) and resulted in a considerable flattening of the interest rate curve and new historic lows throughout the whole curve. The risk premium of the public sector and the private subsectors of the economy has shown a downward trend over the year, which has been accentuated in recent months by also benefiting from the new measures of the ECB's expansive monetary policy.

Spanish government debt yields FIGURE 17



Source: Thomson Datastream.

The yield of short-term sovereign debt, which had increased slightly in the first quarter of the year, fell in the next two, in line with the messages and decisions taken by the monetary authority.

The short-term debt interest rates, which had rebounded slightly in the first months of the year, maintained a downward trend in the following months that became consolidated as more details of the ECB's monetary policy U-turn were known. In this context, there were decreases in the yields of the different terms of the Treasury Bills, which were somewhat greater for the longer terms. For example, the yield of 12-month bills stood at -0.49% in September on average, 16 bps less than in December 2018. The yield of the 3- and 6-month bills reached -0.54% and -0.53% respectively, 4 bps and 12 bps less than at the end of last year. All these rates were around the new annual minimum yield of -0.50%, the rate of marginal deposit facility. It should be noted that in the second half of September a certain increase in short-term rates has been observed, which would be related to a particular feature of the ECB's deposit facility rate application regime (known as the *two-tier system*). Under this specificity, the amount of resources affected by this negative rate is lower and, in practice, may end up leading to an increase in short-term rates. However, all the auctions of bills for the primary market continued to be awarded at negative rates, which have now been extended to securities with terms of 3 and 5 years.

25 From 1 November.

In the case of short-term corporate debt, the performance of the rates was relatively similar to that of public debt, although for some terms the rise in the yields of first quarter continued into the second. The fall in yields in the third quarter was 5 bps for promissory notes at 3 months (to 0.15%) and 39 bps for promissory notes at 6 months (to 0.17%), with the greatest reductions concentrated in the 12-month term (63 bps, to 0.43%).

The falls also affected corporate debt.

Short-term interest rates[1]

TABLE 7

%

	Dec-16	Dec-17	Dec-18	Dec-18	Mar-19	Jun-19	Sep-19
Treasury bills							
3 months	-0.47	-0.62	-0.50	-0.50	-0.40	-0.47	-0.54
6 months	-0.34	-0.45	-0.41	-0.41	-0.36	-0.38	-0.53
12 months	-0.25	-0.42	-0.33	-0.33	-0.32	-0.38	-0.49
Corporate promissory notes[2]							
3 months	0.18	0.39	0.24	0.24	0.25	0.21	0.16
6 months	0.20	0.26	0.19	0.19	0.41	0.58	0.17
12 months	0.15	0.19	0.07	0.07	0.65	1.06	0.43

Source: Thomson Datastream and CNMV.

1 Monthly average of daily data.

2 Issuance interest rates.

The medium and long-term debt interest rates have fallen practically throughout the year: first encouraged by expectations about a more accommodative U-turn of the ECB's monetary policy and, subsequently, by its confirmation, in an environment of slowing economic growth and the presence of various economic and political uncertainties. This context of low rates has meant that the negative rates for sovereign debt have extended to the 5-year bills and that historic minimums close to zero had been reached by the 10-year at the end of August. At the close of the third quarter,[26] the sovereign debt interest rates at 3, 5 and 10 years were -0.44%, -0.27% and 0.20%, which is between 13 and 20 bps less than at the end of previous quarter and between 40 and 123 bps less than in December 2018. The reversal of the rates is becoming more intense in the longer terms and, therefore, is leading to a substantial flattening of the slope of the interest rate curve. This suggests that investors are taking a low rate scenario for a prolonged period of time for granted and anticipating a deterioration of the economic situation in the euro area in the coming quarters.

Long-term rates have fallen even more than short-term rates, which has resulted in new historic lows and a significant flattening of the interest rate curve.

The yields on private fixed income have also presented significant decreases during the year, so that within 3 years the average return on a representative sample of corporate bonds was in negative territory at the end of the third quarter. The accumulated decreases for the year range from 45 bps for 5-year bonds and 89 bps for 10-year bonds. In September, these yields were -0.10%, 0.10% and 0.63% for 3, 5 and 10-year bonds, respectively.

In private fixed income, the negative returns extended to a term of 3 years.

26 September monthly average.

Medium and long-term bond yields[1]

TABLE 8

%

%	Dec-16	Dec-17	Dec-18	Dec-18	Mar-19	Jun-19	Sep-19
Public fixed income							
3 year	0.04	-0.09	-0.04	-0.04	-0.14	-0.31	-0.44
5 year	0.35	0.31	0.44	0.44	0.24	-0.10	-0.27
10 year	1.44	1.46	1.43	1.43	1.14	0.50	0.20
Private fixed income							
3 year	0.69	0.44	0.67	0.67	0.44	0.19	-0.10
5 year	1.43	0.41	0.55	0.55	0.56	0.34	0.10
10 year	2.14	1.16	1.52	1.52	1.32	1.05	0.63

Source: Thomson Datastream, Reuters and CNMV.

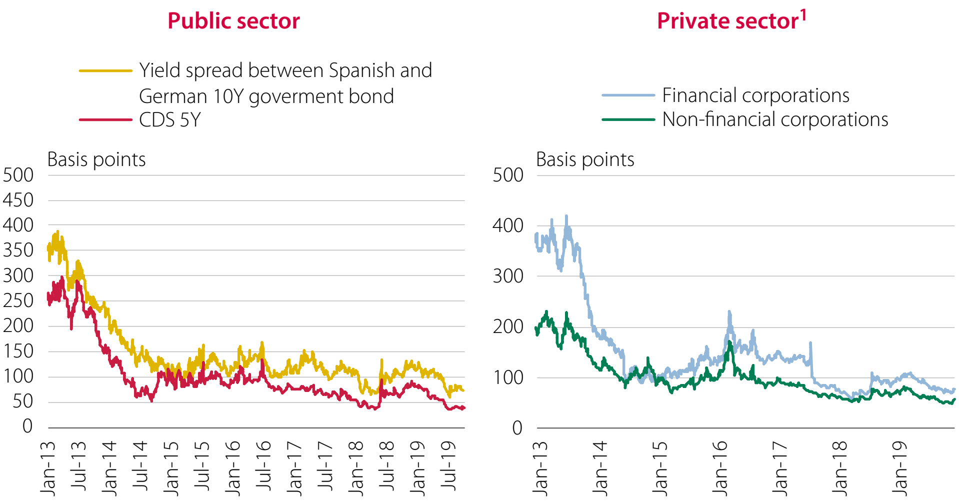
1 Monthly average of daily data.

The sovereign risk premium and those of the private sectors of the economy displayed a downward trend.

The sovereign risk premium remained relatively stable during the first quarter of the year at values above 100 bps and then began to decline benefiting from the announcements made by the monetary authority, as well as the better relative performance of the Spanish economy. The risk premium, assessed through the yield spread between the Spanish and German 10-year bonds, reached a minimum of 60 bps in July and closed the third quarter at 72 bps, below the 118 bps at which it ended 2018 (see Figure 18). The risk premiums of the private subsectors of the economy (measured by means of CDS averages of a sample of entities) have followed a downward trend practically throughout the year. In the case of financial institutions, whose net interest income is pressed downward by reduced interest rates, which also prevents impairments in late payments, the risk premium has changed from 108 bps at the end of 2018 to 78 bps at the end of September. In the case of non-financial companies, the accumulated decline over the year has been similar, reaching an average of 49 bps.

Risk premium paid by Spanish issuers

FIGURE 18



Source: Thomson Datastream and CNMV.

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

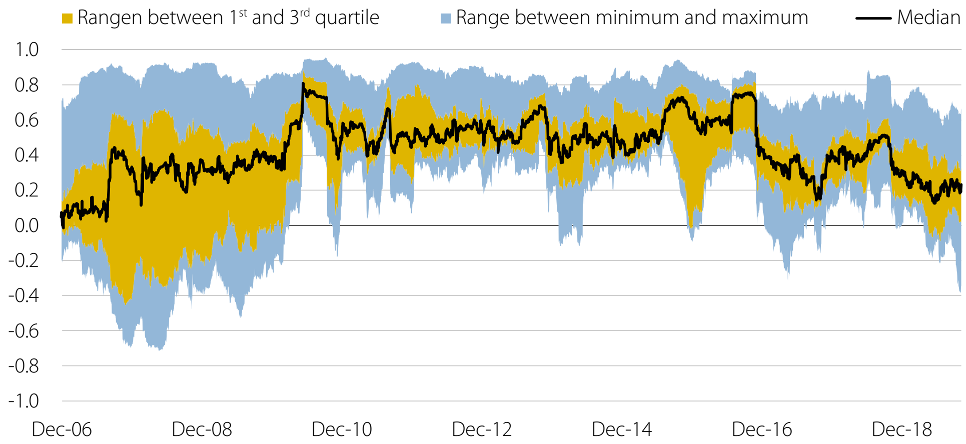
In relation to the activity registered in Spanish trading venues in 2019, it is worth noting the increase in listings in the Alternative Fixed Income Market (MARF) and of the trading in the two organised trading facilities (OTF) that were authorised by the CNMV in early 2018 (CAPI and CIMD). In the case of MARF, designed to facilitate the financing of smaller companies, listings between January and September stood at €7.39 billion, 68% more than in the same period of 2018. 91.3% of these admissions corresponded to promissory notes. In the case of CAPI and CIMD, venues in which instruments previously issued in other markets are traded, a trading volume was recorded in the first nine months of the year of €385.588 billion, 80% of which corresponded to national debt, mostly sovereign. More than 72% of this trading was carried out through CIMD.

In 2019, the listings in the MARF and the trading of debt in the two organised trading facilities (CAPI and CIMD) that were authorised in 2018 continued to increase.

The degree of correlation between the prices of the different classes of financial assets, which decreased markedly during the second half of 2018 and the first months of 2019, increased slightly from June onwards. The decline in the correlation in the previous months was largely caused by the increase in the prices of debt assets at times of generalised falls in stock prices or in some of its sectors. In recent months there seems to be a bit more synchrony between the movements of the fixed income and equity prices, although the general correlation indicator shows a small level in relation to its historic average (0.23 versus 0.38), as negative levels of correlation are detected between long-term public debt prices and various sectors of the stock market.[27] In general, small correlation values are compatible with the discrimination processes between the different types of assets available to investors.

The correlation between asset prices has increased slightly since June but remains low from a historic point of view.

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



Source: Thomson Datastream and CNMV.

1 The correlation indicator between asset classes includes pairs of correlations calculated using daily data in three-month windows. The asset classes are sovereign debt, private fixed income of financial and non-financial entities and securities of the Ibex 35, financial companies, utilities and other sectors. A high correlation between the different classes of Spanish assets would indicate the possible existence of gregarious behaviour by investors. This situation could cause high volatility during stress periods. However, diversification would offer fewer advantages, given that in this context it would be more difficult to avoid exposure to sources of systemic risk.

2 As from 7 June 2017, the CDS of the 5-year senior debt of Banco Popular has been excluded from the calculation of ROI on the asset class corresponding to financial fixed income.

27 Especially with the financial and non-financial sectors (not including utility companies).

The debt issuances of Spanish issuers made between January and September increased almost 21%, to 124.6 billion…

Gross fixed income issues made by Spanish issuers in the first 3 quarters of the year stood at €124.6 billion, almost 21% more than in the same period of 2018, as companies have taken advantage of good market conditions to finance or, in some cases, refinance themselves at a more competitive cost. Of this amount, 44% was registered with the CNMV and 56% was issued abroad.[28] Both the issuances registered with the CNMV and those made in other markets showed progress compared to 2018 figures, but these were of a different nature. In the first case, the increase is explained to a large degree by the high amount of the issues of a single issuer (SAREB Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria [Asset Management Company for Assets Arising from Bank Restructuring]), while in the second it is a more generalised increase between entities.

…of which 44% were registered with the CNMV…

As can be seen in Table 9, the total cumulative amount of issuances registered with the CNMV stood at €55.131 billion (26.8% more than in 2018). Simple bond issues exceeded €17.5 billion (almost one third of the total), more than double the figure recorded the previous year due to the SAREB issues discussed above.[29] The issuance of mortgage-backed securities registered an increase of 30%, to €15.425 billion, but its level is still small and its expansion is limited by the downward trend in the balance of the mortgage loan portfolio. This also highlighted an issue of BBVA internationalisation covered bonds amounting to €1.5 billion. The volume issued of promissory notes remained stable (€10.627 billion), while securitisations and preferred shares experienced falls (from 11.5% and 61.5%, to €9.06 billion and €1.5 billion) respectively.

…and the rest abroad. Spanish companies take advantage of such low interest rates and market appetite to increase their long-term issuances to the detriment of promissory notes.

Debt issuances abroad reached €69.481 billion until August, 15.2% more than in the same period of the previous year. This increase was based on the increase in obligations and bonds issues, which went from €27 billion in 2018 to €38 billion in 2019. In respect of the issuance of promissory notes, as with those registered with the CNMV, they performed more discreetly and fell 5.3% (to €31.5 billion) compared to the previous year. Also noteworthy is the slight rise in the debt issuances of subsidiaries of Spanish companies in the rest of the world, almost 2%, to €67 billion.

28 Issuances abroad include data until August.

29 The amount of the three SAREB issues made in the first quarter amounted to €10.2 billion.

Gross fixed-income issues registered with the CNMV

TABLE 9

					2019		
Registered with the CNMV	**2015**	**2016**	**2017**	**2018**	**I**	**II**	**III**
NOMINAL AMOUNT (millions of euros)	**136,607**	**139,028**	**109,487**	**101,296**	**20,850**	**14,325**	**19,956**
Mortgage-backed securities	31,375	31,643	29,824	26,575	2,745	5,930	6,750
Territorial bonds	10,400	7,250	350	2,800	0	0	0
Non-convertible bonds and obligations	39,100	40,170	30,006	35,836	13,620	2,365	1,533
Convertible/exchangeable bonds and obligations	53	0	0	0	0	0	0
Securitisation bonds	28,370	35,505	29,415	18,145	1,270	2,881	4,909
Corporate promissory notes[1]	27,310	22,960	17,911	15,089	2,215	3,149	5,264
Securitisation	2,420	1,880	1,800	240	0	0	0
Other promissory notes	24,890	21,080	16,111	14,849	2,215	3,149	5,264
Other fixed income issuances	0	1,500	981	0	0	0	1,500
Preferred shares	0	0	1,000	2,850	1,000	0	0
Pro memoria:							
Subordinated issuances	5,452	4,279	6,505	4,923	350	0	459
Secured issuances	0	421	0	0	0	0	0

					2019		
Abroad by Spanish issuers	**2015**	**2016**	**2017**	**2018**	**I**	**II**	**III[2]**
NOMINAL AMOUNT (millions of euros)	**66,347**	**58,587**	**84,760**	**89,358**	**27,940**	**26,299**	**15,241**
Long-term	33,362	31,655	61,095	38,425	16,750	13,589	7,629
Preferred shares	2,250	1,200	5,844	2,000	1,051	0	0
Subordinated obligations	2,918	2,333	5,399	2,250	1,750	5	0
Bonds and obligations	28,194	28,122	49,852	34,175	13,949	13,584	7,629
Securitisation bonds	0	0	0	0	0	0	0
Short term	32,984	26,932	23,665	50,933	11,190	12,710	7,612
Promissory notes	32,984	26,932	23,665	50,933	11,190	12,710	7,612
Asset securitisation	0	0	0	0	0	0	0

Pro memoria: **Gross issues of subsidiaries of Spanish companies resident in the rest of the world**

					2019		
	2015	**2016**	**2017**	**2018**	**I**	**II**	**III[2]**
NOMINAL AMOUNT (millions of euros)	**55,286**	**56,674**	**66,790**	**91,446**	**28,165**	**23,416**	**15,473**
Financial institutions	14,875	11,427	19,742	43,234	14,779	14,957	9,594
Non-financial companies	40,411	45,247	47,585	48,212	13,386	8,459	5,878

Source: CNMV and Bank of Spain.

1 The figures for issuing company promissory notes correspond to the amounts placed.

2 Data until August.

4 Market agents

4.1 Investment vehicles

Investment funds

The assets of the investment funds grew 4.5% in the first half of the year to stand at €270.916 billion due to the revaluation of its assets…

At the end of June 2019, the assets of investment funds amounted to €270.916 billion, 4.5% more than at the end of 2018 (see Table 11). Thus, the funds have recovered the assets lost during 2018 (-2.3%) due to the good performance of the markets in this period, which has contributed to generating positive net returns in all investment categories, and to a greater extent in equities. These positive returns offset the net reimbursements (€76 million) recorded in the first half of 2019.

…as the net subscriptions, which had been very negative at the end of 2018, were recovering in 2019 although the accumulated balance between January and June showed net refunds of €76 million.

After several years of significant net subscriptions, a change in trend was observed at the end of 2018, coinciding with a period of great turbulence in the financial markets. In this context there was a net outflow of resources of €3.9416 billion, which continued during the first quarter of 2019, although with a more moderate volume (€402.3 million). The trend was timidly reversed in the second quarter of 2019, in which net subscriptions for €326.2 million were recorded, although these failed to offset the outflows of the first quarter.

Net investment fund subscriptions TABLE 10

Millions of euros

				2018		2019	
	2016	2017	2018	III	IV	I	II
Total investment funds	**13,823.2**	**21,325.0**	**7,841.8**	**856.1**	**-3,941.6**	**-402.3**	**326.2**
Fixed inc.[1]	8,243.5	-3,638.0	-2,766.0	-887.2	-762.9	2,996.7	2,469.2
Mixed fixed inc.[2]	-4,750.8	2,890.5	-1,063.7	-295.7	-1,948.2	-543.8	-1,631.4
Mixed equities[3]	-5,194.5	5,498.6	2,485.9	634.5	-67.4	-27.3	2,623.8
Euro equities[4]	-538.0	2,549.7	1,848.7	-124.6	-111.6	-1,331.1	-1,272.8
International equities[5]	-32.5	4,514.0	3,864.1	961.8	450.3	-183.5	-38.9
Guar. fixed inc.	-3,699.6	-3,262.6	-575.8	-168.1	53.7	98.3	24.2
Guar. equity[6]	5,465.9	-309.5	-667.2	-245.6	215.0	-28.5	-4.7
Global funds	7,801.3	13,405.9	9,448.9	1,836.9	-139.1	182.9	93.2
Passive management[7]	5,603.4	-4,585.0	-2,790.4	-77.2	10.0	-270.6	-680.3
Absolute return	943.5	4,287.3	-1,899.6	-794.1	-1,641.4	-1,295.4	-1,256.1

Source: CNMV. Estimated data.

1 Includes: Euro fixed income, international and monetary fixed income (since III-2011, monetary FI includes the monetary mi ssion and short-term monetary fixed income, Circular 3/2011).
2 Includes: Euro mixed fixed income and international mixed fixed income.
3 Includes: Euro mixed equity and international mixed equity.
4 Includes: Euro equity.
5 Includes: International equities
6 Includes: GIF and partial guarantee.
7 Until I-2019 includes CIS passive management. From II-2019 this includes: CIS passive management, CIS that replicate an index and CIS with a specific objective of non-guaranteed return.

The increased aversion to risk of some investors in the first months of the year or after the turbulence of the end of 2018, made a part of them choose to redeem their stakes in those riskier fund categories, even though their returns were high, and to shift their investment towards other lower risk investment categories. Thus, the euro equity funds were the ones with the highest volume of redemptions in the first half of the year (€2.604 billion) - with a yield of 8.2% in the first quarter and 0.8% in the second - followed by absolute returns (€2.551 billion). Fixed-income funds also attracted subscriptions amounting to €5.466 billion in the first half of the year.

The increased aversion to risk of some unitholders caused a concentration of redemptions in the riskier fund categories, with the investment moving to lower risk investment categories.

No category of investment funds recorded negative returns in the first two quarters of the year. The good performance of the stock markets in the first quarter of 2019 generated significant returns on equity funds, which in the case of international equity funds were 11.86% and 8.21% in euro equities. In the second quarter of 2019 the returns of the funds with these objectives was positive, but much smaller. It also highlights the positive, although reduced, return on fixed income funds, which was 0.75% in the first quarter and 0.47% in the second. The long-term falls in interest rates contributed to generating gains on those investments of the funds in long-term fixed-income assets.

No category of funds showed a negative return in the first two quarters of the year, this being higher in the first, in line with the revaluation of the stock exchanges.

In the first half of 2019 the number of funds offered by the management companies remained almost constant, with a slight net increase of twelve funds. By categories, the largest increase occurred in the international equities category, with seventeen more funds than in December 2018. The number of passive management funds fell by eleven, followed by the absolute return funds, with a decrease of nine. Regarding passive management funds, it should be noted that Circular 1/2019 of 28 March of the CNMV, amending Circular 1/2009 of 4 February, on the categories of collective investment schemes based on their investment objective has divided the passive management category into two: funds that replicate an index and funds with an objective of non-guaranteed return. The managers have a transitional period of one year to adapt their objective to the new categories, therefore Table 11 includes in the passive management objective the funds that continue to be identified as such and those that have already adapted to the new categories.

The number of funds offered registered few changes in the first half of the year, with a slight increase of twelve institutions. The largest increase occurred in the equity categories.

Overall, the number of investment fund unitholders increased by 132,000 unitholders in the first half of the year, reaching 11.35 million (1.2% more than at the end of 2018). By categories, the evolution of the number of unitholders corresponds to the registered trend of subscriptions and redemptions, with an increase of more than half a million unitholders in fixed income funds, reaching practically 3.3 million at the end of the six-month period and a decrease of 267,000 unitholders in euro equities, to a figure of 564,000 at the end of the first half of the year.

However, the number of unitholders had increased by 132,000, to 11.35 million, by mid-year.

According to the provisional data of the end of August, the assets of the investment funds would have hardly changed, with a variation of 0.1% compared to June, to stand at €271.067 billion.

According to preliminary data for August, the assets of the investment funds would have remained stable at €271 billion.

Main investment fund variables[1, 2]

TABLE 11

Number	2016	2017	2018	2018 III	2018 IV	2019 I	2019 II
Total investment funds	**1,805**	**1,741**	**1,725**	**1,719**	**1,725**	**1,704**	**1,737**
Fixed income[3]	306	290	279	280	279	274	283
Mixed fixed income[4]	148	155	168	166	168	166	173
Mixed equity[5]	168	176	184	179	184	188	191
Euro equities	112	111	113	111	113	113	114
International Equities	201	211	236	229	236	240	253
Guaranteed fixed income	122	79	67	67	67	66	66
Guaranteed equity[6]	198	188	163	167	163	161	164
Global funds	203	225	242	238	242	238	240
Passive management[7]	220	202	172	181	172	160	161
Absolute return	106	104	99	99	99	96	90
Assets (millions of euros)							
Total investment funds	**237,862.2**	**265,194.8**	**259,095.0**	**274,645.0**	**259,095.0**	**268,364.0**	**270,916.0**
Fixed income[3]	74,226.4	70,563.9	66,889.3	67,936.3	66,889.3	70,391.3	73,202.8
Mixed fixed income[4]	40,065.6	43,407.0	40,471.0	43,640.9	40,471.0	40,980.6	39,643.5
Mixed equity[5]	16,310.6	22,386.7	23,256.0	24,782.7	23,256.0	24,465.0	27,350.1
Euro equities	8,665.9	12,203.2	12,177.7	13,985.1	12,177.7	11,844.7	10,676.8
International Equities	17,678.8	24,064.6	24,404.9	27,648.1	24,404.9	27,088.3	27,262.4
Guaranteed fixed income	8,679.8	5,456.7	4,887.4	4,779.7	4,887.4	5,065.6	5,197.8
Guaranteed equity[6]	15,475.7	15,417.5	14,556.0	14,294.3	14,556.0	14,724.9	14,938.2
Global funds	20,916.8	35,511.5	42,137.2	44,676.3	42,137.2	44,221.3	44,669.4
Passive management[7]	23,601.6	19,477.8	16,138.6	16,580.5	16,138.6	16,396.7	15,983.2
Absolute return	12,215.2	16,705.9	14,172.5	16,307.1	14,172.5	13,181.5	11,988.8
Unitholders							
Total investment funds	**8,253,611**	**10,287,454**	**11,217,569**	**11,332,911**	**11,217,569**	**11,211,400**	**11,350,779**
Fixed income[3]	2,347,984	2,627,547	2,709,547	2,726,028	2,709,547	2,737,450	3,279,530
Mixed fixed income[4]	1,043,798	1,197,523	1,188,157	1,245,007	1,188,157	1,168,810	1,124,303
Mixed equity[5]	448,491	584,408	624,290	623,901	624,290	620,258	695,823
Euro equities	395,697	710,928	831,115	833,260	831,115	820,890	564,406
International Equities	1,172,287	1,865,367	2,225,366	2,237,176	2,225,366	2,226,793	2,301,171
Guaranteed fixed income	307,771	190,075	165,913	166,125	165,913	162,551	164,034
Guaranteed equity[6]	552,445	527,533	494,660	499,529	494,660	493,318	491,969
Global funds	658,722	1,086,937	1,501,730	1,444,064	1,501,730	1,535,831	1,553,357
Passive management[7]	746,233	638,966	543,192	552,612	543,192	525,194	503,369
Absolute return	565,325	858,170	930,641	1,002,252	930,641	917,346	669,857
Return[8] (%)							
Total investment funds	**0.98**	**2.42**	**-4.89**	**0.02**	**-4.13**	**3.85**	**0.83**
Fixed income[3]	0.52	-0.13	-1.44	-0.09	-0.42	0.75	0.47
Mixed fixed income[4]	0.27	1.10	-4.27	-0.10	-2.85	2.65	0.75
Mixed equity[5]	1.19	3.23	-6.45	0.43	-5.83	5.32	1.03
Euro equities	2.61	11.16	-13.01	-1.29	-11.94	8.21	0.82
International Equities	4.15	8.75	-12.34	0.88	-13.06	11.86	0.79
Guaranteed fixed income	-0.03	0.72	0.09	-0.75	1.14	1.51	2.12
Guaranteed equity[6]	0.19	1.61	-1.33	-0.86	0.34	1.38	1.42
Global funds	1.99	4.46	-5.69	0.49	-5.27	4.62	0.82
Passive management[7]	1.16	2.13	-3.16	-0.15	-2.74	3.37	1.66
Absolute return	0.38	1.44	-4.81	-0.23	-3.14	2.26	0.54

Source: CNMV.

1 Information on funds that have sent reserved statuses (does not therefore include funds in the process of dissolution or liquidation).

2 As from July 2015, the data of the special purpose compartments are only included in the totals, not in the breakdowns by objective, due to a lack thereof.

3 Until I-2019 this includes: Euro fixed income, international fixed monetary, monetary and short-term monetary. From II-2019 this includes: Short-term public debt constant net asset value MMF, short-term low volatility net asset value MMF, short-term variable net asset value MMF, standard variable net asset value MMF, euro fixed income and short-term euro fixed income.

4 Includes: Euro mixed fixed income and international mixed fixed income.

5 Includes: Euro mixed equity and international mixed equity.

6 Includes: GIF and partial guarantee.

7 Until I-2019 includes passive management CIS. From II-2019 this includes: Passive management CIS, CIS that replicates an index and CIS with a specific objective of non-guaranteed return.

8 Annual return for 2016, 2017 and 2018. Quarterly return not annualised for quarterly data.

The liquidity conditions of the private fixed income portfolio of investment funds improved substantially between 2010 and 2014.Since then, the weight of assets with reduced liquidity[30] has remained stable at moderate levels, oscillating between 7% to 9% of the private fixed income portfolio of the funds. During the first half of 2019, the same trend continued, with these less liquid assets representing 7% of private fixed income assets. The total volume of assets considered to be of reduced liquidity decreased from €3.493 billion in December 2018 to €3.168 billion in June 2019. The weight of these assets with respect to the total assets of the investment funds has been reduced slightly, from 1.35% to 1.17%.

The volume of lower liquid assets within the private fixed income portfolio of investment funds continued to decline in the first half of the year, reaching 1.2% of its total assets.

Estimated liquidity of investment fund assets TABLE 12

	Reduced liquidity investments					
	Millions of euros			% / portfolio total		
Asset type	**Dec-18**	**Mar-19**	**Jun-19**	**Dec-18**	**Mar-19**	**Jun-19**
Financial fixed income with a AAA/AA rating	169	102	72	14	8	5
Financial fixed income with a rating below AA	1,579	1,289	1,484	6	5	6
Non-financial fixed income	790	944	918	4	5	5
Securitisations	955	877	694	90	86	83
AAA securitisation	101	74	19	100	100	100
Other securitisations	853	804	675	89	85	83
Total	**3,493**	**3,212**	**3,168**	**7**	**7**	**7**
% / IF assets	**1.35**	**1.20**	**1.17**	**–**	**–**	**–**

Source: CNMV.

Open-ended collective investment scheme (Sociedades de inversión de capital variable) (SICAV)

In 2019, the number of SICAVs registered in the CNMV continued to decrease due to various liquidation, merger and entity transformation processes. Consequently, the number of companies decreased by 86, to stand at 2,627 in August and the number of shareholders fell by 14,126. The volume of net redemptions (stock buybacks) in the same period amounted to €788 million, due mainly to the deregistrations recorded in the period.

In 2019, the number of SICAVs decreased due to various liquidation, merger and entity transformation processes…

In spite of the reductions in assets caused by the deregistrations and the redemptions derived in a large part from these, the assets of all the SICAVs increased moderately in the first half of 2019 to stand at €29.105 billion, 4.6% higher than at the end of 2018. The increase in assets is explained, as in the case of investment funds, by the good performance of the markets in the first half of the year, which generated net returns of €2.076 million, which represents 7.5% of the equity at the end of 2018.

…in spite of which its assets increased due to the revaluation of its assets.

30 For the purposes of this analysis, a liquid asset is considered to be one that has a maturity of less than 1 year or has firm quotes offered by different contributors.

Hedge funds

Hedge funds maintain a very small weight in the collective investment industry (barely 1%)…

Hedge funds continue to have a very small weight in Spain within collective investment, since it represents only 1% of total assets. This collective investment segment consists of two types of vehicles, depending on whether they invest in assets directly (hedge funds) or through other hedge funds (fund of hedge funds). In both cases, the vehicles can be constituted as funds or as societies.

…although their aggregate assets increased 7% in the first half of the year, due to both the net subscriptions of these assets…

The aggregate assets of these institutions grew by 7% in the first half of 2019, reaching €2.92 billion at the end of June: €2.4128 billion in hedge funds and €508 million in funds of hedge funds. Both categories attracted moderate net subscriptions during the first half of the year: €72.8 million in the case of the former and €29.7 million for the latter.

…and portfolio returns.

The performance of the return of the portfolio of these institutions was higher in the first quarter of the year and fell in the next. In particular, hedge funds obtained a return of 5.56% in the first quarter of 2019 and -2.52% in the second, while funds of hedge funds registered 1.86% and -0.61% respectively.

The number of institutions and unitholders of hedge funds showed remarkable growth in the first half of the year.

The number of hedge funds grew by 5% during the first half of 2019 and went from 49 institutions at the end of 2018 to 54 at the end of June this year, while the number of funds of hedge funds did not change, remaining at 7 entities. The total number of unitholders in these institutions increased substantially in hedge funds (33%, to stand at 5,930 unitholders), which is partly explained by the launch of new vehicles. The number of unitholders in funds of hedge funds grew more moderately: 1.53%, to stand at 2,847 unitholders at the end of the first half of the year.

Main hedge fund and fund of hedge fund variables

TABLE 13

				2018		2019	
	2016	2017	2018	III	IV	I	II[1]
FUNDS OF HEDGE FUNDS							
Number	7	8	7	7	7	7	7
Unitholders	1,237	3,596	2,804	2,802	2,804	2,847	2,847
Assets (millions of euros)	293.7	468.7	468.8	472.2	468.8	506.9	508.0
Return (%)	0.90	-1.66	-1.28	0.42	-1.06	1.86	-0.61
HEDGE FUNDS							
Number	41	47	49	49	49	50	54
Unitholders	2,930	3,656	4,444	4,350	4,444	5,937	5,930
Assets (millions of euros)	1,889.2	2,298.2	2,262.2	2,397.7	2,262.2	2,395.0	2,412.8
Return (%)	4.32	7.84	-6.47	-0.75	-6.16	5.56	-2.52

Source: CNMV.

1 Data until May, except number of entities which is for June.

Real estate CIS

The real estate CIS remain in the state of atony that they show for several years. Only two FII (in liquidation) and four SII (one of them in a state of being wound up) remain.

During 2019 and according to the latest available data for the end of August, it can be seen that the Spanish real estate collective investment schemes continue to remain in the state of atony that they have shown for several years. Real estate investment funds (FII - Fondo de inversión inmobiliaria) are unable to recover the appeal they had among investors before the crisis, when they reached assets of €8.586 billion in mid-2008.In August 2019, only two FIIs were registered, both in a state of being wound up, with joint assets of €309 million. Real estate investment companies (SII - Sociedad de inversión inmobiliaria) have also failed to attract assets in the first 8 months of 2019. The number of these entities remains at four - one of them being wound up - and its assets stood at €760 million.

The decline in real estate CISs coincides with the growth of REITs, a real estate investment vehicle that has managed to win over investors. REITs are listed public limited companies whose corporate purpose consists, analogously to the FII and the SII, either in the investment in real estate for their lease or in the indirect investment through the purchase of shares or equity stakes in the share capital of other REITs or similar foreign entities. At the end of August 2019 there were a total of 79 REITs, 75 listed in a specific segment of the MAB and the other four, in the continuous market of the Madrid Stock Exchange, with a total capitalisation figure for the sector of close to €25 billion.

