I Securities markets and their agents

1 Economic and financial environment

1.1 International environment

World growth remained strong in 2018, although a slowdown was recorded in some economies and there was less synchrony among the different countries. According to IMF estimates, the world economy grew by 3.6% in 2018, 0.2 percentage points less than in 2017. Among advanced economies, the United States continued to lead the pace of growth, while among emerging economies, Asian countries recorded particularly strong growth, in many cases of over 5%. The year was marked by the presence of several sources of uncertainty, including doubts relating to restrictions to world trade, tensions in some emerging economies, such as Turkey and Brazil, Brexit and the initial lack of agreement between the Italian Government and the European Commission with regard to the Italian public accounts. In this context, the normalisation of monetary policy in the United States continued, with four interest-rate hikes in 2018, while in the United Kingdom, the Bank of England raised interest rates in August, with this being the second rate hike since the start of the financial crisis. In contrast, in Japan and in the euro area, the monetary policy stance remained unchanged with regard to interest rates, as they stayed at the same level, although the ECB ended its debt purchase programme at the end of the year.

International financial markets followed a somewhat unstable path over the year. Short-term rates in the advanced economies followed the path set by official rates, while yields on long-term sovereign bonds only recorded insignificant changes over the year except in the United States and in Italy, where they rose significantly. For their part, in equity markets, the aforementioned uncertainties gave rise to occasional falls in share prices and upturns in volatility, which did not prevent significant price gains in the United States and Japan for much of the year. However, in the final stretch of the year, the perception of a possible sharper-than-expected slowdown in world growth triggered a widespread fall in share prices in all geographical areas. This in turn led to annual losses of varied significance in the most important indices, which stood at over 10% in most cases.

The outlook for growth in 2019 is less favourable than in previous years (the IMF expects growth of 3.3%), as a significant part of the uncertainties of last year are still present this year. One of the most significant sources of risk is the possibility of a worsening of trade tensions between China and the United States, and the possibility of the United Kingdom leaving the European Union without a deal. Other sources of geopolitical risk in some emerging economies may also give rise to periods of instability.

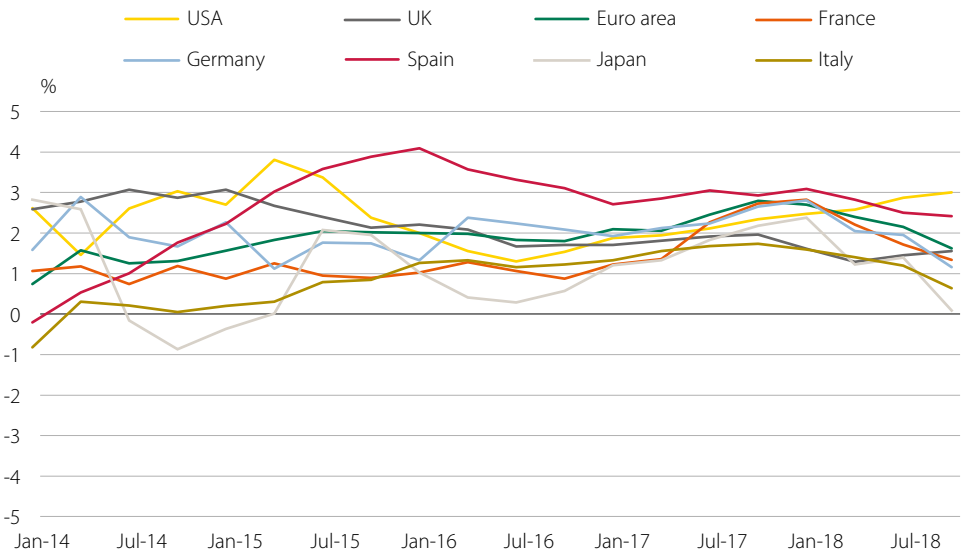
1.1.1 The world economy

World GDP grew by 3.6% in 2018, slightly down on the rate recorded in 2017

According to IMF estimates,[1] the world economy grew by 3.6% in 2018, 0.2 percentage points less than in 2017. Growth in the advanced economies stood at 2.2%, 0.2 percentage points lower than in 2017, while growth in the emerging economies stood at 4.5%, 0.3 percentage points down on the previous year. The political uncertainties present in the international economic and financial landscape, together with the restrictions on international trade and effects of the shift in monetary policy of the United States in some emerging economies, led to this slowdown, which was sharper in European economies.

Within the advanced economies, it is worth noting the progress in the United States, practically the only member of this group that recorded an acceleration in growth (from 2.2% in 2017 to 2.9% in 2018), which was driven by fiscal policy. This increased buoyancy offset a large part of the slowdown in growth of other advanced economies. In the euro area, GDP rose by 1.8% in 2018, 0.6 percentage points less than in 2017, with a significant slowdown in growth recorded in the larger economies (except Spain). Particularly noteworthy was the slowdown in GDP growth in Germany (from 2.5% to 1.5%). This was the result, among other factors, of the introduction of the Worldwide harmonized Light-duty vehicles Test Procedure (WLTP) and restrictions to world trade; in France (from 2.2% to 1.5%), as a result of the so-called "yellow vests" and in Italy (from 1.6% to 0.9%), which was affected by the increase in financial risks. Growth in Spain was also lower than in the previous year (2.6% compared with 3% in 2017), although the slowdown was less intense than in other European economies. In the United Kingdom, GDP grew by 1.4% (1.8% in 2017).

GDP: annual change FIGURE 1.1.1



Source: Thomson Datastream.

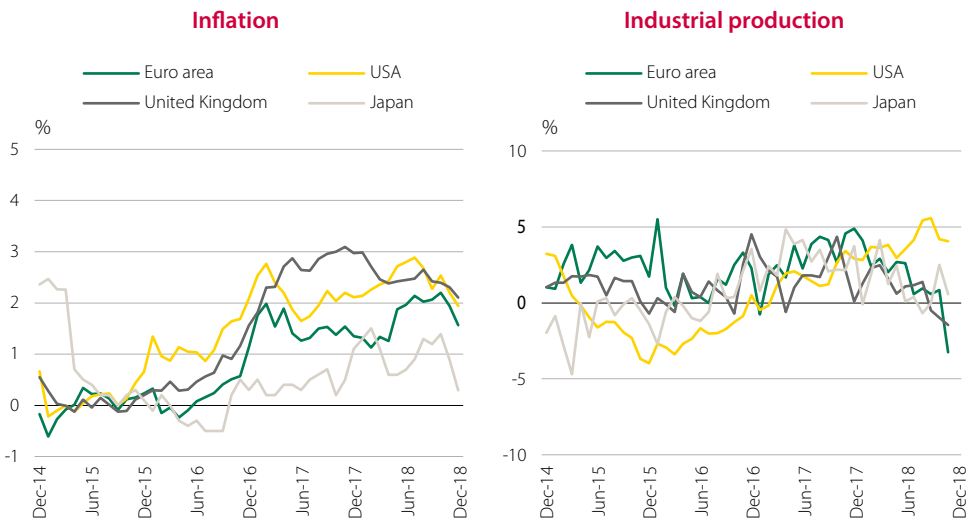
1 *World Economic Outlook* (April 2019).

Emerging and developing economies also recorded a slight slowdown, which was more intense in Eastern European countries. Overall, these countries recorded growth of 3.6% (6% in 2017), with the crisis in Turkey being a key factor. In contrast, the emerging Asian economies grew by 6.4% (6.6% in 2017), thanks to strong activity in India, which recorded annual growth of 7.1%, which offset the lower pace of growth in China (6.6% in 2018 compared with 6.8% in 2017).

Inflation rose around the middle four months of the year as a consequence of the increase in the price of oil in that period

Inflation rates in the euro area and the United States followed an upward trend over much of last year as a result of higher oil prices.[2] The highest rates of inflation were recorded in the second four-month period of the year and the start of the third, with year-on-year highs of 2.9% in the United States (July) and 2.2% in the euro area (October). In the final months of the year, these rates fell and inflation ended the year at 1.9% in the United States and at 1.6% in the euro area. Core inflation rates, which exclude changes in the most volatile elements of the index (fresh food and energy), were much more stable over 2018, although at a higher level in the United States. Core inflation in the United States stood at 2.2% in December, while in the euro area it stood at 1.0%.

Inflation and industrial production (% annual change) FIGURE 1.1.2

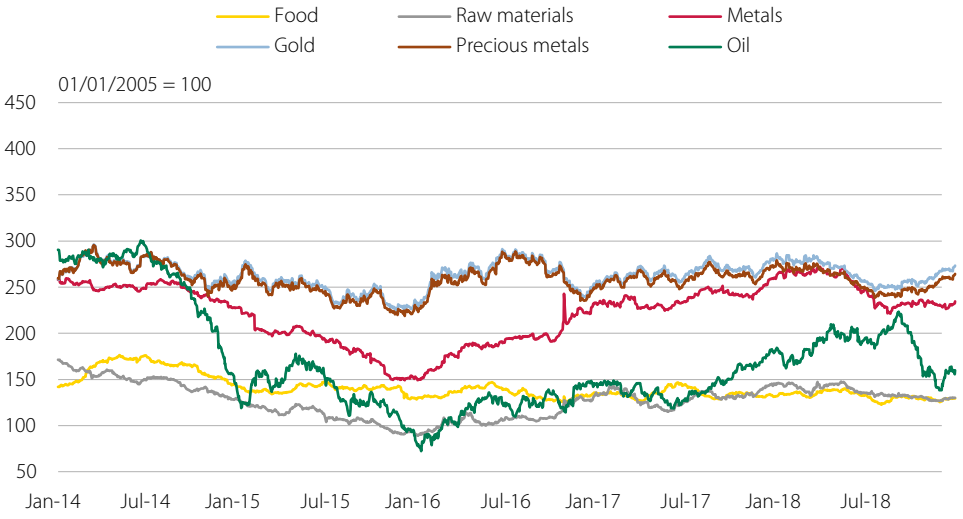


Source: Thomson Datastream.

The inflation rate in the United Kingdom began 2018 at levels close to 3% and then fell progressively, with occasional upturns in the third quarter, to end the year at a rate of 2.1% (see Figure 1.1.2). In turn, core inflation fell from 2.5% to 1.9%. Finally, inflation in Japan over 2018 ranged between 0.3% and 1.5%, without showing a clear trend in the year and with upturns in the first and third quarters.

2 Between February and October 2018, the price of oil in dollars rose by 28% and in euros by 36%.

Commodity prices FIGURE 1.1.3



Source: Thomson Datastream.

