

### 3.1 Collective investment

Following six years of uninterrupted growth, the assets under management of financial investment funds shrank slightly in 2018. This was mainly a result of the fall in the value of the investment portfolio due to the instability present in financial markets for much of the year. In contrast, new inflows of investments continued, although at a much lower rate than in previous years, and in the last quarter of the year many categories even recorded net redemptions. The relative weighting of higher-risk fund categories continued to increase, although less strongly than in 2017, with global funds recording by far the largest growth.

As was the case in the previous year, there was a reduction in the number of SICAVs (investment companies). However, while a good deal of the collective investment schemes de-registered in 2017 were absorbed by other CIS, this was the reason for only 20% of total de-registrations in 2018.

The growth in assets under management and market share of foreign collective investment schemes marketed in Spain continued in 2018. Information on these schemes was also affected by the entry into force of a new circular that seeks to improve the information that they report.

#### 3.1.1 Mutual funds

The assets managed by Spanish mutual funds, which had grown on a continuous basis since 2012, accumulating gains of over 120%, shrank in the last quarter of 2018. This reduction offset the growth in previous quarters and led to a 2.3% fall in assets under management compared with year-end 2017 (5.7% in the last 3 months), which stood at 259.1 billion euros. This reduction was exclusively due to the negative net yield of the portfolio of mutual funds, of almost 20 billion euros, as subscriptions of units (in net terms) were positive, specifically amounting to 7.84 billion. However, in the fourth quarter of the year, as mentioned above, negative net subscriptions of almost 4 billion euros were recorded as a result of increasing risk aversion triggered by stock market turmoil.

As shown in Statistical Annex II.1, the fund categories that recorded the largest falls in assets under management were, in this order, fixed-income funds (3.68 billion euros down on 2017, a drop of 5.2%) and passively managed funds (down 3.34 billion euros, a drop of 17.1%). It should be noted that assets under management in both these categories had already fallen in 2017. Mixed fixed-income funds, for their part, recorded a fall of 2.94 billion euros (6.7% down on 2017), while absolute return funds recorded a fall of 2.53 billion euros. These two last categories, unlike those referred to above, had recorded significant gains in 2017, which were particularly high in the case of absolute return funds, whose assets

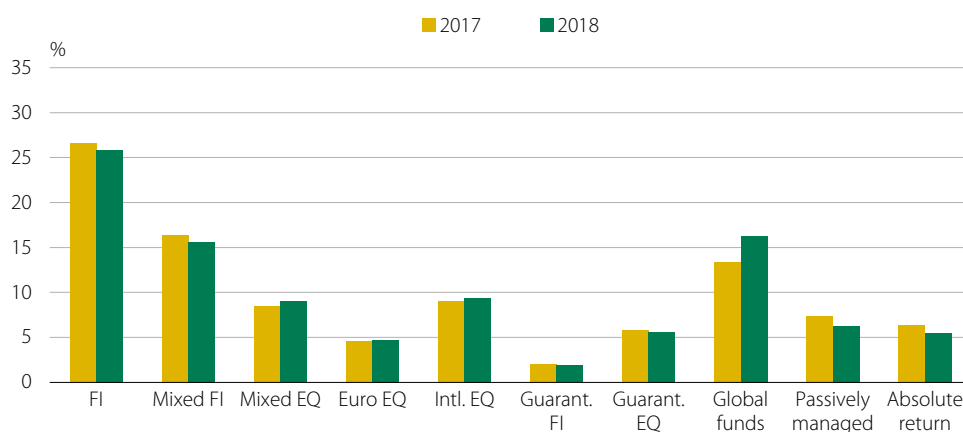
under management grew by 36.8% compared with average growth in the sector of 11.5%.

By far the largest increase in assets under management was recorded by global funds, with a rise of 6.63 billion euros, 18.7% up on year-end 2017, thanks to the high level of subscriptions made during the year (9.45 billion in net terms). Equity funds also received inflows of investments from unit-holders (between 1.79 and 3.86 billion euros) although, as there had been a significant contraction in the value of the portfolio, the effect on assets under management at the end of the year was much lower. Accordingly, mixed equity funds and international equity funds increased their assets under management by 869 and 340 million euros, respectively, while euro equity funds closed the year with a slight reduction in assets under management of 26 million euros.

As has been the case since 2013, the changes in assets under management recorded over the year in the different fund categories led to a decrease in the joint relative weighting of more conservative formulas (fixed-income funds and guaranteed fixed-income and equity funds) in the total assets managed by mutual funds, although with much lower intensity than in previous years, slipping from 34.5% in 2017 to 33.4% in 2018. In contrast, there was an increase in the joint share of higher risk categories, which results from investors seeking out higher returns. However, although in 2017 this increase in higher risk categories was very high, with significant subscriptions in global funds and in international and euro equity funds, in 2018 these were only significant, as mentioned above, in global funds (see Figure 3.1.1).

**Mutual fund asset breakdown**

FIGURE 3.1.1



Source: CNMV.

The aggregate yield of mutual funds in the year as a whole stood in negative numbers, with a figure of -4.9%, mainly as a result of the poor performance recorded in the last quarter of the year (the portfolio's yield was -4.13% in that quarter). With the exception of guaranteed fixed-income funds, whose yields stood at 0.09%, the other mutual fund categories recorded negative yields over the year. In line with the downward trend in stock market prices, the least profitable funds were euro equity funds, with a yield of -13.01% in 2018 (-11.94% in the fourth quarter) and international equity funds, with -12.34% (-13.06% in the last quarter), followed by mixed equity funds (-6.45% in the year as a whole and -5.83% in the last 3 months).

## Mutual fund asset breakdown<sup>1</sup>

TABLE 3.1.1

Million euros

Securities markets  
and their agents  
Financial institutions  
and investment services

|   | 2017           | %            | 2018           | %            | % change<br>18/17 |
|---|----------------|--------------|----------------|--------------|-------------------|
| <b>Assets</b>                                     | <b>265,195</b> | <b>100.0</b> | <b>259,095</b> | <b>100.0</b> | <b>-2.3</b>       |
| <b>Financial investment portfolio</b>             | <b>244,598</b> | <b>92.2</b>  | <b>241,016</b> | <b>93.0</b>  | <b>-1.5</b>       |
| Spanish securities                                | 83,032         | 31.3         | 74,486         | 28.7         | -10.3             |
| Debt securities                                   | 55,389         | 20.9         | 50,538         | 19.5         | -8.8              |
| Shares and equity instruments                     | 10,912         | 4.1          | 10,868         | 4.2          | -0.4              |
| Collective investment schemes                     | 7,626          | 2.9          | 6,985          | 2.7          | -8.4              |
| Deposits in credit institutions                   | 8,657          | 3.3          | 5,855          | 2.3          | -32.4             |
| Derivatives                                       | 441.4          | 0.2          | 235            | 0.1          | -46.8             |
| Other   | 6.8            | 0.0          | 5              | 0.0          | -26.5             |
| Foreign securities                                | 161,557        | 60.9         | 166,522        | 64.3         | 3.1               |
| Debt securities                                   | 67,794         | 25.6         | 74,079         | 28.6         | 9.3               |
| Shares and equity instruments                     | 27,082         | 10.2         | 26,661         | 10.3         | -1.6              |
| Collective investment schemes                     | 66,100         | 24.9         | 65,624         | 25.3         | -0.7              |
| Deposits in credit institutions                   | 74.7           | 0.0          | 21             | 0.0          | -71.9             |
| Derivatives                                       | 504.7          | 0.2          | 136            | 0.1          | -73.1             |
| Other   | 1.4            | 0.0          | 1              | 0.0          | -28.6             |
| Doubtful, delinquent or in litigation investments | 9.3            | 0.0          | 8              | 0.0          | -14.0             |
| <b>Cash</b>                                       | <b>19,988</b>  | <b>7.5</b>   | <b>16,897</b>  | <b>6.5</b>   | <b>-15.5</b>      |
| <b>Net balance (debtors/creditors)</b>            | <b>608</b>     | <b>0.2</b>   | <b>1,182</b>   | <b>0.5</b>   | <b>94.4</b>       |

Source: CNMV. (1) Excluding hedge funds and funds of hedge funds.

As has been the case since 2013, the breakdown of the aggregate assets of mutual funds changed in 2018 in favour of foreign securities, whose relative weighting stood at 64.3% at year-end, 3 percentage points more than in 2017 and 12 points up on 2016 (to 166.52 billion euros). The size of the domestic portfolio fell in both absolute and relative terms to 74.49 billion euros, 28.7% of the total.

It is interesting to note, at any event, that the shift towards a greater proportion of international assets in the total assets managed by funds was basically focused in 2018 in fixed-income assets. Both in absolute and in relative terms, direct investment by Spanish funds in Spanish and international equity remained at similar levels to those of 2017: 4.2% and 10.3% of assets under management, respectively. A similar situation occurred with regard to the part of the portfolios invested in other collective investment schemes, which at year-end 2018 amounted to 6.99 billion euros invested in Spanish schemes and 65.62 billion in foreign schemes.

Management companies continued the process of streamlining the supply of funds, although, as was the case in 2017, at a much lower rate than in the period between 2012 and 2016. This led to the number of funds dropping by over 450. At year-end 2018, there was a total of 1,617 mutual funds, following 101 new registrations and 160 de-registrations over the year (see Table 3.1.2). A total of 157 funds were de-registered after being taken over by other mutual funds. This reduction in the number of vehicles, and despite the fall in assets managed by the funds, led to a slight increase in the average assets per fund in the year, which rose from 158.2 million euros in 2017 to 160.2 million euros in 2018.

With regard to the supply of funds, it is important to note the evolution of the funds traded on the stock market since they were first marketed in Spain in 2006. From the outset, there was a relatively high number of Spanish ETFs listed on the Spanish market together with others offered by foreign entities and not listed on the Spanish market. Their evolution has been uneven, partly as a result of the different tax treatment of these products (see Chapter 2), which has led to those traded on the Spanish market almost completely disappearing. In addition, both Spanish investors and managers have shown very little interest in this collective investment segment and their participation is very low. This contrasts with the situation in other European countries, in which these products have been extremely successful over recent years due to their simplicity, high level of flexibility and low fees. According to data from Thomson Reuters Lipper, their net assets at the end of the year stood at over 630 billion euros, similar levels to those of 2017.

Registrations and de-registrations in 2018

TABLE 3.1.2

| Type of firm   | Firms<br>registered<br>at 31/12/17 | New<br>registrations | De-<br>registrations | Firms<br>registered at<br>31/12/18 |
|--|------------------------------------|----------------------|----------------------|------------------------------------|
| <b>Total financial CIS</b>                             | <b>4,564</b>                       | <b>111</b>           | <b>289</b>           | <b>4,386</b>                       |
| Mutual funds   | 1,676                              | 101                  | 160                  | 1,617                              |
| Investment companies                                   | 2,833                              | 6                    | 126                  | 2,713                              |
| Funds of hedge funds                                   | 8                                  | 0                    | 1                    | 7                                  |
| Hedge funds  | 47                                 | 4                    | 2                    | 49                                 |
| <b>Total IIC inmoa Total real estate CIS biliarías</b> | <b>7</b>                           | <b>0</b>             | <b>0</b>             | <b>7</b>                           |
| Real estate mutual funds                               | 3                                  | 0                    | 0                    | 3                                  |
| Real estate investment companies                       | 4                                  | 0                    | 0                    | 4                                  |
| <b>Total foreign UCITS marketed in Spain</b>           | <b>1,013</b>                       | <b>117</b>           | <b>106</b>           | <b>1,024</b>                       |
| Foreign funds  | 455                                | 47                   | 73                   | 429                                |
| Foreign companies                                      | 558                                | 70                   | 33                   | 595                                |
| <b>CIS management companies</b>                        | <b>109</b>                         | <b>11</b>            | <b>1</b>             | <b>119</b>                         |
| <b>Depositories</b>                                    | <b>54</b>                          | <b>0</b>             | <b>17</b>            | <b>37</b>                          |

Source: CNMV.

In contrast with the fall in assets under management, the number of unit-holders rose by 9.0% in 2018 to 11.2 million (see Statistical Annex II.1). This was despite the fact that, like other figures for these schemes, the numbers fell in the last 3 months of the year (-48,000 unit-holders). Global funds recorded the highest growth, with 414,793 more unit-holders, followed by international equity funds, with an increase of 359,999. In contrast, passively managed funds recorded the largest fall in unit-holders, 95,774 fewer than at year-end 2017. The percentage of unit-holders in mutual funds who were natural persons stood at 98%, the same figure as in 2017, and they accounted for 83.3% of total assets, 0.9 percentage points down on the previous year.

**CNMV Circular 1/2019, of 28 March, amending Circular 1/2009, of 4 February, on categories of collective investment schemes according to their investment profile, partially amended by Circular 3/2011, of 9 June**

EXHIBIT 3

Securities markets  
and their agents  
Financial institutions  
and investment services

Regulation (EU) 2017/1131 of the European Parliament and of the Council, of 14 June 2017, on money market funds (hereinafter, the Regulation) sets out a new definition of money market funds and their evaluation criteria in order to establish common rules in the European Union with regard to, among other aspects, portfolio composition, eligible assets, their maturity, liquidity and diversification, as well as the credit quality of issuers and of the money market instruments in which they invest. This new definition aims to avoid different levels of investor protection and prevent and mitigate any potential contagion risks resulting from possible runs by investors on money market funds. These changes make it necessary to amend the definition of the policies relating to money market funds included in the Annex of CNMV Circular 1/2009, of 4 February, on categories of collective investment schemes according to their investment profile.

As the Regulation applies directly in all Member States and is extremely extensive in terms of the characteristics and requirements of the different types of money market funds, it has been decided to only include the new money market profiles in the new Circular and to refer to compliance with the Regulation.

