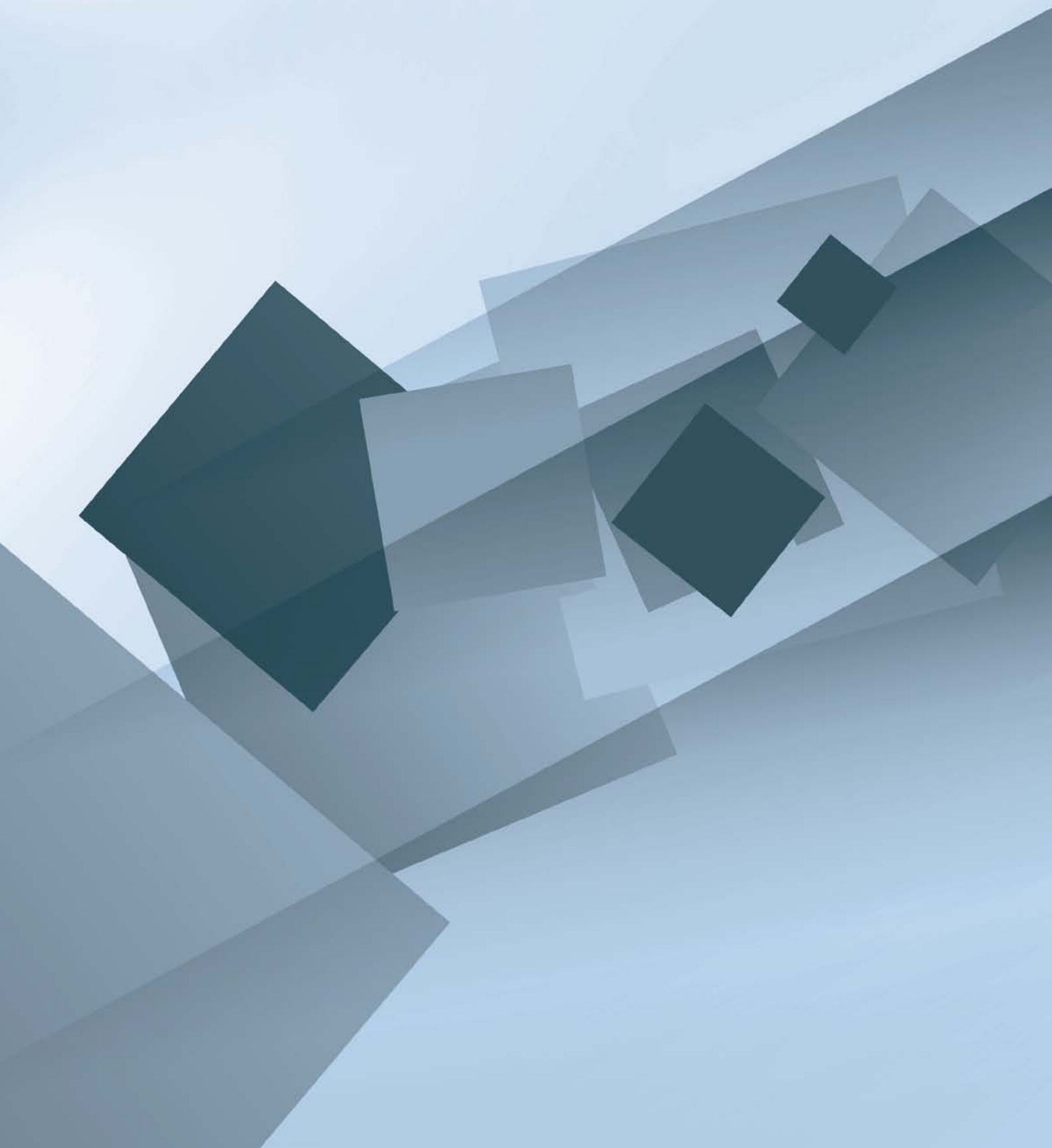




CNMV BULLETIN
Quarter III
2012



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

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Abbreviations

ABS	Asset-Backed Security
AIAF	Asociación de Intermediarios de Activos Financieros (Spanish market in fixed-income securities)
ANCV	Agencia Nacional de Codificación de Valores (Spain's national numbering agency)
ASCRI	Asociación española de entidades de capital-riesgo (Association of Spanish venture capital firms)
AV	Agencia de valores (broker)
AVB	Agencia de valores y bolsa (broker and market member)
BME	Bolsas y Mercados Españoles (operator of all stock markets and financial systems in Spain)
BTA	Bono de titulización de activos (asset-backed bond)
BTH	Bono de titulización hipotecaria (mortgage-backed bond)
CADE	Central de Anotaciones de Deuda del Estado (public debt book-entry trading system)
CCP	Central Counterparty
CDS	Credit Default Swap
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESFI	Comité de Estabilidad Financiera (Spanish government committee for financial stability)
CESR	Committee of European Securities Regulators
CMVM	Comissão do Mercado de Valores Mobiliários (Portugal's National Securities Market Commission)
CNMV	Comisión Nacional del Mercado de Valores (Spain's National Securities Market Commission)
CSD	Central Securities Depository
EAFI	Empresa de Asesoramiento Financiero (financial advisory firm)
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
ECR	Entidad de capital-riesgo (venture capital firm)
EIOPA	European Insurance and Occupational Pensions Authority
EMU	Economic and Monetary Union (euro area)
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-Traded Fund
EU	European Union
FI	Fondo de inversión de carácter financiero (mutual fund)
FIAMM	Fondo de inversión en activos del mercado monetario (money-market fund)
FII	Fondo de inversión inmobiliaria (real estate investment fund)
FIICIL	Fondo de instituciones de inversión colectiva de inversión libre (fund of hedge funds)
FIL	Fondo de inversión libre (hedge fund)
FIM	Fondo de inversión mobiliaria (securities investment fund)
FSB	Financial Stability Board
FTA	Fondo de titulización de activos (asset securitisation trust)
FTH	Fondo de titulización hipotecaria (mortgage securitisation trust)

IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIC	Institución de inversión colectiva (UCITS)
IICIL	Institución de inversión colectiva de inversión libre (hedge fund)
IIMV	Instituto Iberoamericano del Mercado de Valores
IOSCO	International Organization of Securities Commissions
ISIN	International Securities Identification Number
LATIBEX	Market in Latin American securities, based in Madrid
MAB	Mercado Alternativo Bursátil (alternative stock market)
MEFF	Spanish financial futures and options market
MFAO	Mercado de Futuros del Aceite de Oliva (olive oil futures market)
MIBEL	Mercado Ibérico de Electricidad (Iberian electricity market)
MiFID	Markets in Financial Instruments Directive
MMU	CNMV Market Monitoring Unit
MoU	Memorandum of Understanding
OECD	Organisation for Economic Co-operation and Development
OICVM	Organismo de inversión colectiva en valores mobiliarios (UCITS)
OMIP	Operador do Mercado Ibérico de Energía (operator of the Iberian energy derivatives market)
P/E	Price/earnings ratio
RENADE	Registro Nacional de los Derechos de Emisión de Gases de Efectos Invernadero (Spain's national register of greenhouse gas emission permits)
ROE	Return on Equity
SCLV	Servicio de Compensación y Liquidación de Valores (Spain's securities clearing and settlement system)
SCR	Sociedad de capital-riesgo (Venture capital company)
SENAF	Sistema Electrónico de Negociación de Activos Financieros (electronic trading platform in Spanish government bonds)
SEPBLAC	Servicio Ejecutivo de la Comisión de Prevención del Blanqueo de Capitales e infracciones monetarias (Bank of Spain unit to combat money laundering)
SGC	Sociedad gestora de carteras (portfolio management company)
SGECR	Sociedad gestora de entidades de capital-riesgo (venture capital firm management company)
SGFT	Sociedad gestora de fondos de titulización (asset securitisation trust management company)
SGIIC	Sociedad gestora de instituciones de inversión colectiva (UCITS management company)
SIBE	Sistema de Interconexión Bursátil Español (Spain's electronic market in securities)
SICAV	Sociedad de inversión de carácter financiero (open-end investment company)
SII	Sociedad de inversión inmobiliaria (real estate investment company)
SIL	Sociedad de inversión libre (hedge fund in the form of a company)
SIM	Sociedad de inversión mobiliaria (securities investment company)
SME	Small and medium-sized enterprise
SON	Sistema Organizado de Negociación (multilateral trading facility)
SV	Sociedad de valores (broker-dealer)
SVB	Sociedad de valores y Bolsa (broker-dealer and market member)
TER	Total Expense Ratio
UCITS	Undertaking for Collective Investment in Transferable Securities

I **Securities markets and their agents: situation and outlook**

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1 Executive summary

- The international macroeconomic and financial environment remained generally unsettled during the first-half period in response to Europe's drawn-out sovereign debt crisis and the emergence of slowdown signs in some key emerging economies. The IMF's latest forecasts augur world output growth of 3.5% in 2012 and 3.9% in 2013, with the emerging market economies once more to the fore. Among the advanced economies, activity went on expanding at higher rates in the United States, Japan and Germany, while some major European economies had to battle with recession. The main downside risks for projections are doubts about the measures to be taken by certain European governments and institutions in order to lay to rest the sovereign debt crisis, and fears that the deceleration of emerging nations may be sharper than expected.
- Against this backdrop, the performance of international financial markets was mainly dictated by the fluctuating macroeconomic prospects of different world regions, though the sovereign debt crisis was also a constant presence in Italy and Spain. In equity markets, U.S. and indices and a good number in Europe have posted sizeable gains this year to date,¹ despite the price dip of the second quarter, in a context of more muted volatility. In debt markets, tensions reached a height towards end-July, when the spreads of various European sovereign borrowers widened to annual highs. Since early September, however, news of the detailed arrangements for the ECB's conditional sovereign bond buying programme has helped to calm the market mood. One result is that private-sector debt issuance has picked up from last year's levels, especially among non-financial corporations.
- Spanish GDP contracted by an annual 1.3% in the year's second quarter (-0.5% in the euro area), due to domestic demand weakness. Rising energy prices and the VAT hike triggered an inflation upswing in August and September, while the labour market continued to deteriorate as far as a June unemployment rate bordering on 25% of the active population. According to budgetary execution figures, the central government deficit in national accounts terms was 4.8% in the first eight months of 2012, while that of the autonomous communities (regions) closed the first-half period at 0.8%. The general government target for the full-year period has been set at 6.3% of GDP. The Spanish economy, say leading forecasters, will remain in recession until 2013 at least.
- Spanish credit institutions continue to undergo an intense restructuring process, with the prospect that financial assistance from the European Union (up

¹ Data to 14 September.

to one hundred billion euros) and the Government's latest legislative measures will provide a firm platform for recovery.

- The aggregate profits of non-financial listed companies dropped by 40% in the first six months to 8.35 billion euros, in line with the faltering progress of domestic economic activity. The sector's financial leverage ratio ticked up in the period from 1.4 to 1.5.
- Spanish equity markets reflected both the weakness of the domestic economy and the knock-on effects of the sovereign debt crisis. The Ibex 35 traced a prolonged decline, with some fluctuations around mid-year, to close July 30% down on its start-out value. Since then, the index has recovered nearly 37% on the strength of the CNMV's decision (in 23 July) to tackle surging volatility through a new ban on the short selling of Spanish shares, and the ECB's preparedness to purchase European debt securities. That said, the Ibex has shed 4.8% of its value year to date, liquidity conditions have deteriorated and trading has shrunk by 27%.
- Domestic fixed-income markets came under sustained pressure in the year's middle months, producing new highs in yields and credit spreads across all sectors of the economy. Pressures relented a little after the ECB announced in late July that it was ready, under set conditions, to intervene in secondary bond markets, and eased further in September following the release of the monetary authority's detailed plan. Meantime, the volume of debt issues filed year-to-date with the CNMV grew 65% to 267 billion euros led by commercial paper, mortgage covered bonds and government-backed non-convertible bonds.
- Investment fund assets fell by 5.5% in the first six months to 125.1 billion euros, prolonging the downtrend that has continued with only rare interruptions since the start of the crisis. Around 85% of the shrinkage traces to net unit-holder redemptions, which summed over six billion euros in the period. The industry outlook is further complicated by competition from high-interest, low-risk products like certain bank deposits or public debt instruments.
- As in previous years, the investment firm sector had to cope with the stressed state of domestic financial markets, which continued to depress revenues from their principal business lines. The result was a first-half slump in aggregate earnings (down 34% to 104 million euros) and a jump in the number of loss-making companies. Despite this, sector capital adequacy ratios conserved a reasonable state of health.
- This report features seven exhibits:
 - The first sets out the main conclusions reached by the IMF in its assessment of the CNMV's progress in implementing IOSCO's new international principles on securities regulation and supervision.
 - The second explains the main characteristics of Royal Decree-Law 24/2012 of 31 August on the restructuring and resolution of credit institutions, with a list of the novelties bearing on the operational framework of the CNMV.

- The third exhibit summarises the European Commission’s draft regulation of a new investor factsheet on packaged retail investment products.
- Exhibit four reviews the main points of new, amended legislation on prospectuses for public offers and admissions to trading.
- Exhibit five examines how the downgrades imposed on Spanish government debt have affected the credit ratings of other domestic issuers, with a breakdown by type of borrower and maturity band.
- The sixth exhibit examines the main changes made in the UCITS Regulation following transposition of Directive 2009/65/EC (UCITS IV).
- Finally, exhibit seven looks at the key elements in the European Commission’s proposed modification of Directive 2009/65/EC, setting out the eligibility conditions for collective investment schemes to be granted a European passport allowing them to be marketed in any country within the EU.

2 Macrofinancial setting

2.1 International economic and financial developments

The international macroeconomic and financial environment remained generally unsettled during the first-half period in response to Europe’s drawn-out sovereign debt crisis and the emergence of slowdown signs in some key emerging economies. In Europe, financial market tensions rekindled in the year’s middle months, rivaling with the worst days of end-2011, then abated in September following the announcement of a series of broad-ranging monetary policy measures to be taken by the ECB, along with the details of its bond purchasing programme. For the United States and a large part of Europe, the paramount concern was again to ensure the sustainability of public finances. Meantime, growth in emerging market economies drew rather less on the external sector and more on domestic demand, in a context of some volatility in capital flows.

During the first-half period, the international macroeconomic and financial environment remained generally unsettled...

Against this backdrop, the growth rates of leading world economies were slightly better than expected in the opening quarter and a little worse in the second, with marked disparities from one country to another. Among the advanced economies, the United States, Germany and Japan kept up more robust growth, while several European economies had to deal with new contraction periods, which were nonetheless less severe than in the first throes of the crisis. The biggest GDP falls in the second quarter were recorded in Italy (-2.5%), Spain (-1.3%), the Netherlands (-0.6%) and the United Kingdom (-0.5%). Of the Asian emerging economies, China and India grew just under 8% and 4% respectively to mid-year 2012.

...reflecting the prolongation of the European sovereign debt crisis and signs of deceleration in some emerging economies.

Gross domestic product (annual % change)

TABLE 1

	2008	2009	2010	2011	IMF ¹	
					2012F	2013F
World	2.8	-0.7	5.3	3.9	3.5 (-0.1)	3.9 (-0.2)
United States	-0.3	-3.5	3.0	1.7	2.0 (-0.1)	2.3 (-0.1)
Euro area	0.4	-4.3	1.9	1.5	-0.3 (=)	0.7 (-0.2)
Germany	0.8	-5.1	3.6	3.1	1.0 (0.4)	1.4 (-0.1)
France	-0.2	-2.6	1.7	1.7	0.3 (-0.1)	0.8 (-0.2)
Italy	-1.2	-5.1	1.8	0.4	-1.9 (=)	-0.3 (=)
Spain ²	0.9	-3.7	-0.3	0.4	-1.5 (0.4)	-0.6 (-0.7)
United Kingdom	-0.1	-4.9	2.1	0.7	0.2 (-0.6)	1.4 (-0.6)
Japan	-1.2	-6.3	4.4	-0.7	2.4 (0.4)	1.5 (-0.2)
Emerging	6.0	2.8	7.5	6.2	5.6 (-0.1)	5.9 (-0.2)

Source: IMF and National Statistics Office (INE).

1 In brackets, change with respect to the last published forecast. IMF, forecast published July 2012 versus April 2012.

2 Growth rates for 2010 and 2011 factor the latest INE revisions..

In the absence of inflationary pressures in major advanced economies...

Inflation rates in major advanced economies continued their retreat from the highs of third quarter 2011 to mid-year rates ranging from 1.4% in the United States to 2.4% in the euro area (the exception being Japan, where rates stayed in negative territory), with commodity prices as the main force driving the descent. The run-up of recent weeks in oil and other commodity prices has yet to work through in full to price indices. Overall, core inflation rates have tended to stabilise due to the growth stall in certain regions.

... official rates were kept at their current lows, the exception being the euro area with a third-quarter cut of 25 bp.

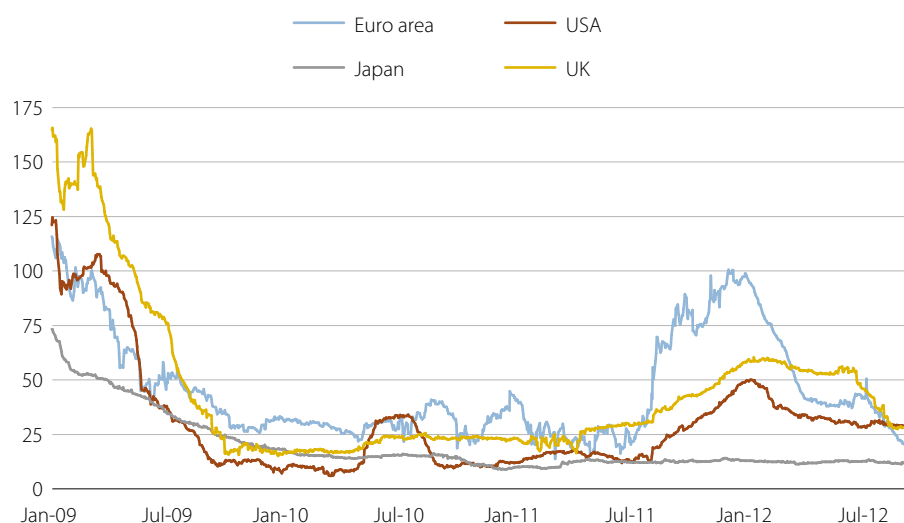
In the absence of inflationary pressures, official rates have so far been left unchanged in the major advanced economies. The exception was the euro area, where in early July the ECB cut its main refinancing rate by 25 bp to 0.75%. Rates in the United States, the United Kingdom and Japan stayed at or near historical lows (0-0.25%, 0.5% and 0.1% respectively). In mid-September, the Federal Reserve announced a new program of quantitative easing (its third), in response to persistent growth weakness and the prevalence of risk – a move that was greeted warmly by the markets.

Debt market turbulence is felt less in interbank deposit markets ...

Debt market turbulence affected interbank deposit markets less than on previous occasions. As figure 1 shows, the three-month euro Libor-OIS spread widened slightly in July to just under 50 bp, well short of the 100 bp of earlier flare-ups. This spread has since eased back to under 20 bp in mid-September, below the equivalent readings for the United States and the United Kingdom.

Three-month Libor-OIS spread

FIGURE 1



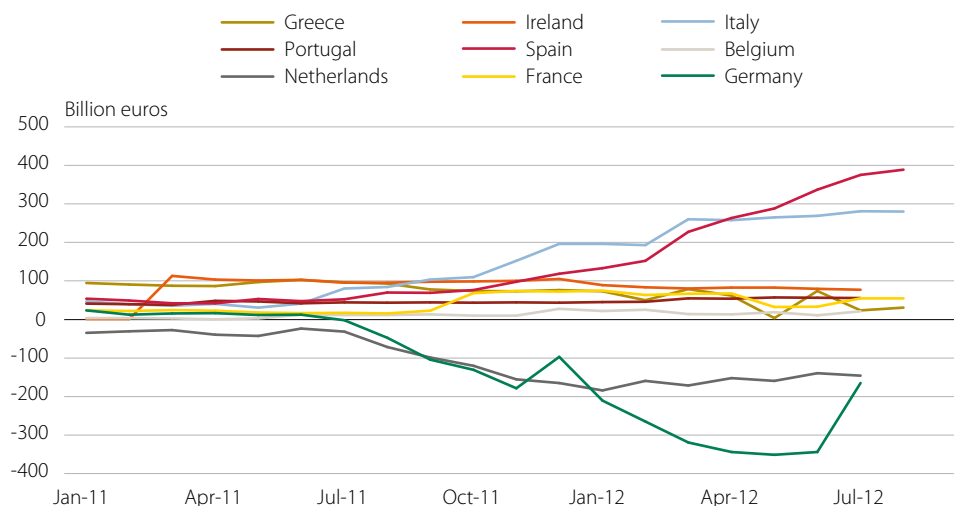
Source: Bloomberg. Data to 14 September.

Even so, the funding difficulties confronting some countries' banks were readily apparent in the year's middle months. As we can see from figure 2, Spanish and Italian financial entities borrowed a record 389 billion and 280 billion respectively from the Eurosystem (net of deposits) in August 2012.

...although the funding problems of some countries' banks were apparent in their recourse to Eurosystem loans.

(Net) Eurosystem funding

FIGURE 2



Source: Bloomberg and Banco de España. Data to August for Spain, Italy, France and Greece. To July for remaining countries.

The behaviour of long-term sovereign bond yields again differed significantly from one group of countries to another. As tends to occur at times of heightened uncertainty like late July, investors rushed into the bonds of those economies that have held up best since the start of the crisis (Germany, the United States and the United Kingdom), pushing their yields to new lows of 1.16% for Germany and 1.40% for the U.S. and UK. Meantime, yields headed lower, with some interruptions, in the

Long-term government bond markets were hit by a new wave of turbulence in late July ...

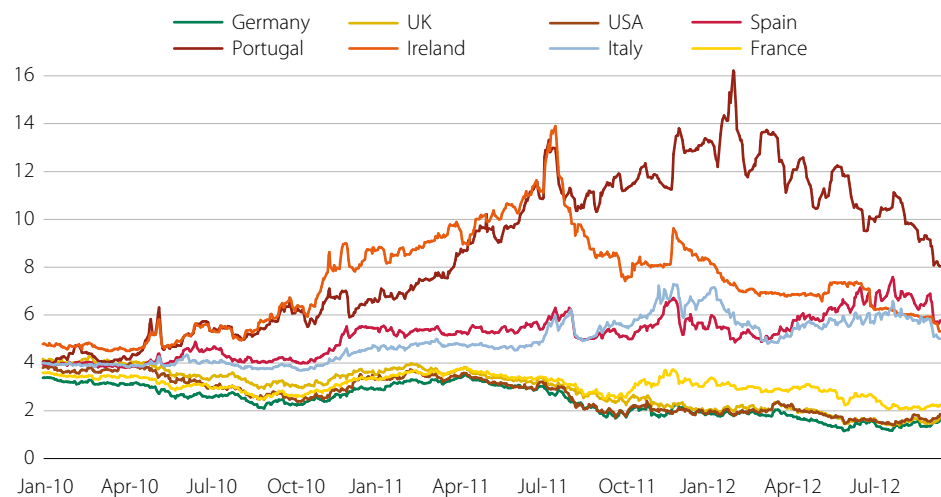
European economies already granted financial assistance, in this case spearheaded by the Irish bond. Finally, yields on Spanish and Italian ten-year bonds climbed to end-July highs of 7.6% and 6.6% respectively. As of early September, however, the release of detailed arrangements for the ECB's conditional sovereign bond purchasing programme sent them falling back to mid-month levels of 5.8% and 5.0% (see figure 3).

...which tended to remit over subsequent weeks after the ECB released the details of its sovereign bond purchasing plan.

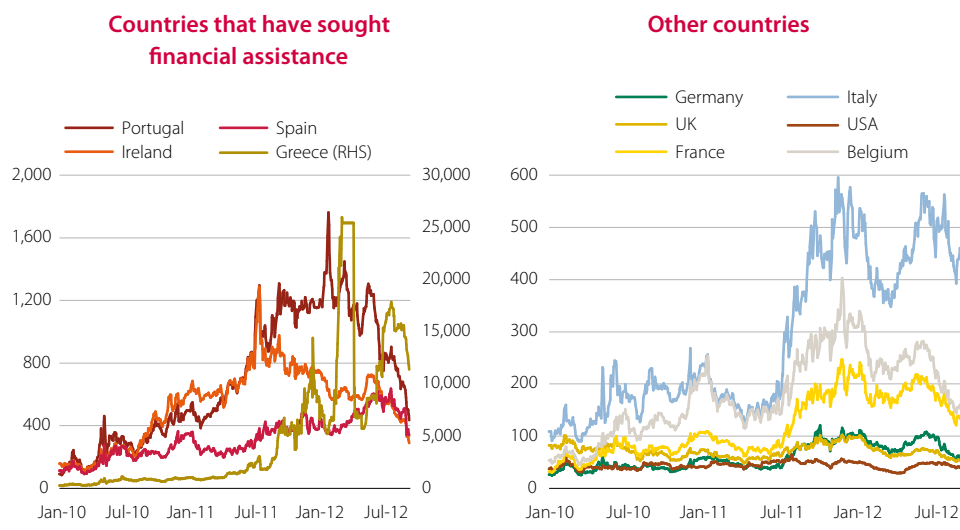
Sovereign spreads traced a similar course to government bond yields. For a large set of Europe's economies, this translated as annual highs at the end of July with debt market tensions surging anew. At this point, the Spanish and Italian bonds were running spreads over the German benchmark of 635 bp and 534 bp respectively. In early September, however, sovereign credits spreads, as derived from CDS premiums (see figure 4) and spreads vs. the German bond, initiated a clear narrowing movement. By mid-September, domestic yield spreads versus Germany were down to 412 bp in Spain, 366 bp in Ireland and 336 bp in Italy, a decrease of 223 bp, 198 bp and 141 bp respectively with respect to the end of July.

Ten-year government bond yields (%)

FIGURE 3



Source: Thomson Datastream. Data to 14 September.



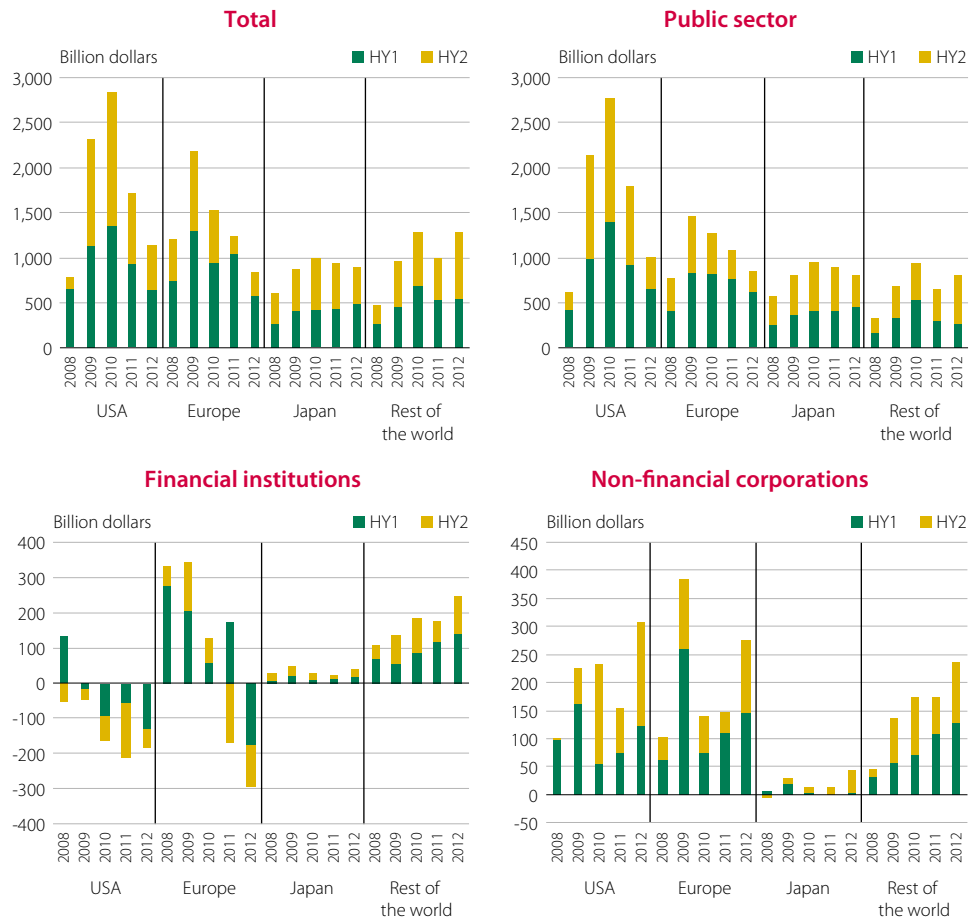
Source: Thomson Datastream. Data to 14 September.

The resurgence of European sovereign debt market turbulence had no great impact on corporate bond spreads either in the United States or Europe, although it did leave its mark on net debt financing by financial institutions. As figure 5 shows, net issuance on international debt markets sums over four trillion euros year to date (in annual terms), 15% less than the total issued in 2011. Looking at the source of these borrowings by issuer and region, we find that the decline owes to lower sovereign debt issuance in the United States and Europe; a consequence, primarily, of countries' ongoing fiscal austerity programmes. Meantime, market tensions continued to hinder financial sector debt financing, which stayed negative in both the United States and Europe, albeit with a significant increase between the first and the second half. Quite another story were non-financial corporations, whose year to date issuance, at 862 billion dollars (in annual terms), was 76% more than in 2011, with the advance extending to all main economic areas.

International net debt issuance contracts as sovereign borrowers in main world areas rein back their issue volumes.

Net international debt issuance

FIGURE 5



Source: Dealogic. Half-year data. Data for the second half of 2012 run to 14 September, but are restated on a semiannual basis to facilitate comparison.

World stock indices return to gains in the third quarter after a second-quarter slide.

After starting the year in bullish form, the stock indices of the major advanced economies deflated in the second under the twin pressure of debt market turmoil and concerns about slower growth in some economic regions. Most leading indices then rallied in the third quarter, with European markets rising faster on the news that the ECB was prepared to purchase European sovereign bonds.

U.S. and German indices have been the best performers ...

U.S. stock indices registered year-to-date gains in the interval of 11.3% to 22.2%, while European indices performed more divergently, depending not only on each economy's entanglement in the debt crisis but also the relative strength of its domestic activity. Progress in the first three quarters accordingly ran from the -4.8% of Spain's Ibex 35 to the 25.7% of the German Dax. Meantime, Japanese indices chalked up gains ranging from 3.9% to 8.3%.

International equity markets saw an upswing in volatility in the middle months, particularly in Europe, albeit without repeating the peak levels of previous turbulence rounds.

Performance of main stock indices¹ (%)

TABLE 2

									3Q12 (to 14 September)		
	2008	2009	2010	2011	3Q11	4Q11	1Q12	2Q12	% prior qt.	% Dec	% y/y ²
World											
MSCI World	-42.1	27.0	9.6	-7.6	-17.1	7.1	10.9	-5.8	9.1	14.0	14.6
Euro area											
Euro Stoxx 50	-44.4	21.1	-5.8	-17.1	-23.5	6.3	6.9	-8.6	14.6	12.0	20.2
Euronext 100	-45.2	25.5	1.0	-14.2	-20.6	6.0	8.3	-4.7	10.2	13.7	18.4
Dax 30	-40.4	23.8	16.1	-14.7	-25.4	7.2	17.8	-7.6	15.5	25.7	33.0
Cac 40	-42.7	22.3	-3.3	-17.0	-25.1	6.0	8.4	-6.6	12.0	13.3	18.2
Mib 30	-48.7	20.7	-8.7	-24.0	-23.8	1.0	7.9	-11.3	16.3	11.4	11.6
Ibex 35	-39.4	29.8	-17.4	-13.1	-17.5	0.2	-6.5	-11.3	14.8	-4.8	-2.8
United Kingdom											
FTSE 100	-31.3	22.1	9.0	-5.6	-13.7	8.7	3.5	-3.4	6.2	6.2	10.2
United States											
Dow Jones	-33.8	18.8	11.0	5.5	-12.1	12.0	8.1	-2.5	5.5	11.3	18.1
S&P 500	-38.5	23.5	12.8	0.0	-14.3	11.2	12.0	-3.3	7.6	16.6	20.5
Nasdaq-Cpte	-40.5	43.9	16.9	-1.8	-12.9	7.9	18.7	-5.1	8.5	22.2	21.4
Japan											
Nikkei 225	-42.1	19.0	-3.0	-17.3	-11.4	-2.8	19.3	-10.7	1.7	8.3	3.3
Topix	-41.8	5.6	-1.0	-18.9	-10.4	-4.3	17.3	-9.9	-1.7	3.9	-1.5

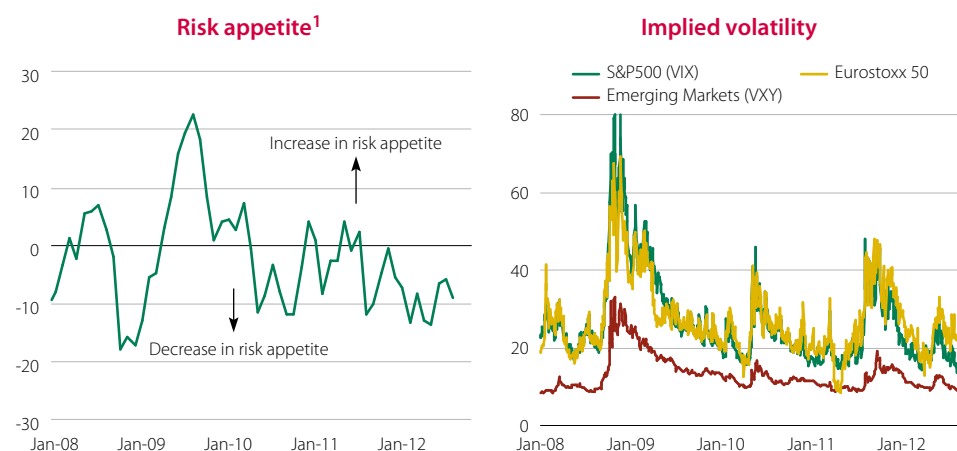
Source: Datastream.

1 In local currency.

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

Financial market indicators

FIGURE 6



Source: Thomson Datastream and CNMV.

1 State Street indicator.

2.2 National economic and financial developments

Spain's GDP contracts 1.3% in the second quarter on domestic demand weakness ...

According to the latest Quarterly National Accounts data, Spain's GDP shrank by three decimal points between April and June 2012, one point more than in the preceding quarter, enlarging the year-on-year contraction by six decimal points to 1.3%. The euro, meantime, saw its output recede by two and five decimal points in quarterly and year-on-year terms respectively.

...with further decline in private consumption and investment.

The cause of the Spanish economy's deepening recession was the greater detractive impact of domestic demand compared to a flat positive contribution from the net exports side. The downturn in domestic demand traced primarily to private consumption (down from -1.5% to -2.2% year on year), construction investment (down by an additional 2.3 percentage points to -11.8%) and equipment investment (down from -6% to -7%). The external sector made a flat contribution in the second quarter, with a small rise in export growth offset by slower falling imports.

On the supply side, construction activity fared worst.

From a supply side perspective, the sharpest contraction was again in construction GVA (-7.1% year on year against the -7.3% of the prior quarter). The GVA of the industrial branch slowed its rate of decline (by three decimal points to -3.1%) and the services sector lost ground for the first time since June 2009 (down by three decimal points, against the 0.9% advance of the first quarter).

Spain: main macroeconomic variables (annual % change)

TABLE 3

	2008	2009	2010	2011	FUNCAS ¹	
					2012P	2013P
GDP	0.9	-3.7	-0.3	0.4	-1.7	-1.1
Private consumption	-0.6	-3.9	0.6	-0.8	-1.7	-1.5
Government consumption	5.9	3.7	1.5	-0.5	-6.9	-6.5
Gross fixed capital formation, of which:	-4.7	-18.0	-6.2	-5.3	-8.7	-4.4
Construction	-5.8	-16.6	-9.8	-9.0	-10.8	-5.8
Machinery and equipment	-3.1	-24.2	3.1	2.5	-7.2	-2.5
Exports	-1.0	-10.0	11.3	7.6	2.0	4.9
Imports	-5.2	-17.2	9.2	-0.9	-6.3	-1.3
Net exports (growth contribution, p.p.)	1.5	2.9	0.3	2.3	2.5	1.5
Employment (full-time equivalent jobs)	-0.2	-6.3	-2.6	-1.7	-3.6	-2.0
Unemployment rate	11.3	18.0	20.1	21.6	24.4	25.2
Private consumption deflator	4.1	-0.3	1.8	3.2	2.0	1.7
Net lending (+)/borrowing (-) vs. the rest of the world (% GDP)	-9.9	-4.6	-4.5	-3.6	-1.7	-0.2
General government surplus (+)/deficit (-) (% GDP)	-4.5	-11.2	-9.4	-8.9	-6.3	-4.0

Source: Banco de España, FUNCAS and National Statistics Office (INE).

1 Based on the average consensus of the panel of forecasts for the Spanish economy constructed by this institution through a survey of eighteen research departments. The survey was run in July 2012.

After holding broadly stable at around 2% between January and June, Spanish inflation turned up sharply in August (to 2.7%) and September (to 3.5% according to the leading indicator) on rising fuel prices and the recent hike in VAT. Core inflation stayed flat as far as an August rate of 1.4%. This jump in Spain's inflation has wiped out its negative differential vs. the euro area, in place since the closing months of 2011.

Inflation surges in August and September on rising fuel prices and VAT.

The weakness of the Spanish labour market was starkly apparent in the second quarter in the shape of quickening job destruction (-4.6% against the -3.6% of the preceding quarter) and a rising unemployment rate (to 24.6%, two decimal points more than in the opening quarter). Better news comes from unit labour costs, which fell faster in the second quarter (by six decimal points, to -2.1%) on higher productivity per worker (up by 3.5%, four decimal points more than in the previous quarter) and more moderate growth of employee wages (down two decimal points to 1.3%).

Labour market weakness intensifies in the third quarter, taking unemployment rates to 24.6% of the active population.

According to budgetary execution figures, the central government deficit in national accounts terms was 4.8% in the first eight months of 2012, three decimal points above the full-year target² under this head (the objective for general government accounts has been set at 6.3%). The autonomous communities, according to the latest available data to June 2012, closed the period with a deficit of 0.8%, a little over half the target set for regional government (1.5%). Public debt, as estimated by the Excessive Deficit Procedure, amounted to 76% of GDP in June 2012 (69.3% at end-2011), of which 58.3 points correspond to central government (52.6 in 2011), 14.2 to the autonomous communities (13.3 in 2011) and 3.4 to local governments (3.3 in 2011).

Budgetary execution figures to June express the commitment at all levels of government to rein in the public deficit.

Implementation in Spain of the IOSCO principles on securities regulation: IMF recommendations ensuing from the 2012 FSAP report

EXHIBIT 1

Last June, the IMF published the results of a comprehensive review of the Spanish financial system conducted over the closing months of 2011 and the first of the current year, as part of its regular analyses of national financial systems under the Financial Sector Assessment Program (FSAP). This programme, established in 1999, examines the different sub-sectors making up a country's financial system, essentially banking, insurance and financial markets, by reference to such indicators as financial soundness, compliance with international regulatory and supervisory standards and ability to contribute to economic growth. To date over 75% of IMF member countries have undergone assessments of this kind. This is Spain's second review, with the first taking place in 2006.

This exhibit considers the FSAP's main conclusions in the area closest to the CNMV's remit: implementation of the international objectives and principles of securities regulation promoted by IOSCO.¹ The first thing to say is that the IMF report finds a high degree of implementation of the IOSCO recommendations. Of the 36 IOSCO principles the Fund subjected to review, 28 were assessed as "fully implemented", five as "broadly implemented" and only three (principles 2, 12 and 31) as "partly implemented". The IMF also stressed that the CNMV had made

2 Many of the recently approved expenditure adjustment measures will be rolled out in the second half, so it seems likely that the central government figure will come back on course in the year's closing months.

more active use of its powers in recent years despite the ongoing financial crisis and its seriously limited human and material resources.

In assessors' judgement, the underlying strengths of the supervisory system employed by the CNMV include the practice of conducting selective reviews in thematic areas, dealing with specific issues or activities from a full-industry perspective, its robust arrangements for market surveillance and its keen commitment to the identification and monitoring of emerging and systemic risk. On this last function, a recent but crucial addition to the IOSCO catalogue, the IMF team remarked that the CNMV, through its *Grupo Interno de Estabilidad Financiera*, is able not only to identify and monitor potential sources of systemic risk, but also to adequately review the perimeter of regulation in securities matters.

Regarding areas in need of strengthening, the IMF urges more attention to the inspection of credit institutions which market investment products and services. It also singles out aspects of Spain's legal framework for securities regulation and supervision which it considers could limit the CNMV's independence and operational efficiency.

In its first recommendations, referring basically to principles 12 and 31, the IMF contends that the CNMV should make more use of on-site inspections involving physical visits to the premises of regulated entities, particularly credit institutions in view of their dominant role in investment product distribution. It should be said here that the CNMV's supervisory practices regarding the financial entities within its jurisdiction, like those of most financial sector supervisors, involve a combination of on-site inspections and off-site or distance supervision comprising the review of information that is mostly provided by or requested from the operators themselves. In their report, the IMF assessors commend the CNMV for the robustness of its supervisory practice in both cases, with particular mention to its thematic reviews.

The CNMV is aware of the banks' importance in the retail distribution of investment products, and has been stepping up its oversight with regard to this activity. Specifically, in the last three years, it has carried out on-site inspections at credit institutions serving 75% of sector clients, at the same time intensifying its off-site monitoring. It conducted, for instance, an off-site review of secondary market selling practices in relation to preference shares, a review that extended to 27 credit institutions accounting for 95% of the total market.

Recommendations regarding the CNMV's institutional framework refer mainly to IOSCO principles 2 and 3, and indeed some were first put forward in the 2006 FSAP report. Firstly, assessors stated that reserving a place on the CNMV board for the Secretary General of the Treasury and Financial Policy and the fact that certain key decisions regarding authorisations and sanctions are still a responsibility of the Ministry of Economy and Competitiveness (MEC) could compromise the regulator's independence. They acknowledge, however, that the collegial nature of the board and the "regulated" nature of authorization and sanctioning processes – which invariably require a recommendation from the CNMV even though the decision falls to the MEC – have, in practice, a strong mitigating force.

Although this is not an issue covered explicitly by the IOSCO principles, the IMF team thought the CNMV should have broader powers in secondary legislation. At present, the Commission can only issue rules when expressly authorised to do so in the higher-order texts making up core legislation, i.e., laws passed by Parliament or regulations approved by the Council of Ministers or the MEC. The assessors saw this limitation as excessive, since it could constrain the CNMV's ability to respond quickly to an emerging problem in the market, and delay a regulatory response. And this, they point out, could prove costly in crisis situations like today's. They also acknowledged that the CNMV seems to deal with this problem by initiatives using its existing powers.

Finally, assessors reiterated the criticism levelled by the 2006 report to the effect that the CNMV was overdependent on government in matters of staff hiring. As things stand, CNMV requires governmental approval to recruit new resources and any vacancies must be announced as part of an annual public sector employment call. They were concerned that such dependence could limit the Commission's ability to attract or retain the required expertise and urge the authorities to explore mechanisms that allow it to compete effectively for staff resources.

While the CNMV does not fully share some of the report's conclusions, it welcomes the work done by the IMF team in assessing Spain's implementation of the IOSCO objectives and principles, and is closely studying its recommendations. The Commission is also convinced that having a rigorous external evaluation conducted through the FSAP by experts equipped with a global view of the financial sector, is an invaluable aid for national authorities, including supervisors.

1 The IMF reports resulting from this process are available at: http://www.imf.org/external/pubs/cat/scr1_sp.aspx?s_year=2012&e_year=2012&brtype=default.

Spanish credit institutions continue to undergo an intense restructuring process, with the prospect that financial assistance from the European Union (up to one hundred billion euros) and the Government's latest legislative measures (see exhibit 2) will provide a firm platform for recovery. With slack domestic activity barring the way to a more rapid recovery, there is little immediate chance of a return to normal lending.

Spanish credit institutions remain immersed in a profound restructuring process backed financially by the EU.

Spanish deposit-taking entities reported pre-tax losses of nearly 16 billion euros in the first six months of 2012 (against the 1.44 billion profits of the year-ago period). This decline reflects fast-rising impairment losses on financial assets (15.98 billion) and remaining assets (7.05 billion). The brighter side of sector income statements was provided by gross margin improvement and operating cost containment.

Sector-wide losses in the first half period sum 16 billion euros.

Lending to non-financial private sectors continued to slide, from year-on-year rates of around -2% in the first months of the year to a July rate of -3.3%. The finance reaching non-financial corporations shrank by 3.3% year on year (-5.9% in loans and -8.7% in non-equity securities) while loans to households dropped by 3.4% (-3.0% in home purchase loans and -4.6% in consumer credit). The contrast was provided by the public authorities whose borrowings grew throughout the year at rates nearing 15%.

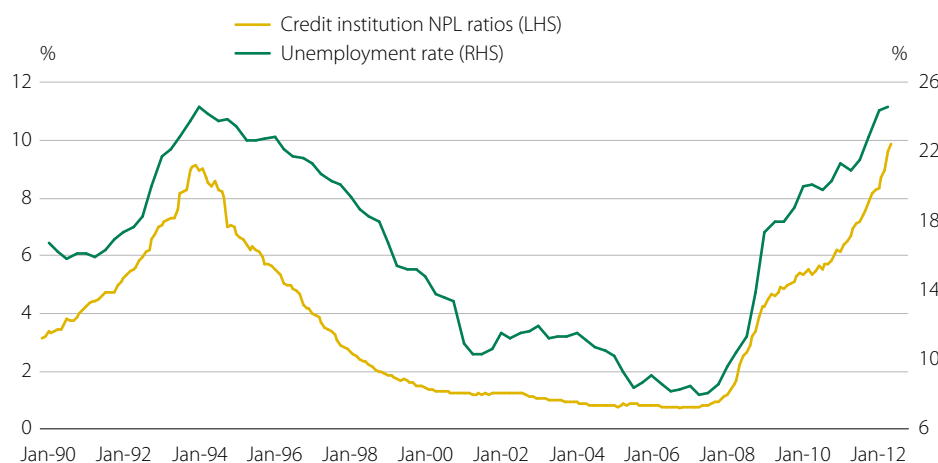
Bank sector lending to non-financial corporations and households decelerates further to mid-year.

With NPL ratios testing 10%, the sector has broken through the record levels of the 1992-1993 crisis.

Credit institutions' NPL ratios have expanded relentlessly on the weakness of domestic economic activity and high unemployment, with rates approaching 25% of the active population (see figure 7). By July, the ratio was testing 10%, its second month running above the record levels of the 1992-1993 crisis (with a peak of 9.15% in February 1994). Most delinquent loans were again linked to real estate development (27.4% in June) and construction (23.9%), while non-performance linked to home purchase mortgages reached a mid-year level of 3.2%.

Credit institution NPL ratios and the unemployment rate¹

FIGURE 7



Source: Banco de España and INE. NPL ratios to July, unemployment rate to June.

¹ Of the active population.

Banks again drew the bulk of their funding from the Eurosystem.

Credit institution financing conditions in the second quarter and part of the third were adversely impacted by doubts about the health of Spain's financial sector, for which the Government had sought EU aid in June 2012. For most of the year, the banks have relied partly on easier access to Eurosystem funding (which reached 389 billion euros in August, see figure 2) and partly on non-financial private sector savings, which they tapped primarily through commercial paper. Issues further down the yield curve have been concentrated in mortgage covered bonds and non-convertible bonds (a majority backed by government guarantee), which have mostly been retained on balance sheets for use as collateral in Eurosystem credit operations. The positive note was provided by a series of launches in September, taking advantage of the month's more settled market climate.

The main purpose of Royal Decree-Law 24/2012 of 31 August on restructuring and resolution of credit institutions is to introduce the measures stipulated in the Memorandum of Understanding associated with the financial assistance Spain applied for last June in order to recapitalise its financial sector. Among the MoU's conditions was that a restructuring plan should be submitted in the form of a legal commitment before the end of August 2012. In view of the difficulties confronting Spain's financial sector, the text equips public institutions with the tools they need to complete the restructuring process initiated more than three years back, while minimising the burden on public funds and safeguarding the stability of the financial system.

The RD-L regulates three procedures, to be activated according to the seriousness of a bank's situation. These are early-action measures, restructuring and resolution. Early-action measures will be applied when a bank fails to comply with its capital, liquidity, organizational or internal control requirements, or when it is reasonably foreseeable that it will be unable to comply with them, but has the capacity to return to compliance through its own resources or exceptional financial aid based on instruments convertible into shares within two years at most.

Institutions in this situation must submit an action plan to the Banco de España which guarantees their long-term viability with no call on public funds. Also, during this phase, the Banco de España may demand that board members resign or even that the board's powers be provisionally transferred to another body, in cases where the exceptional gravity of its situation could undermine the soundness of its capital base or its stability, liquidity or solvency.

The resolution procedure has been devised for institutions that are unviable or likely to become so in the near-term future, while restructuring applies when public aid is required to guarantee a bank's viability, but there is evidence to indicate that it has the capacity to make repayment within the time stipulated for each of the support instruments envisaged in the RD-L (purchase of ordinary shares or convertible instruments, or contributions to share capital).

The concept of resolution (rather than ordinary insolvency proceedings) is one of the main novelties the RD-L brings to Spanish legislation, with the aim of offering depositors and the financial system better guarantees in the event of a bank's liquidation. The selection of resolution instruments takes on board elements of the draft future European directive, and includes the sale of the bank's business to a third party, the transfer of its assets and liabilities to a bridge bank, or the transfer of its assets and liabilities to an Asset Management Company. In the event that a resolution process is instigated, the bank's governing body will also be replaced.

Banks undergoing restructuring or resolution must draw up an action plan for approval by the Banco de España. The Fund for the Orderly Restructuring of the Banking Sector (FROB) will decide which instruments are most conducive to its orderly execution at the lowest possible cost to the taxpayer.

Another key element of the RD-I is the creation of an Asset Management Company to hold the distressed assets removed from bank balance sheets, facilitating their management. The FROB is empowered to force banks to transfer such assets to the Asset Management Company, which will be incorporated as a public limited company. Detailed arrangements for the transfer and valuation of impaired assets are subject to regulatory development.