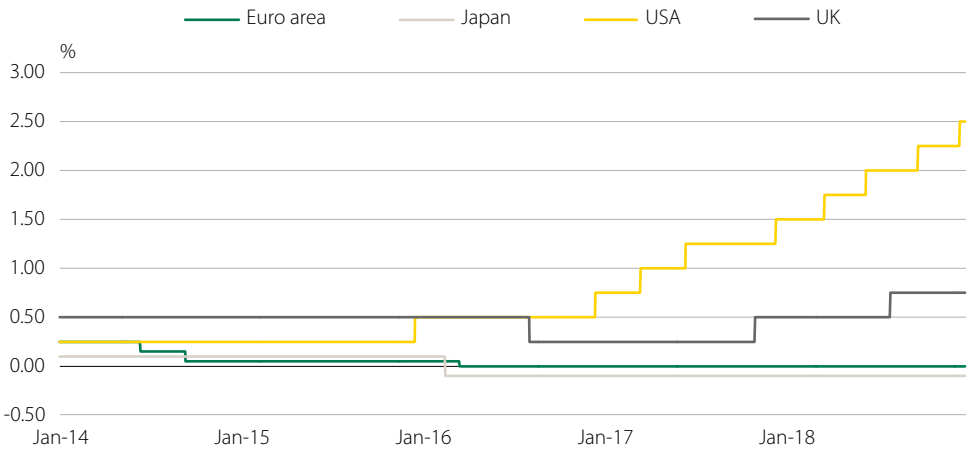
The monetary policy stance in the United States and in the euro area diverged further in 2018

The stance of the monetary policies applied on each side of the Atlantic remains divergent, as a result of the differences in movements in prices and economic activity in general in both areas. In the United States, the Federal Reserve decided to raise interest rates four times in the year based on the growth in economic activity, the conditions of its job market – close to full employment – and inflation. The last hike in the year in December left official interest rate in the range of 2.25-2.5%. The Federal Reserve also continued to reduce the size of its balance sheet.[3] In the United Kingdom, the Bank of England also raised interest rates to 0.75% in August (previously, in November 2017, it had raised its bank rate by 25 basis points (bp) to 0.50%, with these two hikes being the only rises since the start of the financial crisis). With this decision, the bank aimed to contain the rise in inflation, which at year-end 2018 stood at close to the 2% target, and to maintain economic growth and employment.

In contrast, the monetary policy stance in the euro area and in Japan remained accommodative. In all its meetings of the year, the ECB maintained the main refinancing rate, the deposit facility rate and the marginal lending rate unchanged at 0%, -0.4% and 0.25%, respectively. Nevertheless, the ECB announced in December, as the first stage of the planned shift in its monetary policy, that its asset purchase programme would end that same month, although it announced that it would reinvest the maturing debt for an extended period of time and, in any case for as long as necessary to maintain favourable liquidity conditions and a sufficiently accommodative monetary policy stance. For their part, official interest rates in Japan have remained at -0.1% since February 2016, with the central bank having expressed its intention to keep them unchanged for a long period of time as a result of the uncertainty relating to economic activity and price movements.

3 This has been reduced by approximately 8.4% since 2017.

Official interest rates FIGURE 1.1.4



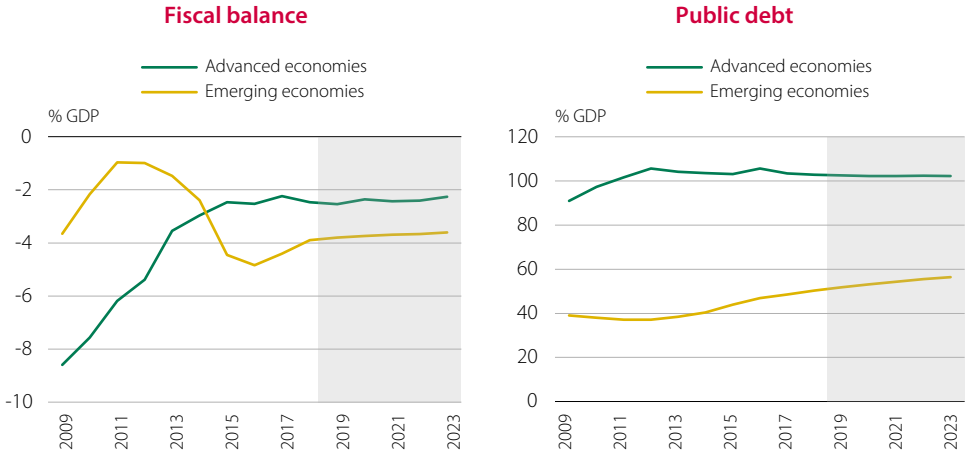
Source: Thomson Datastream.

In 2018, the public deficit rose slightly in advanced economies and fell by half a percentage point in emerging economies

According to IMF estimates, the aggregate government deficit of advanced economies rose slightly in 2018 to stand at 2.5% of GDP (2.2% in 2017), while that of emerging and developing economies decreased by 0.5 percentage points to 3.9% of GDP. In the case of the former, it was the expansive fiscal policy stance, particularly in the United States, that led to the slight increase in the public deficit. In the emerging economies as a whole, despite lower oil prices in the second half year, the downward trend in the public deficit recorded in 2017 continued in 2018. With regard to public debt, advanced economies recorded a slight fall in the aggregate ratio (from 104.5% of GDP in 2017 to 103.8% in 2018), while emerging economies recorded a slight increase of 2 points to 50.7% (see Figure 1.1.5).

The IMF forecasts a slight reduction in the public deficit of both advanced and emerging economies in the next 5 years, to 2.3% of GDP in the case of the former and to 3.6% in the case of the latter. The public debt in advanced economies would maintain the downward trend, albeit very slight, remaining at around 103% of GDP over the coming years. In contrast, the public debt of emerging economies would continue an upward trend to 57% of GDP.

Fiscal balance and public debt FIGURE 1.1.5



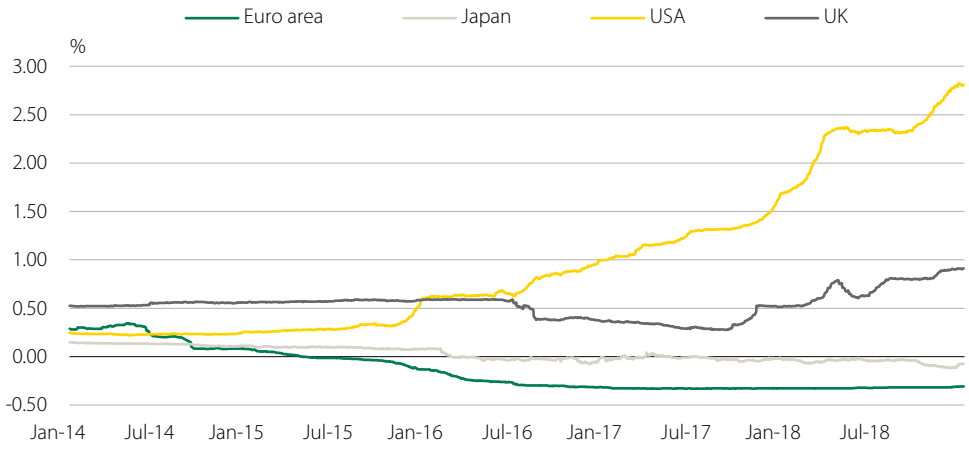
Source: IMF.

1.1.2 Developments in international financial markets

The difference between 3-month interest rates in the United States and the euro area exceeded 300 basis points

Short-term interest rates in the major advanced economies continued to drift apart over 2018, due to the different pace of the measures for normalising monetary policy applied by their central banks. In the United States, 3-month interest rates followed an upward trend throughout the year, standing at 2.81% in December, 111 bp up on year-end 2017, in line with the decisions of the Federal Reserve, which, as mentioned above, raised its benchmark interest rate four times in 2018. These levels of short-term rates were the highest from among the advanced economies, with a difference of over 300 bp compared with those in the euro area (see Figure 1.1.6). In the United Kingdom, 3-month interest rates also rose gradually in 2018, to 0.91% in December (39 bp more than at the beginning of the year).

Short-term interest rates[1] (3 months) FIGURE 1.1.6



Source: Thomson Datastream. (1) 3-month Libor.

For their part, 3-month interest rates in Japan followed a slightly downward path in 2018, which intensified in the final quarter, and they ended the year at around -0.07% (-0.02% in December 2017). In the euro area, 3-month interest rates remained stable at around -0.32% throughout the year, in line with decisions taken by the ECB.

As regards interest rate expectations, forward rates (FRAs) suggest that the differences in short-term rates in the euro area and the United States will tend to continue over 2019. In the euro area, stability in this aspect is expected throughout the year, which is in line with the ECB's intention to keep official interest rates at 0% at least through the summer of 2019 or even longer, in view of the slowdown in growth and the statements made by the bank itself. In the case of the United States, a period of few changes in rates in the short term is also expected, following the numerous rate hikes by the Federal Reserve since 2016.[4] This is due to the opening of a period of a certain slowdown in economic growth, which will delay or, at least, mitigate the pace and size of rate hikes in the short term.

Debt markets were characterised by stable bond yields and rising risk premiums

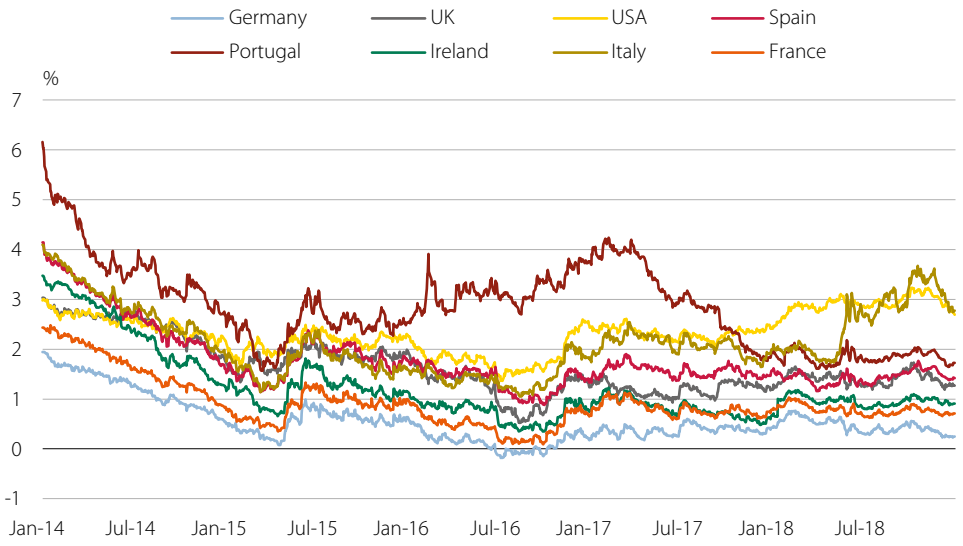
Long-term yields on sovereign bonds in most advanced economies remained relatively stable over 2018, with slight upturns in the early months of the year and falls between November and December. The performance in the last part of the year was the result of the worsening outlook for global growth and, in the case of Europe, also as a consequence of confirmation that the changes in the ECB's monetary policy would be slow and progressive.