Coinciding with the adaptation required by the Regulation and in view of the high number and level of assets and heterogeneity according to the duration of their portfolio of the funds included in the category of euro fixed income,<sup>1</sup> it has been considered appropriate to create a new category of CIS according to the investment policy and to divide it into two: Short-term euro fixed income and Euro fixed income.

The fact that the characteristics of CIS with a non-guaranteed specific target return are different from those of CIS that track or reproduce an index or those of exchange traded funds – even though all of them are passively managed – has led to the category of passively managed CIS being divided into two: CIS that track an index (which replaces the name of passively managed CIS) and CIS with a non-guaranteed specific target return.

The Council of State issued its mandatory opinion on 14 February 2019. The draft circular examined did not give rise to any observation with regard to legality or timeliness and was therefore approved.

**New classifications of money market CIS of Regulation (EU) 2017/1131**

In order to adapt the investment profiles to the types of money market funds (MMFs) defined in the Regulation, it has been proposed to amend the Annex of Circular 1/2009, in which the Short-term money market and Money market profiles are replaced by the following:

- Short-term public debt constant net asset value MMFs.
- Short-term low volatility net asset value MMFs.
- Short-term variable net asset value MMFs.
- Standard variable net asset value MMFs.

The objective of MMFs generally remains to maintain the principal and offer returns in line with money market rates. However, standard MMFs have the objective of offering returns slightly higher than money market returns and may have a weighted average maturity and a weighted average life longer than short-term MMFs.

In addition, MMFs may not make short sales or have exposure to equity or commodities, enter into securities lending or borrowing agreements or lend or borrow cash.

In addition, the manager of an MMF must:

- Establish an internal credit quality assessment procedure based on prudent, systematic and continuous assessment methodologies.
- Regularly conduct stress testing for different possible scenarios of future changes in economic conditions which could have unfavourable effects on the MMFs.
- Establish and apply procedures with a view to anticipating the effect of concurrent redemptions by several investors.

Specifically, the main characteristics of each one of the types of MMFs established by the Regulation are as follows:

**Short-term public debt constant net asset value MMFs:** They invest at least 99.5% of their assets in money market instruments issued or guaranteed by the public administrations and bodies listed in Article 70.7 of the Regulation and reverse repurchase agreements secured with government debt of the same type and in cash. However, they may also invest in other assets, such as securitisations and asset-backed commercial paper, deposits, repurchase agreements or reverse repurchase agreements, other short-term MMFs and ancillary liquid assets. These MMFs aim to maintain the net asset value of the unit unchanged and its assets are generally valued by using the amortised cost method. Subscriptions and redemptions may be made at constant net asset value.

**Short-term low volatility net asset value MMFs:** The portfolio assets of these MMFs – which have less restrictive criteria than those required for short-term public debt constant net asset value MMFs – will be valued using mark-to-market or, if this is not possible, they will be valued conservatively by the manager using mark-to-model. Subscriptions and redemptions may be made at constant net asset value if this figure does not differ from the net asset value calculated using mark-to-market or mark-to-model by more than 20 bp.

**Short-term variable net asset value MMFs:** They may invest in the same assets and the portfolio may have the same weighted average maturity and weighted average life as short-term low volatility net asset value MMFs, although established liquidity requirements are lower. Their assets may only be valued using mark-to-market or by the manager using mark-to-model.

**Standard variable net asset value MMFs:** They may invest in the same assets as the above MMFs with some additional flexibility with regard to the maturity of the money market instruments and the securitisations and asset-backed commercial paper and, in addition, they may invest in other short-term and standard MMFs. As with short-term variable net asset value MMFs, their assets may only be valued by means of mark-to-market or mark-to-model.

<sup>1</sup> In March 2018, there were 203 funds with a Euro fixed income profile, with assets of 55.84 billion euros, of which 81 had a duration of less than 1 year and assets of 23.18 billion euros.

### 3.1.2 Open-ended investment companies (SICAVs)

As in 2017, the number of SICAVs registered with the CNMV fell in 2018, as there were 126 de-registrations and only 6 new registrations. At the end of the year, there was a total of 2,713 registered SICAVs, compared with 2,833 in December 2017. This decrease was also reflected in the number of shareholders, which fell by 1.2% to 416,029. Almost all SICAVs, over 99% of the total, were listed on the Alternative Stock Market.

Partly as a result of the high number of de-registrations, the assets managed by SICAVs fell by 11.4% to 27.84 billion euros. Average assets per SICAV fell slightly from 11.1 million euros at the end of 2017 to 10.3 million euros in 2018, while the average assets per shareholder rose from 74,595 to 67,296 euros.

The moderately negative performance of this collective investment segment in Spain in 2018, in terms of the number of entities and the volume of net assets, reflected the fact that, although falling, there was still a certain level of uncertainty about possible regulatory changes that might affect it. This is a segment that has been, and may continue to be, significant from the perspective of the development and sophistication, in the best sense of the words, of investment services in Spain and which contributes to there being a good number of professionals with high-level experience in various facets of asset management.

With regard to the distribution of the assets managed by these vehicles, Table 3.1.3 shows that in 2018 there was an increase in cash of 310 million euros, a rise of 12.8%. However, this increase was lower than the reduction in the portfolio of financial investments (-13.8%), which led to the aforementioned fall in assets under management. The relative weighting of the foreign portfolio within the total portfolio, after several years of significant increases, remained practically unchanged, with a percentage of around 79% (71.1% of total assets managed). Among the different categories of foreign investment, debt securities rose slightly in relative importance, while the weighting of CIS and of shares and equity instruments fell by 0.9 and 0.7 percentage points, respectively.

## Breakdown of investment company assets<sup>1</sup>

TABLE 3.1.3

Million euros

|   | 2017           | %            | 2018           | %            | % change<br>18/17 |
|---|----------------|--------------|----------------|--------------|-------------------|
| <b>Assets</b>                                     | <b>31,425</b>  | <b>100.0</b> | <b>27,836</b>  | <b>100.0</b> | <b>-11.4</b>      |
| <b>Financial investment portfolio</b>             | <b>28,805</b>  | <b>91.7</b>  | <b>24,841</b>  | <b>89.2</b>  | <b>-13.8</b>      |
| Spanish securities                                | 6,229          | 19.8         | 5,031          | 18.1         | -19.2             |
| Debt securities                                   | 1,654          | 5.3          | 1,434          | 5.2          | -13.3             |
| Shares and equity instruments                     | 2,675          | 8.5          | 2,194          | 7.9          | -18.0             |
| Collective investment schemes                     | 1,626          | 5.2          | 1,194          | 4.3          | -26.6             |
| Deposits in credit institutions                   | 236            | 0.8          | 164            | 0.6          | -30.5             |
| Derivatives                                       | -0.6           | 0.0          | -0.2           | 0.0          | -66.7             |
| Other   | 39.7           | 0.1          | 46.2           | 0.2          | 16.4              |
| Foreign securities                                | 22,566         | 71.8         | 19,804         | 71.1         | -12.2             |
| Debt securities                                   | 4,397          | 14.0         | 4,242          | 15.2         | -3.5              |
| Shares and equity instruments                     | 6,988          | 22.2         | 5,979          | 21.5         | -14.4             |
| Collective investment schemes                     | 11,154         | 35.5         | 9,541          | 34.3         | -14.5             |
| Deposits in credit institutions                   | 0.0            | 0.0          | 0.0            | 0.0          | -                 |
| Derivatives                                       | 19.3           | 0.1          | 27.6           | 0.1          | 43.0              |
| Other   | 8.9            | 0.0          | 14.5           | 0.1          | 62.9              |
| Doubtful, delinquent or in litigation investments | 9.3            | 0.0          | 5.6            | 0.0          | -39.8             |
| <b>Intangible assets</b>                          | <b>0.0</b>     | <b>0.0</b>   | <b>0.0</b>     | <b>0.0</b>   | <b>-</b>          |
| <b>Property, plant and equipment</b>              | <b>0.6</b>     | <b>0.0</b>   | <b>0.5</b>     | <b>0.0</b>   | <b>-16.7</b>      |
| <b>Cash</b>                                       | <b>2,421.7</b> | <b>7.7</b>   | <b>2,731.9</b> | <b>9.8</b>   | <b>12.8</b>       |
| <b>Net balance (debtors/creditors)</b>            | <b>197.5</b>   | <b>0.6</b>   | <b>262.6</b>   | <b>0.9</b>   | <b>33.0</b>       |
| <b>Pro-memoria: No. of shareholders</b>           | <b>421,273</b> | <b>-</b>     | <b>416,029</b> | <b>-</b>     | <b>-1.2</b>       |

Source: CNMV.

Despite the significant reduction in absolute terms (-19.2%), the relative weighting of the domestic portfolio remained almost unchanged (a reduction of a little under 0.2 percentage points). The distribution between the different instruments was similar to that of 2017: Spanish debt instruments recorded a slight increase in relative weighting within the domestic portfolio (from 26.6% to 28.5%), as did shares and equity instruments, up 0.7 percentage points to 43.6%. In contrast, investment in CIS lost relative importance within the domestic portfolio, falling from 26.1% to 23.7%. At any event, it is interesting to note that the percentages invested by SICAVs in Spanish equity and in Spanish collective investment schemes are higher than those of mutual funds (7.9% and 4.3% compared with 4.2% and 2.7%, respectively).

### 3.1.3 Hedge funds

Hedge funds continue to have a very low share of collective investment in Spain as they account for less than 1% of total assets. This collective investment segment is made up of two types of vehicle: those that invest directly in assets (hedge funds) and those that invest through other hedge funds (funds of hedge funds). In both cases, the vehicle may be set up as a fund or a company.



The aggregate assets managed by hedge funds, which rose significantly in 2017 (up 26.8%), remained practically stable in 2018, shrinking by 1.3%, to end December at 2.73 billion euros. In the case of hedge funds, assets managed fell by 1.5% to 2.26 billion euros, while assets managed by funds of hedge funds hardly recorded any change, falling by only 1.5 million euros, to 467.2 million.

At the end of the year, hedge funds accounted for 74.2% of the segment's total (73.1% in 2017). Funds of hedge funds continue to be relatively less important, accounting for 7.8% of the total (7.5% in the previous year). Companies operating in both sectors accounted for the remaining 18.0%.

The performance of the portfolio was in line with market performance, particularly equity markets, and was negative for all the different categories: while hedge funds recorded a return on their portfolio of -6.23% to December, funds of hedge funds recorded a negative return (-2.05%). As with mutual funds, the lowest returns were obtained in the last quarter of the year.

The total number of unit-holders and shareholders in the segment remained practically constant in 2018, with only 6 fewer than at year-end 2017, and stood at 7,246 at the end of December. However, an analysis by category reveals that there was an increase in the case of hedge funds of 21.5% during the year, to 4,442, while the number of funds of hedge funds fell by 22%, to end December at 2,804 unit-holders.

The total number of these vehicles registered with the CNMV at year-end amounted to 56, 1 more than at the end of 2017. As shown in Table 3.1.2, the number of hedge funds rose from 47 to 49, following 4 new registrations and 2 de-registrations, while the number of funds of hedge funds fell from 8 to 7 as a result of 1 de-registration.

## Non-bank financial intermediation in Spain<sup>1</sup>

EXHIBIT 4

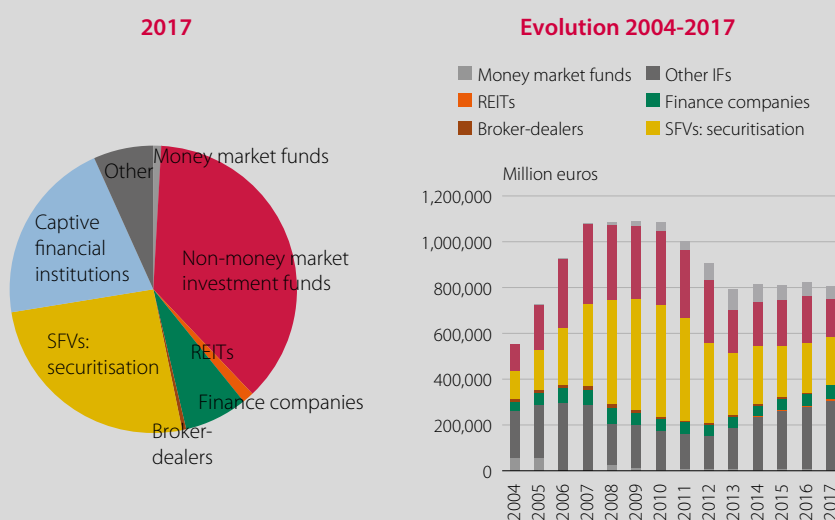
Non-bank financing is a valuable alternative to bank financing as it increases the available sources of resources for businesses and households, while at the same time promoting healthy competition with traditional banks. The experience gained as a result of the financial crisis that began in 2007 shows, however, the capacity of some of the entities that provide non-bank financing to generate certain risks for financial stability that are similar to those generated by banks. These risks may be generated both directly and through the interconnectedness of these entities with the regular banking system. The name of this sector (which was originally "shadow banking" as its activities fell outside the scope of banking regulation) has evolved towards non-bank financial intermediation (NBFI), following several years of debate in various international forums, so as to avoid the negative connotation of the initial term used. Given its systemic importance, quantifying the size of NBFI and the associated risks to financial stability has become a crucial objective of many bodies, including the European Systemic Risk Board (ESRB) and the Financial Stability Board (FSB).