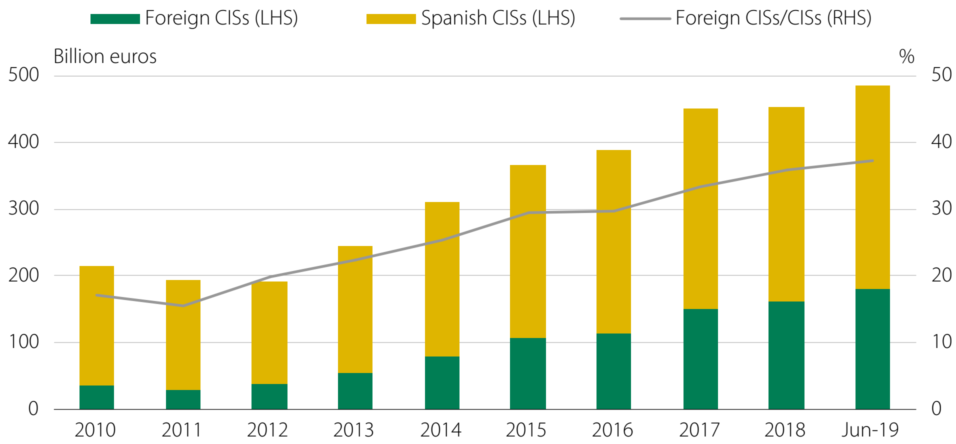
The decline of these institutions coincides with the expansion of REITs, which are listed companies in the markets and whose corporate purpose is analogous to that of real estate CISs.

Foreign CISs traded in Spain

The volume traded in Spain by foreign CISs has continued to increase over recent years. In fact, it has multiplied by 10 since 2008, from €18 billion at the end of 2008 to €180.976 billion in June 2019. During the first half of 2019 the volume traded increased by 11.2% compared to the end of 2018, a year that ended with a total traded volume of €162.702 billion.[31] As can be seen in Figure 20, this strong growth rate has meant that the weight of foreign CISs in total CIS has increased significantly in the last 5 years, standing at 37.3% in June 2019.

The traded volume of foreign CISs continued to increase in the first half of the year. Its assets exceeded 180 billion in June, which represents 37.3% of the total assets traded in Spain.

Assets of foreign CISs marketed in Spain FIGURE 20



Source: CNMV.

31 It should be remembered that the entry into force of Circular 2/2017 of 25 October of the CNMV, amending Circular 2/2011 of 9 June, on information from the foreign collective investment schemes registered in the CNMV Registers implies the obligation for all foreign CIS marketers to send the CNMV a greater amount of data regarding the volume traded in Spain. This new circular allows for more comprehensive and higher quality information, by clarifying in an unambiguous manner the subject obliged to send said information in each case. This regulatory change could make the information received prior to 31 December 2017 not fully comparable with that received after of that date.

Outlook

The industry is gradually recovering from the turbulence of the end of 2018 in an environment of income, savings and interest rates that favours investment in IF. However, the increased aversion to risk of the unitholders will determine the extent of their growth in the coming months.

The collective investment industry has been recovering progressively from the impact of the turbulence in the markets at the end of 2018, which resulted in both a sharp loss of value of the funds' assets and a significant increase in the redemptions of the unitholders. In the first half of the year there has been a notable recovery in assets, which is mainly associated with the revaluation of assets and an expansion of foreign CISs, representing almost 40% of the industry. The environment of rising household income and the incipient increase in the savings rate in a context of reduced interest rates continues to favour investment in these products. However, the presence of several uncertainties in a weaker economic environment has increased aversion to risk on the part of investors, who are once again prioritising more liquid and lower risk financial products. This behaviour - which is also observed in the area of investment funds, in which there have been extensive redemptions in the most risky funds and subscriptions in the most conservative - may continue in the coming months if current uncertainties persist.

Study on the costs and return of investment funds in Spain

EXHIBIT 3

Several comparative studies have recently been published on the level of costs borne by investment funds domiciled in different jurisdictions, at a European and global level. For example, in January 2019 the European Securities and Markets Authority (ESMA) published the first statistical report on returns and costs of investment products traded in the European Union to retail investors.[1] It mainly analyses the harmonised collective investment schemes at a European or UCITS level (which meet the requirements of Directive 2009/65/EC). The intention is to extend it in the future to alternative funds, which comply with Directive 2011/61/EC, and to structured products to the extent that the necessary data on them become available.

ESMA mentions access to homogeneous and comparable data as a condition that could limit the interpretation of its first study on the return and costs of the UCITS. There is currently no unified European data collection framework for UCITS, so ESMA had to resort to the Thomson Reuters Lipper commercial database, which publishes the data received from the management companies. One of the biggest problems in this analysis refers to the difficulty of comparing the cost ratios incurred, since the management companies do not follow the same criteria in all jurisdictions in terms of the concepts incorporated in their calculation.

Taking these limitations into account, ESMA analysed the performance and costs ratio data of institutions covering 68% of the European UCITS market, corresponding to 14 jurisdictions.[2] There are 5 categories of investment funds: equity, bond, mixed, money market and alternative, referring to 4 time horizons until 2017: 1 year, 3 years, 7 years and 10 years. Each category also distinguishing between funds marketed to retail and institutional investors. ESMA's comparative analysis shows the following:

– In the categories of equity funds, mixed and alternative funds, the costs borne by the Spanish funds are (always according to the calculations made by ESMA) in line with the average of the European Union funds analysed.

In the category of bond funds, Spanish funds bear a lower than average level of costs borne by the funds analysed (0.81% vs 1.04%) and, lastly, in the category of money market funds, the level of costs is higher than the EU average (0.44% vs 0.21%), although it should be taken into account that this category has a very low weight compared to the total of CISs in Spain, which is less than 3%.

However, when making comparisons between the costs borne by CIS investors in different jurisdictions, it should be taken into account that in Spain, as in other European countries, distributors are generally remunerated via the transfer by the managers of a significant percentage of its management fee, which determines that this is generally higher. In the ESMA study, the management fee is considered, but not the fees paid directly by the investor to the distributor (since these are not fees borne by the fund), therefore, the countries in which the distributor is explicitly remunerated by the investor appear in the study with less costs borne by the investors.

According to the information available to the CNMV, the average retrocession of management fees to distributors in 2017 amounted to 59% (in June 2019 approximately 50%). If the management fees borne were adjusted in this percentage, Spanish bond funds would have even lower costs than those of funds domiciled in the United Kingdom (0.99%) and in the Netherlands (0.60%); in the case of equity funds, the Spanish ones would be cheaper than the British (1.49%), although they would have remained slightly above the Dutch ones in costs (0.79%). The cases of the United Kingdom and the Netherlands are mentioned because in these countries the distribution model is based on the explicit payment of fees by investors to distributors.

– The comparative analysis of ESMA also reveals that in most investment categories, except for equities in some time horizons, the gross performance of Spanish funds is below average.

After the publication of this report, and given the relevance of the issue, an analysis is being performed of the returns and costs of Spanish investment funds that shall be used to contrast the results presented by ESMA based on the verified and complete data available to the CNMV on all funds domiciled in Spain. In this regard, it should be noted that the CNMV receives from the CIS under its supervision, both private and public, which it is disseminated through its website. Among the latter is the Key Investor Document (KID) which collects in an updated way the ratio of costs borne by the institution in the last financial year, calculated according to the methodology established in European guidelines *CESR's Guidelines on the methodology for calculation of the ongoing charges figure in the Key Investor Document (CESR/10-674)*. According to this methodology, the sum of the management fee, the depositary fee and all other ongoing costs borne by the fund (except performance fees and transaction costs) must be incorporated into the numerator of the ratio.

The performance and cost analysis is being carried out, on the one hand, of the ongoing costs ratio extracted from the KID and, on the other, of the annual performance calculated from the variation of the net asset value at the beginning and end of the year. In this first approach of the work, data from the last two closed financial years have been used, but it will try to extend and deepen both in relation to the historic period and to other factors and CIS groups.

In this first approach, and to be able to compare the conclusions with those obtained by ESMA, the investment funds (IF) and the harmonised SICAVs or UCITS have been analysed. In December 2017, these represented 77% of the total assets of IFs and SICAVs domiciled in Spain, while in December 2018 their weight had increased to 82.6% of the total. Secondly, they have been regrouped[3] into the same categories that ESMA distinguishes (equity, bond, mixed, alternative and money market) and in each of them the funds that go to retail investors have been separated from those that are directed to the institutional investors.

The preliminary work, regardless of the aforementioned adjustment related to the distribution model, shows that the ongoing costs ratio for Spanish funds in 2017, calculated from KID data, is between 0.15 pp and 0.40 pp lower than that calculated by ESMA (from Thomson Reuter Lipper data) depending on the category of the funds. Spanish equity and money market funds would continue to bear somewhat higher costs than the average of EU funds although this distance would be less (for example, in equities these costs are 1.76% on average in the EU and 1.81% in Spain), and the costs of the Spanish bond and mixed funds, which were already below the EU average according to ESMA, would increase their difference, which in the case of bond funds is noticeable (1.04% in the EU vs 0.66% in Spain). Logically, if these percentages were adjusted by deducting the amount of management fee paid to distributors, the data on costs borne by the Spanish CISs would be significantly lower.

Total costs in 2017 TABLE E.3.1

% assets, without adjustment to distribution model

	EU average	Spain (ESMA)	Spain (CNMV)
Bond	1.04	0.81	0.66
Equity	1.76	2.15	1.81
Mixed	1.62	1.57	1.41
Alternative	1.66	1.74	1.34
Money market	0.21	0.44	0.29

Source: CNMV.

In addition to the analysis of the return and costs of the UCITS reproducing the ESMA study, the historic series of costs incurred in the last 10 years by the Spanish IFs classified according to Circular 1/2019 of 28 March, has been obtained from the CNMV for the categories of collective investment schemes depending on their investment objective. The series has been obtained from the expenses borne by the IFs, for the amounts accounted for as a management fee, depositary fee and other costs incurred with respect to the weighted average assets of each category. This ratio does not exactly correspond to that of current costs included in the KID, but it is a fairly close approximation.[4]

As can be seen in Table E.3.2, there has been a decreasing trend in the ratio of total costs borne by the IFs in the last 10 years, more so since 2012 and 2013, when costs reached maximum levels in most objectives. In 2018, the cost ratios of all categories, except monetary, registered their lowest level for the entire period and ranged between 0.35% of the assets (monetary) and 1.75% (euro equities). The decrease in expenses from their maximum levels has ranged between 18% in the category of euro mixed fixed income and 61% in guaranteed variable returns.

Total costs over assets TABLE E.3.2

%	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Monetary	0.61	0.59	0.63	0.66	0.61	0.60	0.45	0.31	0.29	0.35
Euro fixed income	0.75	0.76	0.76	0.80	0.81	0.84	0.75	0.68	0.61	0.53
International fixed income	1.09	1.23	1.13	1.41	1.15	1.15	1.06	0.96	0.98	0.9
Euro mixed fixed income	1.36	1.36	1.38	1.34	1.39	1.37	1.32	1.31	1.21	1.14
International mixed fixed income	1.34	1.32	1.23	1.25	1.19	1.24	1.22	1.16	1.13	0.97
Euro mixed equity	1.96	1.94	1.97	2.01	2.08	1.91	1.96	1.84	1.75	1.66
International mixed equity	1.61	1.68	1.63	1.65	1.57	1.53	1.52	1.53	1.45	1.35
Euro equities	2.04	2.12	2.16	2.26	2.36	2.03	2.00	2.00	2.00	1.75
International Equities	2.20	2.26	2.15	2.23	2.32	2.17	2.03	2.01	2.01	1.65
Passively managed CIS	0.99	0.88	0.97	1.03	0.89	0.82	0.76	0.66	0.61	0.55
Guaranteed fixed return	0.71	0.73	0.83	0.92	1.00	1.01	0.94	0.77	0.56	0.45
Guaranteed variable return	1.46	1.31	1.34	1.33	1.38	1.32	1.16	0.78	0.65	0.57
Partial guarantee	1.54	1.38	1.47	1.48	1.53	1.32	1.10	0.80	0.70	0.65
Absolute return	1.29	1.22	1.23	1.33	1.29	1.24	1.13	1.09	1.02	0.90
Global	1.13	1.30	1.31	1.42	1.56	1.40	1.27	1.40	1.24	1.16

Source: CNMV.

1 This analy sis was carried out at the request of the European Commission, addressed to ESMA and the other European Supervisory Authorities (ESAs), to analyse the return and costs of the different investment products aimed at retail investors and to issue periodic reports with the conclusions.
2 In order from largest to smallest market size: Luxembourg, United Kingdom, Ireland, France, Sweden, Germany, Italy, Spain, Finland, Denmark, Austria, Belgium, Netherlands and Portugal.
3 During the period analysed, the IFs and the SICAVs were classified into 14 objectives, according to Circular 1/2009 of 4 February of the CNMV on the categorisation of collective investment schemes (CIS) according to their investment objective. Circular 1/2019 of 28 March 2019, amended Circular 1/2009, expanding the number of existing objectives.
4 The ratio of current costs included in the KID does not include the management fee based on results but does have an estimate of the indirect costs borne by the investment in other CISs, whereas the ratio in Table E.3.1 includes the management fee on assets and does not include indirect costs.

4.2 Provision of investment services

The provision of investment services in Spain can be carried out by credit institutions, broker dealers and brokers, financial advisory firms and portfolio management companies.

The provision of investment services can be carried out in Spain by large types of entities: credit institutions, broker dealers and brokers. The first are the main providers of investment services and is where most of the income generated by this activity is concentrated. This trend has become accentuated in recent years by the fact that several banks have absorbed their broker dealers and brokers. Consequently, the degree of concentration of banks providing investment services has been increasing. Together with these entities, financial advisory firms (EAF - Empresa de asesoramiento financiero) and portfolio management companies (SGC - Sociedad gestora de carteras) also provide investment services.

The CNMV supervises them all in relation to their prudential aspect and compliance with the rules of conduct, except in the case of credit institutions, over which prudential supervision is not carried out.

This section presents the performance of the activity and the economic and financial situation of the entities whose supervision - in relation to the prudential aspect and compliance with the rules of conduct - is carried out by the CNMV, which are the broker dealers and brokers, the SGCs[32] and the EAFs.[33] It also provides information on the investment services provision activity of the credit institutions that are authorised to do so and on which the CNMV performs supervisory work regarding compliance with the rules of conduct in the market and in relation to the clients. For the first time this report includes data on this last group of entities with the information received by the CNMV to carry out this supervisory work, which is of an annual nature. Therefore, it will only appear in one of the two reports of this type that are published annually. At the end of the section, and also in a novel way, a specific analysis is introduced related to the investment services provision activity with an approach that goes beyond the legal form of the entity, which is the typical analysis, and which takes the business model of the entities into consideration.

Credit institutions

The number of national credit institutions registered at the end of 2018 totalled 113, nine less than in 2017, while the number of branches of foreign credit institutions remained at 56, the majority from community countries.

The number of national credit institutions registered with the CNMV for the provision of investment services amounted to 113 at the end of 2018, nine less than in 2017. This decline, which has lasted for several years,[34] forms part of the reorganisation process of the banking sector following the financial crisis. The number of branches in Spain of foreign credit institutions remained at 56, 53 entities located in the European Union and three non-EU entities. The decrease in the number of credit institutions together with the takeover by some of them of their broker dealers and brokers has led to a significant increase in the degree of concentration of this sector, especially in comparison to the broker dealers and brokers. As can be seen in Figure 21, the ten largest credit institutions obtained 57% of total revenue in 2012, compared to 70% in 2018, while the opposite is observed in the case of broker dealers and brokers (50% in 2012 and 41% in 2018).

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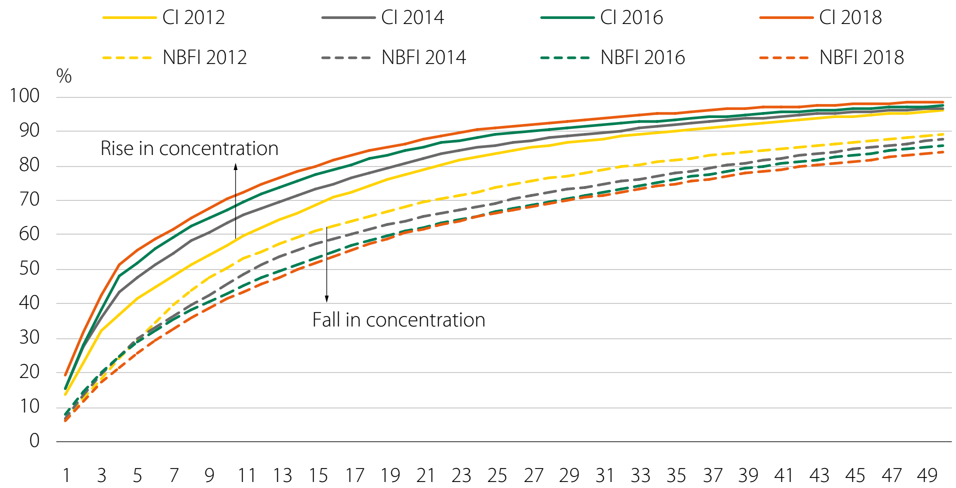
32 On the closing date of this report, only one SGC was registered with the CNMV. Due to its lower significance in relation to the other entities, a specific sub-section is not dedicated to it.

33 The information received by the CNMV on the EAFs is annual and is presented in the report corresponding to the first quarter of each year.

34 In 2011 there was a total of 192 registered entities.

Sector concentration: % of accumulated revenue based on the number of entities[1]

FIGURE 21



Source: CNMV.

1 Entities on the X axis ordered from highest to lowest volume for service provision revenue.

According to the information received by the CNMV, the revenue received by credit institutions for the provision of investment services stood at €4.531 billion in 2018, slightly below the figure for 2017 (-0.6%). The breakdown by type of investment service reveals that the revenue related to brokerage (reception and transmission of orders and placement of financial products) was the most significant, with €2.44 billion, albeit 7% lower than the figure for the previous year (see Figure 22). This type of revenue has lost relative importance in relation to other investment services, given that in 2011 it was responsible for 73% of total revenues while in 2018 this percentage fell to 54%. To the contrary, the income received by the rest of the investment services increased: 15.1% for advice (13% of the total), 6.5% for portfolio management (9% of the total) and 3 % administration and custody (15% of the total). Within the scope of the revenue received by these entities, it is worth noting the fact that a substantial part of these is due to incentives received for the provision of a specific investment service. These incentives totalled €2.466 billion in 2018, representing 54% of total revenues. The relative importance of this revenue has fluctuated between 51% and 63% in recent years and is significantly higher than that shown in the ESIs (Empresa de servicios de inversión or investment firm - IF) (13% on average between 2011 and 2018), which shows the differences in the business models of both types of entities.

The revenue received by credit institutions for the provision of financial services in 2018 stood at €4.531 billion, a figure similar to that of 2017, although with a recomposition between brokerage revenue (downwards) and other revenue (upwards).

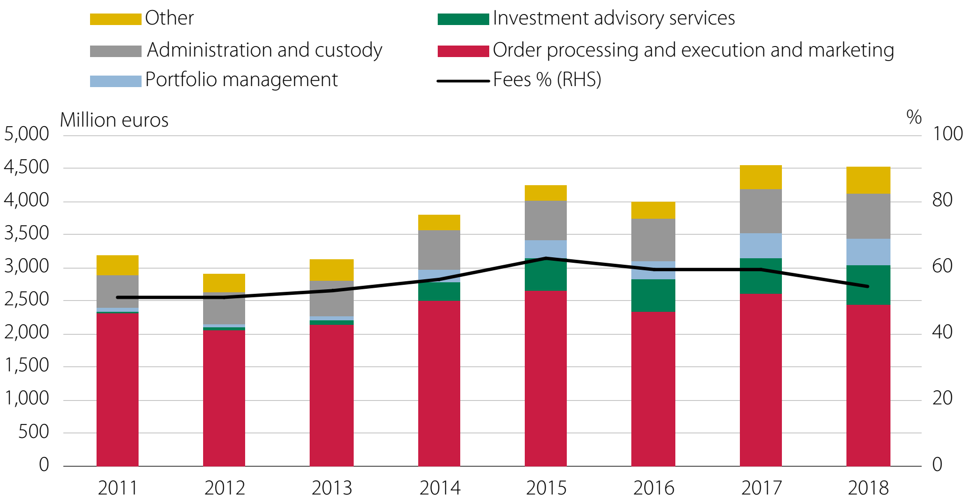
The clients of credit institutions are mostly retailers (more than 99%). At the end of 2018, there was 11.651 billion, somewhat less than in 2017 (11.905 billion). Most of them are related with credit institutions for administration and custody and brokerage services. The number of professional clients was somewhat higher than 24,000 and that of eligible counterparties[35] was around 12,000.

The number of retail clients of these entities, which represent more than 99% of the total, was 11,651 million at the end of 2018.

35 These are clients that have the maximum knowledge, experience and financial capacity and, consequently, the level of protection that MiFID grants them is lower. Basically these are entities authorised to operate in the financial markets (investment companies, credit institutions, insurance companies and central banks, etc.), as well as governments.

Revenue received by the credit institutions for the provision of investment services

FIGURE 22



Source: CNMV.

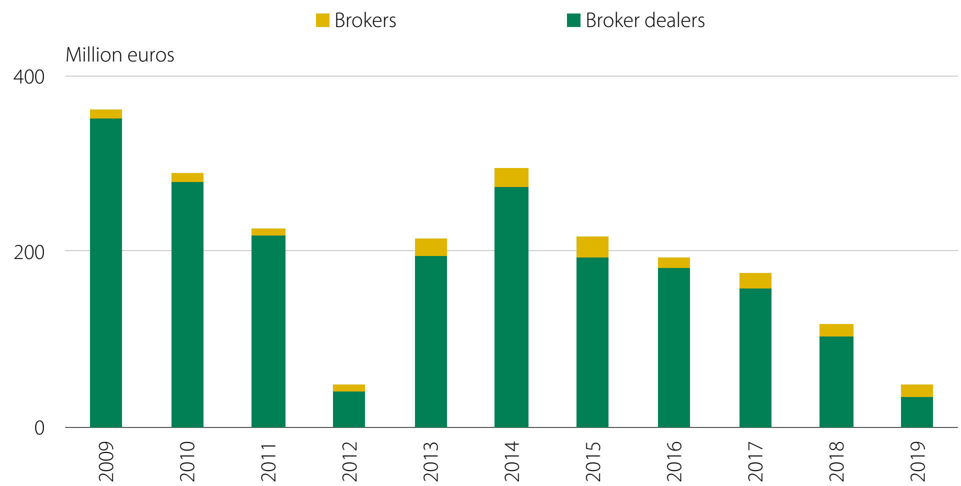
Broker dealers and brokers

The aggregate profits of broker dealers and brokers decreased in the first half of 2019, prolonging the trend that began in 2015, due to the poor performance of the companies.

The aggregate profits of broker dealers and brokers (SAV) continued to decline during the first half of 2019, prolonging the downward trend that began in 2015. These benefits (in annualised terms) were 57.6% lower than those in 2018, a year in which the decline had also been significant (-33.6%). This contraction of profits was due exclusively to the performance of the broker dealers (SV) given that the brokers (AV) registered an increase (although their amount is small). This uneven evolution has meant that the AVs, which have traditionally had an insignificant weight in the total activity of SAVs, have increased their relative weight in the sector, contributing 26.1% of the results generated by all SAVs during 2019.

Aggregate pre-tax profit of investment firms[1, 2]

FIGURE 23



Source: CNMV.

1 Except EAFs and portfolio management companies.

2 Annualised 2019 data based on the profit (loss) for the first half of the year.

These successive falls and at an increasing rate have caused the level of SAV profit (loss) in 2019 (€49.4 million in annualised terms) to be less than one tenth of the amount recorded in 2008 (€526.4 million). A part of this fall is explained by the deregistrations of recent years of entities belonging to banking groups, in which the provision of investment services has been carried out directly by the credit institution itself. Furthermore, the entry into force of the MiFID regulations (I and II) has led to a general tendency in Europe to delocalise the trading volumes of securities from national markets to other regulated markets, multilateral trading facilities and trading venues. This trend has been accompanied by a significant decrease in fees received by SAVs for the *order processing and execution* service, so it is reasonable to think that, in addition to a downward trend in total trading volumes and a certain downward pressure on brokerages applied in an environment of greater competition, access to these markets and external platforms can be carried out largely through foreign intermediaries.

The downward trend in the profits of these entities is explained both by some losses caused by large entities and by the decline in revenue from some business lines.

As for the number of entities registered with the CNMV, at the end of June 2019 there was a total of 39 SV, the same number as at the end of 2018, and 55 AV, three more than at the end of 2018. The number of entities that provide investment services in other countries of the European Union, both through branches (seven entities) and taking advantage of the freedom to provide services provided by the community passport (48 entities) has remained constant in 2019. So has the number of entities with branches open in third countries (six entities) and those that provide services in third countries without a branch (five entities) has increased by one. The stability in the number of Spanish entities that provide investment services abroad contrasts with the increase in the number of intermediaries based in European Union countries that provide investment services in Spain:3,050 entities as at 30 June 2019 compared to 2,938 at the end of 2018.Brexit has played a significant role in this increase, given that out of the total number of entities, about 70% (2,234) are based in the United Kingdom, followed by Malta, with 211 entities.

In the first 6 months of the year, the number of SVs remained at 39, while that of AVs increased by three, to 55. It is worth noting the increase in brokers based in European Union countries that provide investment services in Spain, especially in the United Kingdom.

A more detailed analysis of the profit & loss account of the SVs (see Table 14) reveals that the aggregate profit before taxes of these entities fell by 73% in the first quarter of the year. The decrease in operating costs (9%) was not enough to offset the decline in its main source of revenue: fees derived from the provision of investment services. These fees decreased by 13.4% mainly due to the fall in revenue related to the processing and execution of orders (-29%, to €66 million) and, to a lesser extent, those coming from the portfolio management (-21%, to €6.2 million). There was also a fall in fees derived from the sale and marketing of CIS, but less than in 2018 (-3.2%). Among the gains, of particular note are the fees for deposit services and the book entry of securities (4.6%, up to €23 million) and the fees for investment advice, the amount of multiplied by 2.2 to €7.6 million. The increase in the latter may have been influenced by the entry into force of the MiFID II directive, whose regulation regarding the receipt of third-party incentives encourages greater provision of the advisory service.

The aggregate profit before tax of securities dealers fell by 73% in the first half of the year. The decrease in operating costs was not enough to offset the decrease in revenue related to the processing and execution of orders…

The net interest income showed a sharp decline (73%, to €12.4 million), which is justified by the negative performance of 2 entities (these explain 80% of the decline) in a context of reduced interest rates that prevents a more favourable behaviour of this item.

…or other items such as net interest income.

In contrast, the aggregate profits of the brokers increased (26.7%, to €7.4 million), although their amount is much smaller than that of the broker dealers.

In the case of the AV, with much smaller amounts, the items in the profit & loss account showed a more favourable performance, with a gain in profit before tax of 26.7%, up to €7.4 million. The fees received by these entities were at a level similar to that of 2018 (-0.5%), as the increases in fees for processing and execution of orders (13.2%) and advice (57.7 %) were offset by the fall in fees due to the marketing of CIS (-5.3%), portfolio management (-5%) and for other types of fees (-11.3%). The decrease in fees paid (9.7% to €8.9 million) also had a positive impact on the profit & loss account. Overall, the gross margin grew 3.6%, which together with the moderate increase in operating costs (1.5%) allowed the gains in the previously mentioned profits.

Aggregate income statement

TABLE 14

Thousands of euros

	Broker dealers			Brokers		
	Jun-18	Jun-19	% change	Jun-18	Jun-19	% change
1. Net interest income	46,031	12,446	-73.0	1,076	609	-43.4
2. Net fees	151,557	118,404	-21.9	57,371	58,008	1.1
2.1. Fees received	213,150	184,559	-13.4	67,210	66,889	-0.5
2.1.1. Processing and execution of orders	92,739	65,962	-28.9	10,415	11,788	13.2
2.1.2. Issuance placement and underwriting	2,029	2,153	6.1	849	208	-75.5
2.1.3. Deposit and book-entry of securities	21,937	22,946	4.6	424	421	-0.7
2.1.4. Portfolio management	7,765	6,163	-20.6	6,803	6,462	-5.0
2.1.5. Investment Advice	2,352	7,599	223.1	4,273	6,738	57.7
2.1.6. Search and placement of packages	211	16	-92.4	0	0	–
2.1.7. Market credit transactions	0	0	–	0	0	–
2.1.8. CIS Trading	28,185	27,276	-3.2	30,795	29,171	-5.3
2.1.9. Other	57,933	52,444	-9.5	13,650	12,102	-11.3
2.2. Fees paid	61,593	66,155	7.4	9,839	8,881	-9.7
3. Result of financial investments	14,705	17,277	17.5	-86	738	–
4. Net exchange differences	1,707	-79	–	-7	25	–
5. Other products and operating charges	12,202	15,570	27.6	-768	266	–
GROSS MARGIN	**226,202**	**163,618**	**-27.7**	**57,586**	**59,646**	**3.6**
6. Operating costs	159,251	144,913	-9.0	51,512	52,294	1.5
7. Amortisation and other provisions	3,543	2,239	-36.8	723	309	-57.3
8. Net losses due to impairment of financial assets	385	248	-35.6	-29	-28	3.4
OPERATING PROFIT(LOSS)	**63,023**	**16,219**	**-74.3**	**5,380**	**7,071**	**31.4**
9. Other gains and losses	215	1,038	382.8	472	343	-27.3
PROFIT BEFORE TAXES	**63,238**	**17,257**	**-72.7**	**5,852**	**7,414**	**26.7**
10. Tax charge	2,552	-922	–	1,044	1,010	-3.3
PROFIT(LOSS) FROM ONGOING ACTIVITIES	**60,686**	**18,179**	**-70.0**	**4,808**	**6,404**	**33.2**
11. Result of interrupted activities	0	0	–	0	0	–
NET PROFIT(LOSS) FOR THE YEAR	**60,686**	**18,179**	**-70.0**	**4,808**	**6,404**	**33.2**

Source: CNMV.

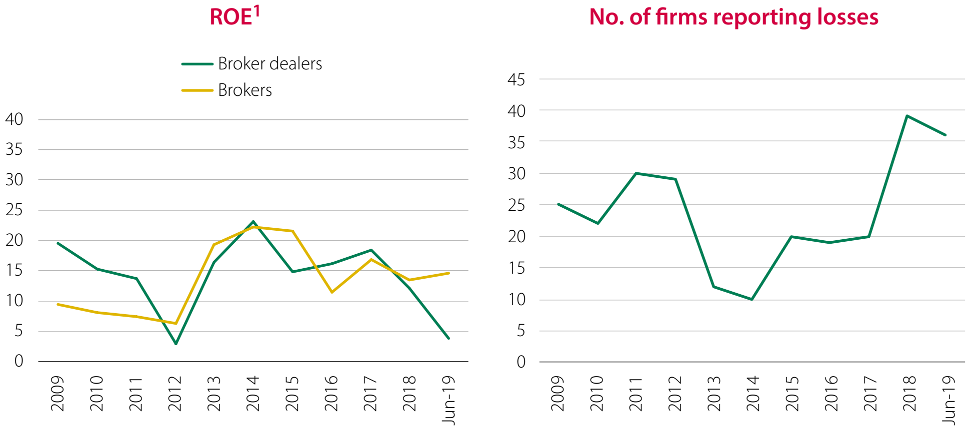
The performance of the return on own equity (ROE) of the SVs was in line with that of their results and, therefore, decreased, as it did in 2018, to stand at 3.9% mid-year (12.2% at the end of 2018). To the contrary, the return of the AVs increased over the same period, from 13.5% at the end of 2018 to 14.6% at 30 June 2019.

The return on equity (ROE) of both types of entities performed in line with their gains: downwards for SVs and upwards for AVs.

After the significant increase of the entities operating at a loss that occurred in 2018, in the first half of 2019 there was an interruption to this trend, given that the number operating at a loss decreased from 21 to 18. The number of SV operating at a loss remained stable at 18. Despite the total decrease in the number of SAVs in this situation, the aggregate value of the accumulated losses during the first half of 2019 increased in relation to the same period of the previous year, standing at €26.2 million, compared to €22.9 million in the first half of 2018.

The number of entities operating at a loss decreased in the first half of the year, although their volume increased.

Pre-tax ROE of investment firms and number of loss-making firms FIGURE 24



Source: CNMV.