Only the United States and, particularly, Italy recorded an increase in yields over the year as a whole, which rose by 28 bp in the case of the former (from 2.41% to 2.69%) and by 77 bp in the case of the latter (from 2.00% to 2.77%). In the United States, the rise in long-term yields was lower than the rise in short-term yields, which led to a marked flattening of the yield curve, which is compatible with inflation expectations that are, for the moment, relatively contained. There is some concern with regard to the slope of this curve as in the past very small values (sometimes negative) of the difference between the 10-year and 3-month yield have tended to precede periods of economic recession. In the case of the Italian bond, the significant increase in its long-term yield is mainly the result of the uncertainty relating to the public accounts of the Italian economy and the failure of the Italian Government and the European Commission to reach an agreement.

In the United Kingdom, the yield on the 10-year government bond stood at 1.27%, compared with 1.19% at the end of 2017. Long-term yields in the euro area, with the exception of Italy, recorded slight falls in 2018, which ranged between 8 bp in France and 21 bp in Portugal (14 bp in Spain), which led to them standing in December 2018 at 0.71% and 1.72%, respectively (1.42% in Spain). In the case of Germany, its debt status as a safe-haven asset may at least partially explain the fall in its yield. Accordingly, the long-term yield stood at 0.25% at the end of 2018 (18 bp down on 2017).

4 Since December 2016, the cumulative rise in the official interest rate is 2 pp.

10-year government bond yields FIGURE 1.1.7

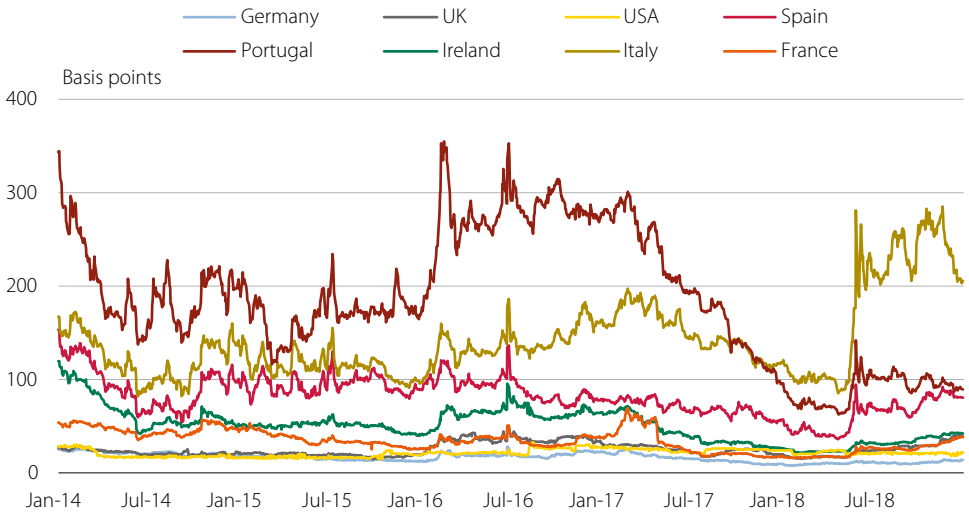


Source: Thomson Datastream.

Sovereign risk premiums (as gleaned from 5-year CDS contracts) of advanced economies grew, in general terms, throughout 2018, echoing the downward corrections to world growth forecasts. In the case of the peripheral euro area countries, this increase was exacerbated by the results of the elections in Italy in May. The Italian risk premium recorded a first upturn at the end of that month (to 281 bp, 163 up on the end of 2017) and then subsequently between October and November due to the failure of the Italian Government and the European Commission to reach an agreement with regard to the 2019 budget. Uncertainty in this area fell at the end of the year, which allowed the risk premium to drop to 205 bp. The risk premium in Spain rose by 23 bp, to 80 bp, and in Greece it reached 458 bp (76 bp up on year-end 2017). In Portugal, it rose by 47 bp in the first five months of the year to 142 bp, and fell in the following 7 months to 89 bp. In the other European economies, which were barely affected by the uncertainty in Italy, risk premiums edged up gradually over 2018. For example, risk premiums rose by 21 bp in France and by 4 bp and 20 bp, respectively, in Germany and the United Kingdom. In contrast, the US sovereign risk premium remained practically constant throughout the year and stood at 22 bp at the end of December, only 2 bp down on the figure for year-end 2017 (see Figure 1.1.8).

In line with the performance of sovereign debt, risk premiums of European banks rose over 2018 as they were affected by the same factors that contributed towards the increase in sovereign risk premiums: the outlook of lower growth, the rise in uncertainty relating to the public sector accounts in Italy and the delay in normalisation of the ECB's monetary policy. In this context, the spreads of the banking sector as a whole in the euro area rose from the lows of the end of January, close to 65 bp, to 155 bp at the end of December. In the United States, the risk premium of the banking sector also rose, from 33 bp to 72 bp, with practically all the growth concentrated in December, when doubts about the intensity of the economic slowdown grew.

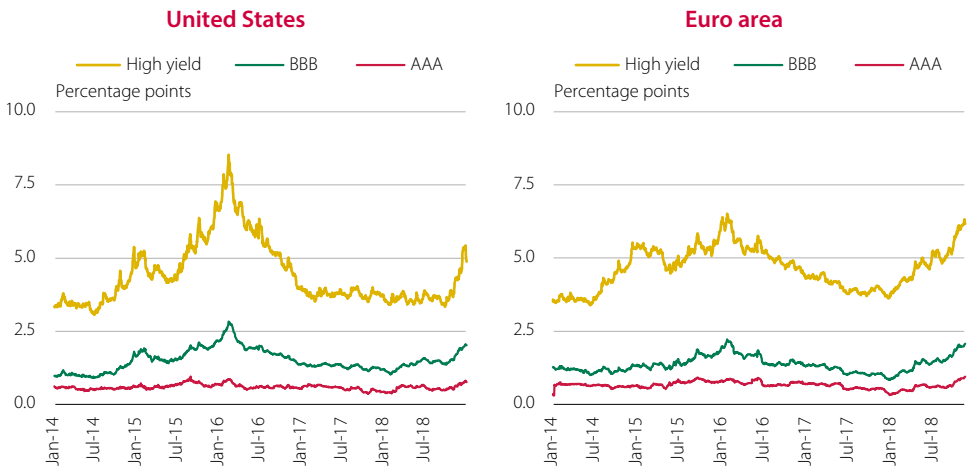
Sovereign CDS spreads FIGURE 1.1.8



Source: Thomson Datastream.

Spreads on corporate debt rose in 2018 in the major advanced economies, particularly in lower quality corporate bonds, after two years of continuous falls. These increases were more moderate in the United States, where spreads on high-yield bonds stood at 532 bp at the end of December, accumulating annual growth of 158 bp. Over the same period, the spread on corporate debt with the worst credit rating in the euro area recorded a much higher increase (227 bp), to stand at 618 bp, as a result of the aforementioned environment of uncertainty (see Figure 1.1.9).

Corporate bond spreads[1] FIGURE 1.1.9



Source: Thomson Datastream (BofA, Merrill Lynch and IBOXX indices). (1) Expressed as the difference between the IRR of the set of bonds belonging to a determined maturity and credit rating index and that of 10-year government bonds (the German bond is used in the case of the euro area).

Significant fall in net debt issuance in international markets in 2018

Net issuance on global debt markets amounted to 2.04 trillion dollars in 2018, 19.0% down on 2017. Debt issues fell in every sector except the financial sector, where they amounted to 846 billion dollars, 16.0% up on the figure for year-end 2017, as a result of the significant increase recorded in Europe (see Figure 1.1.10).

In the United States, net debt issuance fell significantly to 753 billion dollars (1.12 trillion dollars in 2017) against the backdrop of the interest-rate hikes by the Federal Reserve. While the fall took place both in the private sector and the public sector, it was much more dramatic in the former, where debt issuance shrank by 39.5% to 544 billion dollars in net terms. Of this amount, 327 billion corresponded to the financial sector, which issued 21.5% less than in 2017. Net issuance of government bonds amounted to 209 billion dollars in 2018, a very similar figure to that recorded in 2017 (only 8 billion dollars down).

In Europe, in contrast, net debt issuance grew by 24.8% over 2018 to 308 billion dollars. This growth was driven by the financial sector, whose net issues stood at 213 billion dollars, after 3 consecutive years at negative values, as many institutions took advantage of the good financing conditions in the context of the planned imminent end of the ECB's bank-specific longer-term refinancing operations. In contrast, issuance by non-financial companies fell significantly to 124 billion dollars, 18% down on 2017, while net issuance of government bonds was negative for the first time since the start of the crisis (-29 billion dollars), as gross issues, which fell by 5.8%, were less than the debt that matured during the year.

Net international debt issuances FIGURE 1.1.10

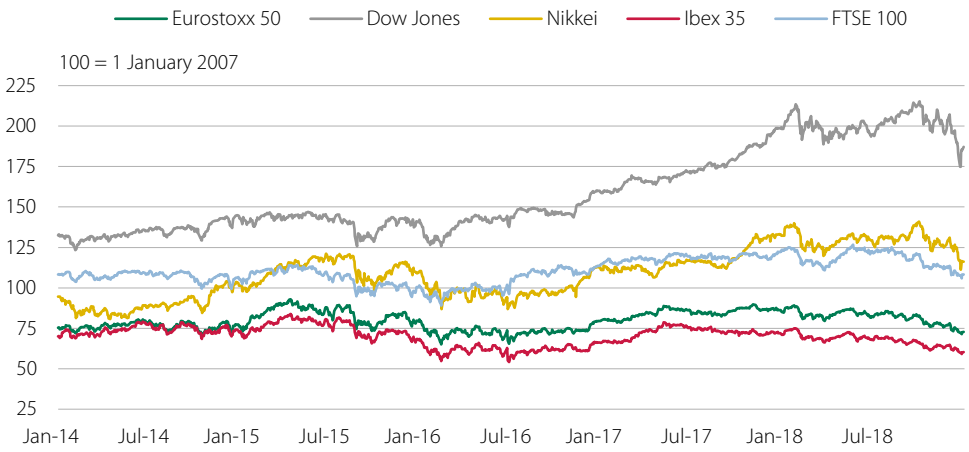
Source: Dealogic. Half-yearly data.