The volume of assets of the Spanish financial system stood at 4.7 trillion euros in 2017, approximately 4 times the GDP, with banks accounting for slightly under 60% of the total. Far behind banks were Other Financial Intermediaries

(OFIs), with over 17% of the total. In the early years of the analyses of shadow banking (and in some current analyses), the assets of OFIs were taken as a broad measure of NBFI. However, subsequent analyses started to select certain types of entities within OFIs which might be considered part of NBFI. These include investment funds, structured finance vehicles (SFVs), broker-dealers and finance companies. The entities that fall under the category of OFIs but not NBFI are captive financial institutions and moneylenders (the most important due to their volume of assets), REITs and other relatively small-sized entities.<sup>2</sup>

Distribution of Other Financial Intermediaries (OFIs)

FIGURE E4.1



Source: CNMV with ECB data.

Following several years of significant growth, the assets of OFIs reached their highest level in the period 2007-2010, when they exceeded 1 trillion euros (see right hand panel of Figure E4.1). Between 2010 and 2013, their assets fell (mainly due to securitisations) and have remained stable since then, although there has been a certain rearrangement (lower importance of securitisations and greater importance of investment funds). In the euro area, in contrast, OFIs have been enjoying positive growth since 2011, with a cumulative increase of 17% to 2017.

In 2013, the FSB developed a framework based on five economic functions in order to identify and classify shadow banking entities. The aim was for competent authorities to categorise non-bank financial institutions not so much based on their legal form, but rather on the type of activity that they perform. This would achieve international consistency when identifying the risks associated with NBFI. According to this classification, the entities that belong to NBFI in Spain are as follows:

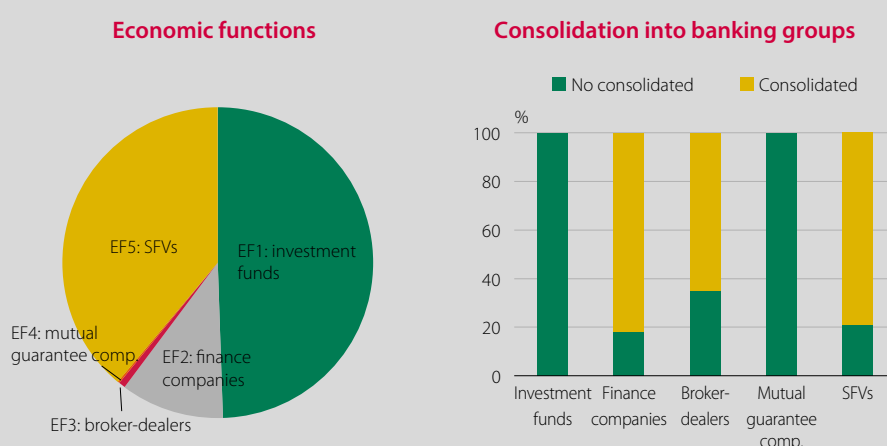
- **Economic function 1 (EF1):** investment funds whose characteristics make them susceptible to runs. This category includes fixed-income funds, mixed funds, money-market funds, hedge funds and SICAVs.
- **Economic function 2 (EF2):** loan provision that is dependent on short-term funding. In the case of Spain, this category covers finance

companies, crowdfunding platforms and vehicles which in recent years have been performing the activity known as direct lending.<sup>3</sup>

- **Economic function (EF3):** intermediation of market activities that is dependent on short-term funding or on secured funding of client assets. It is made up of broker-dealers.
- **Economic function 4 (EF4):** entities that perform “facilitation” of credit creation. In Spain, mutual guarantee companies belong to this category.
- **Economic function 5 (EF5):** securitisation-based credit intermediation and funding of financial entities. Structured finance vehicles (SFVs) for the purpose of asset securitisation are included in this category.

**Distribution of non-bank financial intermediation. 2017**

FIGURE E4.2



Source: CNMV with ECB data.

According to this classification, NBFI assets in Spain at the end of 2017, in their broad measure – i.e., without eliminating consolidation into banking groups – amounted to 531.92 billion euros, 1.9% up on 2016. After eliminating the portion that is consolidated into banks, the figure for NBFI stands at 319.08 billion euros, accounting for 6.8% of the Spanish financial system and 39.6% of the OFI subsector. Entities belonging to EF1 and EF5 are those that account for a higher percentage of the total, with 49.5% and 38.9%, respectively (see left-hand panel of Figure E4.2), followed by EF2, finance companies, with 10.8% of the total. However, if the entities that are consolidated into banks are deducted, these values change significantly. Investment funds, in which there is no consolidation, gain relative importance to 82.5% of total NBFI, while securitisation vehicles and finance companies, in which consolidation into banks is very significant (see right-hand panel of Figure E4.2), see their relative importance fall to 13.5% and 3.3% of NBFI, respectively.

In order to identify and monitor the potential risks associated with NBFI, indicators have been calculated that attempt to quantify the credit risk, maturity transformation, liquidity risk and leverage of the entities with the most significant activity (investment funds,<sup>4</sup> finance companies, broker-dealers

and SFV).<sup>5</sup> Table E4.1 shows a representation of the intensity of the risks analysed on the basis of: i) the result of a relevant indicator for each one of the risks and types of entity and ii) the position of the value of this indicator in relation to some previously determined thresholds. As can be seen, the most important risks associated with Spanish investment funds are credit risk (since, due to their nature, these funds have a high percentage of credit assets in their portfolios – except mixed funds) and liquidity risk, which is at a medium level and growing in the three categories analysed.

In securitisation funds, only the maturity transformation risk is at a moderate level, with the rest at a high level. However, some of these high levels arise due to the specific business model of the entity. This is the case, for example, of credit risk, which will always be high to the extent that the assets of SFVs are made up of loans transferred by the originator or assignor, or of leverage (as defined uniformly across entities), which will also be high as these entities have no own funds.

In the case of finance companies, credit risk is high, as around 90% of the financial assets correspond to loans granted, as is liquidity risk. For broker-dealers, it can be seen that at the end of 2017, credit risk was high (above 80%), the level of leverage was moderate and the liquidity risk and the maturity transformation risk were at a low level.

**Risks associated with NBFIs (2017)<sup>1</sup>**

TABLE E4.1

|  | Investment funds |              |       | Finance companies | Broker-dealers | SFVs: securitisation |
|--|------------------|--------------|-------|-------------------|----------------|----------------------|
|  | Money market     | Fixed income | Mixed |                   |                |                      |
| Credit risk                                | ●                | ●            | ○     | ●                 | ●              | ●                    |
| Maturity transformation                    | ○                | ○            | ○     | ○                 | ○              | ○                    |
| Liquidity risk                             | ●                | ●            | ●     | ●                 | ○              | ●                    |
| Leverage                                   | ○                | ○            | ○     | ●                 | ○              | ●                    |
| Interconnectedness with the banking system | ○                | ○            | ○     | ○                 | ○              | ●                    |
| Relative importance (%)                    | 1.3              | 13.0         | 28.7  | 10.8              | 0.7            | 38.9                 |

Source: CNMV. (1) The absence of colour indicates the presence of low risk, while purple colours indicate moderate, medium and high risk depending on the intensity of the colour (light, medium and strong).

- 1 This Exhibit is a summary of the report "Non-bank financial intermediation" prepared by Anna Isperto and published in the CNMV's Quarterly Bulletin for the first quarter of 2019.
- 2 The heading of "Others" includes Central Counterparties (CCPs), the SAREB (Management Company for Assets Arising from the Banking Sector Reorganisation) and venture capital entities (although their investments in loans may be included under EF2).
- 3 Direct lending refers to loans or credit that are granted generally to small and medium-sized companies by, among others, closed-ended collective investment vehicles.
- 4 The risks associated with money market funds, fixed-income funds and mixed funds are analysed separately.
- 5 Mutual guarantee companies are not included as their proportion of the sector is lower than 0.5%.

### 3.1.4 Real estate CIS

Since the height of the financial crisis, real estate collective investment schemes have suffered a continuous and uninterrupted fall in the assets managed and the number of unit-holders to such an extent that they may now be considered an insignificant sub-sector within the collective investment sector, managing around 1 billion euros, after managing over 9.5 billion euros in the middle of 2007. For some years now, the business related with the real estate sector is carried out through real estate investment listed companies or SOCIMIs (Spanish REIT companies).<sup>1</sup>

In 2018, there were hardly any movements in the CNMV's register of real estate CIS, with only one de-registration of a real estate investment fund, the number of which had remained constant since January 2015. There were therefore six entities at the end of the year, two real estate investment funds and four real estate investment companies. It should be noted, however, that these two operating real estate investment funds informed the CNMV in 2011 and 2015 that they were beginning a liquidation process.

With the de-registration of the aforementioned real estate investment fund, the assets managed by these vehicles fell by 14.1% over 2018 to 309.4 million euros, while the number of unit-holders shrank by 56.0% to 483. The return of these funds, for the first time since the crisis began, left negative figures and stood at an annual rate of 0.25%. This was the result of the gains in the first quarter, as in the following nine months of the year the return was practically zero. These figures, however, are not yet close to those of the real estate sector, which has recovered strongly in recent years.

The number of real estate investment companies has remained constant since the third quarter of 2017 and hence, at the end of 2018, there was a total of four entities. The total assets managed by these companies rose by 18.6% to 749 million euros, while the number of shareholders grew from 327 to 425. This was due to the fact that the last company registered in 2017 increased the number of shareholders from 1 to 100 (the legal minimum) by the legally established deadline.

### 3.1.5 Foreign UCITS marketed in Spain

The volume of foreign UCITS marketed in Spain has continued to grow over recent years, as shown in Figure 3.1.2. Indeed, between the middle of 2012 and the end of 2017 this figure increased five-fold. As shown in the figure, investment once again grew sharply over the last year, to stand at over 180 billion euros at the end of September. However, it should be noted that this last figure may not be fully comparable with the information published up to December 2017 as entry into force of

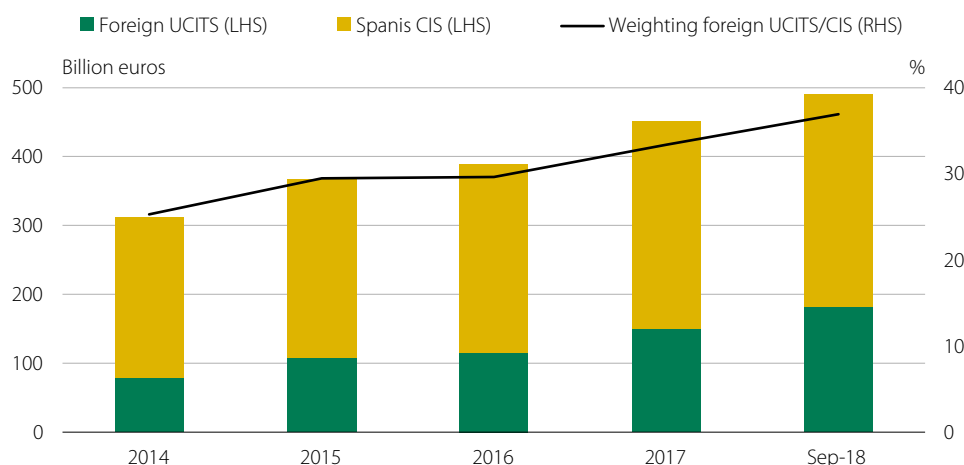
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1 Law 11/2009, of 26 October, regulating Real Estate Investment Listed Companies. SOCIMIs are characterised by having a specific tax regime that exempts them from paying corporate income tax and allows them to enjoy a 95% rebate on property transfer tax and stamp duty. In return, they are required to distribute 80% of the profits obtained from the rental income and 50% of those generated by the sale of assets. Their activity focuses on development, refurbishment and operation of rental property, the holding of interest in other SOCIMIs and the performance of ancillary real estate activities. They are also required to have a minimum capital of five million euros and be listed on a regulated market or multilateral trading facility, such as the MAB.

CNMV Circular 2/2017, of 25 October, led to an increase in the number of entities required to submit statistical information (see Exhibit below). This figure was equivalent to 36.9% of the total assets of CIS marketed in Spain, 6 percentage points up on 2017.

### Assets of foreign UCITS marketed in Spain<sup>1</sup>

FIGURE 3.1.2



Source: CNMV. (1) As from the first quarter of 2018, the data on unit-holders and investment volume are estimated with the data received to date: 99.2% of the reporting entities in the first quarter, 95.5% in the second and 93.9% in the third.

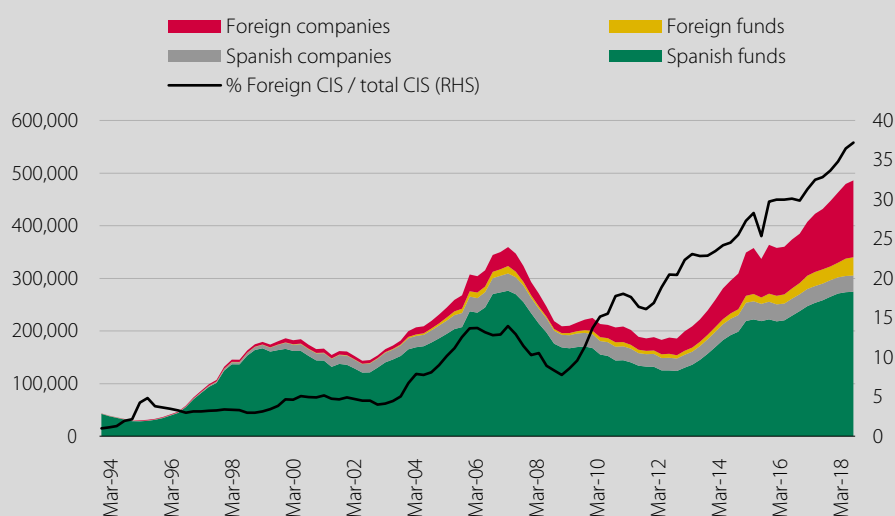
In line with the trend of recent years, the number of foreign UCITS registered with the CNMV grew by 11 companies in 2018, and hence at year-end there were a total of 1,024 undertakings of this type (429 funds and 595 companies). This increase was exclusively due to the high number of registrations of investment companies, as the number of funds fell by 26. As in previous years, most of the new registrations corresponded to undertakings from Luxembourg and Ireland, with 18 and 16 more, respectively. In contrast, the number of French vehicles with investors in Spain fell by 29 (see Statistical Annex II.5).