The text also sets out voluntary and compulsory mechanisms, based on discharge, for the management of hybrid instruments such as preference shares and subordinated debt. These actions are informed by the principles of responsibility and assumption of risk, which dictate that the costs of restructuring or resolution of an entity should be borne first of all by its shareholders and subordinated creditors. Detailed arrangements for their application will be decided by the FROB.¹

The Royal Decree-Law strengthens the FROB's powers. In order to avert possible conflicts of interest, credit institutions will no longer serve on its management committee through the Deposit Guarantee Fund. It will also have a Director General with full executive functions, and its resolutions will be of an executive nature, i.e. not subject to approval by the general meeting of shareholders. The text pursues a cooperation and coordination framework for the FROB and other competent national and international authorities along the lines of those in place for institutions like the Banco de España.²

Its additional and final provisions introduce an assortment of measures required by the Memorandum of Understanding, whose purpose is to improve the functioning of the financial market. The first set refers to the protection of retail investors. In this respect, the CNMV is given stronger control over the sale of investment products, especially of complex products like preference shares. Specifically, the marketing or placement with the retail public of complex products qualifying as own funds for the purpose of credit institution capital adequacy requirements will be subject to the following conditions: (i) the issue must reserve at least a 50% tranche for professional investors, whose total number will be no less than fifty, and (ii) in the case of preference share issues,³ the denomination unit may be no less than 100,000 euros (25,000 euros for remaining issues). Failure to comply with these conditions will constitute a serious breach.

In addition, the CNMV is empowered to require that all pertinent warnings in regard to the financial instrument, including the fact that it is not suitable for retail investors, be inserted in advertising material or the precontractual documents delivered to clients. Investment service providers will also have to give their clients a copy of the report on the appropriateness analysis run, and provide a record in writing or some durable medium of all recommendations made in the light of their investment profile. Another novelty referring to the sale of complex products is that the contractual document should include, along with the client's signature, a written representation in terms to be determined by the CNMV that they have warned that the product is inappropriate or that its appropriateness cannot be judged for lack of data.

The second set refer to the thresholds defined in the Securities Market Law for the publication of a prospectus, and which accordingly determine whether a giv-

en issue is to be treated as a public offer. Also modified in this section are the thresholds above which issuers listed on an official secondary market or other regulated market are bound by periodic reporting requirements.

A major innovation is the transfer of authorisation and sanctioning powers in respect of credit institutions from the Ministry of Economy and Competitiveness to the Banco de España.

A final feature of this RD-L is the change in the core capital requirements applicable under Royal Decree 1/2011 of 18 February on the strengthening of the financial system.⁴ Specifically, the current requirements will be replaced by a single standard of 9% of risk-weighted exposures, to be met by all banks from 1 January 2013. The definition of core capital is also aligned with the definition used by the European Banking Authority as regards both qualifying elements and charges.

- 1 The Royal Decree-Law clarifies that, in accordance with the principle of responsibility and of assumption of risk, the fact that a bank has received public financial aid as a matter of urgency prior to a decision being made about its restructuring or resolution will not deter the FROB from subsequently imposing management measures on such instruments in order to minimise costs to the taxpayer.
- 2 For instance, the CNMV must issue a prior report when securities deposited at a FROB-administered entity are transferred to another entity authorised to conduct this activity.
- 3 Also applicable to the convertible debt instruments of entities that are not listed companies.
- 4 Eight percent as the standard level and 10% for banks which have limited access to the markets and for banks whose funding is mainly wholesale.

The aggregate profits of non-financial listed companies dropped 39.9% in the first six months to 8.35 billion euros (see table 4), in tune with the faltering progress of domestic economic activity. Although all the sectors followed shared in the decline, construction and real estate came out particularly badly, with net profits of over one billion euros in the first half of 2011 turning to 2.10 billion losses one year later. Also losing out was retail and services, whose profits fell from 5.20 billion to 3.02 billion euros in the same twelve months. Profits decline, finally, was more moderate in absolute terms in energy and industry.

The aggregate profits of non-financial listed companies slide by 40% in the first six months to 8.35 billion euros...

Earnings by sector¹: non-financial listed companies

TABLE 4

Million euros	EBITDA ²		EBIT ³		Net profit	
	1H11	1H12	1H11	1H12	1H11	1H12
Energy	14,227	14,222	9,652	9,235	6,129	5,827
Industry	3,468	3,892	2,332	2,656	1,539	1,524
Retail and services	15,972	14,792	8,997	7,521	5,199	3,019
Construction and real estate	3,641	3,850	2,409	2,113	1,006	-2,093
Adjustments	-85	-4	-30	45	13	71
AGGREGATE TOTAL	37,223	36,752	23,360	21,570	13,886	8,348

Source: CNMV.

1 Year to date.

2 Earnings before interest, taxes, depreciation and amortisation.

3 Earnings before interest and taxes.

...while financial leverage ratios ticked up from 1.4 to 1.5.

Non-financial listed companies reported aggregate debt levels in June 2012 of 312.9 billion euros, 1.3% more than in December last year, breaking with the downtrend initiated in 2010 and lifting average leverage (debt to equity) from 1.4 to 1.5. In relative terms, the increase was steepest in industry, up 6.0% to 18.6 billion euros, while in straight-money terms it was retail and services which recorded the biggest leap (up by 4.39 billion to 117.5 billion euros). Companies' debt coverage ratio, measuring the years needed to repay existing debt assuming constant EBITDA, and interest cover (EBIT/interest expenses) held flat overall between December 2011 and June 2012 (see table 5), with the deteriorating ratios of retail and services – a consequence of their higher debt – offset by stable or slightly improved readings across all remaining sectors.

Gross debt by sector: listed companies

TABLE 5

Million euros		2008	2009	2010	2011	1H12
Energy	Debt	82,608	100,572	98,283	95,853	94,602
	Debt/Equity	0.89	1.08	0.95	0.92	0.89
	Debt/EBITDA ¹	2.82	3.46	2.81	3.27	3.33
	EBIT ² /Interest expenses	3.67	3.38	4.15	3.30	3.31
Industry	Debt	15,645	15,953	14,948	17,586	18,634
	Debt/Equity	0.69	0.69	0.58	0.63	0.68
	Debt/EBITDA	2.71	3.05	2.11	2.54	2.39
	EBIT/Interest expenses	3.41	3.15	5.00	3.90	4.25
Construction and real estate	Debt	119,788	104,762	99,917	83,716	83,434
	Debt/Equity	3.77	4.08	3.42	2.98	3.29
	Debt/EBITDA	31.87	22.48	11.18	15.00	10.84
	EBIT/Interest expenses	0.01	0.31	0.98	0.52	0.86
Retail and services	Debt	112,322	108,579	115,413	113,142	117,535
	Debt/Equity	2.14	1.78	1.60	2.01	2.14
	Debt/EBITDA	3.58	3.70	3.38	3.78	3.97
	EBIT/Interest expenses	2.86	3.28	3.94	2.45	2.17
Adjustments ³		-20.802	-1.908	-1.792	-1.404	-1.323
AGGREGATE TOTAL	Debt	309,561	327,958	326,769	308,893	312,882
	Debt/Equity	1.63	1.63	1.43	1.44	1.47
	Debt/EBITDA	4.63	4.82	3.84	4.29	4.26
	EBIT/Interest expenses	2.01	2.42	3.12	2.30	2.32

Source: CNMV.

1 Earnings before interest, taxes, depreciation and amortisation.

2 Earnings before interest and taxes.

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

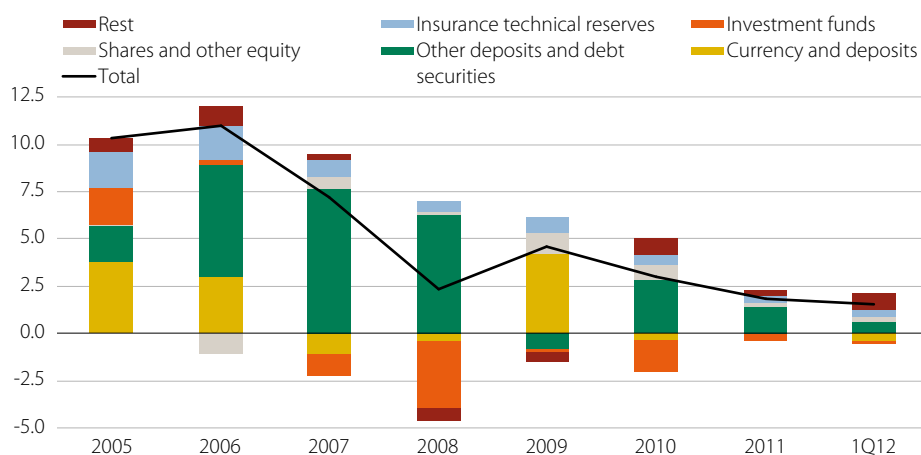
In a context of overall decline in household financial leverage, financial investments, primarily in debt securities and insurance products, have dropped to recent-year lows.

Household asset indicators for the first quarter of 2012 say that indebtedness has fallen to 120% of disposable income due to lower debt and flat household income. The sector's net wealth also contracted, primarily on depreciating real estate. As to investment decisions, households' net financial asset purchases came to 1.5% of GDP (cumulative four-quarter data), four decimal points less than in full-year 2011. Invest-

ment in currency and deposits was negative to the tune of -0.4% of GDP, while investment in time deposits and debt securities was a positive 0.6%. Net acquisitions of shares and other equity also generated a positive outcome, although the figures are very small, while investment fund outflows continued apace (see figure 8).

Households: financial asset acquisitions (% GDP)

FIGURE 8



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

Proposed regulation of a new investor information document for packaged retail investment products

EXHIBIT 3

In July 2012, the European Commission presented its Proposal for a Regulation of the European Parliament and of the Council on key information documents for investment products. If approved, the Key Investor Information Document (KIID) will be compulsory in all sales of what the text refers to as packaged retail investment products (PRIIPs).

The aim of this legislative initiative is to ensure that the precontractual information given to retail investors is comparable across different products, plainly worded and follows a standard structure. The idea, ultimately, is for investors to be able to base their decisions on a more solid understanding which allows them to compare products of a similar economic purpose, even when they may come wrapped in different legal forms.

The Regulation, as currently formulated, will be binding in all respects and automatically applicable in Member States two years after its entry into force. This term is extended to five years in the case of investment funds, which meantime can go on using the key investor information document introduced by Directive 2009/65/EC.

Below we summarise the key points of the draft Regulation:

1. *Scope of application.* The Regulation will apply to all investment products where the return to the investor varies according to the performance of one

or several underlying assets or securities other than an interest rate; what the draft calls packaged products. The term extends, moreover, to products incorporating full or partial capital protection, investment funds addressing retail investors, all structured products, derivative instruments and insurance contracts with investment elements.

2. *Responsibility for producing KIIDs.* Because investment product manufacturers know their investment products best and are responsible for creating them, the text proposes that they should be responsible for producing the KIID. Each eligible product will have its own KIID, which will be published before it goes on sale to retail investors. Any party introducing changes in the product that alter its risk-return profile or its costs will be considered a co-manufacturer. The product's creator may decide to delegate the KIID's preparation (to the distributor for instance), but this will have no impact on its responsibility.
3. *KIID form and content.* The document should meet the following conditions: i) be a stand-alone publication clearly separate from advertising material, ii) be short, clearly expressed and easy to understand, iii) avoid use of jargon and iv) cover all essential information. The essential elements to be covered are as follows: 1) identification of the product and its manufacturer, 2) the nature and objectives of the product (including where appropriate different performance scenarios), 3) a brief indication of whether loss of capital is possible, 4) the recommended minimum holding period, 5) expected liquidity (including the possibility and conditions for any disinvestments before maturity), 6) risks and costs and 7) past performance (where relevant). The European Commission is empowered to adopt delegated acts specifying the details of the presentation and content of KIIDs. Further, marketing communications may not include any statement that contradicts the information contained in the KIID or diminishes its significance. They should also indicate that a key information document is available and supply information on how to obtain it. The product's manufacturer must ensure that the KIID is regularly updated, in accordance with the review conditions and frequency established in delegated acts of the European Commission. When a KIID does not comply with the articles of the Regulation, retail investors may claim damages from the investment product manufacturer for any losses that result from relying on its content. The burden of proof in such cases will lie with the manufacturer.
4. *Obligation to provide the KIID.* The product's distributor or manufacturer, if sales are direct, must provide retail investors with the KIID free of charge well in advance of the transaction. However, when the retail investor wishes to conclude the transaction by some means of distance communication where it is not possible to deliver it beforehand, the seller may provide the KIID immediately afterwards, having first informed the investor of this fact. In this case too, the European Commission will adopt delegate acts establishing the timing of delivery. The KIID can be provided on paper or some other durable medium, or else through the manufacturer or distributor's website.

5. *Other measures: complaints and sanctions.* The investment product manufacturer must establish procedures and arrangements which ensure that retail investors who have submitted a complaint in relation to the KIID receive a substantive reply in a timely and proper manner. Member States should ensure that the competent authorities have the power to impose at least the following sanctions: an order prohibiting or suspending the marketing of an investment product, the issue of public warnings on breaches of the regulation, and ordering publication of a new version of the KIID. Equally, they should ensure that the competent authorities have the power to issue or require the manufacturer or seller of the investment product to issue a direct communication to the investor concerned, informing them of the administrative measure or sanction, and where they can lodge complaints or submit claims for redress. The competent authorities should also disclose administrative measures and sanctions to the public, identifying the breach and those responsible for it, unless such disclosure would seriously jeopardise the financial markets or cause disproportionate damage to the parties concerned. This information should also be reported to the three European supervisory authorities (EBA, EIOPA and ESMA).

2.3 Outlook

In its latest forecasts, published July 2012, the IMF augurs growth this year of 3.5% and 3.9% in 2013, on a par with 2010. The advanced economies, it projects, will expand 1.4% this year, a little below the 2011 rate, and just under 2% in 2013, while the emerging market economies will manage a 5.6% advance this year followed by 6% in 2013, compared to the 6.2% approximately of 2011.

The latest IMF forecasts say the world economy will grow 3.5% in 2012 and 3.9% in 2013, with emerging economies as the main motor.

The main risks for these projections are tilted to the downside. They are, primarily, the fear that the mechanisms deployed to manage Europe's sovereign debt crisis will fail to work effectively or arrive too late. On this score, the pledge by Member States to advance towards fiscal and banking union in the zone, along with the ECB's release of detailed arrangements for its conditional sovereign bond purchasing programme would seem to be steps in the right direction. Another risk facing some advanced economies, especially the U.S. and Japan, concerns the need to consolidate public accounts looking to the medium term. In the case of the emerging market economies, downside risks for the baseline growth scenario are loss of external sector growth momentum and more slowly expanding credit.

Forecasts are predicated above all on the success of management measures put in place for the European sovereign debt crisis.

The IMF's July projections for the Spanish economy point to a slowdown in domestic economic activity extending to 1.5% in 2012 and 0.6% in 2013. These estimates mark a revise-up of four decimal points and a revise-down of seven decimal points respectively against its previous forecasts, released in April this year. This baseline macro scenario is, moreover, hedged by uncertainty, given the tensions persisting in domestic financial markets, which are choking off finance to all economic sectors, and the country's prolonged state of labour-market weakness. That said, financial assistance from the European Union, earmarked to rebuild a domestic financial system engaged in a root-and-branch restructuring, and the adoption of structural and fiscal reforms may help mitigate some of the risks looming over Spain's economy.

Spanish GDP will contract around 1.5% this year and 0.6% in 2013, with financial market tensions and prolonged labour-market weakness as the main brakes on the economy.

3 Spanish markets

3.1 Equity markets

The Ibex 35 has shed 4.8% of its value year to date,...

Throughout July, domestic stock markets felt the full force of the European sovereign debt crisis and the problems besetting Spain's banks, against a backdrop of faltering economic activity. Share price falls were a constant, accompanied by a sharp deterioration in liquidity conditions and volatility at annual highs. From the closing days of the month, however, the announcement and subsequent publication of the ECB's latest plan to intervene in sovereign debt markets ushered in a calmer period during which stocks rallied strongly. Also relevant was the CNMV's decision on 23 July to impose an immediate ban on trades involving the creation or increase of net short positions on Spanish shares.³ Finally, the Ibex 35 gained 14.8% in the third quarter after two previous quarterly falls (-6.5% and -11.3%) thanks to a late rally in the month of September, but still ended the quarter 4.8% down versus the 2011 close. Along the way, the index hit a July low that sent it tumbling back to the price levels of March 2003.

... while other national indices have performed more unevenly.

Small cap stocks performed roughly in line with the Ibex 35 by way of a steeper first-half fall (-27.6%) followed by a more muted recovery (12.1%) in the third quarter, leaving it 18.8% down in the nine-month period. Conversely, the strong first- and third-quarter progress of other major Spanish indices (tracking medium caps and Latin American companies trading on domestic platforms) offset the price dip of the second quarter, leaving some at least in positive territory year to date – the Ibex Medium Cap and FTSE Latibex Top with 5.3% and 3% respectively versus the -1.3% of the FTSE Latibex All-Share.

All sectors managed a sturdy third-quarter advance that nonetheless failed to offset first-half losses.

Closer analysis shows that third-quarter gains extended across the board, in contrast to the losses endured by most sectors over the first-half period. The real estate sector was at the forefront of the third-quarter rally (up 39.6% after a first-half slide of 38.6%, for a year-to-date fall of 14.3%), followed by insurance (35.1% after -30.4% respectively leaving it down by 6%), oil and gas (27.8% after -44.2% for a decline of 28.7%) and the banks (23.2% after -19.4% returning prices to more or less their start-out levels). Remaining sectors posted more modest third-quarter rises running from the 4.7% of basic consumption to the 16% of health. This last sector plus discretionary consumption were the only ones managing a straight rise across all three quarters, as far as year-to-date gains of 60% and 35.1% respectively. The biggest year-to-date fall, of 53.8%, corresponded to chemicals whose 14% third-quarter advance could do little to counter the 59.5% slide of the first-half period.

3 This measure resembles the curb imposed by the CNMV on 11 August 2011 and lifted 16 February 2012, albeit with three basic differences. Firstly, the new ban was specifically intended to maintain order in vulnerable markets, so was taken up by fewer countries (only Spain and Italy). Secondly, the ban has been imposed for an initial period of three months against the two weeks of its forerunner, though with extensions available as needed. Finally, the earlier measure was confined to financial shares, while this one is a blanket ban. See <http://www.cnmv.es/portal/AIDia/Comunicaciones.aspx>.

Index	2008	2009	2010	2011	1Q12 ¹	2Q12 ¹	3Q12 (to 15 September)		
							% prior qt.	% Dec	% y/y
Ibex 35	-39.4	29.8	-17.4	-13.1	-6.5	-11.3	14.8	-4.8	1.4
Madrid	-40.6	27.2	-19.2	-14.6	-5.9	-11.0	14.6	-4.0	1.5
Ibex Medium Cap	-46.5	13.8	-5.6	-20.7	8.0	-10.0	5.3	2.4	1.8
Ibex Small Cap	-57.3	17.6	-18.3	-25.1	-10.3	-19.3	12.1	-18.8	-26.7
FTSE Latibex All-Share	-51.8	97.2	9.0	-23.3	5.7	-11.7	5.7	-1.3	-0.2
FTSE Latibex Top	-44.7	79.3	9.7	-17.1	10.1	-7.7	1.4	3.0	8.7
Sector²									
Oil and gas	-30.8	-20.1	0.3	23.2	-20.7	-29.6	27.8	-28.7	-13.6
Chemicals	-67.8	3.4	-60.0	-15.7	-31.1	-41.2	14.0	-53.8	-64.1
Basic materials	-45.4	23.1	-5.6	-22.5	2.5	-11.3	12.2	2.0	2.4
Construction materials and construction	-51.0	25.5	-14.4	-13.0	-12.1	-11.7	12.0	-13.1	-12.8
Industrial goods and services	-41.9	29.3	-1.9	-7.6	6.0	-3.0	6.7	9.7	15.2
Health	-45.0	17.7	-22.2	-0.8	21.4	13.6	16.0	60.0	58.7
Utilities	-31.0	-7.8	-14.3	-13.8	-6.6	-9.7	10.3	-7.0	-5.2
Banks	-47.9	46.3	-32.3	-18.3	-9.0	-11.4	23.2	-0.7	11.1
Insurance	-25.0	19.8	-26.8	13.8	-0.4	-30.2	35.1	-6.0	2.2
Real estate	-58.6	-43.8	-53.2	-42.4	-19.3	-24.0	39.6	-14.3	-23.2
Financial services	-44.3	20.8	12.8	3.5	0.3	-17.4	11.3	-7.7	-8.4
Telecommunications and media	-31.4	23.5	-13.4	-22.7	-7.5	-13.7	11.4	-11.1	-12.3
Discretionary consumption	-39.2	37.0	20.6	1.4	12.0	9.5	10.1	35.1	38.0
Basic consumption	-22.5	-8.4	15.8	-12.1	4.3	-4.6	4.7	4.2	18.7

Source: Thomson Datastream.

1 Change vs. previous quarter.

2 Classification according to Thomson Datastream.

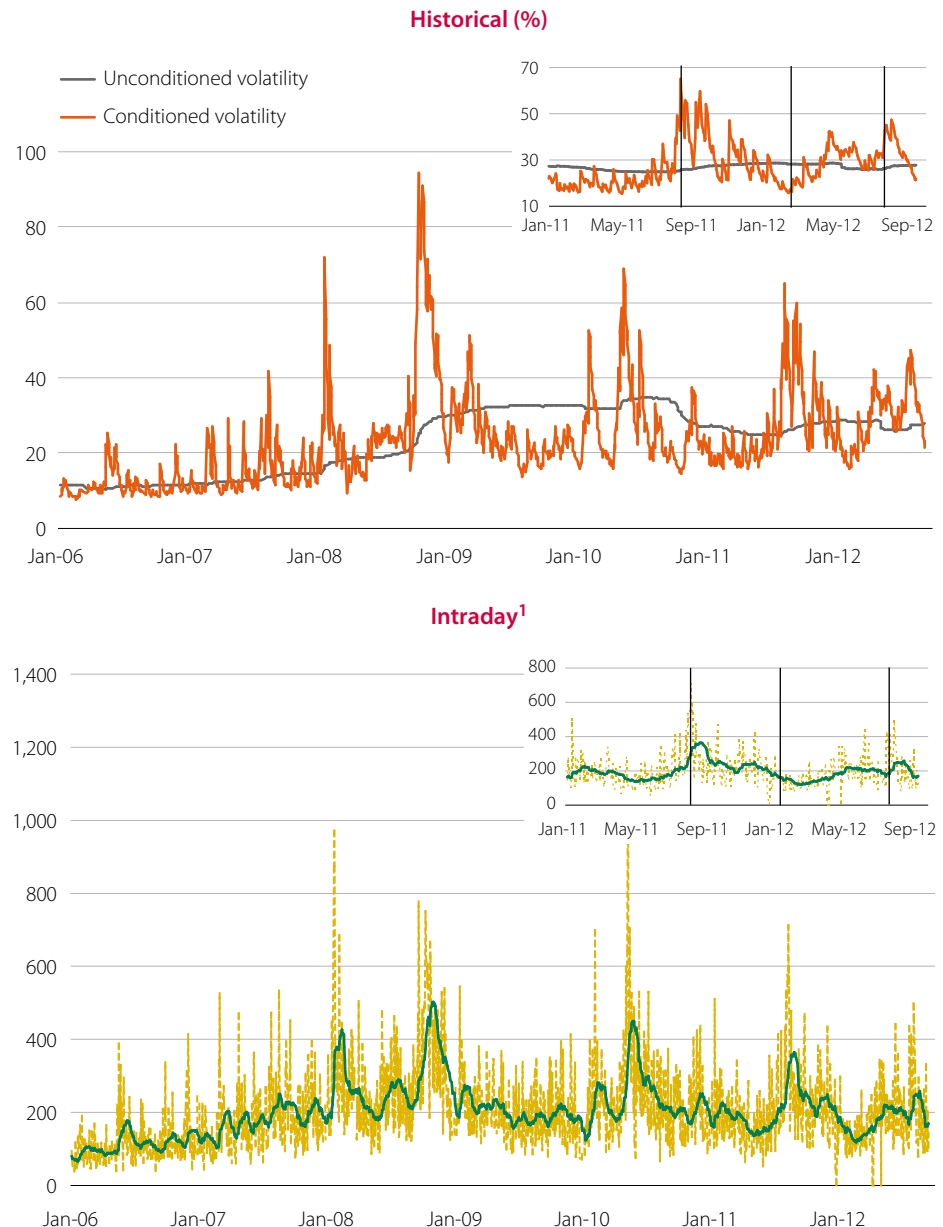
The price-earnings ratio⁴ (P/E) of the Ibex 35 jumped from 8.6 to 10.6 in the third quarter of 2012, ahead of the levels of the first-quarter close (9.7) and end-December 2011 (9.2). This increase – one of the largest among advanced economy indices – offset the second-quarter fall, which likewise extended to all major stock markets.

The P/E ratio of the Ibex 35 surges above 10 in the third-quarter period...

The earnings yield gap, which reflects the return premium required to be invested in equity versus long-term government bonds, fell sharply in the third quarter, August particularly, after holding more or less stable over the first six months. This decrease would have been steeper but for the run-down in Spanish bond yields starting in late July. The result was a mid-September gap of 3.7%, below the 5.5% of end-2011 and not far off the 3.2% average recorded since 1999.

...while the earnings yield gap narrows.

4 On one-year forward earnings.



Source: Thomson Datastream and CNMV. Data to 15 September. The vertical lines in the enlarged figure refer respectively to the introduction and lifting of the previous short-selling ban on 11 August 2011 and 16 February 2012, and the new ban published 23 July 2012.

1 Depicting the difference between the daily price highs and lows of the Ibex 35 in each session and the monthly moving average.

Market volatility dies down to 20% in mid-September after the peak levels of late July.

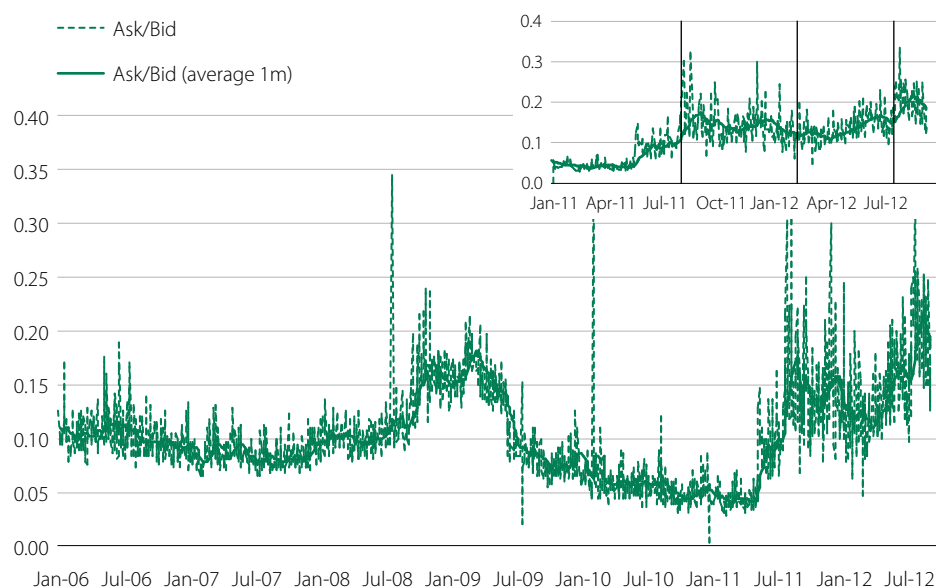
Ibex 35 volatility swung back to nearly 50% in the month of July, banishing the considerably more settled climate that had followed last April's outbreak of turbulence. This extreme volatility, as remarked earlier, was behind the CNMV's decision on 23 July to impose a new ban on the short trading of listed Spanish shares for an initial period of up to three months. This measure, and the ECB's announcement that it was prepared to purchase the sovereign bonds of countries applying formally to the EU for financial assistance, prompted a marked reduction in the volatility of Spanish shares as far as mid-September levels near 20%.

The liquidity conditions of the Ibex 35 (measured through the bid/ask spread), which had been deteriorating slightly since mid-April, continued to do so through the third quarter in the wake of the CNMV's precautionary curb on the creation or increase of net short positions in Spanish listed shares. However, improvement set in from early September which returned the indicator to a mid-month level of 0.18% from the 0.21% of the August close – the highest level since the series was begun in 2003, and remote from both its average value (0.10%) and the levels of end-2011 (0.16%).

Market liquidity has been thinning for a large part of the year ...

Ibex 35 liquidity. Bid-ask spread (%)

FIGURE 10



Source: Thomson Datastream and CNMV. Data to 15 September. The vertical lines in the enlarged figure refer respectively to the introduction and lifting of the previous short-selling ban on 11 August 2011 and 16 February 2012, and the new ban published 23 July 2012.

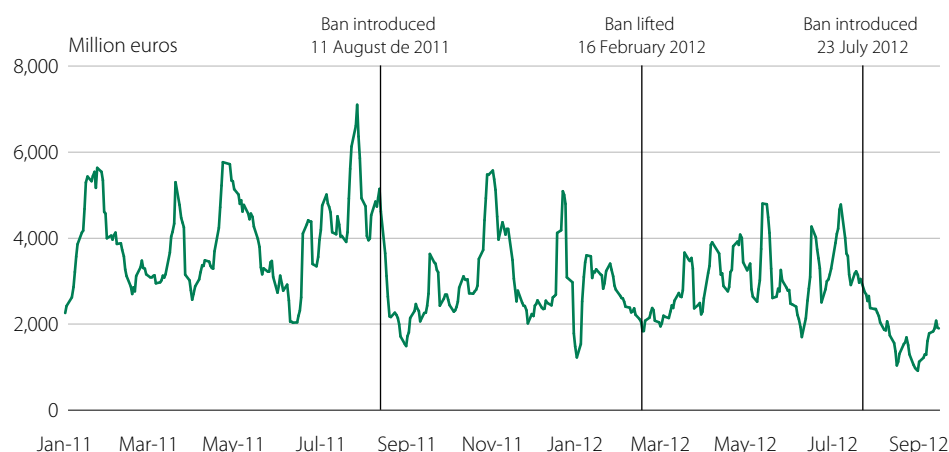
Trading on the Spanish stock market contracted 27.1% year-on-year to September, as far as 499.15 billion euros, prolonging the downward trend initiated in late 2010. Average daily volumes in the third quarter stood at 2.24 billion euros against the 2.96 billion of the first six months and 3.62 billion of full-year 2011.⁵ The third-quarter trading slump can be presumed to partly reflect the regulator's ban on short trading. As figure 11 shows, following activation of this measure in August 2011 and July 2012, market trading volumes shrank for a period lasting from around twenty to thirty trading days, after which the trend reversed.

...while trading volumes are sharply down vs. 2011, with some fluctuations.

5 Average daily trading in 2008, 2009 and 2010 stood at 4.89 billion, 3.49 billion and 4.05 billion euros respectively.

Daily trading on the Spanish stock market¹

FIGURE 11



Source: CNMV.

¹ Moving average of five trading days.

Equity issuance year to date is 3.7% less than in 2011, at 13.83 billion euros.

Equity issuance on domestic markets to end-September was just 3.7% down in year-on-year terms versus the same period in 2011, at 13.83 billion euros (see table 8). But while much of the cash raised last year derived from the subscription of shares in *caja de ahorro* initial public offerings, the source this year was mainly the conversion to ordinary shares of hybrid instruments issued beforehand by the banks (mandatorily convertible bonds, preference shares and other kinds of subordinated debt) as a means to strengthen their regulatory capital.

Turnover on the Spanish stock market

TABLE 7

Million euros

	2008	2009	2010	2011	1Q12	2Q12	3Q12 ¹
All exchanges	1,243,387	886,135	1,037,284	925,667	176,948	198,709	123,493
Electronic market	1,235,330	880,544	1,032,447	920,879	175,640	197,536	122,604
Open outcry	207	73	165	48	17	7	7
of which SICAVs ²	25	20	8	6	0	0	0
MAB ³	7,060	5,080	4,148	4,380	1,218	1,104	806
Second Market	32	3	3	2	0	0	0
Latibex	758	435	521	358	73	62	76
Pro memoria: non-resident trading (% all exchanges)							
	66.0	64.5	75.5	81.5	73.9	n.a.	n.a.

Source: CNMV and Directorate-General of Trade and Investment.

¹ Cumulative data from 1 July to 15 September.

² Open-end investment companies.

³ Alternative equity market. Data since the start of trading on 29 May 2006.

n.a.: Data not available at the closing date for this report.

Capital increases and public offerings¹

TABLE 8

	2008	2009	2010	2011	1Q12	2Q12	3Q12 ²
CASH AMOUNTS³ (million euros)	16,349	11,391	16,013	17,317	3,374	5,409	5,049
Capital increases	16,340	11,389	15,407	17,221	3,374	5,359	5,049
Of which, through POS	292	17	959	6,441	881	1,580	118
National tranche	292	15	62	6,032	881	1,580	118
International tranche	0	2	897	410	0	0	0
Public offerings	10	2	606	96	0	51	0
National tranche	10	2	79	95	0	51	0
International tranche	0	0	527	1	0	0	0
NUMBER OF FILINGS⁴	54	53	69	92	24	26	23
Capital increases	53	53	67	91	24	25	23
Of which, through POS	2	2	12	8	5	1	1
Of which, bonus issues	1	11	15	22	2	6	8
Public offerings	2	1	3	2	0	1	0

Source: CNMV.

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

2 Data to 15 September 2012.

3 Excluding amounts recorded in respect of cancelled transactions.

4 Including all transactions registered, whether or not they eventually went ahead.

Reform of legislation on the prospectus to be published when securities are offered to the public or admitted to trading

EXHIBIT 4

Community rules on the prospectus mandatory for public offers of securities and their admission to trading have recently been amended on various occasions, with the idea primarily of giving small- and medium-sized issuers more efficient access to capital markets by means of more flexible filing requirements. This is particularly the case with Directive 2003/71/EC (Prospectus Directive), which has since been modified by Directive 2010/73/EU of the European Parliament and of the Council and by Regulation 809/2004 on the information contained in prospectuses, as amended in turn in diverse respects by Commission Delegated Regulation (EU) 486/2012 of 30 March 2012.

The changes introduced by Directive 2010/73/EU have now been partially implemented into Spanish law by Royal Decree-Law 24/2012 of 31 August on restructuring and resolution of credit institutions, whose third final provision amends articles 27, 28 and 30 bis of the Securities Market Law (SML). The most significant of these changes are outlined below:

- An increase in the threshold denomination per unit and minimum subscription exempting the issuer from the obligation to publish a prospectus. The minimum denomination per unit (or maximum consideration at which an investor may acquire it) to take advantage of this exemption is raised from 50,000 to 100,000 euros.

- More flexible rules for smaller offers. The threshold triggering the prospectus requirement is raised from 2,500,000 to five million euros (total consideration for the offer). Regarding exemptions in the case of offers directed at only a small number of investors, the threshold for a mandatory prospectus is raised from 100 to 150 persons.
- The summary of the prospectus is not required to include the “key information” set out in Article 27 of the SML.

As well as the foregoing changes to the Securities Market Law, the transposition of the amending text of the Prospectus Directive will also call for changes in Royal Decree 1310/2005 on admission of securities to trading on official secondary markets and public offerings, which implements the SML’s provisions in this regard. The future amendment of this Royal Decree will complete transposition as well as rounding out the partial changes already written into the SML. Novelty will include:

- Unification of the concept of qualified investor with that of professional investor as defined in the Directive on Markets in Financial Instruments (MiFID).
- The possibility for financial intermediaries to make successive public offerings of securities already placed on the primary market without the need to publish a new prospectus, provided the issuer consents to such re-use.
- A more flexible application of some exemptions from the prospectus requirement: an increase in the threshold whereby small offers of plain vanilla securities by credit institutions can dispense with a prospectus (from 50 million euros to 75 million) and no requirement to produce a prospectus in offers by EU resident companies addressed to their employees (whether or not the securities in question are admitted to trading on a regulated market).

Regarding the amendment of the Prospectus Regulation, the changes implemented by Commission Delegated Regulation 486/2012 of 30 March 2012, of direct application to national law, came into force on 1 July 2012. The main changes it makes are briefly described below:

- A proportionate disclosure schedule for certain operations. Specifically, disclosure requirements are lessened in the case of rights issues by EU-based companies with shares already admitted to trading on a regulated market or a multilateral trading facility (providing they do not exclude preferential subscription rights), as well as the raising of capital and admission applications by small and medium-sized enterprises and companies with reduced market capitalisation.
- Summary of the prospectus and final terms. Harmonised requirements are set out in relation to the format of the summary and key information, which must be set out in a specifically approved manner. Regarding the fi-

nal terms supplementing the base prospectus, their content is simplified and certain information excluded. It is also stipulated that the summary of each operation should combine information from the base prospectus summary that is pertinent only to that operation with the relevant excerpts from the final terms.

Note, finally, that the reform of EU prospective legislation will continue shortly with the approval of a new regulation covering, among other matters, the way in which issuers can give their consent for financial intermediaries to resume sale of their securities without a new prospectus, and also qualifying the requirement for an auditors' report containing profits forecasts.

3.2 Fixed-income markets

Between end-March and end-July, yields on Spanish government and private debt securities surged to their highest levels since the launch of the euro, particularly in the case of longer-dated instruments. The trend then reversed following the ECB's announcement of a new intervention, under the terms of its mandate, in Europe's sovereign debt markets. The details of this intervention, published early September,⁶ provided a fresh impetus that sent government bond yields falling more steeply, especially in the one- to five-year band, and helped reduce the interest rates being demanded of Spanish corporate issuers.

Domestic debt market tensions mount intensely to end-July ...

Short-term Treasury bill rates registered mid-September levels of 0.6%, 1.8% and 2.5% in three-, six- and twelve-month maturities respectively, between 59 bp and 159 bp lower than last June (see table 9). The fall was larger still for bills of over one year's maturity albeit without approaching the levels of last March (an average 86 bp higher).

...before easing on the ECB's announcement that it would intervene in sovereign debt markets under strict conditionality.

6 This intervention, known as an outright monetary transaction (OMT), will take the form of a new purchasing programme on secondary sovereign bond markets, with transactions focused on the shorter part of the yield curve, particularly maturities of between one and three years. A prior condition is an application from the Government on behalf of the country as a whole to the appropriate European financial assistance mechanism (currently the European Financial Stability Facility, EFSF, and, from 2013 onwards, the European Stability Mechanism, ESM) under strict conditionality regarding future reform efforts. See http://www.ecb.int/press/pr/date/2012/html/pr120906_1.en.html.

Short-term interest rates¹ (%)

TABLE 9

	Dec 09	Dec 10	Dec 11	Mar 12	Jun 12	Sep 12 ³
Letras del Tesoro						
3 month	0.41	1.60	2.20	0.38	1.20	0.61
6 month	0.65	2.71	3.47	0.64	2.53	1.81
12 month	0.88	3.09	3.27	1.33	4.09	2.50
Commercial paper²						
3 month	0.76	1.37	2.74	2.49	2.69	2.80
6 month	1.25	2.52	3.52	3.21	3.40	3.44
12 month	1.63	3.04	3.77	3.55	3.64	3.58

Source: Thomson Datastream y CNMV.

1 Monthly average of daily data.

2 Interest rates at issue.

3 Data to 15 September.

Spanish sovereign yields top 7.5% at the height of tensions before narrowing to 6% in September.

At end-July, long government bond yields were at their highest levels since the introduction of the euro, running from 7.2% in the three-year maturity to 7.5% at ten years. This peak then gave way to a substantial run-down which was most intense in the band up to five years (175 bp and 141 bp at three and five years respectively as far as 3.9% and 4.9%) and less so in ten-year instruments (79 bp to 6%). As with short-term rates, the downtrend of August and September stopped short of restoring yields to the lows of last March, by 100 bp on average.

Medium and long corporate bond yields¹ (%)

TABLE 10

	Dec 09	Dec 10	Dec 11	Mar 12	Jun 12	Sep 12 ²
Government bonds						
3 year	1,95	3,87	4,01	2,76	5,39	3,86
5 year	2,67	4,65	4,65	3,83	6,07	4,88
10 year	3,75	5,38	5,50	5,17	6,59	6,01
Corporate bonds						
3 year	3,14	4,31	5,63	3,77	5,82	5,49
5 year	4,30	5,44	6,35	4,86	6,79	6,67
10 year	4,88	6,42	9,24	8,14	9,43	9,52

Source: Thomson Datastream, Reuters and CNMV.

1 Monthly average of daily data.

2 Data to 15 September.

Sovereign spreads move in tandem with yields, from an end-July peak to the more moderate levels of September.

On this performance, Spain's sovereign risk premium, as derived from 5-year CDS, pulled back from its end-July peak of 640 bp, more slowly at first and more firmly in September as far as 340 bp in the middle of this last month (see figure 12). Likewise the ten-year bono/Bund spread narrowed from just under 635 bp at the end of July to a September level of 412 bp.

Rates on short-term corporate debt, as measured by commercial paper, continued on the upward course initiated last March. The rise was in any case considerably smoother than for Treasury bills – just 19 bp as far as September rates from 2.8% to 3.6% depending on the curve point (see table 10). Conversely, long-term corporate debt yields, which had risen more sharply in the second quarter, felt the indirect benefit of the ECB's third-quarter announcement and subsequent publication of a new action plan, albeit less so than sovereign instruments. The resulting fall extended to maturities to five years (-30 bp at three years to 5.5% and over -10 bp at five to 6.7%), but bypassed ten-year maturities where yields kept climbing as far as 9.5% in mid-September.

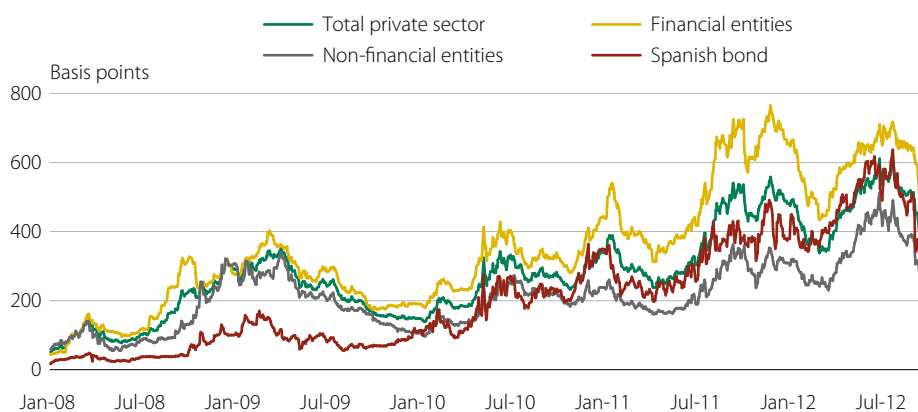
Corporate bond yields trace a similar course to governments with fewer fluctuations.

After a spike beginning in late March, the credit spreads of the financial and non-financial private sector began narrowing tentatively towards the end of July and more intensely since the start of September (see figure 12). Spreads of non-financial corporations widened to end-June highs of over 510 bp, though this was mild compared to the 710 bp endured by financial corporations. Spreads in the latter case were penalised by a magnified feedback between financial and sovereign risk after the Spanish Government sought assistance for domestic banks. The end-July levels of bank credit spreads rivalled with the record highs of November last year, prior to the ECB's first three-year refinancing operation. By mid-September, these spreads had settled back to 510 bp, against the 525 bp of end-March, while those of non-financial corporations had dropped below 290 bp, against March levels bordering on 270 bp.

Private sector credit spreads reach mid-year highs coinciding with the peak levels of sovereign risk and ease back thereafter.

Aggregate risk premium¹ based on the five-year CDS of Spanish issuers

FIGURE 12



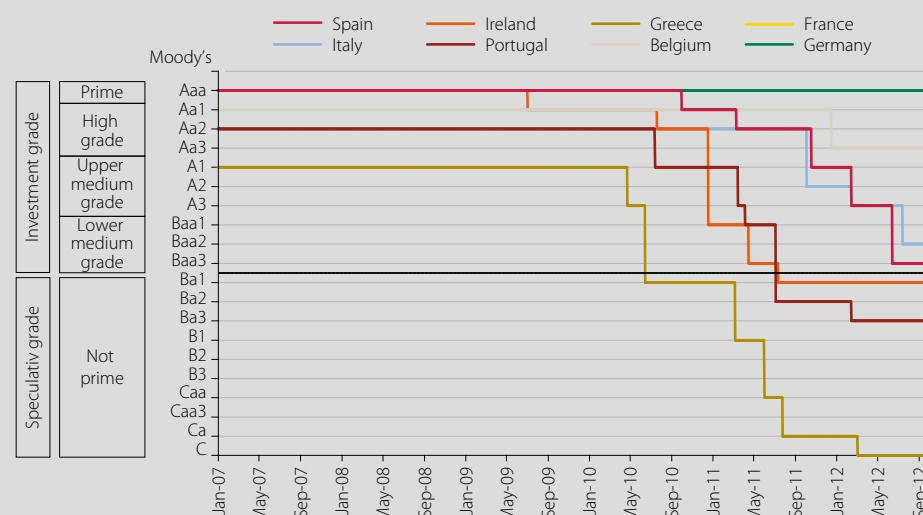
Source: Thomson Datastream and CNMV.

1 Simple average. Data to 15 September.

Since end-2010, the Kingdom of Spain has seen its credit rating revised down on several occasions from the top quality category (AAA or Aaa depending on the agency) as far as its current position on the lower rungs of investment grade. As we can see from figure E5.1, other euro area countries have suffered similar or worse fortunes.

Sovereign ratings in Europe

FIGURE E5.1



Source: Bloomberg. Moody's credit rating of long-term sovereign debt in local currency.

The transmission of credit risk between the public sector of the economy and the private sector, essentially the banks, is a phenomenon which has gathered force since the onset of crisis, though the strength and even direction of the contagion has varied intermittently. Internationally, we can say that at the start of the crisis, credit risk contagion was spread from the financial sector to remaining sectors of the economy, whereas in recent years, in Europe especially, the public sector has been the main source of contagion. The transmission and feedback channels linking sovereign and financial credit risk are essentially three:

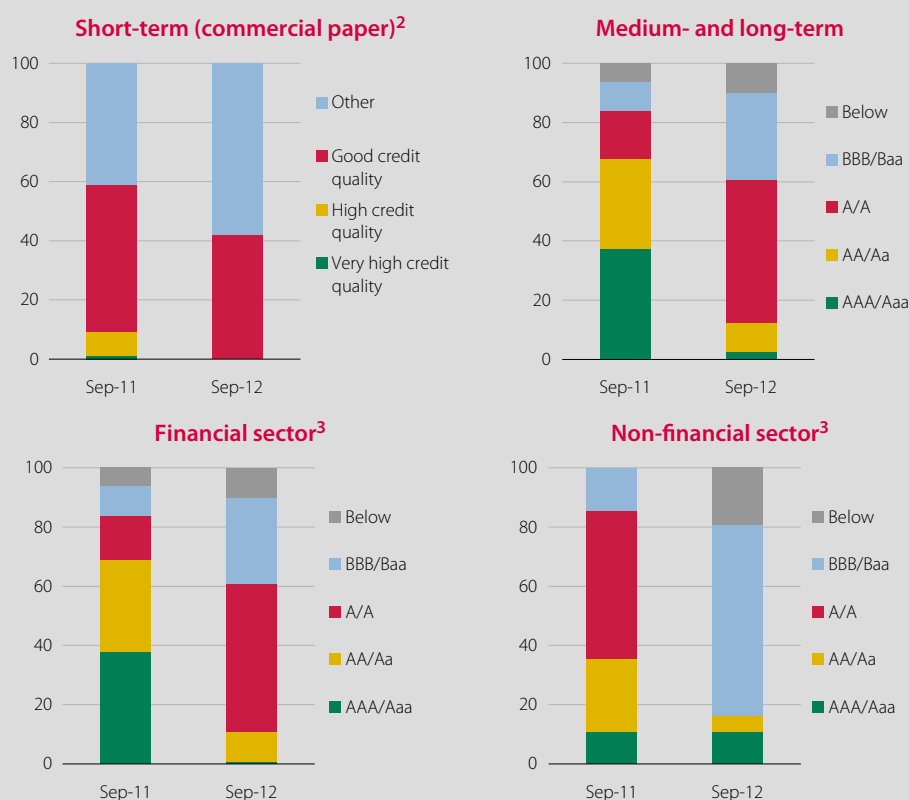
- (i) Firstly, rating agencies factor sovereign risk in their financial risk calculations, i.e. they use it as a direct input in working out the credit ratings of remaining sectors. In fact, each time the Kingdom of Spain rating has been lowered, revise-downs have followed of all other national issuers, particularly the banks.^{1,2}
- (ii) Secondly, the deterioration in the credit quality of Spanish sovereign debt impacts directly on the assets that comprise banks' exposure to the public sector (their portfolio of debt securities and loans to public authorities). In particular, a deteriorating sovereign bond rating constrains banks' capacity to borrow from the Eurosystem and interbank markets using these instruments as collateral.

- (iii) Finally, the erosion of financial sector credit quality, which in Spain's case derives from the upswing in loan delinquency and the volume of impaired assets, can also affect the public sector's if agents start discounting some kind of financial assistance (or guarantees) from the public sector to domestic banks.

The “cascade” effects of the revise-down in Spanish sovereign debt ratings on private sector debt are illustrated in figure E5.2. Starting at the short end, if we look at issues outstanding in mid-September 2012, we find that the proportion within the prime and high grade brackets (see footnote 2 of figure E5.2), which summed 9% in September 2011, was non-existent one year later. In longer maturities too, the weight of top-quality debt has dwindled considerably. Specifically, the percentage of prime and high grade debt (AAA/Aaa and AA/Aa respectively) dropped from 69% to 13%, while that of upper-medium grade debt (A) and debt on the lowest notch of the investment grade range climbed from 26% to 80%. Meantime, debt rated below BBB/Baa (i.e., speculative grade) or with no rating assigned moved up from 6% to 10%. By type of instrument, revise-downs have cut deepest in mortgage covered bonds and asset-backed securities.

Distribution of Spanish corporate debt ratings¹

FIGURE E5.2



Source: Thomson Reuters, Bloomberg and CNMV.

¹ Outstanding balances of debt instruments traded on the AIAF market as at 15 September 2012.

² Very high: A-1+, F1+ or P-1 of S&P, Fitch and Moody's respectively. High: A-1 or F1 of S&P or Fitch. Good: A-2 and A-3, F2 and F3 or P-2 and P-3 of S&P, Fitch and Moody's. Others: lower rated or unrated issues.

³ Medium- and long-term debt.