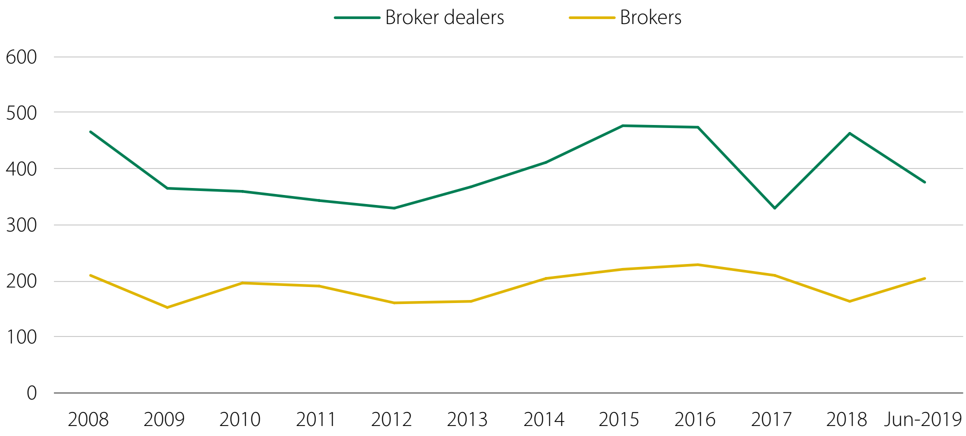
1 ROE calculated with profit before taxes.

The solvency conditions of the sector, measures such as the excess of computable own resources with respect to those required, experienced a moderate decrease during the first half of 2019. Thus, for all entities required to submit solvency statements[36] the solvency margin increased from 4.29 in December 2018 to 3.58 in June 2019 (3.4 in June 2018). By entity type, it is observed that the SVs explain the fall, since their solvency margin went from 4.64 to 3.75, while that of the AVs experienced a slight increase, rising from 1.64 to 2.03 (see Figure 23).

The solvency conditions of the sector - assessed according to the excess of own resources over enforceable ones - registered a moderate decrease between January and June.

36 From 1 January 2014, as established in Circular 2/2014 of 23 June of the CNMV, on the exercise of various regulatory options regarding the solvency of investment firms and their consolidable groups, not all entities are required to remit these statements.

Investment firm capital adequacy (Surplus of eligible capital over minimum capital requirements) FIGURE 25



Source: CNMV.

The provision of investment services under an alternative approach

Beyond the traditional analysis that takes into account the entities that provide investment services from a legal point of view, another alternative that takes into account the business model of these entities and their relationship with commercial banks can be addressed.

The information that is usually presented in relation to the activity of providing investment services in Spain from a broad point of view (that is, including the management activity of CISs,[37] even though it is not strictly an investment service from a legal perspective) is classified according to the type of entity that performs this activity: credit institution, investment firm or management company of a CIS (SGIIC). However, a less formalistic and more substantive conception, which addresses the business model of the entities and their relationship with commercial banks, suggests providing a more detailed definition of what part of the business related to the provision of investment services is carried out by banks that could be called commercial, whose revenue comes mostly from the provision of typical banking services (deposits, loans, etc.) and which part corresponds to entities that can be considered specialised in the provision of investment services. This last group of entities would be formed by independent ESI and SGIIC (that is, not subsidiaries of commercial banking groups) and by banks specialised in the provision of investment services.

Those entities with a legal form of bank but with a very high proportion of revenue related to the provision of investment services can be identified…

With the purpose of identifying the entities that have a legal form of a bank but whose business model is based on the provision of investment services, the ratio between the revenue received from the provision of investment services and the total revenue has been taken as a reference for the entity, identifying the entity whose ratio is greater than 65% as a bank specialising in investment services.[38] It is estimated that the amount of revenue related to the provision of investment services in Spain of these entities, discounting the volume of fees that these kick back to third parties, was somewhat less than €400 million in 2018.[39]

37 In fact, the activity of these entities is specifically included in section 4.3.

38 The main entities regarding their volume of fees in recent years are Allfunds, Cecabank, Andbank, Banco Inversis and Banco Mediolanum.

39 Almost 14% of the total fees received by credit institutions for the provision of services (excluding incentives).

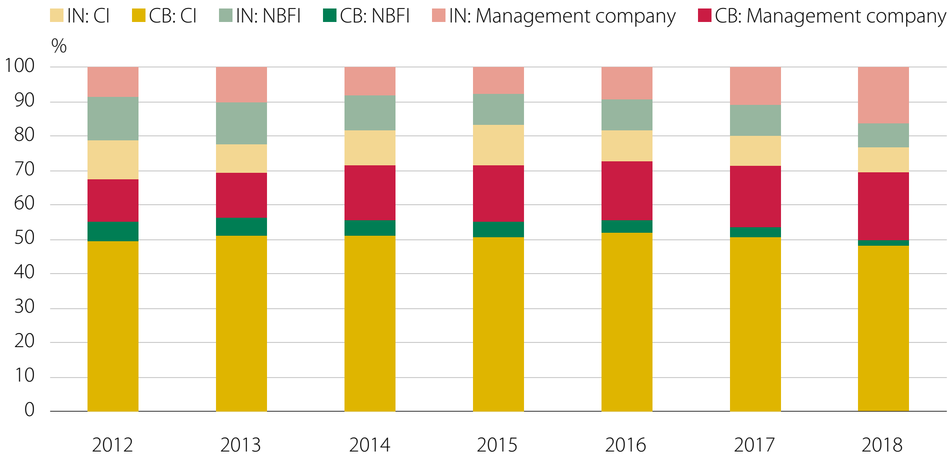
Within the group of non-banking entities (SV, AV and SGIIC), those that belong to a commercial banking group and that would consequently fall within the scope of the provision of investment services of this type of entities have been identified. In the case of the SVs and AVs these entities are not particularly relevant, since over recent years, many credit institutions have been absorbing those that belong to them, as explained above. In 2018, for example, Bankinter and Banco Santander absorbed the SVs of their financial groups. In 2018, the investment firms fees that belonged to a national credit institution whose main business was commercial banking accounted for less than 20% of the total investment firms fees. In the field of SGIICs, the size of entities linked to commercial banks is much greater, since they concentrate more than half of the total amount of fees received by the group of managers.

…as well as those entities (SV, AV and SGIIC) that belong to a commercial banking group.

In short, it is estimated that approximately 70% of the business related to the provision of investment services in Spain (including CIS management), assessed through fee revenue, corresponds to traditional commercial banks or to entities that belong to their groups, while the rest would correspond to financial entities specialised in the provision of investment services and without corporate ties with commercial banks. As can be seen in Figure 26, this percentage has remained fairly stable over recent years.

Preliminary results reveal that 70% of the business (revenue) of the sector corresponds to commercial banks or entities that belong to their groups.

% of fees received[1] per type of entity based on its business model[2] FIGURE 26



Source: CNMV.

1 Fees received for the provision of investment services (discounting kickbacks).

2 CB: Entity related to commercial banking. IN: Independent entity.

Outlook

The business related to the provision of investment services is framed in an increasingly complex context in which, on the one hand, there is an erosion of important business lines, derived from the displacement of the negotiation towards external platforms and the decrease in share issues and, on the other, an increase in competition in the sector, exercised mainly by domestic credit institutions but also by the growing number of foreign entities that operate in Spain. The latter have shown a certain expansion as a result of Brexit, which will also affect the performance of this

The business related to the provision of investment services is framed within a complex context, derived from the deterioration of some business lines and the increase in competition in the sector.

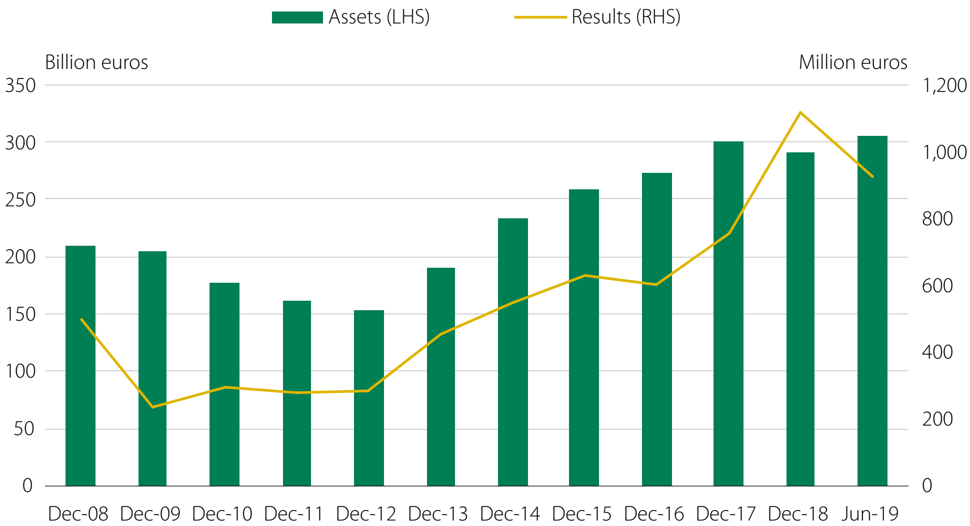
business in the coming months. At the moment, credit institutions maintain a predominant position in most investment services, while broker dealers and brokers are changing their business model by giving greater importance to investment services that in the past were less significant and reducing their operating expenses.

4.3 CIS Management companies

The SGIICs recovered the €300 billion in assets under management in the first half of the year, although its revenue from management fees fell due to the greater significance of lower risk funds.

SGIICs ended the first half of the year recovering the CIS assets they had lost in 2018 (see Figure 27), which again exceeded €300 billion. Despite this, revenues from CIS management fees decreased between January and June and increased from €2.649 billion in 2018 to €2.547 billion in 2019 (in annualised terms), a decrease that is explained by the decrease in the average management fee percentage charged by the SGIICs to the managed CISs. This percentage, which fell from 0.91% of the assets managed in 2018 to 0.84% in 2019, is likely to have decreased due to the increase in the assets of those lower risk objectives, which are usually associated with lower fees.

CIS management companies: assets under management and pre-tax profits[1] FIGURE 27



Source: CNMV.

1 Annualised 2019 results.

These fees continued to represent about 90% of the total revenue of these entities. In addition, there has been a significant reduction in recent years in the percentage of the CIS management fee kicked back to marketers, a trend that has accentuated after the entry into force of the MiFID II regulations.

The main source of income for the SGIICs is the management fee from the CISs, which represent 89% of the total fees they receive. As can be seen in Table 15, the quotient between the costs for commissions for the marketing of funds and the revenue for CIS management fees has decreased over recent years and in a more pronounced manner in 2018, coinciding with the entry into force of the MiFID II regulation, which imposes strict conditions on the kickback of management fees to the marketers, which must also be subject to strict transparency requirements for investors. The percentage of fees assigned to marketers fell from 64.6% of the CIS management fees in 2012 to 50% in June 2019.

Discretionary portfolio management and venture capital firm management are the next most important activities in generating revenue for these entities. The figure for fees obtained through portfolio management during the first half of 2019 (€91 million) did not vary substantially with respect to the figure of 2018, whereas the management fees for venture capital firms increased significantly (9%), although this figure remains insignificant in terms of absolute value (€24.9 million for the first half of the year) and in relative terms with respect to the total fees received by the SGIICs (1.7%).

Portfolio management and venture capital firms are the next most important activities in generating revenue for the SGIICs.

The aggregate profits of these entities fell in the first half of the year, in line with the decrease in revenue from management fees and, consequently, there was a drop in aggregate return on equity (ROE) which, despite this, remains at a high level (88%). The number of entities operating at a loss remained at 26 mid-year, reducing the volume of total losses by 21%, to €9.8 million.

Their profits fell in line with the decrease in revenue from CIS management fees and the number of entities operating at a loss remained at 26.

The CNMV registry data indicates that the expansion the number of SGIICs is continuing, although its growth has slowed, closing the first half of 2019 with 121 entities, two more than at the end of 2018.

The number of CIS managers continued to rise in the first half of the year, to a total of 121.

CIS management companies: assets under management, CIS management fees and fee ratio TABLE 15

Millions of euros

	Assets under management	Revenue from CIS management fees	Average CIS management fee (%)	Commission ratio (%)[1]
2012	152,959	1,416	0.93	64.62
2013	189,433	1,594	0.84	61.94
2014	232,232	2,004	0.85	61.80
2015	258,201	2,442	0.95	63.68
2016	272,906	2,347	0.86	61.67
2017	299,974	2,647	0.88	58.68
2018	290,364	2,649	0.91	51.24
Jun-19[2]	303,614	2,547	0.84	50.06

Source: CNMV.

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

2 The data on commission revenue and the average management fee are annualised.

4.4 Other intermediaries: venture capital

Venture capital firms (ECR - entidades de capital riesgo) experienced great dynamism in the first eight months of the year, with significant growth in the number of vehicles, continuing the upward trend of the previous year. Since the entry into force of Law 22/2014, of 12 November, which opened the possibility for new vehicles to promote venture capital as a source of alternative financing, 86 vehicles of new typology have been created: at the end of August this year there were 9 SME venture capital funds, 14 European venture capital funds (EuVECA), 2 European

In the first 8 months of the year, the expansion of the sector continued, with an increase of 39 ECR, 12 closed-ended type entities and 6 SGEIC…

social entrepreneurship funds, 18 SME venture capital companies and 43 closed-ended investment firms (19 funds and 24 companies). Of all these vehicles, it is worth mentioning the significant increase in the latter, of a closed nature, which has multiplied by almost 3 since the end of 2017, from 15 to 43 entities.

… up to a total of 377, 43 and 100 entities of each type respectively.

In relation to *traditional* vehicles, in the year to date there have been 21 registrations and 3 deregistrations of venture capital funds (FCR - Fondo de capital riesgo), so at the end of August there were 199, while in the case of venture capital companies there were 18 registrations and 4 deregistrations, which put the number of these institutions at 135.As a result of these movements, the total number of ECRs as at 31 August (excluding closed-ended type entities) was 377,[40] compared to 338 at the end of 2018.As already mentioned, on the same date there were a total of 43 closed-ended type vehicles, as well as 100 management companies of closed-ended type investment entities (a term that includes the former venture capital management companies), as a result of the 8 registrations and 2 deregistrations occurring between January and August.

Movements in the venture capital entity register in 2018 TABLE 16

	Situation at 31/12/2018	Registrations	Deregistrations	Situation at 30/08/2019
Entities				
Venture capital funds	181	21	3	199
SME venture capital funds	10	2	3	9
European venture capital funds (EuVECA)	8	6	0	14
European social entrepreneurship fund	1	1	0	2
Venture capital companies	121	18	4	135
SME venture capital companies	17	1	0	18
Total venture capital firms	**338**	**49**	**10**	**377**
Closed-ended collective investment funds	12	7	0	19
Closed-ended collective investment companies	19	6	1	24
Total closed-ended collective investment entities	**31**	**13**	**1**	**43**
Management companies of closed-ended type entities (SGEIC)[1]	**94**	**8**	**2**	**100**

Source: CNMV.

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

In 2018, the assets of the ECRs registered an increase of 17.5%, to €10.495 billion (65% for funds and 35% for companies).

Throughout 2018, the assets of the ECRs increased by 17.5%, reaching €10.495 billion. This growth was distributed very evenly among the funds, whose assets increased by 17.6% to €6.778 billion, and companies, whose assets grew 17.3% to €3.718 billion.

40 This figure also includes newly created entities such as SME venture capital funds, European venture capital funds (EuVECA) and SME venture capital companies.

In the FCRs, including traditional and newly created funds, in this case SME and European funds, there was a slight recomposition of the relative importance of their investors throughout 2018 in favour of the natural persons. However, the investors with the highest shareholding continued to be foreign entities, with €1.138 billion, followed by public administrations, with €989.6 million. Third place was occupied by natural persons, who increased their investment by 57.7%, to reach €855 million. Despite this increase, natural persons still have a minority shareholding in the assets of venture capital funds: 12.6% compared to 87.4% of legal persons. Lastly, credit institutions and insurance companies decreased their investment in 2018 and their weight remained unimportant.

In FCRs, investment increased by public administrations and non-financial companies.

In SCRs (venture capital companies) - which as in the case of the funds, also include SME SCRs - non-financial companies and other financial companies continued to be the two main types of investors, with a joint shareholding of 58.7% in the total capital of the SCRs. Natural persons doubled their investment during 2018, reaching €447 million, but their participation in the capital of the SCRs, as well as in the funds, remained a minority: 14% compared to 86% of legal persons.

In SCRs, non-financial companies and other financial companies continued to be the two main types of investors.

Venture capital firms: assets by investor type

TABLE 17

Millions of euros

	FCR		SCR	
	2017[1]	**2018[2]**	**2017[3]**	**2018[3]**
Natural persons				
Residents	521.45	813.26	141.18	399.51
Non-residents	20.72	41.81	4.83	47.57
Legal persons				
Banks	180.94	174.82	171.36	136.35
Savings banks	38.53	35.18	11.94	13.88
Pension funds	551.70	588.07	20.73	20.18
Insurance companies	449.66	437.11	84.42	87.20
Broker dealers and brokers	3.48	7.34	0.12	0.06
Collective investment schemes	432.72	431.79	6.91	5.46
Domestic venture capital firm	255.57	289.58	28.87	29.81
Foreign venture capital firms	301.31	338.26	0.00	161.61
Public administrations	860.15	989.64	389.13	412.98
Sovereign wealth funds	7.10	12.47	4.78	6.08
Other financial companies	343.22	414.36	1,022.69	1,030.57
Non-financial companies	582.69	757.05	901.53	1,149.79
Foreign entities	907.58	1,138.30	94.24	62.41
Other	306.95	306.64	287.76	154.12
TOTAL	**5,763.77**	**6,777.93**	**3,170.49**	**3,717.58**

Source: CNMV.

1 Includes SME FCR and EuVECA.

2 Includes SME FCR, EuVECA and EuSEF.

3 Includes SME SCR.

The data provided by ASCRI corresponding to the first half of the year suggest that the sector continues to show great activity and is registering record figures for raising funds.

Preliminary data for the first half of 2019 provided by the Spanish Association of Capital, Growth and Investment Entities (ASCRI) confirm the consolidation of the expansionary trend of the sector that began in mid-2016. The venture capital sector continued to show great dynamism, with record figures for raising new funds in the first half, which reached €4.06 billion, 33% more than in the first half of 2018, and a total of 328 transactions. Of these, megadeals (transactions over €100 million) captured 72% of the total volume (9 transactions).

International funds were responsible for 82% of the total volume invested in the first half of 2019.

As regards the type of investors, international funds have been the majority investors in the first half of the year, responsible for 82% of the total volume invested. From the point of view of the investment phase, investments in seed and start-up phases (venture capital) doubled the volume captured compared to the first half of 2018, although the figure reached (€357.7 million) still represents a moderate weight in the total venture capital in Spain.

II Reports and analysis

Regime for third-country firms providing investment services or activities in the European Union

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On 3 January 2018, the two European standards that constitute the fundamental pillars in the scope of the financial instrument markets entered into force:[1] Directive 2014/65/EU (MiFID II)[2] and Regulation (EU) No. 600/2014 (MiFIR).[3]

One of the most relevant developments in these two standards is that they contain a new access regime for third-country investment firms that also regulates a European regime for access to the wholesale markets of the European Union (EU).[4]

1 Main access routes

Specifically, two main access routes are established, in general and without prejudice to the mention of other alternatives: one through the establishment of branches[5] and another through the freedom to provide services regime without the need for any establishment in the EU territory.[6]

1.1 Establishment of branches

Article 39 of MiFID II regulates the possibility of providing investment services[7] by establishing a branch. Specifically, this article allows Member States[8] to require the

1 Previously, the standard that had been applied in the scope of financial instrument markets was MiFID I (Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on the markets in financial instruments, amending Directives 85/611/EEC and 93/6/EEC of the Council and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC). Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32004L0039&from=EN

2 Directive 2014/65 EU of the European Parliament and of the Council of 15 May 2014, on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0065&from=en

3 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. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0600&from=EN

4 The access regime of third-country firms in accordance with MiFID I depended on national regulations, therefore, foreign entities, lacking a passport, had to request authorisation to operate from the competent authorities of each Member State in which they wanted to provide services or perform investment activities.

5 Articles 39-43 of MiFID II.

6 Articles 46-49 of MiFIR.

7 In accordance with Annex I of MiFID II the following are considered investment services and activities:
   i) Receipt and transmission of client orders in relation to one or more financial instruments;
   ii) Execution of orders on behalf of clients;
   iii) Dealing on own account;
   iv) Portfolio management;
   v) Investment advice;
   vi) Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;
   vii) Placing of financial instruments without a firm commitment basis;
   viii) Operation of a multilateral trading facility;
   ix) Operation of an organised trading facility.

   Ancillary services are also considered to be:
   i) The safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management and excluding maintaining securities accounts at the top tier level;

establishment of a branch, subject to authorisation, by third-country companies wishing to provide services or carry out investment activities, with or without ancillary activities, in their territory to retail clients or those which having this consideration have voluntarily opted to form part of the category of professional clients - within the meaning of Annex II, section II, of MiFID II.

Surely the most significant aspect of this access route is the imposition by MiFID II of a series of harmonised requirements whose compliance must be demanded by the competent authorities to grant authorisation in these cases.[9] However, the standard requires that Member States do not to impose additional requirements in terms of organisation and operation of these branches, if these are issues that have already been regulated in that standard, nor grant them a more favourable treatment than the investment firms from the EU.[10]

It should be noted that within this framework the third country regime does not require a prior statement from the European Commission (EC) that it recognises it as equivalent to that applicable in the EU. This therefore implies that this access path does not entail the right to a passport and, consequently, the branches authorised by this procedure will not enjoy the freedom to provide services or the right of establishment in other Member States other than those in which they are established.

In any case, companies from third countries requesting authorisation in a Member State must comply with a series of requirements. First, they must have been previously authorised and supervised by the corresponding authorities of the country of origin for the provision of services to be performed from the branch. In addition, the competent authorities of the country of origin must comply with the recommendations of the Financial Action Task Force (FATF) within the framework of the fight against money laundering and terrorist financing.

The competent authorities of both parties are obliged to sign cooperation arrangements, which will contain, at least, provisions that regulate the exchange of information in order to preserve the integrity of the market and protect investors.

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ii) The granting of credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
iii) Providing advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings;
iv) Foreign exchange services where these are connected to the provision of investment services;
v) Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments;
vi) Services related to underwriting;
vii) Investment services and activities as well as ancillary services of the type included under Section A or B of Annex 1 related to the underlying of the derivatives included under points (5), (6), (7) and (10) of Section C where these are connected to the provision of investment or ancillary services.

8 Throughout this article, when referring to the EU Member States, the situation described can be understood as applicable to all the countries that make up the European Economic Area (EEA), that is, in addition to the Member States of the EU, to Norway, Iceland and Liechtenstein.

9 Article 39.2 of MiFID II.

10 Article 41.2 of MiFID II. In this regard, recital 109 of MiFID II also expresses that third-country firms should not receive better treatment than EU firms.

As for the branches themselves, the standard now requires that they have sufficient initial capital. They must have one or more persons responsible for their management, who must have the appropriate reputation, as well as possess the knowledge, skills and experience necessary to perform their duties.

In addition, the third-country firm must be part of an authorised or recognised investor compensation scheme in accordance with Directive 97/9/EC.[11]

Lastly, the competent authorities of the country of origin must undertake to exchange information on tax matters, for which they must sign an agreement in accordance with the provisions of Article 26 of the OECD Model Tax Convention on Income and on Capital or even conclude multilateral tax agreements, if appropriate.

MiFID II also obliges third countries firms wishing to establish a branch in a Member State to provide the competent authority of said state the following information for authorisation:[12] i) the name of the authority responsible for its supervision in the third country concerned and, if the supervision is exercised by several authorities, the detailed data of the respective areas of competence; ii) all relevant company data (name, legal form, registered office and address, members of the governing body and relevant shareholders) and its programme of activities specifying the investment services and the ancillary activities planned, as well as the organisational structure of the branch, including, where relevant, a description of the outsourcing to third parties of essential operational functions; iii) the name of the persons responsible for the management of the branch and the documents proving compliance with the applicable requirements; and iv) information on the initial capital that the branch will have at its disposal.

With respect to the minimum common regulatory framework required of these branches throughout the Union introduced by MiFID II, third-country firms authorised by this route must comply with certain obligations regulated in said standard and in MiFIR. In addition, these matters will be subject to the supervision of the national competent authority of the Member State in which they are established.

Specifically, with regard the authorisation conditions, they will be subject to MiFID II standards and their subsequent regulatory developments, related to organisational requirements,[13] algorithmic trading,[14] the trading process and the conclusion of trades on the multilateral trading facility and an organised trading facility,[15] the specific requirements for multilateral trading facilities[16] and the specific requirements for organised trading facilities.[17]

11 Directive 97/9/EC of the European Parliament and of the Council of 3 March 1997 on investor-compensation schemes.
12 Article 40 of MiFID II.
13 Article 16 of MiFID II.
14 Article 17 of MiFID II.
15 Article 18 of MiFID II.
16 Article 19 of MiFID II.
17 Article 20 of MiFID II.

The operating conditions shall also be subject to the rules on conflicts of interest[18] and, in the area of investor protection, the rules related to general principles and client information,[19] assessment of suitability and appropriateness and client information,[20] the obligation to execute orders under the most advantageous conditions for the client,[21] client order management rules[22] and operations executed with eligible counterparties.[23]

In relation to the market transparency and integrity, they will be subject to the provisions related to monitoring compliance with the regulations applicable to multilateral trading facilities or organised contracting systems and other legal obligations,[24] as well as those related to the suspension and removal of financial instruments from trading on a multilateral trading facility or organised trading facility.[25]

Within the scope of MiFIR, these branches will be subject to the rules on transparency for both shares and similar instruments and for instruments other than shares and similar instruments, including the obligation to offer separate data on trading under reasonable commercial conditions, those related to transparency applicable to systematic internalisers and investment firms that trade in over-the-counter or unorganised markets and, lastly, those related to the communication of trades (specifically, the obligation to preserve the integrity of the market, to keep records and to communicate trades).[26]

1.1.1 Authorisation procedure

Within six months after the submission of a complete application, the competent authorities shall notify the third country investment firm whether or not the authorisation has been granted.[27]

MiFID II also attributes the power to the competent authority that has granted an authorisation to a branch of an investment firm from a third country to revoke said authorisation if the company: i) does not use the authorisation within a period of 12 months, expressly waives said authorisation or has not provided services or carried out investment activities during the 6 months prior to the revocation, unless in the corresponding Member State there are provisions that establish the expiration of the authorisation in those cases; ii) has obtained authorisation using false statements or any other irregular means; iii) no longer fulfils the conditions under which the granting of the authorisation was subject; iv) has seriously and systematically violated the provisions relating to MiFID II on the operating conditions of investment firms and applicable to third-country firms; and v) subject to

18 Article 23 of MiFID II.
19 Article 24 of MiFID II.
20 Article 25 of MiFID II.
21 Article 27 of MiFID II.
22 Article 28.1 of MiFID II.
23 Article 30 of MiFID II.
24 Article 31 of MiFID II.
25 Article 32 of MiFID II.
26 Articles 3-26 of MiFIR.
27 Article 41 of MiFID II.

any of the cases in which national law provides for the revocation of the authorisation for aspects not included in the scope of MiFID II.[28]

1.2 Freedom to provide services

The new regime provided in MiFIR allows financial institutions from third countries to provide services or carry out investment activities, whether or not these involve ancillary services, in any Member State without the need to establish a branch beforehand, provided that these services are intended for professional clients[29] and eligible counterparties.

In particular, this standard regulates a third-country equivalence regime, which addresses the international strategy of the EC and the rest of the European co-legislators, designed to overcome the weaknesses of the financial system detected during the last major crisis.[30]

1.2.1 Brief reference to the third country equivalence regime

This regime implies that, in order for a third-country firm to start operating in the EU territory, the EC must have previously declared the equivalence of the regime applicable in that third country. Specifically, it is a procedure through which this institution assesses and decides whether the regulatory regime, monitoring and compliance (enforcement) of a third country, in a given field of financial services or in respect of a supervisor, is the equivalent to that established in the EU.

Through this evaluation and the application of the respective regimes, the EC seeks to ensure that both parties achieve similar results, mainly in terms of compliance with general purposes such as investor protection, financial stability or the integrity of the markets. This evaluation also takes into account other elements such as risk, the principle of proportionality and compliance with international standards.

In fact, the EC's ultimate aim with this formula is to reach a point of balance between facilitating the access of third-country firms entities to our financial markets and their integration at a global level, while ensuring the financial stability and investor protection of the EU is not jeopardised. This position is also in line with its support for supervisory convergence in the international arena.

28 Article 43 of MiFID II.

29 Professional clients are understood to be those listed as such within the meaning of section I of Annex II of MiFID II.

30 Specifically, the European regulations subject to the equivalence regime of the services provided by the investment firms but only when their activity is aimed at eligible wholesalers or counterparties, central counterparties, trade repositories, credit rating agencies, benchmark administrators and central securities depositories. As regards alternative investment fund management companies, EU regulations govern a third-country regime that does not exactly match the equivalence model described in this section, although documents from the EC and the European Parliament (EP) do refer to it as an equivalence regime.

In this regard, E. Ferran points out: "[...]A finding of equivalence, supported by cooperation arrangements, makes it possible for authorities in different countries or regions to rely on each other; this avoids duplicative or conflicting rules, and closes gaps that could otherwise enable regulatory arbitrage or excessive risk-taking. The benefits that flow from concessions based around regime-equivalence are thus important not only to the business models of internationally-active financial actors but also to systemic stability. It is a rational choice for countries to cooperate to deal with problems that do not respect jurisdictional boundaries. From a business perspective, third country access based on equivalence can lead to significant efficiency gains by enabling streamlined organisation of an international financial services group and avoiding the need to establish a host country presence (subsidiary or branch) to satisfy host state regulatory requirements."[31]

The material scope of the EC decisions on equivalence covers matters or specific supervisors, but does not refer to specific firms. In fact, once the EC has adopted the corresponding equivalence decision, those wishing to access the EU financial markets will generally have to undergo a recognition and registration procedure whose processing may correspond either to the European Securities and Markets Authority (ESMA) or to the national competent authority, depending on what is established by the applicable standard.

Lastly, it should be noted that one of the most relevant consequences of the EC equivalence decisions is that, in general, the supervision of the third countries firms continues to correspond to the competent authorities of origin. Therefore, the regulations usually require that the relevant authorities conclude the cooperation arrangements that are necessary for both parties to have access to information related to the activity carried out by these firms.

1.2.2 Main characteristics of the equivalence regime included in MiFIR when the services and investment activities are aimed at professional clients and eligible counterparties

First, the great advantage offered by this regime to third-country firms is that, once registered in the corresponding ESMA registry, they will have a passport and will be able to provide their services and carry out investment activities throughout the EU without the need to establish branches

However, the standard imposes a requirement on third-country firms requesting to benefit from this regime obliging them to inform their clients, before providing any investment service, that they are not authorised to provide services to those who are not eligible counterparties or professional clients and indicate the name and address of the competent authority responsible for supervision in the third country.[32]

31 Ferran, E. (2017). "The UK as a Third Country Actor in EU Financial Services Regulator." *Journal of Financial Regulation,* Vol. 3, Issue 1, p. 4. Available at: https://academic.oup.com/jfr/article/3/1/40/3058537

32 Article 46.5 of MiFIR.

In any case, this access route to the EU capital markets for wholesalers can only be used if all the conditions established by MiFIR are met.[33]

The first is that the EC must have issued an equivalence decision.[34] But this institution, as mentioned above, can only take a decision of that calibre if it is previously absolutely certain that the legal and supervisory framework of the third country in question guarantees that the entities authorised in it are subject to and comply with a regulation on prudential matters and conduct equivalent to that established in the Capital Requirements Directive[35] and in MiFID II.[36] This standard also requires reciprocity; that is, that the legal framework of that third country provides for an equivalent effective system for the recognition of investment service companies authorised under legal regimes of third countries.

In order for the EC to evaluate the prudential framework and conduct of a third country as equivalent, firstly, the companies providing services or carrying out investment activities must have the authorisation of the national competent authority of their country of origin, as well as be subject to permanent supervision. Secondly, they must have sufficient capital requirements and their shareholders and the members of their management bodies must satisfy conditions similar to those required by European regulations. In addition, they must comply with appropriate organisational requirements regarding internal control functions and appropriate standards of conduct. Lastly, the legal framework of that third country must guarantee the transparency and integrity of the market by preventing market abuse.[37]

Notwithstanding the amendments introduced by both the regulatory package related to the revision of the capital requirements for investment services companies (mentioned below) and the regulatory review package of the European financial supervision system, this standard allows the EC to assesses whether the conditions that gave rise to an equivalence decision are maintained over time. To do this, it will have to monitor the significant amendments of the regulatory and supervisory framework of the third country, so that, if significant changes were occur, the revision of the equivalence decision would be necessary.[38]

Once the equivalence decision has been issued by the EC, the next step for the entities established in the country with respect to which said decision was made so that they can provide services or carry out investment activities in the EU is to register with ESMA. To do this, and in line with what is indicated for equivalence decisions, this authority will require that those requesting it will have been

33 Article 47.1 of MiFIR.

34 Recital 41 of MiFIR states that the equivalence procedure begins at the initiative of the EC, although Member States may express their interest in its commencement.

35 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC Text with EEA relevance: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0036&from=EN

36 Recital 41 of MiFIR also states that the regulations of both parties must pursue the same objectives.

37 Whether manifested through the use of inside information or are cases of market manipulation.

38 Recital 41 of MiFIR.

previously authorised by the national competent authority of the country in which they are established, as well as be subject to supervision and an effective control that guarantee full compliance with the requirements applicable in said third country.[39]

Lastly, the standard requires the establishment of cooperation arrangements between ESMA and the national competent authority of the third country.[40] This requirement is especially relevant, taking into account that the supervision of third-country firms that provide services or carry out investment activities in the EU will continue to fall on the competent authorities of those countries. In addition, the third-country regime included in MiFIR, notwithstanding the amendments introduced by the regulatory package related to the revision of the capital requirements for investment services companies, exempted the entities registered by ESMA from the obligation to report periodically, hence the importance of concluding these agreements in order to facilitate this authority having access to the information that it needed on the registered entities.