### New Circular on Foreign CIS

EXHIBIT 5

CNMV Circular 2/2011, of 9 June, on information on foreign collective investment schemes registered with the CNMV, regulates the information that foreign CIS that are marketed in Spain must report to the CNMV and to shareholders and unit-holders. In addition, it lays out the statistical statement that they must also send to the CNMV on a quarterly basis. Over recent years, several situations have made it recommendable to amend this Circular. Firstly, there were certain doubts relating to the certainty that the CNMV had all the information that it needs. Secondly, the need also arose to have information on non-harmonised CIS, an aspect that was not provided for in the Circular. This took place in a context of sharp growth in the cross-border marketing of collective investment products. Over the last ten years, the assets managed by foreign CIS marketed in Spain have risen from around 20 billion euros (8% of the total assets managed by CIS) to over 180 billion euros (35% of those assets) (see Figure E5.1).

Assets managed by Spanish and foreign CIS marketed<sup>1</sup> in Spain FIGURE E5.1



Source: CNMV. (1) The sending of the data is mandatory for all “distributor-CIS” combinations, whether or not they have been marketed in the quarter.

This led to adoption of CNMV Circular 2/2017, of 25 October, amending Circular 2/2011, of 9 June, on information on foreign collective investment schemes registered with the CNMV. This amendment provides that each “distributor-CIS” combination, whether harmonised or not, must collect the following data in addition to that required by the original Circular:

- **Identification data:** ISIN, name of the compartment, name of the manager, name of the depository, LEI of the CIS, LEI of the compartment, LEI of the manager, LEI of the depository, LEI of the main CIS, country of the manager, country of the depository and country of the main CIS.
- **Other qualitative variables:** ETF (yes/no), self-managed (yes/no), subordinate (yes/no), fund of funds (yes/no), investment profile of the CIS (ESA 2010) and investment profile (ESA 2010) of the main CIS if subordinate.
- **Quantitative variables:** net asset value at the end of the previous quarter and of the current quarter, percentages of management fees (on assets, on results or mixed), depository fees, subscription fees and redemption fees effectively charged, breakdown of unit-holders/shareholders into natural persons and legal persons, breakdown of volume of investment into natural persons and legal persons (with details of volume corresponding to other distributors) and marketed amount that comes from, or goes to, another CIS distributor in Spain.

The level of detail of the information required from foreign CIS together with the extension of the range of schemes required to provide information mean that the receipt and processing of statistical data remain in progress. However, when this has been completed, the CNMV will have very useful information that will be used both for its supervisory tasks and for analysing the sector and identifying risks. The latest available data, referring only to UCITS,

correspond to the third quarter of 2018 and have been obtained from the information provided by 93.9% of the entities required to submit information. These data reveal that the investment volume of foreign investment companies stood at 146 billion euros, while that of funds was slightly under 35 billion euros. The number of investors exceeded 3.03 million, spread over 2.44 million companies and 593,000 in investment funds. The number of CIS marketed in Spain stood at over 1,000 (57% were companies and 43% were funds).

### 3.1.6 Collective investment scheme management companies

A total of 119 CIS management companies were registered with the CNMV at year-end 2018, 10 more than at the end of 2017. There were 11 new registrations and 1 de-registration (see Statistical Annex II.6). This trend prolongs the expansion that began in 2014. Assets managed by CIS management companies fell by 3.2% to slightly above 290 billion euros, in line with the general trend of the sector. This reduction was largely due to the negative performance of real estate investment funds, which account for almost 90% of the total assets managed, with a fall of 2.3%, followed by SICAVs, whose assets managed shrank by 11.4%. This sector also continued to be extremely concentrated: the three largest management companies held a combined share of 42% of total assets managed at year-end 2018, the same figure as in 2017.

Despite the fall in the assets managed by management companies, their aggregate profits before tax rose by 47.8% on 2017, to 1.12 billion euros. This growth was a result of the increase in net commissions, both as a result of those received (7.2% growth to 3.19 billion euros) and a fall in commissions paid (15.3% fall to 1.49 billion euros). Within the commission revenue, it is important to note the significant growth in commissions included under the heading of "Other", specifically those relating to portfolio management, which doubled their amount. CIS management commissions – which are by far the largest, with around 83% of total commissions received by management companies (almost 90% in 2017) – remained practically stable (1.5 million euros more, to 2.65 billion euros). These commissions accounted for 0.91% of assets under management, above the figure of 0.88% for the end of 2017 (see Table 3.1.4).



## Income statement of CIS management companies

TABLE 3.1.4

Securities markets  
and their agents  
Financial institutions  
and investment services

Thousand euros

|   | 2017             | 2018             | Change (%)   |
|---|------------------|------------------|--------------|
| <b>Interest margin</b>                          | <b>3,361</b>     | <b>1,745</b>     | <b>-48.1</b> |
| Net commissions                                 | 1,219,956        | 1,702,106        | 39.5         |
| Commission revenue                              | 2,975,368        | 3,188,844        | 7.2          |
| CIS management                                  | 2,647,397        | 2,648,974        | 0.1          |
| Front-end and back-end fees                     | 21,555           | 11,386           | -47.2        |
| Other   | 306,412          | 528,484          | 72.5         |
| Commission expenses                             | 1,755,412        | 1,486,738        | -15.3        |
| Profit from net financial investments           | 12,362           | 216              | -98.3        |
| Earnings on capital instruments                 | 10,302           | 5,320            | -48.4        |
| Net exchange differences                        | -635             | -270             | -57.5        |
| Other products and net operating charges        | -479             | 23,210           | -4,945.5     |
| <b>Gross profit</b>                             | <b>1,244,867</b> | <b>1,732,326</b> | <b>39.2</b>  |
| Operating expenses                              | 466,615          | 584,485          | 25.3         |
| Personnel                                       | 285,496          | 358,061          | 25.4         |
| General expenses                                | 181,119          | 226,424          | 25.0         |
| Depreciation, amortisation and other provisions | 24,840           | 20,995           | -15.5        |
| Impairment losses on financial assets           | 303              | 9,495            | -            |
| <b>Net operating profit</b>                     | <b>753,109</b>   | <b>1,117,351</b> | <b>48.4</b>  |
| Other gains/losses                              | 1,455            | -1,926           | -232.4       |
| <b>Profit (loss) before tax</b>                 | <b>754,564</b>   | <b>1,115,425</b> | <b>47.8</b>  |
| Income tax expense                              | -204,655         | -312,116         | 52.5         |
| <b>Profit from continuing operations</b>        | <b>549,909</b>   | <b>803,309</b>   | <b>46.1</b>  |
| Profit from discontinued operations             | 0                | 0                | -            |
| <b>Net profit (loss) for the year</b>           | <b>549,909</b>   | <b>803,309</b>   | <b>46.1</b>  |

Source: CNMV.

Although there was a significant improvement in the sector's results, the year ended with 26 loss-making entities, 7 more than in 2017, and aggregate losses rose by 85.9%, to 12.3 million euros (see Table 3.1.5).

## Profit before tax, No. of loss-making firms and amount of loss

TABLE 3.1.5

Thousand euros

|      | Profit before tax | No. of loss-making firms | Amount of loss |
|------|-------------------|--------------------------|----------------|
| 2014 | 545,484           | 14                       | 2,828          |
| 2015 | 626,446           | 11                       | 3,526          |
| 2016 | 600,818           | 13                       | 7,369          |
| 2017 | 754,562           | 19                       | 6,630          |
| 2018 | 1,115,425         | 26                       | 12,323         |

Source: CNMV.

### 3.1.7 CIS depositories

In 2018, the number of depositories registered with the CNMV fell substantially as there were 17 de-registrations, bringing the total number to 37 at the end of the year. However, all the de-registrations in the year corresponded to entities that had not been effectively performing the activity of CIS depository and which the CNMV had contacted to suggest they should consider whether not to remain in the registry. At the end of 2018, the number of operational depositories remained at 24. Of these, banking groups clearly predominated among the active depositories as they accounted for 94.8% of total assets deposited by CIS at year-end 2018, the same percentage as in 2017; of this amount, 10.7% corresponded to branches of foreign financial institutions (11.8% in 2017), mostly from Member States of the European Union. The remaining 5.2% was divided among credit cooperatives, broker-dealers and insurance companies.

## 3.2 Provision of investment services

Investment services may be provided by different types of entity: credit institutions, investment firms, a category that includes portfolio management companies and financial advisory firms, and CIS management companies. Credit institutions are by far the main providers of investment services in Spain and account for the bulk of commission revenue in the different types of services. For their part, broker-dealers and brokers continue to have a significant relative importance, particularly in order transmission and execution. Portfolio management companies, financial advisory firms and CIS management companies offer a more limited catalogue of financial services than broker-dealers and brokers.

Irrespective of the type of entity, a review of their business model and its link with traditional commercial banks reveals that almost 70% of the business related to the provision of investment services in a broad sense<sup>2</sup> (measured through the commissions received) is performed by commercial banks or entities that are consolidated into commercial banks (broker-dealers or CIS management companies), while the rest corresponds to entities or groups whose activity is mostly not related to commercial banking. Noteworthy among the latter, in view of the size of the revenue that they receive for this activity (see Section 3.2.3), are some banks that are specialised in providing investment services.

This section provides a detailed description of the activity and the economic and financial position of entities subject to prudential supervision by the CNMV.<sup>3</sup> It also focuses some attention on the activity of credit institutions that provide investment services and are therefore also subject to supervision by the CNMV with regard to compliance with market and customer conduct of business rules. In this latter case, the CNMV does not conduct a comprehensive supervision of the entities – that includes solvency and conduct of business rules –, as is the case with investment firms and CIS management companies (see Section 3.1).

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<sup>2</sup> Including the activity of CIS management.

<sup>3</sup> The CNMV oversees broker-dealers and brokers, portfolio management companies and financial advisory firms both with regard to prudential supervision and in order to ensure compliance with conduct of business rules. In the case of credit institutions, the CNMV only supervises this second aspect with regard to the provision of investment services.

The activity of broker-dealers and brokers in 2018 fell compared with previous years, particularly for the former. The results of both types of entities were marked by the gradual change in their business models, particularly in the case of broker-dealers. Traditionally, commissions for order processing and execution have been the main source of revenue for brokers and broker-dealers. However, this shift of the activity of broker-dealers belonging to credit institutions to their parent companies and the transfer of an amount of the trading of securities admitted to trading on Spanish stock markets towards trading platforms located in other European countries (see Section 2.1) has led to a reduction in the relative importance of this item over recent years. It is also important to point out that 2018 was a year in which broker-dealers recorded a fall in their revenue in every item except for commissions for investment advice. Brokers recorded an increase in their revenue, led by the rise in commissions for investment advice and portfolio management. In both cases, the increase in revenue linked to the investment advice service might be related to the implementation of MiFID II.

The fall in the revenue of broker-dealers led to a lower aggregate gross margin for the sector compared with the previous year. The fall in the sector's activity was also reflected in lower operating expenses, particularly for broker-dealers. Despite these lower expenses, the sector's profit before tax fell on the previous year. As a whole, profit fell by 34.0% on 2017 (34.5% for broker-dealers and 25.2% for brokers).

A high number of firms (39 out of 91) closed the year with losses (18 broker-dealers and 21 brokers). The aggregate amount of losses rose by more than 70% on the previous year. In the case of broker-dealers, the losses almost doubled. The combination of worse aggregate profits and a significant number of loss-making entities is a reflection of a significant process of adjustment in the sector, which results from the shift of part of the business of credit institutions and the process of reorienting the business from traditional investment services to other investment services, which at the moment are not as profitable. At any event, the sector continued to enjoy a large surplus equity over minimum requirements required by law, although for a significant number of these entities the real buffer provided by the excess equity over minimum requirements is low as these are not significant amounts in absolute terms.

With regard to financial advisory firms, both the total volume of assets under advice and the profits of these firms fell marginally. It is important to highlight that the weight of retail customers rose significantly for the second consecutive year.

With regard to portfolio management companies, only one entity was registered with the CNMV at the end of 2018, the same one as at year-end 2017. This does not mean that over recent years no entities have been created whose main business model is managing their clients' portfolios, rather that these entities have preferred to operate as brokers. The requirements to set up a portfolio management company or a broker with a similar programme of activities are not very different, which favours the creation of brokers due to their flexibility when deciding to progressively provide other investment services.

### 3.2.1 Credit institutions

At the end of 2018, a total of 114 Spanish credit institutions (banks, savings banks and credit cooperatives) were registered with the CNMV to provide investment

services, 8 fewer than in 2017. This fall is linked to the consolidation of the reorganisation process undertaken in the banking sector as a result of the financial crisis. A total of 467 foreign credit institutions were authorised to provide investment services in Spain, 1 fewer than in the previous year. 412 of the registered foreign credit institutions operated under the free provision of services regime and 56 through branches. Almost all of these institutions were from other Member States of the European Union (461 institutions, see Statistical Annex II.12).

Table 3.2.1 shows the revenue of credit institutions from the provision of securities services and marketing of mutual funds and non-bank financial products. It is important to indicate that in 2017 there was an accounting modification that affected the confidential statements that credit institutions submit to the Bank of Spain. They had to be adapted to the preparation criteria, terminology, definitions and formats of the FINREP (FINancial REPorting) statements of the European Union.<sup>4</sup> This accounting change means that the data on bank commission revenue for 2016, 2017 and 2018 are compared on a non-homogeneous basis.