International stock markets fell significantly due to the presence of various types of uncertainties and there were occasional upturns in volatility

In the year as a whole, the leading stock indices recorded significant falls as a result of the aforementioned elements of uncertainty, such as the perception of an economic slowdown in the leading economies and the prolongation of trade tensions. The largest falls were recorded in European stock markets, which were particularly affected by doubts about Brexit and the lack of agreement between the European Union and the Italian Government relating to the latter's budget. The losses ranged between 11% and 18.3% (the Ibex 35 lost 15%). The falls in the United States were concentrated in the final part of the year and were more moderate, ranging between 3.9% and 6.2%, in a context characterised by the positive tone of economic activity and the job market, where unemployment levels are at lows not seen since 1969.

The falls recorded across the board by the major stock indices were accompanied by low levels of volatility, if the annual average is compared with historical averages. However, the market turmoil in the first and last quarters of the year gave rise to temporary upturns in volatility to levels lower than those recorded in other moments of uncertainty. For example, the historical volatility of the Dow Jones and Nikkei indices grew to values of close to 30% and 25% in February and December, compared with averages of 15% and 16.6%, respectively, during the year (see Figure 1.1.8). Volatility on European stock markets reached occasional highs of close to 20%, with annual averages slightly above 10%, which are low levels. Similarly, implied volatility indicators reached temporary highs during the same months, although the upturn in December was slightly higher, reaching levels of close to 40% in some indices (for example, the Japanese Nikkei).

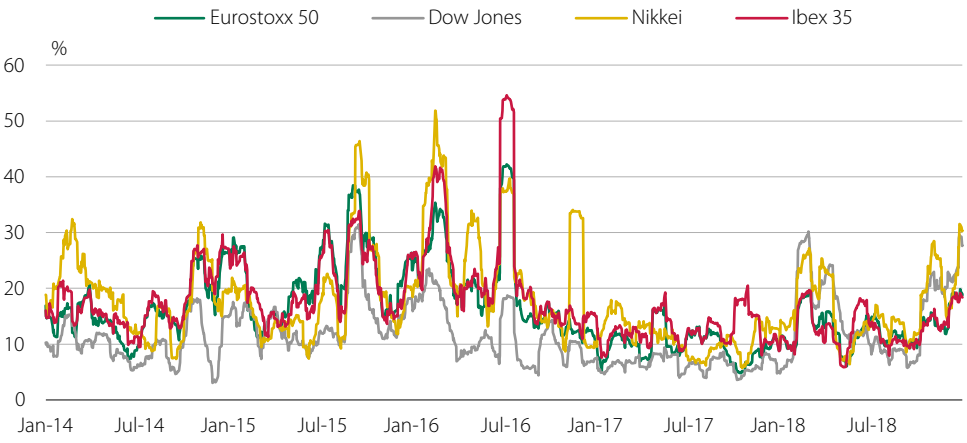
Performance of main world stock indices FIGURE 1.1.11



Source: Thomson Datastream.

Historical volatility[1] of main stock indices

FIGURE 1.1.12



Source: Thomson Datastream. (1) The index's historical volatility on day t is calculated as the standard deviation of daily index returns in the 20 preceding sessions.

Performance of main world equity markets

TABLE 1.1.1

		Change[1] (%)				
Stock market	**Contents**	**2014**	**2015**	**2016**	**2017**	**2018**
Developed countries						
United States	Dow Jones Ind. A.	7.5	-2.2	13.4	25.1	-5.6
United States	Nasdaq Composite	13.4	5.7	7.5	28.2	-3.9
United States	S&P 500	11.4	-0.7	9.5	19.4	-6.2
Japan	Nikkei	7.1	9.1	0.4	19.1	-12.1
United Kingdom	FTSE 100	-2.7	-4.9	14.4	7.6	-12.5
Euro area	Euro Stoxx 50	1.2	3.8	0.7	6.5	-14.3
Euronext	Euronext 100	3.6	8.0	3.0	10.6	-11.2
Germany	Dax 30	2.7	9.6	6.9	12.5	-18.3
Italy	Mib 30	0.2	12.7	-10.2	13.6	-16.1
Spain	Ibex 35	3.7	-7.2	-2.0	7.4	-15.0
Latin America, Asia and Eastern Europe						
Argentina	Merval	59.1	36.1	44.9	77.7	0.8
Brazil	Bovespa	-2.9	-13.3	38.9	26.9	15.0
Chile	IGPA	3.5	-3.8	14.2	35.0	-7.3
Mexico	IPC	1.0	-0.4	6.2	8.1	-15.6
Peru	IGBL	-6.1	-33.4	58.1	28.3	-3.1
South Korea	Korea Cmp Ex	-4.8	2.4	3.3	21.8	-17.3
Hong Kong	Hang Seng	1.3	-7.2	0.4	36.0	-13.6
China	Shanghai Composite	52.9	9.4	-12.3	6.6	-24.6
Russia	Russian RTS Index	-45.2	-4.3	52.2	0.2	-7.6

Source: Thomson Datastream. (1) In local currency.

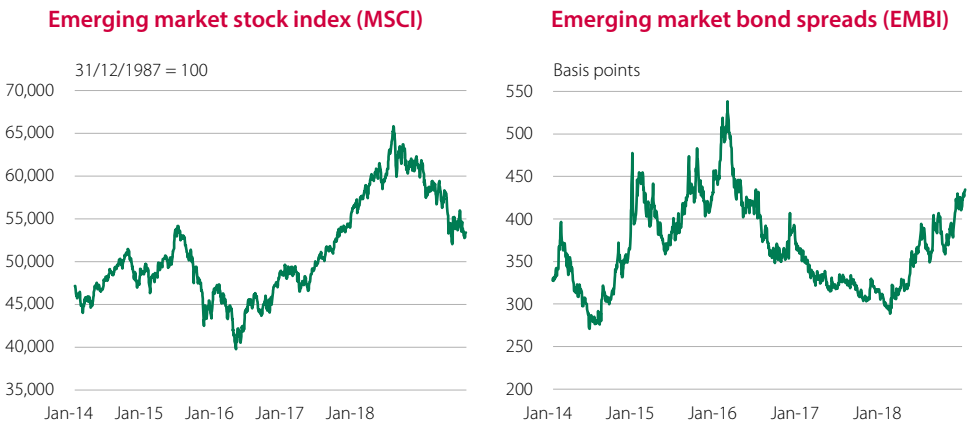
Throughout the year, the performance of emerging economies was marked by escalating trade tensions between China and the United States and the uncertainty seen in countries such as Turkey and Argentina. All of this led to notable rises in risk premiums and significant falls in stock market prices, particularly in the second half

of the year (the MSCI emerging market stock index fell by 8.7% over the third and fourth quarters). In 2018 as a whole, the MSCI index fell by 12.3% and the risk premium (EMBI) rose by 123 pb, to stand at 435 bp at the end of December (see Figure 1.1.13).

As shown in Table 1.1.1, the stock markets of emerging economies generally recorded significant falls in 2018. However, in Latin America, Brazil's Bovespa index gained 15% in the year, driven partly by the positive market reaction to Jair Bolsonaro's victory in the October general election. Particularly noteworthy in Asia, where significant losses were recorded in most stock indices, was the Shanghai Composite, which fell by 24.6% between January and December. The Russian RTS Index performed unevenly throughout the year. In the absence of major international economic sanctions, but with a drop in oil prices in the final stretch of the year, this index fell by 7.6% in 2018 as a whole.

According to figures published by the World Federation of Exchanges and the Federation of European Securities Exchanges, movements in trading volumes on leading stock markets and Multilateral Trading Facilities (MTFs) were uneven in the different geographical areas over 2018. In the United States, trading grew across the board, reaching a total of 45.6 trillion euros, approximately 35% up on 2017. Among the European platforms, the most notable increase was seen in the Deutsche Börse, with growth of 21.5% on the figure for 2017, followed by NYSE Euronext and Cboe Equities Europe, with growth of around 12%. Trading volumes in the markets of London and Japan also rose, but more moderately. At the opposite end was, once again, the Turquoise MTF, with a decline of over 23%, and BME, with a fall of approximately 9%.

Emerging economy financial markets FIGURE 1.1.13



Source: Thomson Datastream and Bloomberg.

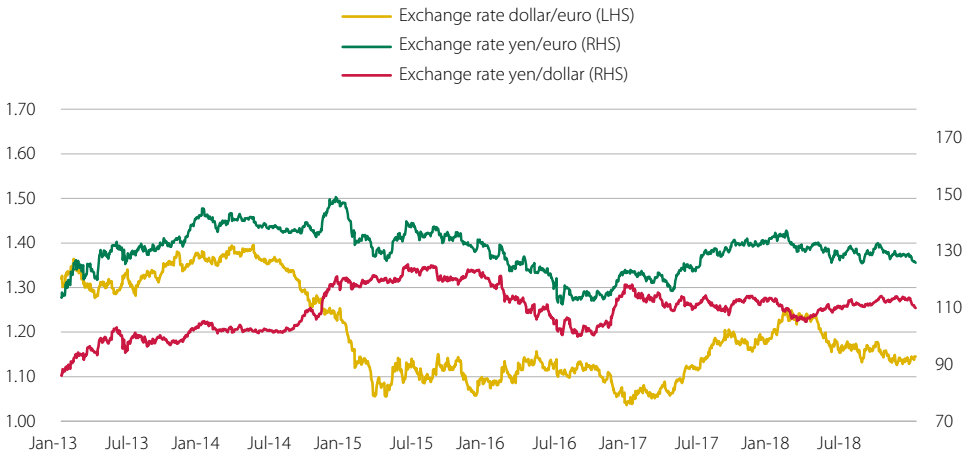
In the first few months of 2019, equity markets recovered a large part of the losses recorded in the previous year (in many cases, all the losses) after discovering the position of the ECB and the Federal Reserve, which are more willing to delay (in the case of the former) and to make more gradual (in the case of the latter) interest rate rises in the current context of a slowdown in growth. Certain progress in the negotiations on trade agreements between China and the United States and the fact that many companies recorded attractive share prices for a good number of investors, following the losses of 2018, also had a positive impact. In this context of rises

in equity prices, the leading stock markets generally recorded falls in trading volumes.[5] However, there are still various sources of uncertainty that make markets highly sensitive to the emergence of new information and occasional episodes of volatility cannot be ruled out, against a backdrop of a slowdown in global economic activity.