These agreements must also include mechanisms for immediate notification to ESMA when the competent authority of a third country considers that a firm registered in its registry supervised by the former is in breach of the conditions of its authorisation or other regulations. Lastly, the standard also requires that the mechanisms include coordination procedures for supervisory activities, including, where appropriate, on-site inspections.

Likewise, the standard obliges firms deciding to access the financial markets of the EU in this way to offer their clients, before providing any service or performing any activity, the possibility of submitting any eventual dispute related to said services or activities to the jurisdiction of a court or a court of arbitration of a Member State.[41]

1.2.3 Registration

Once the EC has issued the equivalence decision, the third-country firm may submit its registration application to ESMA, for which it must provide all the necessary information. In principle, the European authority will have 30 days to assess whether it is complete, but may set an additional period if it deems it appropriate to request more information. In any case, standard states that ESMA must inform the requesting entity of the third country of its fully reasoned decision in writing within 180 business days from the submission of a complete application.

If the decision is favourable, ESMA will register the third-country firm in the corresponding register, which will detail the services or activities it can provide or perform, and the reference of the competent authority responsible for its supervision. The standard also requires that ESMA facilitates access to this registry through its website.

39 Article 46.2, letter b), of MiFIR.

40 Articles 46.2, letter c), and 47.2 of MiFIR.

41 Article 46.6 of MiFIR.

Likewise, the standard allows ESMA, notwithstanding the amendments introduced by the regulatory package related to the revision of the capital requirements for investment firms, to withdraw a third-country firm when any of the following circumstances occur:[42]

i) If there are well-founded reasons, based on documentary evidence, to believe that, in its activity in the Union, the third-country firm is acting in a manner clearly detrimental to the interests of investors or the proper functioning of markets, as well as if it has seriously violated the provisions that apply to it in the third country.

ii) When ESMA has referred the matter to the competent authority of the third country and that third-country competent authority has not taken the appropriate measures needed to protect investors and the proper functioning of the markets in the Union or has failed to demonstrate that the third-country firm concerned complies with the requirements applicable to it in the third country.

In any case, ESMA must inform the competent authority of the third country about its intention to withdraw the registration of a firm at least 30 days in advance.

The standard also requires ESMA to inform the EC without delay of any measures taken in this regard, as well as to publish its decision on its website.

2 Alternative access routes to the European Union

2.1 Transitional regime

MiFIR provides a transitional period for cases in which the EC comes to issue equivalence decisions in accordance with Article 47 of this standard. Thus, companies in those countries that have received equivalence may continue to provide their services and carry out investment activities in the Member States in which they are already operating in accordance with the respective national regimes for a period of 3 years from the date of adoption of the decision.

Clearly, the disadvantage for entities taking up this transitional period is that they will not be able to benefit from the passport.

2.2 National regime in case of lack of equivalence decision or its revocation

However, in the European regulations the main gateway to the wholesale markets of the Union envisaged for third-country investment firms is the harmonised regime described above, in those cases where the EC has not pronounced on the equivalence of the legal and supervisory regime of a third country in particular or the

42 Article 49 of MiFIR.

declaration of equivalence has ceased to take effect, the investment firms of that third country may only carry out activities or provide investment services to professional clients and eligible counterparties in those Member States in which they have received authorisation, subject to the submission of an application, and must therefore comply with the respective national regimes.[43]

2.3 Use of branches for the provision of investment services to professional clients and eligible counterparties

Another situation that the standard also allows is one in which third-country firm, in respect of which the EC has issued an equivalence decision, and which has been authorised by a Member State to establish a branch in its territory, in accordance with the procedure provided for in Article 39 of MiFID II mentioned above, it may, through said branch, provide services and perform investment activities in other Member States of the Union, provided that they are covered by the authorisation granted to access eligible counterparties and professional clients, without the need to establish new branches.[44]

However, in these cases the standard imposes the obligation to comply with the information requirements related to the provision of services and the performance of investment activities required in Article 34 of MiFID II.

This option is useful for those investment firms from third countries that want to access the EU27 wholesale markets through nationally authorised branches, using them as platforms to provide investment services throughout the Union to professional clients and eligible counterparties.

In any case, the standard states that the branch will remain subject to the supervision of the Member State in which it is established. It does however establish that this authority and the competent authorities of the host Member States can agree on cooperation mechanisms provided, with the aim of ensuring that investment services are provided from the branch in the Union with an adequate level of protection for investors.

2.4 Provision of services at the sole initiative of the client (reverse solicitation)

Another possible access route recognised in the European regulations regarding the markets in financial instruments is that the financial institutions of third countries can provide services or carry out investment activities at the sole initiative of the client, known as reverse solicitation.

Subsequently, MiFID II establishes that, when the initiative comes from retail clients, or those considered to be such, have voluntarily opted to be part of the

43 Article 46.4 of MiFIR.

44 Article 47.3 of MiFIR.

category of professional clients, neither the provision of those services or the performance of those investment activities by third-country companies nor the relationships that derive from them will be subject to the rules that refer to the obligation to provide them through a branch in a Member State, when so provided for by the respective national regulations.[45] The reason that justifies this exemption is that European co-legislators understand that the investment service is not provided in the EU territory.

To the contrary, the same standard does require that the marketing to these same clients of new categories of investment products or services that have not been contracted at their exclusive initiative be carried out through a branch, provided that the national law has chosen to require its establishment.

Similarly, when it is an eligible counterparty or a professional client who at their own initiative commences the provision of a service or the performance of an investment activity by a third-country firm, it will not need to previously register with ESMA.[46] Said provision establishes that the initiative of such clients will not entitle the third country company to market new categories of investment products or services for said person.

Given the possibility that third-country entities may abuse this access route, ESMA has specified the scope of the application of these provisions through one of the instruments that it usually employs to promote supervisory convergence, namely the question and answer document (Q&As).[47] In this document, this authority explains what should be understood by the exclusive initiative of the client, addresses the concept of new categories of investment products or services and provides practical examples of investment products that belong to different categories.

Furthermore, one of these questions and answers clarifies that when one-off services are provided at the exclusive initiative of the client, the third-country firm may not at a later time sell said client products or services, even if they belong to the same category, unless requested by the client.

2.5 Market equivalence

Lastly, it should be noted that neither MiFID II nor MiFIR have a complete access regime for third-country firms. For example, they do not discuss the access of investment firms in these countries to European trading venues or their access to European data supply service providers, nor do they include a harmonised regime on the use of trading screens in the EU.

However, MiFIR contains a couple of very relevant provisions that affect the trading of certain financial instruments on third-country platforms. Article 23 specifically

45 Article 42 of MiFID II.

46 Article 46.5, paragraph 2, of MiFIR.

47 *Questions and Answers on MiFID II and MiFIR investor protection and intermediaries topics (ESMA35-43-349)*. Available at: https://www.esma.europa.eu/sites/default/files/library/esma35-43-349_mifid_ii_qas_on_investor_protection_topics.pdf

imposes the obligation of investment firms to trade at trading venues. Thus, they must ensure that the transactions concerning shares admitted to trading on a regulated market or in another trading venue they perform always take place in a regulated market, a multilateral trading facility, a systematic internaliser or a third-party trading venue country evaluated as equivalent. Consequently, this obligation implies that it may only trade in shares admitted to trading in third-country trading venues if they have previously been declared equivalent.

Article 28 also imposes an obligation to trade certain categories of derivatives in trading venues. Accordingly, financial and non-financial counterparties may only conclude operations with derivatives, corresponding to a category that has previously been declared subject to the obligation to trade derivatives (currently, financial swaps on interest rates and index-linked non-payment hedges) in regulated markets, multilateral trading facilities, organised trading facilities and trading venues of a third country declared equivalent.

In both cases, only if the EC declares the equivalence of the regulatory, supervisory and compliance framework applicable to the trading venues of a third country, can certain financial instruments be traded in them.

3 Amendments to the scope pf the third-country regime in European Union law

3.1 Background

In February 2017, the EC published a study on the EU equivalence regime in the scope of financial services.[48] It comments that the experience in this regard has been positive but acknowledges the existence of weaknesses.

Among its reflections, it is worth highlighting that equivalence assessments, notwithstanding the fact that they are based on the application of the principle of proportionality or a risk-based approach, should also take into account the level of existing interconnection between the market under evaluation and those of the EU, as well as the risks that may arise if the firms from those third countries decide to operate intensively in the Union.

It also proposes to assign to the European supervisory authorities the competence to monitor the regimes declared equivalent, without prejudice to the powers entrusted to them by their respective regulations of creation in this area.[49]

48 European Commission (2017) *EU equivalence decisions in financial services policy: an assessment. (SWD (2017) 102 final)*. Commission Staff Working Document, February. Available at: https://ec.europa.eu/info/sites/info/files/eu-equivalence-decisions-assessment-27022017_en.pdf

49 Article 33 of the regulations for the creation of the European supervisory authorities, relating to international relations. Specifically, section 2 of that article states: "The Authority shall assist in the preparation of decisions on the equivalence of third-country supervisory regimes, in accordance with the acts referred to in Article 1, section 2".

In July 2018 the EP published a report on the relations between the EU and third countries within the scope of regulation and supervision of financial services.[50] This institution also considers the European supervisory authorities to be the best positioned both to provide advice to the EC on the regulatory, supervisory and compliance regime of third countries, and to monitor these regimes.

3.2 Regulatory amendments

These suggestions have been taken into account in some of the recent regulatory proposals of the EC, such as the review of prudential requirements for investment firms or the revision of the European System of Financial Supervision.

Given the topic discussed in this article, it is worth mentioning the amendments introduced in the package related to the review of the prudential requirements for investment firms[51] (regarding which the EP and the Council reached an agreement on 26 February 2019) that affect not only the third-country regime based on the equivalence regulated in MiFIR (that is, when the investment services provided by third-country entities target professional clients and eligible counterparties) but also those regulated in MiFID II for the provision of investment services to retail clients through a branch.

Regarding the first, it should be noted that this review attributes greater powers to the EC. For example, this institution should ensure that the firms providing services similar to those of banks (those that form part of class 1) meet the capital requirements equivalent to those required in the EU. The EC must also carry out a granular analysis of the prudential and organisational requirements, as well as the rules of conduct to which third-country firms are subject in those cases in which the activity to be carried out in the Union is considered systemic, and may even require additional operational requirements to ensure compliance.

Furthermore, this regulatory package also entrusts ESMA with new powers. Firstly, third-country firms entered in the registry of this authority must submit an annual report with data on the following aspects: i) scale and scope of services and activities carried out in the EU, as well as the geographical distribution between Member States; ii) turnover volume and the aggregate value of the assets; iii) agreements

50 European Parliament (2018). *Report on relationships between the EU and third countries concerning financial services regulation and supervision (2017/2253 (INI)).* Committee on Economic and Monetary Affairs, July. Available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A8-2018-0263+0+DOC+PDF+V0//EN

51 This package comprises a regulation and a directive. The final version of both proposals, regarding which the co-legislators reached a consensus in February 2019 were the following (as published on the Council's website):
Regulation of the European Parliament and of the Council on the prudential requirements of investment firms and amending Regulations (EU) No. 575/2013, (EU) No. 600/2014 and (EU) No. 1093/2010 - Presidency compromise proposal. Available at: https://data.consilium.europa.eu/doc/document/ST-7460-2019-ADD-2/en/pdf
Directive of the European Parliament and of the Council on the prudential supervision of investment firms and amending Directives 2013/36/EU and 2014/65/EU - Presidency compromise proposal. Available at: https://data.consilium.europa.eu/doc/document/ST-7460-2019-ADD-1/en/pdf

reached to protect investors; and iv) risk management and governance policies and procedures. In addition, ESMA may, at any time, collect the information it deems pertinent from the firm for the fulfilment of its functions. The firms will also be obliged to keep information related to the orders and transactions they have carried out in the EU for a period of 5 years.

ESMA may prohibit or restrict the provision of services to a third-country firm if it fails to comply with the product intervention measures adopted by this authority, the European Banking Authority (EBA) or the national competent authorities, as well as if it does not cooperate with the sending of information during on-site investigations or inspections. It can even remove it from the registry in the following situations: i) if it seeks the cooperation of the competent authority of the third country to ensure the protection of investors or the proper functioning of the markets and it does not take the necessary measures or ii) if it is not able to demonstrate that the firm complies with the conditions imposed in the equivalence decision.

Lastly, it is worth mentioning that one of the amendments of MiFIR entrusts to ESMA with the monitoring of regulatory and supervisory developments, enforcement and the evolution of the markets of third countries that have received equivalence so that the EC can, over time, assess that the regimes of these countries continue to be equivalent.

This authority is also obliged to inform the EC of its findings on an annual basis and confidentially. The EC must also keep the Council and the EP apprised of all measures taken in this area, as well as the evolution of the regimes of third countries that have received equivalence, at least on an annual basis.

Regarding the amendments introduced in MiFID II, the first of them requires the national competent authorities to notify ESMA every year regarding which branches of third-country firms are active in their territory. That European authority will publish a list of all branches of third countries active in the EU on its website.

Likewise, the branches of third countries must report annually to the respective national competent authorities and provide the following information: i) scale and scope of the services and activities of the branch of the firm in that Member State; ii) turnover volume and the aggregate value of the assets; iii) agreements reached to protect investors; and iv) risk management and governance policies and procedures. All this without prejudice to the information that the national competent authorities may occasionally collect.

Lastly, it is proposed to foster close cooperation between all competent authorities, including ESMA and EBA, to carry out the supervision of entities that are part of a group and have branches from third countries in the Union.

4 Conclusion

This article describes the third-country regime applicable to third-country investment firms that wish to have access to the EU.

Without prejudice to the alternative access routes mentioned above, the co-legislators decided at the time to regulate in different ways the provision of investment services to retail clients and to those who, while being considered as such, opted voluntarily to join the category of professional clients, which is aimed at eligible professional clients or counterparties.

While in the first instance the competence corresponds to the relevant national authorities, which may impose the establishment of a branch to provide services exclusively in their national territory and which must be required to comply with a series of minimum harmonised requirements, the second requires a prior declaration of equivalence by the EC of the regime applicable in the third country in question, as well as the registration in ESMA of the entities that requested it, which may exercise the right to the passport throughout the EU from that moment.

Although the European regime to access wholesale markets has not yet been implemented, the co-legislators have recently decided to introduce a series of regulatory changes in the third-country regime with the aim of correcting some of the weaknesses detected in the financial scope.

The main objective has been to guarantee the correct protection of investors and the proper functioning of markets when the third-country firms that access EU markets are of a significant size and their activity has a greater impact, a situation that will certainly become more important within the context of Brexit, in other words, once the withdrawal of the United Kingdom from the European Union takes place.

In this regard, the co-legislators have decided to give the competent authorities greater control of the activity that third-country firms carry out in the EU, in particular if it reaches a systemic nature, as well as assign ESMA a function to monitor equivalence decisions adopted by the EC to ensure that the conditions required in these are met over time.

Buybacks and firms' operations with treasury stock

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1 Introduction

The buyback of treasury stock is an operation that raises both interest and controversy, since it can serve both to reduce and exacerbate conflicts of interest between different stakeholders of companies.

This report presents the data related to the operations with treasury stock carried out by the companies in the Spanish stock market during the years 2016, 2017 and 2018, analysing them within the framework of the different debates around these transactions and relating them to the existing empirical evidence, which is mainly referred to the USA.

The literature in this regard has focused on two debates. The first refers to the use (and possible abuse) of buybacks as compensation for shareholders. The main conclusions of the literature in this regard are as follows: i) shareholders give priority to the distribution of profit as a mechanism to reduce the degree of discretion of executives and the problems of agency and overinvestment; ii) executives and controlling shareholders prefer to distribute profits through stock buybacks rather than dividend payments, because, even though both mechanisms limit their degree of discretion, buybacks offer them specific advantages that are associated with both small inefficiencies existing in the remuneration contracts and the different treatment that the buybacks represent for different types of shareholders; and iii) the net buybacks during recent years (once the direct and indirect issuance of shares have been taken into account) do not represent abnormally high percentages of profit distribution nor can they be considered the cause of short-termism. In studying the Spanish data, it will be seen that this first debate is not particularly relevant at present in our country, due to the limited use made by companies of buybacks as an investor remuneration mechanism. Specifically, only 15% of companies in the stock market had an active buy-back programme at some time during the 3 years analysed. In addition, for these companies the average shares repurchased per company and year only accounted for 1.62% of its market capitalisation.

The second important debate concerns the use of repurchases as a mechanism for manipulating the market price and the discrimination that this may entail for short-term shareholders over long-term ones. From the study of this literature it can be concluded that: i) the legal system in both the USA and in Europe establishes a series of safe harbour measures, so that repurchases made in accordance with those measures are not considered market abuse; and ii) the empirical results of the extensive literature developed in this regard do not clearly confirm whether repurchases are used as an abuse mechanism, anticipating market movements, to offer positive abnormal returns to shareholders who do not sell. Regarding the relevance of this second debate in the case of Spain, the safe harbour operation used by the companies will be discussed and the aggregate results of both the operations that occur within a safe harbour and those that are performed outside will be presented. In Spain, safe harbour transactions are carried out through buy-back programmes and liquidity contracts. The latter have been active in 23% of the companies in the continuous market at some time during the 3 years analysed, while 28% of the companies in the stock market have carried out treasury stock transactions outside a safe harbour at some time during the same period. Although the average volume of these transactions is small, there is a significant variance.

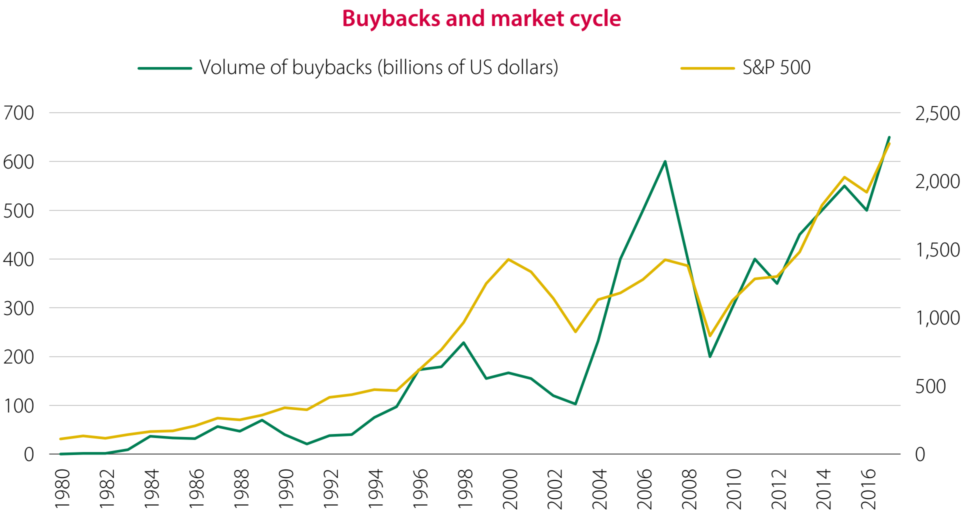
The following section summarises the history of these transactions, their regulation and their operation. Next, the evidence found for companies listed in Spain is presented in section 3 of the paper. Section 4 discusses the possible reasons why companies distribute profits and shareholders reward these distributions, either through dividends or repurchases. The different advantages that repurchases represent for executives and controlling shareholders over dividends are also analysed in section 5. Section 6 discusses the use of repurchases in pure or discretionary treasury stock transactions separately, when the shares are bought with the objective of selling them. The current debate on the impact of repurchases on the problem of short-termism of businesses is also briefly discussed in section 7. Lastly, some conclusions are presented.

2 Evolution, justification, regulation and operation of stock buybacks

2.1 Historical evolution of stock buybacks

Since their regulation in the USA in 1982, buybacks have grown rapidly. In general they have followed the economic cycle and, in terms of total volume, they are currently at record levels, with a net volume (purchases less sales) of more than US$600 billion in 2016, as can be seen in Figure 1.

Buyback volume of the S&P 500 1980-2016[1] FIGURE 1



Source: CNMV.

1 This graph shows the net volume of buybacks announced by the S&P 500 index companies between 1980 and 2016 in billions of US dollars (left axis) and the evolution of the index itself (right axis).

Specifically, in view of the fact that buybacks follow the economic cycle, it is also important to analyse the buybacks in proportion to the market capitalisation of the companies or their net profits. In doing so, Dittmar and Dittmar (2008) and Fried and Wang (2018) observe that historical evolution is not growing, nor is it at historical highs neither in relation to the proportion over market value (where the maximum is reached in the mid-1990s) nor as regards the proportion of net profits (where the maximum is reached in 2007).

2.2 Economic justification for buybacks

The buyback of shares in the market has traditionally been viewed with suspicion as a potential price manipulation technique. However, the acquisition of treasury stock in many cases serves the legitimate economic interests of the companies. Specifically, the purpose of the buybacks based on the use that will be made of the repurchased shares can be:

i) Amortisation: the investment of the shareholders in the company is reduced and the money is distributed among them.

ii) Distribution of shares as payments in remuneration plans to the directors or remuneration plans to the employees: although the total investment of the shareholders is not reduced, the shareholder profile changes, with a higher percentage in the hands of executives and employees, which would serve to better align their incentives with those of the shareholders.

iii) Distribution of the shares for payments in merger and acquisition operations: again the shareholder profile changes, integrating the shareholders of the acquired or merged company as new shareholders in the purchaser.

iv) Sale: treasury stock transactions in which shares are bought and sold in order to obtain trading returns, increase liquidity or reduce the volatility of the shares, thus supporting their value.

As will be discussed when analysing the regulation, the uses of the shares for amortisation or for distribution to new shareholders are the least controversial, although from a regulatory perspective there is the problem as to whether the moment chosen to carry out the buyback is influenced by agency problems such as a desire to window-dress the accounts or protect the value of the executives' shares options. This type of buyback will be discussed throughout most of the article. However, the case of treasury stock transactions, where the shares are bought to be sold again, is the most questionable. These transactions are purely speculative, for liquidity or price support and, therefore, can be considered market abuse, at least in an economic sense. Section 6 of the article deals with these transactions for buying and selling treasury stock, which can cause inequality among shareholders and distort the perception of the risk of the shares for potential investors.

2.3 Regulation of buybacks within a safe harbour

Generally speaking, it can be said that legislation has given priority to the legitimate economic interests of buybacks over the risk of abuse. Consequently, buybacks are permitted within certain limits. There are two ways to do this: i) through buy-back programmes or accepted market practices that involve a safe harbour, thereby reducing or eliminating the risk that the transactions can be considered market abuse; and ii) in a discretionary manner, with the transaction at risk of being considered market abuse.

Starting with the case of the USA, up until 1982 stock buybacks were very rare, since the Securities Exchange Act of 1934 considered them as market abuse operations. In 1982 the Securities Exchange Commission (SEC) introduced Rule 10b-18 and created a safe harbour that exempts buyback transactions from being considered manipulative activities (but not from considerations related to the potential use of inside information), provided that they form part of a capital reduction by means of a public offer or are carried out with a mandate from the Board of Directors, with a public announcement and a specific term. Furthermore, buyback transactions carried out anonymously in the market on a specific day must comply with a series of technical requirements, which include: not exceeding 25% of the average daily volume of the previous 4 weeks; and not being performed during the last 10 minutes of trading on the day or at a price higher than the last transaction carried out.

When studying compliance with this standard, Cook, Krigman and Leach (2003), using a sample of US companies in 1993-94, indicated that in the USA around three-quarters of the buybacks were made through this safe harbour, but only 3.7% complied congruently with the requirements of the standard. In addition, they showed that breaches of the regulations were more frequent when the price was falling. All this made it evident that more transparency is needed to monitor compliance with the standard. In fact, in 2004 the SEC amended Rule 10b-18 by imposing greater transparency on buyback transactions. Specifically, in the quarterly 10-Q and the annual 10-K report a table must be included indicating, for each month: the total number of repurchased shares, the average price paid and, whether they correspond to a buyback programme, the total number or amount that has already been purchased within the pre-established buy-back programme and the number or volume that can still be purchased. This must be done for all transactions, regardless of whether or not they meet the safe harbour requirements.

In Europe, the Market Abuse Directive or MAD (now Market Abuse Regulation or MAR) reinforced the market's protection against the use of inside information and possible price manipulation, but in parallel other regulation was approved according to which buyback programmes can benefit from the protection of a safe harbour, with a number of conditions being established.

Specifically, the MAR, in its Article 5, establishes that buybacks will be understood to be in a safe harbour if: i) they are contemplated in a public buy-back programme with the purpose of reducing capital, executing convertible debt or remunerating executives or employees with the distribution of shares; or ii) in the case of buybacks that are made with the aim of price stabilisation or increasing liquidity, if they are carried out according to an accepted market practice that establishes limits and technical conditions. As long as companies buy shares within the limits of the safe harbour, such acquisitions will not be considered market price manipulation. It should be noted, however, that while in the case of buy-back programmes the standard determines for what purposes they are legitimate, this is not specified for accepted market practices. However, the regulation states that the consideration of safe harbour will only be granted for legitimate purposes.[1] The new regulations harmonised the regime for the buyback of treasury stock in the countries of the European Union and increased the confidence of companies when buying back treasury stock. Previously, the regulations differed greatly from one country to another, with varying degrees of flexibility.

Regarding the available evidence on the impact of this new European regulation, the study by Siems and De Cesari (2012) shows that its entry into force has meant an increase in the number of buybacks by issuers in all countries, and not only in those which had a more uncertain previous panorama (from an internal regulations perspective) when acquiring treasury stock in the market. However, there are very few studies on compliance with the safe harbour requirements. Regarding France, Ginglinger and Hamon (2009) point out a lack of compliance with the safe harbour restrictions by a large majority of French companies. In particular, they estimate that 79% were in breach (during at least 1 day) of the restriction that buybacks should not exceed 25% of the reference volume for each trading day, which would indicate an extensive permissiveness on the nominal use of these instruments so that companies could buy freely in the market.

2.4 Buybacks outside safe harbour and different types of operations

Purchases made outside the safe harbour limits are not automatically considered as market abuse or the improper use of inside information. If a buyback does not adapt to a safe harbour, the transaction should simply be examined, like any other behaviour, in accordance with the Market Abuse Regulation (in Europe) or the Securities Exchange Act (in the USA). In this case, the type of operation that is carried out can reinforce or reduce the suspicions of misuse in these buybacks.

In the USA, buyback transactions (with or without a safe harbour) can be carried out in the following ways:

i) Public offering at a fixed price.

ii) Public offering via Dutch auction (descending-price).

iii) Distribution of tradable rights for the purchase of put options.

iv) Buybacks privately negotiated and directed at a particular group of investors (greenmail).

v) Anonymous purchases in the secondary market, which are by far the most popular and represent around 91% of the total volume of transactions (Grullon and Ikenberry, 2000).

1 Consequently, there could be a penalty for abuse in a liquidity contract if a non-legitimate purpose were demonstrated, but this would never happen in a buyback programme under MAR.

Clearly, anonymous purchases in the secondary market are those that could, most likely, be considered market abuse or use of inside information. However, an increasing percentage of these transactions is carried out through a broker that does not receive specific instructions from the issuer to avoid possible consideration of misuse. In particular, the following can be used:

i) Transactions agreed pursuant to rule 10b5-1 of the SEC of 2000 (similar to liquidity contracts in that there is an interposed entity, but which, differently from liquidity contacts, do allow net purchases or sales), according to which the company establishes a trading plan in advance in the market, setting dates and prices or delegating the operation to a broker over whom there is no influence. In addition, the programme must be agreed in an open window period, i.e. over a period of time during which the company is not in possession of material non-public information.[2]

ii) ASR (Accelerated Share Repurchases), in which the company buys the shares at a given price from an investment bank. The bank, in most cases, borrows them and closes its short position over the following months, including compensation from one party to another if the average purchase price is higher or lower than initially agreed.

Bonaimé, Harford and Moore (2018) show that there is a growing tendency to make buybacks within these modalities, which in 2014 exceeded 40% of operations in the USA.

If operating outside a trading plan, the company must limit its transactions in the market to the open window period that allows the directors to buy and sell the company's shares. The company may also choose to publish all material non-public information before making buybacks in the market.

The advantage of using a programme under Rule 10b5-1 is that it allows a company to continue buying its shares in the open market according to the programme even if it is in possession of material non-public information. The disadvantage of these pre-established or autopilot programmes is that the company loses discretion over

2 A trading plan must meet the following conditions to comply with Rule 10b5-1:
- Trading Must be Pre-Established: the binding contract, trading instruction or written plan must be established at a time when the company is not in possession of material non-public information (it usually is established in a company's "window period");
- Plan Must Set (or Set Formula for) Trading Criteria: the binding contract, trading instruction or written plan either sets, or sets a formula for, the amount, price and date of purchases (a Rule 10b5-1 plan typically is not adopted in connection with a single purchase) or delegates those decisions to a broker or dealer (provided the company has no further discretion over those decisions);
- No Subsequent Discretion as to Amount, Price or Dates of Trades: the binding contract, trading instruction or written plan does not allow the company, and the company does not have, further influence over how, when or whether to effect purchases. The company does, however, retain the discretion to terminate a Rule 10b5-1 plan;
- Good Faith: the plan is entered into, and all instructions thereunder are given, in good faith and not to evade the prohibitions of Rule 10b-5; and
- Purchase Made Pursuant to Trading Plan: purchases occur pursuant to the trading plan, such that the company does not alter or deviate from the trading plan or enter into or alter a corresponding or hedging transaction with respect to the securities.

its buybacks and will be exposed to fluctuations and changes in the market that can make the programme undesirable. A company can minimise the risk and disadvantage of the pre-established programme by limiting the duration, amount of shares or the amount of money subject to it and establishing specific formulas for buybacks that vary according to market performance or other factors. In addition, it is also possible to implement two programmes together. In this case, a programme under Rule 10b5-1 is carried out together with a totally discretionary one, which allows the company to take advantage of the possibility of buying during blackout periods established by Rule 10b5-1, provided that these periods fall into an open window period.

In Europe, some countries have issued guidelines or recommendations on best buyback practices when they are not carried out within a safe harbour. Such is the case in France, where in February 2017 the AMF issued guidelines regarding the trading of companies in their own shares and the recommendations of the CNMV of 2013 for discretionary trading in own shares in Spain, which is being reconsidered within a general reflection on trading in own shares. Moreover, no studies have been found on these operations or on the imposition of penalties in such cases.

3 Buybacks in Spain

Below are the results of the empirical study on stock buybacks made by listed Spanish companies listed during the 2016-2018 period.

The study was carried out using the public information available on the CNMV website. Therefore, to understand the origin of the data used and before analysing the transactions inside and outside a safe harbour, it is necessary to first explain the specific regulation that affects Spanish listed companies.

3.1 Regulation of buybacks and information obligations in Spain

In Spain, companies can buy back shares within a safe harbour in two different ways:

i) When the purpose of the buyback is to reduce capital, execute convertible debt or remunerate executives or employees, the safe harbour is established by the approval by the Board of Directors of a public buy-back programme that meets the conditions of the MAR.

ii) When the buybacks are made with the aim of stabilising prices or increasing liquidity, the safe harbour is achieved using the liquidity contracts set forth in Circular 1/2017 of 26 April of the CNMV, on liquidity contracts, which are the only accepted market practice complying with Regulation (EU) No. 596/2014 (better known by its acronym MAR) considered as a safe harbour. In fact, liquidity contracts do not allow the issuer to repurchase stock, since the company must deposit the treasury stock with which the transaction will begin and can only withdraw the same amount of stock at the end of the liquidity contract. Other buybacks (discretionary trading) do not benefit from safe harbour consideration in Spain, although they are not automatically considered market abuse. For these discretionary operations, the only regulation applicable in Spain is Article 509 of the Corporate Enterprises Act, which establishes a maximum limit of 10% for the treasury stock of listed companies.

With regard to information obligations on safe harbour transactions, in Spain companies must report both the approval of the buyback programmes and the signing or suspension of liquidity contracts. Likewise, whenever the company exceeds the limit of 1% of repurchased gross shares, the details of each and every one of the transactions previously made (both purchases and sales) must be reported. Although the detail of whether a particular purchase corresponds to a programme or constitutes a discretionary transaction only occasionally appears in footnotes.

Given the information obligations in Spain on safe harbour transactions, it is possible to follow the transactions carried out by companies in the stock market using the public information they are required to communicate regarding three issues: i) signing, amendment, suspension or cancellation of liquidity contracts; ii) adoption, amendment, suspension or cancellation of share buyback programmes; and iii) increases and reductions in share capital.

Additionally, all treasury stock transactions that the company has made must be reported when the threshold of 1% of gross purchases has been exceeded since the last communication. However, the casuistry is not distinguished in the communication carried out by the companies, so the main difficulty that arises in carrying out the study is to identify each of the transactions communicated in the treasury share reports within one of the three possible categories:

i) Transaction within a liquidity contract.

ii) Transaction within a buy-back programme.

iii) Treasury stock transactions outside a safe harbour.