The decline in issue credit quality affects both borrowers and investors. For the former, the most obvious setback is their diminished capacity to capture funds on capital markets.³ For the latter, a brusque drop in ratings not only erodes the value of their portfolios, it can also hinder certain investment strategies. For instance, institutional investors (investment funds, investment banks, insurance companies and pension funds) will often have an investment policy or mandate that obliges them to hold financial instruments of a minimum credit quality. And an abrupt revise-down can trigger a significant movement to close out positions in instruments that have fallen though this threshold. In fact, the latest data from the Bank for International Settlements (BIS) shows a sharp worldwide decrease in banks' exposure to the debt securities issued by the countries worst hit by the European debt crisis.⁴

In the case of Spanish investment funds, the CNMV addressed the problem in a communication dated 20 July 2012. It said, specifically, that when a fund's investment policy is modified to adjust the credit ratings of the assets in its fixed-income portfolio, but all other eligible asset requirements are retained and neither its objective nor vocation are altered in any material respect, this will not be considered a substantive change in the said policy, giving rise to the disclosure and exit rights envisaged in article 14 of the Regulation of UCITS Law 35/2003, so long as a minimum level of soundness is maintained (corresponding to that of the Kingdom of Spain). However, the scheme must disclose this adjustment as a material event, using the CNMV form provided, and report it in the corresponding prospectus and key investor information document or simplified prospectus the next time they are updated.

- 1 It bears mention here that only one domestic financial institution has a credit rating higher than the Kingdom of Spain, assigned for its diversified balance sheet and income streams and lesser exposure to Spanish sovereign debt.
- 2 This cascade phenomenon also occurs at international level. For example, on 13 February 2012 Moody's lowered the sovereign debt credit rating of nine European economies and three days later lowered the ratings of 114 financial institutions.
- 3 See ECB (2012), *Assessing the financing conditions of the euro area private sector during the sovereign debt crisis*, in *Monthly Bulletin* (August).
- 4 See BIS (2012), *Quarterly Review* (September), available at: http://www.bis.org/publ/qtrpdf/r_qt1209.pdf

Banks have relied on commercial paper, mortgage covered bonds and government-guaranteed debt instruments for the bulk of their 2012 issuance ...

The narrowing of private debt yields over the third quarter, especially in the one- to five-year segment, ushered in a more favourable climate for financial issuers to place their debt. However, some institutions have kept issuance activity low-key since March. This was partly a result of the ECB's two special long-term refinancing operations in December 2011 and February 2012, which did much to reduce financial costs for the economy as a whole in the second and third quarter of the year. Most third-quarter issuance took the form of mortgage covered bonds and commercial paper (45% and 44% of the total respectively).

...which has climbed 65% overall as far as 267 billion euros.

The volume of fixed-income issues registered with the CNMV over the first three quarters of 2012 (to 15 September) came to 266.70 billion euros, 65% up on the same period last year. Driving the increase was a step-up in financial sector issuance

of commercial paper, mortgage covered bonds and government-backed non-convertible bonds, offsetting the issuance slump in asset-backed securities.

More specifically, commercial paper sales in the first three quarters amply surpassed the full-year total for 2011 at 109.41 billion euros, accounting for 41% of issuance in the period, 5 points more than in 2011. Since the fourth quarter of last year, banks have increasingly placed these instruments through their branch networks.

Commercial paper accounts for 41% of total issuance,...

Mortgage covered bond issuance also topped last year's total. The 83.85 billion euros sold to date account for 31.4% of total issuance compared to 23.3% in 2011. Sales of territorial bonds, secured on credit institution loans to public authorities and entities, were 8.97 billion euros or 3.4% of the total volume against 7.40 billion in the first three quarters of 2011. In a reversal of last year's pattern, issuance of these instruments thinned out considerably in the third quarter after a busy first-half period.

...mortgage covered bonds for 31.4%...

Issuance of non-convertible bonds summed 49.13 billion euros in the first three quarters, more than doubling last year's 20.19 billion total and accounting for 18.4% of nine-month issuance. Their expansion owed mainly to government-backed bonds, which made up 86.8% of sales in the period, after a slack 2011 when issuance dropped to 7.36 billion euros. Half of all government-backed bond sales year to date went through in February, in the days preceding the ECB's second three-year refinancing operation.

...and non-convertible bonds for 18.4%, with almost 87% carrying a government guarantee.

The 12.61 billion in asset-backed securities issued year to date was 72% less than in the equivalent period in 2011. Note that no ABS were placed with international investors in the second and third quarters, true to the now standard practice whereby these instruments are almost all retained by the domestic originator or seller.

Issuance of asset-backed securities slumps by 72% ...

Turning finally to instruments qualifying as regulatory capital, no mandatorily convertible bond issues took place in the third quarter in contrast to a fairly busy first-half period. Likewise, preference share issuance has dried up entirely in 2012.

...while that of fixed-income instruments tied in with regulatory capital has ceased almost completely.

Foreign debt financing by domestic institutions fell to just under 49.80 billion euros to July (last available data), 44% less than in the year-ago period. Issuance was particularly low in July itself, being confined entirely to commercial paper (see table 11). Over the first six months, however, long-term issues continued to account for the bulk of foreign sales (54% compared to 43% one year before).

Spanish banks reduce their foreign debt financing 44% in the first seven months of 2012.

Gross fixed-income issues

TABLE 11

filed ¹ with the CNMV	2008	2009	2010	2011	2012		
					1Q	2Q	3Q ²
Number of ISSUES	337	512	349	356	117	99	44
Mortgage bonds	47	75	88	115	27	22	22
Territorial bonds	8	1	9	42	8	8	2
Non-convertible bonds and debentures	76	244	154	87	48	50	14
Convertible/exchangeable bonds and debentures	1	6	3	9	1	4	0
Asset-backed securities	108	76	36	48	15	2	1
Commercial paper facilities	88	73	59	53	18	13	5
Securitised	2	2	2	2	0	0	0
Other commercial paper	86	71	57	51	18	13	5
Other fixed-income issues	0	0	0	0	0	0	0
Preference shares	9	37	0	2	0	0	0
NOMINAL AMOUNT (million euros)	476,276	387,476	226,449	288,992	119,537	91,425	54,535
Mortgage bonds	14,300	35,574	34,378	67,227	26,000	33,350	24,500
Territorial bonds	1,820	500	5,900	22,334	3,200	4,100	1,674
Non-convertible bonds and debentures	10,490	62,249	24,356	20,192	31,305	15,231	2,591
Convertible/exchangeable bonds and debentures	1,429	3,200	968	7,126	1,128	1,592	0
Asset-backed securities	135,253	81,651	63,261	68,413	9,195	1,535	1,884
Domestic tranche	132,730	77,289	62,743	62,796	7,810	1,535	1,884
International tranche	2,522	4,362	518	5,617	1,385	0	0
Commercial paper ³	311,738	191,342	97,586	103,501	48,708	35,617	23,886
Securitised	2,843	4,758	5,057	2,366	616	630	190
Other commercial paper	308,895	186,583	92,529	101,135	48,092	34,987	23,696
Other fixed-income issues	0	0	0	0	0	0	0
Preference shares	1,246	12,960	0	200	0	0	0
Pro memoria:							
Subordinated issues	12,950	20,989	9,154	29,277	2,772	1,788	267
Covered issues	9,170	4,794	299	10	0	0	0
abroad by Spanish issuers	2008	2009	2010	2011	2012		
					I	II	III ⁴
NOMINAL AMOUNT (million euros)	112,366	149,686	127,731	120,043	37,524	10,094	2,223
Long-term	39,894	47,230	51,107	51,365	23,065	3,417	301
Preference shares	0	3,765	0	0	0	0	0
Subordinated debt	70	2,061	0	242	0	307	0
Bonds and debentures	39,360	41,404	50,807	51,123	23,065	3,110	301
Asset-backed securities	464	0	300	0	0	0	0
Short-term	72,472	102,456	76,624	68,677	14,458	6,678	1,922
Commercial paper	72,472	102,456	76,624	68,677	14,458	6,678	1,922
Securitised	425	108	248	322	0	27	0

Source: CNMV and Banco de España.

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

2 Data to 15 September

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

4 Data for the month of July.

4 Market agents

4.1 Investment vehicles

Financial UCITS⁷

Assets under management in investment funds fell by 5.5% in the first half of 2012 to 125.10 billion euros, prolonging the downtrend that has persisted with few respite since the start of the crisis (see table 13). Almost 85% of asset shrinkage traced to investor net redemptions, which exceeded six billion euros (see table 12). As in previous quarters, the largest outflows were from the categories of fixed income (2.71 billion euros) and guaranteed equity fund (1.60 billion euros). Returns on these products were positive in the first quarter and negative in the second, due to resurgent tensions in domestic financial markets over the year's middle months.

Investment fund assets shrink 5.5% in the first six months as the redemption drain continues.

Net investment fund subscriptions

TABLE 12

Million euros	2010	2011	2011			2012	
			2Q	3Q	4Q	1Q	2Q
Total fondos de inversión	-25,580.8	-10,838.6	-4,094.9	-2,683.5	-3,287.2	-1,652.4	-4,412.2
Fixed income ¹	-27,149.9	-10,428.5	-2,258.8	-1,229.8	-1,530.7	-727.0	-1,987.0
Balanced fixed income ²	-1,417.0	-1,925.7	-374.8	-320.8	-449.6	-237.9	-264.5
Balanced equity ³	-90.0	-320.5	-100.7	-148.0	-74.8	-134.0	-131.5
Euro equity ⁴	-696.9	152.0	70.5	53.3	47.9	-151.5	12.5
International equity ⁵	1,152.1	-816.9	-79.2	-520.7	-185.3	-13.9	-165.0
Guaranteed fixed-income guaranteed	4,716.0	7,228.4	371.8	1,046.8	393.3	584.1	-540.7
Guaranteed equity ⁶	-2,500.1	-3,061.5	-1,095.3	-604.9	-565.2	-731.7	-874.6
Global funds	323.6	945.4	237.7	-59.2	-260.4	157.9	-73.5
Passively managed ⁷	-790.3	-274.4	41.0	-104.0	-195.2	29.3	113.3
Absolute return ⁷	871.7	-2,336.9	-907.1	-796.2	-467.2	-427.7	-501.2

Source: CNMV. Estimates only.

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

2 Includes: Euro and international balanced fixed income.

3 Includes: Euro and international balanced equity.

4 Includes: Euro equity.

5 Includes: International equity.

6 Includes: Guaranteed and partial protection equity funds.

7 New categories as of 2Q 9. Absolute return funds were previously classed as global funds.

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

Main investment fund variables*

TABLE 13

Number	2009	2010	2011	2011		2012	
				3Q	4Q	1Q	2Q
Total investment funds inversión	2,536	2,408	2,310	2,341	2,310	2,300	2,255
Fixed income ¹	582	537	508	520	508	491	479
Balanced fixed income ²	169	160	140	146	140	140	132
Balanced equity ³	165	138	128	130	128	130	122
Euro equity ⁴	182	172	148	153	148	143	135
International equity ⁵	242	232	220	222	220	222	220
Guaranteed fixed-income	233	276	351	335	351	375	385
Guaranteed equity ⁶	561	499	420	436	420	404	384
Global funds	187	192	203	204	203	200	198
Passively managed ⁷	69	61	59	59	59	64	75
Absolute return ⁷	146	141	133	136	133	131	125
Assets (million euros)							
Total investment funds	170,547.7	143,918.2	132,368.6	134,033.7	132,368.60	131,994.5	125,120.7
Fixed income ¹	84,657.2	56,614.6	46,945.5	48,228.6	46,945.50	45,101.8	42,837.8
Balanced fixed income ²	8,695.5	7,319.0	5,253.6	5,715.8	5,253.60	5,686.9	5,430.9
Balanced equity ³	3,879.6	3,470.5	2,906.1	2,897.5	2,906.10	3,234.2	3,040.3
Euro equity ⁴	6,321.6	5,356.8	4,829.2	4,610.8	4,829.20	4,815.6	4,516.5
International equity ⁵	5,902.4	8,037.3	6,281.2	6,028.4	6,281.20	6,813.2	6,373.7
Guaranteed fixed-income	21,033.4	26,180.2	35,058.0	34,241.7	35,058.00	36,677.0	35,421.7
Guaranteed equity ⁶	25,665.8	22,046.5	18,014.5	18,699.9	18,014.50	17,408.5	15,943.0
Global funds	3,872.5	4,440.3	5,104.7	5,154.3	5,104.70	4,545.5	4,272.1
Passively managed ⁷	3,216.6	2,104.8	1,986.2	2,060.0	1,986.20	2,053.9	2,190.9
Absolute return ⁷	7,303.0	8,348.1	5,989.7	6,396.8	5,989.70	5,657.8	5,093.9
Unit-holders							
Total investment funds	5,475,403	5,160,888	4,834,062	4,942,074	4,834,062	4,759,241	4,634,762
Fixed income ¹	2,041,487	1,622,664	1,383,813	1,419,006	1,383,813	1,362,441	1,326,494
Balanced fixed income ²	290,151	270,341	206,938	227,046	206,938	204,653	195,137
Balanced equity ³	182,542	171,336	145,150	151,551	145,150	145,472	141,784
Euro equity ⁴	299,353	266,395	237,815	247,166	237,815	224,886	225,774
International equity ⁵	458,097	501,138	448,539	465,814	448,539	442,753	432,816
Guaranteed fixed-income	570,963	790,081	1,042,658	1,019,905	1,042,658	1,071,544	1,070,002
Guaranteed equity ⁶	1,188,304	1,065,426	912,298	946,448	912,298	874,249	832,332
Global funds	88,337	105,719	127,336	130,519	127,336	113,396	105,966
Passively managed ⁷	85,403	90,343	100,416	95,948	100,416	101,901	108,166
Absolute return ⁷	270,766	277,445	229,099	238,671	229,099	217,946	196,291
Return⁸ (%)							
Total investment funds	5.73	0.35	-0.08	-2.37	1.35	2.41	-1.75
Fixed income ¹	1.91	0.11	1.56	0.01	0.58	1.51	-0.47
Balanced fixed income ²	6.85	-0.54	-1.34	-3.47	1.2	2.30	-1.55
Balanced equity ³	16.47	-0.98	-5.64	-10.13	3.02	3.25	-2.90
Euro equity ⁴	32.41	-2.94	-11.71	-19.67	4.05	3.34	-6.34
International equity ⁵	37.28	14.22	-10.83	-15.70	7.53	8.91	-3.63
Guaranteed fixed-income	3.81	-0.67	3.28	1.28	0.71	2.48	-2.32
Guaranteed equity ⁶	3.56	-1.79	0.14	-0.76	0.68	1.63	-2.43
Global funds	10.90	3.22	-4.64	-8.10	2.9	3.56	-1.23
Passively managed ⁷	–	-2.36	-7.33	-13.94	4.11	1.97	-4.31
Absolute return ⁷	–	1.53	-1.87	-2.71	0.93	1.68	-1.04

Source: CNMV. As a result of the reclassifying of investment fund objectives, in force as of 1 April 2009, some changes have taken place in the variables of this table.

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

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

2 Includes: Euro and international balanced fixed income.

3 Includes: Euro and international balanced equity.

4 Includes: Euro equity

5 Includes: International equity.

6 Includes: Guaranteed equity and partial protection equity funds.

7 New categories as of 2Q09. All absolute return funds were previously classed as global funds.

8 Annual return for 2009, 2010 and 2011. Quarterly data comprise non-annualised quarterly returns.

The number of investment funds in operation again fell significantly in the first six months of 2012. Fifty-five schemes left the register in this period (36 guaranteed equity and 29 fixed-income funds) leaving an end-June total of 2,255. Again, most of the decline was down to inter-fund mergers.

A parallel decline in the number of funds ...

Unit-holder numbers fell by 200,000 to a mid-year total of 4,634,000. As with fund assets and numbers, this first-half decline was most notable among guaranteed equity funds (80,000 unit-holders) and fixed-income products (57,000 unit-holders). Only guaranteed fixed-income funds and, to a lesser extent, passively managed funds, managed to expand their investor base (by 27,000 and 7,700 respectively).

... and unit-holders.

Preliminary figures for July suggest more of the same, with fund assets likely to go on falling as the redemption drain continues. However, higher portfolio returns delivered by a third-quarter rally in equity prices could partly counter the outflow of cash from these investment products.

The industry contracts further to July, despite good returns.

Key modifications to the Regulation on UCITS

EXHIBIT 6

The novelties introduced by Royal Decree 1082/2012 of 13 July, which amends the Regulation implementing the UCITS Law derive from the full transposition of Directive 2009/65/EC, commonly known as UCITS IV (whose first provisions were written into Spanish legislation through Law 31/2011 of 4 October) and its implementing provisions.¹ The most relevant changes are described below.

Regarding UCITS management companies, the new text incorporates a series of rules to ensure the correct operation of the manager's passport allowing Spanish management companies to run schemes domiciled in other Member States and Spanish UCITS to be run, in turn, by companies from elsewhere in the EU. Its innovations are accordingly geared to facilitating such cross-border management. Hence one block of measures seeks to homogenise the rules governing management companies to provide an even playing field in such matters as risk management, conflicts of interest, organisational structure and capital requirements, while other clauses deal with technical arrangements like the structure of agreements between manager and depositary.

The Regulation also completes the implementation of Directive 2009/65/EC with respect to the notification of foreign scheme passports by incorporating the provisions of Directive 2010/44/EU (including the information the CNMV must make available on its website regarding legislation outside the scope of the Directive which affects the marketing in Spain of UCITS from other Member States), and representing compliance with Regulation (EU) No. 584/2010.

On the particular subject of master-feeder structures, the Regulation takes up the relevant provisions of Directive 2009/65/EC and Directive 2010/44/EU, whose essence is to harmonise their structures in such a way that master UCITS and feeder UCITS can henceforth have their registered offices in different Member States. The main novelties in this respect are:

- (i) Master UCITS, which under the definition given may be neither funds nor companies, are obliged to specify feeder schemes in their rules or instruments of incorporation, while feeder UCITS must identify their master scheme.
- (ii) Specific procedures are laid down for the authorisation of feeder UCITS, the transformation of a feeder into an ordinary scheme, and vice versa, and switching from one to another master UCITS. Applicants for such authorisations must also submit additional documents to the CNMV.
- (iii) Change in the minimum percentage of assets that a feeder must hold in its master UCITS.
- (iv) Change in the choice of assets in which a feeder UCITS can invest the portion not held in its master UCITS.
- (v) Arrangements are specified for the liquidation, merger or demerger of master UCITS, along with the different alternatives open to their feeders.

Still in the interests of facilitating cross-border transactions, the new Regulation presents the following novelties with regard to UCITS mergers:

- (i) The most far-reaching is the possibility of concluding cross-border mergers between EU Member States. The merger operation must be authorised by the competent authority in the home state of the merging UCITS, which will centralise all paperwork and will also undertake to notify the competent authority in the home state of the receiving UCITS, who need only check that the information to be given to the unit or shareholders of the receiving scheme is sufficient to the purpose.
- (ii) The new Regulation extends the scope of application of directives 65/2009 and 44/2010 by establishing a single merger regime which is equally applicable to mergers between domestic UCITS without a European passport, regardless of their legal form, i.e., whether they are funds or companies.
- (iii) Another innovation is the exhaustive listing of the information to be given to unit and shareholders once a merger has the go-ahead. Investors can by this means reach a founded judgement on how the operation may affect their investment and the exercise of their rights.
- (iv) Finally, the text departs from commercial practice in removing the obligation to engage an independent expert to issue a report on the merger project when the resulting UCITS is an investment fund.

Another goal of the Regulation is to strengthen investor protection. Hence one of the provisions of Directive 2009/65/EC, in force as of 1 July 2011, was that they should be provided with a document containing key investor information (KIID) in place of the old simplified prospectus. The KIID harmonises at EU level the essential facts an investor needs to reach an informed decision about UCITS in-

vestment, presented in a clear and concise manner. Its introduction to Spanish legislation was effected through Law 31/2011 of 4 October amending the relevant terms of the Law on Collective Investment Schemes to make the KIID requirement extensive to all Spanish UCITS, harmonised or otherwise.

Finally, legislators took the occasion to introduce technical improvements and streamline administrative procedures and formalities. On the technical side, steps were taken to clarify the differentiating features of investment fund asset classes and the rules for calculating authorisation response times, while the wording of various articles was adapted to reflect other regulatory changes.

Procedural simplification is viewed as a way to speed up administrative processing without detriment to investor protection. Hence the requirement to publish a notice of fund dissolution or liquidation in daily newspapers is replaced by a material event filing accompanied, as the case may be, by posting on the management company's website. Further, the CNMV is empowered to exempt managers as appropriate from filing minor documents that have no bearing on investor protection, and publicity requirements are softened or rationalised in cases like, for instance, a change of manager or corporate control.

¹ In particular, Commission Directive 2010/44/EU of 1 July 2010, as regards certain provisions concerning fund mergers, master-feeder structures and notification procedure and Commission Directive 2010/43/EU of 1 July 2010, as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and management company

The liquidity conditions of funds' private fixed-income portfolios went on improving in both straight and relative terms through the opening half of 2012. As we can see from table 14, the volume of less-liquid assets dropped by more than one billion euros, from 7.46 billion euros in December 2011 to a mid-year figure of 6.45 billion. In relative terms, less-liquid assets amounted to 5.2% of total fund assets in June 2012 compared to 5.6% in December 2011. Note also that the mix has undergone a substantial shift, with the bulk of less-liquid assets displaced from prime and high grade instruments (AAA/AA) to below AA. This reflects the cascade effect on private-sector debt of revise-downs in Spanish sovereign debt ratings (see exhibit 5 of this report).

Liquidity conditions of private fixed-income portfolios continue their recovery.

Estimated liquidity of investment fund assets

TABLE 14

Type of asset	Less-liquid investments					
	Million euros			% total portfolio		
	Dec 11	Mar 12	Jun 12	Dec 11	Mar 12	Jun 12
Financial fixed income rated AAA/AA	2,195	521	466	23	31	24
Financial fixed income rated below AAA/AA	3,448	5,268	4,443	18	20	19
Non-financial fixed income	164	121	165	6	4	6
Securitisations	1,654	1,488	1,374	52	53	50
AAA-rated securitisations	383	75	65	92	95	95
Other securitisations	1,271	1,413	1,309	46	52	49
Total	7,461	7,398	6,448	21	20	19
% of investment fund assets	5,6	5,6	5,2			

Source: CNMV.

Proposal for the amendment of UCITS Directive 2009/65/EC

EXHIBIT 7

On 3 July 2012, the European Commission adopted a new proposal to amend Directive 2009/65/EC, which sets out the rules whereby a collective investment scheme can benefit from a European passport and be marketed in any country within the European Union. The schemes regulated by this directive receive the name “undertakings for collective investment in transferable securities” or UCITS.

The European Commission’s draft seeks to amend the Directive to three main purposes: (i) to provide detailed rules on the duties of UCITS depositaries and their liability regime, (ii) to establish rules for employee remuneration policy which inhibit excessive risk-taking, and (iii) to harmonise the administrative sanctions supervisors can apply for breaches of UCITS rules.

The rules on depositaries in the current UCITS Directive consist of a number of generic principles. This has led to diverging interpretations about the scope of depositary liability, as came glaringly to light in the aftermath of the Madoff fraud. For this reason, the text contains detailed provisions on depositaries’ duties, liability standards, and responsibilities regarding the selection and appointment of a sub-custodian. The main changes advocated are listed below:

- Each UCITS should appoint a single depositary, as evidenced by a written contract. This depositary must be a credit institution or investment firm complying with the capital requirements of Directive 2006/49/EC which provides the ancillary service of safe-keeping and administration of financial instruments.
- Regarding custody duties, the text distinguishes between two types of assets: those subject to custody in the strictest sense and those for which the custodian must verify ownership and maintain an updated register. The depositary, it states, shall be liable for the loss of any asset held in custody

(in the strict sense), unless it proves that the loss was due to an external event beyond its reasonable control. Such liability may not be discharged by entrusting custody tasks to a third party.

- The depositary may delegate custody tasks where objectively justified, exercising due diligence in the appointment of sub-custodians and monitoring their performance. The text also establishes eligibility criteria for an institution to act as sub-custodian.
- In overseeing the manager's activity, the depositary must verify that the scheme's net asset value is calculated correctly and that the handling of subscriptions and redemptions complies with the applicable national rules. To this end, it should monitor movements in the UCITS' cash accounts. These oversight functions may not be delegated to a third party.

Here, as in other realms of the financial sector, the call is for remuneration policies that discourage excessive risk-taking at odds with UCITS' stated investment policies. Management companies should accordingly establish and maintain remuneration policies and practices that are consistent with sound and effective risk management. These policies should apply to all staff whose professional activities have a material impact on the risk profiles of UCITS or the management company, and be duly disclosed to investors in the corresponding annual report.

Finally, the Commission's analysis of sanction procedures showed a number of divergences and weaknesses. It has accordingly put forward a set of minimum common standards for national sanctioning regimes to ensure that they are effective, fair and dissuasive. Innovations include a common catalogue of breaches and listing of the sanctions and other measures available to national authorities.

Real estate investment schemes

Real estate schemes continued to struggle against the tide. Of the six funds registered at mid-year 2012, the same number as at end-2011, only five can be considered fully operative, since one was in the process of dissolution. The number of real estate investment companies remained unvaried, with eight in operation.

Real estate schemes again had to operate in an adverse environment...

In the fund segment, both assets and unit-holder numbers continued to decline. Assets under management fell 2.4% vs. their end-2011 total to 4.39 billion euros, while unit-holder numbers dropped by 6.8% to 27,716 (see table 15). As in previous quarters, the bulk of fund assets were in possession of investors belonging to the manager's financial group.⁸ Fund returns remained mired in negative terrain, as they have been since 2009. First-half losses were, however, a little less severe.

...characterised by diminishing assets and unit-holder numbers.

8 Over 84%, on data to May.

Main real estate scheme variables

TABLE 15

					2011		2012	
	2008	2009	2010	2011	3Q	4Q	1Q	2Q
FUNDS								
Number ¹	9	8	7	6	6	6	6	6
Unit-holders	97,390	83,583	75,280	29,735	31,412	29,735	29,754	27,716
Assets (million euros)	7,407	6,465	6,116	4,495	4,597	4,495	4,447	4,386
Return (%)	0.69	-8.31	-4.74	-3.24	-1.03	-0.93	-0.85	-1.23
COMPANIES								
Number	9	8	8	8	9	8	8	8
Shareholders	937	928	943	943	944	943	939	939
Assets (million euros)	372	309	322	313	1663	313	311	301

Source: CNMV.

1 Funds filing financial statements.

Assets under management in real estate companies fell by 3.8% between January and June as far as 301 million euros, while shareholder numbers held more or less flat.

Hedge funds

A gap continues to open between hedge funds and of hedge funds,...

...the latter saw further decline in assets and unit-holder numbers over the year's middle months, along with more schemes entering liquidation...

...while the former have continued to recover strongly across all key variables from the trough levels of March 2009.

The recent progress of the hedge fund sector has differed little from what went before, namely a divergent performance between funds of hedge funds, which saw further decline, and pure hedge funds, in frank expansion.

Both types of vehicles enjoyed a boom period from the time they were first authorised in Spain, at end-2006, until the middle of 2008, when they felt the first impact of the gathering recession. Since the low point of March 2009, however, their fortunes have been very different. Funds of hedge funds, which for various reasons are more vulnerable to the crisis, have yet to recoup either the assets or the investor base of their mid-2008 heyday. In fact, by mid-2012, their managed assets were down to 560 million euros, 8.4% less than at end-2011 and a long way away from the 1.43 billion of mid-2008. Unit-holder numbers, meantime, were 3,576 in the second quarter of 2012, compared to 4,043 at end-2011 and around 9,800 in June 2008. Twenty-six funds of hedge funds were registered in June 2012, but many of their number are currently in liquidation.

Conversely, hedge funds have been growing both assets and unit-holders, with few interruptions, since the trough reached in March 2009. By mid-2012, the sector was sitting on 782 million euros assets, 7.1% more than in December 2011, while unit-holder numbers had climbed from 2,045 to 2,113.

Main hedge fund and fund of hedge fund variables

TABLE 16

	2008	2009	2010	2011	2011		2012	
					III	IV	I	II ²
FUNDS OF HEDGE FUNDS								
Number ¹	40	38	28	27	27	27	26	26
Unit-holders	8,151	5,321	4,404	4,043	4,046	4,043	3,592	3,576
Assets (million euros)	1,021.3	810.2	694.9	611.2	617.4	611.2	568.0	560.1
Return (%)	-17.8	7.85	3.15	-1.70	-1.50	0.85	1.15	-0.24
HEDGE FUNDS								
Number ¹	24	29	33	36	36	36	36	35
Unit-holders	1,589	1,917	1,852	2,045	2,057	2,045	2,077	2,113
Assets (million euros)	539.4	652.0	646.2	729.8	703.9	729.8	775.3	781.8
Return (%)	-4.82	14.94	5.37	-2.60	-6.81	2.16	3.66	-0.61

Source: CNMV.

1 Funds filing financial statements.

2 Data to April 2012. The return stated corresponds to the month of April.

Foreign UCITS marketed in Spain

After the slump of 2011, investment in foreign UCITS bounced back strongly in the first months of 2012. From December 2011 to June 2012, assets under management in foreign schemes built up by 15% to more than 34.50 billion euros. Investor numbers expanded by a rather more modest 3.6% to just under 790,000.

Investment in foreign UCITS climbs 15% in first-half 2012.

Outlook

The outlook for the Spanish collective investment industry remains clouded by uncertainty. Among the factors ranged against we can cite households' dwindling investment in financial assets as the crisis eats deeper into disposable income, and stiff competition from other lower-risk financial products, like commercial paper or certain government debt instruments, which are also offering attractive yields. The ongoing restructuring of Spanish credit institutions, which manage and market a large share of investment fund assets, will likely continue having a knock-on effect on the organisation of management companies as well as their product offering.

Industry prospects remain troubled in the face of falling household investment and competition from other financial products.

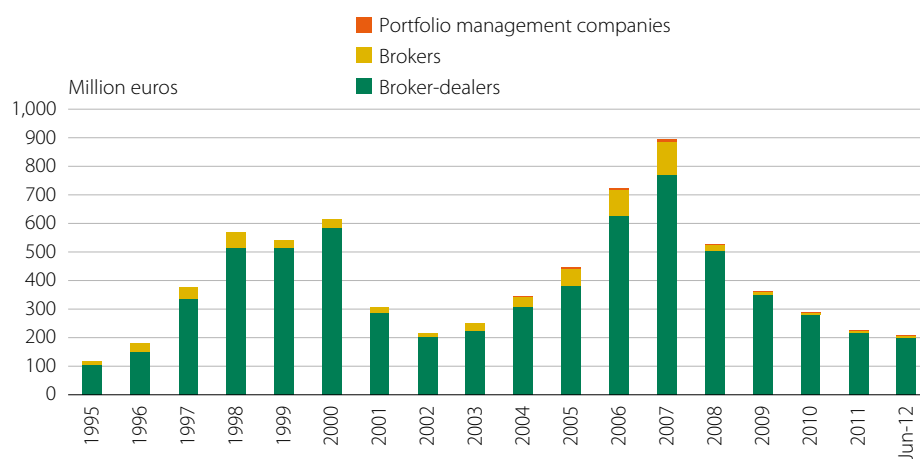
4.2 Investment firms

Investment firms again had to cope with the fallout from financial market tensions.

Investment firms had to operate, as in previous years, under the negative influence of domestic financial market turbulence, which continued to drive down revenues from their main business lines. The result was a sharp stall in aggregate earnings and a substantially higher number of firms reporting first-half losses. That said, most intermediaries in this sector remained comfortably compliant with capital standards.

Investment firm pre-tax profits^{1,2}

FIGURE 13



Source: CNMV.

1 Except IAFs.

2 2012 earnings on an annual basis.

Broker-dealer profits drop 33% as fee income goes on contracting.

Broker-dealers obtained pre-tax profits of 100.6 million euros, a fall of 33% versus the same period in 2011, with the decline tracing to gross income and insufficient savings at the operating expenses line (see table 17). Gross income, specifically, receded 16.2% to 303 million euros on sharply falling fee income⁹ (-21%), its main component, and an uneven showing by other items. Hence net gains on proprietary investments expanded strongly in the second quarter as far as 92.4 million euros (more than double the total for 2011), whereas net interest income contracted 38.4% and net exchange losses ran significantly deeper.

9 14.8% in net terms.

Thousand euros	Broker-dealers			Brokers			Portfolio managers		
	jun-11	jun-12	% var.	jun-11	jun-12	% var.	jun-11	jun-12	% var.
1. Net interest income	52,973	32,651	-38.4	1,144	946	-17,3	293	390	33.1
2. Net fee income	275,520	234,842	-14.8	50,423	46,665	-7,5	3,840	3,832	-0.2
2.1. Fee income	419,375	331,330	-21.0	57,899	53,625	-7,4	9,123	8,864	-2.8
2.1.1. Order processing and execution	285,047	200,721	-29.6	19,345	17,993	-7,0	–	–	–
2.1.2. Issue placement and underwriting	2,830	4,089	44.5	1,181	1,620	37,2	–	–	–
2.1.3. Securities custody and administration	10,887	10,091	-7.3	191	311	62,8	–	–	–
2.1.4. Portfolio management	7,911	6,881	-13.0	6,760	5,487	-18,8	8,323	8,115	-2.5
2.1.5. Investment advising	37,047	23,684	-36.1	2,634	2,445	-7,2	800	749	-6.4
2.1.6. Search and placement	184	25	-86.4	538	0	-100,0	–	–	–
2.1.7. Margin trading	4	6	50.0	13	14	7,7	–	–	–
2.1.8. UCITS marketing	31,359	23,113	-26.3	11,097	9,881	-11,0	0	0	–
2.1.9. Others	44,104	62,720	42.2	16,141	15,874	-1,7	0	0	–
2.2. Fee expense	143,855	96,488	-32.9	7,476	6,960	-6,9	5,283	5,032	-4.8
3. Result of financial investments	38,782	92,439	138.4	-54	786	–	233	-52	–
4. Net exchange income	-5,344	-61,398	-1.048.9	-225	25	–	-14	23	–
5. Other operating income and expense	171	5,043	2.849.1	-1,081	-978	9,5	-5	25	–
GROSS INCOME	362,102	303,577	-16.2	50,207	47,444	-5,5	4,347	4,218	-3.0
6. Operating expenses	212,791	205,085	-3.6	43,433	43,785	0,8	3,616	3,528	-2.4
7. Depreciation and other charges	6,538	5,705	-12.7	1,209	1,022	-15,5	54	53	-1.9
8. Impairment losses	-1	501	–	-3	45	–	0	0	–
NET OPERATING INCOME	142,774	92,286	-35.4	5,568	2,592	-53,4	677	637	-5.9
9. Other profit and loss	8,100	8,348	3.1	275	129	-53,1	0	0	–
PROFITS BEFORE TAXES	150,874	100,634	-33.3	5,843	2,721	-53,4	677	637	-5.9
10. Corporate income tax	29,472	22,174	-24.8	554	361	-34,8	187	200	7.0
PROFITS FROM ONGOING ACTIVITIES	121,402	78,460	-35.4	5,289	2,360	-55,4	490	437	-10.8
11. Profits from discontinued activities	0	0	–	0	0	–	0	0	–
NET PROFIT FOR THE YEAR	121,402	78,460	-35.4	5,289	2,360	-55,4	490	437	-10.8

Source: CNMV.

Brokers, meantime, saw their pre-tax profits slide to 2.7 million euros in the first-half period, just half the total of June 2011 (5.8 million). Net fee income, which accounts for over 98% of their combined gross income, slipped by 7.5% to 46.7 million euros. And despite an intense cost-cutting effort in the past few years, the fall in gross income was so abrupt that it just barely covered operating expenses (47.4 million euros as against 43.8 million).

Broker earnings slump to lows to the extent that gross income barely covers operating expenses.

Finally, **portfolio management companies** closed the first six months with 637,000 euros profits, 5.9% less than in the year-ago period. Their gross income fell by 3% to 4.2 million euros, due to losses on financial transactions. Net fee income, the item contributing most at the gross income line, held relatively stable at 3.8 million euros. Operating expenses, finally, reduced by 2.4% to 3.5 million euros.

Portfolio management companies get off more lightly, thanks to their relatively stable fee income.

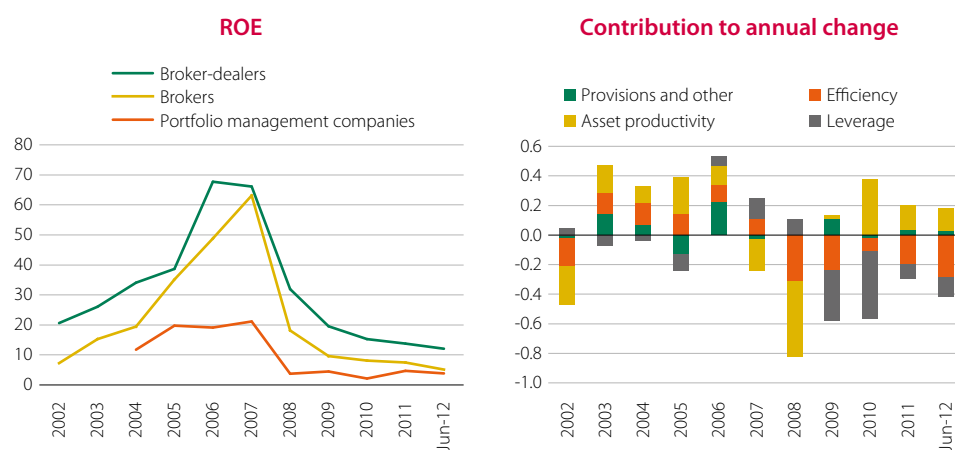
Sector-wide return on equity (ROE) sank from 15% to 11.6%, in line with the year-to-date fall in investment firm earnings. By type of enterprise, the ROE of broker-

Sector ROE sinks from 15% to 11.6% on the first-half earnings stall ...

dealers shrank three full points to 12% and that of brokers by five points to 5.2%, while portfolio managers kept their ratio at a more or less even 3.8%. Examining the components of the six-month variation in investment firm ROE, we find a prolongation of the trends in place through 2010 and 2011, albeit with some changes in their relative intensity. As we can see from the right-hand panel of figure 14, the positive contribution of higher asset productivity and provisions failed to offset the dampening effect of firms' efficiency losses and, less so, their lower leverage.¹⁰

Pre-tax ROE of investment firms

FIGURE 14



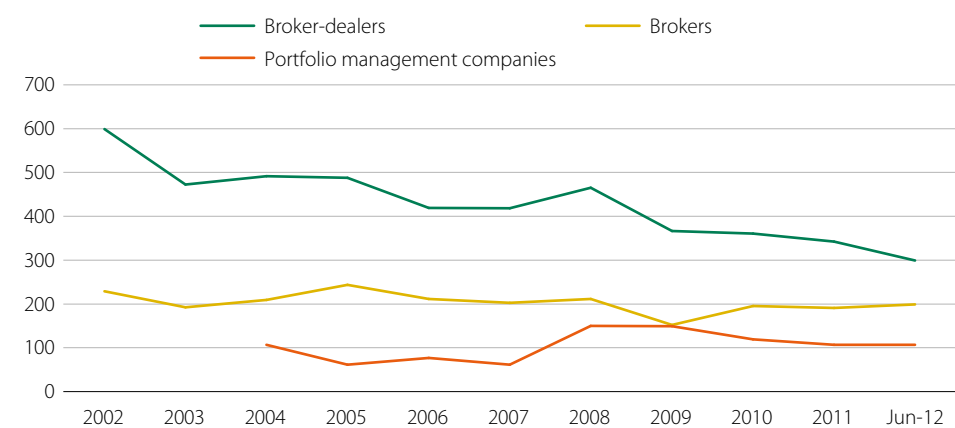
Source: CNMV.

.. which lifted the number of loss-making companies from 30 to 38.

The number of loss-making entities (before taxes) rose to 38 in June 2012 (30 in June 2011 and 31 at the annual close). Of this total, 12 were broker-dealers (13 in June 2011), 23 brokers (16 in June 2011) and 3 portfolio management companies (one in June 2011). Losses in the six-month period year amounted to 12.8 million euros, an increase of 38% in year-on-year terms.

Investment firm capital adequacy
(surplus of qualifying equity to the minimum requirement, %)

FIGURE 15



Source: CNMV.

10 For a fuller description of how to interpret the elements in this equation, see the exhibit "ROE breakdown" in *Securities markets and their agents: situation and outlook* in the CNMV Bulletin for first quarter 2008.

Investment firms remained comfortably compliant with capital standards, though margins have tended to narrow in the fast few years. As figure 15 shows, broker-dealers obtained a mid-2012 surplus equal to 3 times the requirement (3.9 in June 2011). Brokers, meantime, had a surplus of two times the prescribed minimum, the same level as in mid-2011. Finally, portfolio management companies maintained their ratios unchanged at just above the statutory level. Only one firm (a broker) was carrying a capital deficit at the end of the first-half period.¹¹

Sector capital ratios remain comfortably clear of minimum requirements despite some narrowing of the surplus.

Investment advisory firms (IAFs) continued their expansion. Of the 97 figuring on the CNMV register at mid-year 2012, as many as 33 had joined in the preceding twelve months. However, financial market unrest meant key business figures failed to match this dynamic growth. Hence the number of advisory contracts outstanding rose by 3.6% to 3,279, but assets under advice slipped back 11% to 14.66 billion euros. Note that this decline was confined to the professional client segment (down 16% to 12.20 billion euros), while assets under advice in the retail client segment grew 27% to 2.41 billion euros, raising their relative weight in the IAF mix from 11.5% to 16.5%.

The IAF segment continues to advance by the measure of competitors and contracts, but loses ground in assets under advice ...

Key investment advisory firm variables

TABLE 18

Thousand euros	2009	2010	2011	2011		2012	% annual change
				1H	2H	1H	
NO. OF FIRMS	16	52	82	64	82	97	51.6
ASSETS UNDER ADVICE¹	1,410,985	15,802,743	16,033,109	16,498,265	16,033,109	14,663,856	-11,1
Retail customers	364,284	1,715,084	2,181,943	1,894,771	2,181,943	2,415,002	27,5
Professional customers	1,046,702	13,995,206	13,831,973	14,501,823	13,831,973	12,205,216	-15,8
Others	0	92,453	19,193	101,671	19,193	43,638	-57,1
NO. OF CONTRACTS¹	317	2,431	3,677	3,158	3,677	3,279	3,8
Retail customers	293	2,345	3,542	3,037	3,542	3,099	2,0
Professional customers	24	79	126	109	126	164	50,5
Others	0	7	9	12	9	16	33,3
FEE INCOME²	3,183	20,745	31,053	14,131	31,053	13,940	-1,4
Fees received	3,183	20,629	30,844	14,080	30,844	13,855	-1,6
From customers	2,776	17,132	26,037	11,720	26,037	11,668	-0,4
From other entities	407	3,497	4,807	2,360	4,807	2,186	-7,4
Other income	0	116	209	51	209	85	66,7
EQUITY	1,500	10,057	12,184	10,444	12,184	13,098	25,4
Share capital	1,043	3,014	3,895	3,386	3,895	4,328	27,8
Reserves and retained earnings	36	242	950	2,889	950	5,904	104,4
Profit/loss for the year ²	421	6,801	7,338	4,169	7,338	2,866	-31,3

Source: CNMV.

1 Period-end data at market value.

2 Cumulative data for the period.

11 The firm concerned has submitted plans to merge with another in its group, which should restore it to compliance.

...and therefore aggregate earnings.

Investment firms will continue to suffer until domestic financial markets return to something like calm.

Fund manager assets contract 6.4% in the first half to 154 billion euros...

...dando lugar a un descenso de los beneficios agregados del sector del 3%.

The first-half fees earned by IAFs came to 13.9 million euros, 1.4% less than in the same period last year, while net profits, at 2.9 million, were 31% down with respect to June 2011.

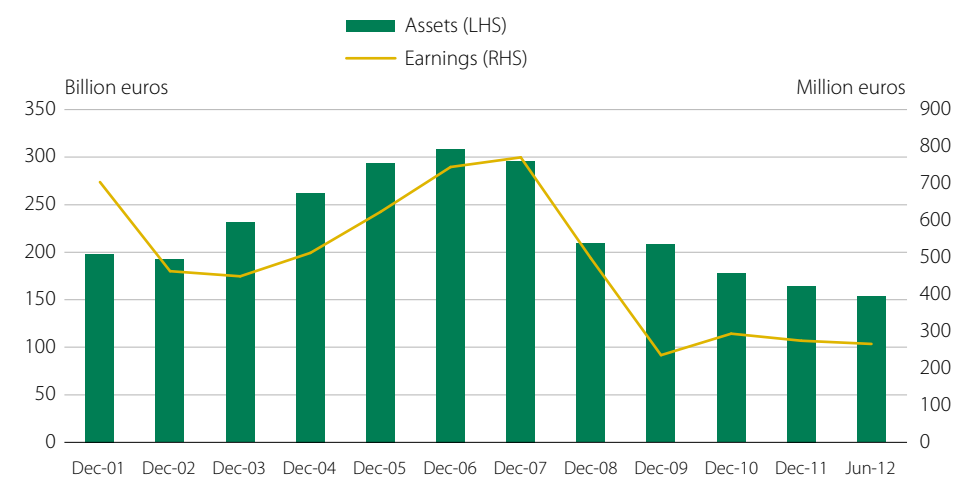
Investment firms' adversities are likely to persist due to the tensions dominating Spain's financial markets, which have thinned traditional revenue streams like order processing and securities placements, and the deterioration suffered by the collective investment industry. Although business lines like advisory services have been rather less affected, there is little chance of a quick end to the sector's woes. Many firms, moreover, may shortly face reorganisation as part of the broader restructuring of the Spanish financial system.

4.3 UCITS management companies

Assets under management in UCITS management companies fell by 6.4% in the first-half period to 154 billion euros. As figure 16 shows, the decline has not let up since the start of the crisis, though the rate has tended to slow. In all, the sector has lost around half its assets (in nominal terms) since 2006, when they were running at around 300 billion euros a year.

UCITS management companies: assets under management and pre-tax profit

FIGURE 16



Source: CNMV. Figures for June 2012 on an annual basis.

The fall in managed assets was mirrored by a small decline at most income statement lines. Hence revenues from UCITS management fees fell by 5.7% to an annualised 1.48 billion euros, and aggregate pre-tax profits (again annualised) came to 266 million, 3% less than at end-2011. Sector-wide return on equity (ROE) held more or less flat at around 20%. Finally, the number of loss-making entities edged up from 32 in December 2011 to 34 in June 2012, while their combined losses were broadly unchanged at just over eleven million euros (in annual terms).

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

TABLE 19

Million euros

	Assets under management	UCITS management fee income	Average UCITS management fee (%)	Fee ratio (%) ¹
2003	231,458	2,304	1.00	73.8
2004	262,132	2,670	1.02	73.6
2005	293,973	2,976	1.01	72.2
2006	308,476	3,281	1.06	71.5
2007	295,922	3,194	1.08	70.5
2008	209,014	2,302	1.10	70.8
2009	203,379	1,702	0.84	68.6
2010	177,676	1,622	0.91	68.1
2011	164,125	1,479	0.90	66.6
Jun-12 ²	153,587	1,394	0.91	65.1

Source: CNMV.

1 Ratio of fee expenses for fund marketing to fee income from UCITS management.

2 Fee income and average management fees are stated on an annual basis.

Organisationally, the sector continued to feel the effects of the restructuring of the Spanish banks, the owners of most UCITS management companies registered with the CNMV. Their numbers, specifically, reduced by four to 110 in first-half 2012, after one entry and five retirements, four of which ensued from parent group reorganisation.

The number of UCITS management companies continued to fall.

4.4 Other intermediaries: venture capital

The number of venture capital entities (VCEs) increased slightly in the first eight months of 2012, from 336 to 341 (see table 20). Of this total, 143 were venture capital companies (VCCs), 117 venture capital funds (VCFs) and 81 VCE management companies. Sixteen entities joined the register (eight VCCs, five VCFs and three VCE managers) against 11 retirements (eight VCCs, two VCFs and one VCE manager).

The number of venture capital entities rises slightly in the first eight months of 2012.

Movements in the VCE register in 2012

TABLE 20

	Situation at 31/12/2011	Entries	Retirements	Situation at 31/08/2012
Entities	336	16	11	341
Venture capital funds	114	5	2	117
Venture capital companies	143	8	8	143
Venture capital management companies	79	3	1	81

Source: CNMV.

Between December 2010 and December 2011, VCEs grew their combined assets by around 6% to upwards of 8.40 billion euros. However, as table 21 shows, while VCF assets increased (15.3% to 4.32 billion euros) those of VCCs contracted slightly (by 2.3% to 2.09 billion euros). At least part of this shift seems to reflect a change in investor preferences among the different venture risk vehicles. In particular, both

Sector assets grew 6% in 2011 to 8.40 billion euros, with substantial gains among the funds and a small loss on the companies side.

Spanish and foreign VCEs have scaled back their holdings in VCCs, as have non-financial corporations, in favour of increased investment in VCFs. Looking at venture capital investors by type, we find that individuals are still a minority, while among investing entities, there has been a shift in weight from the *cajas de ahorro* to the banks, as a result of the mergers taking place in the last few years. Overall, credit institutions reduced their share of VCF assets from 20.6% to 18.7% between 2010 and 2011, and scaled up from 31.8% to 32.4% among VCCs, where they are still the dominant investor group. Other major investors in VCFs (over 13% of the total) were non-financial corporations, public authorities and foreign entities.

Sector investment and funding run into trouble in the first half of 2012 ...

According to preliminary data furnished by industry association Asociación Española de Entidades de Capital Riesgo (ASCRI), venture capital investment in Spain receded 43% in the first half of 2012, as far as 1.17 billion euros. This was better than first-half 2009, when investment plummeted, but nonetheless takes the sector back to about the levels of 2006. Of the 494 transactions closed to June, 2% more than in first-half 2011, 84% were small (below one million euros), against eleven in the medium bracket (ten to 100 million euros) and three large-scale (over 100 million euros). The sectors attracting most investment were “other services”, medicine and health, industrial products and services, and consumer products. Funds raised by the sector contracted 37% to 934 million euros.

Venture capital assets by type of investor

TABLE 21

Million euros	VCFs		VCCs	
	2010	2011	2010	2011
Natural persons				
Residents	183.89	212.74	86.35	80.83
Non-residents	2.54	2.81	0.68	0.76
Legal persons				
Banks	226.40	526.39	402.42	1,183.46
Savings banks	547.46	281.81	929.81	143.68
Pension funds	413.29	417.55	26.18	23.62
Insurance undertakings	95.02	111.15	16.20	25.96
Broker-dealers and brokers	0.00	0.00	0.00	0.00
Collective investment schemes	26.02	27.18	8.52	10.72
Domestic venture capital entities	68.46	100.01	69.92	56.11
Foreign venture capital entities	296.70	393.96	44.87	3.74
Public authorities	494.53	588.38	142.75	165.19
Sovereign funds	33.17	38.22	0.00	0.00
Other financial corporations	292.51	309.14	671.79	675.99
Non-financial corporations	538.34	594.10	1,579.94	1,541.07
Foreign entities	395.53	563.31	44.45	46.83
Others	137.22	157.30	166.39	134.84
TOTAL	3,751.08	4,324.05	4,190.27	4,092.80

Source: CNMV.