The rate hikes in the United States and uncertainties in Europe weigh on the price of the euro

In exchange markets, over the first few months of 2018, the euro appreciated against the major currencies, but it then mainly depreciated, although not very sharply. In relation to the US dollar, the exchange rate began the year at 1.20 dollars per euro and it remained above this figure for the first 4 months of the year, from when it began a downward trend to end the year at around 1.15. This change in the trend was influenced by, on the one hand, the appeal of the US dollar as a result of the higher yield of its assets and, on the other hand, the existence of various elements of uncertainty in Europe (Italy and Brexit), which weakened the price of the European currency. The euro/yen exchange rate followed a similar path to that of the dollar/euro rate over the year, with the consequent slight depreciation of the European currency. Between December 2017 and December 2018, the exchange rate dropped from 135 to 126 yen per euro.

Euro exchange rates against the dollar and the yen FIGURE 1.1.14



Source: Thomson Datastream.

1.1.3 Outlook and risks

According to the forecasts published in April 2019 by the IMF, global GDP growth will continue to slow this year and will stand at 3.3%, before rising slightly to 3.6% in 2020. Compared with its January report, the forecast for this year has been downgraded by 0.2 percentage points, while the forecast for 2020 remains the same. A large part of the slowdown in economic growth is due to trade restrictions, the loss of the impact of factors that had a positive effect in the past and the presence of

5 In some cases, the fall in trading in the first quarter of 2019 was over 15% year-on-year.

various sources of political and financial uncertainty. In the advanced economies, GDP is expected to grow by 1.8% this year (2.2% in 2018) with growth in the euro area of 1.3% (1.8% in 2018) and in the United States of 2.3% (2.9% in 2018). The emerging and developing economies are forecast to grow by 4.4% this year and by 4.8% next year (0.1 percentage points down on the previous forecast in both cases).

The most significant risks that loom over this scenario include the uncertainty about the future of trade negotiations between the United States and China, and the possibility that these might lead to an increase in global protectionism. There are also significant doubts about the development of some emerging economies. In Europe, there are still risks relating to the possibility that the United Kingdom might leave the European Union without a deal being reached between the two parties (hard Brexit) and risks resulting from the accumulation of financial imbalances in a prolonged environment of extremely low interest rates. These include the greater willingness of some participants to invest in higher risk assets and to raise their level of borrowing. These risks will continue in the short term, given the likely delay in the process of interest-rate rises by the ECB.

1.2 Spanish environment

The Spanish macroeconomic environment was favourable in 2018 as a whole. Although at a slower rate than in previous years, GDP and employment continued to grow, inflation remained under 2% for almost all the year (despite higher oil prices) and the public deficit fell below 3% of GDP. The different sources of uncertainty that were present in 2018, some of an economic or financial nature (trade agreements, problems of emerging economies and fiscal consolidation and energy) and others of a political nature (Brexit, Catalonia, etc.), had a relatively limited impact on Spanish economic activity, but they did have an effect on financial markets. Stock market indices were therefore affected by the falls in other global stock markets and risk premiums recorded slight temporary upturns.

Against this background, GDP grew by 2.6% in 2018 (3% in 2017), 0.7 percentage points more than in the euro area, in a year of economic slowdown and less synchrony among the leading economies. Despite the economic slowdown, the number of people in work rose by over 560,000 and therefore the average unemployment rate in 2018, although high, was almost 2 points down on 2017 and stood at 15.3% of the active population. The financial position of households continued to improve as a result of the increase in their incomes, the reduction in their debts and the increase in their wealth. However, their savings fell to historical lows, placing some of them in a vulnerable position in the event of a change in economic circumstances. Banks continued to face difficulties in increasing their profitability due to the low level of interest rates, although the rate of growth in lending was consolidated in some segments and there was a further fall in the NPL ratio.

In bond markets, yields remained relatively stable despite the prevailing uncertainties. Short-term yields underwent few changes, in line with the continuity of the monetary policy adopted by the ECB. The yields on longer-term government bonds, which benefited from the upgrades to their credit rating, fell in the early months of the year but then later recorded some rises at the times of greatest uncertainty in Italy, which also triggered temporary upturns in the risk premium. The balance for the year was practically neutral as yields ended December at very similar levels to those of 2017.

In equity markets, the Ibex 35 recorded a fall of 15%, similar to that reported in other leading European stock markets, in an environment of relatively low volatility and favourable liquidity conditions. The largest falls, although partially reversed during the early months of 2019 as a result of the good market performance across the board,[6] were recorded in the financial sector and in the consumer goods and services sector.

1.2.1 Economic environment

The Spanish economy grew by 2.6% in 2018 and widened the gap with the rest of the euro area

Spain's GDP grew by 2.6% in 2018, and therefore continued the growth that began in 2014, although at a somewhat lower rate than in previous years (3% in 2017 and 3.2% in 2016), in line with the environment of a slowdown in other economies. However, the slowdown in domestic growth was lower than in the euro area (where growth dropped from 2.5% to 1.8%, mainly as result of the poor performance of Germany), which raised the difference in growth from 0.5 percentage points (pp) to 0.7 pp.

Key variables of the Spanish economy (growth rates) TABLE 1.2.1

	2014	2015	2016	2017	2018
GDP	1.4	3.6	3.2	3.0	2.6
Private consumption	1.5	3.0	2.8	2.5	2.3
Government consumption	-0.3	2.0	1.0	1.9	2.1
Gross fixed capital formation, of which:	4.7	6.7	2.9	4.8	5.3
Capital goods	6.0	11.8	5.3	6.0	5.4
Exports	4.3	4.2	5.2	5.2	2.3
Imports	6.6	5.4	2.9	5.6	3.5
Net exports (contribution to growth, pp)	-0.5	-0.3	0.8	0.1	-0.4
Employment[1]	1.0	3.3	3.1	2.8	2.5
Unemployment rate (% of active population)	24.4	22.1	19.6	17.2	15.3
Consumer price index	-0.1	-0.5	-0.2	2.0	1.7
Current account balance (% GDP)	1.1	1.2	2.3	1.8	0.8
Public authority balance (% GDP)[2]	-6.0	-5.3	-4.5	-3.1	-2.5

Source: Ministry of Economy and Competitiveness, European Commission and Thomson Datastream. Annual change unless otherwise stated. (1) Full-time equivalent jobs. (2) Figures for 2015, 2016, 2017 and 2018 include government aid to credit institutions amounting to 0.1%, 0.2%, 0.04% and 0.01% of GDP, respectively.

The contribution of domestic demand to GDP remained constant at 2.9 pp in 2018, while the contribution of the external sector, which had not ended the year in negative numbers since 2015, stood at -0.4 pp (0.5 pp less than in 2017). With regard to the components of domestic demand, growth in public consumption picked up speed between 2017 and 2018 (rising from 1.9% to 2.1%), as did gross fixed capital formation (from 4.8% to 5.3%), while the growth in private consumption recorded

6 The Ibex 35 gained 11.4% up to 29 April.

a slight slowdown (from 2.5% in 2017 to 2.3% to 2018). With regard to the components of the external sector, both exports and imports recorded a lower rate of growth, affected by the situation of international trade. Imports grew by 3.5% (5.6% in 2017) and exports by 2.3% (5.2% in 2017). The sharper slowdown of the latter meant that the contribution of the external sector to growth was negative throughout last year.

On the supply side of the economy, stronger growth was recorded in the construction sector, whose value added grew by 6.8% in 2018 (6.2% in 2017), while slower growth was recorded in the industrial sector (including the energy sector, which grew by 1.2% compared with 4.4% in 2017. For its part, the services sector and the primary sector recorded growth in the year as a whole, with a noteworthy increase in the value added of the primary sector, which changed from a fall of 0.9% in 2017 to positive figures in 2018 (annual average of 1.8%). In the case of services, value added rose by 2.6% (2.5% in 2017) with a noteworthy increase of 2.3% in financial and insurance activities (0.4% in 2017).

The rate of inflation, which exceeded 2% in the middle months of 2018 as a result of the upturn in energy prices, later fell as energy inflation returned to normal.[7] The average inflation rate for the year stood at 1.7% (1.2% in December), while the core rate – IPSEBENE, which excludes the more volatile elements of the index, such as energy and unprocessed food – remained at much lower levels throughout the period (between 0.8% and 1.2%), recording an annual average of 0.9% (the same rate as in December). The inflation gap versus the euro area fluctuated at values close to 0 during the whole year to end at a slightly negative figure of -0.3 pp. The annual average of this gap was negligible, compared with an average of 0.5 pp in 2017.

In the job market, the buoyancy of the economy allowed employment to grow significantly, by 2.5% on average in 2018, but at a slightly lower rate than in previous years (2.8% in 2017 and 3.1% in 2016). Information from the Labour Force Survey (EPA) indicates that last year the number of employed people rose by 566,200 (2.42 million in the last 5 years) and that the unemployment rate fell to 14.5% in the fourth quarter (16.6% at the end of 2017). Furthermore, year-on-year growth in unit labour costs was slightly positive in 2018, as the increase in the remuneration per employee was somewhat higher than the increase in apparent labour productivity.

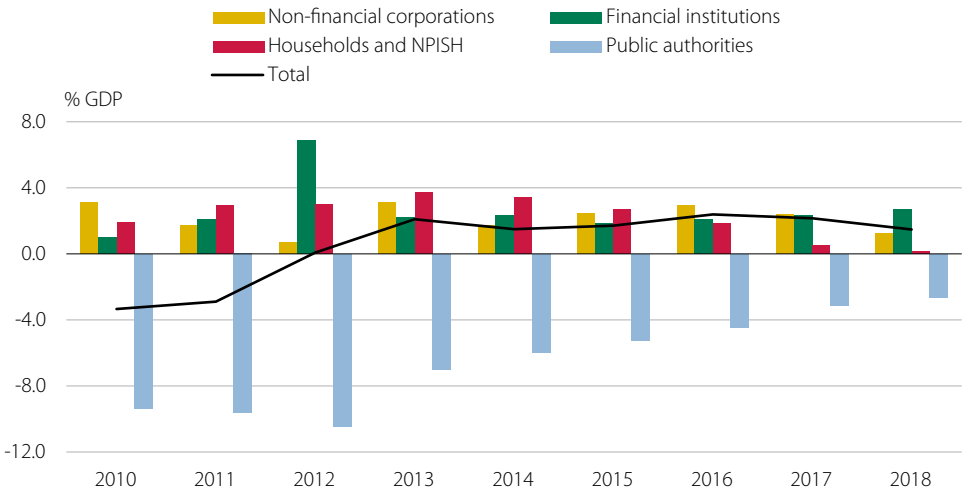
Public sector finances improved significantly in 2018 as a result of the growth in the economy and lower spending on servicing debt. The public deficit ended the year at a rate of close to 2.5% of GDP (3.1% in 2017), which is therefore compatible with Spain leaving the excessive deficit procedure which it has been subject to since 2009. All levels of public authorities that require financing reduced the amount borrowed. Particularly noteworthy was the fall in the deficit of the central government, which dropped from 1.9% in 2017 to 1.6% in 2018, and that of the regional governments, which stood at 0. 2% (0.4% in 2017). The deficit of the social security funds also fell, although to a lesser extent, dropping from 1.44% in 2017 to 1.41%. For their part, local authorities recorded a slight fall in their surplus, which slipped from 0.6% to 0.5% of GDP. Government debt stood at 97.1% of GDP (fourth-quarter data), recording very few changes since the middle of 2014.