To do this, the dates on which a liquidity contract or a buy-back programme was active are identified and, by default, the other dates are assigned to treasury stock transactions outside the safe harbour.[3]

When building our database it has been necessary to discard some operations. Firstly, at certain times some companies have both operational liquidity contracts and

3 The study includes all the buy-back programmes declared that comply with the communication information of the MAR. It could be the case that a company has a buy-back programme that meets these formal requirements but is not a safe harbour programme to be used for purposes other than those established in the MAR. But we do not believe that, should it exist, this is a significant problem in the sample given that: i) having reviewed the detailed observations for each transaction in the M4 model, we have not detected cases in which a purpose other than those established in the MAR in transactions within buy-back programmes was declared and ii) to the contrary, we have found some transactions outside buy-back programmes and liquidity contracts that are used for purposes that are considered legitimate for buy-back programmes in the MAR, but which in some cases companies carry out outside such programmes.

buy-back programmes at the same time, something that in principle cannot occur and, therefore, we put this down to errors in our data.[4] In these cases, it was necessary to search the annotations of the M4 model for the explanations given for the different transactions.[5] Secondly, the data is cleaned of small errors in the information communicated; for example, some companies indicate the price per share, while others indicate the total price paid or received. Lastly, in the case of treasury stock transactions outside the safe harbour, it was necessary to read the reports to recover the varied causes presented, as will be discussed later. Table 1 shows the final distribution of daily observations used.

Distribution of daily transactions in the final sample (2016-2018)[1] TABLE 1

	Total	Acquisitions	Transfers
Liquidity contracts	28,415	14,360	14,055
Buy-back programmes	2,165	2,068	98
Other treasury stock transactions	5,392	3,490	1,902

Source: CNMV.

1 The table shows the total number of daily treasury stock transactions carried out by Ibex companies in Spain during the years 2016, 2017 and 2018 within the safe harbour category (liquidity contracts and buy-back programmes) and outside the safe harbour (other treasury stock transactions).

The difference between the number of acquisition and transfer operations within buy-back programmes is striking. In this case, the transfer operations identify the moment at which the repurchased shares are amortised or the delivered to employees. There may be two reasons for this discrepancy. Firstly, the time lag between purchases and uses, whereby the purchase transactions in 2018 would result in deliveries in 2019, which are not included in the sample. Secondly, some companies report these operations as transfers within buy-back programmes, while others classify them as treasury stock transactions outside of them, which makes it difficult to track the degree of compliance with the programmes and generates noise in the analysis of pure treasury stock transactions.

3.2 Buy-back programmes in Spain

Table 2 shows the data related to the buy-back programmes which are initiated and operational during the study period. This analysis takes into account that the MAR entered into force in Spain on 3 July 2016, therefore the results of that year are divided into two separate halves to identify the possible impact of these regulations. However, it has not been observed that the approval of the MAR has increased the number of programmes, which is small. In addition, some of the companies with approved

4 Some companies - such as Ence and Axiare Patrimonio - communicate this coincidence as a price-sensitive information disclosure, while other companies - such as Acciona, Inmobiliaria Colonial and Indra - do not disclose it formally, but there is a coincidence in the dates of both types of plans. Assuming that the problem is due to errors in our data and not to the specific operation, we removed all those observations for which we could not determine from the sample what plan they correspond to.

5 Almost all the transactions could be recovered except for 35 transactions corresponding to Indra, where the transaction type could not be identified.

programmes did not perform any transactions within the period analysed. Only 19 of the 137 companies in the stock market carried out a transaction in at least one of the three years studied, with 12 Ibex 35 companies among them.[6]

Buy-back programmes in Spain 2016-2018[1] TABLE 2

	Approved buy-back programmes			
	2016		2017	2018
	1H	2H		
Ibex 35	5	2	4	6
Ibex M Cap	0	0	0	1
Ibex S Cap	0	2	2	6
Other	1	3	3	2
Total	**6**	**7**	**9**	**15**
	Live buy-back programmes			
	2016		**2017**	**2018**
	1H	**2H**		
Ibex 35	6	5	5	8
Ibex M Cap	1	1	0	1
Ibex S Cap	0	2	4	5
Other	3	2	6	5
Total	**10**	**10**	**15**	**19**

Source: CNMV.

1 The table shows the number of buy-back programmes in force in 2016, 2017 and 2018 among the companies of the Ibex 35, the Ibex Medium Cap and the Ibex Small Cap and the rest of the companies in the Spanish continuous market. Both the programmes approved by the Board of Directors and those that are live during each period are shown. Live programmes are calculated as those approved and in force before the beginning of the period plus the new ones approved during this period.

Table 3 shows the results of the analysis of the transactions reported within these buy-back programmes. An average of 1.62% of repurchased shares per active company and year is observed, with a maximum below 5%, which is far away from the volumes seen for the USA (companies with active programmes that do not perform any transactions are not taken into account in calculating this average). The deliveries - repurchased shares amortised or delivered to employees - are much smaller (0.52% on average). This big difference between purchases and deliveries is partly due to problems in the way information is treated. As already explained, some companies include these transactions within the information related to buybacks (these are the only ones listed in the table), but others include them in treasury stock. Clearly, it would be desirable for transactions that show the end use of repurchases to appear as transactions within the buy-back programme, so that the use given to the repurchased shares and the degree of compliance with the buy-back programmes could be easily verified.

6 The 19 companies that carried out a transaction within a buy-back programme between 2016 and 2018 were: Acciona, Acerinox, Amadeus, Axiare Patrimonio, Ence, Ercros, Ferrovial, Fluidra, Iberdrola, Indra, Inmobiliaria Colonial, IAG, Lar España, Mediaset, Naturgy, OHL, Repsol, Talgo and Telepizza.

Transactions carried out within the 2016-2018 buy-back programmes[1] TABLE 3

	Obs.	Aver.	Min.	5%	10%	25%	50%	75%	90%	95%	Max.
% shares purchased annually	32	1.62	0.03	0.14	0.16	0.26	1.25	2.78	3.52	4.11	4.92
Annual repurchase volume (thousands of euros)	32	125,000	1,906	2,227	3,540	6,507	21,100	196,000	276,000	507,000	1,040,000
% shares delivered annually	18	0.52	0.00	0.00	0.00	0.01	0.06	0.14	2.80	2.80	2.80
Annual volume deliveries (thousands of euros)	18	3,723	0	0	0	1,168	1,302	4,979	15,800	16,400	16,400

Source: CNMV.

1 This table shows the statistics of the annual repurchase transactions carried out by the Spanish companies in the continuous market during the 2016-2018 period. This shows the distribution of the annual percentages that the repurchased and delivered shares represent with respect to the total shares of each company as well as the volume in thousands of euros that represent such repurchases and deliveries.

3.3 Liquidity contracts in Spain

The repurchases that are made for the purposes of price stabilisation or liquidity provision enjoy safe harbour status when they are performed through liquidity contracts that companies sign with securities brokers, securities dealers, credit institutions or other qualified financial intermediaries who will buy and sell shares in the market to provide liquidity to the asset. To do so, the company delivers a number of shares and an amount of cash to the securities broker, which it will use in its operations and that will be returned at the end of the contract.[7]

Table 4 shows that the entry into force of the MAR in July 2016 prompted the signing of liquidity contracts in companies in the continuous market. Also, as expected, it is observed that the companies that make the most use of these contracts are the smallest and least liquid.

7 Please note that, strictly speaking, this transaction is not a repurchase itself, as it does not alter the volume of the company's treasury stock, as it is carried out with the shares deposited by the company at the beginning of the contract and withdrawn at the end.

Liquidity contracts in Spain 2016-2018[1]

TABLE 4

	Signed liquidity contracts			
	2016		2017	2018
	1H	2H		
Ibex 35	1	1	9	2
Ibex M Cap	0	3	9	4
Ibex S Cap	2	3	7	5
Other	2	5	12	6
Total	**5**	**12**	**37**	**17**
	Live liquidity contracts			
	2016		**2017**	**2018**
	1H	**2H**		
Ibex 35	6	7	8	9
Ibex M Cap	2	4	7	7
Ibex S Cap	6	6	7	8
Other	10	15	17	13
Total	**24**	**32**	**39**	**37**

Source: CNMV.

1 The table shows the number of liquidity contracts in force in 2016, 2017 and 2018 among the companies of the Ibex 35, the Ibex Medium Cap and the Ibex Small Cap the rest of the companies in the Spanish continuous market. Both contracts executed and live contracts are shown during each period. Live contracts are calculated as those existing before the beginning of the period plus those signed during this period, less renewals.

Going into the detail of the signed contracts, Table 5 shows that the average percentage of shares delivered by the companies to the securities brokers that manage the contracts is around 0.2%, whereas the average cash delivered in relation to the share capital is 7.6% - the latter average, which seems very high compared to a median of 1.7%, is actually distorted by the high values that the ratio has for some companies with very low capitalisations during the period studied.[8]

Characteristics of liquidity contracts of companies in the continuous market in Spain 2016-2018[1]

TABLE 5

	Obs.	Aver.	Min.	1%	5%	10%	25%	50%	75%	90%	95%	99%	Max.
% shares in the liquidity contract	93	0.2	0.02	0.02	0.03	0.04	0.1	0.1	0.2	0.3	0.4	3.8	3.8
% cash in the capital contract	93	7.6	0.03	0.04	0.10	0.10	0.3	1.7	5.8	35.0	45.0	45.4	45.6

Source: CNMV.

1 The table shows the characteristics of the liquidity contracts of the Spanish continuous market companies active during the 2016-2018 period. Details the statistical distribution of both the percentage of shares (over the company's total shares) and the cash (over the share capital) that the company delivers at the beginning of the contract to the securities broker that will manage.

8 Specifically, they are the companies Service Point Solutions, Técnicas Reunidas, Oryzon Genomics and MásMóvil Iberco.

Detail of the operation of liquidity contracts of companies in the Spanish continuous market 2016-2018[1]

TABLE 6

	Obs.	Aver.	Min.	1%	5%	10%	25%	50%	75%	90%	95%	99%	Max.
% shares purchased per company daily	12,969	0.02	0.00	0.00	0.00	0.00	0.00	0.01	0.02	0.04	0.05	0.08	0.97
% shares sold per company daily	12,969	0.02	0.00	0.00	0.00	0.00	0.00	0.01	0.02	0.04	0.05	0.08	0.61
% net shares per company daily	12,969	0.00	-0.61	-0.03	-0.01	-0.01	0.00	0.00	0.00	0.01	0.01	0.03	0.94
Daily net amount per company (thousands of €)	12,969	4	-13,200	-349	-161	-86	-14	0	12	85	164	363	10,800
Annual net tax (company and year) (thousands of €)	71	793	-14,400	-14,400	-1,725	-1,069	-467	-5	490	1,761	2,956	33,000	33,000
% Annual net tax/capitalisation (company and year)	71	-0.01	-1.49	-1.49	-0.24	-0.12	-0.06	0.00	0.05	0.14	0.18	0.85	0.85

Source: CNMV.

1 The table shows the statistical distribution of the figures related to liquidity contracts of companies in the Spanish continuous market during the 2016-2018 period. The percentages of shares bought and sold and the net are calculated using the total shares of the company and the net amount as the difference in total sales volume less purchases.

The breakdown of the operations carried out within the liquidity contracts can be seen in Table 6. In general, the percentage of shares bought or sold on a given day over the total number of shares is very small, and the annual net amount that this activity represents for companies in proportion to their capitalisation is also very small, so it is doubtful that this operation can have a significant impact on prices and distort the market.

3.4 Treasury stock transactions outside the safe harbour in Spain

Treasury stock transactions that are likely to be considered attempts to manipulate market prices are those that are performed outside safe harbours.

In the case of Spain, when studying treasury stock transactions outside the safe harbour, there is a wide range of circumstances, which can be seen in Table 7. There are several things that are worth highlighting regarding this classification.

First of all, it should be stressed that the classification of these transactions implies the reading of the description made by the company for each one. This expensive procedure could be avoided if companies were given a classification beforehand with the different cases formed into three or four large groups, which could be used to make the communication more clear and homogeneous.

Second, as noted above, some of the transactions included here could have been reported as deliveries within a buy-back programme (for example, those classified as deliveries to employees or remuneration plans) and, therefore, be considered included within a safe harbour. Other frequent categories are also observed, which should not be susceptible to being considered market abuse, such as those carried out in the block market or those corresponding to securities lending operations and derivatives trading. It was therefore decided to carry out two analyses: an initial one, which included all transactions, and another that excluded transactions that were not voluntary or could have been carried out within a safe harbour. In Table 7, the cases included in the second analysis (i.e., the transactions that are the most suspicious of market abuse) are marked with an asterisk. They represent approximately 72% of the total.

Cases of treasury stock transactions outside safe harbour[1]

TABLE 7

	No. of transactions	% shares
Transaction without explanatory observations (*)	4,256	49.20
Loans (*)	231	5.42
Employees	216	1.46
Derivatives (*)	176	4.31
Judicial rulings	153	0.47
Blocks (*)	76	3.74
Acquisition plans	70	0.18
No price (*)	63	2.96
Derivatives in blocks (*)	43	2.85
Increases released	15	0.11
Equity swap (*)	12	2.78
Buybacks and derivatives (*)	12	0.39
Stock buybacks from executives	10	0.00
Capital amortisation	10	16.90
Corporate restructuring	8	1.70
Transactions carried out in other markets (*)	6	0.01
Flexible dividends	5	0.08
Exchange of rights for scrip shares	4	0.01
Price-sensitive information	3	3.86
Dividend reinvestments	3	0.05
Bond conversions	3	0.07
Deliveries for convertible bonds	3	0.04
Mergers	2	0.19
Increases	2	0.09
Management of treasury stock by flex. dividend	2	0.01
Deliveries of shares	1	0.06
Treasury stock management	1	0.92
Exchange transactions without market price	1	0.39
Corporate transactions	1	0.39
Deferred payments - corporate transactions	1	0.34
Accounting reclassifications - redemption plans	1	0.08
Sold by a subsidiary	1	0.02
Shares exchanges	1	0.94

Source: CNMV.

1 In the study of the breakdown of the transactions reported in Table 8, it can be seen that the average of net shares purchased by company and year is -0.46%, and that the average annual net profit is also very small, both at an absolute value and as a percentage of capitalisation. However, the variance of the three figures is considerable and in the top and bottom 10% of the sample there are data that seem quite high. It is interesting to note that the data changes very little if both the total and the restricted sample are used.

Treasury stock transactions outside a safe harbour of Spanish listed companies 2016-2018[1] TABLE 8

	Obs.	Aver.	Min.	5%	10%	25%	50%	75%	90%	95%	Max.
Including all											
% share - annual net	75	-0.46	-8.75	-4.11	-2.36	-0.45	0.01	0.24	0.52	1.15	2.76
Annual treasury stock amount (thousands of euro)	75	-29,900	-1,670,000	-427,000	-66,900	-7,709	-222	630	78,200	253,000	771,000
% Annual net tax/capitalisation (company and year)	75	0.01	-3.71	-2.78	-1.08	-0.28	-0.02	0.10	0.75	2.17	8.10
Including only those marked *											
% share - annual net	59	-0.35	-8.75	-4.11	-2.83	-0.03	0.02	0.26	0.86	1.87	2.76
Net treasury shares - annual amount (thousands of €)	59	-54,700	-1,670,000	-720,000	-109,000	-9,866	-1,045	292	40,400	253,000	948,000
% Annual net tax/capitalisation (company and year)	59	-0.16	-3.72	-3.03	-1.77	-0.47	-0.09	0.10	0.33	0.95	8.10

Source: CNMV.

1 The table shows the statistics by company and year of treasury stock transactions carried out by companies in the Spanish continuous market during the 2016-2018 period. In an initial analysis, all transactions are included, while in the second, only those marked with an asterisk in Table 7 are included, as these are considered more likely to be price manipulation transactions.

4 Reasons to distribute profits and the choice between dividends and buybacks

In the absence of market imperfections and conflicts of interest, buybacks would be the equivalent of dividends, in fact, there would be no reason to distribute the latter. The literature on the distribution of profits can be understood as a gradual analysis of this phenomenon when different market imperfections and conflicts of interest are introduced sequentially. As will be seen, although initially more attention was paid to taxation and signalling effects, the most recent studies suggest that the real reason for the distribution of profits (either through dividends or buybacks) is the reduction of agency conflicts by controlling the funds in the hands of executives.

4.1 Tax effect

The introduction of issuance costs, transaction costs and taxes may represent a preference for distributing profits through buybacks compared to dividends. In this regard, in the USA, the maximum tax rate at which ordinary annual income is taxed (which would include dividends) has traditionally been higher than the maximum tax rate for capital gains (which would affect buybacks), the taxation of which would only occur at the time of sale. This would create a tax advantage for shareholders to prefer to receive money from the company through stock buybacks rather than dividends.

However, in 2003 the Jobs and Growth Tax Relief Reconciliation Act equalised the maximum rate to 15%, both for dividends and buybacks (although there is still an advantage for buybacks where the payment of the tax is deferred until the sale and because the maximum of 15% only applies - in the case of buybacks - to those that exceed the historic average of assets sold by the investor) and this did not change the tendency to replace dividends with buybacks (volume of the latter is higher than the first since 2006). In addition, the tax differences between dividends and capital gains cannot explain why, within the same year, some companies only pay dividends, others only buy back and others perform both actions. Therefore, taxes alone do not explain the distribution of cash itself or the tendency to carry it out through buybacks instead of dividends.

The limited impact of taxes on distribution decisions is also consistent with the opinion of executives, who do not cite tax considerations as one of the most significant factors in making their dividend decisions, but do mention flexibility as the most important advantage of buybacks (Brav, Graham, Harvey and Michaely, 2005). In addition, Skinner (2008) provides evidence by showing that the decision regarding dividends - paying them or not and for what amount - is subject to the decision on buybacks, and that the former are used to distribute permanent gains (which would be reflected in the long-term trend of GDP), while the latter are used to distribute transitory gains (which would follow the economic cycle).

Lastly, it is important to note that the Tax Cuts and Jobs Act of December 2017 has reduced corporate income tax in the USA and has facilitated the conditions for the repatriation of profits obtained abroad by US companies, and that this is already substantially increasing the distribution of profits to shareholders, a large part of them through buybacks.

In any case, as evidenced by DeAngelo, DeAngelo and Skinner (2009), in an environment like the current one, where transaction costs for investors are low and investors who want liquidity can build their own dividends by selling shares on the market, no tax theory - except for those that justify dividends when there is limited rationality and behavioural biases - can explain the reason why companies distribute profits and the market reacts positively.

4.2 Market reaction to dividend distributions and buybacks and possible explanations

Numerous studies have shown that the market reacts with abnormal positive (negative) profits both to announcements of initiation (deletion) and increase (reduction) of dividends and to announcements of buybacks (issuance) of shares. It therefore seems to be an underreaction; that is to say, on average the market takes a long time to react to the information contained in the buy-back announcements, whatever it is (as explained in sections 3.3. and 3.4, there are two theories about the informative content of these announcements). This implies that, in addition to the short-term reaction after the announcements, there are abnormal long-term profits during the two or three years following them. The existence of these abnormal profits is a clear anomaly in the behaviour of capital markets, since it would allow for arbitrage by forming a long portfolio in companies that advertise buybacks and short in those that do not. A portfolio like this, which invested for three years in companies that announced a buyback, would have obtained during the period 1981-2001 an abnormal return above the market of around 17% (Peyer and Vermaelen, 2009;

Obernberger, 2014). Therefore, there must be some impediment (transaction costs, bans or short sale costs, reduced liquidity, etc.) so that this arbitration is not possible and has not eliminated these abnormal returns (see section 4.4 later). Lastly, the reaction after dividends is usually stronger than after buybacks. Specifically, the average reaction to a buy-back announcement is between 2% and 3% (Vermaelen, 2005; Peyer and Vermaelen, 2009; Obernberger, 2014), while faced with an increase (decrease) in the dividend compared to the previous one the average reaction in the year is 1.5% (-3%) and before a commencement (omission) of dividend payments in a given year is 3% (-7%) (DeAngelo et al., 2009).

Much of the literature on dividends and buybacks has focused on trying to determine the reasons for this reaction and explain why it is greater in the case of dividends than in buybacks.

4.3 Asymmetric information and signalling

The first explanation given to the aforementioned issue is the signalling by executives in an asymmetric information environment. When there is asymmetric information between executives and significant shareholders on the one hand and investors on the other, there is a possibility that, at any given time, the value of the shares on the exchange is higher (overvaluation) or lower (undervaluation) than the value assigned by the executives.

Within this context, the market will interpret the actions of executives as signals regarding the true value that they believe the shares have. When obtaining financing is costly for companies, the distribution of cash among shareholders is considered a signal that indicates that executives have confidence in the future of the company. This is consistent with the positive reaction of the market to distributions. But this theory presents important problems that mean that the desire to signal undervaluation is not a significant reason in explaining the distribution of profits in most companies. Therefore, signalling cannot justify why profit distributions are much more important in large, mature and stable companies, with little chance of being undervalued. In addition, the fact that there is a long period of up to two or three years during which companies that distribute profits obtain abnormal returns would indicate that the distribution of profits is not a very effective signal.

4.4 Free cash flows and agency costs

Faced with the idea that the distribution of profits tries to convey good news to the market, there is the fact that distributions are good news in themselves, as they reduce the discretion of managers and conflicts of interest between shareholders and executives. That is to say, profit distributions are costly for shareholders (who must pay taxes when they occur), but the benefit of reducing the discretion of executives and preventing them from investing in low-yield projects far exceeds those costs.

This is currently dominant theory to explain why companies with free cash flows - for example, with profits that exceed their investment needs - distribute a large part of their profits among their shareholders. The use of distributions to reduce agency costs perfectly explains the fact that most distributions come from larger and more mature companies, that are more susceptible to agency problems. In addition, the existence of agency costs also justifies the positive reaction of the market and is consistent with the operational improvements that are seen after distributions in the efficiency and profitability ratios (Lie, 2005) which, in turn, could explain the abnormal profitability observed during the following years. Empirical evidence seems to confirm all this in the studies by La Porta, Lopez-De-Silanes, Shleifer and Vishny (2000); Farinha (2003) and, especially, Lang and Litzenberger (1989), who conclude that the market reacts much more positively to distributions by companies with low levels of market value over its book value ratios. This is the so-called *q ratio*, which is an approximation to the growth opportunities that the company has. Therefore, companies with a low value for this ratio are the ones that may suffer the most overinvestment problems.

Additionally, this theory also makes it possible to understand the different market reactions regarding dividends and buybacks; although in both cases the reaction is positive and significant, although it is greater in the event of the former than the latter. This is logical, since the buybacks have less commitment value. This happens because they are carried out over a more or less long period and, sometimes, after its announcement the buy-back programme is not completed or even cancelled. This implies that one of the advantages frequently cited by executives to prefer dividends to buybacks, flexibility, is a double-edged sword, since it reduces the credibility of the former. In fact, the reaction to buybacks depends on the policy followed in the past and the mechanism used to carry them out. The reaction is greater for companies that repurchase through public offers or that, in case of buybacks in the secondary market, do so using accelerated share repurchases (ASR) or through a programme pre-agreed with a financial intermediary (Chemmanur, Cheng and Zhang, 2010).

However, if buybacks are less highly regarded as a discipline mechanism than dividends because they constitute a less firm commitment to return money to shareholders, how can we explain their success and increase compared to dividends as a preferred mechanism for distributions? An interesting explanation for this apparent contradiction would be that with buybacks both shareholders and executives have something to gain, while with dividends only shareholders would gain (Oded, 2017). As explained below, buybacks have some advantages for executives and controlling shareholders that can more easily overcome their reluctance to return retained profits.

As will be seen below, this incentive to accept cash distributions is generally related either to small inefficiencies in the remuneration contracts of executives or to the fact that - unlike dividends, which treat the all shareholders equally - buybacks impact different shareholders differently.

5 Benefits of buybacks compared to dividends for executives and controlling shareholders

This section presents the different advantages of buybacks over dividends for executives and controlling shareholders. These advantages can be considered as an incentive to carry out the "painful" task of distributing profits to shareholders.

5.1 Artificial increase in earnings per share in the short term

By reducing the number of shares, buybacks have the mechanical effect of increasing the earnings per share (EPS) in the short term - even if they do not alter the return on invested capital - and, in the same way, they can artificially improve the price to earnings ratio. To the extent that many remuneration contracts make payments that are linked to these measures, executives have an incentive to carry out share buybacks before their performance is evaluated. Almeida, Fos and Kronlund (2016) conclude that, prior the announcement of annual results, it is much more likely that those companies that, should they not do it, would have remained slightly below the market expectation regarding the EPS compared to the companies that would have been slightly above.

5.2 Maintaining the value of shares options

Normally, the shares options that executives receive are not protected against the mechanical price drops that dividends would entail. Buybacks do not produce this type of fall and, they also - similar to dividends - allow executives with options close to the exercise price to take advantage of the positive reactions that buybacks entail. Moore (2018) finds that there is a high probability that buybacks will be made during the months prior to those in which the directors' shares options can be exercised.

5.3 Protection against dissatisfied shareholders: impact on voting rights and takeover risk

Buybacks reduce the likelihood of a hostile takeover for three different reasons: i) they mechanically withdraw shares held by shareholders with relatively lower valuations from the market (which will be the first to sell at a given price), which increases the cost of a potential takeover; ii) if they are financed with debt, buybacks increase indebtedness, which also makes a takeover difficult; and iii) buybacks reduce free cash flows and agency costs, thereby reducing the need for or attractiveness of takeovers that could be made in order to align the objectives of the executives with those of the shareholders.

Furthermore, by withdrawing shares from the market, buybacks also increase the voting rights of significant shareholders. Although the effect might not be very large (buying back 10% of the shares would increase the voting rights of a shareholder who initially had 5% of the votes up to 5.5%), this increase can be significant when done before a closed vote.

5.4 Market timing and earnings for long-term shareholders versus short-term shareholders

When reviewing the history of buybacks it is observed that until 1982 these transactions could be considered market abuse transactions. In addition, in section 3.2 it was mentioned that, in addition to the positive reaction to buyback announcements, there is an under-reaction of the market that entails abnormal positive profits during the following years.

This market reaction could be explained by the effect of buybacks on reducing agency problems, but it is also interpreted as evidence that executives use their superior information to buy the shares when they are undervalued and thus benefit long-term shareholders at the cost of short-term ones.

This would imply that executives have the capacity to time the market - in other words, they know when the value is too low and should rise - and that the possibility of performing buybacks in the secondary market allows them to exploit this ability to benefit the shareholders who decide not to sell, and among these the controlling shareholders and the executives themselves, who are normally obliged by their remuneration to hold long-term shares in their companies. This could be interpreted as exploitation of inside information and market abuse.

There are many articles that have tried to measure the market timing ability of managers. In one of the most recent (Manconi, Peyer and Vermealen, 2018), which compares data from the USA with those of other countries, it is observed that the abnormal returns of the buybacks are high both in the short and, above all, in the long-term and this occurs in all geographical areas.

However, Fu and Huang (2015) and Obernberger (2014) argue that these abnormal long-term returns are simply an anomaly of capital markets and that, like many others, they may be due to a data mining issue or simply to a coincidence in the data. In favour of this interpretation would be the evidence of the authors mentioned above, who find that for the period 2004-2010 the abnormal returns appear to have been significantly reduced in the USA because of an increase in the efficiency of capital markets (in terms of liquidity and facilities for short positions). In fact, this is what would be expected if informed investors exploit these anomalies. Furthermore, the increase in long-term value also occurs in the case of dividends (Michaely, Thaler and Womack, 1995), which is not consistent with the theory of market timing.

Lastly, Boehme and Sorescu (2002) argue very convincingly that these long-term effects are due to a change in the risk factors of companies: those that can distribute more profits are those that for whatever reason, possibly fortuitous, are becoming less risky. In this case, rational investors will be surprised for a more or less long period with positive abnormal returns, as risk factors and capital costs are gradually adjusted and reduced (Grullon, Michaely and Swaminathan, 2002).

In any case, if the market timing problem exists, it would only occur in the buybacks made in the secondary market without the involvement of an intermediary and without a predetermined buyback programme. This is also true for most of the other benefits that have been discussed in this section. If companies were forced to make buybacks with a predetermined programme or through an intermediary, these effects, that favour executives and controlling shareholders and make buybacks controversial could easily be eliminated. But, without these advantages, it is also possible that executives would choose to reduce both the volume of buybacks and the total distributions to shareholders.

6 Buy to sell: discretionary trading in treasury shares

Until now, we have studied the theory that studies buybacks which are made to amortise the shares or redistribute them among executives, employees or new shareholders in cases of mergers or acquisitions. In all of these cases the shares only remain in treasury stock temporarily and are not resold. As stated in the previous point, the problems that these transactions may present come from the choice of the moment in which the buyback is made, which may be motivated by the agency conflicts already analysed.

A different case is that of pure or discretionary treasury stock transactions in which the motivation to buy the shares is to sell them at a later date. These operations can be carried out to provide liquidity, to *support* the value of the shares within a price range or even to alter market prices. From the outset, a first problem they pose is the execution of a financial trading activity by non-financial companies.

It is interesting to note that, in the case of large companies that have liquid options markets for their shares, it is unlikely that these treasury stock transactions represent a large proportion of the buybacks, since most of the speculative operations on the value of its shares could be carried out in the options market, where it is possible to move prices with lower total investment. However, the direct trading of shares is the only option for those companies that do not have liquid markets for their options.

Regarding the impact of these transactions (irrespectively of whether they are carried out in the shares market or in the options market) one must distinguish between the effect on fairness among shareholders and the effect on the efficiency of market prices. In addition, the effects are different depending on whether inside information is being used to obtain a profit with the trading activity (buying when a price increase is expected and selling when a decrease is expected) or if an automatic value stabilisation policy is being followed.

6.1 Effects on fairness between shareholders

If the superior information available within the company is being used to obtain a trading advantage, even if it is later reflected in earnings for shareholders, inequality is being generated and the profits of long-term shareholders are increased as opposed to the short-term ones (as explained in Barclay and Smith, 1988; Brennan and Thakor, 1990). The analysis of this problem is similar to that in section 4.7 on market timing in the case of buybacks for other uses.

This problem will occur even if inside information is not being used and the treasury stock is handled automatically (buying when the value falls and selling when it rises within a range). Although this policy may involve short-term losses, in the long-term it should generate gains, so it would again benefit shareholders with long investment horizons compared to short-term ones. Nevertheless, this policy of *supporting* or *stabilising* the value could have some benefits for the small, less informed investor, avoiding sudden and sharp falls or rises, such as when, due to extraordinary circumstances, the trading or short-selling is suspended in the event of unexpected news.

6.2 Effects on efficiency in price formation

The impact of the pure treasury stock transactions is very different if they are carried out using the superior information existing within the company or if they are mechanical or passive operations performed to stabilise the value or provide liquidity.

The case in which the insiders use their superior information for treasury trading from a legal point of view could be considered more negative but from an economic point of view it improves the price formation in the market. In fact, when trading using the best information available within the company, the efficiency in price formation - understood as the information incorporated into the prices - will be greater. In other words, prices will better reflect all existing information about the company. In fact, this would be the way to make market prices efficient in a strong way, because when inside information cannot be incorporated, markets are only efficient in a semi-strong sense (Fama, 1970 and 1991).

To the contrary, if treasury trading is mechanical and carried out to support value in a range and reduce volatility, market efficiency will be reduced. The support will cause information to be incorporated into prices more slowly and the volatility of the value will be *window dressed* to give an impression of the risk being lower than it actually is.

Therefore, in short, it can be said that treasury trading, regardless of whether it is carried out using superior information or not, generates an unequal distribution of profits among long-term shareholders (among which are the major shareholders and executives) and short-term shareholders. In addition, if this operation is purely mechanical, in order to stabilise the value within a price range, without the use of superior information, a false image of low volatility will be offered to the market, which will cause the investment risk to appear smaller than the real one.

6.3 Discretionary stock buybacks and market abuse regulation

Regulating treasury stock transactions and their effects on market prices is complicated. Ideally, the definition of market abuse as an operational concept should capture those actions that impair price formation and market efficiency, but without compromising other actions that move prices efficiently (for example, stabilisation of prices in case of IPOs). Both in the USA and in Europe, there is a general ban on market abuse. In Europe, the regulation (Article 12) includes a whole range of infractions, including that of affecting the transactions that give or may give a false or wrong impression of the supply, demand or price of securities when using fictitious mechanisms and disclosing information that is likely to create the wrong impression about the price of the security. In the USA, in addition to Rule 10b-5, which is a general anti-fraud rule, it is prohibited to carry out concatenated transactions to create the appearance of active trading in those securities, or to increase or decrease the price of such securities.

But imposing rules that prohibit the market abuse - which need no further justification - is easier than specifying their limits and their regulatory scope. Distinguishing what is and what is not market abuse is not an easy task. First of all, these are very complex behaviours that are difficult to identify in practice. Secondly, manipulative practices are very dynamic and are constantly evolving as new products are generated, new participants enter and market interconnectivity is increased. Consequently, the formal and detailed descriptions of the behaviours will not be able to cover the entire range of manipulative actions and, furthermore, will soon be outdated.