The short-term outlook for the venture capital sector is fairly complicated, given the difficulties involved in raising funds and closing operations. Not only do operators face tougher access to bank finance, but funding from abroad has thinned on concerns about the risks facing the Spanish economy, while the domestic investor base is either caught up in bank sector restructuring or having to contend with budgetary constraints. There is little chance then of any immediate revival of the industry's fortunes.

II Reports and analyses

Fragmentation of trading in securities markets: effects on market quality and regulatory options

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1 Introduction

The idea that trading in securities markets is fragmented is associated with the existence of multiple facilities or venues for trading the same financial instrument.¹ This phenomenon, which has recently reached significant levels, is being seriously considered by supervisors due to the potential effects on quality of asset price formation and protection of retail investors.

This article aims to contribute towards greater dissemination of the most important aspects relating to fragmentation, identifying the main routes by which it takes place, reviewing the academic literature which has analysed this phenomenon to date and briefly reflecting on possible legislative solutions which would make it possible to mitigate its most negative effects.

To this end, the article is organised as follows. The second section reviews the context in which market fragmentation is taking on growing importance and the factors which have contributed towards it. The third section analyses its possible effects on price discovery, and the fourth section outlines the legislative initiatives undertaken to mitigate its negative effects. The final section presents the conclusions.

2 Fragmentation: origins and determining factors

There is no single consensus when defining the problems raised by what is generically known as market fragmentation and which, as indicated above, is associated with the trading of a single financial instrument being spread over different trading platforms. Viewed from a broad perspective, it is also important to include liquidity fragmentation as a consequence of executing trades off the main order book of regulated markets and multilateral trading facilities² i.e. trading channelled by investment companies through internalisation of customer orders and trading in dark pools.

Financial markets present network externalities in trading and post-trading activities. According to the papers by Pagano (1989) and Economides (1993),³ liquidity,

1 Hagerty, K. and McDonald, R.L. (1996). *Brokerage, Market Fragmentation and Securities Market Regulation*. The Industrial Organization and Regulation of the Securities Industry National Bureau of Economic Research.

2 The main order book is made up of all limited orders, i.e. with maximum purchase or minimum sale price, sent to the market and pending execution.

3 Pagano, M. (1989). "Endogenous Market Thinness and Stock Price Volatility", in *The Review of Economic Studies*, 56, pp. 269-288, and "Trading Volumes and Asset Liquidity", in *The Quarterly Journal of Economics*, 104, pp. 255-274. Economides, N. (1993). "Network Economics with Application to Finance", in *Financial Markets, Institutions & Instruments*, vol. 2, no. 5, pp. 89-97.

i.e. the ability to buy or sell assets without the transaction having an effect on its price, presents network externalities. Liquidity improves and is consolidated as more participants use a market. This is because the more liquid a market is, the greater its appeal to participants, which, in turn, attracts new agents who will increase the level of liquidity.

Consequently, from the point of view of liquidity, there is an incentive for trading in a security to be concentrated in one single platform, which makes it possible to efficiently exploit the network externalities in terms of improved price formation and a lower impact of order execution on prices. Therefore, liquidity fragmentation in several segments/platforms would go against this externality and the advantages of fragmentation, basically in terms of lowering direct costs (fees), would need to exceed the costs of relinquishing bringing together all an asset's liquidity in one single point.

However, some authors, such as Degryse *et al* (2011)⁴ indicate that network externalities are still present nowadays and can even be achieved when there are several trading platforms. For some intermediaries, the use of tools, such as smart order routing systems (SORS)⁵ makes it possible to interconnect markets and search for the best price from among different trading venues. However, not all investors have access to these technologies and, therefore, they do not modify the fundamental problem resulting from fragmentation, which is the spread of liquidity over several platforms and its effects on price formation. In other words, these systems make it possible to “integrate” fragmented liquidity, but do not reconstruct a single order book with full convergence of supply and demand and a price generated with all the participants and all the information in the market for each asset. In any event, their broad use would allow investors to have access to information on the best prices available for each asset at any point in time.

Another of the advantages of concentrating trading in one single market is lower information costs for participants. As there is one single point of convergence of supply and demand, it is not necessary to search and compare prices on several platforms, which reduces costs for investors.

From the point of view of demand, there are some reasons which favour market fragmentation, which include the following:

- Lower direct execution costs (fees), made possible through greater competition between different trading platforms, in contrast with situations characterised by the existence of one single provider of trading services. However, these advantages might be temporary if the situation of competition is not sustainable. In addition, competition between different trading platforms could be reduced due to the disappearance of some of them if the new markets are not viable, for example, if they do not reach a minimum trading volume or as a consequence of mergers or acquisitions of competitors by regulated markets.

4 Degryse, H., de Jong, F. and van Kervel, V. (2011). *Equity market fragmentation and liquidity: the impact of MiFID*.

5 SORS is a computer programme which channels each order to the best trading platform as defined in terms of price, speed of execution or other parameters.

- Entry to markets which offer a one-stop shop for different types of assets, for example, assets from different countries. Multilateral facilities make it possible to trade the most liquid shares of each country on one single platform, while traditional regulated markets usually have an offering which is more limited geographically, often to the countries where they were created and are based.⁶ This possibility involves significant savings for participants in operating costs and compliance costs as it reduces the number of communications and supervisors involved.

2.1 Areas of fragmentation

Although liquidity fragmentation is usually associated with the appearance of alternative platforms to traditional stock markets, it is in reality a phenomenon which, with different ways of manifesting itself, has been present in financial markets since their origin. The regulatory changes and technological advances of the last decade have accelerated and amplified its expansion up to very significant levels in some countries and markets.

We can distinguish several areas of fragmentation based on the point at which trading dispersion takes place:

- Time fragmentation of liquidity from the move from a discreet auction system to a continuous electronic market.
- Fragmentation within the regulated market itself between different systems for trading a security (main market, block market, trade-throughs).
- Fragmentation between platforms with pre-trade transparency requirements (lit) in prices and volumes and post-trade transparency (dark pools).
- Fragmentation between different trading facilities or platforms which compete for the trading of the same asset: regulated markets, multilateral trading facilities.
- Fragmentation within the intermediary itself as a consequence of matching client trades against each other or against the entity's own account instead of sending them to the market (internalisation).

Although fragmentation in several trading platforms which are competitors of traditional stock markets is a relatively recent phenomenon, given that up to less than a decade ago most markets operated as quasi-monopolies, liquidity dispersion is not such a recent phenomenon. What is more, it could be argued that the move from a system of trading using auctions, which are held during specific, pre-set times, towards continuous electronic markets was one of the first manifestations of the time dispersion of liquidity. However, spreading liquidity over the trading session has not led to a loss of quality in the price formation of most securities. On the con-

6 See C. Aparicio, "Analysis of the merger of the BATS and Chi-X MTF by the UK Competition Commission", in the CNMV's *Quarterly Bulletin* for the second quarter of 2012.

trary, electronic markets and stock market interconnections have made the order books available to a greater number of investors, which has increased liquidity and improved the price formation processes of global markets.⁷

Long before the existence of alternative platforms, it was possible within equity markets to perform bilateral trades agreed between the counterparties and subsequently communicate them to the market. These trades are often known as trade-throughs or off order book trades, which, although perfectly regulated, are performed off the main order book, which leads to fragmentation of liquidity into two segments. In Spanish regulated markets, trade-throughs are regulated by Royal Decree 1416/1991, of 27 September, on special stock market transactions and on off-market transfer of listed shares and average weighted prices. These are transactions in which a stock market member internally matches orders among its clients, reporting the executed transactions to the market for information purposes. There are pre-established requirements for applications as regards price and volume, but they do not have pre-trade transparency requirements,⁸ although they do have post-trade transparency requirements as they must be reported to the market by a specific deadline following their execution. Trade-throughs can therefore be included in two fragmentation groups: i) between different segments of a single trading platform and ii) between platforms with pre-trade transparency (order market) and post-trade transparency (trade-throughs). A very similar case of fragmentation takes place with the internal matching of client orders carried out by intermediaries without sending them to the market (internalisation).

2.2 Factors which have favoured liquidity fragmentation

The factors which have favoured liquidity fragmentation include, firstly, the regulatory changes which have fostered competition between different types of trading platforms. The clearest examples of this type of stimulus are, in Europe, Directive 2004/39/EC on markets in financial instruments (hereinafter, MiFID), and in the US, the National Market System of 2006 (hereinafter, Reg NMS).

The changes in the technology of trading facilities have also played a major role. The move from open outcry to electronic systems facilitated access and interconnection of markets, but also competition between providers of trading services. In addition, the cost of launching and managing a trading facility has fallen in recent years, and in turn the economies of scale in trading infrastructures may have lost part of their importance.

The boost from regulation and technology has counteracted or cancelled the effect of other factors which promoted concentration of trading in one single market, such as the aforementioned network externalities or national legislations in effect before the MiFID entered into force, which maintained the principle of concentrating buy and sell orders in the national regulated markets.

⁷ See, for example, A. Mekvold (2011), *Electronic trading and market structure* (The Future of Computer Trading in Financial Markets - Foresight Driver Review - DR 16).

⁸ These transactions comply with one of the four requirements for waivers from pre-trade transparency of the MiFID.

One factor driving fragmentation which must also be considered is the increase in automated trading, which includes high-frequency trading. The size which this type of transaction has reached may be favouring the transfer of part of the trading to dark pools.⁹ These segments are accessible electronically and are not subject to the pre-trade transparency requirements applicable to regulated markets and MTFs. They are used by institutional investors who wish to remain anonymous and who want to have minimal impact in the execution of their orders, at the same time preventing the possible intervention of high-frequency traders who may make it more expensive to take positions.

According to data from the Securities and Exchange Commission (SEC), there were 32 dark pools in 2010 which traded approximately 7.9% of share volume in the US. This percentage would rise to 30% if the client orders which intermediaries cross without reporting to the market (internalisation) were included. More recent data from TABB Group - the consultancy firm - published in April 2012, raised the volume of off-exchange trading to 33%. 13% is performed in dark pools and the remaining 20% through the internalisation of client orders.

In the case of Europe, before the MiFID implementation, several markets and supervisors banned or limited order internalisation. In some countries, such as Spain, France and Italy, legislation required all orders to be sent to the market for matching. In the case of Germany, internalisation was allowed, but the price offered to customers had to be better than that existing in the market. The MiFID implementation eliminated the principle of concentrating orders in stock markets and created the concept of systematic internalisers, of which there are currently 13 entities registered in Europe, mostly in the United Kingdom.

3 Possible negative effects of trading fragmentation

One of the potentially negative effects of trading fragmentation which has been most often indicated, and which is reviewed below, is a reduction in the quality of the asset price formation process. In addition, other problems have been indicated, including the following:

- Duplication in the costs of trading infrastructures. This seems to have lost weight due to the fall in the costs of creating and maintaining trading infrastructures thanks to the development of new information technologies.
- The need to consolidate price information spread over different trading platforms. This aspect is especially relevant for retail investors, who have fewer resources to access professional information disseminators and price consolidation programmes.

9 See, for example, C. Gil de Blas, F.J. González Pueyo and M.V. Villanueva Fresán (2011), *Desarrollos recientes en la microestructura de los mercados secundarios de acciones* [Recent developments in the microstructure of secondary stock markets], CNMV, Working Paper No. 50.

- The possibility that large traditional investors will move their trading to dark pools, an aspect which, as indicated above, must be analysed together with the appearance of high-frequency traders.
- Adverse selection problems due to the existence of information asymmetries. Consequently, liquidity providers (market makers) may limit their transactions in a specific trading platform when they see that there is a large number of informed participants as these participants may exploit possible information advantages to the detriment of the liquidity providers.

3.1 Fragmentation and market quality: international evidence

There are several academic papers which have analysed the effects of liquidity fragmentation over various competing venues on the quality of price formation. These studies compare, in US markets, the situation before and after the implementation of Reg NMS, and in Europe, they focus on the effects following transposition of the MiFID Directive to national legislation. Most recent academic analyses conclude that fragmentation improves liquidity as long as it is possible to find a way to access the different trading platforms.

3.1.1 United States

O'Hara and Ye (2011)¹⁰ conducted a study on the effects of fragmentation in US stock markets. The analysis covers over 1,100 shares listed on the NYSE and the NASDAQ¹¹ over the period between 2 January and 31 March 2008. The authors conclude that fragmentation led to an effective reduction of bid-ask spreads, as well as an increase in the speed of order execution. Furthermore, they detect an increase in short-term volatility and a rise in efficiency. In particular, the rise in efficiency is reflected in the fact that the prices of the most fragmented shares are less persistent, which demonstrates that prices quickly absorb new flows of information. They also indicate that competition between platforms is particularly beneficial for the shares of small companies, in which an improvement in liquidity is confirmed.

However, the study emphasises a very important difference which only occurs in US markets: the existence of a consolidated order book among the different trading platforms as a consequence of Reg NMS. As indicated above, this situation turns US markets into one single virtual market with different access points (NYSE, NASDAQ, ArcaEx, etc.).¹² For these authors, US markets are physically fragmented but virtually consolidated. In this regard, it is important to point out that in the case of Europe, the boom in MTFs is accelerating the movement of trading off traditional regulated markets. Unlike US markets, the lack of consolidated informa-

10 O'Hara, M. and Ye, M. (2011). "Is Market Fragmentation Harming Market Quality?". *Journal of Financial Economics*, vol. 100, no. 3, pp. 459-474.

11 The authors use a sample of 1,166 shares for the NYSE and 1,588 for the NASDAQ.

12 In 2006, the NYSE acquired Archipelago, a competing multilateral trading facility (MTF). Since then, this platform has operated under the name ArcaEx, as part of the NYSE Euronext group.

tion about prices and transactions hinders the existence of a single virtual market in Europe.

Madhavan (2012)¹³ performed a study on the episode known as the flash crash in which, over twenty minutes on 6 May 2010, the DJIA index recorded the largest fall in points (998.5) in its history, to subsequently rise 600 points in less than twenty minutes. According to the author, the most important price changes took place in those shares whose trading was more fragmented over several platforms. Madhavan indicates that the imperfections in the connection between different platforms mean that depth suffers and that, in shock situations, the negative impact on price formation is intensified.

Other recent studies, focused on US options markets,¹⁴ coincide in indicating the reduction of bid-ask spreads, which several authors attribute to the increase in competition between different trading platforms.

Consequently, the conclusions of the most recent papers focused on the US are generally positive with regard to the impact of fragmentation on market quality. However, the first articles published at the end of the 90s found evidence to the contrary.¹⁵ In the case of US markets, there have been two differential events with regard to the first papers: the entry into force in 2005 of the Trade-Through Rule together with greater fragmentation indices, which have led to greater competition between markets and liquidity providers.

Table 1 shows the market share of the different share trading platforms in operation in the US for each one of the shares making up the main benchmark indices. From this data, it is noteworthy that the New York Stock Exchange has a low market share in the stock of the DJIA index.

**Market share of the different trading infrastructures
in the US as at May 2012**

TABLE 1

Index	NASDAQ	NYSE	NYSE Arca	BATS	EDGX	Other ¹
Dow Jones	23.8	21.9	15.3	11.3	9.01	18.7
S&P 500	25.5	23.1	14.9	11.4	8.4	16.7
NASDAQ 100	39.1	–	18.3	14.6	8.5	19.5

Source: Fidessa.

1 Includes regional stock exchanges.

13 Madhavan, A. (2011). "Exchange-Traded Funds, Market Structure and the Flash Crash".

14 De Fontnouvelle, P., Fishe, R.P.H. and Harris, J.H. (2003), "The Behaviour of Bid-Ask Spreads and Volume in Option Markets during the Competition for Listings in 1999", in *Journal of Finance*, vol. 58, no. 6, pp. 2347-2464 and Mayhew, S. (2002), "Competition, Market Structure, and Bid-Ask Spreads in Stock Option Markets", in *Journal of Finance*, vol. 57, no. 2, pp. 931-958.

15 Porter, D.C. and Thatcher, J.G. (1998), "Fragmentation, Competition, and Limit Orders: New Evidence from Interday Spreads", in *Quarterly Review of Economics and Finance* 38 (1), pp. 111-128; Easley, D., Kiefer, N.M. and O'Hara, M. (1996), "Cream-Skimming or Profit-Sharing? The Curious Role of Purchased Order Flow", in *Journal of Finance*, vol. 51, no. 3, pp. 811-833; and Bessembinder, H. and Kaufman, H.M. (1997), "A Cross-Exchange Comparison of Execution Costs and Information Flow for NYSE-Listed Stocks", in *Journal of Financial Economics*, vol. 46, no. 3, pp. 293-319.

3.1.2 Europe

Degryse *et al*¹⁶ performed an analysis on the impact of fragmentation on the liquidity of 52 securities included in two Dutch AEX indices, one for large companies and another for medium-sized companies, over the period between 2006 and 2009. The shares of these indices are listed on several regulated markets (Euronext, Deutsche Börse, NASDAQ OMX) and MTFs (Chi-X, Turquoise, BATS Trading). They use several approximations of share liquidity, such as the orders above and below the best price (price depth), and the impact on prices and effective bid-ask spreads.

The authors differentiate between effects of fragmentation in two areas. The first relates to the overall liquidity of the shares whereby they analyse all the platforms on which the securities are traded, while the second focuses exclusively on local liquidity whereby they only study the traditional regulated market. This differentiation is important given that overall liquidity is accessible for those agents which have a smart order routing system which allows them to “search” in real-time for the platform with the best prices, while retail investors are usually limited to regulated markets, unless they operate through intermediaries which do have these systems in place.

The results on the effects of liquidity fragmentation differ depending on the area of the analysis. Accordingly, the effect of fragmentation on overall liquidity shows an uneven pattern.¹⁷ In that fragmentation in several markets improves liquidity until a certain level is exceeded, from which point liquidity worsens. On the other hand, local liquidity, that of the traditional regulated market, worsens as fragmentation increases, which means those investors who can only access these markets are harmed. Therefore, the potential benefits of fragmentation in terms of liquidity are not accessible for all investors, but only for those who can access and choose the best price from among all the trading platforms.

Foucault and Menkveld¹⁸ analysed the effect of fragmentation on Dutch shares traded to that point exclusively on Euronext following incorporation in the alternative platform EuroSETS.¹⁹ To this end, the authors developed a theoretical model which they subsequently compared with the prices of the 25 shares of the AEX index in a period of 21 days prior to the entry of the new platform i.e. when it was only possible to trade on the regulated market, and in two subsequent 21-day periods, in which the regulated market competes with EuroSETS.

The results coincide with the aforementioned papers: the liquidity of the consolidated order book improves as a consequence of competition between platforms. The authors define the consolidated book for each share as the sum of shares to be bought and to be sold on the two platforms, Euronext and EuroSETS. However, and as indicated by the aforementioned studies, this harms the liquidity accessible by

¹⁶ *Op. cit.*

¹⁷ In order to measure the fragmentation of each share, the authors construct a daily Herfindahl-Hirschman index. This index takes a value of one when trading is concentrated in a single market and zero when there is total fragmentation.

¹⁸ Foucault, T. and Menkveld, A.J. (2008). “Competition for Order Flow and Smart Order Routing Systems”, in *Journal of Finance*, 63, pp. 119-158.

¹⁹ Belonging to the London Stock Exchange (LSE).

participants who do not have a smart order routing system. Those intermediaries and investors which do have systems that allow them to access the best prices on the two platforms benefit from competition between the two markets, which reduces the brokerage fees, and between the liquidity providers.

Gresse (2011)²⁰ analysed the effects of liquidity fragmentation of the securities included in the FTSE 100, CAC 40 and a third index built by the author which includes 40 securities from the CAC plus the 80 most liquid shares admitted to trading on Euronext Paris. The author excludes financial securities as, in her opinion, specific factors affect their liquidity and volatility, and she establishes four analysis periods of one month: one prior to entry into force of the MiFID (October 2007) and three subsequent months (January, June and September 2009).

The study concludes that following MiFID implementation, trading became increasingly fragmented over time between the different venues (regulated markets, Chi-x, BATS and Turquoise). In addition, she observed that bid-ask spreads fell, as did the size of average transactions and market depth. According to the author, the fall in the average size of trades and the fall in depth may be due to the increase in high-frequency trading and not only to the effect of fragmentation. The reduction in the spreads was greater on the London Stock Exchange (LSE), which is subject to greater competition from Chi-X.

**Market share of the different trading infrastructures in Europe
as at May 2012 (by benchmark index)**

TABLE 2

Index	Stock market	Regulated	Chi-X ¹	Turquoise	BATS ¹	NYSE Arca
AEX	Euronext	60.2	28.0	6.44	4.9	
BEL 20	Euronext	65.7	20.9	8.44	4.2	
CAC 40	Euronext	62.6	24.8	6.7	4.7	
DAX	Deutsche Börse	66.5	23.6	5.68	3.3	0.01
FTSE 100	LSE	56.9	28.2	7.58	0.05	7.2
Ibex 35	BME	92.9	5.38	1.08	0.6	
FTSE MIB	Borsa Italia	80.3	14.3	3.01	2.22	
PSI 20	Euronext	76.2	13.0	7.49	3.2	
SMI	Swiss WX	68.8	20.8	5.11	4.9	0.4
OMX C20	NASDAQ OMX	75.3	15.5	4.85	4.1	0.03
OMX H25	NASDAQ OMX	68.0	21.8	5.09	4.8	0.04
OMX S30	NASDAQ OMX	63.9	21.9	5.31	4.9	0.01
Oslo OBX	Oslo	74.8	13.8	6.70	4.7	0.01

Source: Fidessa.

1 In November 2011, BATS Global Trading acquired Chi-x Europe.

Table 3 shows the market shares of the different regulated markets and multilateral trading facilities on which it is possible to trade shares making up the main bench-

20 Gresse, C. (2011). *Effects of Competition between Multiple Trading Platforms on Market Liquidity: Evidence from the MiFID Experience*.

mark European indices. We can see that the London Stock Exchange (LSE) is subject to intense competition in the shares making up the FTSE 100. The papers by Gil de Blas *et al* (2011)²¹ and González Pueyo (2010)²² analyse the evolution and causes of the diversity of market shares achieved by MTFs in the different European countries in which they operate.

Market share of the different trading infrastructures in Europe as at May 2012

TABLE 3

Platform	Market share
LSE Group	20.3
BATS Chi-x Europe	18.7
Euronext	13.05
Deutsche Börse	10.4
BME	9.8
NASDAQ OMX Nordic	5.3
SIX Swiss	5.1
Turquoise	4.0
Oslo	1.0
Other platforms	5.0

Source: Thomson Reuters.

3.2 Fragmentation of liquidity in dark pools and internalisation

Weaver (2011)²³ highlights that fragmentation from intermediaries matching client trades without sending them to the market (internalisation) has risen in US stock exchanges. According to data used in that analysis, in the New York Stock Exchange (NYSE), off-exchange trades (dark pools plus internalisation) account for 25% of the total, 32% for NASDAQ and 39% for the American Stock Exchange (AMEX).

Weaver finds evidence of a negative relationship between internalisation and market quality, measured as the size of the bid-asks spreads and volatility. Accordingly, when internalisation in a stock increases, so does the impact on the price of average orders.

With regard to Europe, figure 1 highlights the evolution of off-exchange trades, which show a significant proportion of over-the-counter (OTC) trades, performed outside trading platforms (regulated markets and MTFs). Consequently, these transactions and their information on supply and demand do not participate in the price formation process taking place in regulated markets and MTFs. What is more, off-

21 *Op. cit.*

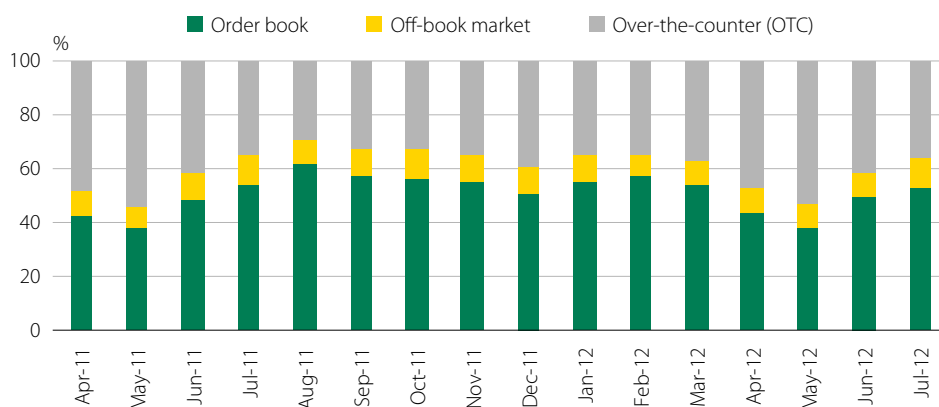
22 González Pueyo, J. (2010). *Proceso de consolidación de las infraestructuras de mercado* ["Consolidation process of market infrastructures"]. CNMV, Working Paper No. 39.

23 Weaver, D. (2011). *Internalization and Market Quality in a Fragmented Market Structure*. Rutgers Business School, Working Paper.

exchange trades usually use the prices in regulated markets as a benchmark.²⁴ This would mean that a significant and growing part of the traffic of participants in the market is being lost and that benchmark prices would be set in regulated markets, where, furthermore, the intervention of institutional investors could be falling.

Distribution of European trading by trading type

FIGURE 1



Source: Thomson Reuters, May 2012.

The strategy of other trading platforms (MTFs, systemic internalisers and dark pools) is similar to that of derivative markets in the sense that they use the prices in the regulated market as a benchmark. However, it is important to bear in mind that the most liquid derivative markets (especially for commodity derivatives) are usually used by the production sector of the underlying asset as a benchmark for prices. In the current fragmentation process, it could be the case that regulated markets, with less liquidity than the MTFs and dark pools in which their listed shares are also traded, continue to be used as a benchmark with regard to the price of these assets.

4 Regulatory approaches to mitigate the negative effects of fragmentation

The main concerns of supervisors and market participants relating to trading fragmentation are its effect on the spread of liquidity over several platforms, the consequences on asset price formation and the difficulties in aggregating the prices spread over different platforms in a timely and accessible manner for investors.

There are two alternatives for consolidating data on trading which could facilitate the access of investors to information on the price of assets traded on regulated markets and MTFs. The first is price consolidation. This involves each trading platform showing, at all times, the best bid and ask price for each asset obtained through all the platforms on which it is traded. This type of consolidation is, therefore, based on price pre-trade transparency.

24 See Technical Committee of the International Organization of Securities Commissions (2011), *Principles for Dark Liquidity*, available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD353.pdf>

This type of consolidation may be achieved through private initiative. In fact, many intermediaries currently offer this to their clients through computer programmes and connections between markets or by means of specific regulations similar to the system in force in the US, which is discussed below.

Since 2005, the Order Protection Rule, also known as the Trade-Through Rule, has been in force in the US. This rule guarantees that investors obtain at all times the best existing price irrespective of the trading platform in which they intervene. The rule requires each platform to execute the orders in the market which offers the best price, sending the order to a competing market if it offers a better price.

This rule has been controversial, although the evidence gathered by various academic papers suggests that it has led to a single virtual market in the US. Among other criticisms of the rule, it is argued that investors have the right to send orders to the markets which they choose, taking into account other factors in addition to price, such as speed of execution.

Hoffmann (2010),²⁵ in his analysis of the trading of securities making up the CAC 40 and DAX 30 indices in the Chi-x MTF and the Euronext Paris and Deutsche Börse Xetra regulated markets, concludes that the inexistence of rules such as the Trade-Through Rule means that regulated markets maintain most of the orders from investors with less information. The main reason why less informed investors remain in regulated markets is their lack of access to smart order routing systems. On the other hand, MTFs are accessed by most informed participants and liquidity providers or market makers incur greater adverse selection risks, which could harm the liquidity of alternative platforms. Liquidity providers could be more reluctant to provide bid and ask prices if they consider that the other agents have better information than they do and may use it against them.

The second alternative is trading consolidation. This involves aggregating data on prices, volumes, dates and times and platforms on which all the trades carried out on each asset have been performed. In this case, the alternative is based on post-trade transparency requirements i.e. the availability of aggregate information on trades which have already been performed, although this would not enable investors to have access to real-time information on the best bid and ask prices on all platforms.

This seems to be the alternative chosen by regulators in Europe, which would be added to the current best execution principle, which imposes on market members the obligation to obtain the best possible results for their clients' transactions. The proposal for a MiFID review,²⁶ of October 2011, includes the possibility of mandatory adoption of a consolidated system for reporting trades. Public information available on the reform, which includes a sector consultation, provides for consolidation of the information on transactions which have already been performed (post-trade transparency), but not the incorporation of a rule which enforces execution of orders in the market with the best price.

25 Hoffmann, P. (2010). *Adverse selection, transaction fees, and multi-market trading*. Job Market paper.

26 *Proposal for a Directive of the European Parliament and of the Council on markets in financial instruments repealing Directive 2004/39/EC of the European Parliament and of the Council*, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0656:FIN:en:PDF>

Specifically, the public consultation on the reform of the MiFID includes three options to consolidate transactions:

1. The consolidation is performed by a single, non-profit-seeking entity established and appointed by a legal order. The entity would need to demonstrate that it can maintain the information received with a high level of security, that it has the resources to accept, collect and consolidate the information, that it has contingency arrangements and that it is able to manage possible conflicts of interest.
2. A single commercial undertaking appointed following a public tender which meets the same requirements for collecting, consolidating and disseminating trade data.
3. Allowing competition between several entities following approval by the competent authorities subject to compliance with the requirements.

With respect to the fragmentation of liquidity in dark pools, in May 2011 the Technical Committee of IOSCO²⁷ published a series of principles with the aim of dealing with several supervision issues concerning trading without transparency requirements. The six IOSCO principles are designed to:

- Minimise the impact of the use of dark pools and dark orders in markets by promoting pre-trade transparency and encouraging the priority of transparent orders.
- Mitigate the effect of any potential fragmentation of information and liquidity by promoting pre-trade and post-trade transparency and consolidation of such information.
- Ensure that regulators have access to adequate information to monitor the use of dark pools and dark orders.
- Ensure that participants have sufficient information so that they are able to understand the manner in which orders will be handled and executed in dark pools.

4 Conclusions

Over recent years, the fragmentation of liquidity in securities markets among different trading platforms and segments has risen as a result of technological advances, the entry of new participants and regulatory changes, which have enabled competition between different venues. This fragmentation, together with dark liquidity and high-frequency trading are modifying the microstructure and operations of securities markets. The potential benefits of these profound changes in markets may be

²⁷ *Op. cit.*

marginalising retail investors due to their natural difficulties in accessing investments, knowledge and the infrastructures connecting new platforms and dark segments necessary to exploit the new trading environment. In addition, this new highly fragmented structure could have undesired effects in terms of financial stability, exacerbating the impact of certain shocks, although the empirical evidence accumulated to date on this issue is still scarce.

One of the essential aspects to be considered is the effect of fragmentation on the quality of asset price formation when not all the supply and demand of a security is concentrated in one single trading point. The key aspect to be considered is how to consolidate different platforms so as to achieve a single order book which makes it possible to exploit latent network externalities in trading infrastructures. In the US it has been possible to achieve, in practice, a single virtual market by the implementation of the Trade-Through Rule. In other countries, including those in the European Union, only some intermediaries and participants may achieve this through smart order routing systems, due to the difficulties in accessing this technology. The most recent empirical analyses coincide in highlighting that when a virtual single market is achieved, liquidity improves and bid-ask spreads narrow. However, some authors have also indicated that this has led to a reduction in market depth and the average trade size, which could be due to the increase in high-frequency trading. Some experts indicate, in particular, that the market depth for small shares is particularly low as a consequence of fragmentation.

On the other hand, empirical evidence suggests that there has been a flight of activity of traditional institutional investors towards dark pools with the aim, *inter alia*, of avoiding the intervention of high-frequency traders. In this case, these dark segments use the prices of regulated markets as a benchmark. This phenomenon contributes to fragmentation, given that it ignores the part of the supply and demand for each security which does not interact in the price discovery process. The practice of multilateral facilities and dark segments to use the prices of regulated markets as a benchmark could mean that, on the one hand, the price formation process loses information and that, on the other hand, prices are set based on a decreasing number of trades in regulated markets.

With regard to the regulatory initiatives to address fragmentation, the approaches range from the legislation in the US, through which each trading platform must necessarily show the best bid and ask price regardless of the market on which it is listed, to the consolidation of information on post-trade transparency, which seems to be the alternative planned for Europe in the amendment of MiFID Directive. The first option, implemented in the US since 2005 through the Order Protection Rule, would make it possible to achieve a single virtual market, as demonstrated in various academic studies. The alternative of consolidating information on prices would make it possible to improve the efficiency of post-trade supervision, especially for the most fragmented securities, which are usually those which are most traded in each country.

Competition and structure of the mutual fund industry in Spain: the role of credit institutions

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1 Introduction

In some industries, the fact that the costs of making acquisitions from several suppliers may be too high (switching costs)¹ or that it is too difficult for buyers to find the best suppliers of the products that they want (search costs) means that they prefer to concentrate their acquisitions at one single seller.² Examples of this behaviour can be found in non-financial industries related to commercial distribution, particularly supermarkets, but also in the financial industry as many users of financial services prefer to centralise their financial operations in one single entity.

In this type of industry, the type and diversity of products offered by companies may become important strategic variables which end up having an impact on the structure and conditions of market competition. Accordingly, in an industry in which the demanders prefer to buy from companies which offer a wide variety of products, the companies compete with each other by increasing said range of products. If these demand spillover effects are strong, companies have more incentive to offer a wide variety of products and thus achieve greater market power.

According to Gavazza (2011),³ the mutual fund industry may be considered as a natural terrain to study the presence of demand spillovers and the role played by the variety of products offered. It is reasonable to think that in this industry most buyers of mutual funds prefer to make their investments through one single financial institution or one single intermediary. This preference towards concentrating financial transactions at one single entity takes on special relevance in the case of Spain, where universal banking with close customer relations is the predominant model. This banking model, as opposed to specialised banking (or the Anglo-Saxon model), in which credit institutions are of two types, commercial banks and investment banks, is characterised both by the provision of all types of typical banking and investment services, and by business promotion and participation in the capital of companies through an extensive branch network.

Spanish banks have followed a growth strategy over the years based on physical proximity to the customer which has led to a considerable increase in the number of branches throughout Spain. Consequently, the number of inhabitants per branch

1 Most of the time, when customers of credit institutions decide to close their account and cancel the products which they have taken out with that entity to move them to another credit institution, they suffer costs, which include both time costs and money costs.

2 See, for example, P. Klemperer and J. Padilla (1997), "Do firm's product lines include too many varieties?", in *RAND Journal of Economics*, vol. 28, pp. 557-582.

3 Gavazza, A. (2011). "Demand spillovers and markets outcomes in the mutual fund industry", in *RAND Journal of Economics*, vol. 42, pp. 776-804.

stood at around 1,000 in September 2010, which contrasts with the considerably higher ratios seen in other advanced economies (for example, in the EU, US and United Kingdom, the ratio stands at around 2,000, 3,000 and 5,000 inhabitants per branch respectively). The highly extensive commercial network of Spanish banks can also be seen in the number of available ATM.

The Spanish retail banking model in the decade prior to the crisis was, therefore, characterised by a high presence of Spanish credit institutions⁴ with multiple branches, often with no more than two or three employees.⁵ Branches offer customers the full range of financial products and services, both in the form of financing (mortgages and consumer loans) and investment products, not only the traditional products of bank deposits, but also other more sophisticated financial products, including mutual funds.⁶ This model of retail distribution contrasts with that seen in the US, where the presence of financial advisers, not necessarily associated with a bank, as well as the direct purchase of funds by investors, is much more significant.

In addition to the signs which suggest that consumers of financial services, particularly in Spain, have a strong preference towards concentrating their financial operations in one single entity, there is a second reason why the mutual fund industry is appropriate for investigating the existence and intensity of demand spillovers. This industry may be segmented into two groups, depending on the type of investor, retail or wholesale, for which said demand spillovers are likely to be different. In general, it is reasonable to suppose that wholesale investors are more sophisticated in financial terms and, therefore, their costs for changing investment between funds of different fund managers would be lower and their ability to find funds with a higher expected return, or lower costs, would be greater. Therefore, the variety in the range of funds offered by fund manager should, *a priori*, be greater in the retail mutual fund segment, as these investors incur greater costs in order to find satisfactory investments with other fund managers.

If this is the case, fund managers which market mutual funds in the retail segment would have incentives to increase the range of funds which they offer (in number and/or category). With this strategy, their market share in the industry would increase and they could charge higher prices (fees in this context) to their consumers. Finally, given this strategy, this fund segment should show a high level of concentration.

4 In 2009, the assets of Spanish credit institutions concentrated around 90% of total bank assets, higher than the 73% seen on average in the EU.

5 For a more thorough study of the strategic trends in bank management, see S. Fernández de Lis and A. García Mora (2008), "Algunas implicaciones de la crisis financiera sobre la banca minorista española" ["Some implications of the financial crisis on Spanish retail banking"], in *Revista de Estabilidad Financiera*, No. 15, pp. 55-72 or J. Delgado, D. Pérez and V. Salas (2003), "Especialización crediticia y resultados de la banca europea" ["Credit specialisation and results of European banks"], in *Revista de Estabilidad Financiera*, No. 5, pp. 273-294.

6 The high level of importance of bank branches in providing financial services has been documented by Datamonitor (2001), *Impact 2001 Survey*. This study shows that the distribution channel most used by bank users in Spain was the branch (close to 90%, compared with the European average of 80%), far ahead of other channels such as telephone banking or Internet banking.

The preliminary data on the Spanish mutual fund industry for the period 1995-2010, which is described in the following section, suggests that demand spillovers may play a significant role in this industry and that, in addition, they seem to be more intense in the retail segment of the mutual fund industry. In particular, the data shows that (1) the average number of funds offered by fund managers in the retail sector is much higher than in the wholesale sector, (2) the fees applied to retail funds are higher than those applied to wholesale funds and (3) the concentration of fund managers is higher in the retail segment.

This article, which follows the line set by Gavazza (2011) for the fund industry in the US between 1999 and 2007, aims to contribute towards the literature relating to mutual funds from two points of view.⁷ Firstly, it aims to explain the competition conditions in the Spanish investment industry using certain demand patterns which, in this case, incorporate the preference of consumers for variety and/or depth in the offering of products. Secondly, it offers a comparison with the patterns identified in the US industry with regard to the presence of demand spillovers for mutual funds and the differences in their intensity between the wholesale and retail segment.

The article is structured as follows: the second section presents the main characteristics of the offering of mutual funds in Spain between 1995 and 2010, paying special attention to the conditions of competition in the industry. The third section describes the data to be used, the empirical model which will be estimated and its main variables. The fourth section presents the results of the empirical analysis. Finally, the fifth section offers the main conclusions of the study.

2 Characteristics of the competition in the mutual fund industry

The number of mutual funds in Spain, as well as their assets, grew significantly in the period 1995-2010, although we can divide this period into four sub-periods. Firstly, between 1995 and 2000, the industry expanded significantly, both in the number of funds and in the assets under management. This increase was due to the popularisation of this type of financial instrument among investors, especially among retail investors. In the years 2001 and 2002, the industry contracted as a consequence of the bursting of the technological bubble, which was reflected in a significant fall in the assets managed by mutual funds, although the number of funds remained stable. Coinciding with the sharp economic growth of the Spanish economy between 2003 and 2007, there was a new expansion, both in the number of funds and the volume of assets under management. In the final stage of the period under study, 2008-2010, both the number of funds and the assets under management fell significantly as a consequence of the financial crisis, which began in 2007.

7 This article aims to spread the main conclusions of a more extensive paper recently published within the framework of the CNMV's Working Paper series (Cambón, M.I. and Losada, R. [2012]. *Competition and structure of the mutual fund industry in Spain: the role of credit institutions*. CNMV, Working Paper No. 54).

Assets under management of the funds according to the type of fund manager and the fund profile¹

FIGURE 1



Source: CNMV.

¹ Conservative funds are money market funds, all fixed-income funds and guaranteed funds. Equity funds and mixed funds also include global funds.

Most of the assets of mutual funds were managed over the period by fund managers belonging to credit institutions. Specifically, this type of fund manager managed between 92% and 95% of the assets invested in mutual funds. Independent fund managers only had a noteworthy presence in the segment of equity and mixed funds⁸ aimed at wholesale investors⁹ (see figure 1).

⁸ Conservative funds are money market funds, all fixed-income funds and guaranteed funds. Equity funds and mixed funds also include global funds.

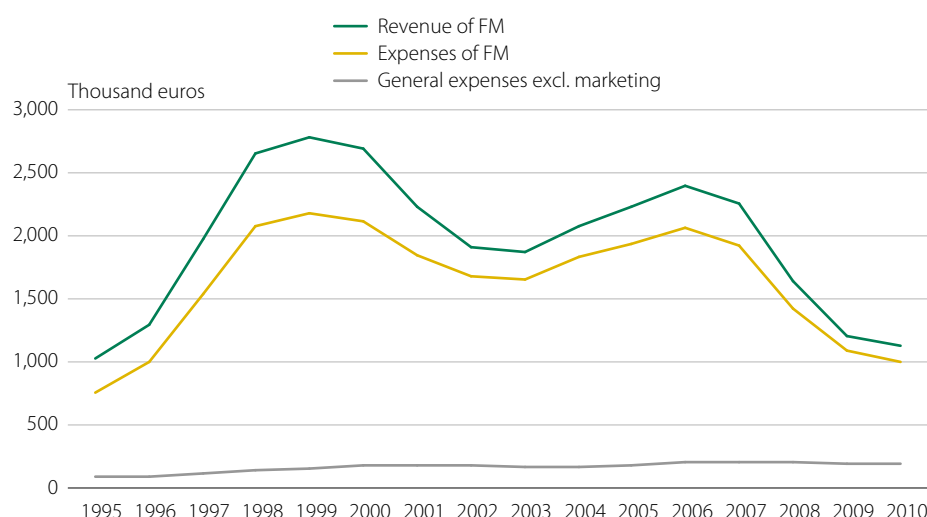
⁹ Mutual funds have been divided into wholesale and retail funds according to the following criteria: between 1995 and 1998 wholesale funds were those with a percentage greater than 50% of assets in the hands of investors with a minimum holding of 180,000 euros. From 1999 to 2010, as a result of the change in the circular on the reserved statements which fund managers must file for supervisory purposes, the criteria separating wholesale and retail funds changed. In this period, money market funds and short-term fixed-income funds are considered wholesale if more than 50% of their assets are in the hands of investors with a minimum of 300,000 euros. The other funds are considered wholesale when more than 50% of their assets are held by investors with a minimum holding of 150,000 euros.

Another of the most important characteristics of the mutual fund industry in this period was the level of importance of assets concentrated in retail and conservative mutual funds (on average, 60% of assets). Less important were the assets of equity funds and mixed funds (retail and wholesale), which averaged 18% of the total, as well as conservative funds aimed at wholesale investors, which accounted for 15% of total assets.¹⁰

With regard to the characteristics of competition between mutual fund managers, it is important to point out, firstly, the fact that the aggregate profits of the entities largely depend on the assets managed and, by extension, the economic cycle. However, if the revenue and expenses are analysed separately, we can see that not all the components perform in a similar manner to the assets managed. In particular, if we consider all the costs incurred by a fund manager except for marketing, we can see that their trend remains practically unchanged over time (see figure 2).

Revenue and expenses of fund managers¹

FIGURE 2



Source: CNMV.

1 The figures are expressed in constant euros. 1995 has been taken as the reference year.

For their part, the marketing costs incurred by fund managers depend on the assets under management. Given that the fund managers which belong to credit institutions mainly market their funds through the group's network of branches, it could be expected that their unit-holders would benefit to a large extent from the economies of scale and scope associated with both the fund manager and the marketing network belonging to the same financial group. However, the marketing fees charged by the group's distributors do not necessarily reflect these economies given that they may incorporate significant extractions from the consumer's surplus mainly as a result of factors which limit their mobility between financial institutions (switching costs, search costs, limited financial education, etc.).

10 For further details about the operating of mutual funds in Spain over the period 1995-2010, see M.I. Cambón and R. Losada (2012), "Development of mutual fund managers and products offered from 1995 to 2010", in the CNMV's *Quarterly Bulletin*, first quarter pp. 87-108.

There are indicators which suggest that the market power of fund managers which belong to credit institutions is considerable. Accordingly, for example, the costs of this type of fund manager excluding marketing fees are very small compared with their revenue and, in any event, noticeably lower than those of independent fund managers. In addition, even though the number of fund managers is high, the market share of the four largest companies, all of which belong to credit institutions, ranged between 36.2% in 1995 and 49.2% in 2010, with a high of 57.4% in 2003. Finally, it should be pointed out that the entry of new fund managers in the period was not particularly significant.¹¹

The market power enjoyed by fund managers in Spain is not a characteristic which is only seen in the Spanish fund industry. Gruber (1996)¹² and Korkeamaki and Smythe (2004)¹³ found numerical evidence for the industries in the US and Finland relating to the existence of economies of scale which final investors do not benefit from. Ferreira and Ramos (2009)¹⁴ calculated a Herfindahl index¹⁵ for the fund industry in Spain of 0.1 in 2006, similar to the average index in a sample of Eurozone countries (0.12), specifically Austria, Belgium, Finland, France, Germany, Italy, Netherlands and Portugal.

In order to understand this evidence, it is important to segment the fund market between those aimed at retail investors and those aimed at wholesale investors. The underlying idea behind this division lies in the fact that demand from both markets belongs to investors from two differentiated segments and, therefore, their demands may exhibit different characteristics.

This article demonstrates that retail investors prefer fund managers which offer a wide variety of funds. This is seen in the fact that a fund manager which extends the number of funds increases its market share through the new fund and an increase in the assets of its other funds. This demand spillover leads fund managers to offer a large number of funds at relatively high fees. In addition, it introduces the necessary conditions for the fund industry to have a market structure in which a few fund managers have a large management share.

In general, retail investors usually make their investments in funds from one single fund manager as the search for the most suitable fund by this type of investor is

11 The average annual number of fund managers which began operating in the period 1995-2010 was two. This is in line with the predictions of Schmalensee (1978), "Entry deterrence in the ready-to-eat cereal industry", in *Econometrica*, vol. 9, pp. 305-37 and Shaked and Sutton (1990), "Product differentiation and industrial structure", in *Journal of Industrial Economics*, vol. 9, pp. 305-327, who showed that the entry of new companies in industries where companies offer a wide variety of products is very limited.

12 Gruber, M. (1996). "Another puzzle: The growth in actively managed mutual funds". *Journal of Finance*, vol. 51, pp. 783-807.

13 Korkeamaki, T. and Smythe, T.I. (2004). "Effects of market segmentation and bank concentration on mutual fund expenses and returns: evidence from Finland". *European Financial Management*, vol. 10, pp. 403-456.

14 Ferreira, M.A. and Ramos, S. (2009). "Mutual fund industry competition and concentration: International evidence". SSRN working paper.

15 The Herfindahl is calculated by taking sum of the squares of the market share held by each company and makes it possible to measure the level of competition in an industry. The possible values of this index range from 0, which reflects perfect competition, up to 1, which reflects an industry dominated by a monopoly.

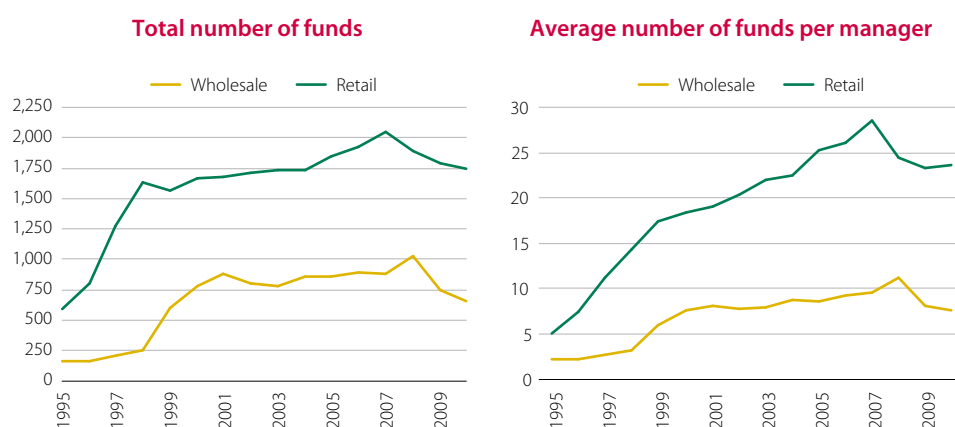
usually a very costly process. It would require them to know and analyse a large number of funds of different fund managers. They therefore prefer not to incur this cost even if the fund which they buy from the fund manager (normally belonging to the credit institution where they have their financial products) is not the optimal fund and there is another in the market which better matches their investor profile. Consequently, a wider and more varied fund catalogue of a particular fund manager leads to greater variety and ease of investment for retail investors, without having to resort to funds of other fund managers.

This article indicates that wholesale investors in mutual funds usually exhibit another pattern of demand. These investors have greater financial knowledge, which allows them to compare existing funds in the market and check which best suits their investment profile. They also more frequently incur the cost of searching for the funds with the highest returns and/or lowest fees and do not normally exhibit such a high level of loyalty with regard to a specific fund manager.

If this author's theory is true in the case of Spain, in the retail segment, compared with the wholesale segment, we would expect to see i) fund managers offering a greater number of funds and/or categories, ii) the funds charging higher fees and iii) market shares more concentrated in a low number of fund managers. As shown in figure 3, in Spain, the number of funds available for the retail public was more than twice the number available for the wholesale segment over the period under consideration. We can also see that the average number of funds which fund managers offered to retail investors was much higher than that offered to wholesale investors.

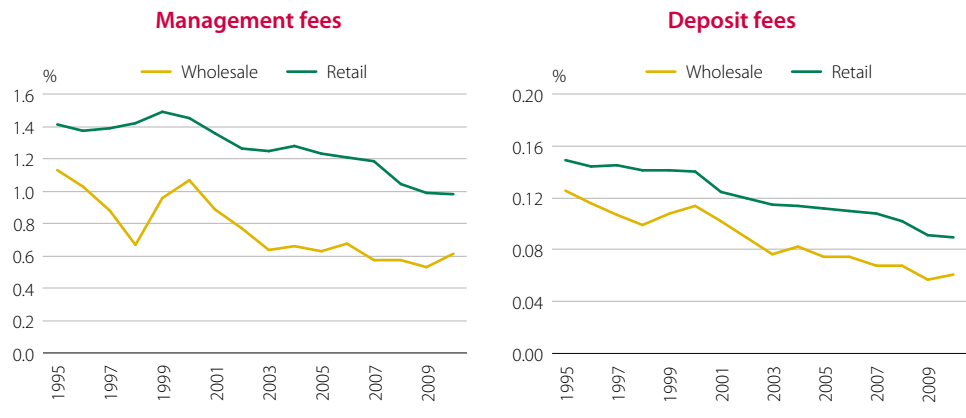
Total and average number of funds managed by fund managers in the wholesale and retail markets

FIGURE 3



Source: CNMV.