7 The year-on-year rate of change in energy prices fell from 12.0% in September to 2.1% in December.

Net lending of the Spanish economy with regard to the rest of the world fell in 2018 to 1.5% of GDP

The recovery in the investment of the Spanish economy in a context of stable savings led to a slight fall in its lending, which stood at 1.5% of GDP in 2018 (2.2% of GDP in 2017). By sector, net borrowing by the public authorities fell, for the sixth consecutive year, in line with the fall in the public deficit. The non-financial sectors of the economy recorded a fall in lending, which in the case of households was due to the fall in their savings rate. Lending by non-financial companies fell from 2.4% to 1.3% of GDP, in line with the recovery in gross fixed capital formation.

Net lending (+) / Net borrowing (-) of the Spanish economy FIGURE 1.2.1



Source: Bank of Spain.

The improvement in the financial position of households continues, but their savings rates remain at record lows

The latest data on the financial position of households reveal that both their savings rates and their debt-to-income and debt burden ratios continued to fall in 2018. The fall in the savings rate, which dropped from 5.5% of gross disposable income (GDI) at the end of 2017 to 4.7% in the third quarter of 2018, is the result of buoyant aggregate consumption in a context of only a marginal increase in remuneration per employee. The debt-to-income ratio fell from 100.2% of GDI at year-end 2017 to 98.3% in September 2018 as a result of both a reduction in the level of debt and an increase in the level of disposable income. The debt burden ratio fell slightly (from 11.5% of GDI to 11.4%) given the stability of the average cost of debt, at low levels in the context of growing income. Net household wealth rose in 2018 (from 542.6% of GDP to 553.1%) mostly due to the increase in the value of real estate assets. Financial wealth fell slightly to 182% of GDP.

Households' net financial investments rose to 1.9% of GDP in 2018[8] (1.5% in 2017), maintaining the trend of previous years, but with amounts that were generally smaller. Households continued investing in payment instruments (4.2% of GDP)

8 Cumulative data from four quarters, up to the third quarter of 2018.

and reducing their investments in term deposits and bonds (3.5% of GDP) and in shares (1.4% of GDP). Households once again purchased units in mutual funds, although for a slightly lower amount than in previous years, probably as a result of market turmoil at the end of the year. In total, they invested in these products a volume of resources equivalent to 1.8% of GDP (2.4% in 2017).

Unit-holders in mutual funds continued to prefer higher-risk categories, thus following the trend of recent years, although volumes were much lower as the investor profile changed in the final part of the year, coinciding with the periods of sharp stock market falls, which led to higher risk aversion and greater preference for more conservative categories. In 2018 as a whole, these most conservative categories recorded net redemptions of close to 6.8 billion euros, while higher-risk categories received a significant inflow of investment (close to 17.6 billion euros in total). Among the latter category, there was significant investment in global funds (over 9.4 billion euros). Net subscriptions in equity funds (mixed, euro and international) ranged between 1.79 billion euros and 3.86 billion euros depending on the category.

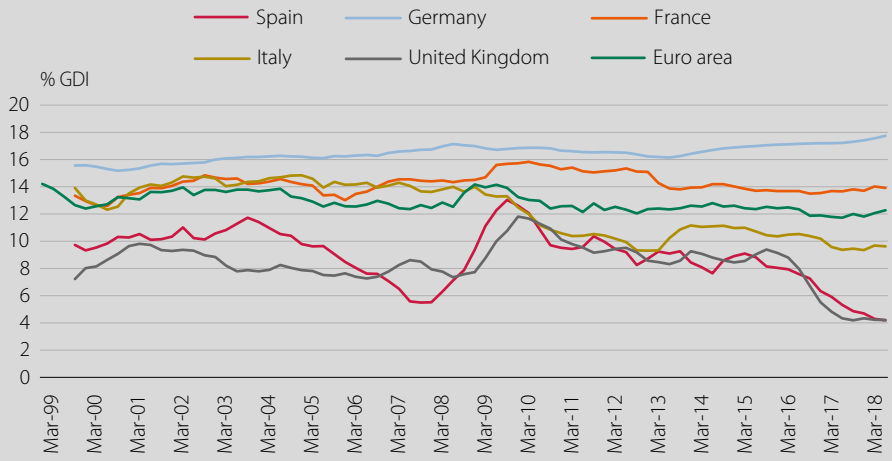
Latest trends in savings and investment decisions of Spanish households

EXHIBIT 1

The saving, borrowing and investment decisions of the agents of an economy are decisive for shaping a country's productive economy model and also the level of development of its financial markets. This Exhibit presents the most important trends of the decisions taken by Spanish households compared with those of comparable countries and suggests possible explanations for the differences found.

Savings rate

FIGURE E1.1



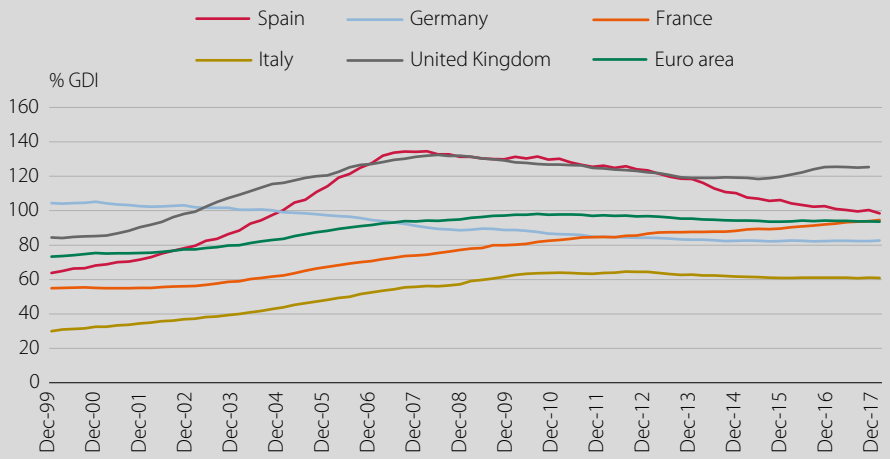
Source: Thomson Datastream.

As shown in Figure E1.1, in the time period under consideration (since 1999), the savings rate of Spanish households has been systematically lower than the average for the euro area and most of the European countries analysed. This trend has continued even at times of rises in precautionary savings following the financial crisis of 2008. Data for the third quarter of 2018 indicate

that savings stood at 4.2% of Gross Disposable Income (GDI), compared with 12.3% in the euro area. In parallel with this low level of saving, Spanish households borrowed significantly more than European households until the start of the crisis (see Figure E1.2), when the gap between both reached 40 pp of GDI (134% in Spain and 93% in the euro area). This borrowing was mainly used to acquire non-financial assets (in particular, housing) as opposed to other assets.

It may be argued that before the crisis there was a series of factors which allowed and even intensified these trends: i) the economy was growing strongly and rising incomes led to households making more ambitious investment decisions; ii) the fall in interest rates following Spain joining the euro area together with a sharp increase in the supply of credit significantly boosted borrowing by the private sector; and iii) the existing tax system encouraged the acquisition of housing rather than other assets and as opposed to the option of renting. Following the crisis, the bursting of the real estate bubble and the significant increase in unemployment, Spanish households began a sharp process of debt reduction, which now places the level of household debt at rates very close to the average for the euro area, while the saving rate has once again returned to historic lows. Part of the reduction in savings might be associated with the high number of low-income households, whose saving capacity is very limited. There may also be a significant number of households that had postponed the consumption of certain durable goods during the crisis that they can now afford.

Debt ratio FIGURE E1.2

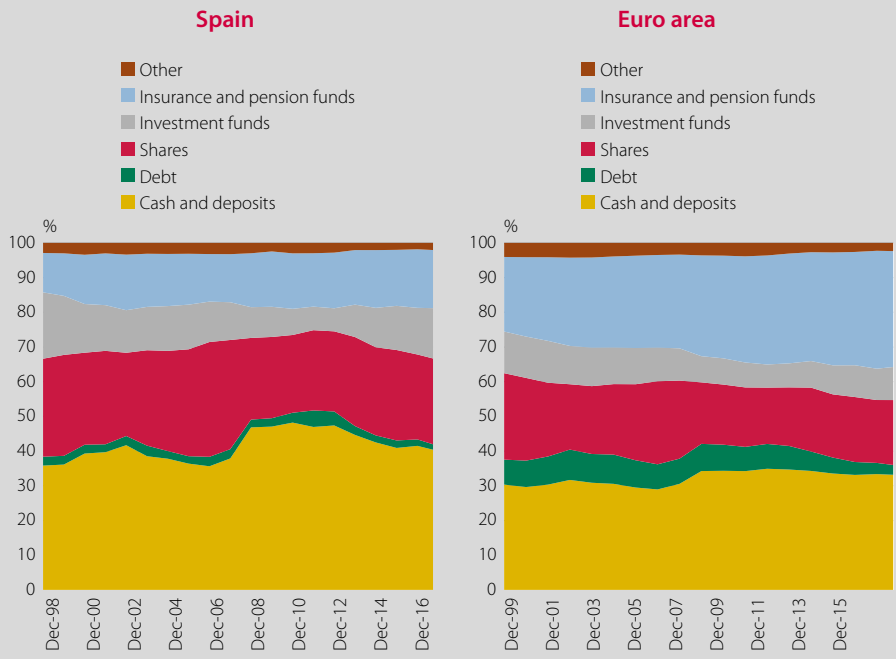


Source: Thomson Datastream.