However, general definitions are not very useful either because, although there are behaviours that are clearly manipulative (such as, for example, an administrator or a controlling shareholder deliberately communicating false information), most are difficult to catalogue as such. In other words, it is complicated to establish objective criteria that allow the behaviour to be typified as manipulative because of the effects it produces. And the case of treasury operations provides a paradigmatic example, for example if a company proceeds to buy its own shares to sustain the value or raise the price. As already mentioned, this way of manipulating the price may be due to the fact that insiders, who have private information, think in good faith that the price does not reflect the value and that trading makes it move in the right direction. In other words, since it is practically impossible to know what the correct share price level should be and, consequently, to determine when a price is artificial as an indicator of manipulative behaviour, some academics (Fischel and Ross, 1991) suggest that certain aspects of market abuse should be clearly repressed (when there is evidence of fraud), while others are not (controls on the effects on the price level). However, while the US approach to market abuse incorporates a subjective criterion, to focus on the intention or purpose of the trading, the European perspective does not require such intentionality and a standard of negligence is enough - that the person knew or should have known that the information was false or misleading (Article 12.1, letters c) and d)). Consequently, this perspective reflects the view that, even without the intention to manipulate, if the price formation mechanisms are altered, market efficiency is affected.

A different issue is the degree of effective application of the regulations or enforcement. Regulation can have positive effects if there are mechanisms to enforce it and these are applied. It is here that the availability of public resources is key and is located at the level of the Member States (Articles 30 and 31-34). The relevant aspect then is for the market regulator to set a criterion and control mechanisms. It could, for example, prohibit trading in treasury shares and only enable buybacks within the programmes (with a clear final justification). Naturally, the harmful behaviour could occur in other markets, such as derivatives, and then they would be outside the scope of buybacks and to a certain extent, outside the scope of regulation on market abuse (although Article 2.2 also includes OTC financial instruments, which have an effect on the price or value of the financial instruments subject to the regulation).

In any case, more could be done with respect to information and transparency, at least in relation to operations in the market for shares. It would be desirable for companies to report quarterly on the volume of treasury shares outstanding at the beginning and end, as well as the buybacks made during the period, indicating: i) the volume within a safe harbour and outside of one, ii) the volume within each type of buyback (according to the types discussed in section 2.3) and iii) the destination and economic justification (in percentages) that will be given to the treasury shares available at the end of the period (as indicated in section 2.4). In addition, when the 1% threshold is exceeded and each transaction is communicated, it should be indicated individually - and not only as a footnote - if it is a discretionary transaction or if it is within a safe harbour. This, at the very least, would facilitate and favour market discipline concerning transactions suspected of being manipulative.

7 Stock buybacks and short-termism

The hottest debate about buybacks refers to the relationship between buybacks (and the total distribution of profits, including buybacks and dividends) and the fairly widespread perception of the problem of short-termism.

Short-termism is considered to be a conflict between shareholders and executives with interests in short-term profits compared to other groups with longer-term interests (workers, controlling shareholders, institutional investors, etc.). Short-termism exists when three conditions exist:

i) Capital markets are inefficient and do not predict long-term profits well, with short-term expectations having more weight than they should on price formation.

ii) Certain remuneration schemes for executives, based on shares and share options, and executives concern for their career and reputation encourage these executives to keep the market price high.

iii) Given that the market price is inefficient and it does not reflect well long-term cash flows, executives worried about their reputation and remuneration reduce investments that do not provide short-term profits (R&D, worker training, brand image, etc.) with the aim of communicating and distributing greater profits in the short term.

In other words, the accusation of short-termism affirms that the shareholders are short-sighted in their efforts not to leave free cash flows in the company to avoid overinvestment. Because of this they force excessive distributions that end up producing underinvestment. Short-termism is very difficult to measure empirically, since it implies that executives will reduce expenses that are not easy to identify for investors (or researchers), and it is also difficult to determine what under- or overinvestment entails, since there is no clear way to know what the optimal level of investment is.

Focusing specifically on the relationship between short-termism and stock buybacks, the most widespread opinion is very well summarised in the following quote from an article about William Lazonick (2014) in the *Harvard Business Review* that has had a broad echo:

> *Corporate profitability is not translating into widespread economic prosperity. The allocation of corporate profits to stock buybacks deserves much of the blame. Consider the 449 companies in the S&P 500 index that were publicly listed from*

2003 through 2012. During that period those companies used 54% of their earnings -a total of $2.4 trillion- to buy back their own stock, almost all through purchases on the open market. Dividends absorbed an additional 37% of their earnings. That left very little for investments in productive capabilities or higher incomes for employees.

Despite being widespread, this perception does not fit the data, at least in terms of profit distributions, as explained by Fried and Wang (2018) and Roe (2018), also from Harvard. This is due to difficulties in correctly calculating both net buybacks and investment and an approach that is too focused on the largest and most mature companies in the economy.

Net stock buybacks must subtract direct and indirect issuances from the buyback figure. Indirect issuances refer to stock buybacks that are not amortised or held in treasury shares, but are used for payments in shares for mergers and acquisitions, share plans for employees and remuneration plans for executives. When these issuances are taken into account, net distributions fall from the 91% that Lazonick proposes to less than 50% of net profits.

As regards the investment, it is possible that companies have reduced investments that are accounted for as short-term costs, such as training, advertising or R&D, but any of these costs have already been discounted upon reaching the net profit figure that can be distributed among shareholders. In addition, Fried and Wang (2018) observe that in the case of US listed companies investment figures based on CAPEX and R&D do not show a decrease, but an increase with respect to the historic average.

Lastly, it should be borne in mind that the money that companies distribute to their shareholders must be reinvested by them in other assets. The fact that large and mature companies, with lower growth opportunities, distribute their profits and reinvest in young and growing companies is natural and desirable. Comparing the net distributions of the S&P500 companies with those of listed companies that are not part of that index, Fried and Wang (2018) observe that between 2007 and 2016, the latter made a net issuance of shares every year, absorbing 11% of the distributions made by the S&P500 companies.

8 Conclusions and regulatory implications

From a regulatory point of view, it is important to distinguish the problems of three types of stock buyback transactions according to the purpose for which they are carried out:

i) Transactions for the purchase of treasury shares within a buy-back programme for the purpose of amortisation, remuneration or payment in acquisitions. This transactions are considered as a safe harbour. Four different cases have been identified in which the executives and controlling shareholders can change the moment in which these buybacks are made to favour their particular interests: i) to seek an artificial increase in profits per share in the short-term, ii) to maintain the value of share options, iii) to get rid of disgruntled shareholders and iv) to obtain a long-term economic profit for shareholders. However, these problems will only appear if the buybacks are made through direct transactions of the company in the market and could be eliminated by requiring companies to make those purchases through the interposed party. In the case of Spain, there are few companies that use buy-back programmes and, when they do, the volumes are insignificant.

ii) Transactions that aim to increase market liquidity. In Spain, these transactions are carried out through the safe harbour provided by the liquidity contracts, which are managed by a securities broker independent of the issuer. As we have seen, although many Spanish companies make use of these liquidity contracts, the volume of sales is small and does not seem to pose a problem for the correct price formation in the market.

iii) Discretionary treasury stock transactions outside the safe harbour which, in the case of Spain, are numerous and which, although showing generally small volumes, have a considerable variance. Although these transactions could have been carried out to serve some of the purposes mentioned in the two previous cases, the companies could, if so, perform them through a safe harbour. In fact, it is surprising to see that in Spain companies seem to include in the discretionary transaction some actions that could have been carried out within buy-back programmes.

Suspicions of manipulation are concentrated in discretionary treasury trading. But, it is important to note that stabilisation is allowed and that the act of operating outside a safe harbour does not necessarily imply that there is price manipulation. In any case, stabilisation transactions - which seek to maintain the security within a price range - reduce volatility artificially. Consequently, market efficiency is damaged by giving an impression of lower variability and lower risk than what exists.

In view of the above, two reflections on the existing regulations are relevant.

i) Buy-back programmes that offer a safe harbour could be implemented through an interposed party. In addition, for information purposes, it is important to require that deliveries of shares within a buyback programme are always notified within that programme and never appear as discretionary treasury shares. This would help reduce the volume of discretionary transactions and also allow the degree of compliance with the objectives of the buy-back programme to be known.

ii) The regulator should consider the adequacy of allowing discretionary treasury stock transactions carried out without an interposed party and the manner in which companies should report these operations.

In particular, it seems advisable to change the information obligations to the market for discretionary treasury stock transactions without any interposed party. Currently, the information that companies must give regarding their trading in own shares is intended to verify that prices have not been manipulated and the information that must be disclosed is very detailed. But, it would be desirable for companies to report quarterly on the volume of treasury shares outstanding at the beginning and end and of the buybacks made during the period, indicating: i) the volume within a safe harbour and outside of one, ii) for transactions outside the safe harbour, the end of each one, following a classification that summarises the broad casuistry; and iii) the destination and economic justification (in percentages) that will be given to the treasury stock available at the end of the period. In addition, when the 1% threshold is exceeded and each transaction is communicated, it should be indicated individually - and not only as a footnote - if it is a discretionary transaction or if it is within a safe harbour. This would facilitate market discipline concerning transactions suspected of being manipulative.

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III Legislative Annex

Since the publication of the CNMV Bulletin for the second quarter of 2019, the following legislative developments have taken place:

National regulations

- Resolution of 27 June 2019 of the Comisión Nacional de Mercado de Valores, on product intervention measures related to binary options and financial contracts for differences.

  On 22 May 2018, ESMA adopted the decision to prohibit the marketing, distribution or sale of binary options to retail investors in the European Union from 2 July 2018 and the decision to restrict the marketing, distribution or sale of contracts for differences to retail investors in the European Union as from 1 August 2018.

  The CNMV has considered it appropriate to adopt a resolution that allows the implementation of these measures in Spain indefinitely and which clarifies the manner of their application within the context of our regulatory framework, especially their interaction with Circular 1/2018, of 12 March, of the CNMV, on warnings related to financial instruments.

  The resolution came into force the day after the expiry of the intervention measures established in the ESMA Decisions on binary options and financial contracts for differences, respectively. Consequently, Chapter I, referring to binary options, entered into force on 2 July 2019 and Chapter II, referring to financial contracts for differences, entered into force on 1 August 2019.

  The measures contained in this resolution will continue to be applied within the Spanish jurisdiction as long as there are no changes in the market conditions that could allow its repeal.

- Resolution of 11 July 2019 of the Technical General Secretariat, which publishes the Agreement with the CNMV for the prosecution of financial fraud by unauthorised persons or entities.

  The purpose of this agreement is to set the framework for collaboration between the General Directorate of the Civil Guard, through the Judicial Police Headquarters, and the CNMV in matters of prosecution of financial fraud and of persons operating outside the legal channels provided for in the securities market regulations (unauthorised persons or entities).

- Resolution of 17 July 2019 of the CNMV, by which the Addendum is published to extend the management undertaking to the Bank of Spain, to perform support tasks in the supervision of internal solvency models of investment firms.

  On 12 July 2019, the Addendum was signed whereby the CNMV management commission is extended to the Bank of Spain to carry out support tasks in the supervision of internal solvency models of investment firms.

European regulations

- Directive (EU) 2019/1153 of the European Parliament and of the Council of 20 June 2019, establishing rules to facilitate the use of financial and other information for the prevention, detection, investigation or prosecution of certain criminal offences, and repealing Council Decision 2000/642/JHA. Published in the *OJEU* No. 186 of 11/07/2019.

- Correction of errors of Commission Delegated Regulation (EU) No. 153/2013, of 19 December 2012, supplementing Regulation (EU) No. 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties. Published in the *OJEU* No. 185 of 11/07/2019.

- Directive (EU) 2019/1160 of the European Parliament and of the Council of 20 June 2019, amending Directives 2009/65/EC and 2011/61/EU with regard to the cross-border distribution of collective investment schemes. Published in the *OJEU* No. 188 of 12/07/2019.

- Regulation (EU) 2019/1156 of the European Parliament and of the Council of 20 June 2019, on facilitating cross-border distribution of collective investment schemes and amending Regulations (EU) No. 345/2013, (EU) No. 346/2013 and (EU) No. 1286/2014. Published in the *OJEU* No. 188 of 12/07/2019.

Other

- Resolution of 5 July 2019, of the Bank of Spain, publishing the list of direct participants in TARGET2-Bank of Spain, as well as the list of participating entities (associated and represented) and the modifications of participation in the National Electronic Clearing System.

IV Statistics Annex

1 Markets

1.1 Equity

Share issues and public offerings[1]

TABLE 1.1

	2016	2017	2018	2018 III	2018 IV	2019 I	2019 II	2019 III[2]
NO. OF ISSUERS								
Total	45	46	46	19	24	14	11	9
Capital increases	45	44	45	19	24	14	11	9
Primary offerings	3	3	2	0	2	1	0	0
Bonus issues	18	12	12	5	5	5	4	4
Of which, scrip dividend	12	9	10	5	3	5	4	4
Capital increases by conversion	8	5	6	2	2	2	0	1
For non-monetary consideration	3	8	7	3	3	0	1	0
With pre-emptive subscription rights	11	8	10	2	3	3	1	2
Without trading warrants	11	15	16	7	10	3	6	2
Secondary offerings	2	4	1	0	0	0	0	0
NO. OF ISSUES								
Total	81	89	81	19	26	14	13	9
Capital increases	79	82	80	19	26	14	13	9
Primary offering	4	4	2	0	2	1	0	0
Bonus issues	25	16	17	5	5	5	4	4
Of which, scrip dividend	19	13	15	5	3	5	4	4
Without trading warrants	17	6	10	2	2	2	0	1
For non-monetary consideration	4	12	9	3	3	0	1	0
With pre-emptive subscription rights	11	8	10	2	3	3	1	2
Without trading warrants	18	36	32	7	11	3	7	2
Secondary offerings	2	7	1	0	0	0	0	0
CASH VALUE (million euro)								
Total	20,251.7	32,538.1	12,063.2	3,897.0	3,611.7	1,733.7	1,113.7	1,140.5
Capital increases	19,745.1	29,593.6	11,329.5	3,897.0	3,611.7	1,733.7	1,113.7	1,140.5
Primary offerings	807.6	956.2	200.1	0.0	200.1	10.0	0.0	0.0
Bonus issues	5,898.3	3,807.3	3,939.7	2,120.3	323.5	347.5	140.4	1,074.9
Of which, scrip dividend	5,898.3	3,807.3	3,915.2	2,120.3	299.0	347.5	140.4	1,074.9
Capital increases by conversion	2,343.9	1,648.8	388.7	153.3	9.9	13.0	0.0	0.7
For non-monetary consideration[3]	1,791.7	8,469.3	2,999.7	1,263.4	557.3	0.0	351.6	0.0
With pre-emptive subscription rights	6,513.3	7,831.4	888.4	109.2	141.5	1,352.7	199.8	44.6
Without trading warrants	2,390.2	6,880.5	2,912.9	250.7	2,379.5	10.5	421.9	20.4
Secondary offerings	506.6	2,944.5	733.7	0.0	0.0	0.0	0.0	0.0
NOMINAL VALUE (million euro)								
Total	4,206.1	3,165.1	2,092.4	388.5	479.7	230.9	414.9	194.5
Capital increases	4,189.8	2,662.8	1,810.6	388.5	479.7	230.9	414.9	194.5
Primary offerings	28.2	749.2	104.9	0.0	104.9	0.5	0.0	0.0
Bonus issues	877.8	324.3	381.6	170.8	76.7	140.9	15.2	148.8
Of which, scrip dividend	708.0	299.1	357.1	170.8	52.2	140.9	15.2	148.8
Capital increases by conversion	648.0	182.8	90.0	2.7	1.0	12.4	0.0	0.7
For non-monetary consideration	248.9	181.9	557.6	132.7	204.1	0.0	210.2	0.0
With pre-emptive subscription rights	1,403.0	882.0	611.1	76.6	68.3	76.9	141.2	44.6
Without trading warrants	983.9	342.6	65.5	5.6	24.7	0.2	48.2	0.4
Secondary offerings	16.3	502.3	281.7	0.0	0.0	0.0	0.0	0.0
***Pro memoria*: transactions MAB[4]**								
No. of Issuers	15	13	8	3	2	5	2	4
No. of Issues	21	15	12	4	2	5	2	5
Cash value (million euro)	219.7	129.9	164.5	52.3	3.4	20.3	3.4	69.1
Capital increases	219.7	129.9	164.5	52.3	3.4	20.3	3.4	69.1
Of which, primary offerings	9.7	17.1	0.0	0.0	0.0	0.0	0.0	0.0
Secondary offerings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Registered transactions at the CNMV. Does not include data from MAB, ETF or Latibex.
2 Available data: August 2019.
3 Capital increases for non-monetary consideration are valued at market prices.
4 Unregistered transactions at the CNMV. Source: BME and CNMV.

Companies listed[1]

TABLE 1.2

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[2]
Total electronic market[3]	130	134	133	131	133	132	132	129
Of which, foreign companies	7	7	8	8	8	8	8	7
Second market	5	4	4	4	4	4	4	4
Madrid	2	1	1	1	1	1	1	1
Barcelona	3	3	3	3	3	3	3	3
Bilbao	0	0	0	0	0	0	0	0
Valencia	0	0	0	0	0	0	0	0
Open outcry	14	12	11	11	11	11	10	9
Madrid	5	4	4	4	4	4	3	3
Barcelona	8	6	6	6	6	6	5	5
Bilbao	5	4	3	3	3	3	3	2
Valencia	3	3	3	3	3	3	2	2
MAB[4]	3,336	2,965	2,842	2,856	2,842	2,816	2,774	2,757
Latibex	20	20	19	19	19	19	19	19

1 Data at the end of period.
2 Available data: August 2019.
3 Without ETFs (Exchange Traded Funds).
4 Alternative Stock Market.

Capitalisation[1]

TABLE 1.3

Million euro

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[2]
Total electronic market[3]	779,123.8	877,867.6	733,656.4	833,728.9	733,656.4	812,919.7	813,664.3	750,229.7
Of which, foreign companies[4]	151,043.2	178,620.3	143,598.7	183,387.7	143,598.7	170,909.4	177,526.6	137,166.5
Ibex 35	484,059.2	534,250.1	444,178.3	482,579.5	444,178.3	483,168.5	478,002.5	458,095.7
Second market	114.1	49.9	37.4	39.3	37.4	45.3	45.4	45.3
Madrid	72.0	8.7	1.9	3.3	1.9	1.7	1.9	1.9
Barcelona	42.1	41.2	35.4	36.0	35.4	43.7	43.5	43.3
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	1,291.6	1,288.5	1,459.1	1,532.3	1,459.1	1,446.0	1,240.4	1,183.0
Madrid	289.9	165.9	219.4	234.2	219.4	226.6	66.3	68.1
Barcelona	1,136.6	1,134.3	1,318.4	1,399.3	1,318.4	1,305.8	1,082.6	1,069.5
Bilbao	54.0	211.3	56.5	263.3	56.5	56.5	79.8	32.9
Valencia	349.2	54.0	257.0	54.1	257.0	264.7	77.8	77.8
MAB[5, 6]	38,580.8	43,804.8	40,020.7	43,032.7	40,020.7	42,358.3	42,822.3	42,844.1
Latibex	198,529.6	215,277.7	223,491.3	239,781.3	223,491.3	231,334.0	239,265.8	183,995.5

1 Data at the end of period.
2 Available data: August 2019.
3 Without ETFs (Exchange Traded Funds).
4 Capitalisation of foreign companies 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 1.4

Million euro

	2016	2017	2018	2018 III	IV	2019 I	II	III[1]
Total electronic market[2]	635,797.8	640,293.7	583,327.6	116,892.9	132,062.2	106,970.0	129,816.2	66,747.4
Of which, foreign companies	6,018.0	6,908.0	3,517.1	841.5	717.0	901.5	918.9	414.0
Second market	3.1	0.7	0.8	0.4	0.0	0.1	0.1	0.0
Madrid	2.7	0.5	0.6	0.4	0.0	0.1	0.1	0.0
Barcelona	0.4	0.3	0.2	0.0	0.0	0.0	0.0	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	7.4	8.1	8.2	2.0	2.1	0.9	3.2	1.2
Madrid	3.2	2.3	0.7	0.1	0.7	0.0	0.6	0.1
Barcelona	4.2	6.2	7.4	1.9	1.4	0.9	0.5	0.9
Bilbao	0.0	0.1	0.0	0.0	0.0	0.0	2.0	0.1
Valencia	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
MAB[3]	5,055.1	4,985.6	4,216.3	762.0	1,032.3	932.6	1,018.9	482.7
Latibex	156.4	130.8	151.6	31.6	43.0	38.8	26.0	20.0

1 Available data: August 2019.
2 Without ETFs (Exchange Traded Funds).
3 Alternative Stock Market.

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

TABLE 1.5

Million euro

	2016	2017	2018	2018 III	IV	2019 I	II	III[2]
Regular trading	619,351.6	619,108.6	552,716.8	113,345.0	126,786.8	103,130.8	127,429.1	64,818.1
Orders	346,980.8	335,917.3	300,107.8	70,956.2	71,170.0	64,703.7	66,302.8	39,771.0
Put-throughs	68,990.5	51,315.9	48,644.1	10,691.5	10,917.4	9,481.2	8,715.0	6,873.5
Block trades	203,380.2	231,875.3	203,965.0	31,697.3	44,699.3	28,946.0	52,411.3	18,173.6
Off-hours	1,996.2	2,373.8	1,667.2	154.0	345.5	609.3	617.0	624.7
Authorised trades	12,667.0	9,265.3	2,597.0	720.9	772.9	406.1	279.8	653.8
Art. 36.1 SMA trades	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tender offers	788.4	389.9	18,981.7	1,474.8	1,294.8	1,720.1	337.6	156.3
Public offerings for sale	777.5	2,288.1	1,333.2	89.0	534.0	0.0	39.5	20.0
Declared trades	37.3	0.0	200.0	0.0	200.0	0.0	0.0	0.0
Options	5,408.3	4,462.2	3,793.9	627.2	1,640.5	692.2	722.1	233.4
Hedge transactions	1,833.8	2,405.7	2,037.8	482.0	487.6	411.4	391.1	241.1

1 Without ETFs (Exchange Traded Funds).
2 Available data: August 2019.

1.2 Fixed income

Gross issues registered at the CNMV

TABLE 1.6

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[1]
NO. OF ISSUERS								
Total	51	48	43	16	20	15	17	11
Mortgage-covered bonds	13	9	12	4	7	5	7	2
Territorial-covered bonds	3	1	2	0	2	0	0	0
Non-convertible bonds and debentures	16	16	12	7	7	9	8	4
Convertible bonds and debentures	0	0	0	0	0	0	0	0
Backed securities	20	21	14	2	6	1	3	3
Commercial paper	14	13	13	6	4	2	3	4
Of which, asset-backed	1	1	1	0	0	0	0	0
Of which, non-asset-backed	13	12	12	6	4	2	3	4
Other fixed-income issues	1	1	0	0	0	0	0	0
Preference shares	0	1	4	1	1	1	0	0
NO. OF ISSUES								
Total	399	378	303	69	76	70	66	38
Mortgage-covered bonds	41	28	28	4	13	9	7	2
Territorial-covered bonds	4	1	2	0	2	0	0	0
Non-convertible bonds and debentures	277	276	215	53	40	56	50	21
Convertible bonds and debentures	0	0	0	0	0	0	0	0
Backed securities	61	58	41	5	16	2	6	11
Commercial paper[2]	15	13	13	6	4	2	3	4
Of which, asset-backed	1	1	1	0	0	0	0	0
Of which, non-asset-backed	14	12	12	6	4	2	3	4
Other fixed-income issues	1	1	0	0	0	0	0	0
Preference shares	0	1	4	1	1	1	0	0
NOMINAL AMOUNT (million euro)								
Total	139,028.2	109,487.4	101,295.6	11,793.1	58,433.0	20,850.0	14,325.0	11,135.2
Mortgage-covered bonds	31,642.5	29,823.7	26,575.0	5,050.0	14,700.0	2,745.0	5,930.0	4,500.0
Territorial-covered bonds	7,250.0	350.0	2,800.0	0.0	2,800.0	0.0	0.0	0.0
Non-convertible bonds and debentures	40,170.4	30,006.2	35,836.4	1,430.7	28,245.7	13,620.0	2,364.6	937.2
Convertible bonds and debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Backed securities	35,504.9	29,415.4	18,145.2	1,048.0	7,912.5	1,270.0	2,881.4	2,822.0
Commercial paper[3]	22,960.4	17,911.2	15,089.1	3,264.4	4,524.8	2,215.0	3,149.0	2,876.0
Of which, asset-backed	1,880.0	1,800.0	240.0	0.0	0.0	0.0	0.0	0.0
Of which, non-asset-backed	21,080.4	16,111.2	14,849.1	3,264.4	4,524.8	2,215.0	3,149.0	2,876.0
Other fixed-income issues	1,500.0	981.0	0.0	0.0	0.0	0.0	0.0	0.0
Preference shares	0.0	1,000.0	2,850.0	1,000.0	250.0	1,000.0	0.0	0.0
***Pro memoria*:**								
Subordinated issues	4,278.7	6,504.6	4,923.0	933.2	1,301.3	350.0	0.0	0.0
Underwritten issues	421.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2019.
2 Shelf registrations.
3 The figures for commercial paper refer to the amount placed.

Issues admitted to trading on AIAF[1]

TABLE 1.7

Nominal amount in million euro

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[2]
Total	130,141.0	121,556.6	76,751.3	10,932.3	25,017.2	52,557.5	14,236.2	14,329.3
Commercial paper	22,770.6	18,388.9	15,007.0	2,797.8	5,073.5	1,963.7	3,364.4	3,089.7
Bonds and debentures	31,723.0	43,182.3	19,234.2	852.5	2,301.2	38,038.8	2,790.4	2,087.6
Mortgage-covered bonds	31,392.5	30,000.0	19,935.0	5,050.0	8,060.0	9,285.0	6,030.0	4,500.0
Territorial-covered bonds	7,250.0	350.0	800.0	0.0	800.0	2,000.0	0.0	0.0
Backed securities	35,504.9	28,635.4	18,925.2	1,232.0	8,532.5	1,270.0	1,051.4	4,652.0
Preference shares	0.0	1,000.0	2,850.0	1,000.0	250.0	0.0	1,000.0	0.0
Matador bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other fixed-income issues	1,500.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Only includes corporate bonds.
2 Available data: August 2019.

AIAF. Issuers, issues and outstanding balance

TABLE 1.8

	2016	2017	2018	2018 III	IV	2019 I	II	III[1]
NO. OF ISSUERS								
Total	375	362	353	363	353	347	337	329
Corporate bonds	374	342	320	330	320	314	304	296
Commercial paper	14	14	9	11	9	9	9	9
Bonds and debentures	52	48	45	46	45	44	42	41
Mortgage-covered bonds	43	41	40	41	40	38	39	37
Territorial-covered bonds	9	7	7	7	7	7	7	7
Backed securities	276	262	244	253	244	239	229	223
Preference shares	9	4	7	6	7	6	6	6
Matador bonds	6	6	5	5	5	5	5	5
Government bonds	1	20	33	33	33	33	33	33
Letras del Tesoro	1	1	1	1	1	1	1	1
Long government bonds	1	1	1	1	1	1	1	1
Regional government debt	–	11	14	14	14	13	13	13
Foreign public debt	–	–	9	9	9	10	10	10
Other public debt	–	7	8	8	8	8	8	8
NO. OF ISSUES								
Total	2,637	2,468	2,851	2,881	2,851	2,841	2,858	2,807
Corporate bonds	2,433	2,084	1,917	1,964	1,917	1,890	1,901	1,854
Commercial paper	351	179	106	101	106	89	108	109
Bonds and debentures	856	764	737	755	737	749	752	738
Mortgage-covered bonds	231	218	213	211	213	209	207	206
Territorial-covered bonds	29	24	20	22	20	21	21	21
Backed securities	948	889	828	863	828	810	785	767
Preference shares	12	4	8	7	8	7	8	8
Matador bonds	6	6	5	5	5	5	5	5
Government bonds	204	384	934	917	934	951	957	953
Letras del Tesoro	12	12	12	12	12	12	12	12
Long government bonds	192	226	243	226	243	242	246	241
Regional government debt	–	133	164	163	164	167	170	170
Foreign public debt	–	–	502	500	502	517	516	517
Other public debt	–	13	13	16	13	13	13	13
OUTSTANDING BALANCE[2] (million euro)								
Total	1,408,556.6	1,466,964.4	6,663,565.5	6,688,189.9	6,663,565.5	6,691,658.7	6,588,828.9	6,564,106.0
Corporate bonds	531,056.9	493,629.6	448,394.4	477,131.8	448,394.4	472,155.5	463,325.3	469,086.3
Commercial paper	16,637.4	11,978.9	9,308.7	7,797.9	9,308.7	8,655.4	8,665.5	9,226.2
Bonds and debentures	85,477.8	70,127.7	47,894.0	73,761.6	47,894.0	72,955.9	70,786.7	72,710.1
Mortgage-covered bonds	180,677.5	181,308.7	183,266.8	180,845.1	183,266.8	187,023.7	186,258.2	189,277.6
Territorial-covered bonds	29,387.3	23,862.3	18,362.3	20,062.3	18,362.3	19,862.3	19,862.3	19,862.3
Backed securities	217,992.1	204,570.0	185,002.7	190,355.1	185,002.7	179,103.4	172,197.8	172,455.3
Preference shares	497.8	1,395.0	4,245.0	3,995.0	4,245.0	4,240.0	5,240.0	5,240.0
Matador bonds	386.9	386.9	314.8	314.8	314.8	314.8	314.8	314.8
Government bonds	877,499.6	973,334.7	6,215,171.1	6,211,058.2	6,215,171.1	6,219,503.2	6,125,503.6	6,095,019.7
Letras del Tesoro	81,037.1	78,835.2	70,442.2	68,538.1	70,442.2	68,686.8	67,284.4	64,555.4
Long government bonds	796,462.5	864,059.7	918,000.0	917,024.0	918,000.0	942,865.7	949,953.2	941,449.5
Regional government debt	–	28,620.8	33,100.4	32,484.0	33,100.4	35,497.1	34,989.3	35,028.4
Foreign public debt	–	–	5,192,055.3	5,190,554.7	5,192,055.3	5,170,880.4	5,071,703.5	5,052,413.2
Other public debt	–	1,819.1	1,573.2	2,457.4	1,573.2	1,573.2	1,573.2	1,573.2

1 Available data: August 2019.
2 Nominal amount.

AIAF. Trading

TABLE 1.9

Nominal amount in million euro

	2016	2017	2018	2018 III	2018 IV	2019 I	2019 II	2019 III[1]
BY TYPE OF ASSET								
Total	169,658.2	68,422.0	94,241.3	20,172.5	25,543.9	49,240.2	44,245.0	29,699.5
Corporate bonds	169,534.0	68,297.4	435.4	62.9	53.1	81.4	71.5	35.4
Commercial paper	20,684.3	7,144.4	0.0	0.0	0.0	0.0	0.0	0.0
Bonds and debentures	27,795.6	15,839.5	427.0	62.7	52.8	78.5	60.0	35.2
Mortgage-covered bonds	79,115.6	24,936.4	0.0	0.0	0.0	0.0	0.0	0.0
Territorial-covered bonds	5,329.3	381.7	0.0	0.0	0.0	0.0	0.0	0.0
Backed securities	36,554.9	18,502.5	7.3	0.0	0.3	2.0	11.5	0.1
Preference shares	43.1	1,482.3	1.2	0.2	0.1	0.9	0.0	0.1
Matador bonds	11.1	10.7	0.0	0.0	0.0	0.0	0.0	0.0
Government bonds	124.2	124.6	93,805.8	20,109.6	25,490.8	49,158.8	44,173.5	29,664.1
Letras del Tesoro	8.5	4.2	24,766.7	8,792.7	12,355.2	4,301.8	5,501.1	5,636.2
Long government bonds	115.8	120.4	56,122.5	6,960.0	6,477.3	33,406.7	26,937.1	18,204.5
Regional government debt	–	0.0	3.2	0.0	0.0	26.0	7.6	1.5
Foreign public debt	–	–	12,913.5	4,356.9	6,658.3	11,424.4	11,709.7	5,821.9
Other public debt	–	0.0	0.0	0.0	0.0	0.0	18.0	0.0
BY TYPE OF TRANSACTION								
Total	169,658.3	68,422.0	94,241.3	20,172.5	25,543.9	49,240.2	44,245.0	29,699.5
Outright	127,643.7	57,723.9	94,241.3	20,172.5	25,543.9	49,240.2	44,245.0	29,699.5
Repos	4,143.7	671.6	0.0	0.0	0.0	0.0	0.0	0.0
Sell-buybacks/Buy-sellbacks	37,870.9	10,026.5	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2019.

AIAF. Third-party trading. By purchaser sector

TABLE 1.10

Nominal amount in million euro

	2016	2017	2018	2018 III	2018 IV	2019 I	2019 II	2019 III[1]
Total	117,373.0	49,230.2	92,661.9	20,168.5	24,430.5	49,235.5	44,241.5	29,698.1
Non-financial companies	7,119.3	1,492.6	0.0	0.0	0.0	0.0	0.0	0.0
Financial institutions	63,048.2	23,402.5	92,661.9	20,168.5	24,430.5	49,235.5	44,241.5	29,698.1
Credit institutions	46,583.9	15,363.2	437.9	51.2	98.4	123.5	107.8	64.5
CIS, insurance and pension funds	8,525.2	4,337.8	0.0	0.0	0.0	0.0	0.0	0.0
Other financial institutions	7,939.1	3,701.5	92,224.0	20,117.2	24,332.1	49,111.9	44,133.7	29,633.6
General government	4,969.7	3,196.3	0.0	0.0	0.0	0.0	0.0	0.0
Households and NPISHs[2]	1,076.0	256.6	0.0	0.0	0.0	0.0	0.0	0.0
Rest of the world	41,159.9	20,882.3	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2019.
2 Non-profit institutions serving households.