Furthermore, in figure 4 we can see that the fees charged to retail investors were higher than those charged to wholesale investors. In addition, the fund managers which belong to credit institutions were able to charge higher fees to their customers than independent fund managers, which would suggest the existence of greater market power exercised by these entities through the marketing networks of their parent companies.



Source: CNMV.

The one piece of evidence which supports this last statement is the fact that this type of fund manager concentrates a large part of retail investment. Specifically, in the period 1995-2010, these fund managers managed an average of 96.4% of the total assets of retail investors. On the other hand, independent fund managers focused more on the wholesale segment, specifically in the wholesale segment of equity and mixed funds. In this fund segment, independent fund managers managed an average of 36.4% of the assets in the period analysed.

There is no major difference with regard to market shares between the wholesale and retail market. The average market share of the four largest fund managers was 51% for the retail market and 49.2% for the wholesale market. Even if we calculate the averages of the Herfindahl index for the period analysed, which stand at 0.099 for the retail market and 0.085 for the wholesale market, there are no significant differences. The fact that the level of concentration of fund managers in the wholesale market is similar to that seen in the retail segment may be determined by the situation of the conservative fund market. This type of fund is dominated by the fund managers of credit institutions, while in the equity and mixed fund market, the presence of funds of independent fund managers is much more important.

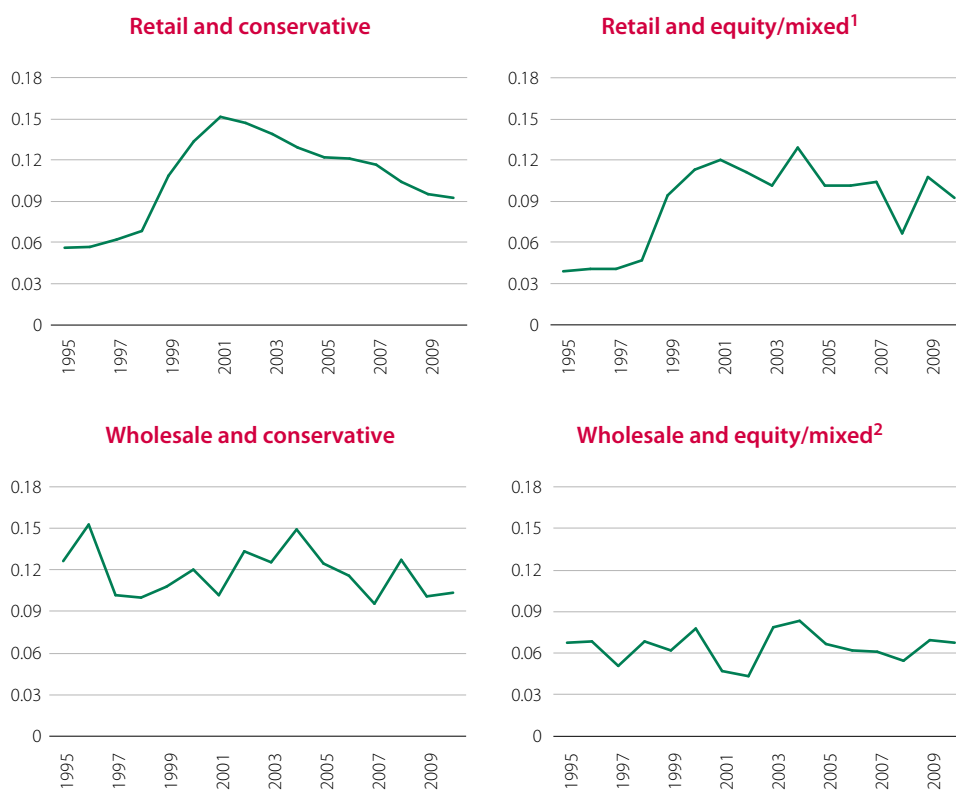
As we can see in figure 5, which shows the Herfindahl indices for the four segments of mutual funds analysed, the level of competition is only significantly higher in the segment of wholesale equity and mixed funds. The similarity between levels of competition in the wholesale segment of conservative funds and the retail segment would suggest that wholesale investors in conservative funds exhibit similar patterns of demand to retail investors. In fact, the market share of the fund managers of credit institutions in this segment averaged 81.4%. However, the wholesale market of equity and mixed funds exhibits a noticeably higher level of competition, in which independent fund managers may compete aggressively with fund managers of credit institutions. The characteristics of this last segment will be more similar to the patterns of demand envisaged in Gavazza (2011) for a wholesale market.

Therefore, the characteristics of a large part of the demand for funds (conservative retail and wholesale) could mean that the competition in prices is limited, enabling the existence of mutual funds with higher fees and lower returns. This could be a possible explanation for the apparent paradox resulting from the presence of mu-

tual funds which demonstrate low returns and which may charge higher fees as shown in Cambón (2011)¹⁶ in the case of Spain and Gil-Bazo and Ruiz-Verdú (2009)¹⁷ in the case of the US. The critical analysis of this industry conducted below aims to verify and, in some cases, confirm the intuitions deriving from the descriptive analysis of the data carried out in this section.

Herfindahl indices in the mutual fund market

FIGURE 5



Source: CNMV.

1 This category includes equity funds and mixed funds.

2 This category includes equity funds and mixed funds.

3 Empirical analysis

3.1 Data

The empirical analysis presented herein has been conducted using the information which the CNMV periodically receives in the context of its supervision of collective investment schemes. Annual data has been obtained on all the existing mutual funds and fund managers, including those which disappeared, between 1995 and 2010. Information has also been obtained on certain variables which characterise the financial

16 See M.I. Cambón (2011), *Spanish mutual fund performance: an analysis of the determinants*, CNMV, Working Paper No. 48.

17 See J. Gil-Bazo and P. Ruiz-Verdú (2009), "The relationship between price and performance in the mutual fund industry", in *Journal of Finance*, vol. 42, pp. 776-804.

group to which the fund manager belongs. When the financial group related to the fund manager is a credit institution, the information has been obtained from the annual reports of the Spanish Banking Association (AEB), from the Spanish Confederation of Savings Banks (CECA) and the National Union of Credit Cooperatives (UNACC).

The database built for the analysis uses variables which characterise each mutual fund and each fund manager in each one of the years under consideration. The variables which characterise the mutual funds are defined for each fund and bearing in mind its category, the fund manager to which it belongs and the year. With regard to the category, the funds have been grouped into three major categories depending on their risk profile and their capacity to substitute bank deposits. Consequently, “conservative funds” have been considered to include money market funds, short-term fixed-income funds, long-term fixed-income funds and guaranteed funds, “mixed funds” include mixed equity or fixed-income funds, and “risky funds” include pure equity funds and global funds. The other variables used to characterise the funds are as follows:

- The fund’s market share: defined as the ratio between the assets of each fund and the total assets of the funds in each one of the years making up the sample.
- Price: defined as the sum of the management fee, the deposit fee, 1/7 of the subscription fee and 1/7 of the redemption fee of each fund in each one of the periods making up the sample.¹⁸
- Return: defined as the percentage change in the net asset value of the unit of each fund between the close of one year and the close of the previous year.
- Volatility: defined as the typical annualised deviation of the fund’s monthly returns over the last 12 months. This is a standard risk measure to assess the profile of mutual funds.
- Age: defined as the number of years the fund has existed in each one of the years under consideration.
- Merger: this variable takes into consideration mergers between funds over the period under consideration. It takes a value of zero up to the year prior to the merger and one as from the year of the merger.

The variables which characterise a fund manager are as follows:

- Market share of the fund manager: defined as the ratio between the total assets of the funds managed by a fund manager in a period and the total assets of the funds in that period.
- Price of the fund manager: defined as the average price charged on each one of the fund manager’s funds in each period weighted by the assets of each fund.

18 This variable has been defined in a similar manner to that of Gavazza (*op. cit.*), where it is assumed that investors make the investment at a time horizon of seven years.

- Variety: we consider two types of variety offered by a fund manager. The first corresponds to the number of funds offered in each year, and the second refers to the number of categories offered in each year.
- Net return: defined as the average of the net return of each one of the funds each year weighted by the assets of each fund.
- Volatility: defined as the average volatility of each one of the funds each year weighted by the assets of each fund.
- Age: defined as the number of years of the fund manager's oldest fund.
- Type of financial group to which the fund manager belongs: this variable takes a value of one if it belongs to a credit institution (bank, savings bank or credit cooperative) and zero if it belongs to an independent financial group.
- Turnover, percentage of the assets managed by the fund manager in equity and mixed funds.
- Merger: this variable takes into consideration mergers between fund managers over the period under consideration. It takes a value of zero up to the year prior to the merger and one as from the year of the merger.

Tables 1 and 2 show a summary of the main descriptive statistics of the most relevant variables considered in the empirical analysis. With regard to the variables which characterise funds (see table 1), we can see that, in the retail segment, the average market share of the funds in the period under consideration stands at 0.062%, while it is greater in the wholesale segment, standing at 0.159%. Among the most relevant differences between both fund segments, we can see that the fees of retail funds were higher on average than those of wholesale funds (1.59% versus 1.31%). The return, on average, of retail funds is also higher than that of wholesale funds in the period under consideration. The fact that the proportion of risky funds in the wholesale segment is higher (over 67% of the observations correspond to pure equity or mixed funds) together with the different periods of turmoil in equity markets, in which these funds may lose a substantial part of their assets, would help to understand the lower return in this segment. One final significant difference between both fund segments lies in the type of financial group to which the fund manager belongs. In the retail segment, over 91% of the observations correspond to funds with a fund manager belonging to a credit institution, while this percentage falls to 70% in the wholesale segment.

With regard to the variables which characterise the fund managers, as we can see in table 2, the average market share of the fund managers in the retail fund market was 1.08%, somewhat higher than that of fund managers present in the wholesale fund market (1.06%). The fund managers present in the retail segment charge higher fees, by 1.50%, and offered, on average, more funds (18.5) and more categories, 38% in relation to the total categories available, than fund managers in the wholesale market. The return obtained by fund managers in the retail fund market was slightly higher than that for fund managers in the wholesale market as a result of the high presence of more conservative funds, which suffered less during the different periods of turmoil.

Descriptive statistics of the sample of funds

TABLE 1

	Retail segment		Wholesale segment	
	Average	Standard deviation	Average	Standard deviation
Market share (%)	0.062	0.181	0.159	0.468
Price (%)	1.59	0.608	1.31	0.715
Return (%)	3.58	16.393	2.45	16.29
Volatility (%)	5.93	7.453	7.21	7.64
Age (years)	6.67	4.585	6.58	4.61
No. of observations	24,191		9,271	
No. of funds ¹	3,542		1,976	

Source: CNMV.

1 Note that a fund may have been in both segments if there have been changes in the percentages invested by the unit-holders. Therefore, the sum of the number of funds in both segments does not coincide with the total number of funds in the sample, which stands at 4,178.

Descriptive statistics of the sample of fund managers

TABLE 2

	Retail segment		Wholesale segment	
	Average	Standard deviation	Average	Standard deviation
Market share of the fund manager (%)	1.082	2.977	1.064	2.633
Price (%)	1.50	0.400	1.26	0.608
Variety: No. of funds	18.5	31.99	7.3	10.54
Variety: No. of categories (% of the total)	0.38	0.255	0.25	0.171
Return (%)	4.27	10.21	3.95	11.80
Volatility (%)	6.04	4.988	6.80	4.994
Employees financial group	2,249	5,103	2,051	5,004
Branches financial group	344	770	313	761
Marketing costs (thousand euros)	17,804	58,380	16,515	56,161
Staff costs	1,205	2,006	1,250	2,008
No. of observations	1,367		1,414	
No. of fund managers ¹	156		153	

Source: CNMV.

1 Note that a fund manager may be present in both segments as it markets both types of funds. Therefore, the sum of the number of fund managers in both segments does not coincide with the total number of fund managers in the sample, which stands at 163.

On average, the fund managers which marketed retail funds belong to financial groups with more employees and branches than the fund managers which marketed wholesale funds. In addition, the fund managers of retail funds, on average, incurred greater marketing costs, and lower staff costs than the fund managers of wholesale funds.

3.2 The empirical model

A demand equation has been estimated for both segments of mutual funds which takes into account not only the price and other characteristics of the product, but also the variety of the offering of said product.¹⁹ This demand equation makes it possible to measure the demand spillover which may be present, both in the retail segment of the fund industry and in the wholesale segment. In order to measure the spillover, we have checked whether a fund with a family which offers more funds or categories than its rivals enjoys a higher market share. The second part of the analysis checks whether a fund manager which offers more funds or categories than its rivals enjoys a higher market share.

For the case in which the funds are analysed individually, the demand equation considers the fund's market share in the period under consideration as a dependent variable. The explanatory variables include the price (fees of the fund or of the fund manager), the variety of funds offered by fund manager (measured by the number of funds or categories) and other variables which characterise the fund or the fund manager.

For its part, when the market is analysed at a fund manager level, the demand equation uses the market share of the fund manager in the period under consideration as a dependent variable, and the following explanatory variables: the variety of funds offered by the fund manager measured by the number of funds or categories, the price of the fund manager (weighted average of the prices or fees of its funds) and a set of variables relating to the fund manager, such as return, volatility, turnover and whether it belongs to a credit institution.²⁰

4 Results

The result of the estimates of these models will indicate the role played by variety in the Spanish mutual fund industry and whether said role is different in the fund retail or wholesale segment. If the investors in mutual funds value an increase in the number of funds or categories offered by the fund manager, we can expect a positive and significant coefficient for the parameter associated with "variety" in our estimate. If we also think, as suggested by the preliminary information of the data sample, that retail investors rate variety more highly, then this coefficient would be higher in the retail segment than in the wholesale segment. Furthermore, the estimates will allow us to establish other differences between the demand for wholesale funds and retail funds, such as in terms of price elasticity of the fund and other variables of interest. The differences between these demand equations could justify some of the decisions taken by fund managers and, ultimately, explain the different level of concentration between the industry's wholesale and retail segments.

19 For further details on the specifications of the demand equations, see M.I. Cambón and R. Losada, *op. cit.* (footnote No. 7).

20 These models have been estimated using the Generalised Method of Moments with instrumental variables. The estimate has been made in least squares in two stages, controlling for heteroskedasticity and autocorrelation in the errors of the observations, as well as correct identification of the model and the validity of the instruments used.

As mentioned above, two alternative variables have been used to measure the variety of funds offered by fund managers in the market: the number of funds and the number of categories offered by fund managers in the market. It is important to bear in mind that these two methods of reflecting the variety may mean that the results of the estimates do not allow a perfect comparison. When the variety is calculated using the number of funds, this reflects the demand of investors which place more importance on the offering of funds than the possibility that the fund manager allows them to invest in a more varied risk portfolio. Consequently, this possibility reflects more the preferences of conservative investors. On the other hand, we can conclude that when variety is calculated using the number of categories, the model reflects an investor profile which is riskier than that of the average investor in the Spanish fund market.

4.1 Funds

The results of the estimate of the demand equation proposed at the level of funds is shown in table 3, which breaks down the results of the two types of variety considered: the number of funds and the number of categories offered by the fund manager. As shown in said table, the coefficients associated with variety are positive and significant both in the wholesale fund market and in the retail fund market and for the two ways of calculating variety. We can conclude that there is a positive relationship between the market share of a mutual fund and the number of categories and/or funds offered by its fund manager. Furthermore, the estimated coefficients for variety in the retail segment are higher than the coefficients estimated for the wholesale fund segment. These results would support the hypotheses put forward at the start of the study, which suggested a possible presence of spillover demand in the Spanish mutual fund industry and the fact that this spillover could be more intense for retail investors as a whole. They would also be in line with the universal banking model present in Spain, in which investors show a greater preference for entities which offer a greater variety of financial products.

Gavazza (2011)²¹ also finds the presence of spillover demand in the US fund industry, which is more intense in the retail fund segment. However, the intensity of the spillover demand is lower than in the Spanish market, which suggests that the same increase in the number of funds or categories by a fund manager in Spain would lead to a greater increase in the market share obtained by its funds.

The results of the estimate reveal other interesting differences between the demand for funds in the retail and in the wholesale segments. With regard to the variables which characterise a mutual fund, we can see that, firstly, in both segments, the market share of the fund is negatively correlated to its price (fees), with the elasticity being much greater in the case of wholesale investors. This greater elasticity of wholesale investors seems reasonable given that they have a greater level of sophistication and can gather more information about the funds, and can compare them in better conditions and more quickly, ruling out those which are more expensive. This type of investor is generally more willing to change entity.

21 *Op. cit.*

	Variety					
	Number of categories (out of the total available)			Number of funds		
	Total	R	W	Total	R	W
Variety	1.81*** (0.104)	1.96*** (0.11)	1.05*** (0.119)	0.33*** (0.017)	0.67*** (0.03)	0.44*** (0.047)
Price	-0.38*** (0.027)	-0.23*** (0.04)	-0.66*** (0.04)	-0.34*** (0.025)	-0.16*** (0.045)	-0.65*** (0.040)
Return	0.01*** (0.001)	0.01*** (0.001)	0.01*** (0.002)	0.01*** (0.001)	0.01*** (0.001)	0.01*** (0.002)
Volatility	-0.02*** (0.002)	-0.02*** (0.003)	-0.001 (0.005)	-0.01*** (0.002)	-0.03*** (0.003)	0.003 (0.005)
Age of the fund	0.49*** (0.023)	0.51*** (0.03)	0.48*** (0.048)	0.41*** (0.020)	0.49*** (0.027)	0.46*** (0.046)
Return fund manager	-0.003 (0.002)	-0.01*** (0.003)	0.004 (0.003)	0.002 (0.002)	-0.005* (0.003)	0.005 (0.003)
Volatility fund manager	0.02*** (0.01)	-0.02*** (0.006)	0.02*** (0.008)	0.02*** (0.005)	0.02** (0.006)	0.03*** (0.007)
Age of the fund manager	-0.49*** (0.082)	-0.90*** (0.11)	-0.26*** (0.098)	0.05 (0.056)	-0.85*** (0.09)	-0.05 (0.075)
Credit institution	-0.11* (0.061)	0.06 (0.072)	0.02 (0.061)	0.39*** (0.042)	0.33*** (0.064)	0.11** (0.056)
Category DEP. SUB.	0.31*** (0.036)	0.18** (0.041)	0.75*** (0.07)	0.40*** (0.033)	0.13*** (0.043)	0.85*** (0.067)
Category EQUITY	-0.07*** (0.039)	-0.04 (0.048)	0.19*** (0.067)	0.10*** (0.037)	0.02 (0.052)	0.21*** (0.065)
Merger	0.28*** (0.040)	0.16*** (0.045)	0.48*** (0.081)	0.31*** (0.038)	0.16 (0.046)	0.48*** (0.080)
Hansen Test (p-value)	0.18	0.31	0.37	0.62	0.35	0.39
Fixed effect test (Hausman)	No	No	No	No	No	No

Estimate GMM with instrumental variables robust to heteroskedasticity and autocorrelation.

Estimated coefficients and standard deviation in brackets.

* Significance at 10%

** Significance at 5%.

*** Significance at 1%.

The Hansen test compares the validity of the instruments used. It provides the p-value. The null hypothesis which is tested is "the set of instruments used is valid", and, therefore, a sufficiently high p-value would not reject the validity of the instruments.

With regard to the fund's (net) return, we can see a positive relation between the return offered by a fund and its market share in both segments. However, the relation seen between the fund's volatility and its market share is negative in the retail fund segment, while the coefficient is not significantly different from zero in the wholesale segment. This result would indicate that investors in the retail fund segment are generally more conservative. The funds which have a greater market share are those with the least volatility i.e. those with the least risk. Finally, the age of the mutual fund is a variable with a positive relation with the fund's market share in both segments of the industry, i.e. the oldest funds have a higher market share.

With regard to the variables which characterise the fund manager, we should also indicate some differences between the retail and wholesale fund segments. The most significant difference relates to the return of the fund manager (understood as the weighted average of the return of its funds). As shown in table 3, the relationship between the return of the fund manager and the market share of a mutual fund is negative in the retail mutual fund segment, while it is not significantly different from zero in the wholesale segment. According to this result, the funds of managers which on average offer lower returns tend to have a higher market share.

The coefficient which identifies the type of financial group which the fund manager belongs to, and which tells us whether this is a credit institution or not (in which case it would be considered as an independent fund manager) is not significant in either fund segment when the variety considered is the number of categories, and is positive when the variety considered is the number of funds offered by the fund manager. It therefore seems that the fund managers which belong to credit institutions and which decide to increase the number of funds are able to increase the market share of their funds to a greater extent.

The coefficient associated with variables providing information on the category of the funds and which segment them into those which can be considered as substitutes for bank deposits, of a conservative nature, and equity funds, which are riskier, show interesting results. The first of these is positive in both fund segments i.e. in both segments the market share of the funds which are substitutes of deposits is greater. This relation would fit with the profile of retail investors, which is more conservative, but seems less intuitive, *a priori*, for wholesale investors as a whole. However, as shown in figure 1, in the wholesale fund segment, the relative importance of the assets of conservative funds is very high, which would help to explain this positive coefficient. For its part, the coefficient associated with riskier funds is only significant and positive in the wholesale segment.²²

Finally, the coefficient which includes mergers between mutual funds is positive and significant in both mutual fund segments, although greater for retail funds as a whole. Therefore, the funds which are the result of a merger have generally tended to show higher market shares.

4.2 Fund managers

Table 4 shows the main results of the model estimated for fund managers as a whole. The coefficients of the two variables which show the variety of funds and the number of funds and categories which the fund manager distributes among its customers are

22 The fact that the wholesale mutual fund segment has a very high proportion of assets invested in conservative funds, mostly in the hands of companies, which could present demand patterns similar to those for retail investors has led to separate estimates of the model for the wholesale sub-market of conservative funds and for the wholesale submarket of risky funds. The results of these estimates show that the behaviour of wholesale demand of conservative funds is similar to retail demand in several aspects. For example, relating to the coefficients associated with "variety", the estimated values in the wholesale submarket of conservative funds is very high and significantly higher than those obtained for the wholesale segment of risky funds.

significant both for the retail market and for the wholesale market. In both cases they are positive, which indicates that, on average, the market share of fund managers which offer a greater variety of funds is higher. This would confirm the hypothesis that demand spillover plays a significant role in the Spanish fund market.

**Fund managers-level estimation: wholesale (W) versus retail (R)
wholesale (W) versus retail (R)**

TABLE 4

	Variety					
	Number of categories (over the total available)			Number of funds		
	Total	R	W	Total	R	W
Variety	4.71*** (0.44)	4.14*** (0.47)	2.26*** (0.11)	1.76*** (0.08)	1.62*** (0.11)	1.83*** (0.161)
Price	-0.85*** (0.30)	-0.61 (0.52)	-1.74*** (0.54)	-0.68*** (0.18)	-0.40 (0.37)	-0.54*** (0.178)
Return	0.024 (0.017)	0.01 (0.02)	0.01* (0.006)	0.04*** (0.01)	0.021*** (0.007)	0.02** (0.008)
Volatility	-0.11*** (0.039)	-0.16*** (0.05)	-0.0008 (0.02)	-0.07** (0.02)	0.015 (0.013)	-0.05*** (0.017)
Age	-0.022 (0.023)	-0.02 (0.029)	0.02 (0.01)	0.02* (0.01)	0.014 (0.013)	0.02** (0.011)
Credit institution	-0.62** (0.27)	0.47 (0.36)	-0.12 (0.10)	0.25** (0.119)	0.48*** (0.174)	0.009 (0.12)
Turnover	2.70*** (0.59)	1.28** (0.65)	0.39 (0.25)	0.46* (0.247)	-0.18 (0.317)	-0.18 (0.198)
Merger	-0.14 (0.249)	-0.24 (0.22)	-0.24 (0.28)	-0.38*** (0.139)	-0.03 (0.15)	-0.52* (0.30)
Hansen Test (p-value)	0.22	0.21	0.23	0.18	0.00 ¹	0.21
Fixed effects test (Hausman)	No	No	No	No	No	No

Estimate GMM with instrumental variables robust to heteroskedasticity and autocorrelation.

Estimated coefficients and standard deviation in brackets.

* Significance at 10%

** Significance at 5%.

*** Significance at 1%.

The Hansen test compares the validity of the instruments used. It provides the p-value. The null hypothesis which is tested is "the set of instruments used is valid", and, therefore, a sufficiently high p-value would not reject the validity of the instruments.

¹ In this case the number of instruments is equal to the number of variables to be instrumentalised and the F-test reflects a p-value very close to zero. Therefore, it is not possible to reject the null hypothesis that both instruments are valid at a level of significance of 1%.

When the variety is calculated using the number of categories, the intensity of the demand spillover is much higher in the retail fund market. However, when it is calculated using the number of funds, the intensities of the demand spillover in the retail market and in the wholesale market are very similar. These results can be explained based on the interpretation which has been given to the two ways to calculate variety. In the first case, when variety is calculated using the number of categories, the estimates essentially gather the preferences of investors in equity and mixed funds, which form part of the wholesale market where there is greater com-

petition (see, once again, figure 5). In this case, it is consistent that the demand spillover will be lower in the wholesale segment. In the second case, when variety is calculated using the number of funds, the model tends to gather the behaviour of more conservative investors, and given that both in the retail segment and in the wholesale segment these types of investors are a majority, the intensity of the demand spillover is similar.

One of the results which helps to understand the difference between the retail fund market and the wholesale market lies in the coefficient obtained for the fees paid by wholesale investors, which is significant and, as expected, negative. This significance is present, both when considering the number of funds and when considering the number of categories. However, in the retail market, the fees do not seem relevant when investing in the funds of a specific fund manager. This result could help to explain why retail investors pay higher fees than wholesale investors when they invest in funds with similar portfolios.

As shown in table 4, in addition to fees, conservative wholesale investors also take into account the fact that the funds of the fund manager have a high return and the manager has a long history in the fund market. On the other hand, retail investors only take into account the past return obtained by the manager's funds. When the variety is calculated using the number of categories, the parameter of return is only marginally significant. In this last case, and given the number of observations, it is possible that this estimate is over-weighting the variance of the estimated coefficients. Retail investors focus their attention on fund managers with an extensive catalogue of funds which are not fixed income and with a volatility which is not excessive.

Finally, it should be pointed out that the coefficient associated with the fund manager belonging to the group of a credit institution is only significant and positive in the retail market when the variety is defined through the number of funds. Bearing in mind the interpretations being given to the two definitions proposed for variety, the above results suggest that the fact a fund manager belongs to a credit institution is only important when the investor profile is retail and conservative. In this regard, it is worth remembering that most of the assets invested in mutual funds in Spain correspond to retail investors that hold money market funds and short-term fixed-income funds.

The variable corresponding to whether the fund manager belongs to a credit institution can be broken down into three parts: one corresponding to bank fund managers, another corresponding to savings bank fund managers and a third corresponding to credit cooperative fund managers. Where the equations are estimated with these sub-groups, we can see that in the conservative retail fund market, the three coefficients are positive and significant. In this case, the largest coefficient corresponds to savings bank fund managers (0.75), in second place bank fund managers (0.53) and finally, credit cooperative fund managers (0.42). In the other specifications, both retail and wholesale, these variables lack significance.

When the results obtained are compared with those of Gavazza (2011),²³ we can see that the demand spillover estimated for the Spanish fund market is stronger

23 *Op. cit.*

than that found in the US market. In addition, the estimates identify the presence of demand spillover in the wholesale market of Spanish mutual funds, which is not present in the US market. The explanation could lie in the fact that in the segment of wholesale investors in Spain, in which the importance of companies is very high, the average size of the investor is lower than in the US. In such a case, many of the Spanish institutional investors could show behaviour similar to that of retail investors and prefer to invest in funds managers of credit institutions whose range of products is wider and thus reduce the cost of searching for financial products.

A result which is new in relation to the previous study is related to the variable which identifies whether the fund manager belongs to a credit institution, as indicated above. The fact that the fund managers which belong to credit institutions enjoy a higher market share than independent fund managers in the retail market of conservative funds (the largest in terms of size) is in line with the different methods for marketing funds in the period analysed. In Spain, funds are mainly marketed through credit institutions managed under a universal banking model, which have in place a large sales force.

5 Conclusions

The Spanish mutual fund market is characterised by the presence of a high number of fund managers which offer a significant number of mutual funds. However, this is an industry with a high level of concentration, similar to that of other European economies. In particular, the four leading fund managers in Spain enjoy a market share which ranged between 36.2% in 1995 and 49.2% in 2010, which is a sign that the competition in this industry could be more limited than could be expected *a priori* from the high number of funds available in the market and the strong competition between financial institutions to win new customers.

This paper investigates the conditions of competition in the fund industry in Spain which may derive from the characteristics of the demand patterns of investors which, in this case, include their preference for variety and/or depth in the range of products offered, and taking into account whether they are retail or wholesale. To this end, we have searched for empirical evidence of the possibility that fund managers which offer more variety in their range of products enjoy greater market shares.

The results of the empirical work suggest the existence of demand spillover relating to the variety of funds offered by fund managers, both in the wholesale market and in the retail market. Fund managers can differentiate their offering with regard to their competitors and increase their market share in relative terms by increasing the variety of their funds. The intensity of this demand spillover is higher in the market of funds aimed at retail investors. In addition, in this market, with the same offering of funds, the fund managers which belong to credit institutions enjoy a higher market share and the demand for their products seems insensitive to the fees charged to unit-holders. All of this would demonstrate a strong relationship between credit institutions and their retail investors.

When the results of this paper are compared with those obtained by Gavazza (2011),²⁴ where the same analysis is conducted for the US market, we can see that the increase in market share which a fund manager obtains by increasing the range of products is noticeably higher in Spain, both in the retail fund segment and in the wholesale segment. This contrast would reflect the differences in the distribution model of financial products between the two economies. In the case of Spain, this distribution model is characterised by the strong relationship of customers with a universal banking entity.

In view of the results of this paper, it seems appropriate to encourage the adoption of measures which help to reduce the cost faced by investors, particularly retail investors, when investing in financial products which are not provided by their usual financial institutions. These measures could be directed towards creating public and independent tools which will make it easier to compare the different funds available in the market. Promoting financial education for investors, so as to make a comparison of the products more efficient, may also play a significant role.

24 *Op. cit.*

Economic and financial performance of listed companies in 2011

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1 Introduction

This article gathers and analyses the key highlights of the periodic financial information¹ for 2011 submitted to the CNMV by issuers.

The aggregate information analysed relates to the results, financial position, cash flows, number of employees and dividends paid. The 154 companies analysed operate in the following sectors: energy (10 companies), manufacturing (50 companies), retail and services (46 companies), construction and real estate (32 companies), banks (10 companies), savings banks (2 companies),² and insurance (3 companies).

The analysis is carried out on the following basis:

- The data for analysis are obtained from the consolidated or individual periodic financial reports³ submitted to the CNMV by the issuers of shares or debt⁴ that are listed on a regulated Spanish market, where Spain is the home Member State.
- The aggregate figures exclude issuers that are subsidiaries of another listed group. However, when such issuers carry on their activity in a sector other than that of the parent company, their financial data are included in the figures for their sector.
- Data relating to periods other than the second half of 2011 have been calculated for the representative sample of the companies that were listed in the reference period.

In section 2 of this article we analyse the development of turnover since 2007, in sections 3 and 4, we present the behaviour of earnings and the return on equity and investment. In section 5, we look at the debt of non-financial companies. In section 6 we analyse the non-performing loans and solvency of credit institutions, and in sections 7, 8 and 9, we present the development of cash flows, workforce and dividends paid, respectively. The last section presents the article's main conclusions.

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

2 The analysis conducted in this article excludes the listed banks resulting from the restructuring processes of savings banks throughout the sample period so as to avoid possible distortions in the time development of the key figures discussed herein. However, the study does include those savings banks which send half-yearly information to the CNMV and which have not undergone major structural changes.

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

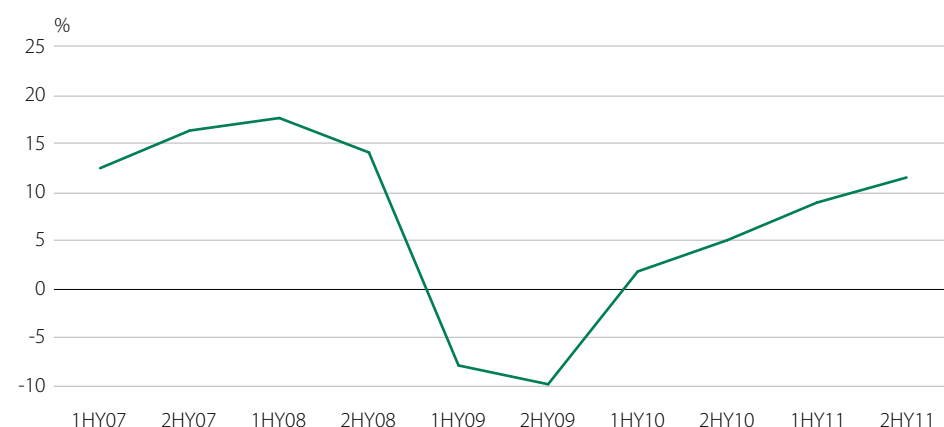
4 Except for entities that have issued preferred shares and other special purpose entities constituted for the issuance of fixed-income securities and the Spanish Official Credit Institute (Spanish acronym: ICO).

2 Net turnover

Figure 1 shows the year-on-year rates of change in turnover⁵ since the first half of 2007. As can be seen, the annual rate of change in 2011 was positive (11.6%), maintaining the growth trend which began in 2010.

Rate of change in net turnover

FIGURE 1

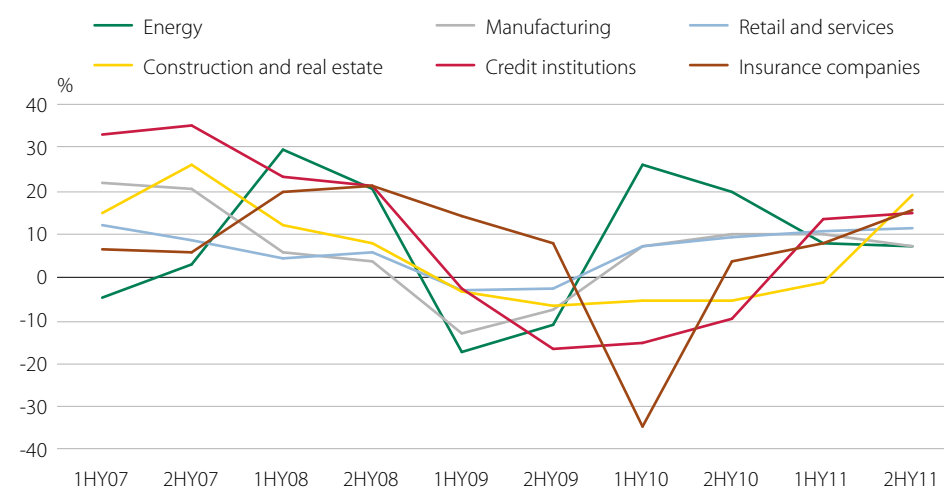


Source: CNMV.

Figure 2 shows the development of net turnover for the different sectors. All sectors recorded positive year-on-year rates of change in 2011.

Rates of change in net turnover by sector

FIGURE 2



Source: CNMV.

It should be pointed out that the construction and real estate sector and the credit institution sector, after presenting negative rates of change in 2009 and 2010, closed 2011 with positive rates of 19.3% and 14.9%, respectively. In the opposite direction,

⁵ For credit institutions, net turnover has been taken to comprise interest income and similar income, and for insurance companies, premium income for the year from life and non-life insurance, net of reinsurance.

the energy and manufacturing sectors presented rates of change which, even though they were positive in 2011, were lower than in 2010, especially in the energy sector.

By sector, the highlights in 2011 were as follows:

- **Energy.** Net turnover increased by 7.5% in 2011 compared with the previous year, mainly as a result of the increase in the average price of crude oil - with a 15.9% rise in the average price of a barrel of Brent oil - and the increase in the average price of electricity - due to lower hydraulic production and the higher cost of fuel. However, there was a certain slowdown in energy demand in Spain, particularly from SMEs and residential customers.

In addition, it should be pointed out that the high growth rates in the first and second halves of 2010 - 26.2% and 20% respectively - were influenced by: (i) recording the sales to suppliers of last resort as revenue from 1 July 2009 (costs were previously offset by revenue⁶ and (ii) the business combinations carried out in the sector in 2009.

- **Manufacturing.** The performance of manufacturing companies was uneven although, in general, positive with a growth rate of 7.2%. There was a clear improvement in the sub-sectors of base metals and other industries, thanks to: (i) the reactivation of demand for stainless steel in the first half of the year, although doubts about economic recovery slowed demand down and led to significant adjustments in production in the second half of the year; (ii) recovery in the manufacturing of wind turbines and the development and sale of wind farms; (iii) the increase in sales in international markets, especially in Brazil and Mexico by the automotive sub-sector; and (iv) the accounting effects of business combinations conducted in 2011.

However, the rates of change in the sub-sectors relating to construction and in the pharmaceutical industry were lower than in the previous year due to, respectively, the impact of the crisis on the construction market, mainly in Spain, and the measures to contain healthcare expenditure and promote the use of generic medicines adopted by the Government in August 2011.

- **Retail and services.** Net turnover in the sector grew by 11.3% as a result of, amongst other factors, the increase in sales in international markets from corporate operations conducted at the end of 2010, the accounting impact of a significant merger with effects as from January 2011, and the accounting effects deriving from the application of IFRIC 12 “Service concession arrangements”, and the registration of certain Spanish solar thermal plants in the last quarter of the year.
- **Construction and real estate.** For the first time since the first half of 2009, this sector recorded an increase in net turnover of 19.3%, mainly due to a corporate operation performed by a construction company with effect as from 1 June 2011. If we exclude this impact, the sector’s net turnover fell by 8.7%, with falls both in construction companies and real estate companies of 6.8% and 37.3%, respectively.

6 Publication of Royal Decree 485/2009 led to a change in the recording of sales to final consumers, affecting all companies in the sector, although to a different extent.

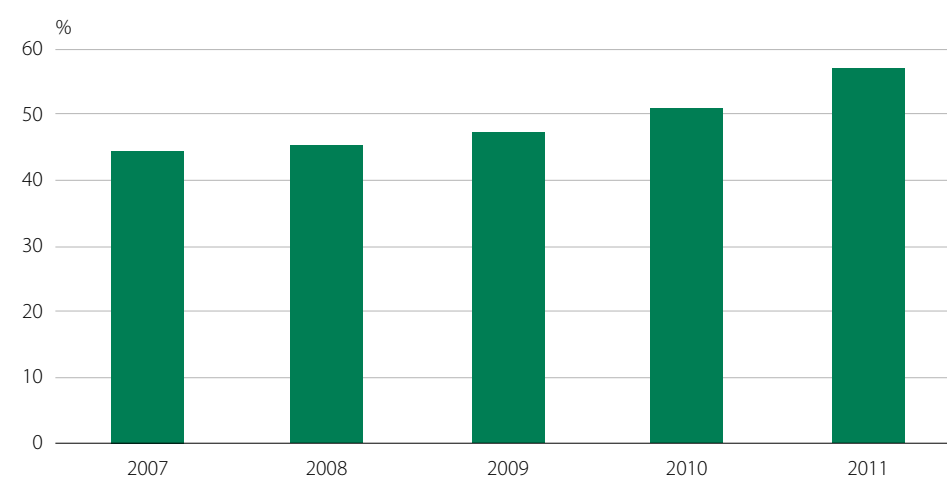
The fall in net turnover suffered by construction companies, excluding the aforementioned corporate operation, was due to the sharp contraction in the Spanish market, both as a result of the fall in public investment and the weakness of the real estate market, which was partially offset by growth in activity abroad and environmental services. For its part, the across-the-board fall in the net turnover of real estate companies was the result of the reduction in residential developments, which was mitigated, in some cases, by sales made to financial institutions within the framework of refinancing processes.

- **Credit institutions.** As indicated, aggregate revenue from interest and similar revenue recorded by credit institutions rose by 14.9% in 2011 compared with that obtained in 2010. The upward trend observed in the first half of the year continued in the second half of 2011. This development was due (i) to the appreciation of mortgage portfolios and the transfer to said assets of the changes in the Euribor⁷ and (ii) to the increase in the margins of the new lending operations as a direct consequence of the entities' risk aversion and the increase in financial costs as a result of liquidity tensions in the markets.
- **Insurance companies.** The amount of the premiums allocated to the year, net of reinsurance, grew by 18% year-on-year for life insurance and 15% for non-life insurance as a result of both the good performance of the international business (with an increase in net premiums of 23%) and the increase in business in Spain (with an increase of 10%).

Figure 3 shows the percentage of net turnover generated abroad for non-financial companies since 2007. This percentage increased in 2011 by 6 percentage points on 2010, and stood at 57%.

Net turnover generated abroad by non-financial companies

FIGURE 3



Source: CNMV.

7 The one-year Euribor, the benchmark index in most mortgage lending, stood at 2.004% in December 2011, compared with 1.526% in the same month of 2010.

Table 1 shows the geographical distribution of the net turnover of non-financial companies by sector. As can be seen, sales abroad continued gaining weight in 2011 in all sectors, reflecting the intensity of the economic slowdown in the domestic market compared with other international markets.

The most significant changes took place in the retail and services sector and the construction and real estate sector, which opted for increased internationalisation of their activity through corporate operations in response to the fall in domestic revenue.

Net turnover of listed non-financial companies: percentage of net turnover from foreign operations (%)

TABLE 1

	2007	2008	2009	2010	2011
Energy	41.8	42.5	43.3	44.8	47.0
Manufacturing	55.2	59.3	62.6	65.8	69.0
Retail and services	52.3	50.1	51.1	57.1	62.5
Construction and real estate	33.2	36.2	38.4	44.5	59.1
Subtotal, non-financial companies	44.7	45.5	47.4	51.0	57.0

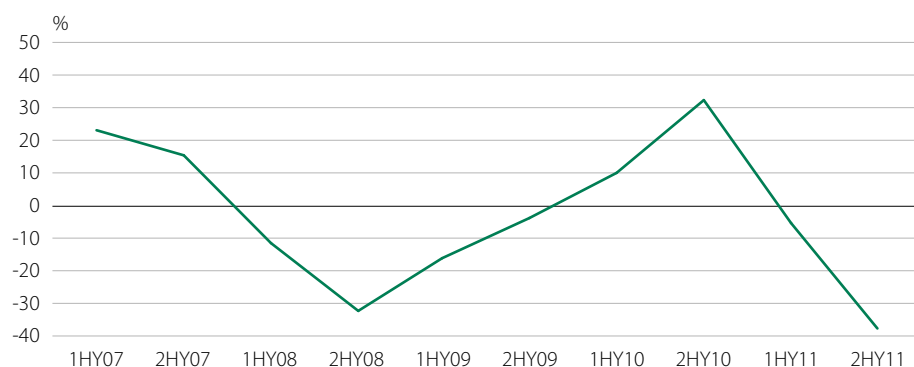
Source: CNMV.

3 Results

Figure 4 shows the year-on-year rates of change in the aggregate profit/loss before tax for continuing operations⁸ since the first half of 2007. This figure shows how negative rates of change returned in 2011, breaking the growth trend which began in 2010.

Year-on-year rate of change in profit (loss) before tax

FIGURE 4



Source: CNMV.

8 Profit/loss before tax, excluding the results of discontinued operations, which are generally significant business lines or geographical areas which the company has either disposed of, or plans to dispose of, within the next twelve months.

This fall is partially the result of the fact that a significant part of the increase recorded in 2010 was due to accounting gains for a gross amount of 9.73 billion euros recorded by four companies in the sample which operate in the energy, retail and services, and construction and real estate sectors. These gains, which did not result in a cash inflow to the companies, were the result of corporate operations which involved a change in the level of significant influence in investee companies, and which involved the re-measurement at market prices of the retained or pre-existing shareholding in accordance with the new accounting standards applicable to these types of operations⁹.

The year-on-year rates of change under this heading for the different sectors were negative, although only the construction and real estate sector recorded a pre-tax loss.

Table 2 shows the key margins from the income statements for 2011 and 2010. As can be seen, all of the figures analysed performed unfavourably in all sectors, except for insurance companies.

EBITDA,¹ operating profit and profit for the year

TABLE 2

Million euros	EBITDA			Operating profit			Profit (loss) for the year		
	2010	2011	Change (%)	2010	2011	Change (%)	2010	2011	Change (%)
Energy	33,299	29,348	-11.9	22,335	18,400	-17.6	15,113	10,741	-28.9
Manufacturing	7,092	6,936	-2.2	4,785	4,549	-4.9	3,314	2,785	-16.0
Retail and services	34,650	29,945	-13.6	21,584	15,662	-27.4	12,590	9,482	-24.7
Construction and real estate	8,137	5,580	-31.4	5,669	2,595	-54.2	2,232	-188	-
Credit institutions	-	-	-	22,095	17,158	-22.3	17,065	10,879	-36.2
Insurance companies	-	-	-	-	-	-	1,273	1,461	14.8
Total²	83,015³	72,047³	-13.2³	76,414⁴	58,710⁴	-23.2⁴	51,619	35,513	-31.2

Source: CNMV.

1 EBITDA = Operating profit/loss + depreciation/amortisation of fixed assets.

2 For groups, the total only includes the consolidated data provided by the parent company, excluding any other listed company in the group. The total differs from the sum of the values shown for each sector as a result of the adjustments made.

3 Excluding credit institutions and insurance companies.

4 Excluding insurance companies.

The number of companies which recorded net losses rose from 43 in 2010 to 52 in 2011. Similarly, the aggregate amount of losses in 2011 rose by 85.5% on 2010.

In terms of the amount, the losses were mainly concentrated in the construction and real estate sector, where 19 companies suffered losses for a total of 3.2 billion euros, accounting for 59.3% of total losses recorded by listed companies. The retail and

9 In January 2008, the IASB published the revised IFRS 3 "Business combinations", revised IAS 27 "Consolidated and separate financial statements", revised IAS 28 "Investments in associates" and revised IAS 31 "Interests in joint ventures", applicable for financial years starting from 1 July 2009. This modification involves substantial changes in the accounting registration of the acquisition or disposal of minority interests when control is held, and in the changes of interests which involve an increase or decrease in the level of significant influence, and which may involve the registration of very significant results due to re-measurements of previously existing or residual interests held.

services sector had the same number of loss-making companies, which, in this case, accounted for 13.1% of total recorded losses. It should also be pointed out that the losses of two companies in the credit institution and insurance sectors totalled 952 million euros.

By sector, the highlights are as follows:

- **Energy.** All the intermediate margins - EBITDA, operating profit, pre-tax profit and profit for the year - fell despite the growth in sales. The rates of change of EBITDA and the operating profit were -11.9% and -17.6% respectively as a result of non-recurring operations performed in the second half of 2010 and the increase in procurement costs due to (i) the higher price of the energy acquired, (ii) the energy generation mix as a result of the higher production of conventional thermal energy and the lower production of hydraulic and nuclear energy, and (iii) the fall in refining margins. Pre-tax profit and profit for the year fell by 25.7% to 28.9% respectively. This was largely due to non-recurring operations carried out in 2010.

If we exclude the effects of non-recurring operations, the fall in pre-tax profit would be 7.4% instead of 25.7%.

- **Manufacturing.** Despite the increase in net turnover, all intermediate margins recorded negative growth rates. EBITDA and operating profit fell by 2.2% and 4.9%, respectively, due to (i) the increase in raw material costs and staff costs, (ii) the recording of impairment, provisions and non-recurring expenses, and (iv) the increase in depreciation and amortisation resulting from the assets incorporated in company acquisitions.

Pre-tax profit and profit for the year fell by 9.8% and 16% respectively due to the increase in financial expenses resulting from the increased debt and the unfavourable evolution of interest rates. In addition, profit for discontinued operations fell significantly.

- **Retail and services.** Despite the growth in sales, EBITDA and operating profit fell by 13.6% and 27.4% respectively due to the increase in procurement expenses and staff costs - as a result of regularisations and restructuring - as well as the fall in the gain for disposal of fixed assets as a result of corporate operations carried out in 2010. Similarly, depreciation/amortisation costs rose as a result of the effects of the changes in the consolidation scope in the previous year.

Pre-tax profit fell by 38.9% due to (i) the increase in financial expenses as a result of the change in interest rates and the effects of refinancings and (ii) the fall in profits from companies recorded using the equity method. In the opposite direction, it is important to point out the increase in gains obtained from the disposal of financial instruments.

Finally, net profit fell by 24.7%, a lower rate than the change in pre-tax profit, owing to the reduction in the corporate income tax expense and profit generated by discontinued operations in the first half of 2011.

- **Construction and real estate.** Despite the growth in turnover, EBITDA and operating profits recorded falls of 31.4% and 54.2% respectively. In order to explain this fall, it is necessary to consider two opposing effects: the fall in the gains from the disposal of assets in construction companies and the positive effect of a corporate operation performed by a construction company with effect as from 1 June 2011, despite the increase which this caused in depreciation/amortisation.

Without taking into account the above impact, the EBITDA of the construction sub-sector would have remained practically stable compared with 2010, with slight growth of 0.7% instead of fall of 34.1%. EBITDA in the real estate sub-sector was negative, although slightly lower than that for 2010, with an uneven development by company. There were companies which saw their EBITDA drop significantly as a result of impairment and others which improved their EBITDA as a result of the revaluations of rented assets in France or because in previous periods they had sold real estate assets to financial institutions with negative margins.

They recorded a loss before tax of 1.23 billion euros - compared with a profit of 3.53 billion euros in 2010, due to the fall in the results of entities recorded using the equity method and, to a lesser extent, the increase in financial losses.

Losses for the period (188 million euros) were lower than the losses before tax as a result of the fall in the corporate income tax expense due to the activation of tax loss carry-forwards and an improvement in the results obtained from discontinued operations as a consequence of corporate operations carried out in the last quarter of 2011.

- **Credit institutions.** The aggregate interest margin in 2011 was 1.3% up on 2010. However, this figure was due to the positive performance of two specific credit institutions, while the others recorded falls due to the worsening of the European sovereign debt crisis in the second half of 2011 and the resulting liquidity tensions, which pushed up the cost of financing in wholesale markets. In this context, credit institutions resorted even further to raising funds through their branch network, which increased competition between the institutions and led to an increase in the remuneration of products offered to retail investors. For their part, net commissions had a slight positive impact on margins.