**Credit institution revenue from the provision of securities services and marketing of non-bank financial products**

TABLE 3.2.1

Million euros

|   | 2015          | 2016          | 2017          | 2018               | % of total commissions CI <sup>1</sup> |
|---|---------------|---------------|---------------|--------------------|--|
| <b>For security services</b>                          | <b>1,476</b>  | <b>1,334</b>  | <b>1,436</b>  | <b>1,575</b>       | <b>10.6</b>                            |
| Placement and underwriting                            | 218           | 190           | 231           | 187                | 1.3                                    |
| Securities trading                                    | 488           | 410           | 457           | 367                | 2.5                                    |
| Administration and custody                            | 632           | 596           | 551           | 562                | 3.8                                    |
| Asset management                                      | 138           | 138           | 197           | 459                | 3.1                                    |
| <b>Marketing of non-bank financial products</b>       | <b>4,211</b>  | <b>4,389</b>  | <b>4,380</b>  | <b>4,268</b>       | <b>28.6</b>                            |
| Mutual funds  | 2,296         | 2,187         | 2,290         | 2,074 <sup>1</sup> | 13.9                                   |
| Pension funds   | 458           | 520           | 498           | 492 <sup>1</sup>   | 3.3                                    |
| Insurance   | 1,224         | 1,446         | 1,330         | 1,507              | 10.1                                   |
| Other   | 236           | 236           | 262           | 195                | 1.3                                    |
| <b>Pro memoria:</b>                                   |               |               |               |                    |  |
| For securities services and marketing of mutual funds | 3,772         | 3,521         | 3,726         | 3,649              | 24.5                                   |
| <b>Total revenue from commissions</b>                 | <b>13,617</b> | <b>13,486</b> | <b>14,295</b> | <b>14,924</b>      | <b>100.0</b>                           |

Source: Bank of Spain. In 2017, the confidential statements that credit institutions submit to the Bank of Spain were modified as a result of adaptation to the preparation criteria, terminology, definitions and formats of the FINREP (FINancial REPorting) statements of the European Union. (1) Estimated data.

At any event, it is important to highlight the increase in commissions that credit institutions received for securities services, particularly for the management of third-party assets linked to the implementation of MiFID II. In contrast, there was a significant fall in revenue for securities trading, which might be related to the fact

4 The European regulation for preparing supervisory reporting is known as FINREP (Commission Implementing Regulation (EU) No. 680/2014, of 16 April 2014, laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013).

that a significant part of the trading of Spanish securities is performed in foreign markets. The revenue received for the marketing of non-bank products fell by 2.6%, with differences between the various products. There were gains in the revenue for marketing insurance and reductions in the revenue for investment funds and pension funds. The combined proportion of revenue from providing securities services and marketing mutual funds in total commissions received by these entities fell from 26.1% in 2017 to 24.5% in 2018.

The comparison of the commissions received by credit institutions and investment firms shows the preponderant importance of the former in providing investment services. As can be seen in the table, this type of service is mainly provided by credit institutions. This was largely due to the fact that a significant number of investment firms (broker-dealers and brokers) whose leading or sole shareholder was a credit institution have disappeared with their activities now taken on by the credit institutions themselves.

As shown in Table 3.2.2, credit institutions clearly exceed broker-dealers and brokers in services for processing or executing securities trading, a segment in which investment firms accounted for the bulk of the commissions for many years. This trend changed in 2013 and over recent years credit institutions have increasingly gained more market share in this segment, which now amounts to almost two-thirds of the total.

**Commissions received for investment services. 2018**

TABLE 3.2.2

Million euros

|                                  | Broker-dealers and<br>brokers <sup>1</sup> | Credit<br>institutions (CI) | Total        | % CI/total  |
|----------------------------------|--|-----------------------------|--------------|-------------|
| <b>Total investment services</b> | <b>385</b>                                 | <b>3,649</b>                | <b>4,033</b> | <b>90.5</b> |
| Placement and underwriting       | 12   | 187                         | 199          | 94.0        |
| Securities trading               | 180  | 367                         | 547          | 67.1        |
| Asset management                 | 29   | 459                         | 488          | 94.1        |
| Administration and custody       | 44   | 562                         | 606          | 92.7        |
| Mutual fund marketing            | 119  | 2,074 <sup>2</sup>          | 2,193        | 94.6        |

Source: CNMV and Bank of Spain. (1) Includes portfolio management companies. (2) The breakdown between the marketing of investment funds and the marketing of pension funds is not available.

### 3.2.2 Investment firms<sup>5</sup>

#### 3.2.2.1 Broker-dealers and brokers

##### Authorisation and registration

At the end of 2018, a total of 91 broker-dealers and brokers were registered with the CNMV, two more than at the end of 2017. This increase in the number of firms seems to confirm the end of the negative trend in the sector resulting from the

<sup>5</sup> In accordance with Article 143 of the recast text of the Securities Market Act, investment firms cover broker-dealers, brokers, portfolio management companies and financial advisory firms.

significant adjustment process of recent years (in 2008 there was a total of 101 broker-dealers and brokers). Although banking groups continue with the integration processes of their broker-dealers and brokers into the parent bank, the number of new registrations of independent entities was much higher than the number of de-registrations. This shows how the sector is transforming towards a greater presence of independent entities that provide investment services other than order reception and transmission and the subsequent order execution.

A total of 39 firms ended the year with losses, 19 more than in 2017. The aggregate volume of the losses was significantly higher both for broker-dealers and for brokers. In the case of the former, the losses almost doubled, while the increase for brokers stood at 37.7% (see Tables 3.2.5 and 3.2.7).

As shown in Table 3.2.3, seven new firms registered and five firms de-registered over the year. Six of the new registrations corresponded to independent firms and the other belongs to a company in the insurance sector. Three of the de-registrations corresponded to broker-dealers that were integrated into their parent bank. The other two de-registered firms were independent brokers, one of which became a collective investment scheme management company (see Statistical Annex II.8).

No corporate activity generating a change in control among brokers and broker-dealers took place in 2018 (see Statistical Annex II.9). In contrast, there was a significant change in the number of representatives used by investment firms, which dropped from 6,208 at the end of 2017 to 2,441 at the end of 2018.

As usual, most of the broker-dealers and brokers that use an EU passport to operate in other countries of the European Union do so under the free provision of services system. Specifically, at the end of 2018, 48 firms were under this regime (2 up on the previous year, see Statistical Annex II.10), while 7 Spanish firms had branches in other countries. This figure is the same as at the end of 2017, although the number of European countries in which these firms operate grew (France, the Netherlands and Sweden were added to the list).

**Registrations and de-registrations of firms**

TABLE 3.2.3

| Type of firm               | Firms at 31/12/17 | New registrations | De-registrations | Firms at 31/12/18 |
|----------------------------|-------------------|-------------------|------------------|-------------------|
| <b>Spanish firms</b>       | <b>89</b>         | <b>7</b>          | <b>5</b>         | <b>91</b>         |
| Broker-dealers             | 41                | 1                 | 3                | 39                |
| Brokers                    | 48                | 6                 | 2                | 52                |
| <b>Foreign firms</b>       | <b>2,869</b>      | <b>215</b>        | <b>82</b>        | <b>3,002</b>      |
| With a branch              | 53                | 11                | 3                | 61                |
| Free provision of services | 2,816             | 204               | 79               | 2,941             |
| <b>Pro memoria:</b>        |                   |                   |                  |                   |
| Representatives            | 6,208             | 351               | 4,118            | 2,441             |

Source: CNMV.

As shown in Table 3.2.3, 215 firms authorised in other Member States informed the CNMV in 2018 of their intention to begin providing investment services in Spain. A total of 82 firms notified that they were ceasing to operate. Most of these notifications, both for registrations and de-registrations, corresponded to entities under the

free provision of services regime, which increased in number to 2,941, above the figure of 2,816 in 2017. Most of these entities were authorised in the United Kingdom or Cyprus. In turn, the number of foreign entities with a branch rose from 53 to 61, of which half were located in the United Kingdom, which is currently involved in the Brexit process for leaving the European Union (see Statistical Annex II.7).

With regard to the entities authorised in other Member States that operate in Spain under the freedom to provide services, although the CNMV (as authority of the host Member State) does not receive information on the activity that they perform, it is likely that many of them are not active entities (situation which is often referred to as “just in case notifications”).

The need to ensure minimum levels of oversight of these entities with cross-border operations under the freedom to provide services has led to a debate in ESMA relating to the possibility that the host authority should have a minimum amount of information on their activity in its territory and to the establishment of formulas for cooperation between the home and the host authorities. The CNMV is taking on a particular active role in this debate.

## Results

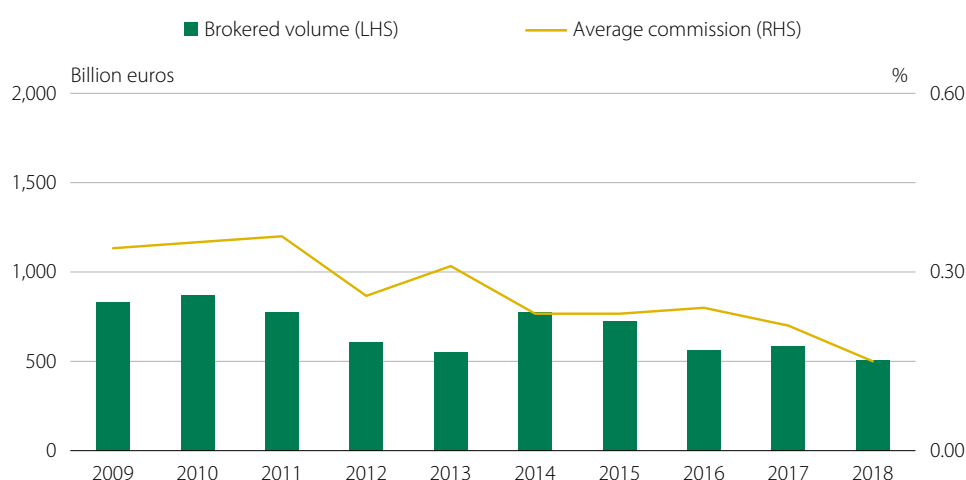
Broker-dealers and brokers obtained profit before tax of 115.9 million euros in 2018, a fall of 34.0% on the previous year. The fall was greater in broker-dealers (34.5%) than in brokers (25.2%). Part of the difference was due to the de-registration of three broker-dealers that belonged to credit institutions. However, the performance of the other entities was also not favourable as deducting the figures of the three broker-dealers that de-registered, profits before tax fell by 28.2%, from 155.4 million euros in 2017 to 111.5 million in 2018.

As shown in Table 3.2.4, broker-dealers suffered a significant reduction in their revenue on the previous year. This was the result of falls in all items except the interest margin, which rose significantly. Particularly noteworthy due to its importance was the fall in net commissions (down 26.4%), which led to this item accounting for 71.5% of the revenue of this type of entity in 2018 (81.1% 2017). This change is mainly the result of the fall in commissions for order processing and execution, marketing CIS and portfolio management. There was also a noteworthy fall in the profit from financial investments (down 38.0%).

Commissions from order processing and execution remained the most important of the sources of revenue from the provision of services to third parties. These commissions mainly come from brokering in Spanish equity markets. It should be noted, as mentioned above, that the revenue for this item shrank by 26.3% on the previous year. Part of this fall was once again the result of the de-registration of two broker-dealers that belonged to credit institutions and whose main activity was trading brokerage. Brokered volumes in these markets fell last year, in line with the fall in trading in Spanish stock markets (see Section 1.2) and the greater relative importance in securities brokerage of credit institutions, while average brokerage fees fell significantly. The combination of both factors led to the aforementioned fall in revenue (see Figure 3.2.1).

### Broker-dealers that are stock market members: brokered volume and average effective commission in Spanish equity

FIGURE 3.2.1



Source: CNMV.

With regard to other commissions, those received for marketing CIS and for portfolio management fell significantly, by 33.4% and 72.8%, respectively. On the positive side, the fees for deposit and entry of securities and for investment advisory services rose. The rise in the latter was significant (up 72.1%) and may be related to the implementation of MiFID II. This may also be a reason to explain the fact that commissions paid to other entities also fell significantly – 19.4% on the previous year, in line with lower activity in the sector – and were the equivalent of 28.6% of the commissions received.

The operating expenses of broker-dealers once again fell (by 7.7%). This trend is the result both of the prolongation of the adjustment of the expenses of these entities, which began as a result of the financial crisis in order to adapt to the changes in financial markets, and as result of the lower presence of companies linked to credit institutions, which were of a significant size.

Depreciation, amortisation and other provisions rose considerably (52.9%). The fall in the gross margin was partially offset by lower expenses. However, the fall in expenses was not enough to prevent a decrease in the operating profit (down 40.9%), which fell from 145.4 million euros in 2017 to 85.8 million euros in 2018. Profit before tax shrank by 34.5% to 103.8 million euros.

Movements in the aggregate income statement over recent years reveal the change in the business model of broker-dealers. Their traditional main business, brokerage in securities markets, has been losing its relative importance, while marketing, management and advice services provided to third parties are increasingly important in their income statement. It should be pointed out that, as shown in Table 3.2.4, proprietary trading – which is extremely important for investment firms in most comparable countries – is very low in Spain for the broker-dealers.