Equity markets. Issuers, issues and outstanding balances

TABLE 1.11

				2018		2019		
	2016	**2017**	**2018**	**III**	**IV**	**I**	**II**	**III[1]**
NO. OF ISSUERS								
Total	17	15	14	14	14	14	13	13
Private issuers	7	7	6	6	6	6	5	5
Non-financial companies	0	0	0	0	0	0	0	0
Financial institutions	7	7	6	6	6	6	5	5
General government[2]	10	8	8	8	8	8	8	8
Regional governments	2	2	2	2	2	2	2	2
NO. OF ISSUES								
Total	75	64	58	60	58	60	59	59
Private issuers	26	24	19	19	19	19	16	16
Non-financial companies	0	0	0	0	0	0	0	0
Financial institutions	26	24	19	19	19	19	16	16
General government[2]	49	40	39	41	39	41	43	43
Regional governments	23	22	21	22	21	21	21	21
OUTSTANDING BALANCES[3] (million euro)								
Total	10,203.4	9,718.0	8,268.3	8,438.0	8,268.3	8,247.4	8,202.0	8,187.7
Private issuers	899.4	760.6	589.8	611.9	589.8	567.5	517.8	503.6
Non-financial companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial institutions	899.4	760.6	589.8	611.9	589.8	567.5	517.8	503.6
General government[2]	9,304.0	8,957.4	7,678.5	7,826.1	7,678.5	7,679.9	7,684.1	7,684.1
Regional governments	8,347.6	8,193.1	6,959.7	7,079.7	6,959.7	6,959.7	6,959.7	6,959.7

1 Available data: August 2019.
2 Without public book-entry debt.
3 Nominal amount.

SENAF. Public debt trading by type

TABLE 1.12

Nominal amounts in million euro

				2018		2019		
	2016	**2017**	**2018**	**III**	**IV**	**I**	**II**	**III[1]**
Total	165,472.0	131,475.0	96,708.0	20,309.0	25,505.0	43,454.0	35,920.0	23,649.0
Outright	165,472.0	131,475.0	96,708.0	20,309.0	25,505.0	43,454.0	35,920.0	23,649.0
Sell-buybacks/Buy-sellbacks	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

1 Available data: August 2019.

1.3 Derivatives and other products

1.3.1 Financial derivative markets: MEFF

Trading on MEFF TABLE 1.13

Number of contracts

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[1]
Debt products	360	0	0	0	0	0	0	0
Debt futures[2]	360	0	0	0	0	0	0	0
Ibex 35 products[3, 4]	7,468,299	6,911,671	6,983,287	1,552,198	1,833,729	1,926,515	1,952,837	1,402,113
Ibex 35 plus futures	6,836,500	6,268,290	6,342,478	1,430,789	1,611,803	1,473,355	1,463,601	1,067,822
Ibex 35 mini futures	249,897	161,886	149,023	30,556	36,175	349,688	351,831	264,026
Ibex 35 micro futures	–	–	–	–	–	27	5	1
Ibex 35 dividend impact futures	58,044	43,372	70,725	7,218	34,672	24,017	51,710	9,800
Ibex 35 sector futures	1,619	7,753	2,745	690	490	0	4	0
Call mini options	169,871	206,843	193,480	41,750	64,297	36,917	33,841	23,552
Put mini options	152,368	223,527	224,835	41,195	86,292	42,511	51,846	36,913
Stock products[5]	32,736,458	32,335,004	31,412,879	6,542,076	8,641,796	8,703,690	9,672,088	2,794,644
Futures	9,467,294	11,671,215	10,703,192	2,015,974	2,683,936	4,865,427	5,841,433	665,173
Stock dividend futures	367,785	346,555	471,614	58,563	127,608	96,355	496,789	27,432
Stock plus dividend futures	760	880	200	0	200	0	0	0
Call options	11,239,662	8,848,643	7,761,974	1,786,866	1,917,543	1,812,214	1,555,488	872,216
Put options	11,660,957	11,467,711	12,475,899	2,680,673	3,912,509	1,929,694	1,778,378	1,229,823

1 Available data: August 2019.
2 Contract size: 100,000 euros.
3 The number of Ibex 35 mini futures (multiples of 1 euro) and micro futures (multiples of 0.1 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.

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

Issues registered at the CNMV TABLE 1.14

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[1]
WARRANTS								
Premium amount (million euro)	2,688.6	2,433.6	2,084.9	313.9	320.5	470.5	563.5	147.8
On stocks	1,438.2	939.5	819.0	141.0	169.0	246.0	252.1	87.2
On indexes	1,153.1	1,443.0	1,160.5	139.2	145.0	199.5	261.4	58.7
Other underlyings[2]	97.2	51.1	105.5	33.7	6.5	25.0	50.0	1.9
Number of issues	7,809	5,730	5,231	1,039	871	1,452	1,631	331
Number of issuers	5	6	5	4	3	5	5	3
OPTION BUYING AND SELLING CONTRACTS								
Nominal amounts (million euro)	650.0	1,964.5	953.0	250.0	0.0	0.0	0.0	0.0
On stocks	650.0	1,950.0	950.0	250.0	0.0	0.0	0.0	0.0
On indexes	0.0	14.5	3.0	0.0	0.0	0.0	0.0	0.0
Other underlyings[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Number of issues	4	15	11	2	0	0	0	0
Number of issuers	1	2	2	1	0	0	0	0

1 Available data: August 2019.
2 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.

Equity markets. Warrants and ETF trading

TABLE 1.15

	2016	2017	2018	2018 III	2018 IV	2019 I	2019 II	2019 III[1]
WARRANTS								
Trading (million euro)	715.5	462.6	435.2	86.0	152.9	87.3	81.6	43.5
On Spanish stocks	248.4	156.8	93.3	20.7	29.8	19.8	25.6	9.3
On foreign stocks	32.6	29.9	31.6	7.0	10.3	3.6	4.5	2.9
On indexes	420.4	266.0	305.5	57.5	111.1	63.5	50.3	30.6
Other underlyings[2]	14.2	9.9	4.8	0.8	1.6	0.3	1.1	0.5
Number of issues[3]	6,296	5,084	3,986	864	954	972	938	803
Number of issuers[3]	8	7	7	6	7	7	7	8
CERTIFICATES								
Trading (million euro)	0.4	0.3	0.2	0.0	0.0	0.0	0.2	0.1
Number of issues[3]	2	2	2	2	2	2	2	2
Number of issuers[3]	1	1	1	1	1	1	1	1
ETFs								
Trading (million euro)	6,045.2	4,464.1	2,806.4	456.6	632.7	467.1	375.9	317.9
Number of funds	33	8	6	6	6	6	6	5
Assets[4] (million euro)	349.3	359.3	288.9	334.1	288.9	301.3	296.5	260.5

1 Available data: August 2019.
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 Only assets from national collective investment schemes are included because assets from foreign schemes are not available.

2 Investment services

Investment services. Spanish firms, branches and agents

TABLE 2.1

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[1]
BROKER-DEALERS								
Spanish firms	40	41	39	40	39	39	39	40
Branches	27	24	25	26	25	23	22	18
Agents	5,761	5,747	2,027	2,165	2,027	1,974	1,954	1,949
BROKERS								
Spanish firms	41	48	52	53	52	54	55	55
Branches	22	23	21	24	21	21	22	25
Agents	492	461	414	423	414	356	374	378
PORTFOLIO MANAGEMENT COMPANIES								
Spanish firms	2	1	1	1	1	1	1	1
Branches	8	0	0	0	0	0	0	0
Agents	0	0	0	0	0	0	0	0
FINANCIAL ADVISORY FIRMS								
Spanish firms	160	171	158	162	158	152	146	146
Branches	15	19	21	23	21	21	23	23
CREDIT INSTITUTIONS[2]								
Spanish firms	126	122	114	120	114	113	113	113

1 Available data: August 2019.
2 Source: Banco de España [Bank of Spain].

Investment services. Foreign firms

TABLE 2.2

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[1]
Total	3,310	3,339	3,474	3,435	3,474	3,535	3,596	3,611
Investment services firms	2,843	2,872	3,002	2,967	3,002	3,068	3,117	3,133
From EU Member states	2,840	2,869	2,999	2,964	2,999	3,065	3,114	3,130
Branches	46	53	61	55	61	61	64	62
Free provision of services	2,794	2,816	2,938	2,909	2,938	3,004	3,050	3,068
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]	467	467	472	468	472	467	479	478
From EU Member states	460	461	466	463	466	461	473	472
Branches	55	52	53	53	53	50	54	53
Free provision of services	405	409	413	410	413	411	419	419
Subsidiaries of free provision of services institutions	0	0	0	0	0	0	0	0
From non-EU States	7	6	6	5	6	6	6	6
Branches	5	4	3	3	3	3	3	3
Free provision of services	2	2	3	2	3	3	3	3

1 Available data: August 2019.
2 Source: Banco de España [Bank of Spain] and CNMV.

Intermediation of spot transactions[1]

TABLE 2.3

Million euro

				2018			2019	
	2016	2017	2018	II	III	IV	I	II
FIXED INCOME								
Total	4,625,411.6	3,727,687.0	3,082,789.5	888,233.8	644,508.3	684,049.0	883,235.8	812,562.2
Broker-dealers	3,171,599.2	2,347,959.0	2,184,921.9	629,121.5	463,909.0	487,804.5	615,169.4	575,936.8
Spanish organised markets	1,350,483.4	836,831.1	855,948.9	230,333.3	222,782.1	205,986.0	247,928.9	220,796.9
Other Spanish markets	1,570,540.0	1,255,087.2	1,111,231.9	338,333.8	205,198.5	231,533.7	296,146.3	265,019.0
Foreign markets	250,575.8	256,040.7	217,741.1	60,454.4	35,928.4	50,284.8	71,094.2	90,120.9
Brokers	1,453,812.4	1,379,728.0	897,867.6	259,112.3	180,599.3	196,244.5	268,066.4	236,625.4
Spanish organised markets	25,247.8	6,067.6	6,237.8	1,231.9	944.6	2,393.6	6,567.9	5,131.7
Other Spanish markets	1,222,925.7	1,175,387.4	702,731.7	206,672.4	148,974.5	140,269.1	219,215.9	195,568.6
Foreign markets	205,638.9	198,273.0	188,898.1	51,208.0	30,680.2	53,581.8	42,282.6	35,925.1
EQUITY								
Total	798,564.7	804,328.3	630,896.1	213,323.2	118,831.1	137,264.0	137,077.5	358,803.5
Broker-dealers	636,727.0	660,312.8	600,442.4	204,926.8	114,083.1	131,497.7	131,816.5	354,079.3
Spanish organised markets	583,283.9	610,682.8	525,648.7	173,871.0	105,785.0	110,589.9	78,179.0	92,697.9
Other Spanish markets	2,313.1	3,178.2	839.1	290.6	143.7	203.7	148.3	235.0
Foreign markets	51,130.0	46,451.8	73,954.6	30,765.2	8,154.4	20,704.1	53,489.2	261,146.4
Brokers	161,837.7	144,015.5	30,453.7	8,396.4	4,748.0	5,766.3	5,261.0	4,724.2
Spanish organised markets	11,090.1	7,037.7	6,462.5	1,625.2	1,176.9	1,788.5	1,922.8	1,694.7
Other Spanish markets	8,902.9	12,052.0	1,328.5	319.2	217.1	329.2	250.4	252.7
Foreign markets	141,844.7	124,925.8	22,662.7	6,452.0	3,354.0	3,648.6	3,087.8	2,776.8

1 Period accumulated data. Quarterly.

Intermediation of derivative transactions[1, 2]

TABLE 2.4

Million euro

				2018			2019	
	2016	2017	2018	II	III	IV	I	II
Total	10,985,305.6	10,708,583.9	10,308,915.0	2,659,541.6	2,257,783.7	2,578,868.8	2,524,895.6	2,594,223.7
Broker-dealers	10,698,379.2	10,528,524.3	10,065,090.4	2,595,678.8	2,212,452.0	2,506,350.8	2,449,278.4	2,526,680.4
Spanish organised markets	4,842,990.7	5,330,761.9	5,457,270.1	1,384,442.9	1,250,515.7	1,423,241.9	1,253,396.9	1,139,191.0
Foreign organised markets	5,204,785.7	4,676,156.7	3,927,718.5	1,036,058.2	863,611.6	849,883.8	952,954.8	1,008,116.6
Non-organised markets	650,602.8	521,605.7	680,101.8	175,177.7	98,324.7	233,225.1	242,926.7	379,372.8
Brokers	286,926.4	180,059.6	243,824.6	63,862.8	45,331.7	72,518.0	75,617.2	67,543.3
Spanish organised markets	20,935.4	17,171.0	30,836.1	9,147.5	5,236.5	11,703.7	3,795.6	14,570.6
Foreign organised markets	59,427.1	48,043.8	105,915.8	27,491.9	21,002.9	27,394.7	34,491.2	24,127.6
Non-organised markets	206,563.9	114,844.8	107,072.7	27,223.4	19,092.3	33,419.6	37,330.4	28,845.1

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 applies. 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

	2016	2017	2018	2018 II	2018 III	2018 IV	2019 I	2019 II
NUMBER OF PORTFOLIOS								
Total[2]	15,818	12,601	16,170	13,968	14,928	16,170	17,466	19,522
Broker-dealers. Total	5,743	3,769	3,805	3,903	3,900	3,805	3,710	3,662
CIS[3]	34	18	37	28	32	37	35	37
Other[4]	5,709	3,751	3,768	3,875	3,868	3,768	3,675	3,625
Brokers. Total	6,512	8,831	12,364	10,065	11,028	12,364	13,756	15,860
CIS[3]	90	89	83	93	91	83	83	80
Other[4]	6,422	8,742	12,281	9,972	10,937	12,281	13,673	15,780
Portfolio management companies.[2] Total	3,563	1	1	–	–	1	–	–
CIS[3]	1	1	1	–	–	1	–	–
Other[4]	3,562	0	0	–	–	0	–	–
ASSETS UNDER MANAGEMENT (thousand euro)								
Total[2]	13,298,318	36,923,861	4,843,460	6,029,150	5,554,205	4,843,460	4,765,183	4,928,332
Broker-dealers. Total	5,534,052	33,958,038	2,205,697	2,793,817	2,417,154	2,205,697	2,327,995	2,394,805
CIS[3]	890,371	344,474	838,379	641,621	834,096	838,379	860,229	921,876
Other[4]	4,643,682	33,613,564	1,367,318	2,152,195	1,583,058	1,367,318	1,467,766	1,472,929
Brokers. Total	2,557,207	2,949,741	2,619,297	3,235,333	3,137,051	2,619,297	2,437,188	2,533,527
CIS[3]	1,352,653	1,595,851	1,295,580	1,728,140	1,662,052	1,295,580	1,107,640	974,538
Other[4]	1,204,553	1,353,890	1,323,717	1,507,193	1,474,999	1,323,717	1,329,548	1,558,989
Portfolio management companies.[2] Total	5,207,059	16,082	18,466	–	–	18,466	–	–
CIS[3]	15,916	16,082	18,466	–	–	18,466	–	–
Other[4]	5,191,143	0	0	–	–	0	–	–

1 Data at the end of period. Quarterly.
2 Only public information about portfolio management companies is shown since I-2016 with the aim of maintaining statistical secrecy, as the number of companies is not enough to guarantee this. For the rest of the periods, only data on broker-dealers and brokers are shown.
3 Includes both resident and non-resident CIS management.
4 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[1, 2]

TABLE 2.6

	2016	2017	2018	2018 II	2018 III	2018 IV	2019 I	2019 II
NUMBER OF CONTRACTS								
Total[3]	21,341	20,170	23,149	22,721	24,116	23,149	23,947	24,478
Broker-dealers. Total	4,678	5,125	5,241	5,523	5,825	5,241	5,605	5,852
Retail clients	4,669	5,108	5,211	5,497	5,795	5,211	5,574	5,820
Professional clients	3	6	21	17	21	21	23	24
Eligible counterparties	6	11	9	9	9	9	8	8
Brokers. Total	14,358	15,045	17,908	17,198	18,291	17,908	18,342	18,626
Retail clients	14,170	14,881	17,654	17,016	18,108	17,654	18,093	18,363
Professional clients	154	132	199	134	134	199	202	210
Eligible counterparties	34	32	55	48	49	55	47	53
Portfolio management companies.[3] Total	2,305	0	0	–	–	0	–	–
Retail clients	2,303	0	0	–	–	0	–	–
Professional clients	2	0	0	–	–	0	–	–
Eligible counterparties	0	0	0	–	–	0	–	–
Pro memoria: commission received for financial advice[4] (thousand euro)								
Total[4]	11,515	16,473	35,287	6,626	11,411	35,287	3,878	14,337
Broker-dealers	2,547	5,555	9,562	2,352	4,945	9,562	1,152	7,599
Brokers	8,614	10,918	25,725	4,274	6,466	25,725	2,726	6,738
Portfolio management companies[4]	354	0	0	–	–	0	–	–

1 Data at the end of period. Quarterly.
2 Quarterly data on assets advised are not available since the entry into force of CNMV Circular 3/2014, of 22 October.
3 Only public information about portfolio management companies is shown since I-2016 with the aim of maintaining statistical secrecy, as the number of companies is not enough to ensure it. For the rest of the periods, only data on broker-dealers and brokers are shown.
4 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed during the year.

Aggregated income statement. Broker-dealers

TABLE 2.7

Thousand euro[1]

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[2]
I. Interest income	53,930	21,377	73,969	50,418	73,969	1,537	12,446	27,042
II. Net commission	373,552	402,154	296,037	224,194	296,037	54,965	118,404	145,995
Commission revenues	538,586	549,298	414,595	314,030	414,595	81,242	184,559	225,074
Brokering	245,700	217,601	160,320	125,574	160,320	28,307	65,962	83,397
Placement and underwriting	5,955	17,553	11,090	7,732	11,090	155	2,153	3,702
Securities deposit and recording	47,843	38,200	42,958	31,676	42,958	11,013	22,946	26,066
Portfolio management	23,738	49,720	13,505	10,298	13,505	2,995	6,163	7,159
Design and advice	14,648	16,406	21,135	12,663	21,135	3,445	12,469	14,185
Stock search and placement	2,155	1,500	543	275	543	0	16	1,038
Market credit transactions	0	0	0	0	0	0	0	0
CIS marketing	75,505	83,354	55,483	42,614	55,483	13,368	27,276	31,695
Other	123,042	124,964	109,561	83,198	109,561	21,958	47,574	57,832
Commission expenses	165,034	147,144	118,558	89,836	118,558	26,277	66,155	79,079
III. Financial investment income	104,292	43,725	27,088	23,262	27,088	8,595	17,277	19,481
IV. Net exchange differences and other operating products and expenses	-1,177	28,507	16,614	17,830	16,614	7,985	15,491	18,450
V. Gross income	530,597	495,763	413,708	315,704	413,708	73,082	163,618	210,967
VI. Operating income	169,499	145,364	85,837	71,194	85,837	-316	16,219	38,792
VII. Earnings from continuous activities	140,521	120,683	91,771	73,535	91,771	1,412	18,179	39,478
VIII. Net earnings from the period	140,521	157,065	91,771	73,535	91,771	1,412	18,179	39,478

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed during the year.
2 Available data: July 2019.

Results of proprietary trading. Broker-dealers

TABLE 2.8

Thousand euro[1]

				2018			2019	
	2016	2017	2018	II	III	IV	I	II
TOTAL								
Total	152,893	92,832	114,751	74,932	91,929	114,751	18,860	46,603
Money market assets and public debt	8,332	3,909	11,193	4,042	4,996	11,193	1,277	1,816
Other fixed-income securities	35,415	34,369	11,842	9,231	13,858	11,842	6,852	14,210
Domestic portfolio	19,863	20,941	8,304	2,371	4,898	8,304	3,149	5,680
Foreign portfolio	15,552	13,428	3,538	6,860	8,960	3,538	3,703	8,530
Equities	135,587	53,601	10,844	5,531	8,216	10,844	1,344	6,250
Domestic portfolio	14,010	11,494	9,901	5,105	7,504	9,901	971	3,542
Foreign portfolio	121,577	42,107	943	426	712	943	373	2,708
Derivatives	-52,325	-40,286	-1,167	-159	-112	-1,167	-1,026	-1,236
Repurchase agreements	-471	-288	-107	-20	-46	-107	-99	-934
Market credit transactions	0	0	0	0	0	0	0	0
Deposits and other transactions with financial intermediaries	-1,030	114	3,884	1,223	2,732	3,884	524	255
Net exchange differences	-29,730	4,353	283	194	73	283	41	-78
Other operating products and expenses	28,555	24,154	16,330	12,257	17,757	16,330	7,943	15,571
Other transactions	28,560	12,906	61,649	42,633	44,455	61,649	2,004	10,749
INTEREST INCOME								
Total	53,930	21,377	73,968	46,032	50,419	73,968	1,536	12,445
Money market assets and public debt	1,708	1,576	2,036	1,019	1,446	2,036	482	648
Other fixed-income securities	1,742	1,285	1,300	655	946	1,300	620	1,432
Domestic portfolio	809	415	124	51	72	124	36	67
Foreign portfolio	933	870	1,176	604	874	1,176	584	1,365
Equities	24,619	6,140	3,673	1,777	2,479	3,673	54	1,824
Domestic portfolio	3,298	3,047	2,892	1,291	1,956	2,892	42	924
Foreign portfolio	21,321	3,093	781	486	523	781	12	900
Repurchase agreements	-471	-288	-107	-20	-46	-107	-99	-934
Market credit transactions	0	0	0	0	0	0	0	0
Deposits and other transactions with financial intermediaries	-1,030	114	3,884	1,223	2,732	3,884	524	255
Other transactions	27,362	12,550	63,182	41,378	42,862	63,182	-45	9,220
FINANCIAL INVESTMENT INCOME								
Total	104,291	43,725	27,088	16,137	23,262	27,088	8,593	17,278
Money market assets and public debt	6,624	2,333	9,157	3,023	3,550	9,157	795	1,168
Other fixed-income securities	33,673	33,084	10,542	8,576	12,912	10,542	6,232	12,778
Domestic portfolio	19,054	20,526	8,180	2,320	4,826	8,180	3,113	5,613
Foreign portfolio	14,619	12,558	2,362	6,256	8,086	2,362	3,119	7,165
Equities	110,968	47,461	7,171	3,754	5,737	7,171	1,290	4,426
Domestic portfolio	10,712	8,447	7,009	3,814	5,548	7,009	929	2,618
Foreign portfolio	100,256	39,014	162	-60	189	162	361	1,808
Derivatives	-52,325	-40,286	-1,167	-159	-112	-1,167	-1,026	-1,236
Other transactions	5,351	1,133	1,385	943	1,175	1,385	1,302	142
EXCHANGE DIFFERENCES AND OTHER ITEMS								
Total	-5,328	27,730	13,695	12,763	18,248	13,695	8,731	16,880
Net exchange differences	-29,730	4,353	283	194	73	283	41	-78
Other operating products and expenses	28,555	24,154	16,330	12,257	17,757	16,330	7,943	15,571
Other transactions	-4,153	-777	-2,918	312	418	-2,918	747	1,387

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

Aggregated income statement. Brokers

TABLE 2.9

Thousand euro[1]

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[2]
I. Interest income	903	3,127	1,583	1,278	1,583	56	609	623
II. Net commission	108,111	120,674	135,782	87,192	135,782	28,211	58,008	71,661
Commission revenues	129,682	142,771	156,624	102,975	156,624	32,691	66,889	82,289
Brokering	24,181	20,449	20,018	14,486	20,018	5,880	11,788	13,680
Placement and underwriting	3,193	3,427	1,120	949	1,120	74	208	577
Securities deposit and recording	603	903	824	633	824	204	421	493
Portfolio management	11,054	12,470	15,412	11,143	15,412	3,295	6,462	7,594
Design and advice	8,980	11,263	26,446	6,765	26,446	2,832	6,873	7,597
Stock search and placement	40	0	0	0	0	0	0	0
Market credit transactions	0	0	0	0	0	0	0	0
CIS marketing	50,504	60,571	63,821	47,810	63,821	14,132	29,171	33,996
Other	31,128	33,689	28,983	21,189	28,983	6,273	11,967	18,352
Commission expenses	21,571	22,097	20,842	15,783	20,842	4,480	8,881	10,628
III. Financial investment income	245	1,133	-51	220	-51	613	738	809
IV. Net exchange differences and other operating products and expenses	-1,030	-1,680	-279	-1,194	-279	-18	291	348
V. Gross income	108,229	123,254	137,035	87,496	137,035	28,862	59,646	73,441
VI. Operating income	10,140	17,024	12,031	8,725	12,031	3,198	7,071	9,933
VII. Earnings from continuous activities	6,982	11,620	7,459	7,767	7,459	2,819	6,404	9,130
VIII. Net earnings of the period	6,982	11,620	7,459	7,767	7,459	2,819	6,404	9,130

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed during the year.
2 Available data: July 2019.

Aggregated income statement. Portfolio management companies[1]

TABLE 2.10

Thousand euro[2]

	2014	2015	2016	2017	2018
I. Interest income	574	399	83	23	6
II. Net commission	11,104	8,526	6,617	1,543	350
Commission revenues	15,411	13,064	6,617	1,543	350
Portfolio management	13,572	11,150	4,228	1,095	350
Design and advice	849	371	354	59	0
Other	990	1,544	2,035	390	0
Commission expenses	4,307	4,538	0	0	0
III. Financial investment income	-6	-28	-1	6	-25
IV. Net exchange differences and other operating products and expenses	-237	-234	-126	-52	-20
V. Gross income	11,435	8,663	6,573	1,520	311
VI. Operating income	5,860	3,331	3,172	623	-2
VII. Earnings from continuous activities	4,135	2,335	2,222	439	-2
VIII. Net earnings of the period	4,135	2,335	2,222	439	-2

1 Only public information about portfolio management companies is shown since I-2016 with the aim of maintaining statistical secrecy, as the number of companies is not enough to guarantee this.
2 Accumulated data from the beginning of the year. It includes companies removed during the year.

Capital adequacy and capital ratio[1]

TABLE 2.11

	2016	2017	2018	2018			2019	
				II	III	IV	I	II
TOTAL[2]								
Total capital ratio[3]	44.13	33.40	42.36	35.23	34.20	42.36	39.00	36.68
Own fund surplus (thousand euro)	965,833	803,793	915,383	836,468	825,626	915,383	919,676	919,358
Surplus (%)[4]	451.60	317.54	429.49	340.35	327.45	429.49	387.56	358.54
Number of companies according to surplus percentage								
≤100%	15	18	20	18	20	20	23	21
>100-≤300%	25	23	29	20	22	29	28	29
>300-≤500%	13	14	10	18	18	10	9	8
>500%	18	18	15	19	15	15	16	19
BROKER-DEALERS								
Total capital ratio[3]	45.97	34.28	45.16	36.48	35.54	45.16	41.02	38.01
Own fund surplus (thousand euro)	912,248	755,143	874,235	789,353	780,992	874,235	875,732	870,187
Surplus (%)[4]	474.60	328.55	464.51	356.01	344.24	464.51	412.79	375.07
Number of companies according to surplus percentage								
≤100%	8	8	7	7	9	7	7	5
>100-≤300%	11	10	10	8	7	10	12	15
>300-≤500%	9	8	7	9	10	7	5	3
>500%	12	13	14	15	13	14	14	15
BROKERS								
Total capital ratio[3]	26.35	24.69	21.17	23.68	22.13	21.17	21.98	24.11
Own fund surplus (thousand euro)	47,620	48,452	40,952	47,115	44,634	40,952	43,944	49,171
Surplus (%)[4]	229.33	208.66	164.84	195.97	176.67	164.84	174.71	201.44
Number of companies according to surplus percentage								
≤100%	7	10	13	11	11	13	16	16
>100-≤300%	13	12	18	12	15	18	16	14
>300-≤500%	4	6	3	9	8	3	4	5
>500%	5	5	1	4	2	1	2	4
PORTFOLIO MANAGEMENT COMPANIES[2]								
Total capital ratio[3]	61.64	30.70	29.68	–	–	29.68	–	–
Own fund surplus (thousand euro)	5,965	198	196	–	–	196	–	–
Surplus (%)[4]	670.22	282.86	272.22	–	–	272.22	–	–
Number of companies according to surplus percentage								
≤100%	0	0	0	–	–	0	–	–
>100-≤300%	1	1	1	–	–	1	–	–
>300-≤500%	0	0	0	–	–	0	–	–
>500%	1	0	0	–	–	0	–	–

1 On 1 January 2014 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, entered into force, which has changed the own fund requirement calculation. Since January 2014, only the entities subject to reporting requirements are included, in accordance with CNMV Circular 2/2014, of 23 June, on the exercise of various regulatory options regarding solvency requirements for investment firms and their consolidated groups.
2 Only public information about portfolio management companies is shown since I-2016 with the aim of maintaining statistical secrecy, as the number of companies is not enough to guarantee this. For the rest of the periods, only data on broker-dealers and brokers are shown.
3 Total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount. This ratio should not be under 8%, pursuant to the provisions of Regulation (EU) No. 575/2013.
4 Average surplus percentage is weighted by the required equity of each company. It is an indicator of the number of times, in percentage terms, that the surplus contains the required equity in an average company.

Return on equity (ROE) before taxes[1]

TABLE 2.12

	2016	2017	2018	2018			2019	
				II	III	IV	I	II
TOTAL[2]								
Average (%)[3]	15.74	17.73	12.27	11.78	9.83	12.27	1.42	4.93
Number of companies according to annualised return								
Losses	18	20	40	34	35	40	41	36
0-≤15%	31	28	22	22	23	22	24	24
>15-≤45%	17	22	10	18	17	10	16	20
>45-≤75%	6	4	6	4	6	6	2	3
>75%	11	15	14	14	12	14	10	11
BROKER-DEALERS								
Average (%)[3]	15.93	17.84	12.16	11.72	9.52	12.16	0.08	3.92
Number of companies according to annualised return								
Losses	7	7	18	14	16	18	19	18
0-≤15%	20	17	12	12	13	12	13	12
>15-≤45%	6	11	5	10	9	5	6	8
>45-≤75%	2	1	2	2	1	2	0	1
>75%	5	4	2	2	1	2	1	0
BROKERS								
Average (%)[3]	11.30	16.49	13.24	12.49	13.43	13.24	13.40	14.55
Number of companies according to annualised return								
Losses	11	13	21	20	19	21	22	18
0-≤15%	10	11	10	10	10	10	11	12
>15-≤45%	11	10	5	8	8	5	10	12
>45-≤75%	3	3	4	2	5	4	2	2
>75%	6	11	12	12	11	12	9	11
PORTFOLIO MANAGEMENT COMPANIES[2]								
Average (%)[3]	46.28	20.65	-0.84	–	–	-0.84	–	–
Number of companies according to annualised return								
Losses	0	0	1	–	–	1	–	–
0-≤15%	1	0	0	–	–	0	–	–
>15-≤45%	0	1	0	–	–	0	–	–
>45-≤75%	1	0	0	–	–	0	–	–
>75%	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 Only public information about portfolio management companies is shown since I-2016 with the aim of maintaining statistical secrecy, as the number of companies is not enough to guarantee this. For the rest of the periods, only data on broker-dealers and brokers are shown.

3 Average weighted by equity, %.

Financial advisory firms. Main figures[1]

TABLE 2.13

Thousand euro

	2014	2015	2016	2017	2018
ASSETS UNDER ADVICE[2]					
Total	21,284,942	25,084,882	30,174,877	30,790,535	31,658,460
Retail clients	5,671,431	6,499,049	7,588,143	9,096,071	10,281,573
Professional	4,808,250	5,108,032	5,654,358	6,482,283	7,052,031
Other	10,805,261	13,477,801	16,932,376	15,212,181	14,324,856
COMMISSION INCOME[3]					
Total	48,460	57,231	52,534	65,802	62,168
Commission revenues	47,641	56,227	51,687	65,191	61,079
Other income	819	1,004	847	611	1,088
EQUITY					
Total	24,808	25,021	24,119	32,803	33,572
Share capital	5,372	5,881	6,834	8,039	6,894
Reserves and retained earnings	7,978	7,583	12,123	13,317	15,386
Income for the year[3]	11,458	11,481	7,511	11,361	10,626
Other own funds	–	76	-2,349	86	666

1 Annual frequency since 2015 (CNMV Circular 3/2014, of 22 October).
2 Data at the end of each period.
3 Accumulated data from the beginning of the year.