The increase in staff costs, general expenses, provisions and impairment losses had a negative impact on operating profit, which fell by 22.3% on the previous year. Impairment losses maintained their upward trend and rose to 27.2% of gross margin (25.5% in 2010). As a consequence of the increase in general expenses, the efficiency ratio¹⁰ rose from 39.7% to 42.6%.

Finally, pre-tax profit fell by 43%, mainly due to the increase in losses on non-current assets for sale, which include most of the foreclosed assets, and also due to the impairment of other assets.

10 This is an indicator of an entity's level of efficiency and is determined as the percentage of the gross margin consumed by general expenses (staff costs and other general administration expenses).

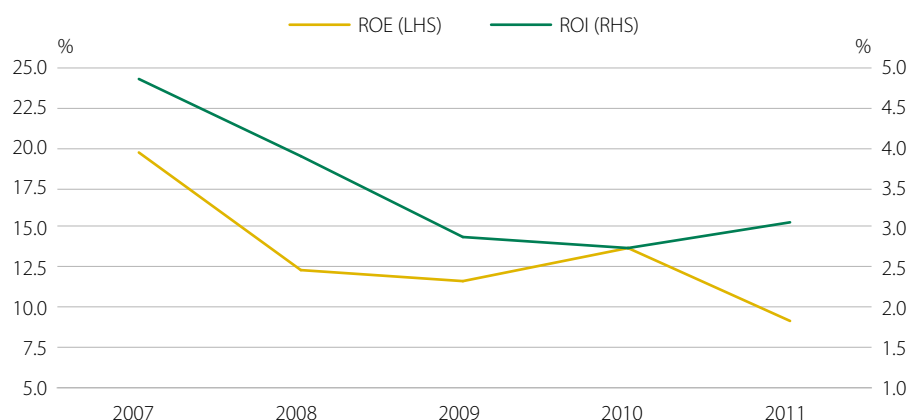
- **Insurance companies.** Net profit for the period rose by 14.8%, mainly due to the positive performance of the results of life-insurance and other non-technical results, while the non-life insurance business suffered a fall in profit of 3.5%, despite the increase in net premiums, as a result of the increase in claims and operating expenses.

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

Figure 5 shows the ROE and ROI¹¹ since 2007. As can be seen, ROE in 2011 fell compared with 2010, while ROI grew slightly.

ROE and ROI

FIGURE 5



Source: CNMV.

Tables 3 and 4 show the trend of ROE and ROI respectively for the different sectors. All sectors except for ROI of credit institutions and insurance companies, which rose slightly, recorded a fall in both ratios compared with 2010. In the specific case of the construction and real estate sector, ROE was slightly negative.

The fall in ROE was the result of a 31.2% drop in profit on the previous year, partly, as mentioned above, as a result of the gains generated during the second half of 2010 as a result of corporate operations which involved an increase or decrease in the level of significant influence, and which involved the re-measurement at market prices of the retained or pre-existing shareholding. If we adjust the 2010 result for the aforementioned operations, ROE stood at 11.6% in 2011.

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

ROE

TABLE 3

%	2007	2008	2009	2010	2011
Energy	15.9	19.5	13.2	16.2	10.7
Manufacturing	17.7	10.6	6.3	13.8	10.4
Retail and services	32.4	20.1	19.3	21.9	16.4
Construction and real estate	18.3	-17.6	3.7	6.6	-0.7
Credit institutions and insurance companies	19.1	13.0	10.4	10.3	7.1
Total	19.7	12.4	11.7	13.6	9.2

Source: CNMV.

ROI

TABLE 4

%	2007	2008	2009	2010	2011
Energy	9.1	10.5	7.2	9.1	6.0
Manufacturing	11.5	7.7	4.9	9.1	7.4
Retail and services	12.1	8.3	7.7	9.4	7.8
Construction and real estate	7.8	0.4	3.2	4.5	2.9
Credit institutions and insurance companies	3.8	3.8	2.5	2.0	2.4
Total	4.8	3.9	2.9	2.7	3.1

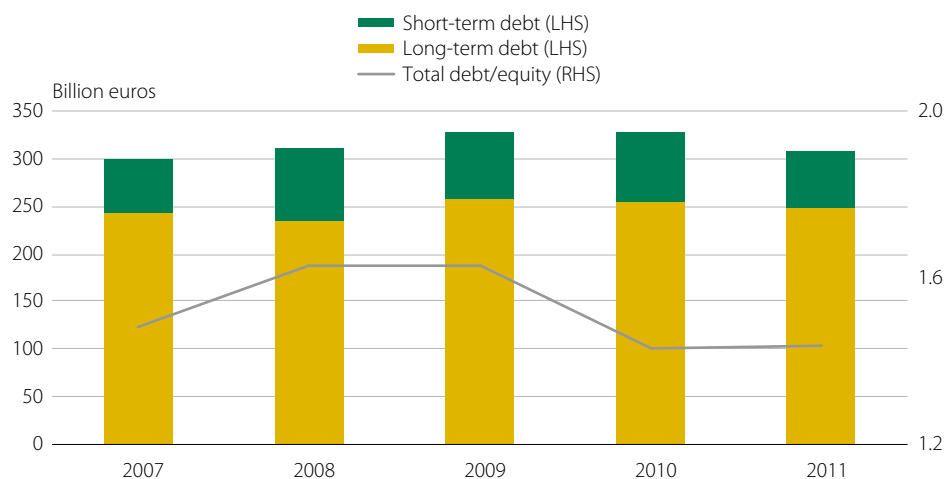
Source: CNMV.

5 Debt

Figure 6 shows the trend of gross financial debt¹² for the non-financial companies in the sample.

Debt structure and leverage ratio of non-financial listed companies

FIGURE 6



Source: CNMV.

¹² Gross financial debt is defined as the sum of debts with credit institutions and issues of debentures and tradable securities.

At the end of 2011, gross financial debt totalled 308.89 billion euros, lower than the total recorded in 2010 (326.77 billion euros). The percentage of short-term debt over total debt fell slightly on 2010 and amounted to 19.8% in 2011 (21.9% in 2010).

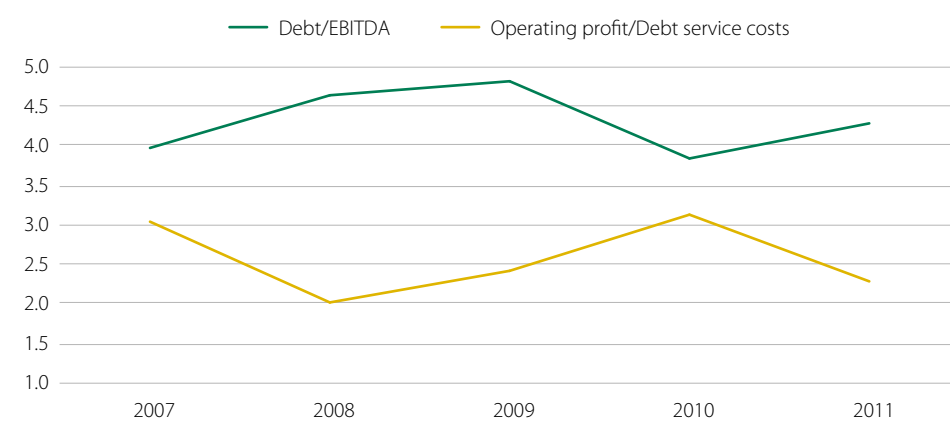
The fall compared with 2010 is mainly due to the fact that two companies with a significant joint level of debt, one from the energy sector and another from the retail sector, no longer form part of the sample. If we exclude these companies in 2010, there would still be a slight fall. However, it is important to point out that the increase in debt of one manufacturer and one construction company, as a result of business combinations carried out in the first half of 2011, partially offset the widespread fall in leverage.

The aggregate leverage ratio, which compares debt to equity, stood at 1.44 in 2011, compared with 1.43 at the end of 2010.

Figure 7 shows the trend in debt-to-EBITDA and the debt service coverage ratios. The ratio of total debt/EBITDA, which measures the number of years necessary to pay the debt taken on if EBITDA remains constant, worsened slightly in 2011 to 4.29 years (3.84 years in 2010), but did not reach the levels of 2008 and 2009. The debt service coverage ratio (EBIT/financial expenses) rose to 2.3 times (3.12 times in 2010). The worsening of both ratios was due to the across-the-board fall in the results of all sectors in 2011 compared with 2010.

Debt-to-EBITDA ratio

FIGURE 7



Source: CNMV.

Table 5 shows the trend in the level of debt and the key related ratios by sector.

Without taking into account the debt of one company which did not form part of the sample in 2011, the **energy** sector remained at levels similar to 2010 as a result of two opposing effects: on the one hand, the debt amortisations (amount collected with the placement of the electricity system tariff deficit performed by FADE, the Electricity Deficit Amortisation Fund) and, on the other hand, the increase in debt in order to undertake corporate operations in 2011.

The increase in debt in the **manufacturing** sector was the result of the funding obtained for one business combination.

Debt by sector

TABLE 5

Million euros

		2007	2008	2009	2010	2011
Energy	Debt	69,172	82,608	100,572	98,283	95,853
	Debt/Equity	0.78	0.89	1.08	0.95	0.92
	Debt / EBITDA	2.48	2.82	3.46	2.81	3.27
	Operating profit/Debt service cost	4.10	3.67	3.38	4.15	3.30
Manufacturing	Debt	13,312	15,645	15,953	14,948	17,586
	Debt/Equity	0.61	0.69	0.69	0.58	0.63
	Debt / EBITDA	1.82	2.71	3.05	2.11	2.54
	Operating profit/Debt service cost	5.93	3.41	3.15	5.00	3.90
Retail and services	Debt	96,941	112,322	108,579	115,413	113,142
	Debt/Equity	1.70	2.14	1.78	1.60	2.01
	Debt / EBITDA	3.01	3.58	3.70	3.38	3.78
	Operating profit/Debt service cost	3.23	2.86	3.28	3.94	2.45
Construction and real estate	Debt	138,933	119,788	104,762	99,917	83,716
	Debt/Equity	3.08	3.77	4.08	3.42	2.98
	Debt / EBITDA	10.83	31.87	22.48	11.18	15.00
	Operating profit/Debt service cost	1.17	0.01	0.31	0.98	0.52
Adjustments*		-17,391	-20,802	-1,908	-1,792	-1,404
TOTAL	Debt	300,967	309,561	327,958	326,769	308,893
	Debt/Equity	1.48	1.63	1.63	1.43	1.44
	Debt / EBITDA	3.96	4.63	4.82	3.84	4.29
	Operating profit/Debt service cost	3.03	2.01	2.42	3.12	2.30

Source: CNMV.

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

The fall in the debt of the **retail and services** sector was due to the fact that one company with significant debt did not form part of the survey in 2011. If we exclude this company: (i) debt rose by 12.1% on 2010, despite the amortisations performed with the resources obtained from divestments carried out in 2011, and (ii) the leverage ratio in 2010 was 1.76, and worsened in 2011 due to the fall in equity as a result of dividends paid in 2011.

In 2011, the **construction and real estate** sector significantly reduced its level of debt as a result of the corporate operations undertaken, with impacts in both directions, and as a result of the use of the resources obtained with the sales of holdings to amortise debt. In addition, the leverage ratio improved as a result of the increase in equity following the first consolidation of new companies and the capital increases for loan compensation carried out within the framework of debt refinancings. This sector's ratios showed the highest levels of financial risk, with figures very different from those of other sectors.

6 Non-performing loans and solvency of credit institutions

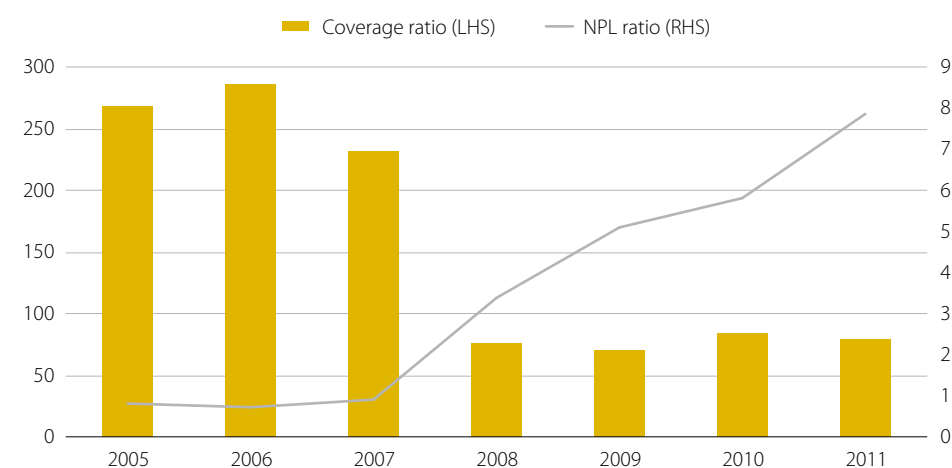
Given the particular situation which the financial sector is currently undergoing and the restructuring processes which took place in the first half of 2011, it is important to include a specific section on the performance of credit institutions and, in particular, on their ratios regarding growth in lending, non-performing loans and solvency.

Following a slight contraction in lending in the first half of 2011, at the end of the year there was a slight growth in aggregate lending (1.2%) due to the positive performance of three credit institutions, which, despite the general contraction of the Spanish market, benefited from their presence in emerging markets, or from the increase in corporate loans and financing from the Spanish Official Credit Institute (Spanish acronym: ICO). The other credit institutions recorded negative changes in this figure, mainly due to the de-leveraging currently being conducted by the Spanish private sector and the unfavourable development in economic activity. Similarly, there were very significant efforts made to optimise the risk-weighted assets which credit institutions hold in their lending portfolios so as to comply with growing capital requirements.

The figure below shows the development of the NPL ratio of credit institutions in lending to other resident sectors (families and companies) from 2005, as well as the coverage rate of doubtful assets.¹³

NPL and coverage ratios of credit institutions

FIGURE 8



Source: Bank of Spain.

Non-performing loans continued growing throughout 2011 in line with the main macroeconomic figures and, in particular, with the sluggish job market and real estate market, to which credit institutions were highly exposed.

¹³ Defined as the value adjustments for asset impairment over the doubtful balance.

The fall in the coverage ratios since 2007 has been conditioned by the rapid increase in the NPL ratio, with the sole exception of an increase in 2010, as a consequence of the process of integration and restructuring against reserves of the assets of savings banks carried out in that year.

Together with the increase in non-performing loans since 2007 and the increase in the volume of refinancings, there has been a notable increase in asset acquisitions or foreclosed assets, especially real estate assets. Assets received as payment of debts are generally classified in the balance sheets of financial groups under the heading of “non-current assets for sale”, although developments in progress and leased assets are generally classified under other asset headings (“inventory” and “property, plant and equipment” respectively). The annual rate of change of the carrying amount of non-current assets for sale, property, plant and equipment and other assets stood at 9.7%, 11.9% and 4.5% respectively in 2011.

The components of equity evolved as follows: (i) the carrying amount of capital and reserves rose by 5.8% in 2011 so as to meet the new regulatory requirements; consequently, the ratio of capital reserves over assets stood at 6.5% in 2011, 0.2 percentage points higher than in 2010; (ii) valuation adjustments, which remained negative in 2011, rose by 224% in 2011; and (iii) minority interests increased by 3.5%.

Royal Decree Law 2/2011, of 18 February, on the strengthening of the financial system, opened a new stage in the restructuring and reorganisation of savings banks by introducing a new capital ratio of 8% or 10%, depending on the case, which must be covered with core capital instruments, offering the financial support of the FROB (Fund for Orderly Banking Restructuring), which four savings banks took advantage of as they did not reach the minimum levels required. The general deadline for institutions which did not reach the minimum core capital requirements to execute the recapitalisation strategies was 30 September 2011.¹⁴

The restructuring process of the savings bank sector which began in the middle of 2010, and which still continues, is leading to a significant reduction in the number of savings banks and installed capacity, which in turn leads to an improvement in their efficiency. The integration processes have allowed considerable improvements to the balance sheets of the savings banks without significantly passing through the income statement, as with the application of the “acquisition method” and fair value criterion in business combinations and joint ventures, savings banks recognised additional losses in lending and foreclosed assets against their equity in 2010.

7 Cash flows

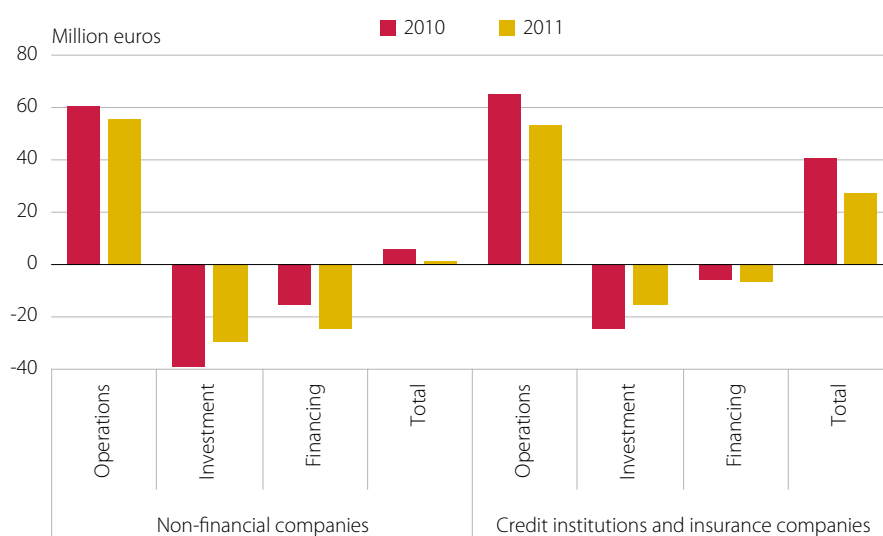
Figure 9 shows the aggregate changes in cash flows generated in 2010 and 2011 by the companies in the sample, distinguishing between flows arising from operations,

14 The last milestones of the restructuring process take place with the publication in 2012 of Royal Decree Laws 2/2012 and 18/2012, which establish a restructuring plan for the financial sector which involves additional capital requirements and provisions in response to the existing and foreseeable impairment in bank balance sheets resulting from assets linked to real estate activity.

investment and financing, with the totals corresponding to the changes in cash and cash equivalents over the period. In addition, non-financial companies are separated from credit institutions and insurance companies given the different nature of their activities.

Generated cash flows

FIGURE 9



Source: CNMV.

The sector-by-sector development of cash flows is analysed below:

- **Non-financial companies.** The 2011 cash flow statement of the companies in our sample reflected a net increase in cash and cash equivalents of 1.79 billion euros, 71.5% less than in 2010.

In aggregate terms, cash flows generated in operating activities fell by 8% (4.84 billion euros) in 2011. The flows generated were used to perform: (i) net investments of 29.32 billion euros, (ii) payments for financing of 24.48 billion euros, and (iii) an increase in the balance of cash and cash equivalents of 1.79 billion euros. Exchange differences totalled 180 million euros.

Net outflows for investment fell by 24.9% due to the drop in investments made and the increasing flows obtained from divestments. Net outflows for financing rose by 56.4%, mainly due to the increasing dividends paid and remunerations of other equity instruments (3.35 billion euros), and net payments made to acquire treasury stock (1.01 billion euros).

- **Credit institutions and insurance companies.** The 2011 cash flow statement of the companies in our sample reflected a net increase in cash and cash equivalents of 27.57 billion euros, 25.5% higher than that existing in 2010.

Operating activities generated 52.99 billion euros, of which 15.45 billion euros were used for net investments and 6.93 billion euros were used for the net cancellation of the financing obtained. Exchange differences involved net falls in cash of 3.05 billion euros.

The aggregate cash flow statement reflects the policy followed by most Spanish banks, which consists of acquiring liquidity from the ECB (considered as operating resources) to meet the maturity of wholesale financing operations and to invest in Spanish public debt.

Insurance companies, despite the good performance of flows from operations, which increased by 964 million euros over 2011, reduced their cash accounts by 38 million euros as a result of the greater payments made in investment and financing activities.

8 Number of employees

Table 6 shows the average and aggregate workforce for the six sectors in 2011 and 2010, with a year-on-year increase of 7.4% in the average workforce.

Average workforce by sector

TABLE 6

	2010	2011	(% change)
Energy	122,248	122,836	0.5
Manufacturing	244,604	260,719	6.6
Retail and services	668,302	724,225	8.4
Construction and real estate	365,061	408,162	11.8
Banks	346,499	365,470	5.5
Insurance companies	41,611	38,716	-7.0
Adjustments*	-4,185	-3,889	7.1
Total	1,784,140	1,916,239	7.4

Source: CNMV.

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

The average workforce increased in all sectors, except for insurance companies. The largest increases corresponded to the construction and real estate sector and the retail and services sector, mainly as a result of growth outside Spain resulting from corporate operations.

The average aggregate workforce of credit institutions recorded an increase of 5.5% in 2011, influenced by the international expansion policy of two credit institutions. The average cost per employee rose by 3.4% in 2011 (up to 56,000 euros compared with 54,100 euros in 2010), mainly due to the increase in staff costs in credit institutions undergoing restructuring and the results of one credit institution buying subsidiaries abroad. In this context, the number of branches fell by 5.8% over the period.¹⁵

The average cost per employee in all sectors as a whole amounted to 39,600 euros in 2011, compared with 37,100 euros in the previous year.

¹⁵ Source: *Statistical Bulletin* of the Bank of Spain.

9 Dividends

As shown in table 7, dividends paid in 2011 totalled 21.53 billion euros, 9.4% up on the previous year.

Dividends paid by sector

TABLE 7

Million euros	2010	2011	(% change)
Energy	2,731	3,336	22.2
Manufacturing	1,388	1,710	23.2
Retail and services	7,672	9,699	26.4
Construction and real estate	1,329	1,485	11.7
Banks	6,080	4,773	-21.5
Insurance companies	653	521	-20.2
Adjustments*	-171	1	-
Total	19,682	21,525	9.4

Source: CNMV.

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

The credit institution and insurance company sectors were the only sectors which suffered a cut in the amount of dividends paid in 2011. In the case of credit institutions, part of the fall was due to the remuneration mechanisms based on paying bonus shares.

It is important to point out the increases in the energy sector, due to the different time pattern for paying dividends of one company with a significant weight in the sample, and in the retail and services sector, due to the payment of dividends against reserves and the payment of gains generated from the sale of company shareholdings in 2011.

10 Conclusions

The net profit of listed companies as a whole in 2011 fell by 31.2% on 2010. This change was spread across all sectors, with the exception of insurance companies.

The rate of growth in net profit of non-financial companies was negative in 2011 (-30.4%), which was mainly due to (i) the results from non-recurring operations, which had a significant positive impact in 2010; (ii) the fall in operating profits despite the growth in sales, due to an increase in procurement costs, staff costs and depreciation/amortisation; (iii) the increase in financial expenses as a result of the unfavourable evolution of interest rates; and (iv) the fall in profits obtained by companies recorded using the equity method. The increase in the profit from discontinued operations and the fall in the corporate income tax expense were not enough to offset the negative impact of the above factors.

The profits of credit institutions, which fell by 36.2% in 2011, continued to be conditioned by the impairment of the lending portfolio, accompanied by new provisions for non-performing loans, losses for asset impairments, intensification of the competition to acquire liabilities and difficulties in accessing funding in wholesale markets within a scenario of increasing tensions in European sovereign debt markets.

In 2011, the cash flows generated by non-financial companies fell by 71.5% on the previous year as a result of the fall in flows generated by operating activities and the increase in net cash outflows for financing activities - as a result of the increasing dividends paid and acquisitions of Treasury stock - despite the fall in net cash outflows for investment.

Credit institutions, on the other hand, increased their cash flows due to the contraction in lending, the use of liquidity from the ECB and the policy of paying dividends with shares. This increase in liquidity was partly used to meet maturities of liabilities and for acquiring public debt. However, the continued increases in the non-performing loan ratio and in the volume of foreclosed assets and payments of assets in lieu of debts in 2011 - a trend which was repeated in the first half of 2012 in the context of contracting domestic economic activity - reflect the difficulties that credit institutions face in the coming months.

Annual Corporate Governance Report of Ibex 35 companies. Financial year 2011

Sara Ruiz de la Vega and Tomás Corral Blázquez (*)

(*) Sara Ruiz de la Vega and Tomás Corral Blázquez are members of the CNMV's Financial and Corporate Reports Department. This article is based on the Annual Corporate Governance Report of Ibex 35 companies (financial year 2011) published in July 2012 by the CNMV.

1 Introduction

This article shows the main corporate governance characteristics of the listed companies belonging to the Ibex 35 index¹ over 2011. To this end, with the aim of detecting possible trends in the performance of the relevant variables, we have analysed the annual corporate governance reports (ACGR) from 2007 to 2011.²

The article is organised as follows: the second section analyses the ownership structure of listed companies and the level of shareholder participation at general meetings. The third section focuses on the companies' administration and gender diversity and the fourth section focuses on risk control and, in particular, internal control and risk management systems relating to the financial reporting process. Remuneration for the board of directors and senior management is addressed in section 5. Section 6 relates to the application of the "comply or explain" principle and reviews the extent to which companies follow the recommendations of the Unified Code³ and the quality of the explanations. The article closes with the corresponding conclusions.

2 Ownership structure and participation at general meetings

2.1 Ownership structure

One of the key aspects for understanding a company's corporate governance is to identify its ownership structure, as this determines the composition of its board, its delegated committees and the practices followed by both. This aspect is also very important because historical data shows that the level of shareholder participation at general meetings is directly linked to the type of shareholder and the concentration of ownership.

1 The composition of the index as at 31 December 2011 was as follows: Abengoa, Abertis Infraestructuras, Acciona, Acerinox, ACS Actividades de Construcción y Servicios, Amadeus IT Holding, Banco Bilbao Vizcaya Argentaria, Banco de Sabadell, Banco Popular Español, Banco Santander, Bankia, Bankinter, Bolsas y Mercados Españoles Sociedad Holding de Mercados y Sistemas Financieros, Caixabank, Distribuidora Internacional de Alimentación, Ebro Foods, Enagás, Endesa, Ferrovial, Fomento de Construcciones y Contratas, Gamesa Corporación Tecnológica, Gas Natural SDG, Grifols, Iberdrola, Indra Sistemas, Industria de Diseño Textil, International Consolidated Airlines Group, Mapfre, Mediaset España Comunicación, Obrascón Huarte Lain, Red Eléctrica Corporación, Repsol, Sacyr Vallehermoso, Técnicas Reunidas and Telefónica.

2 CNMV (2007–2011), corporate governance reports of companies making up the Ibex 35.

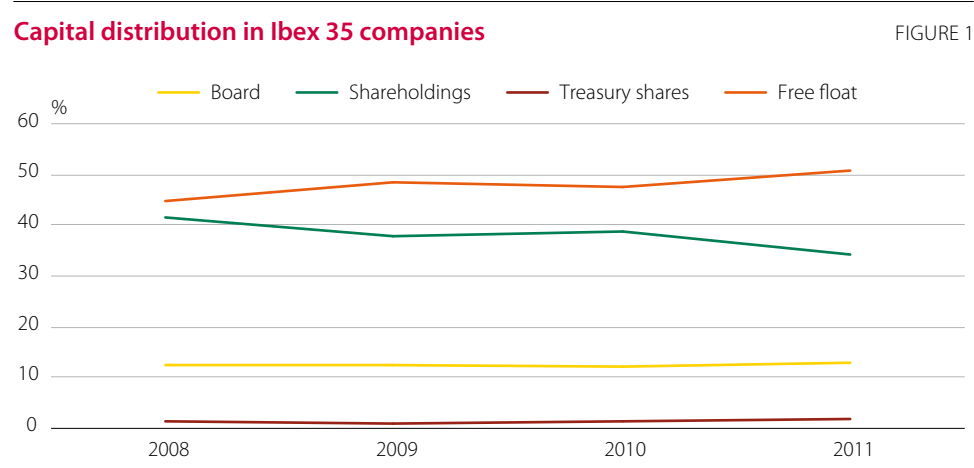
3 CNMV (2006). Unified Good Governance Code of Listed Companies.

Accordingly, companies must identify in their ACGR the shareholders which have a holding equal to or greater than 3% of the voting rights and those which, with a percentage below 3%, are able to propose or have proposed the appointment or removal of a member of the board of directors. This obligation is stricter in the case of directors, who must report any holding they own in the company's capital.

At year-end 2011, the share capital of Ibex 35 companies totalled 33.32 billion euros, an 8.6% increase on the aggregate figure of the previous year. Furthermore, stock market capitalisation fell by 8.8% compared with year-end 2010, following the trend of recent years, which is a reflection of the current financial crisis.

According to the information provided in the 2011 ACGR, 34.2% of the share capital of Ibex companies is in the hands of significant shareholders, while directors hold 13.1% and companies hold 2% as treasury shares. Therefore, the remaining 50.7% can be considered as the approximate amount of the free float.

Figure 1 shows the distribution of share capital by shareholder type.



Source: CNMV.

It is interesting to note that in eight companies (22.8% of the total), there is a natural or legal person that holds most of the voting rights or that exercises or can exercise control, compared with 11 companies in 2010. This fall is due to the change in the index's composition and the fact that the majority shareholders of two companies have lost control.

An analysis of the information provided by the companies relating to capital distribution leads to the following conclusions:

- I. Board shareholdings:
 - The capital in the hands of the board of directors rose by 0.9 percentage points on the previous year, totalling 13.1%, thus consolidating the upward trend which began in 2007.

- The largest change in shareholdings was recorded in directors representing significant shareholders,⁴ which, on average, increased by almost three percentage points, up to 10.1%. This increase is basically due to the reclassification of one executive director to a director representing a significant shareholder.
- Furthermore, it is important to point out that 56% of the total number of independent directors have declared shareholdings in the capital of Ibex companies.

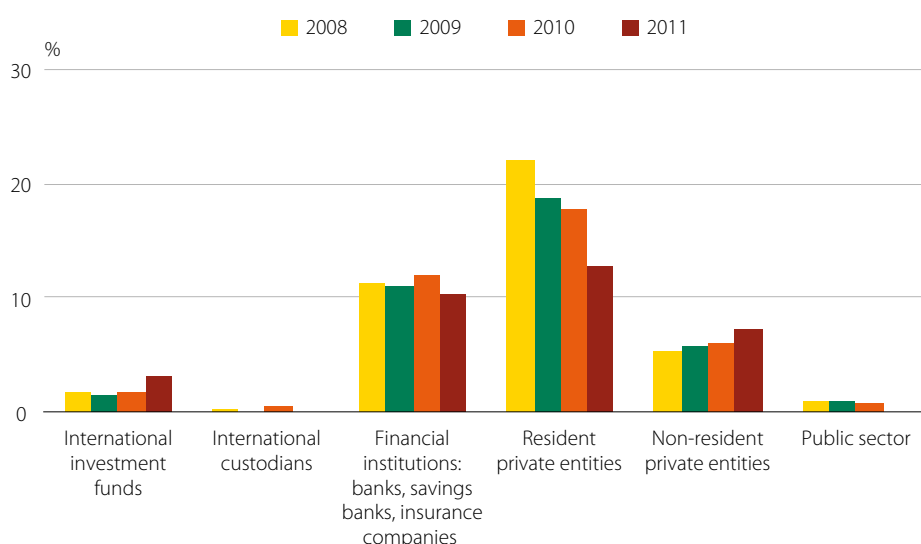
II. Non-director significant shareholders:⁵

- The presence of non-director significant shareholders in the capital of Ibex 35 companies has fallen to an average of 34.2% of the capital, almost five percentage points lower than in 2010.

Figure 2 shows the distribution by investor type.

Distribution of significant shareholders by type

FIGURE 2



Source: CNMV.

- The most significant changes with regard to the previous year can be seen in private resident entities and financial institutions, which have reduced their presence in the capital by 4.9 and 1.7 percentage points respectively.
- On the other hand, international investment funds and non-resident private entities have slightly increased their presence.

⁴ This shareholding refers to that held by directors themselves, whether directly or indirectly. This should not be confused with the shareholding held by the significant shareholder which he/she represents.

⁵ This group includes the significant shareholdings of non-director shareholders which reach or exceed, directly or indirectly, 3% of the share capital. It also includes those reported share packages which, although they do not reach the aforementioned percentage, enable notable influence to be exercised.

- As a consequence of the restructuring of credit institutions, most savings banks have contributed their financial businesses to banks under the legal form of public limited companies. This has led to a fall in the number of savings banks which have holdings in the capital of Ibex 35 companies from eight in 2010 to two in 2011, and an increase in the number of banks with significant shareholdings from two in 2010 to five in 2011.

III. Treasury shares:

- The treasury shares declared by Ibex 35 companies as a whole averaged 2.02%, almost one percentage point higher than in 2010. At the end of the year, a total of 27 companies held treasury shares.
- It is important to point out that the companies making up the construction sector are those which report a higher percentage of treasury shares.
- 19 companies declared results from trading with treasury shares: ten obtained average losses of 6.7 million euros while the remaining nine companies recorded average gains of 4.1 million euros.

IV. Free float:

- The average free float of Ibex companies rose by three percentage points on the previous year, consolidating the upward trend which began in 2007, which was only interrupted in 2010.
- 63% of Ibex companies have a free float higher than 40%, while one company has a free float lower than 15%.

V. Shareholders' agreements:

- A total of 19 shareholders' agreements were in force at year-end 2011, four more than in the previous year. These affected 17 Ibex companies with average capital per agreement of 29.4%.
- 53% of the agreements regulate the syndication of voting rights, 16% solely regulate the free transferability of shares, while the remaining agreements regulate the exercise of the vote for certain items on the agenda in general shareholders' meetings, the composition of the board of directors and its committees or a pre-emption right.

2.2 Shareholder participation at general meetings

2011 saw an increase in shareholder participation at the general meetings of listed companies up to 72.9% of share capital, resuming the upward trend which began in 2006 and was only temporarily interrupted in 2010.

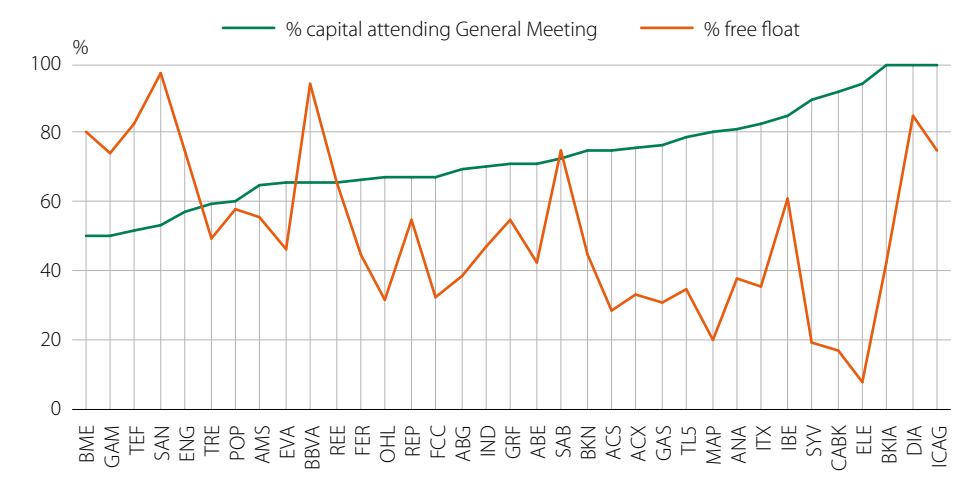
Physical presence at general meetings rose by almost five percentage points, while participation through representation fell by a little over two percentage points and distance voting dropped by a little over one percentage point.

A noteworthy aspect is the fall in the number of companies in which distance voting is used at general meetings, which fell from 18 in 2010 to 15 in 2011.

In recent years, listed companies have placed special emphasis on adopting measures to favour the participation of minority shareholders at general meetings. However, figure 3 shows that in 2011, as in previous years, a higher percentage of minority shareholders does not usually correspond, on average, to a lower level of participation at general meetings.

Participation of capital at the General Meeting compared with the free float of each company

FIGURE 3



Source: CNMV.

3 Management structure

3.1 Board of directors

The figures relating to the size of the board and the categories of its members remain similar to those of previous years. The average board of directors has 14.4 members (14.3 in 2010).

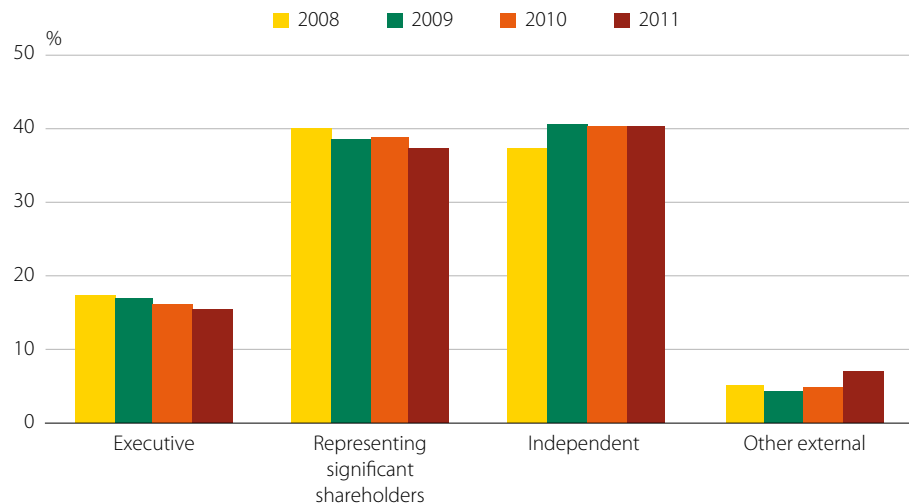
The trend seen since 2008 relating to the composition of the board continued in 2011, with a fall in the number of executive directors and directors representing significant shareholders. Directors classified as “other external” increased by 2.1 percentage points in 2011 on the previous year.

Figure 4 shows the changes in the type of directors making up the boards of Ibex 35 companies over the last four years.

The presence of independent directors on the board remains at 40.2%, with the percentage of companies with more than one third of their directors being independent (as recommended by the Unified Code) rising to 74.3% in 2011 from 71.4% in 2010.

Board composition by type

FIGURE 4



Source: CNMV.

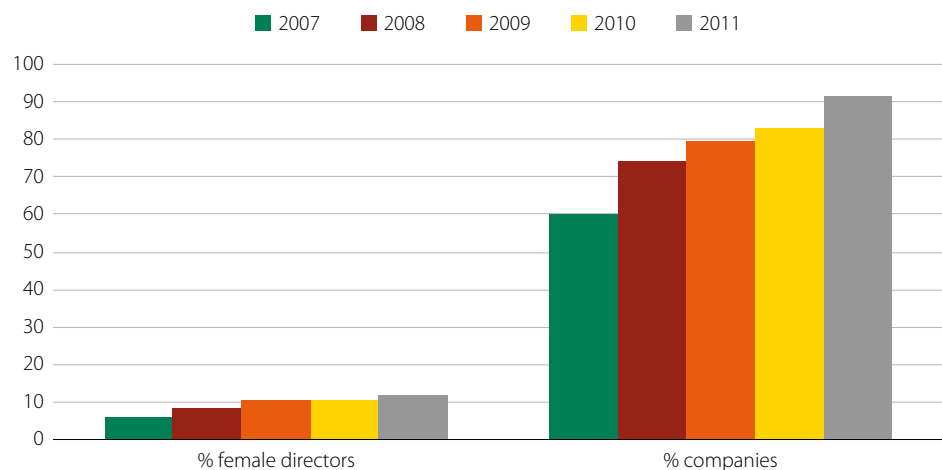
3.2 Gender diversity

One of the aspects in which there has been most progress with regard to board composition is that relating to gender diversity, although this is an area of improvement which still has a long way to go.

In 2011, 91.4% of Ibex 35 companies had at least one woman on the board, an increase of 8.5 percentage points on the previous year. This continues the upward trend seen since 2007. Figure 5 shows this trend.

Presence of women on boards

FIGURE 5



Source: Companies' ACGR and CNMV.

In addition, the total number of female board members rose by 15.1% on 2010, with women accounting for 12.1% of board members compared with 10.6% in the previous year. Nevertheless, as a counterpoint, we should note that the presence of women with an executive role remains unchanged since 2010.

4 Risk control and internal risk control and management systems relating to the financial reporting process (Spanish acronym: SCIIF)

4.1 Risk control systems

Considering the difficult macroeconomic context in which companies currently have to operate, risk control and management systems are of vital importance.

Accordingly, all Ibex companies provide information, with greater or lesser detail, on the models and procedures of their risk control systems. They also describe the principles on which their internal control policies are based, with the most common ones being the independence of the risk function, comprehensive risk management and involvement of all the company's employees. The least detailed information is that relating to the consequences of a possible materialisation of the risks, i.e. the implications of the risks assumed and an evaluation of their impact.

In 2011, there was an increase in the number of companies which identified specific risks which materialised over the year, rising from 45.7% in 2010 to 51.43% in 2011. At the same time, there has been a fall of almost seven percentage points on 2010 in the number of companies which indicate that no risk materialised over the year.

There are no changes with regard to the previous year in the bodies chosen by the companies to establish and supervise the control mechanisms: in 71.4% of the cases this is the audit committee, in 11.4% it is the board of directors and in the remaining 17.1%, it is the risk committee.

4.2 Internal risk control and management systems relating to the financial reporting process (SCIIF)

The Sustainable Economy Act introduced a new Article 61 *bis* in the Securities Market Act,⁶ which extended the content of ACGR, requiring a description of the main characteristics of the internal risk control and management systems relating to the financial reporting process. This new obligation has been in force since 2011.

Ibex companies have, to a greater or lesser extent, provided a description of their control system for financial reporting in the annual corporate governance reports, generally complying with the provisions of the Securities Market Act. However, in some cases the contents have been too generic.

Below is a summary of the most important aspects on which Ibex companies report with regard to the five components of the SCIIF:

6 See "Modifications to the securities market as a result of the Sustainable Economy Act", by Adela Aguilar, Fernando Ibáñez and Ángel Domínguez in the CNMV's *Quarterly Bulletin* of the third quarter of 2011.

1. The entity's control environment for financial reporting: all the companies identify the board of directors as responsible for the existence and maintenance of SCIIF while the audit committee as responsible for supervising it.
2. Evaluation of the financial reporting risk: all companies, except two, break down the characteristics of their processes so as to identify financial reporting risks.
3. Control activities: all companies, except two, describe the activities which they have implemented so as to mitigate risks of errors in financial reporting. However, they have not clearly identified the maximum authority level within the company responsible for reviewing the main estimates, measurements and forecasts.
4. Information and communication: all companies, except two, report the existence of mechanisms to convey the accounting policies to the staff responsible for preparing financial information, and information systems which enable collection of the financial information supporting the financial statements.
5. Monitoring of the system's functioning: all companies identify the audit committee as the responsible body, and indicate that the internal audit function collaborates with said committee in conducting monitoring.

5 Remuneration of the board and senior management

5.1 Annual report on director remuneration

In accordance with Article 61 *ter* of the Securities Market Act, listed public limited companies must prepare an annual report on director remuneration and submit it to an advisory vote of the General Meeting.⁷ This report must include full, clear and understandable information on the company's remuneration policy approved by the board for the year in progress. It must also include, as the case may be, the planned remuneration for future years and an overall summary of how said policy was applied during the year, specifying the individual remuneration accrued by each one of the directors.

The Sustainable Economy Act also provides that the Ministry of Economy and Competition or, with its express authorisation, the CNMV, will determine the content and structure of the remuneration report, which may contain information, *inter alia*, on the amount of the fixed components, the variable items and the performance criteria chosen for its design, as well as information on the role played, as the case may be, by the remuneration committee.

The enabling Ministerial Order has not yet been published and, therefore, the CNMV has not been able to establish a standard format for the annual report on director remuneration. Consequently, the information included in the reports presented by

⁷ Prior to the Sustainable Economy Act, these requirements were recommendations of the Unified Code.

companies to the 2012 general meetings is not standardised and, in some cases, is incomplete.

The main problems detected in the review of the 2011 remuneration reports are as follows:

- As there is no standardised format, the reports have uneven structures and it is difficult in some cases to extract all the information on the remuneration accrued by a director for all remuneration items.

The reports are divided by chapter based on the remuneration item and indicate what each director receives for each item, but often do not reflect the total sum. Furthermore, there are companies which provide a summary of the total remuneration itemised by the functions as a director, but they do not include the salaries and variable remuneration accrued by the functions as an executive.

- In certain cases, no information is given on the remuneration which directors have accrued for belonging to the management bodies of subsidiaries.
- The remuneration accrued by directors who have ceased to hold office during the year is not calculated as remuneration in several companies.

5.2 Board remuneration

Table 1 shows the development, in aggregate figures, of the remuneration accrued by directors of Ibex 35 companies over the last four years according to the data which appears in the ACGR.⁸

In 2011, the remuneration accrued by the boards of directors of Ibex companies rose on average to 7.5 million euros, 5% up on the previous year. The average annual remuneration per director stood at 522,000 euros, an increase of 4.4% on 2010.

This increase is largely explained by the rise in variable remuneration of two companies, whose remuneration accounts for 22% of the total remuneration of Ibex companies. It should be noted that four Ibex companies reported increases in the remuneration of their directors of greater than 20% on 2010.

With regard to the structure of director remuneration, we can highlight the following:

- The average fixed remuneration per board stood at three million euros and accounted for 39.8% of total remuneration, an increase of 6.8% on 2010.
- The average variable remuneration of Ibex companies amounted to 2.5 million euros, 33.3% of the total, having increased by 13.8% on 2010.

8 The quantitative information on remuneration has been obtained from the ACGR and not from the annual remuneration reports due, as indicated above, to the absence of a standardised format and the consequent uneven presentation of data in said remuneration reports, as well as the absence of standardised historic series which allow analysis of the trends and evolution.

- Fixed and variable remuneration accounted for 73.1% of total director remuneration.
- There was a noteworthy increase in the relative importance of the fixed component of remuneration, which has increased by six percentage points since 2009 up to 39.8% in 2011.

Remuneration of board members

TABLE 1

	Board			
	2008	2009	2010	2011
Remuneration (No. of companies)				
Up to 1 million euros	1	–	–	–
Between 1 and 3 million euros	10	10	11	10
Between 3 and 6 million euros	9	7	8	9
Over 6 million euros	15	17	16	16
Amount of the remuneration (thousand euros)				
Average per board	7,551	8,679	7,169	7,526
Average per director	521	602	500	522
Executive directors	2,206	2,720	2,237	2,423
External directors	167	170	171	174
Average over profit (in %)¹	1.27	1.60	1.54	1.83
Distribution by item (% of total)				
Fixed remuneration	38	34	39	40
Variable remuneration	29	30	31	33
Expenses	7	7	8	8
Other remuneration	25	30	22	19
Source of the remuneration (% of total)				
The company itself	93	93	93	93
Other companies in the group	7	7	7	7

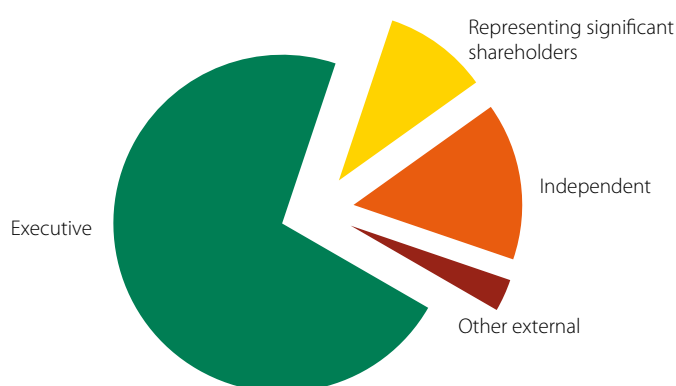
Source: CNMV.

¹ The companies which recorded losses have not been taken into account when calculating this average.

Figure 6 shows the distribution of remuneration accrued by board members in 2011 by director type:

Distribution of remuneration by director type

FIGURE 6



Source: CNMV.

Executive directors account for 15.5% of the board and the aggregate amount of their remuneration accounts for 71.8% of the total accrued per board. Directors representing significant shareholders, who account for 37.2% of the board, obtain 10% of total board remuneration. Independent directors account for 40.2% of the board and obtain 15.1% of total remuneration, while directors classified as “other external”, which account for 7.1%, obtain the remaining 3.1%.

The average remuneration of executive directors increased by 8.3% on the previous year, up to 2.4 million euros, while their representation on the board fell. This increase was due to two companies which increased their variable remuneration.

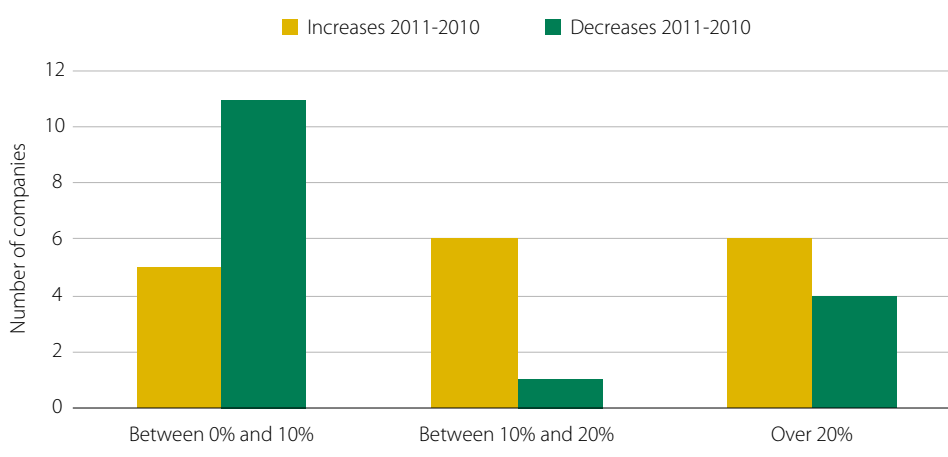
The average remuneration of independent directors exceeds 100,000 euros (2.42 million euros is the average for executive directors) in 68.6% of the companies.

The average remuneration of the boards of directors of the 33 Ibex companies which recorded profits in 2011 stands at 1.9% of the profit attributed to the parent company, compared with 1.5% in 2010.

Figure 7 shows the year-on-changes in average director remuneration.

Year-on-year changes in average director remuneration

FIGURE 7



Source: CNMV.

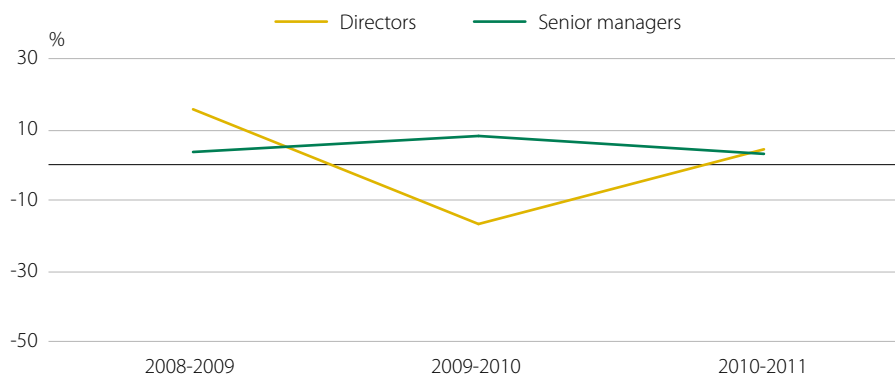
Remuneration fell in 16 of the 35 companies making up the index, with this fall concentrated in those companies which reduced remuneration by between 0% and 10%.