## Income statement for broker-dealers<sup>1</sup>

TABLE 3.2.4

Securities markets  
and their agents  
Financial institutions  
and investment services

Thousand euros

|   | 2017           | 2018           | % change<br>18/17 |
|---|----------------|----------------|-------------------|
| <b>Interest margin</b>                          | <b>21,377</b>  | <b>73,969</b>  | <b>246.0</b>      |
| <b>Net commissions</b>                          | <b>402,154</b> | <b>296,037</b> | <b>-26.4</b>      |
| Commission revenue                              | 549,298        | 414,595        | -24.5             |
| Order processing and execution                  | 217,601        | 160,320        | -26.3             |
| Placement and underwriting                      | 17,553         | 11,090         | -36.8             |
| Deposit and entry of securities                 | 38,200         | 42,958         | 12.5              |
| Marketing CIS                                   | 83,354         | 55,483         | -33.4             |
| Portfolio management                            | 49,720         | 13,505         | -72.8             |
| Investment advisory services                    | 5,555          | 9,562          | 72.1              |
| Other   | 137,315        | 121,677        | -11.4             |
| Commission expenses                             | 147,144        | 118,558        | -19.4             |
| <b>Profit from financial investments</b>        | <b>43,725</b>  | <b>27,088</b>  | <b>-38.0</b>      |
| Net exchange differences                        | 4,353          | 283            | -93.5             |
| Other products and operating charges            | 24,154         | 16,331         | -32.4             |
| <b>Gross profit</b>                             | <b>495,763</b> | <b>413,708</b> | <b>-16.5</b>      |
| Operating expenses                              | 342,176        | 315,951        | -7.7              |
| Personnel                                       | 216,587        | 194,594        | -10.1             |
| General expenses                                | 125,589        | 121,357        | -3.4              |
| Depreciation, amortisation and other provisions | 7,369          | 11,267         | 52.9              |
| Impairment losses on financial assets           | 854            | 653            | -23.5             |
| <b>Net operating profit</b>                     | <b>145,364</b> | <b>85,837</b>  | <b>-40.9</b>      |
| Other gains/losses                              | 13,197         | 18,016         | 36.5              |
| <b>Profit (loss) before tax</b>                 | <b>158,561</b> | <b>103,853</b> | <b>-34.5</b>      |
| Income tax expense                              | 37,878         | 12,082         | -68.1             |
| <b>Profit from continuing operations</b>        | <b>120,683</b> | <b>91,771</b>  | <b>-24.0</b>      |
| <b>Profit from discontinued operations</b>      | <b>36,382</b>  | <b>0</b>       | <b>-100.0</b>     |
| <b>Net profit (loss) for the year</b>           | <b>157,065</b> | <b>91,771</b>  | <b>-41.6</b>      |

Source: CNMV. (1) Includes information from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

As has been the case in recent years, a small number of firms generated most of the profits in this sub-sector. Specifically, four broker-dealers generated 92.1% of the aggregate profits, which indicates greater concentration than in previous years. This is due to the fact that the sub-sector of broker-dealers is becoming smaller and larger firms are gaining relative size. In general, the firms with the largest size tend to be increasingly profitable, while the smaller companies are finding it increasingly difficult to remain viable.

An analysis by entity shows that 18 broker-dealers posted losses before tax, 11 more than at year-end 2017 (see Table 3.2.5). 8 of these had already suffered losses in 2017. 15 of the 18 companies are independent firms, 2 belong to Spanish credit institutions and 1 to an international credit institution. The accumulated losses almost doubled those of the previous year, rising from 14.7 million euros in 2017 to 28.8 million euros in 2018.

**Profit before tax, No. of loss-making broker-dealers  
and amount of the losses before tax**

TABLE 3.2.5

Thousand euros

|                       | Profit before tax<br>(total) <sup>1</sup> | No. of<br>loss-making firms | Amount of the<br>losses before tax |
|-----------------------|---|-----------------------------|------------------------------------|
| <b>Broker-dealers</b> |   |                             |                                    |
| 2015                  | 192,776                                   | 8                           | -14,829                            |
| 2016                  | 181,194                                   | 7                           | -8,957                             |
| 2017                  | 158,561                                   | 7                           | -14,701                            |
| 2018                  | 103,853                                   | 18                          | -28,789                            |

Source: CNMV. (1) Includes results from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

Brokers, for their part, obtain revenue mostly from providing services to third parties because, unlike broker-dealers, they may not invest on their own account. While some of the brokers obtain the bulk of their revenue from processing and executing orders, most of them tend to specialise in certain services, such as marketing CIS or portfolio management. Most of the firms in the sub-sector were independent (30 out of a total of 52 brokers), unlike broker-dealers, which are mostly controlled by a financial group (only 9 firms out of a total of 39 are independent).

Aggregate profits before tax of brokers fell by 25.2% to 12.5 million euros. This fall in profits was due to the increase in the ordinary expenses of brokers, particularly personnel expenses, which was greater than the increase in revenue in the year.

Net commissions rose by 13.0% on the previous year. Within gross commissions (commissions received), there were noteworthy increases in the items of investment advisory services (up 122.3% on 2017, which might be related to the implementation of MiFID II), CIS marketing (7.4%) and portfolio management (23.4%). These items accounted for over 67.0% of the commissions received. The most significant falls were recorded in commissions for placement and underwriting of issues (down 67.3%) and other commissions (down 12.8%).

The greater activity of brokers in several of their business lines did not, in this case, result in an increase in commissions paid to third parties, as these fell by 5.8%. The aggregate gross margin reflected the improved performance of net revenue from services and rose by 11.6%.

Operating expenses rose significantly, by 18.0% on the previous year. Within operating expenses, personnel expenses rose by 23.9%, while general expenses increased by 7.3%. The increase in operating expenses led net operating profit to stand at 12.0 million euros, 28.9% down on 2017.

The fall in profit before tax was very unevenly spread among brokers. In particular, half of those which were registered both at year-end 2017 and year-end 2018 recorded better results. The worsening of the aggregate results for the other half led to an increase in the number of loss-making brokers (from 13 to 21). Accumulated losses rose by almost 3 million euros, increasing from 7.9 million euros in 2017 to 10.9 million euros in 2018 (see Table 3.2.7). 11 of the 21 loss-making brokers at the end of the year had already suffered losses in the previous year.

## Income statement for brokers<sup>1</sup>

TABLE 3.2.6

Securities markets  
and their agents  
Financial institutions  
and investment services

Thousand euros

|   | 2017           | 2018           | % change<br>18/17 |
|---|----------------|----------------|-------------------|
| <b>Interest margin</b>                          | <b>3,127</b>   | <b>1,583</b>   | <b>-49.4</b>      |
| <b>Net commissions</b>                          | <b>120,194</b> | <b>135,782</b> | <b>13.0</b>       |
| Commission revenue                              | 142,323        | 156,624        | 10.0              |
| Order processing and execution                  | 20,459         | 20,018         | -2.2              |
| Placement and underwriting                      | 3,427          | 1,120          | -67.3             |
| Deposit and entry of securities                 | 924            | 824            | -10.8             |
| Marketing CIS                                   | 59,398         | 63,821         | 7.4               |
| Portfolio management                            | 12,492         | 15,412         | 23.4              |
| Investment advisory services                    | 11,572         | 25,725         | 122.3             |
| Other   | 34,051         | 29,704         | -12.8             |
| Commission expenses                             | 22,129         | 20,842         | -5.8              |
| <b>Profit from financial investments</b>        | <b>1,139</b>   | <b>-51</b>     | <b>-</b>          |
| Net exchange differences                        | -578           | 85             | -                 |
| Other products and operating charges            | -1,128         | -364           | 67.7              |
| <b>Gross profit</b>                             | <b>122,754</b> | <b>137,035</b> | <b>11.6</b>       |
| Operating expenses                              | 103,052        | 121,611        | 18.0              |
| Personnel                                       | 66,372         | 82,237         | 23.9              |
| General expenses                                | 36,680         | 39,374         | 7.3               |
| Depreciation, amortisation and other provisions | 2,783          | 3,381          | 21.5              |
| Impairment losses on financial assets           | -10            | 12             | -                 |
| <b>Net operating profit</b>                     | <b>16,929</b>  | <b>12,031</b>  | <b>-28.9</b>      |
| Other gains/losses                              | -163           | 501            | -                 |
| <b>Profit (loss) before tax</b>                 | <b>16,766</b>  | <b>12,532</b>  | <b>-25.2</b>      |
| Income tax expense                              | 4,876          | 5,073          | 4.0               |
| <b>Profit from continuing operations</b>        | <b>11,890</b>  | <b>7,459</b>   | <b>-37.3</b>      |
| <b>Profit from discontinued operations</b>      | <b>0</b>       | <b>0</b>       | <b>-</b>          |
| <b>Net profit (loss) for the year</b>           | <b>11,890</b>  | <b>7,459</b>   | <b>-37.3</b>      |

Source: CNMV. (1) Includes information from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

## Profit before tax, No. of loss-making brokers and amount of the losses before tax

TABLE 3.2.7

Thousand euros

|                | Profit before tax <sup>1</sup> | No. of<br>loss-making firms | Amount of the<br>losses before tax |
|----------------|--------------------------------|-----------------------------|------------------------------------|
| <b>Brokers</b> |                                |                             |                                    |
| 2015           | 22,781                         | 12                          | -3,689                             |
| 2016           | 10,822                         | 11                          | -7,402                             |
| 2017           | 16,766                         | 13                          | -7,952                             |
| 2018           | 12,532                         | 21                          | -10,947                            |

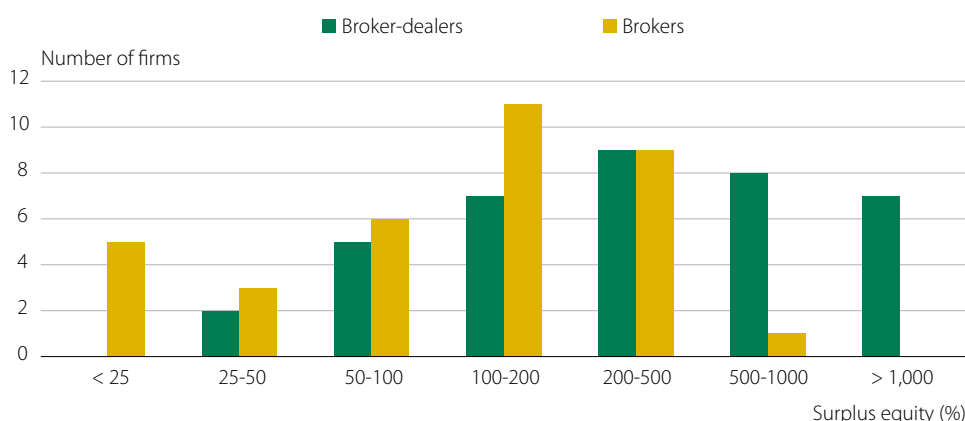
Source: CNMV. (1) Includes results from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

## Solvency

The solvency of the sector as a whole remained high in 2018: at the end of the year, the equity surplus was 4.3 times the capital requirements, slightly higher than the figure of 3.2 recorded at the end of 2017. However, it should be remembered that the real buffer of these surpluses is limited as they are low amounts in absolute terms.

As is usual, this margin was generally greater in broker-dealers than in brokers. While the equity surplus for broker-dealers was around 4.7, it remained at 1.7 for brokers. With regard to the distribution of this ratio, Figure 3.2.2 shows that most broker-dealers at the end of 2018 continue to have surplus equity greater than 200%, while brokers showed a greater spread. No broker-dealer closed the year with an equity deficit. In contrast, two brokers did close the year with an equity deficit (although of a small amount).<sup>6</sup>

**Surplus equity over minimum requirements for broker-dealers and brokers** FIGURE 3.2.2



Source: CNMV.

### 3.2.2.2 Financial advisory firms

Financial advisory firms are a type of investment firm which was introduced as a result of the transposition of MiFID I Directive to Spanish law. These firms, which offer their clients the reserved activity of advisory services in financial investments, have an extensive portfolio of retail clients, although their revenue mainly comes from advising large investors, including CIS and other institutional investors. At year-end 2018, 158 financial advisory firms were registered with the CNMV, 13 less than in 2017. There were 6 new registrations and 19 de-registrations, all of which were independent firms except for 3 of the de-registrations: one linked to an insurance company, another to an international credit institution and the third linked to a Spanish credit institution. It is important to indicate that two of them were de-registered as they were converted into CIS management companies, while the third was converted into a broker. Total assets under advisory services amounted to 30.49 billion euros, a fall of 1% on the previous year. The bulk of the advisory service contracts signed corresponded to retail clients (92.0% of a total of 6,542), although these contracts only accounted for 31.2% of assets under advisory services.

6 As part of its supervisory tasks, the CNMV closely monitored the firms that have revealed net worth or solvency incidents.

At any event, it should be pointed out that, as in 2017, the assets under advisory services for retail clients grew significantly while the assets under advisory services for professional or non-retail clients fell (see Table 3.2.8). Finally, the overall profit of these firms fell slightly from 11.3 million euros in 2017 to 10.7 million euros in 2018, which reflects a decrease in revenue from retrocession commissions and other commissions from other entities. Specifically, these fell from 13.7 million euros in 2017 to 10.8 million in 2018.

**Financial advisory firms: number of contracts and volume of assets under advisory services<sup>1</sup>**

TABLE 3.2.8

Thousand euros

|   | 2017              | 2018              | % change 18/17 |
|---|-------------------|-------------------|----------------|
| <b>Number of contracts</b>                            |                   |                   |                |
| Retail clients  | 6,321             | 6,020             | -4.8           |
| Non-retail clients                                    | 454               | 522               | 15.0           |
| <b>Total</b>  | <b>6,775</b>      | <b>6,542</b>      | <b>-3.4</b>    |
| <b>Assets under advisory service (thousand euros)</b> |                   |                   |                |
| Retail clients  | 9,096,071         | 9,501,755         | 4.5            |
| Non-retail clients                                    | 21,694,464        | 20,989,794        | -3.2           |
| <b>Total</b>  | <b>30,790,535</b> | <b>30,491,549</b> | <b>-1.0</b>    |

Source: CNMV. (1) Provisional data for 2018 with 92.9% of registered firms.