3 Collective investment schemes (CIS)[a]

Number, management companies and depositories of CIS registered at the CNMV

TABLE 3.1

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[1]
Total financial CIS	5,035	4,564	4,386	4,420	4,386	4,351	4,324	4,322
Mutual funds	1,748	1,676	1,617	1,630	1,617	1,612	1,620	1,632
Investment companies	3,239	2,833	2,713	2,734	2,713	2,682	2,643	2,627
Funds of hedge funds	7	8	7	7	7	7	7	7
Hedge funds	41	47	49	49	49	50	54	56
Total real estate CIS	9	7	7	7	7	6	6	6
Real estate mutual funds	3	3	3	3	3	2	2	2
Real estate investment companies	6	4	4	4	4	4	4	4
Total foreign CIS marketed in Spain	941	1,013	1,024	1,031	1,024	1,000	1,020	1,020
Foreign funds marketed in Spain	441	455	429	445	429	396	403	403
Foreign companies marketed in Spain	500	558	595	586	595	604	617	617
Management companies	101	109	119	117	119	119	121	123
CIS depositories	56	54	37	41	37	36	36	36

1 Available data: August 2019.

Number of CIS investors and shareholders[1, 2]

TABLE 3.2

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[3]
Total financial CIS	8,704,329	10,704,585	11,627,118	11,744,182	11,627,118	11,615,863	11,748,951	11,693,149
Mutual funds	8,248,249	10,283,312	11,213,482	11,327,950	11,213,482	11,208,135	11,347,628	11,293,639
Investment companies	456,080	421,273	413,636	416,232	413,636	407,728	401,323	399,510
Total real estate CIS	4,601	1,424	905	906	905	905	909	909
Real estate mutual funds	3,927	1,097	483	483	483	483	483	483
Real estate investment companies	674	327	422	423	422	422	426	426
Total foreign CIS marketed in Spain[4, 5]	1,748,604	1,984,474	3,172,682	3,036,154	3,172,682	3,233,984	3,147,153	n/a
Foreign funds marketed in Spain	372,872	431,295	547,517	593,081	547,517	546,485	500,154	n/a
Foreign companies marketed in Spain	1,375,732	1,553,179	2,625,165	2,443,073	2,625,165	2,687,499	2,646,999	n/a

1 Investors and shareholders who invest in many sub-funds from the same CIS have only been taken into account once. For this reason, investors and shareholders may be different from those in Tables 3.6 and 3.7.
2 From I-2018, data on foreign CIS are estimated.
3 Available data: July 2019.
4 Only data on UCITs are included. Data on Exchange Traded Funds (ETFs) are not included until IV-2017.
5 On 1 January 2018 CNMV Circular 2/2017, of 25 October, entered into force, which has increased the entities subject to reporting requirements; therefore, data may not be comparable with previous information.

a Information about mutual funds and investment companies contained in this section does not include hedge funds or funds of hedge funds. The information about hedge funds and funds of hedge funds is included in Table 3.12.

CIS total net assets[1]

TABLE 3.3

Million euro

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[2]
Total financial CIS	269,953.8	296,619.5	286,930.9	305,404.2	286,930.9	297,624.2	300,021.8	300,927.6
Mutual funds[3]	237,862.2	265,194.8	259,095.0	274,645.4	259,095.0	268,363.8	270,916.0	272,360.7
Investment companies	32,091.6	31,424.7	27,835.9	30,758.8	27,835.9	29,260.4	29,105.8	28,566.9
Total real estate CIS	1,077.4	991.4	1,058.2	877.9	1,058.2	1,061.6	1,070.2	1,068.2
Real estate mutual funds	370.1	360.0	309.4	309.4	309.4	309.4	309.4	309.4
Real estate investment companies	707.3	631.4	748.8	568.5	748.8	752.3	760.8	758.9
Total foreign CIS marketed in Spain[4, 5]	114,990.2	150,420.6	162,701.9	176,791.3	162,701.9	177,916.0	180,975.8	n/a
Foreign funds marketed in Spain	21,337.5	26,133.9	34,237.0	34,852.9	34,237.0	36,028.6	36,796.2	n/a
Foreign companies marketed in Spain	93,652.8	124,286.7	128,464.8	141,938.4	128,464.8	141,887.4	144,179.6	n/a

1 From I-2018, data on foreign CIS are estimated.
2 Available data: July 2019.
3 Mutual funds investment in financial mutual funds of the same management company reached €6,838.2 million in June 2019.
4 Only data on UCITs are included. Data on Exchange Traded Funds (ETFs) are not included until IV-2017.
5 On 1 January 2018 CNMV Circular 2/2017, of 25 October, entered into force, which has increased the entities subject to reporting requirements; therefore, data may not be comparable with previous information.

Mutual funds asset allocation

TABLE 3.4

Million euro

				2018			2019	
	2016	2017	2018	II	III	IV	I	II
Asset	237,862.2	265,194.8	259,095.0	273,774.0	274,645.4	259,095.0	268,363.8	270,916.0
Portfolio investment	219,141.1	244,598.0	241,016.2	250,815.1	253,303.6	241,016.2	247,325.5	251,189.1
Domestic securities	95,799.1	83,032.1	74,486.1	78,221.9	75,622.0	74,486.1	74,823.9	73,843.0
Debt securities	63,471.1	55,389.1	50,537.5	51,096.6	48,998.8	50,537.5	50,908.9	51,611.7
Shares	8,529.9	10,911.7	10,868.4	12,419.1	12,330.6	10,868.4	10,718.9	9,788.0
Collective investment schemes	6,249.5	7,625.9	6,984.9	7,666.1	7,982.1	6,984.9	7,591.5	7,690.2
Deposits in credit institutions	17,134.3	8,657.1	5,854.8	6,696.5	5,973.5	5,854.8	5,358.8	4,493.0
Derivatives	405.7	441.4	235.4	337.8	331.8	235.4	240.1	254.7
Other	8.5	6.8	5.2	5.9	5.3	5.2	5.7	5.4
Foreign securities	123,336.0	161,556.6	166,522.5	172,586.0	177,674.3	166,522.5	172,494.1	177,336.6
Debt securities	56,307.9	67,794.0	74,079.1	73,945.3	76,175.4	74,079.1	74,020.9	77,987.5
Shares	20,035.3	27,081.8	26,660.8	29,236.3	30,409.3	26,660.8	27,351.1	26,943.6
Collective investment schemes	46,435.1	66,099.9	65,624.3	68,981.4	70,839.7	65,624.3	70,906.7	72,134.2
Deposits in credit institutions	81.2	74.7	21.1	38.4	38.4	21.1	24.2	29.9
Derivatives	474.3	504.7	136.0	383.3	210.0	136.0	190.0	240.4
Other	2.3	1.4	1.2	1.3	1.4	1.2	1.1	1.0
Doubtful assets and matured investments	6.1	9.3	7.6	7.2	7.3	7.6	7.5	9.5
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	18,392.6	19,988.5	16,897.1	22,157.5	20,668.7	16,897.1	19,929.6	18,625.3
Net balance (Debtors - Creditors)	328.5	608.3	1,181.7	801.4	673.1	1,181.7	1,108.7	1,101.6

Asset allocation of investment companies

TABLE 3.5

Million euro

	2016	2017	2018	2018			2019	
				II	III	IV	I	II
Asset	32,091.6	31,424.7	27,835.9	30,831.7	30,758.8	27,835.9	29,260.4	29,105.8
Portfolio investment	28,127.7	28,804.9	24,840.8	27,989.2	27,919.3	24,840.8	25,815.5	25,773.8
Domestic securities	7,707.1	6,229.4	5,031.5	5,640.4	5,390.3	5,031.5	5,027.8	4,828.1
Debt securities	2,395.4	1,653.8	1,433.8	1,334.2	1,237.0	1,433.8	1,369.5	1,346.1
Shares	2,871.9	2,674.5	2,193.7	2,586.4	2,543.9	2,193.7	2,224.3	2,077.3
Collective investment schemes	1,485.3	1,625.9	1,193.8	1,487.0	1,400.3	1,193.8	1,239.3	1,217.6
Deposits in credit institutions	925.3	236.2	164.3	192.3	170.4	164.3	148.2	152.7
Derivatives	-5.2	-0.6	-0.2	-1.3	-5.5	-0.2	-1.1	-16.9
Other	34.4	39.7	46.2	41.8	44.2	46.2	47.5	51.2
Foreign securities	20,412.7	22,566.2	19,803.8	22,343.8	22,524.0	19,803.8	20,782.3	20,940.9
Debt securities	4,263.3	4,396.6	4,241.6	4,367.0	4,298.8	4,241.6	4,430.9	4,495.4
Shares	6,465.5	6,987.8	5,979.1	6,832.5	7,169.8	5,979.1	6,297.4	6,188.7
Collective investment schemes	9,653.0	11,153.5	9,540.9	11,114.0	11,048.2	9,540.9	10,010.0	10,205.1
Deposits in credit institutions	6.7	0.0	0.0	0.0	0.0	0.0	1.1	1.1
Derivatives	15.7	19.3	27.6	16.8	-5.6	27.6	27.2	36.6
Other	8.4	8.9	14.5	13.6	12.8	14.5	15.7	14.1
Doubtful assets and matured investments	7.9	9.3	5.6	5.0	4.9	5.6	5.4	4.8
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fixed assets	0.1	0.6	0.5	0.6	0.6	0.5	0.5	0.5
Cash	3,791.7	2,421.7	2,731.9	2,521.4	2,576.1	2,731.9	3,235.0	3,121.1
Net balance (Debtors - Creditors)	172.2	197.5	262.6	320.5	262.9	262.6	209.4	210.3

Financial mutual funds: number, investors and total net assets by category[1, 2]

TABLE 3.6

	2016	2017	2018	2018 III	2018 IV	2019 I	2019 II	2019 III[3]
NO. OF FUNDS								
Total financial mutual funds	1,805	1,741	1,725	1,719	1,725	1,704	1,737	1,750
Fixed income[4]	306	290	279	280	279	274	283	285
Mixed fixed income[5]	148	155	168	166	168	166	173	174
Mixed equity[6]	168	176	184	179	184	188	191	194
Euro equity	112	111	113	111	113	113	114	113
Foreign equity	201	211	236	229	236	240	253	254
Guaranteed fixed income	122	79	67	67	67	66	66	66
Guaranteed equity[7]	198	188	163	167	163	161	164	163
Global funds	203	225	242	238	242	238	240	253
Passive management[8]	220	202	172	181	172	160	161	158
Absolute return	106	104	99	99	99	96	90	88
INVESTORS								
Total financial mutual funds	8,253,611	10,287,454	11,217,569	11,332,911	11,217,569	11,211,400	11,350,779	11,293,639
Fixed income[4]	2,347,984	2,627,547	2,709,547	2,726,028	2,709,547	2,737,450	3,279,530	3,303,735
Mixed fixed income[5]	1,043,798	1,197,523	1,188,157	1,245,007	1,188,157	1,168,810	1,124,303	1,019,865
Mixed equity[6]	448,491	584,408	624,290	623,901	624,290	620,258	695,823	697,391
Euro equity	395,697	710,928	831,115	833,260	831,115	820,890	564,406	561,878
Foreign equity	1,172,287	1,865,367	2,225,366	2,237,176	2,225,366	2,226,793	2,301,171	2,614,137
Guaranteed fixed income	307,771	190,075	165,913	166,125	165,913	162,551	164,034	163,819
Guaranteed equity[7]	552,445	527,533	494,660	499,529	494,660	493,318	491,969	486,459
Global funds	658,722	1,086,937	1,501,730	1,444,064	1,501,730	1,535,831	1,553,357	1,283,995
Passive management[8]	746,233	638,966	543,192	552,612	543,192	525,194	503,369	493,867
Absolute return	565,325	858,170	930,641	1,002,252	930,641	917,346	669,857	665,533
TOTAL NET ASSETS (million euro)								
Total financial mutual funds	237,862.2	265,194.8	259,095.0	274,645.4	259,095.0	268,363.8	270,916.0	272,361.0
Fixed income[4]	74,226.4	70,563.9	66,889.3	67,936.3	66,889.3	70,391.3	73,202.8	76,125.9
Mixed fixed income[5]	40,065.6	43,407.0	40,471.0	43,640.9	40,471.0	40,980.6	39,643.5	38,380.7
Mixed equity[6]	16,310.6	22,386.7	23,256.0	24,782.7	23,256.0	24,465.0	27,350.1	27,629.6
Euro equity	8,665.9	12,203.2	12,177.7	13,985.1	12,177.7	11,844.7	10,676.8	10,281.5
Foreign equity	17,678.8	24,064.6	24,404.9	27,648.1	24,404.9	27,088.3	27,262.4	30,538.3
Guaranteed fixed income	8,679.8	5,456.7	4,887.4	4,779.7	4,887.4	5,065.6	5,197.8	5,224.4
Guaranteed equity[7]	15,475.7	15,417.5	14,556.0	14,294.3	14,556.0	14,724.9	14,938.2	14,922.1
Global funds	20,916.8	35,511.5	42,137.2	44,676.3	42,137.2	44,221.3	44,669.4	41,720.2
Passive management[8]	23,601.6	19,477.8	16,138.6	16,580.5	16,138.6	16,396.7	15,983.2	15,691.1
Absolute return	12,215.2	16,705.9	14,172.5	16,307.1	14,172.5	13,181.5	11,988.8	11,844.5

1 Sub-funds which have sent reports to the CNMV excluding those in process of dissolution or liquidation.
2 Data on side-pocket sub-funds are only included in aggregate figures, and not in each individual category.
3 Available data: July 2019.
4 Until I-2019 includes: Fixed income euro, Foreign fixed income, Monetary market funds and Short-term monetary market funds. From II-2019 includes: Short-term Euro fixed income, Euro fixed income, Foreign fixed income, Public debt constant net asset value short-term money market funds (MMFs), Low volatility net asset value short-term MMFs, Variable net asset value short-term MMFs and Variable net asset value standard MMFs.
5 Mixed euro fixed income and Foreign mixed fixed income.
6 Mixed euro equity and Foreign mixed equity.
7 Guaranteed equity and Partial guarantee.
8 Until I-2019 includes: Passive management CIS. From II-2019 includes: Passive management CIS, Index-tracking CIS and Non-guaranteed specific return target CIS.

Financial mutual funds: Detail of investors and total net assets by types

TABLE 3.7

	2016	2017	2018	2018 III	2018 IV	2019 I	2019 II	2019 III[1]
INVESTORS								
Total financial mutual funds	8,253,611	10,287,454	11,217,569	11,332,911	11,217,569	11,211,400	11,350,779	11,293,639
Natural persons	8,059,916	10,080,255	11,008,977	11,120,683	11,008,977	11,005,326	11,145,137	11,089,706
Residents	7,985,404	9,994,395	10,917,387	11,029,299	10,917,387	10,913,775	11,051,925	10,996,915
Non-residents	74,512	85,860	91,590	91,384	91,590	91,551	93,212	92,791
Legal persons	193,695	207,199	208,592	212,228	208,592	206,074	205,642	203,933
Credit institutions	497	515	655	642	655	655	649	638
Other resident institutions	192,381	205,804	207,073	210,704	207,073	204,512	204,084	202,390
Non-resident institutions	817	880	864	882	864	907	909	905
TOTAL NET ASSETS (million euro)								
Total financial mutual funds	237,862.2	265,194.8	259,095.0	274,645.4	259,095.0	268,363.8	270,916.0	272,361.0
Natural persons	195,567.5	218,429.6	215,785.0	227,261.9	215,785.0	223,371.6	225,612.8	226,899.6
Residents	192,743.0	215,290.8	212,758.3	224,043.9	212,758.3	220,238.6	222,417.1	223,694.7
Non-residents	2,824.5	3,138.8	3,026.7	3,218.0	3,026.7	3,132.9	3,195.7	3,204.9
Legal persons	42,294.8	46,765.1	43,310.0	47,383.5	43,310.0	44,992.2	45,303.2	45,461.3
Credit institutions	374.3	342.2	384.1	450.5	384.1	402.1	358.0	344.3
Other resident institutions	41,212.4	45,518.8	41,967.9	45,887.6	41,967.9	43,629.7	44,069.5	44,261.9
Non-resident institutions	708.1	904.1	957.9	1,045.5	957.9	960.4	875.8	855.1

1 Available data: July 2019.

Subscriptions and redemptions of financial mutual funds by category[1, 2]

TABLE 3.8

Million euro

	2016	2017	2018	2018 II	2018 III	2018 IV	2019 I	2019 II
SUBSCRIPTIONS								
Total financial mutual funds	113,274.7	151,586.4	130,577.0	34,408.7	23,005.0	24,709.7	28,564.6	35,971.0
Fixed income	53,163.3	59,088.5	53,165.8	15,737.5	8,699.0	9,957.0	15,237.7	19,188.6
Mixed fixed income	11,065.3	20,513.3	14,823.4	3,908.0	2,410.4	2,181.0	2,760.4	3,396.7
Mixed equity	4,250.6	10,452.2	10,406.8	2,295.2	2,037.0	1,722.8	1,454.2	4,411.4
Euro equity	3,716.3	9,452.9	7,024.3	1,731.3	1,215.5	1,168.8	1,045.0	672.9
Foreign equity	7,167.6	14,866.5	13,265.2	2,891.3	2,768.8	2,698.0	2,263.4	3,305.0
Guaranteed fixed income	2,005.3	986.9	796.0	167.1	171.2	346.9	507.6	301.5
Guaranteed equity	7,942.5	2,413.1	2,116.8	490.0	358.8	921.7	411.8	395.5
Global funds	8,914.5	21,571.9	20,455.3	5,118.3	4,014.5	3,820.1	3,373.1	3,416.6
Passive management	10,195.7	2,374.0	3,014.3	356.9	559.7	1,344.8	1,025.7	383.0
Absolute return	4,853.2	9,867.1	5,493.3	1,713.1	770.1	548.6	485.7	499.9
REDEMPTIONS								
Total financial mutual funds	99,492.3	130,248.0	122,669.5	32,389.8	22,161.3	28,594.5	28,990.0	35,660.4
Fixed income	45,549.5	62,087.2	55,823.7	15,838.0	9,449.9	10,707.5	12,244.8	16,719.5
Mixed fixed income	14,242.9	18,011.6	16,685.2	3,962.0	3,002.9	4,122.6	3,285.9	5,360.9
Mixed equity	7,280.8	4,942.6	7,344.0	1,749.7	1,298.8	1,812.1	1,629.8	1,792.4
Euro equity	4,259.2	6,908.0	5,246.8	1,475.6	1,340.1	1,381.0	2,381.9	1,899.1
Foreign equity	6,821.0	10,363.6	9,476.0	2,092.2	1,763.1	2,257.4	2,451.9	3,466.6
Guaranteed fixed income	5,208.0	3,876.9	1,202.9	399.8	170.2	323.5	409.2	277.3
Guaranteed equity	2,464.1	3,001.5	2,582.6	810.1	544.7	619.8	440.1	381.1
Global funds	5,334.6	8,587.6	11,301.6	2,414.6	2,268.8	3,951.1	3,173.8	3,124.3
Passive management	4,405.7	6,954.8	5,776.3	1,737.9	807.1	1,331.6	1,312.0	1,063.1
Absolute return	3,906.8	5,488.2	7,230.5	1,909.9	1,515.7	2,087.8	1,660.6	1,575.9

1 Estimated data.
2 Data on side-pocket sub-funds are only included in aggregate figures, and not in each individual category.

Change in assets in financial mutual funds by category: Net subscriptions/redemptions and return on assets[1]

TABLE 3.9

Million euro

				2018			2019	
	2016	2017	2018	II	III	IV	I	II
NET SUBSCRIPTIONS/REDEMPTIONS								
Total financial mutual funds	13,823.2	21,325.0	7,841.8	2,014.0	856.1	-3,941.6	-402.3	326.2
Fixed income	8,243.5	-3,638.0	-2,766.0	30.0	-887.2	-762.9	2,996.7	2,469.2
Mixed fixed income	-4,750.8	2,890.5	-1,063.7	448.9	-295.7	-1,948.2	-543.8	-1,631.4
Mixed equity	-5,194.5	5,498.6	2,485.9	40.4	634.5	-67.4	-27.3	2,623.8
Euro equity	-538.0	2,549.7	1,848.7	257.4	-124.6	-111.6	-1,331.1	-1,272.8
Foreign equity	-32.5	4,514.0	3,864.1	813.6	961.8	450.3	-183.5	-38.9
Guaranteed fixed income	-3,699.6	-3,262.6	-575.8	-262.9	-168.1	53.7	98.3	24.2
Guaranteed equity	5,465.9	-309.5	-667.2	-368.1	-245.6	215.0	-28.5	-4.7
Global funds	7,801.3	13,405.9	9,448.9	2,695.5	1,836.9	-139.1	182.9	93.2
Passive management	5,603.4	-4,585.0	-2,790.4	-1,447.8	-77.2	10.0	-270.6	-680.3
Absolute return	943.5	4,287.3	-1,899.6	-193.1	-794.1	-1,641.4	-1,295.4	-1,256.1
RETURN ON ASSETS								
Total financial mutual funds	1,909.9	6,022.6	-13,919.3	499.0	25.4	-11,605.9	9,677.3	2,229.8
Fixed income	399.3	-24.1	-908.5	-474.0	-57.8	-284.1	505.3	342.6
Mixed fixed income	25.1	451.4	-1,865.1	-233.8	-40.9	-1,219.8	1,055.2	296.2
Mixed equity	2.2	577.8	-1,616.6	139.2	108.3	-1,459.3	1,236.3	261.2
Euro equity	110.8	987.8	-1,871.2	254.6	-172.4	-1,695.6	998.1	105.4
Foreign equity	568.4	1,872.3	-3,522.6	863.3	202.1	-3,693.2	2,867.1	213.7
Guaranteed fixed income	3.9	39.4	6.6	-65.6	-35.0	54.0	79.9	107.9
Guaranteed equity	43.1	251.3	-194.2	-171.4	-124.2	46.8	197.3	218.0
Global funds	432.1	1,190.3	-2,602.1	249.0	206.3	-2,399.5	1,901.9	355.3
Passive management	281.5	472.9	-537.5	36.9	-21.4	-451.9	532.5	266.7
Absolute return	43.7	203.4	-796.6	-99.1	-38.4	-493.2	304.3	63.5

1 Data on side-pocket sub-funds are only included in aggregate figures, and not in each individual category.

Return on assets in financial mutual funds. Breakdown by category[1]

TABLE 3.10

% of daily average total net assets

	2016	2017	2018	2018 II	III	IV	2019 I	II
MANAGEMENT YIELDS								
Total financial mutual funds	1.91	3.41	-4.19	0.43	0.25	-4.14	3.92	1.08
Fixed income	1.24	0.59	-0.79	-0.55	0.05	-0.30	0.88	0.61
Mixed fixed income	1.26	2.22	-3.25	-0.26	0.16	-2.66	2.86	1.01
Mixed equity	1.45	4.36	-5.46	0.92	0.73	-5.72	5.48	1.33
Euro equity	3.38	11.14	-11.98	2.24	-0.75	-12.66	8.42	1.44
Foreign equity	5.55	10.80	-11.89	3.75	1.15	-13.73	11.43	1.21
Guaranteed fixed income	0.79	1.14	0.56	-1.19	-0.63	1.23	1.77	2.21
Guaranteed equity	1.09	2.18	-0.80	-1.02	-0.71	0.43	1.50	1.61
Global funds	3.95	5.39	-5.11	0.87	0.77	-5.25	4.67	1.09
Passive management	2.11	2.81	-2.55	0.37	0.02	-2.66	3.44	1.81
Absolute return	1.41	2.32	-4.01	-0.37	-0.02	-3.09	2.42	0.74
EXPENSES. MANAGEMENT FEE								
Total financial mutual funds	0.95	0.91	0.86	0.22	0.22	0.21	0.21	0.21
Fixed income	0.58	0.54	0.45	0.11	0.12	0.11	0.11	0.11
Mixed fixed income	1.12	1.05	0.96	0.24	0.24	0.24	0.23	0.22
Mixed equity	1.40	1.34	1.26	0.32	0.32	0.31	0.31	0.32
Euro equity	1.75	1.71	1.47	0.37	0.37	0.35	0.37	0.37
Foreign equity	1.71	1.69	1.41	0.36	0.36	0.33	0.38	0.35
Guaranteed fixed income	0.68	0.48	0.38	0.10	0.09	0.09	0.09	0.09
Guaranteed equity	0.70	0.58	0.53	0.14	0.13	0.13	0.12	0.12
Global funds	1.26	1.07	0.98	0.25	0.25	0.25	0.25	0.25
Passive management	0.56	0.52	0.48	0.12	0.12	0.11	0.11	0.11
Absolute return	0.96	0.91	0.79	0.20	0.20	0.20	0.19	0.20
EXPENSES. DEPOSITORY FEE								
Total financial mutual funds	0.08	0.08	0.07	0.02	0.02	0.02	0.02	0.02
Fixed income	0.07	0.07	0.06	0.02	0.01	0.02	0.02	0.02
Mixed fixed income	0.09	0.09	0.08	0.02	0.02	0.02	0.02	0.02
Mixed equity	0.11	0.10	0.10	0.02	0.02	0.02	0.02	0.02
Euro equity	0.12	0.11	0.10	0.02	0.02	0.02	0.02	0.03
Foreign equity	0.12	0.10	0.09	0.02	0.02	0.02	0.02	0.02
Guaranteed fixed income	0.06	0.05	0.05	0.01	0.01	0.01	0.01	0.01
Guaranteed equity	0.06	0.05	0.05	0.01	0.01	0.01	0.01	0.01
Global funds	0.10	0.09	0.08	0.02	0.02	0.02	0.02	0.02
Passive management	0.06	0.06	0.05	0.01	0.01	0.01	0.01	0.01
Absolute return	0.08	0.07	0.06	0.02	0.02	0.02	0.01	0.02

1 Data on side-pocket sub-funds are only included in aggregate figures, and not in each individual category.

Quarterly returns of mutual funds. Breakdown by category[1]

TABLE 3.11

In %

	2016	2017	2018	2018 III	IV	2019 I	II	III[2]
Total financial mutual funds	0.98	2.42	-4.89	0.02	-4.13	3.85	0.83	0.48
Fixed income	0.52	-0.13	-1.44	-0.09	-0.42	0.75	0.47	0.33
Mixed fixed income	0.27	1.10	-4.27	-0.10	-2.85	2.65	0.75	0.46
Mixed equity	1.19	3.23	-6.45	0.43	-5.83	5.32	1.03	0.70
Euro equity	2.61	11.16	-13.01	-1.29	-11.94	8.21	0.82	-1.22
Foreign equity	4.15	8.75	-12.34	0.88	-13.06	11.86	0.79	0.95
Guaranteed fixed income	-0.03	0.72	0.09	-0.75	1.14	1.51	2.12	0.85
Guaranteed equity	0.19	1.61	-1.33	-0.86	0.34	1.38	1.42	0.69
Global funds	1.99	4.46	-5.69	0.49	-5.27	4.62	0.82	0.80
Passive management	1.16	2.13	-3.16	-0.15	-2.74	3.37	1.66	0.21
Absolute return	0.38	1.44	-4.81	-0.23	-3.14	2.26	0.54	0.32

1 Data on side-pocket sub-funds are only included in aggregate figures, and not in each individual category.
2 Available data: July 2019.

Hedge funds and funds of hedge funds

TABLE 3.12

				2018			2019	
	2016	2017	2018	II	III	IV	I	II[1]
HEDGE FUNDS								
Investors/shareholders	2,930	3,656	4,444	4,077	4,350	4,444	5,937	5,930
Total net assets (million euro)	1,889.2	2,298.2	2,262.2	2,335.3	2,397.7	2,262.2	2,395.0	2,412.8
Subscriptions (million euro)	425.5	663.9	500.7	85.3	150.2	89.2	107	86.4
Redemptions (million euro)	376.6	607.2	320.4	110.6	74.5	7.2	71	48.6
Net subscriptions/redemptions (million euro)	48.9	56.7	180.3	-25.3	75.6	82.0	35	37.8
Return on assets (million euro)	75.5	149.4	-153.8	30.9	-13.2	-155.0	97.5	-20.1
Returns (%)	4.32	7.84	-6.47	1.35	-0.75	-6.16	5.56	-2.52
Management yields (%)[2]	4.68	9.51	-5.46	1.68	-0.40	-6.51	4.42	-0.63
Management fees (%)[2]	2.25	2.59	1.70	0.38	0.24	0.22	0.48	0.16
Financial expenses (%)[2]	0.10	0.00	0.01	0.00	0.00	0.00	0.00	0.00
FUNDS OF HEDGE FUNDS								
Investors/shareholders	1,237	3,596	2,804	2,797	2,802	2,804	2,847	2,847
Total net assets (million euro)	293.7	468.7	468.8	469.0	472.2	468.8	506.9	508.0
Subscriptions (million euro)	0.0	205.4	7.2	0.5	1.5	1.8	29.9	–
Redemptions (million euro)	28.1	22.1	0.6	0.2	0.0	0.0	0.2	–
Net subscriptions/redemptions (million euro)	-28.1	183.4	6.6	0.3	1.4	1.8	29.7	–
Return on assets (million euro)	2.1	-8.3	-6.5	-1.3	1.8	-5.2	8.6	–
Returns (%)	0.90	-1.66	-1.28	-0.27	0.42	-1.06	1.86	-0.61
Management yields (%)[3]	-0.95	-0.24	-3.04	0.18	0.99	-0.76	2.20	–
Management fees (%)[3]	0.82	1.45	1.64	0.40	0.42	0.43	0.48	–
Depository fees (%)[3]	0.06	0.06	0.06	0.02	0.02	0.02	0.01	–

1 Available data: May 2019. Calculated profitability for March-May.
2 % of monthly average total net assets.
3 % of daily average total net assets.

Management companies. Number of portfolios and assets under management

TABLE 3.13

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[1]
NUMBER OF PORTFOLIOS[2]								
Mutual funds	1,748	1,676	1,617	1,630	1,617	1,612	1,620	1,632
Investment companies	3,231	2,824	2,713	2,725	2,713	2,673	2,634	2,618
Funds of hedge funds	7	8	7	7	7	7	7	7
Hedge funds	41	47	49	49	49	50	54	56
Real estate mutual funds	3	3	3	3	3	2	2	2
Real estate investment companies	6	4	4	4	4	4	4	4
ASSETS UNDER MANAGEMENT (million euro)								
Mutual funds	237,862.2	265,194.8	259,095.0	274,645.4	259,095.0	268,363.8	270,916.0	272,361.0
Investment companies	31,783.2	31,021.1	27,479.7	30,356.4	27,479.7	28,865.9	28,712.6	28,177.2
Funds of hedge funds[3]	293.7	468.7	468.8	472.3	468.8	506.9	507.9	–
Hedge funds[3]	1,889.2	2,298.2	2,262.2	2,397.7	2,262.2	2,389.7	2,407.4	–
Real estate mutual funds	370.1	360.0	309.4	309.4	309.4	309.4	309.4	309.4
Real estate investment companies	707.3	631.5	748.8	568.5	748.8	752.3	760.8	758.9

1 Available data: July 2019.
2 Data source: Registers of Collective Investment Schemes.
3 Available data for II-2019: May 2019.

Foreign Collective Investment Schemes marketed in Spain[1, 2, 3]

TABLE 3.14

				2018			2019	
	2016	2017	2018	II	III	IV	I	II
INVESTMENT VOLUME[4] (million euro)								
Total	114,990.2	150,420.6	162,701.9	175,067.2	176,791.3	162,701.9	177,916.0	180,975.8
Mutual funds	21,337.5	26,133.9	34,237.1	33,084.3	34,852.9	34,237.1	36,028.6	36,796.2
Investment companies	93,652.8	124,286.7	128,464.8	141,982.9	141,938.4	128,464.8	141,887.4	144,179.6
INVESTORS/SHAREHOLDERS								
Total	1,748,604	1,984,474	3,172,682	3,327,263	3,036,154	3,172,682	3,233,984	3,147,153
Mutual funds	372,872	431,295	547,517	663,448	593,081	547,517	546,485	500,154
Investment companies	1,375,732	1,553,179	2,625,165	2,663,815	2,443,073	2,625,165	2,687,499	2,646,999
NUMBER OF SCHEMES								
Total	941	1,013	1,024	1,022	1,031	1,024	1,000	1,020
Mutual funds	441	455	429	446	445	429	396	403
Investment companies	500	558	595	576	586	595	604	617
COUNTRY								
Luxembourg	391	429	447	437	444	447	455	457
France	286	292	263	276	270	263	233	234
Ireland	160	184	200	196	200	200	200	211
Germany	32	35	42	38	41	42	43	46
UK	32	33	27	30	31	27	25	25
The Netherlands	2	2	2	2	2	2	2	2
Austria	23	21	24	24	24	24	23	25
Belgium	4	5	5	5	5	5	5	5
Denmark	1	1	1	1	1	1	1	1
Finland	4	8	9	9	9	9	9	10
Liechtenstein	6	3	4	4	4	4	4	4

1 Only includes data on UCITs. Data on Exchange Traded Funds (ETFs) are not included until IV-2017.
2 On 1 January 2018 CNMV Circular 2/2017 entered into force, which has increased the entities subject to reporting requirements; therefore, data may not be comparable with previous information.
3 Investment volume and number of investors data on Exchange Trade Funds (ETFs) are not included until IV-2017. From I-2018, data on investment volume and number of investors are estimated.
4 Investment volume: participations or shares owned by the investors/shareholders at the end of the period valued at that time.

Real estate investment schemes[1]

TABLE 3.15

				2018		2019		
	2016	2017	2018	III	IV	I	II	III[2]
REAL ESTATE MUTUAL FUNDS								
Number	3	3	2	2	2	2	2	2
Investors	3,927	1,097	483	483	483	483	483	483
Assets (million euro)	370.1	360.0	309.4	309.4	309.4	309.4	309.4	309.4
Return on assets (%)	-5.35	-2.60	0.24	-0.01	-0.01	-0.01	0.00	0.00
REAL ESTATE INVESTMENT COMPANIES								
Number	6	4	4	4	4	4	4	4
Shareholders	674	327	422	423	422	422	426	426
Assets (million euro)	707.3	631.5	748.8	568.5	748.8	752.3	760.8	758.9

1 Real estate investment schemes which have sent reports to the CNMV, excluding those in process of dissolution or liquidation.
2 Available data: July 2019.