5.3 Remuneration of the senior management

Figure 8 shows the rate of change of the average remuneration of directors and senior managers in recent years:

Change in the average remuneration of directors and senior managers

FIGURE 8



Source: CNMV.

- The number of senior managers⁹ in 2011 amounted to 482 (513 in 2010) and their average remuneration was 777,000 euros, an increase of 3.1% on the previous year.

This increase is mainly due to the rise in remuneration in two companies. On the other hand, one company drastically reduced the remuneration of senior managers, down from 6.8 million in 2010 to 1 million in 2011.

- Five Ibex companies increased the average remuneration per director by more than 15%, while another three reduced it by over 5%.
- The remuneration of senior managers averaged 2.6% of profits in the year, a similar percentage to that recorded in 2010.

2011 saw an increase in the number of beneficiaries of golden parachute clauses, rising from 251 managers in 2010 to 260 in 2011. However, the percentage of Ibex companies which have established this type of clause in favour of senior managers remained constant (89%).

6 Application of the “comply or explain” principle: general level of compliance with the recommendations of the Unified Code and quality of the explanations

In accordance with the “comply or explain principle”, listed companies must inform the level to which they have followed the 58 recommendations contained in the Unified Code in their ACGR - indicating whether they comply with them fully, whether they comply with them partially or whether they do not comply with them - and

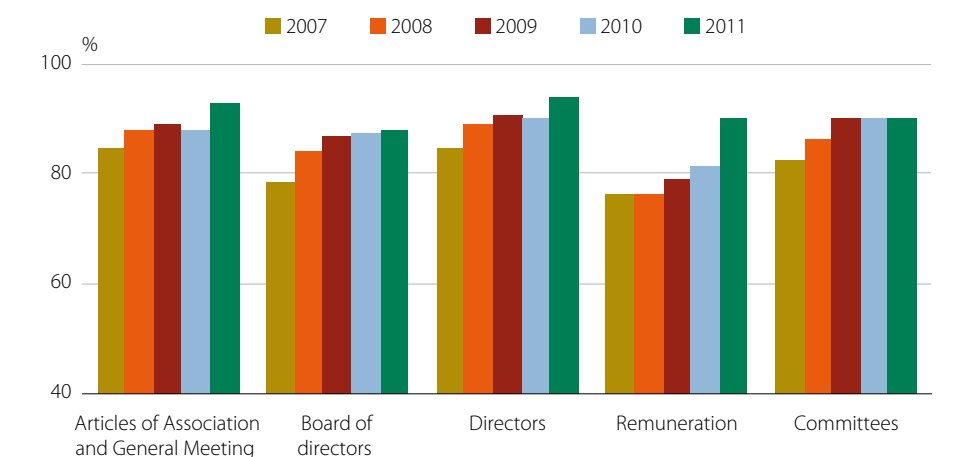
⁹ The Unified Code defines senior managers as those who report directly to the board or the company's chief executive and, in any event, to the internal auditor.

explain, as the case may be, the practices or criteria which do not follow the recommendations.

Figure 9 includes the total average level of compliance of listed companies with the recommendations of the Unified Code, grouped by category, between 2007 and 2011:

Compliance with Code recommendations

FIGURE 9



Source: CNMV.

The main conclusions are as follows:

- The level of compliance with the recommendations of the Unified Code reported by companies in their ACGR is high and increased by a little over two percentage points on 2010, up to a level of 90.2% in 2011. The average level of compliance of all listed companies in 2010 was 78.1%

This increase in the Ibex companies is mainly down to two reasons: the 30 percentage point increase in the level of compliance recorded in one company, and the adoption of recommendations on the system for approval and transparency of director remuneration.

In this regard, it is interesting to highlight that the incorporation into law of recommendations 40 - that the board should submit a report on director remuneration policy to the general meeting - and 41 - that the notes to the annual report should specify individual remuneration - has led to an increase of 8.8 percentage points in the level of compliance with recommendations on the system for approval and transparency of director remuneration.

- 2011 is the first year in which the recommendations of the Unified Code with the lowest level of compliance are those relating to the board of directors. In particular, the recommendations on the size and responsibilities of the board stand out for their low level of compliance.
- All Ibex companies, except one, followed over 75% of the Unified Code. Twenty companies - 57.1% of the total - complied with over 90% of the Unified Code, with three of these reporting that they had complied with 100% of the recommendations.

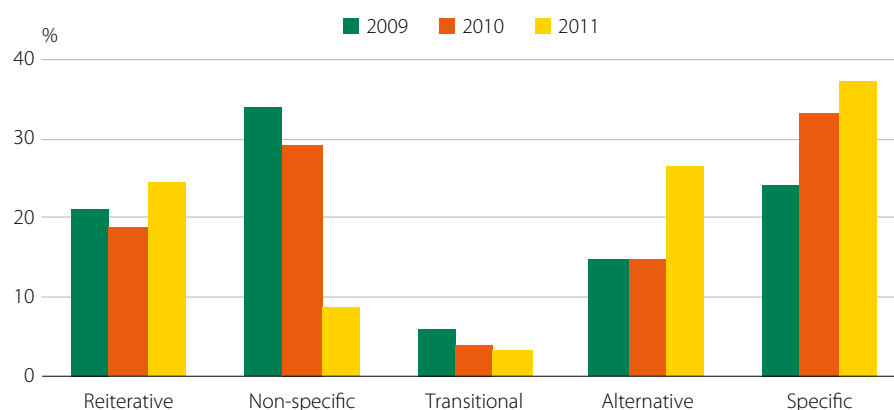
6.1 Quality of the explanations

In 2011, for the third consecutive year, an analysis has been made of the explanations provided in the ACGR on the ten recommendations with the lowest level of compliance by Ibex companies.

The following figure shows the development of the classification of the explanations provided by Ibex companies over the last three years.¹⁰

Classification of the explanations

FIGURE 10



Source: CNMV.

The set of explanations classified as reiterative and non-specific has fallen continuously over the three years analysed, dropping by 20 percentage points over the period studied. This fall, together with the 13 percentage point increase in specific explanations (four percentage points in 2011), demonstrates an upward trend in the quality of the explanations.

7 Conclusions

In line with the trend of the last four years, the level of compliance with the recommendations of the Unified Code reported by companies in their ACGR increased

10 The classification has been performed based on the report for the European Commission by RiskMetrics Group (2009, "Study on Monitoring and Enforcement Practices in Corporate Governance in the Member States", available at http://ec.europa.eu/internal_market/company/ecgforum/studies_en.htm):

- Redundant: those which reiterate the fact of non-compliance or only indicate the existence of the deviation with regard to the recommendation.
- Alternative: those which do not explain the reasons for non-compliance, but include additional specific information as an alternative to the recommendation.
- Non-specific: based on a generic disagreement with the recommendation, but which do not provide a specific explanation for the company in question.
- Transitional: the company declares a commitment to adopt the necessary measures to comply with the recommendation in the future.
- Specific: those which inform about a specific situation for the company in question and explain the reasons why this leads to them failing to comply with the recommendation.

once again in 2011, up to 90.2%. Bearing in mind that the average compliance of all listed companies in 2010 was 78.1%, we can conclude that the companies listed on the Ibex 35 have a very high level of adoption of the recommendations of the Unified Code.

Furthermore, we should add the positive trend in the quality of the explanations offered by companies when they deviate from the recommendations of the Unified Code, which also continued the trend towards improvement seen since 2009. The set of redundant and non-specific explanations fell by 20 percentage points over the full period (from 2009 to 2011). Specific explanations increased by 13 percentage points over the same period.

For the first time, the Code's recommendations on the board of directors (size, structure and responsibilities) are those which register the lowest level of compliance, falling below the recommendations on remuneration, which up to 2011 were those which recorded the lowest level of aggregate compliance.

However, there are no significant changes in the data on the size of the board and the classification of the members compared with 2010. Accordingly, the average size of the boards of Ibex companies stands at 14.4 members (14.3 in 2010), and the trend in terms of their composition continues to reflect a fall in executive directors and directors representing significant shareholders and an increase in independent directors (although in 2011 the presence of independent directors remained constant at 40.2%).

The upward trend in the presence of women on the boards of directors seen in recent years was consolidated in 2011. 91.4% of Ibex 35 companies had at least one woman on the board, an increase of 8.5 percentage points on 2010. Similarly, the total number of female directors increased by 15.1% compared with the previous year, with women accounting for 12.1% of board members.

One of the main new aspects of the 2011 ACGR was the entry into force of the reform of the Securities Market Act, which has increased the level of transparency required of companies with regards to their internal control systems relating to the financial reporting process (SCIIF). All companies have carried out said description in their ACGR, although in some cases the content is too generic.

Another important new aspect which affects transparency requirements is that relating to the requirement to disseminate and submit an annual report on director remuneration to an advisory vote in the general meeting. In the absence of a standardised format, the annual remuneration reports presented to the general meetings in 2012 have not followed a standardised structure and content which would allow them to be compared. However, once enabled by the corresponding Ministerial Order, the CNMV will issue a circular which will implement a standardised format for the annual remuneration report.

The review of the reports published in 2012 finds that, in some cases, it is difficult to extract the full amount of the remuneration accrued by each director and for all the remuneration items: there are companies which do not report the remuneration resulting from belonging to the board of directors of subsidiaries and there are oth-

ers which do not provide data on the remuneration accrued by directors who left their position in the course of 2011.

In 2011, the average remuneration per board stood at 7.5 million euros, an increase of 5% on the previous year, despite the generalised fall in profits. Average remuneration per director amounted to 522,000 euros, an increase of 4.4% on 2010.

Finally, the stock market capitalisation of Ibex companies fell by 8.8% on the previous year, following the trend of recent years, which is a reflection of the current financial crisis.

Shareholder participation in the general meetings held in 2011 rose to 72.9% of the share capital. However, it is important to highlight that the number of companies which use distance voting fell by three in 2011, from 18 down to 15. In 2011, as in previous years, there was an inverse relationship between the free float of the companies and the percentage of attendance at general meetings.

III Legislative annex

New legislation approved since publication of the CNMV bulletin for the second quarter of 2012, in chronological order, is as follows:

- **Royal Decree 1082/2012, of 13 July**, which approves the Regulation implementing Act 35/2003, of 4 November, on UCITS.

Act 31/2011, of 4 October, which amends Act 35/2003, of 4 November, on undertakings for collective investment in transferable securities set in motion the adaptation of Spanish legislation to the third reform of harmonised investment funds enacted by Directive 2009/65/EC, of the European Parliament and of the Council, of 13 July 2009, on the coordination of laws, regulations and administrative provisions relating to UCITS, and its implementing rules: Commission Directive 2010/43/EC, of 1 July 2010, implementing Directive 2009/65/EC, of 13 July 2009, as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company; and Commission Directive 2010/44/EU, of 1 July 2010, implementing Directive 2009/65/EC, of the European Parliament and of the Council, on certain provisions concerning fund managers, master-feeder structures and notification procedures.

The amendments introduced in Act 35/2003 and the obligation to continue transposition of the aforementioned directives justify the adoption of this new regulation which repeals the previous regulation approved by Royal Decree 1309/2005.

Firstly, the Regulation introduces the technical issues necessary to put into operation the European passport for management companies introduced by Act 31/2011.

To this end, a regime is introduced for risk management and conflicts of interest similar to that contained in the aforementioned directives. It establishes the obligation to specify the criteria which UCITS management companies must use to assess whether their risk management policy is suitable and proportional to the nature, scale and complexity of the activities of the UCITS management company and the UCITS which it manages. Consequently, as it clarifies the manner in which the overall risk profile must be calculated, it guarantees that UCITS management companies respect the investment limits imposed by Directive 2009/65/EC, of 13 July 2009. Furthermore, Articles 100 to 103 of the regulation establish a new regime for the own funds of UCITS management companies.

Secondly, it improves the functioning of the marketing passport which allows harmonised UCITS to be marketed in any Member State, irrespective of where they are domiciled, simplifying the procedures between competent authorities and reducing time limits.

Thirdly, it introduces the new regulation provided for in the Directive on master-feeder structures which have a Community passport. Harmonisation allows the master UCITS and feeder UCITS to be domiciled in different Member States, guaranteeing that authorities may supervise this type of structure more easily, in particular in a cross-border situation.

In addition, the regulation introduces the harmonised regime for cross-border mergers of UCITS provided in the Directive. Consequently, UCITS may merge, irrespective of their legal form, following authorisation from the competent authorities. With the aim of giving greater guarantees to investors, it establishes control by the depositories of the UCITS involved in the merger project, as well as validation by an independent auditor.

In addition, it eliminates the obligation to appoint an external expert to issue a report on the merger project when the resulting UCITS is an investment fund.

Another of the objectives of the transposed legislation is to strengthen investor protection. To this end, it extends the mandatory information which investors must receive, differentiating it from advertising communications. To this end, it fully harmonises the so-called “key investor information document”, which substitutes the previous simplified prospectus, which will allow investors to compare the funds and companies of any Member State.

Finally, the regulation includes other new aspects with the aim of transposing Directive 2011/61/EU, of the European Parliament and of the Council, of 8 June 2011, on Alternative Investment Fund Managers. This directive lays down the rules for the ongoing operation and transparency of the managers of alternative investment funds (hereinafter, AIFMs) which manage and/or market alternative investment funds (hereinafter, AIFs) in the Union. AIFs are defined as collective investment undertakings, including investment compartments thereof, which i) raise capital from a number of investors with a view to investing it in accordance with a defined investment policy for the benefit of those investors, and ii) do not require authorisation pursuant to Article 5 of Directive 2009/65/EC.

Therefore all UCITS which are not harmonised, i.e. authorised in accordance with Directive 2009/65/EC, shall be considered as alternative collective investment schemes. The Regulation facilitates identification of the UCITS which comply with Directive 2009/65/EC, of 13 July 2009, and the UCITS that do not comply with said Directive, establishing the set of special provisions applicable to the UCITS which do not comply with the Directive.

- **Royal Decree-Law 20/2012, of 13 July**, on measures to ensure budgetary stability and promote competitiveness.

With regard to securities markets, this Royal Decree-Law amends the Securities Market Act 24/1988, of 28 July, and Act 44/2002 on Reform Measures for the Financial System with the aim of introducing a new financial instrument into Spanish law, the “Internationalisation covered bond” (*cédula de internacionalización*), which will have loans supporting the internationalisation of Spanish enterprises as an underlying asset, with the aim of making the financing of exports and investment activities by Spanish enterprises more attractive to financial institutions.

For this purpose, point 2.1 of the Securities Market Act is amended with the aim of including internationalisation covered bonds within the category of financial instruments considered as negotiable securities.

In addition, a new Article 13 *bis* is added to Act 44/2002 on Reform Measures for the Financial System, which provides that credit institutions may issue internationalisation covered bonds which may be admitted to trading on securities markets in accordance with the provisions of the Securities Market Act.

In addition, an amendment is made to Royal Decree 437/2010, of 9 April, which implements the regulation of the securitisation process of the electricity system deficit, setting a definitive interest rate to be applied for the purposes of calculating the price of assignment to the Securitisation Fund of the Electricity System Deficit.

- Regulation (EU) No. 648/2012, of the European Parliament and of the Council, of 4 July 2012, on OTC derivatives, central counterparties and trade repositories

The financial crisis which began in 2008 has revealed the existence of certain weaknesses in the functioning of OTC derivative markets which generate systemic risk.

Firstly, OTC derivative markets are characterised by their lack of transparency. A non-transparent trading mechanism limits the capacity of authorities to detect significant increases of the open position in the market, which has prevented appropriate decision-making as it has been impossible to assess the impact of an announcement of a collapse of a systemic entity. This situation has encouraged the propagation of rumours and uncertainties during the crisis in relation to the insolvency of the financial system.

Secondly, the counterparty risk existing in the market has been greater than that perceived by authorities and entities due to the fact that the amount of the collateral was insufficient, and counterparty risk management was not conducted appropriately.

Finally, the limited level of legal and operational standardisation of derivative contracts has generated a high level of operational risk.

Bearing in mind the aforementioned weaknesses, this Regulation aims to reduce systemic risk by increasing security and effectiveness in OTC derivative markets.

With the aim of improving the transparency of these markets, the Regulation establishes the obligation to report all derivative contracts to newly created entities known as “trade repositories”.

With regard to mitigating counterparty risk, the Regulation establishes the obligation of clearing in central counterparties (CCP) the OTC derivative contracts belonging to a category which has been declared subject to such a clearing requirement. It also provides for the exchange of collateral in OTC contracts which are not cleared centrally, with the aim of centralising counterparty risk.

In addition, the Regulation lays down the authorisation procedure and the supervisory regime, as well as the organisational requirements and conduct of business rules required of CCP. Authorisation should be applied for from the

competent authority of the Member State in which CCP is established and will be effective throughout the entire territory of the Union. The authorisation process will include the participation of a supervisory body which will issue an opinion determining whether the applicant CCP meets all the requirements established in the Regulation. Supervision will be conducted by the authority designated by each Member State.

Finally, the Regulation lays down the procedure for registration and supervision of trade repositories, as well as the organisational requirements. Trade repositories must register with ESMA, which will also be the authority responsible for their supervision and which may perform on-site inspections without prior announcement. The Regulation establishes that the registration of a trade repository will be effective throughout the entire territory of the Union.

- **Royal Decree-Law 24/2012, of 31 August**, on restructuring and resolution of credit institutions.

This Royal Decree-Law involves a substantial reform of the Spanish system for the restructuring and resolution of credit institutions existing to date, strengthening the powers of intervention of the Fund for Orderly Bank Restructuring (Spanish acronym: FROB).

It was approved within the context of the programme of assistance given to Spain for the recapitalisation of its financial sector agreed by the Eurogroup and which has led to the approval of, among other documents, a Memorandum of Understanding. The approval of this legislation provides appropriate compliance with those measures scheduled to be adopted in August 2012 and it brings forward compliance with some measures which the Memorandum scheduled for subsequent dates.

The Royal Decree-Law distinguishes three crisis situations in which a credit institution may find itself according to the seriousness of the crisis. A procedure to be followed is established for each of these cases, clearly regulating the instruments and measures which may be adopted. A distinction is made between an early intervention procedure, a restructuring procedure and, finally, a resolution procedure.

The early intervention procedure is based on the directive proposal which establishes a framework for the recovery and resolution of credit institutions and investment firms launched by the European Commission in June 2012.

The entities which must adopt these measures will be those which do not comply, or it is reasonable to believe that they cannot comply, with solvency requirements, but which are in a position to return to compliance on their own accord or through exceptional financial support by means of financial instruments convertible into shares.

The Bank of Spain is responsible for deciding which entities must adopt the early intervention measures, for which purpose they must prepare an action plan to redress the weakness in their solvency.

During this stage, the Bank of Spain may require the replacement of the members of the Board of Directors in the event of a significant decline in the institution's situation.

Secondly, the Royal Decree-Law distinguishes between restructuring and resolution procedures, with the latter referring to the processes in which the credit institution is not viable and needs to be wound up in an orderly manner with the best guarantees for the depositors and financial stability.

The FROB is responsible for determining the appropriate instruments in order to perform both processes in an orderly manner and with the lowest possible cost for taxpayers.

The resolution process will be applicable to institutions which are not viable, while the restructuring process will apply to institutions which require public financial support to guarantee their viability, but which have the capacity to return said financial support in the time limits provided for each specific instrument contained in the Royal Decree-Law.

In both cases, a plan will be drawn up, either a restructuring or a resolution plan, which must be approved by the Bank of Spain, as well as a specific regulation of the restructuring or resolution instruments which may be applied.

With regard to the resolution instruments, the Royal Decree-Law takes into account the aforementioned directive proposal and includes the sale of the entity's business to a third party, the transfer of assets or liabilities to a bridge bank, or the transfer of assets and liabilities to an asset management vehicle. In the event that the resolution process is opened, the governing body will also be replaced.

Furthermore, the FROB may order the corresponding institution to transfer the problematic assets to an asset management vehicle, which will be established as a public limited company. This transfer will be conducted without the need to obtain the consent of third parties and without having to comply with the procedural requirements relating to structural modifications of commercial companies.

In addition, the Royal Decree-Law introduces provisions on the management of hybrid capital instruments and subordinated debt which clarifies the question of who must finance the restructuring and resolution measures of a bank, starting from the principle that shareholders and creditors must bear the expenses of the restructuring or resolution before taxpayers.

To this end, it establishes voluntary and mandatory mechanisms for managing hybrid capital instruments, which could involve write-downs of preferred shares and subordinated debt, with the FROB responsible for applying them.

In addition, the Royal Decree-Law establishes the legal regime of the FROB, with one of the most important new aspects being the modification of the composition of the fund's governing body. It has cancelled the participation

given by previous legislation to credit institutions in representation of the Deposit Guarantee Fund of Credit Institutions, in response to possible conflicts of interest which may arise, and has created the position of Director General, who will hold the Fund's executive powers.

In addition, it provides investor protection measures relating to the marketing of hybrid instruments and other complex instruments, which include preference shares, to retail customers.

Furthermore, it strengthens the powers of control held by the CNMV relating to the marketing of investment products by institutions, especially with regard to the aforementioned complex products.

Finally, it modifies the requirements and definition of core capital which must be met by consolidable groups of credit institutions, as well as credit institutions not integrated in a consolidable group, establishing a single requirement of 9% of total risk-weighted exposure, which they must comply with as from 1 January 2013.

IV Statistics annex

1 Markets

1.1 Equity

Share issues and public offerings¹

TABLE 1.1

	2009	2010	2011	2011	2012			
				III	IV	I	II	III ²
CASH VALUE³ (million euro)								
Total	11,390.7	16,012.7	17,317.5	6,336.5	2,946.5	3,374.4	5,409.2	4,863.5
Capital increases	11,388.7	15,407.0	17,221.5	6,336.5	2,850.5	3,374.4	5,358.6	4,863.5
Of which, primary offerings	17.3	958.7	6,441.3	8.4	2,736.6	880.7	1,580.0	117.7
With Spanish tranche	14.9	61.6	6,031.7	8.4	2,684.6	880.7	1,580.0	117.7
With international tranche	2.5	897.2	409.6	0.0	52.0	0.0	0.0	0.0
Secondary offerings	1.9	605.7	96.0	0.0	96.0	0.0	50.6	0.0
With Spanish tranche	1.9	79.1	94.8	0.0	94.8	0.0	50.6	0.0
With international tranche	0.0	526.7	1.2	0.0	1.2	0.0	0.0	0.0
NOMINAL VALUE (million euro)								
Total	1,892.1	6,313.4	5,727.1	2,749.5	453.9	976.6	1,556.4	968.3
Capital increases	1,892.0	6,304.4	5,721.1	2,749.5	447.9	976.6	1,553.6	968.3
Of which, primary offerings	0.1	1.9	2,092.9	0.5	221.0	523.1	85.9	12.8
With Spanish tranche	0.1	1.8	1,910.6	0.5	216.7	523.1	85.9	12.8
With international tranche	0.0	0.1	182.3	0.0	4.4	0.0	0.0	0.0
Secondary offerings	0.0	9.0	6.0	0.0	6.0	0.0	2.8	0.0
With Spanish tranche	0.0	8.9	5.9	0.0	5.9	0.0	2.8	0.0
With international tranche	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0
NO. OF FILES⁴								
Total	53	69	91	26	26	24	26	22
Capital increases	53	67	8	26	26	24	25	22
Of which, primary offerings	2	12	22	3	2	5	1	1
Of which, bonus issues	11	15	2	8	7	2	6	8
Secondary offerings	1	3	45	0	1	0	1	0
NO. OF ISSUERS⁴								
Total	34	46	45	22	15	14	15	18
Capital increases	34	45	45	22	15	14	15	18
Of which, primary offerings	2	12	8	3	2	5	1	1
Secondary offerings	1	2	1	0	1	0	1	0

1 Includes registered offerings with issuance prospectuses and listings admitted to trading without register issuance prospectuses.

2 Available data: August 2012.

3 Does not include registered amounts that were not carried out.

4 Includes all registered offerings, including the issues that were not carried out.

Primary and secondary offerings. By type of subscriber

TABLE 1.2

	2009	2010	2011	2011	2012			
Million euro				III	IV	I	II	III ¹
PRIMARY OFFERINGS								
Total	17.3	958.7	6,441.3	8.4	2,736.6	880.7	1,580.0	117.7
Spanish tranche	14.9	61.6	3,335.8	8.4	0.0	14.5	0.0	0.0
Private subscribers	0.0	2.5	2,017.7	2.3	0.0	4.1	0.0	0.0
Institutional subscribers	14.9	59.0	1,318.1	6.0	0.0	10.4	0.0	0.0
International tranche	2.5	897.2	357.5	0.0	0.0	0.0	0.0	0.0
Employees	0.0	0.0	11.4	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	2,736.6	0.0	2,736.6	866.3	1,580.0	117.7
SECONDARY OFFERINGS								
Total	1.9	605.7	96.0	0.0	96.0	0.0	50.6	0.0
Spanish tranche	1.5	79.1	0.0	0.0	0.0	0.0	0.0	0.0
Private subscribers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Institutional subscribers	1.5	79.1	0.0	0.0	0.0	0.0	0.0	0.0
International tranche	0.0	526.7	0.0	0.0	0.0	0.0	0.0	0.0
Employees	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	96.0	0.0	96.0	0.0	50.6	0.0

1 Available data: August 2012.

Companies listed¹

TABLE 1.3

	2009	2010	2011	2011		2012		
				III	IV	I	II	III ²
Total electronic market ³	133	129	130	130	130	128	128	127
Of which, without Nuevo Mercado	133	129	130	130	130	128	128	127
Of which, Nuevo Mercado	0	0	0	0	0	0	0	0
Of which, foreign companies	5	6	7	7	7	7	7	7
Second Market	7	6	7	6	7	7	7	7
Madrid	2	2	2	2	2	2	2	2
Barcelona	5	4	5	4	5	5	5	5
Bilbao	0	0	0	0	0	0	0	0
Valencia	0	0	0	0	0	0	0	0
Open outcry ex SICAVs	29	28	27	27	27	24	24	24
Madrid	13	13	13	13	13	11	11	11
Barcelona	19	18	17	17	17	14	14	14
Bilbao	8	8	8	8	8	7	7	7
Valencia	6	6	6	6	6	4	4	4
Open outcry SICAVs	1	1	0	0	0	0	0	0
MAB ⁴	3,251	3,144	3,083	3,088	3,083	3,064	3,059	3,039
Latibex	32	29	29	29	29	27	27	27

1 Data at the end of period.

2 Available data: August 2012.

3 Without ETFs (Exchange Traded Funds).

4 Alternative Stock Market.

Capitalisation¹

TABLE 1.4

Million euro	2009	2010	2011	2011		2012		
				III	IV	I	II	III ²
Total electronic market ³	531,194.2	565,585.2	498,148.1	568,142.8	498,148.1	487,334.8	443,405.2	473,856.8
Of which, without Nuevo Mercado	531,194.2	565,585.2	498,148.1	568,142.8	498,148.1	487,334.8	443,405.2	473,856.8
Of which, Nuevo Mercado	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies ⁴	61,317.5	100,249.8	82,471.4	1,357.3	82,471.4	90,381.7	85,013.5	91,595.2
Ibex 35	322,806.6	348,998.9	320,672.5	364,914.0	320,672.5	306,878.6	272,514.9	290,736.7
Second Market	109.9	74.6	59.7	74.9	59.7	56.8	57.8	57.8
Madrid	22.8	24.7	25.5	26.4	25.5	22.6	23.6	23.6
Barcelona	87.1	49.9	34.2	48.5	34.2	34.2	34.2	34.2
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAVs	5,340.7	4,128.2	3,704.9	3,859.2	3,704.9	3,482.1	3,364.7	3,274.9
Madrid	1,454.7	878.8	833.3	924.0	833.3	729.9	682.9	662.1
Barcelona	3,580.2	3,432.2	3,242.3	3,139.2	3,242.3	3,120.6	3,053.6	2,970.3
Bilbao	45.9	362.1	328.8	386.9	328.8	323.7	78.9	78.9
Valencia	760.4	458.7	240.2	475.2	240.2	423.5	379.6	365.8
Open outcry SICAVs ⁵	126.8	32.6	0.0	30.9	0.0	0.0	0.0	0.0
MAB ^{5,6}	24,718.6	26,340.8	23,646.0	23,271.1	23,646.0	24,524.4	23,315.7	23,845.3
Latibex	210,773.5	435,337.8	402,008.5	408,834.8	402,008.5	414,431.2	358,599.2	363,370.8

1 Data at the end of period.

2 Available data: August 2012.

3 Without ETFs (Exchange Traded Funds).

4 Foreign companies capitalisation includes their entire shares, whether they are deposited in Spain or not.

5 Calculated only with outstanding shares, not including treasury shares, because capital stock is not reported until the end of the year.

6 Alternative Stock Market.

Million euro	2009	2010	2011	2011		2012		
				III	IV	I	II	III ¹
Total electronic market ²	877,073.5	1,026,478.5	917,383.3	232,254.4	203,895.2	175,186.1	196,896.4	103,088.6
Of which, without Nuevo Mercado	877,073.5	1,026,478.5	917,383.3	232,254.4	203,895.2	175,186.1	196,896.4	103,088.6
Of which, Nuevo Mercado	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies	4,750.4	6,415.3	5,206.3	1,255.1	1,515.3	1,505.8	963.9	511.7
Second Market	3.2	3.0	2.3	0.3	0.9	0.1	0.2	0.2
Madrid	2.0	2.8	1.7	0.3	0.8	0.1	0.2	0.2
Barcelona	1.2	0.3	0.5	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 ex SICAVs	52.8	157.2	42.8	9.9	7.4	16.5	7.3	3.1
Madrid	16.5	15.7	16.1	7.7	2.1	1.6	0.4	0.6
Barcelona	29.4	135.7	26.4	2.1	5.2	14.4	6.9	2.5
Bilbao	1.1	3.9	0.1	0.0	0.0	0.0	0.0	0.0
Valencia	5.9	1.9	0.3	0.0	0.1	0.6	0.1	0.0
Open outcry SICAVs	19.7	8.1	5.6	0.8	0.0	0.0	0.0	0.0
MAB ³	5,080.1	4,147.9	4,379.9	1,088.2	1,278.1	1,218.1	1,104.5	683.0
Latibex	434.7	521.2	357.7	93.1	72.9	73.3	61.7	60.7

1 Available data: August 2012.

2 Without ETFs (Exchange Traded Funds).

3 Alternative Stock Market.

Trading on the electronic market by type of transaction¹

TABLE 1.6

Million euro	2009	2010	2011	2011		2012		
				III	IV	I	II	III ²
Regular trading	833,854.9	983,584.5	873,485.4	216,374.5	195,729.5	168,765.0	187,871.7	97,270.1
Orders	499,182.8	541,879.8	505,870.1	134,441.1	98,213.1	103,947.2	81,004.3	39,141.8
Put-throughs	51,335.8	58,678.1	69,410.4	17,797.8	15,534.7	12,028.9	30,160.1	16,978.0
Block trades	283,336.3	383,026.6	298,204.9	64,135.6	81,981.7	52,788.9	76,707.3	41,150.3
Off-hours	5,996.6	17,209.5	9,801.8	3,308.7	1,751.5	816.2	2,006.8	3,041.2
Authorised trades	4,695.6	2,660.5	3,492.6	1,212.2	760.5	1,026.7	2,301.0	2,039.5
Art. 36.1 SML trades	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tender offers	7,188.9	312.0	4,216.8	3,983.1	0.0	0.0	9.6	0.0
Public offerings for sale	1,325.0	1,448.2	3,922.1	3,922.1	0.0	0.0	0.0	0.0
Declared trades	5,202.6	2,273.4	2,212.7	30.4	10.7	0.0	539.7	2.3
Options	11,443.2	11,474.7	11,730.3	1,545.9	3,965.4	2,301.1	2,991.2	331.9
Hedge transactions	7,366.7	7,515.8	8,521.5	1,877.5	1,677.7	2,277.0	1,176.4	403.6

1 Without ETFs (Exchange Traded Funds).

2 Available data: August 2012.

Margin trading for sales and securities lending

TABLE 1.7

Million euro	2009	2010	2011	2011	2012			
				III	IV	I	II	III ¹
TRADING								
Securities lending ²	471,007.1	556,246.7	493,602.4	122,207.6	120,570.9	98,303.7	115,376.8	59,196.9
Margin trading for sales of securities ³	704.3	598.0	518.3	110.0	83.1	76.1	100.3	15.3
Margin trading for securities purchases ³	106.4	65.9	73.0	17.2	24.7	16.0	7.0	7.3
OUTSTANDING BALANCE								
Securities lending ²	47,322.2	36,195.9	35,626.7	33,213.4	35,626.7	29,608.2	33,174.2	35,684.9
Margin trading for sales of securities ³	21.1	9.9	7.0	10.8	7.0	6.7	13.2	2.1
Margin trading for securities purchases ³	5.6	5.0	3.9	3.2	3.9	3.9	2.2	2.9

1 Available data: August 2012.

2 Regulated by Article 36.7 of the Securities Market Law and Order ECO/764/2004.

3 Transactions performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions.

1.2 Fixed-income

Gross issues registered¹ at the CNMV

TABLE 1.8

	2009	2010	2011	2011		2012		
				III	IV	I	II	III ²
NO. OF ISSUERS								
Total	168	115	101	28	44	37	29	18
Mortgage covered bonds	27	25	30	9	16	12	11	12
Territorial covered bonds	1	6	7	2	5	6	7	2
Non-convertible bonds and debentures	50	39	23	6	9	15	12	6
Convertible bonds and debentures	3	2	5	0	2	1	2	0
Backed securities	68	36	34	9	14	5	2	1
Commercial paper	69	58	49	7	16	17	12	4
Of which, asset-backed	2	2	2	0	1	0	0	0
Of which, non-asset-backed	67	56	47	7	15	17	12	4
Other fixed-income issues	0	0	0	0	0	0	0	0
Preference shares	23	0	1	0	0	0	0	0
NO. OF ISSUES								
Total	512	349	356	58	128	117	99	40
Mortgage covered bonds	75	88	115	10	44	27	22	22
Territorial covered bonds	1	9	42	18	16	8	8	2
Non-convertible bonds and debentures	244	154	87	14	27	48	50	11
Convertible bonds and debentures	6	3	9	0	2	1	4	0
Backed securities	76	36	48	9	20	15	2	1
Commercial paper	73	59	53	7	19	18	13	4
Of which, asset-backed	2	2	2	0	1	0	0	0
Of which, non-asset-backed	71	57	51	7	18	18	13	4
Other fixed-income issues	0	0	0	0	0	0	0	0
Preference shares	37	0	2	0	0	0	0	0
NOMINAL AMOUNT (million euro)								
Total	387,475.8	226,448.9	289,251.0	38,693.6	113,496.1	120,739.7	91,425.1	51,070.7
Mortgage covered bonds	35,573.9	34,378.5	67,226.5	5,250.0	23,742.5	26,000.0	33,350.0	24,500.0
Territorial covered bonds	500.0	5,900.0	22,334.2	7,437.2	10,162.0	3,200.0	4,100.0	1,674.0
Non-convertible bonds and debentures	62,249.0	24,356.0	20,191.7	981.0	13,312.4	31,304.9	15,230.7	2,574.5
Convertible bonds and debentures	3,200.0	968.0	7,125.9	0.0	4,944.3	1,128.2	1,592.3	0.0
Backed securities	81,651.2	63,260.5	68,412.8	10,449.3	20,210.1	9,195.3	1,535.3	1,884.0
Spanish tranche	77,289.4	62,743.0	62,796.1	10,115.6	18,844.3	7,810.3	1,535.3	1,884.0
International tranche	4,361.9	517.5	5,616.7	333.7	1,365.8	1,385.0	0.0	0.0
Commercial paper ³	191,341.7	97,586.0	103,760.0	14,576.1	41,124.9	49,911.3	35,616.8	20,438.2
Of which, asset-backed	4,758.4	5,057.0	2,366.0	259.0	648.0	616.0	630.0	190.0
Of which, non-asset-backed	186,583.3	92,529.0	101,394.0	14,317.1	40,476.9	49,295.3	34,986.8	20,248.2
Other fixed-income issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preference shares	12,960.0	0.0	200.0	0.0	0.0	0.0	0.0	0.0
Pro memoria:								
Subordinated issues	20,988.5	9,154.2	29,277.3	4,664.3	16,207.6	2,772.2	1,788.3	266.9
Underwritten issues	4,793.8	299.0	10.0	0.0	0.0	0.0	0.0	0.0

1 Includes issuance and trading prospectuses.

2 Available data: August 2012.

3 The figures for commercial paper refer to the amount placed in the year.

Issues admitted to trading on AIAF

TABLE 1.9

	2009	2010	2011	2011		2012		
				III	IV	I	II	III ¹
Nominal amount in million euro								
Total	388,455.0	223,404.5	278,594.2	36,499.9	103,013.8	127,394.8	85,145.2	61,052.4
Commercial paper	191,427.7	99,784.4	102,042.0	13,827.9	40,023.5	51,871.2	32,233.4	25,118.1
Bonds and debentures	61,862.5	24,728.6	12,313.7	682.0	5,934.3	36,439.3	15,868.4	676.3
Mortgage covered bonds	35,568.9	32,861.0	68,346.5	6,425.0	23,242.5	28,000.0	28,800.0	31,700.0
Territorial covered bonds	500.0	5,900.0	20,334.2	5,543.2	11,556.0	2,000.0	4,800.0	1,674.0
Backed securities	85,542.9	60,030.5	75,357.8	10,021.9	22,257.5	9,084.3	3,443.3	1,884.0
Preference shares	13,552.9	100.0	200.0	0.0	0.0	0.0	0.0	0.0
Matador bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2012.

AIAF. Issuers, issues and outstanding balance

TABLE 1.10

	2009	2010	2011	2011	2012			
				III	IV	I	II	III ¹
NO. OF ISSUERS								
Total	614	634	613	608	613	611	596	574
Commercial paper	67	60	45	50	45	51	49	48
Bonds and debentures	91	93	91	93	91	95	96	94
Mortgage covered bonds	29	33	43	39	43	47	46	48
Territorial covered bonds	11	12	13	12	13	16	18	18
Backed securities	442	459	437	433	437	427	415	394
Preference shares	60	59	60	60	60	60	60	60
Matador bonds	12	12	12	12	12	12	12	12
NO. OF ISSUES								
Total	4,084	3,630	4,382	3,536	4,382	5,116	5,285	5,269
Commercial paper	1,507	958	1,778	944	1,778	2,547	2,757	2,799
Bonds and debentures	611	645	624	630	624	628	600	587
Mortgage covered bonds	202	253	296	283	296	301	316	337
Territorial covered bonds	25	26	49	40	49	52	58	58
Backed securities	1,629	1,641	1,527	1,531	1,527	1,480	1,446	1,380
Preference shares	96	93	94	94	94	94	94	94
Matador bonds	14	14	14	14	14	14	14	14
OUTSTANDING BALANCE² (million euro)								
Total	870,981.1	850,181.7	882,395.1	844,342.4	882,395.1	906,229.5	899,458.8	902,282.7
Commercial paper	41,647.0	23,233.6	37,549.1	18,813.5	37,549.1	62,370.8	66,983.5	78,335.4
Bonds and debentures	150,886.3	146,077.7	131,756.8	131,918.0	131,756.8	144,455.8	132,981.0	127,400.8
Mortgage covered bonds	185,343.8	195,734.8	241,149.7	223,913.8	241,149.7	257,034.8	283,064.8	313,836.1
Territorial covered bonds	16,030.0	18,350.0	31,884.2	24,028.2	31,884.2	31,834.2	35,284.2	35,158.2
Backed securities	442,831.5	434,835.1	407,908.0	413,520.5	407,908.0	391,012.1	364,253.6	332,682.0
Preference shares	33,183.8	30,891.8	31,088.6	31,089.6	31,088.6	18,463.1	15,833.0	13,811.5
Matador bonds	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8

1 Available data: August 2012.

2 Nominal amount.

AIAF. Trading

TABLE 1.11

	2009	2010	2011	2011	2012			
				III	IV	I	II	III ¹
Nominal amount in million euro								
BY TYPE OF ASSET								
Total	4,658,633.2	4,383,118.7	7,388,185.7	1,662,056.5	1,566,191.9	928,497.2	555,233.8	425,698.9
Commercial paper	533,331.0	385,238.9	227,534.5	49,896.0	52,885.6	57,736.6	42,897.4	42,215.8
Bonds and debentures	321,743.0	922,393.1	484,705.8	89,289.3	57,611.6	41,431.0	40,927.5	33,531.2
Mortgage covered bonds	263,150.0	271,441.8	662,177.0	105,436.4	271,366.9	247,459.2	168,803.9	176,881.2
Territorial covered bonds	7,209.0	14,458.2	544,780.9	68,254.4	400,645.2	179,057.4	180,778.2	71,687.3
Backed securities	3,527,486.4	2,784,775.4	5,462,806.2	1,348,043.0	783,200.2	394,669.6	114,957.9	95,293.5
Preference shares	5,668.5	4,635.7	6,065.0	1,085.5	463.6	8,132.1	6,593.8	6,058.9
Matador bonds	45.2	175.7	116.3	51.9	18.9	11.2	275.1	31.1
BY TYPE OF TRANSACTION								
Total	4,658,633.2	4,383,118.7	7,388,185.7	1,662,056.5	1,566,191.9	928,497.2	555,233.8	425,698.9
Outright	378,348.4	288,927.3	343,099.6	60,680.5	103,693.8	151,533.7	121,364.6	62,775.9
Repos	362,068.7	304,493.2	198,514.7	47,765.9	43,282.7	41,562.1	29,885.1	10,605.1
Sell-buybacks/Buy-sellbacks	3,918,216.1	3,789,698.3	6,846,571.5	1,553,610.1	1,419,215.4	735,401.4	403,984.2	352,317.9

1 Available data: August 2012.

AIAF. Third-party trading. By purchaser sector

TABLE 1.12

	2009	2010	2011	2011	2012			
				III	IV	I	II	III ¹
Nominal amount in million euro								
Total	681,946.6	553,896.6	487,543.3	99,716.4	130,860.7	157,876.8	129,837.4	63,383.6
Non-financial companies	256,224.6	162,949.5	131,765.2	30,082.8	28,031.9	21,411.0	17,333.2	13,005.9
Financial institutions	298,909.1	289,950.4	256,975.8	52,743.5	81,015.3	103,512.7	90,698.5	37,419.2
Credit institutions	125,547.5	102,372.1	139,538.2	25,982.2	51,571.4	69,411.4	68,400.6	32,763.5
IICs, ² insurance and pension funds	115,865.3	125,899.4	103,899.9	25,835.3	27,756.3	32,613.5	21,122.2	3,415.1
Other financial institutions	57,496.3	61,678.9	13,537.7	926.0	1,687.6	1,487.8	1,175.8	1,240.6
General government	5,808.5	3,117.7	2,602.7	1,336.2	577.9	3,372.9	747.2	823.1
Households and NPISHs ³	14,647.8	14,244.4	10,230.3	1,846.8	3,699.4	2,793.4	2,373.7	2,261.8
Rest of the world	106,356.6	83,634.6	85,969.3	13,707.1	17,536.3	26,786.8	18,684.8	9,873.6

1 Available data: August 2012.

2 IICs: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

3 Non-profit institutions serving households.

Issues admitted to trading on equity markets¹

TABLE 1.13

				2011	2012			
	2009	2010	2011	III	IV	I	II	III ²
NOMINAL AMOUNTS (million euro)								
Total	5,866.8	868.0	2,681.6	1,500.0	0.0	4,875.9	1,765.9	880.2
Non-convertible bonds and debentures	0.0	400.0	0.0	0.0	0.0	0.0	0.0	0.0
Convertible bonds and debentures	4,510.8	468.0	2,681.6	1,500.0	0.0	4,875.9	1,765.9	880.2
Backed securities	1,356.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NO. OF ISSUES								
Total	10	8	6	1	0	2	2	3
Non-convertible bonds and debentures	0	7	0	0	0	0	0	0
Convertible bonds and debentures	4	1	6	1	0	2	2	3
Backed securities	6	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0

1 Private issuers. Includes issuance and trading prospectuses.

2 Available data: August 2012.

Equity markets. Issuers, issues and outstanding balances

TABLE 1.14

				2011		2012		
	2009	2010	2011	III	IV	I	II	III ¹
NO. OF ISSUERS								
Total	62	60	59	59	59	57	56	55
Private issuers	48	46	46	46	46	44	43	42
Non-financial companies	6	5	4	4	4	4	4	4
Financial institutions	42	41	42	42	42	40	39	38
General government ²	14	14	13	13	13	13	13	13
Regional governments	3	3	3	3	3	3	3	3
NO. OF ISSUES								
Total	269	247	240	243	240	231	224	223
Private issuers	155	145	133	134	133	126	124	125
Non-financial companies	10	7	6	7	6	6	5	5
Financial institutions	145	138	127	127	127	120	119	120
General government ²	114	102	107	109	107	105	100	98
Regional governments	76	64	74	74	74	73	69	67
OUTSTANDING BALANCES ³ (million euro)								
Total	36,299.5	41,091.3	43,817.5	43,183.1	43,817.5	47,939.8	45,444.9	42,356.2
Private issuers	21,600.9	19,261.5	17,759.6	17,524.3	17,759.6	21,694.6	19,645.5	16,686.8
Non-financial companies	1,783.7	376.6	375.4	375.8	375.4	375.4	195.1	195.1
Financial institutions	19,817.2	18,884.8	17,384.2	17,148.5	17,384.2	21,319.2	19,450.4	16,491.7
General government ²	14,698.6	21,829.9	26,057.8	25,658.8	26,057.8	26,245.2	25,799.4	25,669.3
Regional governments	12,338.3	19,442.4	24,014.4	23,489.5	24,014.4	24,276.9	23,932.2	23,802.1

1 Available data: August 2012.

2 Without public book-entry debt.

3 Nominal amount.

Trading on equity markets

TABLE 1.15

Nominal amounts in million euro	2009	2010	2011	2011	2012			
				III	IV	I	II	III ¹
Electronic market	633.0	504.5	385.4	98.8	109.5	131.6	784.5	94.8
Open outcry	4,008.4	7,525.6	4,942.5	409.0	1,537.2	2,101.8	392.6	888.2
Madrid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Barcelona	3,821.1	7,146.7	4,885.4	398.3	1,529.1	1,813.8	389.9	846.8
Bilbao	4.6	2.3	0.5	0.1	0.1	0.1	0.0	0.0
Valencia	182.7	376.6	56.6	10.7	8.0	287.8	2.7	41.4
Public book-entry debt	49.1	331.1	883.4	471.8	219.4	396.6	321.4	298.4
Regional governments debt	70,065.8	62,029.0	63,443.7	14,624.3	20,157.2	13,144.2	14,588.0	7,986.7

1 Available data: August 2012.

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

TABLE 1.16

Nominal amounts in million euro	2009	2010	2011	2011		2012		
				III	IV	I	II	III ^T
Total	202,120.5	265,966.0	84,090.9	17,039.0	11,139.9	18,979.0	9,235.0	3,125.0
Outright	114,314.0	110,011.0	81,905.0	17,039.0	11,091.0	18,979.0	9,235.0	3,125.0
Sell-buybacks/Buy-sellbacks	86,806.5	155,433.0	2,185.9	0.0	48.9	0.0	0.0	0.0
Others	1,000.0	522.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2012.

1.3 Derivatives and other products

1.3.1 Financial derivatives markets: MEFF

Trading on MEFF

TABLE 1.17

Number of contracts	2009	2010	2011	2011		2012		
				III	IV	I	II	III ^T
Debt products	18	14	18	4	4	2	10,796	12,701
Debt futures ²	18	14	18	4	4	2	10,796	12,701
Ibex 35 products ^{3,4}	6,187,544	6,946,167	5,822,418	1,635,571	1,067,066	1,120,323	1,884,591	963,452
Ibex 35 plus futures	5,436,989	6,280,999	5,291,956	1,484,184	951,801	1,022,021	1,683,154	843,136
Ibex 35 mini futures	314,829	357,926	307,411	91,073	54,025	49,547	95,423	46,162
Ibex 35 dividend impact futures	–	–	3,154	499	100	555	216	204
Call mini options	230,349	122,158	86,096	25,590	23,167	18,669	55,375	35,011
Put mini options	205,377	185,083	133,801	34,225	37,973	29,532	50,423	38,938
Stock products ⁵	80,114,693	57,291,482	55,082,944	11,294,858	14,999,005	16,534,500	14,627,113	5,102,796
Futures	44,586,779	19,684,108	24,758,956	5,510,377	5,905,419	7,087,730	6,357,895	993,024
Stock dividend futures	–	–	0	–	–	1,500	0	0
Call options	18,864,840	17,186,515	12,050,946	2,365,550	3,305,166	4,333,910	2,977,728	1,949,133
Put options	16,663,074	20,420,859	18,273,042	3,418,931	5,788,420	5,111,360	5,291,490	2,160,639
Pro-memoria: MEFF trading on Eurex								
Debt products ⁶	558,848	373,113	267,713	56,239	45,895	39,172	51,603	14,975
Index products ⁷	835,159	604,029	451,016	137,083	110,587	78,776	71,498	22,199

1 Available data: August 2012.

2 Contract size: 100 thousand euros.

3 The number of Ibex 35 mini futures (multiples of 1 euro) was standardised to the size of the Ibex 35 plus futures (multiples of 10 euro).

4 Contract size: Ibex 35, 10 euros.

5 Contract size: 100 Stocks.

6 Bund, Bobl and Schatz futures.

7 Dax 30, DJ EuroStoxx 50 and DJ Stoxx 50 futures.

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

Issues registered at the CNMV

TABLE 1.18

	2009	2010	2011	2011		2012		
				III	IV	I	II	III ¹
WARRANTS ²								
Premium amount (million euro)	5,165.1	4,915.3	5,544.6	1,491.8	1,986.8	922.4	1,202.9	636.8
On stocks	2,607.1	2,537.4	3,211.7	804.6	1,278.1	509.7	685.2	397.4
On indexes	2,000.1	1,852.6	1,786.8	504.9	600.1	310.3	435.7	200.8
Other underlyings ³	558.0	525.4	546.0	182.2	108.6	102.4	82.0	38.6
Number of issues	7,342	8,375	9,237	2,305	3,144	1,733	1,798	1,094
Number of issuers	9	9	9	6	7	6	4	4
OPTION BUYING AND SELLING CONTRACTS								
Nominal amounts (million euro)	35.0	64.0	0.0	0.0	0.0	0.0	0.0	0.0
On stocks	25.0	47.0	0.0	0.0	0.0	0.0	0.0	0.0
On indexes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other underlyings ³	10.0	17.0	0.0	0.0	0.0	0.0	0.0	0.0
Number of issues	3	7	0	0	0	0	0	0
Number of issuers	1	1	0	0	0	0	0	0

1 Available data: August 2012.

2 Includes issuance and trading prospectuses.

3 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.