### 3.2.3 Considerations on the provision of investment services in Spain by credit institutions and investment firms

Information on the provision of investment services in Spain from a broad point of view (i.e., including the activity of CIS management even though it is not strictly an investment service from a legal point of view) is usually presented in accordance with the type of entity performing said activity: credit institution, investment firm or CIS management company. However, a less formalistic approach, and therefore one that is more substantive and in line with the entities' business model and their link to commercial banks, makes it recommendable to delineate more accurately what part of the business related to providing investment services is performed by banks that may be defined as commercial banks, i.e., whose income mainly comes from providing typical bank services (deposits, loans etc.), and what part is performed by entities that may be considered to be specialised in providing investment services. This latter group of entities would be made up of investment funds and CIS management companies that are independent, i.e., not the subsidiaries of commercial banking groups, and by banks specialised in providing investment services. One of the most important pieces in this analysis consists of identifying the companies that have the form of a bank, but whose business model is mostly based on providing investment services. For this purpose, the ratio of revenue received for providing investment services over the entity's total revenue can be taken. Those entities with a ratio greater than two thirds have been identified as banks specialised in investment services.<sup>7</sup> It is estimated that the amount of

<sup>7</sup> The most important entities by volume of revenue received include Allfunds, Banco Inversis, Cecabank, and Renta 4.

revenue for providing investment services in Spain<sup>8</sup> received by these entities was greater than 900 million euros in 2018 as a whole. However, if the volume of commissions that these entities pay as retrocession commissions to third parties are taken into account, which in some cases are of a significant amount due to their specific business model, the volume of revenue would fall to a figure of slightly over 350 million euros (around 8% of total commissions received by the credit institutions in this business).

In the case of non-bank financial entities (broker-dealers, brokers and CIS management companies), those belonging to a commercial banking group and which, therefore, would fall within the scope of the provision investment services of this type of entity, have been identified. In the scope of brokers and broker-dealers, these entities are currently insignificant as credit institutions have been absorbing their broker-dealers and brokers over recent years in the context of a major reorganisation of the Spanish financial sector. In 2018, for example, Bankinter and Banco Santander absorbed the broker-dealers belonging to their respective financial groups. At the end of 2018, there were a total of 7 broker-dealers belonging to a Spanish credit institution whose main business was commercial banking. These broker-dealers accounted for 4% of the total assets of broker-dealers in 2018 and around 7% of the revenue received by this type of entity. In the field of CIS management companies, the importance of those linked to commercial banks is higher as they account for almost 60% of the net retrocession fees resulting from CIS management and half of the total amount of the fees received by management companies as a whole.

In view of all these considerations, it is estimated that approximately 70% of the business related to providing investment services in Spain (including the marketing of CIS and measured through the commissions received for these activities) is performed by traditional commercial banks or by entities that belong to their groups, while the rest is performed by financial entities that are specialised in providing investment services and without links to commercial banking.

It is desirable and positive to have an independent sector specialised in investment services that is as strong as possible. The more important the independent entities are, the greater the innovation, dynamism and competition will be in the sector. In addition to the resulting benefits in terms of lower costs and improved service for investors, this is also interesting from two other perspectives: i) the desirable increase in the balance between pure bank financing and financing of companies through markets and ii) the efforts to boost the investor culture of Spanish people, which, in addition to being characterised by a low propensity to save, is more focused on investments in real estate and in very low-risk products when compared with the patterns seen in other European economies.

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8 Some of these entities (e.g., Allfunds) have a very significant business outside Spain.

In accordance with the 2018 Activity Plan, the CNMV performed a horizontal review of compliance with the obligations of the PRIIPs Regulation (Regulation (EU) No. 1286/2014 of the European Parliament of the Council, of 26 November 2014, on key information documents for packaged retail and insurance-based investment products), which started to apply on 1 January 2018.

This Regulation requires that a Key Information Document (KID) be prepared so as to be delivered to retail clients before selling or recommending certain products to them. The KID is a highly standardised and short document – maximum of three sides of paper – which must include key information on the product in a concise manner and in non-technical language so as to facilitate understanding by retail investors and comparison with investment alternatives. In addition to explanations about the functioning of the product, the KID includes numeric elements with a risk indicator on a scale of one to seven, a table with possible results in different scenarios and a table of costs, which involve calculations according to methodologies defined in the Regulation.

The general objective of this review was to check that the content of the documents is in line with the Regulation, that the producers publish them on their websites and that distributors deliver them to clients sufficiently in advance. The review was performed on a representative sample of 17 entities, which accounted for approximately 90% of the volume of PRIIPs subject to the CNMV's supervision and distributed to retail clients. In the framework of this review, the CNMV analysed KIDs of structured debt, financial contracts, derivatives and CFDs.

In general terms, the KIDs analysed provide the expected information on the functioning, characteristics and objectives of the products in a concise form, as well as information on costs – including those implicit in the prices – and are considered to be a useful document for the investor. However, the PRIIPs Regulation is currently being revised with the aim of incorporating the amendments deemed necessary after noting the deficiencies of the Regulation that have come to light since its application.

In addition, the CNMV has detected aspects for improvement with regard to the drafting of the documents in order to make them more understandable for retail investors and incidents in the calculated indicators (some of which were significant), which might currently hinder the achievement of the objectives of understandability and comparability pursued by the Regulation.

The following incidents are considered particularly relevant:

- Deficiencies in the information on the costs implicit in the price (entry costs). Differences were identified in estimating the fair value of the product which imply that in some cases costs are being reported that are lower than the actual costs. The fair value must reflect the price at which

an instrument may be exchanged between duly informed interested parties. This value must be the same whether the product is bought or sold and must not include specific costs which may be incurred by the parties.

- Lack of specific information on the costs incurred by the customer in the event of the investor cashing in before the end of the term.
- KIDs that are excessively generic on OTC derivatives and, in particular, on CFDs, which do not inform the client of the conditions that apply to the product they are going to acquire. The KID that is delivered to clients must include a sufficient level of detail on the terms and conditions of the transaction and provide information, in all cases, on the currency, the term, the prices, the barrier levels and representative costs. It is therefore normally considered appropriate to prepare different KIDs for specific underlyings.

It is important to highlight the lack of pre-contractual information on costs effectively applied that results from preparing excessively generic KIDs and of using these to comply with MiFID obligations.

Furthermore, in the calculation of return scenarios, in addition to certain specific errors in applying the Regulation – such as analysing ratios in products with a term of less than one year – the CNMV identified aspects that are not dealt with in detail in said Regulation that hinder a uniform implementation of the methodology by entities. An example of this last point is the treatment of coupons and partial redemptions, or that of autocallable products, for which entities have used different approaches, which, at any event, they should explain in the KID to facilitate understanding.

Although the CNMV did not perform a full analysis of the PRIIP methodology for calculating the scenarios, the analysis of the data in the KIDs examined in this review suggests that the scenarios presented are generally consistent, although in some cases an inappropriate historical bias was observed.

The CNMV will continue promoting publication of clarifications in the working group of the Joint Committee of the three European supervisory authorities (ESAs) and will update the Questions and Answers published where appropriate.

The information collected in this review will be taken into account, at any events, in the work to be performed by the ESAs in 2019 for the revision of the PRIIPs Regulation.



### 3.3 Venture capital firms and crowdfunding platforms

#### 3.3.1. Venture capital firms and other closed-end collective investment undertakings

##### Firms registered with the CNMV

In 2018, private equity and venture capital activity followed the upward trend of the previous years, recording a high number of registrations of both vehicles and management companies. A total of 59 closed-end investment vehicles and 8 new management companies of closed-end vehicles were registered. The CNMV register closed the year with a total of 369 closed-end investment vehicles and 94 management companies, a rise of 13.2% and 5.6%, respectively, on the figures for year-end 2017 and set a new historic high for the register.

With regard to closed-end investment vehicles, among the aforementioned 59 new registrations, there was once again a wide variety of legal forms and investment objectives. With regard to venture capital vehicles – venture capital funds and venture capital companies – there were 37 new registrations. In the case of SME venture capital vehicles, both funds and companies, there were 2 new registrations. In addition, 3 European venture capital funds (EuVECAs) were registered and 1 European social entrepreneurship fund in the form of a company (EuSEF), structures that were provided for, respectively, by Regulation (EU) No. 345/2013 of the European Parliament and of the Council, of 17 April 2013, on European venture capital funds and Regulation (EU) No. 346/2013 of the European Parliament and of the Council, of 17 April 2013, on European social entrepreneurship funds. These funds can be marketed to investors who contribute over 100,000 euros, both in Spain and in European Union countries. At 31 December 2018, there was a total of 8 European venture capital funds and 1 European social entrepreneurship fund registered, an increase of 80% on the previous year.

Finally, in 2018, registrations of closed-end collective investment undertakings were also significant, with 16 new undertakings added to the register, of which 10 were closed-end collective investment funds. This new investment category, which is subject to the general taxation regime for Corporate Income Tax, was introduced by Law 22/2014, of 12 November, and it enjoys a great deal of flexibility with regard to investment rules both in terms of investment policy and compliance with investment ratios. In 2018, for example, two closed-end collective investment companies with an investment policy focused on the real estate sector and one closed-end collective investment fund focused on the infrastructure sector were registered. In addition, six new closed-end collective investment funds were registered that were former venture capital vehicles and which converted to this new category in order to have a more flexible regime with regard to compliance with investment ratios. It should also be noted that in 2018 one European Long-Term Investment Fund (ELTIF) began operating in Spain (another fund began operating in 2019). These funds do not appear in the CNMV registry as they are subject to direct EU regulation.

The initiative of the ICO [Spanish Official Credit Institute], through the FOND-ICO Global venture capital fund remained extremely important in raising funds from the private sector through co-investment. In this regard, it should be noted that last year there was an increase of 500 million euros in committed capital from this fund, leading to a total amount of 2 billion euros. It is also important to note that in 2018,

it was decided to carry out a new call, the tenth, with the selection of 7 funds, most of which were registered with the CNMV.

The number of management companies of closed-end collective investment undertakings rose by 8, leading to a total of 94 such companies registered with the CNMV at 31 December 2018. Four of the new management companies of closed-end collective investment undertakings were set up in compliance with all the requirements to this effect set out in the Alternative Investment Fund Managers Directive,<sup>9</sup> which involves the possibility of obtaining the EU passport for the managed vehicles, as well as the ability to market the managed venture capital vehicles to both professional investors and non-professional investors, providing that the latter undertake to invest at least 100,000 euros and state in writing that they are aware of the risks associated with the investment.

### Registrations and de-registrations in 2018

TABLE 3.3.1

| Type of entity  | Firms at<br>31/12/17 | New<br>registrations | De-<br>registrations | Firms at<br>31/12/18 |
|---|----------------------|----------------------|----------------------|----------------------|
| Venture capital companies   | 105                  | 16                   | 0                    | 121                  |
| Venture capital funds   | 173                  | 21                   | 13                   | 181                  |
| SME venture capital companies   | 16                   | 1                    | 0                    | 17                   |
| SME venture capital funds   | 12                   | 1                    | 3                    | 10                   |
| European venture capital funds  | 5                    | 3                    | 0                    | 8                    |
| European social entrepreneurship funds (EUSEF)  | 0                    | 1                    | 0                    | 1                    |
| <b>Total venture capital undertakings</b>   | <b>311</b>           | <b>43</b>            | <b>16</b>            | <b>338</b>           |
| Closed-end collective investment companies  | 13                   | 6                    | 0                    | 19                   |
| Closed-end collective investment funds  | 2                    | 10                   | 0                    | 12                   |
| <b>Total closed-end collective investment undertakings</b>                                    | <b>15</b>            | <b>16</b>            | <b>0</b>             | <b>31</b>            |
| <b>Total venture capital undertakings + closed-end<br/>collective investment undertakings</b> | <b>326</b>           | <b>59</b>            | <b>16</b>            | <b>369</b>           |
| <b>Management companies of closed-end collective<br/>investment undertakings</b>              | <b>89</b>            | <b>8</b>             | <b>3</b>             | <b>94</b>            |

Source: CNMV.

### Key figures on the venture capital sector

According to ASCRI (Association of Spanish venture capital firms), 2018 ended with a record figure in terms of volume of private equity and venture capital investment, close to 5.85 billion euros spread over a total of 670 deals, an increase of 17% on the figure recorded in 2017.

With regard to the size of the investments, a total of 8 megadeals were recorded in 2018, each of which exceeded 100 million euros (3 of them were greater than 1 billion euros). These deals accounted for a total investment volume of around 3.7 billion euros (63% of the total). The segment of medium-scale deals (between 10

9 Including Oquendo Capital, SGEIC, S.A.; Avior Capital, SGEIC, S.A.; Asterion Industrial Partners, SGEIC, S.A.; and Qualitas Equity Funds, SGEIC, S.A.

and 100 million euros) recorded a volume of around 1.47 billion euros, spread over 56 deals, very similar figures to those recorded in 2017.

International operators accounted for 77% of total investment with a very significant presence in megadeals, while Spanish venture capital undertakings and other operators generally participated in a higher number of small-scale deals.

The investment of venture capital funds, i.e., funds that invest in the early stages of a company's development (seed capital and start-up), continuing with ASCRI data, maintained a prominent role in 2018 with an investment volume of 417 million euros (538 million euros in 2017) spread over a total of 510 deals. Spanish private operators and public funds played a more prominent role than international funds in this segment. As has become customary over recent years, there is still significant support in this segment from the investment of public funds through the Fond-ICO Global and the CDTI Innvierte programmes.