It can be deduced from the behaviour of households that their resources have come from small domestic savings and larger debt, and that these have mainly been used to acquire real estate assets, while investment in financial assets has been much less significant. In aggregate terms, Spanish households have a level of wealth that is higher than the average in the euro area, but this is exclusively the result of the greater weight of real estate assets (453% of GDP in Spain compared with 271% in the euro area), with (net) financial assets accounting for 95% of GDP, compared with 130% in the euro area. With

regard to households' investment and financial assets, it is observed that the volume of investment by Spanish households in financial assets was lower than the euro area average throughout the period considered (between 25 and 30 pp of GDP). However, the composition of the financial assets is not significantly different, although the relative importance of cash and deposits and investment in shares and mutual funds is somewhat higher in Spain. In contrast, investment in insurance and fixed-income assets is lower (see the panels of Figure E1.3).

Breakdown of the balance of financial assets by asset class FIGURE E1.3



Source: ECB.

It is possible that an economy in which households systematically save little, borrow more and demonstrate a clear preference for real estate assets brings favourable consequences in the short term, generated by higher growth (based on the strength of consumption). However, there would be an imbalance between domestic and foreign demand and growth would be somewhat biased towards construction and real estate activities, which are less productive sectors. The consequences seem to be more unfavourable in the medium and long term to the extent that this context favours the accumulation of certain financial imbalances (excess leverage) and the formation of (real estate) asset price bubbles, which may be unsustainable at a particular time and generate negative effects on economic agents and growth. This preference for home ownership may also lead to a less mobile labour supply within the country itself. Finally, this model leads to less developed financial markets, which has clear effects on the economic development of any country.

Looking ahead, it would be desirable for Spanish households' savings to be somewhat higher and for their investments to be more balanced between real estate assets and financial assets. This would allow, *inter alia*, more developed financial markets and, in the medium term, higher economic growth.

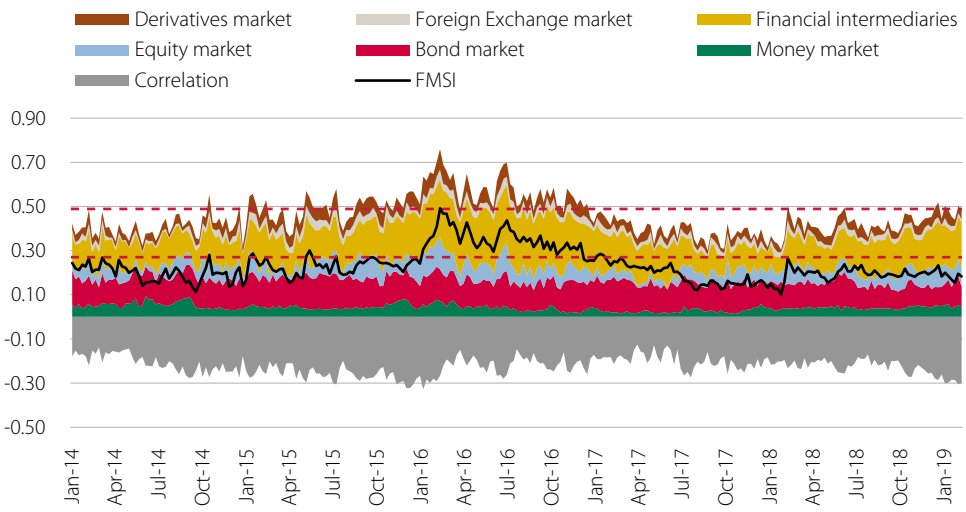
However, this process has at least two short-term limitations: i) the high proportion of low-income households, which are unable to increase their savings and are more vulnerable in financial terms and ii) the level of financial literacy of certain strata of the population, which is a decisive factor in their saving, borrowing and investment decisions. Finally, it is important to note the major challenge that is already present in society resulting from the ageing of the population in Spain. It may be assumed that this process will take on increasing importance in households' financial decisions and that it is likely to have a positive impact on capital markets.

1.2.2 Financial environment

The financial market stress index remained at very low levels, although with occasional small upturns throughout the year

The Spanish financial market stress index remained low throughout practically the whole year, standing at 0.18 at the end of December (stress is considered to be low at under 0.27). The indicator recorded small upturns throughout 2018, such as that recorded in February (to 0.27), due to the turmoil in US markets or, later on in the year, those of June and October (to 0.24 and 0.22, respectively), which were related to doubts about public finances in Italy and, to a lesser extent, other sources of uncertainty (the so-called "trade war", tensions in emerging economies and regulatory uncertainty). The highest stress level has generally been found in the financial intermediary segment, which was affected by the prolonged fall in share prices of banks, and in the fixed-income segment due to occasional upswings in volatility and the loss of liquidity of these instruments. This index, which the CNMV has published since 2017, is based on information on risk spreads, volatility, liquidity and, in addition, sharp falls in prices. It therefore measures the current stress in the market which, as in the rest of Europe, is very low, but it does not forecast future stress.

Stress index of Spanish financial markets[1] FIGURE 1.2.2



Source: CNMV. (1) For further information on the methodology of this index see Cambón M.I. and Estévez, L. (2016). "A Spanish Financial Market Stress Index (FMSI)". *Spanish Review of Financial Economics*, Vol. 14, No. 1, pp. 23-41, or as CNMV Working Paper No. 60 (http://www.cnmv.es/portal/Publicaciones/monografias.aspx).

Bond yields underwent few changes in the year with only an occasional temporary upturn in longer-term bonds as a result of the doubts about Italy

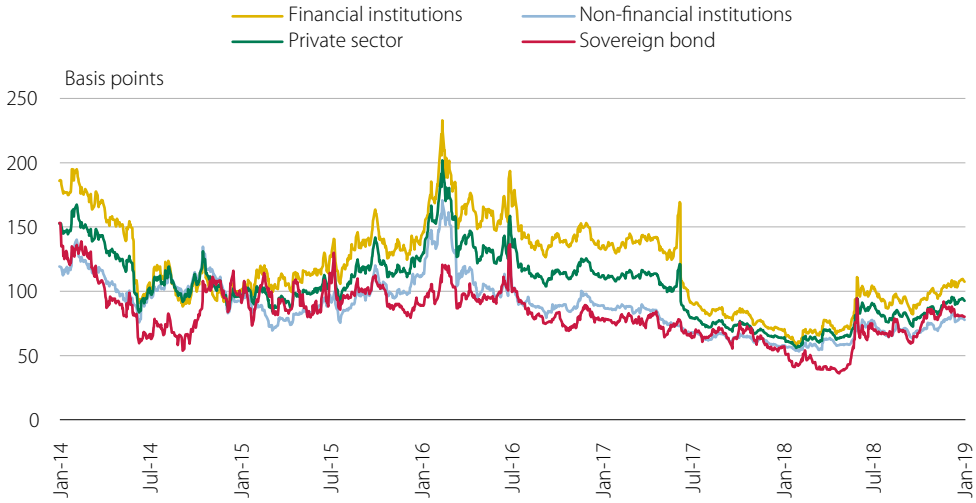
In domestic bond markets, short-term government bond yields recorded few changes in 2018, in line with the ultra-expansive monetary policy maintained by the ECB. These yields ended the year at figures that were slightly less negative than in 2017, although they remained close to historical lows. In particular, the 3-month, 6-month and 12-month yields on Spanish Treasury Bills stood at -0.55%, -0.42% and -0.37%, respectively, above the values for year-end 2017 (-0.62%, -0.54% and -0.47%, respectively). Medium and long-term yields recorded substantial falls in the early part of the year as a result of the improvement in the credit rating of the sovereign bond.[9] Subsequently, the times of greater uncertainty relating to the sustainability of the public accounts in Italy and the failure to reach an agreement with the European Union and, to a lesser extent, other events, led to small rises in the yield on the 10-year bond, which rose from lows of close to 1.15% in March to levels of over 1.6% at the end of May and to 1.75% in October. At the end of the year, the narrowing of the differences between Italy and the European Union and the outlook of a sharper-than-expected slowdown in the economy, with its likely effects on monetary policy, led to falls in the yields on long-term debt, which in the case of the 10-year bond closed the year at 1.42%, 15 bp below the figure for year-end 2017 (1.57%).

The sovereign credit risk premium recorded temporary upturns in 2018 as a result of the aforementioned uncertainties and recorded an annual high of 134 bp in May. It then dropped significantly to a low of under 90 bp in June and, in the final part of the year, after recording some ups and downs relating to doubts about Italy, ended the year at 118 bp, 4 bp up on year-and 2017. The performance of risk premiums in the private subsectors of the economy was more unfavourable than in the public sector, particularly the risk premium of financial institutions, which grew over practically the whole year. This indicator was negatively affected by some banks' exposure to emerging economies with problems (Turkey or Argentina), by the difficulties in increasing their net margin in the current context of low interest rates and by some regulatory and tax uncertainties. Thus, the average CDS of Spanish financial institutions at the end of December stood at 108 bp, above the 70 bp at the start of the year, and the average for non-financial companies stood at 78 bp, compared with 58 bp at the start of the year.

In a context that is favourable to fixed-income issues, and despite the efforts by the authorities and market infrastructures to facilitate and lower the cost of issues in national markets, companies have continued to replace their issues in Spain by issues abroad. Corporate bond issues registered with the CNMV fell by 8% over the year to 101.08 billion euros, while those performed abroad grew by 5.4% to 89.36 billion euros. However, issues registered with the CNMV recovered in the fourth quarter thanks to several issues of mortgage bonds and of asset-backed securities and, above all, to an issue of bonds of the SAREB (Asset Management Company for Assets Arising from Bank Restructuring) for an amount of close to 30 billion euros.

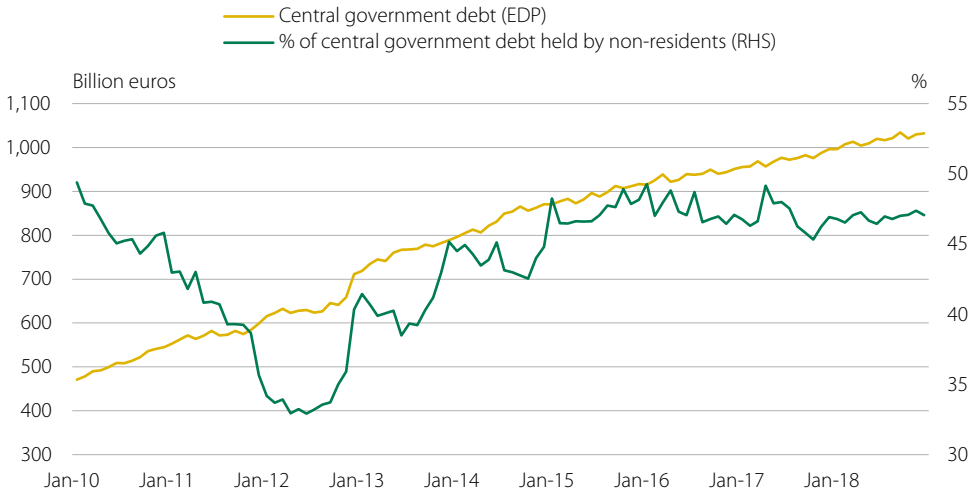
9 At the end of March, S&P upgraded the rating of the Spanish sovereign bond from BBB+ to A- (with a positive outlook) and, in April, Moody´s raised it from Baa2 to Baa1 (stable outlook).