				2011		2012		
	2009	2010	2011	III	IV	I	II	III ¹
WARRANTS								
Trading (million euro)	1,768.4	1,603.2	1,550.2	452.9	344.9	243.4	178.6	128.5
On Spanish stocks	809.9	759.8	654.2	175.1	136.8	103.7	78.0	59.8
On foreign stocks	97.6	60.7	97.8	23.0	35.8	34.3	15.5	10.5
On indexes	761.2	689.5	518.2	149.9	136.0	75.7	73.4	53.5
Other underlyings ²	99.7	93.2	280.0	104.9	36.4	29.8	11.7	4.8
Number of issues ³	8,038	7,750	13,165	3,940	3,441	3,176	3,069	2,395
Number of issuers ³	10	10	9	9	9	9	9	9
CERTIFICATES								
Trading (million euro)	39.2	22.0	92.1	56.2	22.5	6.5	6.6	2.2
Number of issues ³	22	16	32	7	4	4	4	3
Number of issuers ³	4	2	2	2	2	2	2	2
ETF								
Trading (million euro)	3,470.6	6,229.7	3,495.4	815.5	1,027.0	454.0	639.1	896.4
Number of funds	32	65	75	67	75	75	75	73
Assets ⁴ (million euro)	1,648.4	827.8	327.2	710.2	327.2	297.4	262.5	n.a.

1 Available data: August 2012.

2 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.

3 Issues or issuers which were traded in each period.

4 Assets from national collective investment schemes is only included because assets from foreign ones are not available.

n.a.: No available data.

1.3.3 Non-financial derivatives

Trading on MFAO¹

TABLE 1.20

	2009	2010	2011	2011		2012		
				III	IV	I	II	III ²
Number of contracts								
On olive oil								
Extra-virgin olive oil futures ³	135,705	165,840	63,173	13,951	9,701	10,050	10,577	27,200

1 Olive oil futures market.

2 Available data: August 2012.

3 Nominal amount of the contract: 1,000 kg.

2 Investment services

Investment services. Spanish firms, branches and agents

TABLE 2.1

	2009	2010	2011	2011	2012			
				III	IV	I	II	III ¹
BROKER-DEALERS								
Spanish firms	50	50	49	50	49	48	48	48
Branches	78	80	78	79	78	23	25	23
Agents	6,102	6,560	6,589	6,520	6,589	6,516	6,531	6,432
BROKERS								
Spanish firms	50	45	45	45	45	45	45	44
Branches	9	13	14	13	14	12	12	10
Agents	638	689	655	655	655	620	633	632
PORTFOLIO MANAGEMENT COMPANIES								
Spanish firms	9	6	6	6	6	6	6	6
Branches	5	5	5	5	5	5	5	5
Agents	5	2	2	2	2	2	2	2
FINANCIAL ADVISORY FIRMS²								
Spanish firms	16	58	82	78	82	91	97	99
CREDIT INSTITUTIONS³								
Spanish firms	193	186	187	188	187	190	188	183

1 Available data: August 2012.

2 Investment services company created by Law 47/2008, of 19 December, which modifies Law 24/1988, of 28 July, on the Securities Market, and regulated by Circular CR CNMV 10/2008, of 30 December.

3 Source: Banco de España.

Investment services. Foreign firms

TABLE 2.2

	2009	2010	2011	2011	2012			
				III	IV	I	II	III ¹
Total	2,346	2,671	2,814	2,786	2,814	2,861	2,907	2,941
European Economic Area investment services firms	1,922	2,238	2,377	2,346	2,377	2,418	2,459	2,492
Branches	36	40	36	39	36	36	35	38
Free provision of services	1,886	2,198	2,341	2,307	2,341	2,382	2,424	2,454
Credit institutions ²	424	433	437	440	437	443	448	449
From EU member states	414	423	429	430	429	434	438	439
Branches	53	55	55	55	55	55	56	56
Free provision of services	360	368	374	375	374	379	382	383
Subsidiaries of free provision of services institutions	1	0	0	0	0	0	0	0
From non-EU states	10	10	8	10	8	9	10	10
Branches	8	8	7	8	7	7	8	8
Free provision of services	2	2	1	2	1	2	2	2

1 Available data: August 2012.

2 Source: Banco de España and CNMV.

Intermediation of spot transactions¹

TABLE 2.3

	II 2011				II 2012			
Million euro	Spanish organised markets	Other Spanish markets	Foreign markets	Total	Spanish organised markets	Other Spanish markets	Foreign markets	Total
FIXED-INCOME								
Total	777,958	2,414,999	216,945	3,409,902	713,448	1,497,382	140,188	2,351,018
Broker-dealers	111,850	675,987	170,888	958,725	108,627	450,379	103,481	662,487
Brokers	666,108	1,739,012	46,057	2,451,177	604,821	1,047,003	36,707	1,688,531
EQUITY								
Total	237,168	965	19,442	257,575	204,213	1,836	15,272	221,321
Broker-dealers	232,609	817	18,235	251,661	200,823	494	12,306	213,623
Brokers	4,559	148	1,207	5,914	3,390	1,342	2,966	7,698

1 Period accumulated data. Quarterly.

Intermediation of derivative transactions^{1,2}

TABLE 2.4

Million euro	II 2011				II 2012			
	Spanish organised markets	Foreign organised markets	Non- organised markets	Total	Spanish organised markets	Foreign organised markets	Non- organised markets	Total
Total	806,521	2,634,116	152,643	3,593,280	550,584	1,336,889	110,732	1,998,205
Broker-dealers	804,187	1,474,841	90,058	2,369,086	549,297	1,025,144	60,190	1,634,631
Brokers	2,334	1,159,275	62,585	1,224,194	1,287	311,745	50,542	363,574

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

2 Period accumulated data. Quarterly.

Portfolio management. Number of portfolios and assets under management¹

TABLE 2.5

	II 2011			II 2012		
	IIC ²	Other ³	Total	IIC ²	Other ³	Total
NUMBER OF PORTFOLIOS						
Total	134	14,128	14,262	148	11,290	11,438
Broker-dealers	87	7,032	7,119	86	4,402	4,488
Brokers	42	3,661	3,703	57	3,707	3,764
Portfolio management companies	5	3,435	3,440	5	3,181	3,186
ASSETS UNDER MANAGEMENT (thousand euro)						
Total	1,693,068	7,967,760	9,660,828	1,453,697	7,220,705	8,674,402
Broker-dealers	957,376	3,276,545	4,233,921	951,115	2,676,093	3,627,208
Brokers	627,525	1,651,721	2,279,246	400,604	1,473,070	1,873,674
Portfolio management companies	108,167	3,039,494	3,147,661	101,978	3,071,542	3,173,520

1 Data at the end of period. Quarterly.

2 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes. Includes both resident and non resident IICs management.

3 Includes the rest of clients, both covered and not covered by the Investment Guarantee Fund, an investor compensation scheme regulated by Royal Decree 948/2001.

Financial advice. Number of contracts and assets advised¹

TABLE 2.6

	II 2011			II 2012		
	Retail clients	Professional clients	Total ²	Retail clients	Professional clients	Total ²
NUMBER OF CONTRACTS						
Total	7,400	102	7,519	7,733	129	7,885
Broker-dealers	1,485	2	1,492	1,224	12	1,240
Brokers	4,773	93	4,878	4,926	108	5,053
Portfolio management companies	1,142	7	1,149	1,583	9	1,592
ASSETS ADVISED (thousand euro)						
Total	3,011,363	4,436,334	7,924,221	3,585,476	4,434,328	8,394,570
Broker-dealers	514,320	35,050	951,344	818,682	64,106	1,167,044
Brokers	1,953,461	995,592	3,023,603	2,128,734	1,050,853	3,270,097
Portfolio management companies	543,582	3,405,692	3,949,274	638,060	3,319,369	3,957,429

1 Data at the end of period. Quarterly.

2 Includes retail, professional and other clients.

Aggregated income statement. Broker-dealers

TABLE 2.7

Thousand euro ¹	2009	2010	2011	2011		2012		
				III	IV	I	II	III ²
I. Interest income	163,272	102,054	91,542	77,901	91,542	7,206	32,651	36,183
II. Net commission	562,082	533,858	490,517	382,225	490,517	119,252	234,842	266,245
Commission revenues	782,214	798,152	776,641	606,095	776,641	181,674	331,330	376,160
Brokering	548,362	555,207	529,711	417,529	529,711	121,864	200,721	227,939
Placement and underwriting	26,326	8,499	7,446	5,113	7,446	2,686	4,089	4,430
Securities deposit and recording	16,183	22,367	21,060	15,821	21,060	4,738	10,091	11,941
Portfolio management	11,768	13,880	16,186	11,867	16,186	3,658	6,881	7,913
Design and advising	60,477	53,722	60,713	49,366	60,713	13,545	26,540	31,212
Stocks search and placement	10	36	484	484	484	0	25	47
Market credit transactions	14	9	8	6	8	4	6	6
IICs ³ marketing	63,341	65,487	59,588	45,594	59,588	12,237	23,113	26,786
Other	55,733	78,944	81,445	60,315	81,445	22,942	59,864	65,886
Commission expenses	220,133	264,294	286,124	223,870	286,124	62,422	96,488	109,915
III. Financial investment income	45,266	48,588	271,955	150,060	271,955	109	92,439	93,596
IV. Net exchange differences and other operating products and expenses	21,820	26,081	-194,355	-115,556	-194,355	36,110	-56,355	-48,046
V. Gross income	792,440	710,580	659,659	494,630	659,659	162,677	303,577	347,978
VI. Operating income	339,706	276,253	207,379	174,724	207,379	44,100	92,286	103,429
VII. Earnings from continuous activities	250,984	196,834	148,553	149,362	148,553	40,969	78,460	85,528
VIII. Net earnings of the period	250,984	196,834	148,553	149,362	148,553	40,969	78,460	85,528

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

² Available data: July 2012.

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

Results of proprietary trading. Broker-dealers

TABLE 2.8

Thousand euro ¹	Interest income		Financial investment income		Exchange differences and other items		Total	
	II 2011	II 2012	II 2011	II 2012	II 2011	II 2012	II 2011	II 2012
Total	52,973	32,650	38,782	92,438	-6,521	-58,061	85,234	67,027
Money market assets and public debt	967	1,424	5,670	8,331	-	-	6,637	9,755
Other fixed-income securities	13,963	9,336	14,860	27,290	-	-	28,823	36,626
Domestic portfolio	12,437	8,376	10,599	20,845	-	-	23,036	29,221
Foreign portfolio	1,526	960	4,261	6,445	-	-	5,787	7,405
Equities	30,269	23,729	-128,191	76,663	-	-	-97,922	100,392
Domestic portfolio	20,501	15,651	35,292	-15,058	-	-	55,793	593
Foreign portfolio	9,768	8,078	-163,483	91,721	-	-	-153,715	99,799
Derivatives	-	-	140,562	-19,142	-	-	140,562	-19,142
Repurchase agreements	346	-2,239	-	-	-	-	346	-2,239
Market credit transactions	0	0	-	-	-	-	0	0
Deposits and other transactions with financial intermediaries	8,379	3,431	-	-	-	-	8,379	3,431
Net exchange differences	-	-	-	-	-5,344	-61,397	-5,344	-61,397
Other operating products and expenses	-	-	-	-	170	5,042	170	5,042
Other transactions	-951	-3,031	5,881	-704	-1,347	-1,706	3,583	-5,441

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

Aggregated income statement. Brokers

TABLE 2.9

Thousand euro ¹	2009	2010	2011	2011		2012		
				III	IV	I	II	III ²
I. Interest income	2,654	1,629	2,480	1,761	2,480	349	946	1,070
II. Net commission	127,457	109,165	97,884	73,058	97,884	24,587	46,665	52,866
Commission revenues	144,351	126,055	112,349	84,174	112,349	28,112	53,625	60,892
Brokering	53,855	38,176	36,354	27,974	36,354	9,586	17,993	20,243
Placement and underwriting	2,950	2,748	2,870	2,289	2,870	751	1,620	1,709
Securities deposit and recording	509	366	440	288	440	103	311	356
Portfolio management	19,584	19,489	12,351	9,572	12,351	2,903	5,487	6,318
Design and advising	2,985	3,618	5,349	4,007	5,349	1,249	2,455	2,989
Stocks search and placement	0	304	61	61	61	0	0	0
Market credit transactions	28	27	42	24	42	7	14	15
IICs ³ marketing	23,969	23,946	21,381	16,514	21,381	4,915	9,881	11,278
Other	40,472	37,381	33,501	23,445	33,501	8,598	15,864	17,984
Commission expenses	16,894	16,890	14,465	11,116	14,465	3,525	6,960	8,026
III. Financial investment income	1,865	456	623	-293	623	123	786	859
IV. Net exchange differences and other operating products and expenses	-1,337	-1,416	-1,539	-1,446	-1,539	-339	-953	-1,001
V. Gross income	130,639	109,834	99,448	73,080	99,448	24,720	47,444	53,794
VI. Operating income	8,706	9,457	7,757	6,168	7,757	2,193	2,592	2,342
VII. Earnings from continuous activities	4,372	6,452	5,488	6,232	5,488	1,989	2,360	2,073
VIII. Net earnings of the period	4,372	6,452	5,488	6,232	5,488	1,989	2,360	2,073

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

2 Available data: July 2012.

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

Aggregated income statement. Portfolio management companies

TABLE 2.10

Thousand euro ¹	2009	2010	2011	2011		2012		
				III	IV	I	II	III ²
I. Interest income	341	407	682	485	682	215	390	444
II. Net commission	10,734	10,097	7,987	5,698	7,987	1,873	3,832	4,487
Commission revenues	21,750	20,994	18,476	13,568	18,476	4,428	8,864	10,237
Portfolio management	18,463	18,020	16,582	12,367	16,582	4,078	8,115	9,305
Design and advising	2,698	1,160	1,894	1,201	1,894	350	749	932
IICs ³ marketing	18	34	0	0	0	0	0	0
Other	571	1,779	0	0	0	0	0	0
Commission expenses	11,016	10,897	10,489	7,870	10,489	2,555	5,032	5,750
III. Financial investment income	92	51	186	192	186	-19	-52	-68
IV. Net exchange differences and other operating products and expenses	-383	22	-10	-41	-10	-4	48	69
V. Gross income	10,784	10,577	8,845	6,334	8,845	2,065	4,218	4,932
VI. Operating income	1,296	1,154	1,525	886	1,525	262	637	735
VII. Earnings from continuous activities	889	939	1,041	627	1,041	194	437	483
VIII. Net earnings of the period	889	939	1,041	627	1,041	194	437	483

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

2 Available data: July 2012.

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

Surplus equity over capital adequacy requirements¹

TABLE 2.11

Thousand euro	Surplus		Number of companies according to its surplus percentage									
	Total amount	% ²	<50	<100	<150	<200	<300	<400	<500	<750	<1000	>1000
Total	1,222,061	286.90	13	24	7	3	13	12	9	10	1	7
Broker-dealers	1,137,674	302.28	4	8	2	1	7	10	4	6	0	6
Brokers	67,192	200.34	9	13	5	2	5	1	5	4	0	1
Portfolio management companies	17,195	107.12	0	3	0	0	1	1	0	0	1	0

1 Available data: June 2012.

2 Average 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^{1,2}

TABLE 2.12

	Average ³	Number of companies according to its annualized return								
		Losses	0-5%	6-15%	16-30%	31-45%	46-60%	61-75%	76-100%	>100%
Total	11.56	38	14	21	13	5	1	3	1	3
Broker-dealers	12.12	12	10	13	7	3	1	1	0	1
Brokers	5.17	23	2	7	6	2	0	2	1	2
Portfolio management companies	3.82	3	2	1	0	0	0	0	0	0

1 ROE has been calculated as:

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

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

2 Available data: June 2012.

3 Average weighted by equity, %.

Financial advisory firms. Main figures

TABLE 2.13

Thousand euro	2009	2010	2011	2010	2011	2012	
				II	I	II	I
ASSETS ADVISED ¹							
Total	1,410,985	15,802,743	16,033,109	15,802,743	16,498,814	16,033,109	14,663,856
Retail clients	364,284	1,715,084	2,181,943	1,715,084	1,895,320	2,181,943	2,415,002
Professional	1,046,702	13,995,206	13,831,973	13,995,206	14,501,823	13,831,973	12,205,216
Other	0	92,453	19,193	92,453	101,671	19,193	43,638
COMMISSION INCOME ²							
Total	3,183	20,745	31,052	20,745	14,116	31,052	13,940
Commission revenues	3,183	20,629	30,844	20,629	14,080	30,844	13,855
Other income	0	116	209	116	36	209	85
EQUITY							
Total	1,500	10,057	12,320	10,057	10,469	12,320	13,098
Share capital	1,043	3,014	3,895	3,014	3,386	3,895	4,328
Reserves and retained earnings	36	242	950	242	2,915	950	5,904
Income for the year ²	421	6,801	7,474	6,801	4,168	7,474	2,866

1 Data at the end of each period. Half-yearly.

2 Accumulated data from the beginning of the year to the last day of every semester.

3 Collective investment schemes (IICs)^{a,b}

Number, management companies and depositories of collective investment schemes registered at the CNMV

TABLE 3.1

	2009	2010	2011	2011		2012		
				III	IV	I	II	III ¹
Total financial IICs	5,892	5,627	5,460	5,491	5,460	5,402	5,373	5,308
Mutual funds	2,593	2,429	2,341	2,356	2,341	2,306	2,284	2,239
Investment companies	3,232	3,133	3,056	3,070	3,056	3,033	3,025	3,005
Funds of hedge funds	38	32	27	28	27	27	28	27
Hedge funds	29	33	36	37	36	36	36	37
Total real estate IICs	16	16	14	15	14	14	14	14
Real estate investment funds	8	8	6	6	6	6	6	6
Real estate investment companies	8	8	8	9	8	8	8	8
Total foreign IICs marketed in Spain	582	660	739	695	739	765	743	752
Foreign funds marketed in Spain	324	379	426	395	426	443	421	421
Foreign companies marketed in Spain	258	281	313	300	313	322	322	331
Management companies	120	123	114	117	114	112	110	110
IIC depositories	124	114	97	101	97	92	90	87

1 Available data: August 2012.

Number of IICs investors and shareholders

TABLE 3.2

	2009	2010	2011	2011		2012		
				III	IV	I	II ¹	III ²
Total financial IICs	5,895,009	5,578,524	5,249,813	5,358,838	5,249,813	5,173,638	5,046,000	4,987,224
Mutual funds	5,475,403	5,160,889	4,835,193	4,942,074	4,835,193	4,759,241	4,634,762	4,577,959
Investment companies	419,606	417,635	414,620	416,764	414,620	414,397	411,238	409,265
Total real estate IICs	84,511	76,223	30,678	32,356	30,678	30,693	28,655	28,695
Real estate investment funds	83,583	75,280	29,735	31,412	29,735	29,754	27,716	27,754
Real estate investment companies	928	943	943	944	943	939	939	941
Total foreign IICs marketed in Spain ³	685,094	865,767	761,380	803,801	761,380	768,467	788,852	–
Foreign funds marketed in Spain	139,102	193,233	177,832	185,665	177,832	175,621	179,987	–
Foreign companies marketed in Spain	545,992	666,534	583,548	618,136	583,548	592,846	608,865	–

1 Provisional data for foreign IICs.

2 Available data: July 2012.

3 Exchange traded funds (ETFs) data is not included.

IICs total net assets

TABLE 3.3

Million euro	2009	2010	2011	2011		2012		
				III	IV	I	II ¹	III ²
Total financial IICs	196,472.5	170,073.1	155,982.6	157,942.6	155,982.6	156,460.3	148,594.6	147,247.7
Mutual funds ³	170,547.7	143,918.2	132,368.6	134,033.7	132,368.6	131,994.5	125,120.7	123,791.1
Investment companies	25,924.8	26,155.0	23,614.0	23,908.9	23,614.0	24,465.8	23,473.9	23,456.6
Total real estate IICs	6,773.7	6,437.5	4,807.1	6,260.8	4,807.1	4,757.7	4,691.0	4,673.4
Real estate investment funds	6,465.1	6,115.6	4,494.6	4,597.3	4,494.6	4,446.9	4,386.0	4,372.4
Real estate investment companies	308.6	321.9	312.5	1,663.4	312.5	310.8	305.0	301.0
Total foreign IICs marketed in Spain ⁴	25,207.2	36,692.9	29,969.5	30,967.3	29,969.5	31,835.1	34,537.8	–
Foreign funds marketed in Spain	5,215.1	8,535.9	6,382.9	6,446.0	6,382.9	6,583.3	7,188.4	–
Foreign companies marketed in Spain	19,992.0	28,156.9	23,586.6	24,521.3	23,586.6	25,251.9	27,349.4	–

1 Provisional data for foreign IICs.

2 Available data: July 2012.

3 For June 2012, mutual funds investments in financial IICs reached 3.4 billion euro.

4 Exchange traded funds (ETFs) data is not included.

a IICs: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

b In this document, neither hedge funds nor funds of hedge funds are included in the figures referred to mutual funds.

Mutual funds asset allocation¹

TABLE 3.4

Million euro	2009	2010	2011	2011			2012	
				II	III	IV	I	II ²
Asset	170,547.7	143,918.2	132,368.6	140,351.3	134,033.7	132,368.6	131,994.5	125,120.7
Portfolio investment	163,165.5	137,295.4	126,370.0	133,666.7	127,577.1	126,370.0	125,415.1	119,257.1
Domestic securities	100,642.6	89,630.2	90,394.3	91,324.1	90,914.4	90,394.3	88,309.9	83,542.9
Debt securities	74,628.9	68,575.1	72,076.1	70,905.2	72,151.4	72,076.1	71,341.6	67,492.5
Shares	4,741.0	3,829.2	3,087.0	3,944.8	3,179.1	3,087.0	2,896.1	2,812.9
Investment collective schemes	9,041.5	7,338.6	6,038.5	6,387.3	6,192.3	6,038.5	3,831.3	3,566.2
Deposits in Credit institutions	11,552.2	9,460.8	8,961.2	9,665.8	9,208.1	8,961.2	10,049.9	9,415.4
Derivatives	679.0	426.2	231.5	420.9	183.4	231.5	191.0	256.0
Other	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Foreign securities	62,487.1	47,626.5	35,968.1	42,330.3	36,656.4	35,968.1	37,094.3	35,708.0
Debt securities	48,435.3	30,337.4	22,713.6	24,576.1	23,293.2	22,713.6	22,699.0	21,937.0
Shares	7,783.2	8,385.8	7,037.3	8,758.1	6,694.9	7,037.3	7,443.8	7,069.7
Investment collective schemes	5,666.4	8,404.7	6,061.6	8,548.4	6,581.2	6,061.6	6,742.9	6,485.3
Deposits in Credit institutions	82.4	108.0	23.0	61.2	53.7	23.0	58.8	59.8
Derivatives	518.7	387.1	131.6	384.2	31.4	131.6	149.1	154.7
Other	1.1	3.6	1.1	2.4	2.0	1.1	0.7	1.5
Doubtful assets and matured investment	35.8	38.6	7.5	12.2	6.3	7.5	10.9	6.0
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	7,267.7	6,531.4	5,837.6	6,459.0	6,000.3	5,837.6	6,398.4	5,630.4
Net balance (Debtors - Creditors)	114.5	91.4	161.1	225.5	456.3	161.1	181.0	233.3

1 Hedge funds and funds of hedge funds are not included in these figures due to the entry into force, on 31 December 2008, of Circular CR CNMV 3/2008 which establishes a different deadline in reporting accounting information to CNMV.

2 Datos provisionales.

Investment companies asset allocation

TABLE 3.5

Million euro	2009	2010	2011	2011			2012	
				II	III	IV	I	II ¹
Asset	25,924.8	26,155.0	23,614.0	26,095.4	23,908.9	23,614.0	24,465.8	23,473.9
Portfolio investment	24,813.5	25,187.3	22,521.9	24,915.3	22,592.7	22,521.9	23,175.1	22,149.6
Domestic securities	13,514.3	12,881.4	12,385.0	12,848.1	12,405.1	12,385.0	12,696.4	11,613.0
Debt securities	7,400.5	5,435.9	7,460.8	6,628.9	7,021.7	7,460.8	7,415.3	7,006.9
Shares	3,376.3	2,988.6	2,508.5	2,993.4	2,663.5	2,508.5	2,385.9	2,275.2
Investment collective schemes	1,091.1	758.7	667.4	815.7	741.8	667.4	695.3	646.1
Deposits in Credit institutions	1,631.5	3,675.2	1,721.7	2,381.5	1,963.5	1,721.7	2,164.7	1,649.6
Derivatives	-6.6	-5.9	-5.5	-2.1	-17.0	-5.5	1.9	1.4
Other	21.7	29.0	32.2	30.6	31.6	32.2	33.4	33.9
Foreign securities	11,294.2	12,298.1	10,131.3	12,061.0	10,181.8	10,131.3	10,472.7	10,531.5
Debt securities	4,606.6	3,606.8	3,070.6	3,241.5	2,948.1	3,070.6	2,966.5	3,024.4
Shares	3,559.3	4,166.0	3,384.3	4,264.5	3,432.9	3,384.3	3,493.5	3,345.4
Investment collective schemes	2,987.4	4,390.5	3,516.3	4,349.3	3,670.2	3,516.3	3,838.7	3,997.7
Deposits in Credit institutions	26.3	12.1	10.8	45.4	13.4	10.8	13.8	12.1
Derivatives	113.0	119.9	145.4	157.8	113.7	145.4	156.3	147.6
Other	1.6	2.8	3.9	2.4	3.5	3.9	3.9	4.2
Doubtful assets and matured investment	4.9	7.9	5.5	6.3	5.9	5.5	6.0	5.1
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fixed assets	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1
Cash	976.4	832.0	854.6	946.9	951.4	854.6	1,071.1	1,030.2
Net balance (Debtors - Creditors)	134.8	135.5	237.4	233.0	364.6	237.4	218.8	294.0

1 Provisional data.

Financial mutual funds: number, investors and total net assets by category¹

TABLE 3.6

				2011		2012		
	2009	2010	2011	III	IV	I	II	III ²
NO. OF FUNDS								
Total financial mutual funds	2,536	2,408	2,310	2,341	2,310	2,300	2,255	2,231
Fixed-income ³	582	537	508	520	508	491	479	472
Mixed fixed-income ⁴	169	160	140	146	140	140	132	131
Mixed equity ⁵	165	138	128	130	128	130	122	123
Euro equity ⁶	182	172	148	153	148	143	135	130
Foreign equity ⁷	242	232	220	222	220	222	220	215
Guaranteed fixed-income	233	276	351	335	351	375	385	390
Guaranteed equity ⁸	561	499	420	436	420	404	384	378
Global funds	187	192	203	204	203	200	198	196
Passive management ⁹	69	61	59	59	59	64	75	73
Absolute return ⁹	146	141	133	136	133	131	125	123
INVESTORS								
Total financial mutual funds	5,475,403	5,160,889	4,835,193	4,942,074	4,835,193	4,759,241	4,634,762	4,577,959
Fixed-income ³	2,041,487	1,622,664	1,384,946	1,419,006	1,384,946	1,362,441	1,326,494	1,307,336
Mixed fixed-income ⁴	290,151	270,341	206,938	227,046	206,938	204,653	195,137	192,646
Mixed equity ⁵	182,542	171,336	145,150	151,551	145,150	145,472	141,784	142,514
Euro equity ⁶	299,353	266,395	237,815	247,166	237,815	224,886	225,774	223,561
Foreign equity ⁷	458,097	501,138	448,539	465,814	448,539	442,753	432,816	420,766
Guaranteed fixed-income	570,963	790,081	1,042,658	1,019,905	1,042,658	1,071,544	1,070,002	1,079,970
Guaranteed equity ⁸	1,188,304	1,065,426	912,298	946,448	912,298	874,249	832,332	806,193
Global funds	88,337	105,720	127,336	130,519	127,336	113,396	105,966	105,085
Passive management ⁹	85,403	90,343	100,416	95,948	100,416	101,901	108,166	109,629
Absolute return ⁹	270,766	277,445	229,097	238,671	229,097	217,946	196,291	190,259
TOTAL NET ASSETS (million euro)								
Total financial mutual funds	170,547.7	143,918.2	132,368.6	134,033.7	132,368.6	131,994.5	125,120.7	123,791.1
Fixed-income ³	84,657.2	56,614.6	46,945.5	48,228.6	46,945.5	45,101.8	42,837.8	41,884.0
Mixed fixed-income ⁴	8,695.5	7,319.0	5,253.6	5,715.8	5,253.6	5,686.9	5,430.9	5,391.8
Mixed equity ⁵	3,879.6	3,470.5	2,906.1	2,897.5	2,906.1	3,234.2	3,040.3	3,034.6
Euro equity ⁶	6,321.6	5,356.8	4,829.2	4,610.8	4,829.2	4,815.6	4,516.5	4,547.3
Foreign equity ⁷	5,902.4	8,037.3	6,281.2	6,028.4	6,281.2	6,813.2	6,373.7	6,527.4
Guaranteed fixed-income	21,033.4	26,180.2	35,058.0	34,241.7	35,058.0	36,677.0	35,421.7	35,538.5
Guaranteed equity ⁸	25,665.8	22,046.5	18,014.5	18,699.9	18,014.5	17,408.5	15,943.0	15,315.7
Global funds	3,872.5	4,440.3	5,104.7	5,154.3	5,104.7	4,545.5	4,272.1	4,280.1
Passive management ⁹	3,216.6	2,104.8	1,986.2	2,060.0	1,986.2	2,053.9	2,190.9	2,295.4
Absolute return ⁹	7,303.0	8,348.1	5,989.7	6,396.8	5,989.7	5,657.8	5,093.9	4,976.1

1 Mutual funds which have sent reports to the CNMV, excluding those in process of dissolution or liquidation.

2 Available data: July 2012.

3 Until I 2009 this category includes: Short-term fixed income, Long-term fixed income, Foreign fixed-income and Monetary market funds. From II 2009 on includes: Fixed income euro, Foreign fixed-income and Monetary market funds. From III 2011 on includes: Fixed income euro, Foreign fixed-income, Monetary market funds and Short-term monetary market funds.

4 Until I 2009 this category includes: Mixed fixed-income and Foreign mixed fixed-income. From II 2009 on includes: Mixed euro fixed-income and Foreign mixed fixed-income.

5 Until I 2009 this category includes: Mixed equity and Foreign mixed equity. From II 2009 on includes: Mixed euro equity and Foreign mixed equity.

6 Until I 2009 this category includes: Spanish equity and Euro Equity. From II 2009 on includes: Euro equity (which includes domestic equity).

7 Until I 2009 this category includes: Foreign equity Europe, Foreign equity Japan, Foreign equity USA, Foreign equity emerging countries and Other foreign equity. From II 2009 on includes: Foreign equity.

8 Until I 2009 this category includes: Guaranteed equity. From II 2009 on includes: Guaranteed equity and partial guarantee.

9 New categories from II 2009 on. Before it, absolute return funds were classified as global Funds.

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

TABLE 3.7

				2011		2012		
	2009	2010	2011	III	IV	I	II	III ¹
INVESTORS								
Total financial mutual funds	5,475,403	5,160,889	4,835,193	4,942,074	4,835,193	4,759,241	4,634,762	4,577,959
Individuals	5,322,214	5,019,902	4,706,193	4,808,616	4,706,193	4,632,865	4,509,459	4,454,402
Residents	5,252,126	4,954,891	4,645,384	4,746,165	4,645,384	4,572,785	4,451,167	4,395,316
Non-residents	70,088	65,011	60,809	62,451	60,809	60,080	58,292	59,086
Legal entities	153,189	140,987	129,000	133,458	129,000	126,376	125,303	123,557
Credit Institutions	674	524	490	507	490	502	492	484
Other resident Institutions	151,479	139,550	127,765	132,160	127,765	125,168	124,123	122,401
Non-resident Institutions	1,036	913	745	791	745	706	688	672
TOTAL NET ASSETS (million euro)								
Total financial mutual funds	170,547.7	143,918.1	132,368.6	134,033.7	132,368.6	131,994.5	125,120.7	123,791.1
Individuals	132,860.5	113,660.6	106,561.9	108,000.6	106,561.9	108,015.5	102,223.9	101,243.0
Residents	130,954.4	111,900.1	105,023.5	106,440.9	105,023.5	106,439.1	100,763.1	99,790.3
Non-residents	1,906.0	1,760.5	1,538.5	1,559.7	1,538.5	1,576.3	1,460.9	1,452.7
Legal entities	37,687.2	30,257.5	25,806.7	26,033.1	25,806.7	23,979.1	22,896.8	22,548.0
Credit Institutions	2,572.0	1,926.1	1,446.7	1,477.0	1,446.7	1,373.5	1,274.6	1,257.2
Other resident Institutions	34,065.1	27,644.6	23,946.3	24,107.8	23,946.3	22,223.1	21,259.1	20,937.6
Non-resident Institutions	1,050.1	686.9	413.7	448.3	413.7	382.5	363.1	353.2

1 Datos disponibles: julio de 2012.

Subscriptions and redemptions of financial mutual funds by category¹

TABLE 3.8

Million euro	2009 ²	2010	2011	2011				2012
				I	II	III	IV	I
SUBSCRIPTIONS								
Total financial mutual funds	109,915.2	78,805.2	58,145.0	22,756.0	13,163.9	10,993.2	11,231.9	12,932.8
Fixed-income	73,718.8	41,656.1	27,206.2	7,890.1	6,478.3	5,962.8	6,875.0	7,776.1
Mixed fixed-income	5,267.6	3,538.8	1,332.4	358.0	517.7	232.0	224.7	358.9
Mixed equity	1,135.4	1,221.7	815.7	270.4	334.7	44.6	166.0	101.5
Euro equity	2,183.8	1,673.0	2,085	575.2	524.1	472.1	513.6	284.5
Foreign equity	2,929.5	4,455.2	3,835.1	2,488.7	721.4	321.2	303.8	561.2
Guaranteed fixed-income	11,755.4	11,513.4	13,965.7	7,424.2	2,595.3	2,202.5	1,743.7	2,340.3
Guaranteed equity	5,589.1	5,120.1	2,570.7	828.6	622.0	751.4	368.7	474.4
Global funds	2,754.4	3,018.1	3,261.6	1,534.3	838.6	572.2	316.5	468.3
Passive management	535.5	683.8	924.7	220.5	149.2	197.1	357.9	249.6
Absolute return	4,045.7	5,924.8	2,147.7	1,165.9	382.4	237.4	362.0	318.1
REDEMPTIONS								
Total financial mutual funds	122,617.5	104,385.6	68,983.6	23,528.9	17,258.8	13,676.7	14,519.2	14,585.3
Fixed-income	81,197.6	68,806.1	37,633.9	13,298.5	8,737.2	7,192.5	8,405.7	8,503.0
Mixed fixed-income	2,724.4	4,955.7	3,258.1	1,138.4	892.5	552.8	674.4	596.8
Mixed equity	1,596.5	1,311.8	1,136.2	267.4	435.3	192.7	240.8	235.5
Euro equity	2,457.8	2,369.9	1,933.0	594.8	453.7	418.8	465.7	436.0
Foreign equity	2,165.3	3,303.3	4,652.7	2,521.1	800.6	841.9	489.1	575.2
Guaranteed fixed-income	15,004.5	6,797.4	6,737.4	2,007.8	2,223.6	1,155.6	1,350.4	1,756.2
Guaranteed equity	10,990.8	7,620.2	5,632.3	1,624.7	1,717.3	1,356.3	934.0	1,206.0
Global funds	2,548.6	2,694.4	2,316.3	507.0	601.0	631.4	576.9	310.4
Passive management	708.0	1,474.1	1,199.2	236.7	108.3	301.1	553.1	220.3
Absolute return	3,224.0	5,053.0	4,484.7	1,332.4	1,289.5	1,033.6	829.2	745.8

1 Estimated data.

2 For passive management and absolute return, data refers to the last three quarters of the year.

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

TABLE 3.9

Million euro	2009 ¹	2010	2011	2011			2012	
				II	III	IV	I	II
NET SUBSCRIPTIONS/REDEMPTIONS								
Total financial mutual funds	-12,702.3	-25,580.6	-10,853.1	-4,121.9	-2,683.0	-3,283.0	-3,427.2	-4,399.3
Fixed-income	-7,478.8	-27,149.9	-10,423.6	-2,280.5	-1,211.6	-1,539.2	-2,496.7	-2,056.4
Mixed fixed-income	2,543.2	-1,417.0	-1,980.4	-323.8	-320.6	-521.6	302.2	-166.5
Mixed equity	-461.1	-90.0	-375.5	-128.4	-112.0	-73.9	219.8	-99.7
Euro equity	-274.0	-696.9	142.0	59.0	52.9	49.7	-171.8	15.7
Foreign equity	764.2	1,152.1	-796.0	-45.7	-516.4	-185.1	-17.2	-173.4
Guaranteed fixed-income	-3,249.1	4,716.0	7,809.3	531.1	1,077.6	569.5	748.4	-424.4
Guaranteed equity	-5,401.7	-2,500.1	-4,053.9	-1,288.1	-963.7	-785.2	-896.4	-1,031.7
Global funds	205.8	323.6	972.2	247.1	-84.7	-187.8	-710.2	-196.7
Passive management	-172.5	-790.3	60.8	-10.8	206.6	-146.9	25.0	234.2
Absolute return	821.7	871.7	-2,207.9	-881.9	-810.9	-462.5	-430.2	-500.5
RETURN ON ASSETS								
Total financial mutual funds	8,389.8	135.7	-673.3	47.2	-3,623.9	1,622.6	3,053.1	-2,474.5
Fixed-income	1,535.3	64.5	744.9	164.9	-9.4	258.8	653.0	-207.5
Mixed fixed-income	507.9	-56.4	-85.1	5.6	-215.5	59.4	131.1	-89.6
Mixed equity	529.9	-53.4	-189.0	-10.5	-336.2	82.5	108.3	-94.1
Euro equity	1,477.1	-254.1	-666.9	-26.9	-1,129.3	170.1	158.2	-314.8
Foreign equity	1,309.0	877.4	-947.2	-98.8	-1,206.8	437.9	549.2	-266.2
Guaranteed fixed-income	830.5	-170.4	1,070.4	127.2	422.7	247.5	870.5	-830.9
Guaranteed equity	1,024.0	-392.8	21.8	-65.8	-164.0	99.7	290.5	-433.9
Global funds	272.2	123.1	-307.8	-10.7	-479.1	138.2	151.1	-76.8
Passive management	657.8	-109.7	-163.9	-9.9	-309.0	73.1	42.7	-97.2
Absolute return	246.4	107.7	-150.5	-27.9	-197.3	55.4	98.4	-63.5

¹ The data refers to the last three quarters of the year for passive management and absolute return categories.

Financial mutual funds return on assets. Detail by category

TABLE 3.10

% of daily average total net assets	2009 ¹	2010	2011	2011			2012	
				II	III	IV	I	II
MANAGEMENT YIELDS								
Total financial mutual funds	6.13	1.09	0.45	0.27	-2.45	1.47	2.56	-1.73
Fixed-income	2.69	0.78	2.28	0.51	0.14	0.74	1.65	-0.30
Mixed fixed-income	9.34	0.61	-0.15	0.41	-3.33	1.41	2.59	-1.33
Mixed equity	16.44	0.11	-4.30	0.16	-10.57	3.28	3.71	-2.67
Euro equity	31.02	-3.05	-10.77	0.15	-22.4	4.07	3.70	-6.40
Foreign equity	33.16	14.8	-11.05	-0.68	-17.26	7.55	8.70	-3.51
Guaranteed fixed-income	4.10	-0.11	3.77	0.44	1.44	0.85	2.51	-2.30
Guaranteed equity	5.08	-0.46	1.29	0.01	-0.54	0.87	1.97	-2.34
Global funds	10.82	4.15	-4.55	0.13	-8.51	2.97	3.79	-1.42
Passive management	–	-2.50	-6.27	-0.21	-13.81	3.98	2.38	-4.46
Absolute return	–	2.49	-0.90	-0.07	-2.60	1.20	1.99	-0.90
EXPENSES. MANAGEMENT FEE								
Total financial mutual funds	0.87	0.91	0.93	0.23	0.23	0.24	0.24	0.23
Fixed-income	0.63	0.65	0.64	0.16	0.16	0.16	0.17	0.16
Mixed fixed-income	1.14	1.20	1.17	0.29	0.28	0.30	0.29	0.27
Mixed equity	1.58	1.65	1.59	0.39	0.39	0.40	0.39	0.38
Euro equity	1.75	1.78	1.80	0.44	0.46	0.45	0.44	0.44
Foreign equity	1.79	1.84	1.77	0.43	0.44	0.45	0.47	0.43
Guaranteed fixed-income	0.65	0.62	0.72	0.18	0.19	0.19	0.19	0.19
Guaranteed equity	1.26	1.24	1.24	0.30	0.32	0.31	0.30	0.30
Global funds	1.08	1.06	1.11	0.27	0.27	0.28	0.33	0.23
Passive management	–	0.72	0.75	0.18	0.17	0.21	0.22	0.20
Absolute return	–	1.06	1.08	0.26	0.25	0.28	0.30	0.26
EXPENSES. DEPOSITORY FEE								
Total financial mutual funds	0.09	0.09	0.08	0.02	0.02	0.02	0.02	0.02
Fixed-income	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Mixed fixed-income	0.09	0.10	0.12	0.03	0.03	0.03	0.02	0.02
Mixed equity	0.10	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Euro equity	0.10	0.11	0.12	0.03	0.03	0.03	0.03	0.03
Foreign equity	0.12	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Guaranteed fixed-income	0.08	0.07	0.08	0.02	0.02	0.02	0.02	0.02
Guaranteed equity	0.11	0.10	0.08	0.02	0.02	0.02	0.02	0.02
Global funds	0.08	0.09	0.08	0.02	0.02	0.02	0.02	0.02
Passive management	–	0.07	0.08	0.02	0.02	0.02	0.02	0.02
Absolute return	–	0.08	0.08	0.02	0.02	0.02	0.02	0.02

1 Passive management and absolute annual returns are not included because they are new categories from II 2009 on.

Mutual funds quarterly returns. Detail by category

TABLE 3.11

In %	2009 ¹	2010	2011	2011			2012	
				II	III	IV	I	II
Total financial mutual funds	5.73	0.35	-0.08	0.03	-2.37	1.35	2.41	-1.75
Fixed-income	1.91	0.11	1.56	0.33	0.01	0.58	1.51	-0.47
Mixed fixed-income	6.85	-0.54	-1.34	0.09	-3.47	1.20	2.30	-1.55
Mixed equity	16.47	-0.98	-5.64	-0.31	-10.13	3.02	3.25	-2.90
Euro equity	32.41	-2.94	-11.71	-0.45	-19.67	4.05	3.34	-6.34
Foreign equity	37.28	14.22	-10.83	-1.15	-15.70	7.53	8.91	-3.63
Guaranteed fixed-income	3.81	-0.67	3.28	0.36	1.28	0.71	2.48	-2.32
Guaranteed equity	3.56	-1.79	0.14	-0.48	-0.76	0.68	1.63	-2.43
Global funds	10.90	3.22	-4.64	-0.14	-8.10	2.90	3.56	-1.23
Passive management	–	-2.36	-7.33	-0.30	-13.94	4.11	1.97	-4.31
Absolute return	–	1.53	-1.87	-0.35	-2.71	0.93	1.68	-1.04

1 Passive management and absolute annual returns are not included because they are new categories from II 2009 on.

Hedge funds and funds of hedge funds

TABLE 3.12

	2009	2010	2011	2011			2012	
				II	III	IV	I	II ¹
HEDGE FUNDS								
Investors/shareholders	1,917	1,852	2,047	2,022	2,057	2,047	2,077	2,129
Total net assets (million euro)	652.0	646.2	728.1	738.9	703.9	728.1	775.3	766.9
Subscriptions (million euro)	248.7	236.6	201.1	58.5	36.1	50.5	71.5	42.5
Redemptions (million euro)	198.3	268.6	92.5	16.0	17.3	39.0	49.8	26.9
Net subscriptions/redemptions (million euro)	50.4	-32.0	108.6	42.5	18.8	11.5	21.7	15.7
Return on assets (million euro)	62.2	26.3	-26.5	3.0	-53.8	12.8	25.5	-24.1
Returns (%)	14.94	5.37	-2.60	0.51	-6.81	2.16	3.66	-2.93
Management yields (%) ²	13.76	6.33	-1.88	0.92	-7.04	2.16	3.68	-2.69
Management fee (%) ²	2.55	1.91	1.66	0.41	0.38	0.38	0.38	0.24
Financial expenses (%) ²	0.11	0.07	0.06	0.02	0.01	0.01	0.01	0.00
FUNDS OF HEDGE FUNDS								
Investors/shareholders	5,321	4,404	3,805	4,137	4,046	3,805	3,592	3,545
Total net assets (million euro)	810.2	694.9	573.0	636.1	617.4	573.0	568.0	560.0
Subscriptions (million euro)	302.4	47.9	10.6	4.2	1.9	2.2	2.0	–
Redemptions (million euro)	585.4	184.8	120.1	28.4	10.7	51.1	13.5	–
Net subscriptions/redemptions (million euro)	-283.0	-136.9	-109.6	-24.3	-8.8	-48.9	-11.5	–
Return on assets (million euro)	71.9	21.7	-12.3	-6.8	-9.9	4.5	6.4	–
Returns (%)	7.85	3.15	-1.70	-1.03	-1.50	0.85	1.15	0.73
Management yields (%) ³	11.54	4.38	-0.47	-0.69	-1.21	1.09	1.45	–
Management fee (%) ³	1.34	1.25	1.25	0.32	0.30	0.31	0.32	–
Depository fee (%) ³	0.11	0.08	0.08	0.02	0.02	0.02	0.02	–

1 Available data: May 2012. Return refers to the period December-February.

2 % of monthly average total net assets.

3 % of daily average total net assets.

Management companies. Number of portfolios and assets under management¹

TABLE 3.13

	2009	2010	2011	2011	2012			
				III	IV	I	II	III ²
NUMBER OF PORTFOLIOS								
Mutual funds	2,593	2,429	2,341	2,356	2,341	2,306	2,284	2,246
Investment companies	3,135	3,068	3,002	3,015	3,002	2,975	2,967	3,002
Funds of hedge funds	38	32	27	28	27	27	28	28
Hedge funds	28	31	35	36	35	35	35	36
Real estate investment fund	8	8	6	6	6	6	6	6
Real estate investment companies	8	8	8	9	8	8	8	8
ASSETS UNDER MANAGEMENT (million euro)								
Mutual funds	170,547.7	143,918.2	132,368.6	134,033.7	132,368.6	131,994.5	125,120.7	123,791.1
Investment companies	24,952.8	25,361.3	23,037.8	23,321.3	23,037.8	23,827.4	22,849.4	22,834.6
Funds of hedge funds ³	810.2	694.9	573.0	617.4	573.0	568.0	468.5	–
Hedge funds ³	652.0	643.5	694.7	673.0	694.7	775.3	457.2	–
Real estate investment fund	6,465.1	6,115.6	4,494.6	4,597.3	4,494.6	4,446.9	4,386.0	4,372.4
Real estate investment companies	308.5	321.9	312.5	1,663.4	312.5	310.8	305.1	300.5

1 From II Quarter 2009 on it is considered as "assets under management" all the assets of the investment companies which are co-managed by management companies and other different companies.

2 Available data: July 2012.

3 Available data for II Quarter 2012: May 2012.

Foreign Collective Investment schemes marketed in Spain¹

TABLE 3.14

	2009	2010	2011	2011		2012		
				II	III	IV	I	II ²
INVESTMENT VOLUME ³ (million euro)								
Total	25,207.2	36,692.9	29,969.5	35,582.2	30,967.3	29,969.5	31,835.1	34,537.8
Mutual funds	5,215.1	8,535.9	6,382.9	7,303.2	6,446.0	6,382.9	6,583.3	7,188.4
Investment companies	19,992.0	28,156.9	23,586.6	28,279.0	24,521.3	23,586.6	25,251.9	27,349.4
INVESTORS/SHAREHOLDERS								
Total	685,094	865,767	761,380	856,882	803,801	761,380	768,467	788,852
Mutual funds	139,102	193,233	177,832	195,525	185,665	177,832	175,621	179,987
Investment companies	545,992	666,534	583,548	661,357	618,136	583,548	592,846	608,865
NUMBER OF SCHEMES								
Total	582	660	739	695	695	739	765	743
Mutual funds	324	379	426	395	395	426	443	421
Investment companies	258	281	313	300	300	313	322	322
COUNTRY								
Luxembourg	275	290	297	298	298	297	303	302
France	178	225	284	239	241	284	300	278
Ireland	64	75	87	84	82	87	90	89
Germany	17	20	20	21	21	20	20	22
UK	14	16	19	19	19	19	20	21
The Netherlands	1	1	1	1	1	1	1	1
Austria	27	27	25	27	27	25	25	24
Belgium	5	5	5	5	5	5	5	5
Malta	1	1	1	1	1	1	1	1

1 Exchange traded funds (ETFs) data is not included.

2 Provisional data.

3 Investment volume: participations or shares owned by the investors/shareholders at the end of the period valued at that moment.

Real estate investment schemes¹

TABLE 3.15

				2011		2012		
	2009	2010	2011	III	IV	I	II	III ²
REAL ESTATE MUTUAL FUNDS								
Number	8	7	6	6	6	6	6	6
Investors	83,583	75,280	29,735	31,412	29,735	29,754	27,716	27,754
Asset (million euro)	6,465.1	6,115.6	4,494.6	4,597.3	4,494.6	4,446.9	4,386.0	4,372.4
Return on assets (%)	-8.31	-4.74	-3.23	-1.03	-0.93	-0.86	-1.23	-0.31
REAL ESTATE INVESTMENT COMPANIES								
Number	8	8	8	9	8	8	8	8
Shareholders	928	943	943	944	943	939	939	941
Asset (million euro)	308.6	321.9	312.5	1,663.4	312.5	310.8	305.1	300.5

1 Real estate investment schemes which have sent reports to the CNMV, excluding those in process of dissolution or liquidation.

2 Available data: July 2012. In this case, return on assets is monthly.