With regard to the volume of disinvestments, the estimated figure dropped considerably compared with that recorded in 2017 and amounted to slightly over 2 billion euros spread over 295 divestments.

The sectors that received the highest volume of investment last year were the energy and natural resources sector (20.4%), and the hospitality/leisure sector (17.9%), while the IT sector recorded the highest number of deals, accounting for 46% of the total.

### 3.3.2 Crowdfunding platforms

A total of 12 applications were submitted in 2018 for authorisation of crowdfunding platforms. Consequently, as from the publication of Law 5/2015, of 27 April, which regulates said entities, up to the end of 2018, the number of applications totalled 66, with the number submitted in 2018 higher than for 2017, although the figure remains far from the numbers recorded in the first two years: 24 in 2015 and 21 in 2016 (see Table 3.3.2). This fall is due to the fact that most of the applications received in the first two years related to platforms that were already operating as such and which, as a consequence of the new regulation, had to adapt to the legislative requirements in order to be able to continue their business.

Number of crowdfunding platform applications

TABLE 3.3.2

| Platform type        | 2015      | 2016      | 2017     | 2018      | Cumulative total |
|----------------------|-----------|-----------|----------|-----------|------------------|
| Equity               | 10        | 7         | 3        | 2         | 22               |
| Lending              | 12        | 7         | 3        | 4         | 26               |
| Mixed                | 1         | 7         | 3        | 6         | 17               |
| No data <sup>1</sup> | 1         | –         | –        | –         | 1                |
| <b>Total</b>         | <b>24</b> | <b>21</b> | <b>9</b> | <b>12</b> | <b>66</b>        |

Source: CNMV. (1) The application for authorisation did not indicate the type of crowdfunding platform.

However, the number of crowdfunding platforms authorised in 2018 was lower than in the previous year: 2, compared with 9 in 2017. The 2 authorised platforms were equity platforms, while in 2017 4 equity platforms, 2 lending platforms and

3 mixed platforms were authorised. In addition, in 2018, 1 platform project was rejected (4 in 2017) and 13 others were withdrawn or deemed withdrawn (4 in 2017). One of the authorisations granted to an equity crowdfunding platform project expired in 2018<sup>7</sup> after more than one year elapsed without the platform being registered with the CNMV.

**Number of authorised crowdfunding platforms**

TABLE 3.3.3

| Platform type | 2015     | 2016      | 2017     | 2018     | Cumulative total |
|---------------|----------|-----------|----------|----------|------------------|
| Equity        | 1        | 7         | 4        | 2        | 14               |
| Lending       | 0        | 8         | 2        | 0        | 10               |
| Mixed         | 0        | 2         | 3        | 0        | 5                |
| <b>Total</b>  | <b>1</b> | <b>17</b> | <b>9</b> | <b>2</b> | <b>29</b>        |

Source: CNMV.

**Number of rejected or withdrawn crowdfunding platforms**

TABLE 3.3.4

| Platform type        | 2016     |           | 2017     |           | 2018     |           | Cumulative total |           |
|----------------------|----------|-----------|----------|-----------|----------|-----------|------------------|-----------|
|                      | Rejected | Withdrawn | Rejected | Withdrawn | Rejected | Withdrawn | Rejected         | Withdrawn |
| Equity               | 1        | 2         | 1        | 1         | –        | 2         | 2                | 5         |
| Lending              | 0        | 4         | 2        | 2         | –        | 5         | 2                | 11        |
| Mixed                | 0        | 0         | 1        | 1         | 1        | 6         | 1                | 7         |
| No data <sup>1</sup> | 0        | 1         | 0        | 0         | –        | –         | 0                | 1         |
| <b>Total</b>         | <b>1</b> | <b>7</b>  | <b>4</b> | <b>4</b>  | <b>1</b> | <b>13</b> | <b>5</b>         | <b>24</b> |

Source: CNMV. (1) The application for authorisation did not indicate the type of crowdfunding platform.

At the end of 2018, the CNMV Register contained a total of 26 platforms, of which 5 were registered in 2018, 8 in 2017, 12 in 2016 and 1 in 2015. The key features of the registered platforms include:

- 11 are equity platforms, 10 are lending platforms and 5 are mixed.
- 4 are real estate platforms, 1 lending, 1 mixed and 2 are equity platforms.
- 14 have their registered address in Madrid, 7 in Barcelona, 2 in Valencia, 1 in Soria, 1 in Santa Cruz de Tenerife and 1 in Bilbao.
- 1 lending crowdfunding platform and 1 equity crowdfunding platform, both registered in 2016, are controlled by foreign companies engaged in crowdfunding activities.
- Only 1 platform, registered in 2016, is a hybrid platform (it is authorised to act as a crowdfunding platform and as a payment institution).

## Number of registered crowdfunding platforms

TABLE 3.3.5

| Platform type | 2015     |          |           | 2016                  |          |           | 2017                  |          |           | 2018                  |          |           | Cumulative total |           |           |
|---------------|----------|----------|-----------|-----------------------|----------|-----------|-----------------------|----------|-----------|-----------------------|----------|-----------|------------------|-----------|-----------|
|               | of which |          |           | of which <sup>1</sup> |          |           | of which <sup>1</sup> |          |           | of which <sup>1</sup> |          |           | of which         |           |           |
|               | Total    | Madrid   | Barcelona | Total                 | Madrid   | Barcelona | Total                 | Madrid   | Barcelona | Total                 | Madrid   | Barcelona | Total            | Madrid    | Barcelona |
| Equity        | 1        | 1        | 0         | 4                     | 3        | 1         | 3                     | 0        | 2         | 3                     | 1        | 1         | 11               | 5         | 4         |
| Lending       | 0        | 0        | 0         | 8                     | 4        | 2         | 1                     | 1        | 0         | 1                     | 1        | 0         | 10               | 6         | 2         |
| Mixed         | –        | –        | –         | 0                     | 0        | 0         | 4                     | 3        | 0         | 1                     | 0        | 1         | 5                | 3         | 1         |
| <b>Total</b>  | <b>1</b> | <b>1</b> | <b>0</b>  | <b>12</b>             | <b>7</b> | <b>3</b>  | <b>8</b>              | <b>4</b> | <b>2</b>  | <b>5</b>              | <b>2</b> | <b>2</b>  | <b>26</b>        | <b>14</b> | <b>7</b>  |

Source: CNMV. (1) In addition, one crowdfunding platform with registered address in Soria and another in Valencia were registered in 2016. In addition, one crowdfunding platform with registered address in Santa Cruz de Tenerife and another in Valencia were registered in 2017. In 2018, a crowdfunding platform with its registered office in Bilbao was also registered.

The information received from the platforms on their activity in 2018 reveals that these entities raised 103.5 million euros, a significantly higher volume than that raised in 2017 (61 million euros). In addition, the number of published projects amounted to 3,618 (647 in 2017) and the number of investors stood at 20,028 (24,614 in 2017). There is a great deal of disparity in the sector, as two of the platforms accounted for 54.4% of total financing raised and 54.8% of the investors, while a third platform alone accounted for three quarters of the projects.

In short, it can be seen that the development of this activity in Spain is still extremely limited, as is the case in most benchmark European countries. This is one of the reasons why the European Commission is promoting a regulatory initiative that might promote this type of financing by implementing a European passport regime that might co-exist with the purely local regimes of each Member State. At any event, the guiding principle would be that the total amounts to be financed should always be below the quantitative limits set for issues to be deemed a public offering (a maximum of 8 million euros in accordance with current EU legislation on prospectuses).

### Horizontal review of adaptation of information on costs and inducements to MiFID II

EXHIBIT 7

In accordance with its Activity Plan, in 2018 the CNMV performed a horizontal review on the level of adaptation to the new obligations on information relating to costs and inducements contained in MiFID II. The review was performed on a representative sample of 15 entities that at year-end 2017 accounted for 86% of the retail clients of credit and savings institutions, 80% of the amount of the purchases of retail clients of financial instruments, 76% of the amount of assets effectively managed and 90% of the amount of the purchase recommendations issued to retail investors. The verification was performed during the entities' stage of adaptation to the new obligations and with part of the applicable legislation pending transposition.

The institutions subject to the review were informed of the results of the analysis performed in each one of the aspects analysed: i) information on costs and associated charges, ii) order execution confirmation forms and iii) requirements for receiving inducements. In this regard, the new legislative

requirements, as well as the adaptation of the reviewed entities to such changes, are summarised in the following four sections:

**1. Adaptation to new requirements on *ex ante* information regarding costs and associated charges**

- Under the new applicable legislation, the costs and charges reported must be those that will actually be paid by the client although, where appropriate, they may be based on an assumed amount of investment. In the case of equity, fixed income and derivative instruments traded on MEFF, most entities chose to refer their information to a standardised amount or to maximum rates and not to each transaction in process. This is deemed to be insufficient in the aforementioned instruments as the cost may vary significantly depending on the rates agreed with each client and the amount of the transaction.

However, in instruments such as the equity or derivative instruments of MEFF, with a flexible interpretation of the legislation and the possibility of more repetitive trading, it is considered sufficient to detail the information relating to the rates agreed with the client and the amount of the transaction in the first transaction of each calendar year, together with a general description of the applicable rates. In this case, the *ex ante* detailed breakdown may be omitted in subsequent transactions during the year.

- The information must be aggregated in such a way that the customer can understand the total cost, and must be provided both in amount and in percentage. The costs for the product and for the services, and for the inducements received, must also be broken down separately. A minority of institutions presented a general cost total – both in amount and in percentage – and, as a rule, did not provide a separate breakdown of the costs corresponding to the product and to the services. Furthermore, in none of the cases did they explicitly indicate that any of these items were non-existent where necessary.
- The information must include all the costs related to the services and to the products and reflect both entry and exit costs and recurring costs. It must also cover both explicit and implicit costs, which include any implicit margins and exchange costs.

For equity and fixed-income securities, third-party fees and charges were not always added. It was also rare for institutions to detail the costs of corporate transactions (such as those applied to collecting dividends or coupons) or, in the case of fixed-income securities, for them to consider possible implicit margins included in the price. However, in the case of CIS, entities had generally aggregated the corresponding transaction costs.

In equity and fixed-income instruments, entities did not always detail the exit costs at the time of the purchase or only referred to their possible application without quantifying them. If the client has been accurately informed about the exit costs at the time of the purchase, it is

considered to be unnecessary to report them *ex ante* when processing the sales transaction unless the applicable fees at that time have changed with regard to those indicated at the time of purchase.

In addition, institutions did not usually consider the exchange costs implicit in trading in a non-euro currency.

The amount of any inducements received was not always detailed as information was often only provided in percentage terms.

- With regard to illustrating the cumulative effect of costs on returns, institutions had generally chosen to show costs in different terms or scenarios, with a generic reference to the fact that they would reduce returns. Other institutions chose to present an unreasonable simulated indicative return on which to compare the effect of the costs or simply did not make any reference to this aspect. In no case was the information provided deemed to be adequate.
- In harmonised CIS and other PRIIP instruments, information must be given on any costs and associated charges of the product that had not been included in the KID, as well as the costs and charges corresponding to the provision of the service and, as the case may be, the inducements received. With this specific case of CIS, transaction costs are among those that do not appear in the KID. In structured products and OTC derivatives, institutions generally delivered the PRIIP KID as the only document informing about costs. This approach is only appropriate when the client cannot incur extra costs – such as custody charges in structured products or exchange costs in foreign-exchange transactions – which it would be necessary to report.
- Finally, the information relating to costs and charges must be provided to clients sufficiently in advance and on a durable medium or via a website (providing the client regularly accesses the Internet). In the case of the telephone channel, institutions either did not inform about the establishment of specific procedures or simply provided information orally, thereby failing to comply with the requirement of a durable medium.

## 2. Adaptation to the new requirements in execution confirmation forms

The order execution confirmation must detail the total sum of the fees and charges. Institutions have generally opted for a separate breakdown of the different cost items, without informing about their total amount. It was also common for institutions not to add the internal margins applied to total costs. Although the exchange rate was usually detailed, institutions rarely made reference to implicit exchange costs, which should be included in total costs.

## 3. Adaptation to new *ex post* information requirements regarding costs and associated charges

With some specific differences, the requirements for *ex post* information on costs and associated charges are similar to those for *ex ante* information. This

information must be sent at least annually and must be based on actual costs and provided in a personalised manner.

With regard to services other than portfolio management, institutions generally provided information on the total amount of the costs and often broke them down separately into product costs and service costs. In contrast, there was usually no illustration provided of the cumulative effect of costs on returns.

In the case of portfolio management, institutions usually presented the total amount and the percentage of costs. In contrast, management costs and execution costs were not always broken down separately. Institutions often made no mention that the client could request further details on the costs incurred.

#### **4. Adaptation to the new requirements for receiving inducements**

In the area of discretionary portfolio management, institutions generally opted to include classes of CIS without retrocession fees, and they therefore mostly no longer received inducements for this activity. However, given the possible existence of CIS or compartments in which there are no classes without retrocession fees, not every institution had established tools that allow them to identify, allocate and transfer inducements received to their clients.

Institutions have generally opted to provide the advisory service as non-independent, combined with added value tools or services that justify continuing to charge retrocession fees.

In distribution outside the context of advice and portfolio management, institutions generally maintained the charging of inducements offering to clients third-party CIS, together with additional added value tools, such as CIS search and comparison tools, reports on the performance of investments, reports on returns and costs or a combination of the above. With regard to this issue, it is important to bear in mind that comparison tools do not always make it possible to simultaneously compare CIS of the group and third-party CIS, while reports on returns and costs do not always refer to each one of the instruments in the portfolio, which is considered insufficient. In addition, two entities had linked the distribution of CIS of the group to the exclusive provision of a simplified advisory service, while another three were in the process of migrating to this model.