Risk premium paid by Spanish issuers[1] FIGURE 1.2.3



Source: Thomson Datastream. (1) Credit derivatives market. 5-year maturity. Simple average, except for Spanish sovereign CDS.

Central government debt and non-resident holdings FIGURE 1.2.4



Source: Bank of Spain.

The Alternative Fixed-Income Market (MARF), which is mainly used for funding SMEs through the issuance of fixed-income securities and is focused on institutional investors, continued to grow in 2018. The nominal amount issued in 2018 stood over 6.37 billion euros, an increase of 60% on the previous year. Most of this amount corresponded to commercial paper issues (85%) made by 28 companies, including large companies such as El Corte Inglés, Elecnor, Grupo Barceló or Sacyr. Trading of securities listed on the MARF continued to primarily be carried out on a bilateral basis.

The low interest rate environment continued to weigh on bank profits, although the NPL ratio continued to fall

Pending increases in official interest rates (which are likely to be delayed in view of the slowdown in economic growth in the euro area), the bank sector continues to

operate in an environment of low interest rates which prevent significant improvements in the net interest margin and to face some structural changes, such as increasing competition from FinTech companies. On a positive note, it is important to highlight the fact that the buoyancy of the economy and the favourable performance of the job market continue to allow falls in the NPL ratio, which stood at 5.8% in December (7.8% at the end of 2017), where it stands at the lows recorded in March 2011.

Bank income statements show that their activities in Spain led to a profit of 12.38 billion euros in 2018 (losses of 3.92 billion euros in 2017, as a result of the losses of Banco Popular, which are estimated at 12 billion euros). As mentioned above, bank profits are still restricted by the context of low interest rates, which prevents them from improving their net interest margin, which stood at 23.28 billion euros in 2018 (23.23 billion euros in 2017). Operating expenses fell slightly to 25.99 billion euros in 2018 (26.67 billion in 2017). It was therefore the significant improvement in impairment of financial assets and other assets that marked the sharp growth in aggregate profit for the sector (which was the highest recorded since 2009).

Bank lending to the non-financial resident sector (companies and households) continued to grow slightly in 2018 and exceeded the rate of growth recorded in 2017. Lending to non-financial companies rose by 1.2% in December (0.4% in the same month of 2017), due to the growth in borrowing through securities other than shares (9.4%) and foreign loans (4.3%). In contrast, borrowing through loans from resident credit institutions fell by 2.0%. Lending to households rose by 0.15% in December, thus reversing the trend of recent years (-1.3% and -0.6% in 2016 and 2017, respectively). The expansion of consumer lending (4.8%) offset the fall in the outstanding balance of home purchase loans.

The size of the banking sector, in terms of the aggregate volume of assets from its activity in Spain, fell in 2018 to 2.58 trillion euros (2.65 trillion euros in 2017), thus resuming the downward trend that began in 2012 but was temporarily interrupted in 2017. Some of the most important sources of funding, such as deposits from resident households and companies or borrowing from the Eurosystem,[10] recorded falls. Bank equity recorded a slight fall in 2018, which was much sharper in the item that includes the provisions to cover impairment losses of both loans and other assets.

The profits of non-financial listed companies fell in 2018 as a result of the poor performance of a few companies

Non-financial listed companies obtained aggregate profit of 22.15 billion euros in 2018, 34% down on 2017. This performance was uneven between sectors and companies as, if the unfavourable performance of 4 companies[11] (out of a total of 119) is discounted, the total aggregate profit would have grown by 4.9%, which would be more in line with the buoyancy of the domestic economy. By sector, the largest

10 Borrowing from the Eurosystem (deducting the amount of the debt purchase programmes) at the end of 2018 amounted to 143 billion euros (164 billion in 2017).

11 Naturgy (energy), Abengoa (retail and services), OHL and Ferrovial (both from the construction and real estate services sector).

increases took place in industrial companies, whose profits grew by 8.4% in the year to over 5.7 billion euros and in companies from the retail and services sector (deducting the figures of Abengoa), which recorded profit growth of 7.8%. The consolidated profit for the year of energy sector companies grew by 4.2%.[12] Construction and real estate companies recorded a significant fall in aggregate profit that was also concentrated in a small number of companies,[13] although the performance of their accounts was more evenly spread (profits fell even after deducting those of the largest companies).

Profit by sector: non-financial listed companies TABLE 1.2.2

Million euros

	Operating profit		Profit before tax		(Consolidated) profit for the year	
	2017	**2018**	**2017**	**2018**	**2017**	**2018**
Energy	11,562	9,571	10,043	7,739	9,727	5,773
Industry	7,491	7,560	6,753	7,162	5,269	5,714
Retail and services	15,158	15,959	17,651	12,669	13,588	8,540
Construction and real estate	5,877	5,370	4,958	4,397	5,009	2,124
Aggregate total	**40,088**	**38,460**	**39,405**	**31,967**	**33,593**	**22,150**

Source: CNMV.

The aggregate debt of non-financial listed companies recorded very little change in 2018, with an increase of 0.7% to a little over 230 billion euros. This increase was the result of growth in the debts of retail and services companies, which rose from 81.19 billion euros in 2017 to 84.87 billion euros in 2018 and, to a lesser extent, industrial companies (from 19.71 billion euros to 21.13 billion euros). In contrast, the debt level of energy companies and construction and real estate services companies fell over the year a whole. The aggregate leverage ratio, measured as the debt to equity ratio, barely changed in 2018, rising from 0.97 to 0.98. At the end of the year, the lowest ratio corresponded to industrial companies (0.57) and those related to the energy business (0.73). Lastly, the debt coverage ratio, measured using the ratio of debt to operating profit, worsened slightly as a result of the aforementioned fall in margins.

The Ibex 35 fell by 15% in 2018, in line with other European stock markets, affected by several sources of international and domestic uncertainty

In domestic equity markets, the Ibex 35 ended the year with significant falls (15%, in line with the performance of most leading European markets, as indicated in Section 1.1) as a result of several uncertainties discussed above, including the exposure of Spanish companies to Italian debt assets and to several emerging economies with difficulties, the restrictions on global trade, doubts about the withdrawal agreement of the United Kingdom to leave the European Union and some fiscal and regulatory uncertainties. By sector, there were gains in the oil and energy sector, while the losses were concentrated in companies from the financial sector and from the services and consumer goods sectors.

12 Excluding Naturgy's losses, which were close to 2.6 billion euros in 2018.

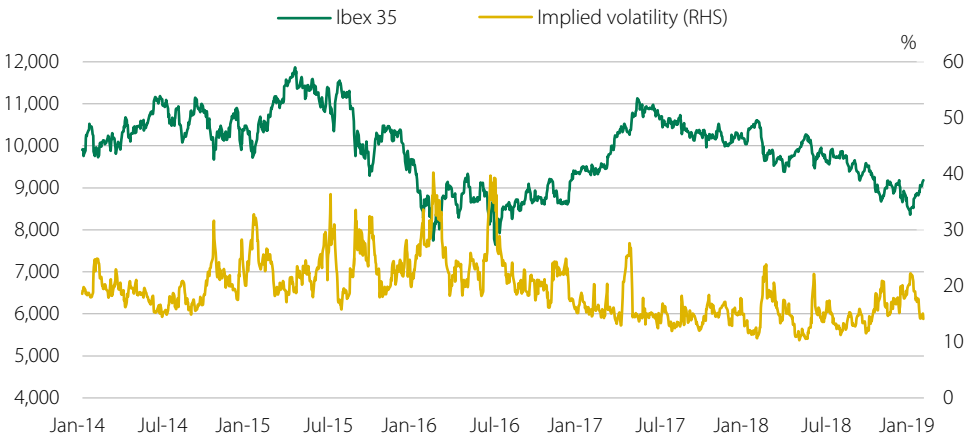
13 OHL, Ferrovial and Colonial.

Small-cap companies, which had performed well in the first half of the year, fell sharply and recorded losses for 2018 as a whole as a result of the possible repercussion that the slowdown in the Spanish economy might have on their accounts and the difficulty to offset this with business abroad. The indices representing Latin American shares that are listed in euros also recorded significant gains in 2018 in an environment of high volatility of some exchange rates of Latin American currencies with regard to the euro (the FTSE Latibex All-Share and FTSE Latibex Top indices gained 10.3% and 14.8%, respectively).

Stock market capitalisation fell for the first time following 6 straight years of growth to an amount of approximately 593 billion euros, 15% down on the previous year. The reduction was mainly due to the fall in share prices, supported by the lower amount of funds raised through capital increases (7.39 billion euros, 71% down on 2017).

As in other leading international stock markets, the volatility of the Ibex 35 remained low throughout the year. Despite market turmoil in the first and last quarters of the year, which gave rise to temporary upturns in volatility, the values reached were lower than those recorded at other times of uncertainty. At the end of the year, the implied volatility of the Ibex 35 stood at levels of slightly over 20%, in line with the average recorded between 2016 and 2017, but still below its historical average. Against this backdrop, trading of Spanish shares exceeded 930 billion euros in 2018 (0.2% down in year-on-year terms), of which almost 580 billion euros corresponded to the Spanish regulated market (8.5% down) and 351 billion euros corresponded to competing Multilateral Trading Facilities (MTFs) and regulated markets, which allowed them to reach a record market share (37.4%) of trading subject to market rules (28.1% and 31.7% in 2016 and 2017, respectively).[14]

Ibex 35 performance and implied volatility[1] FIGURE 1.2.5



Source: Thomson Datastream.

The Ibex 35, which had reached lows of under 8,400 points at the end of 2018, recovered to 9,500 in the early months of 2019.[15] Despite the prolongation of some sources of uncertainty and market sensitivity to the appearance of information that was not in line with analysts' expectations, many companies had attractive share

14 Data on trading subject to market rules (lit and dark).
15 Data to 29 April.

prices due to the sharp falls in the last quarter of the previous year and, therefore, purchases predominated. The rise in the index in the year (11.4%) was similar to that of the UK index (10.6%), but lower than that of other benchmark European indices, which gained between 16% and 18%.

Performance of Spanish stock market indices and sectors TABLE 1.2.3

%

	2014	2015	2016	2017	2018
Indices					
Ibex 35	3.7	-7.2	-2.0	7.4	-15.0
Madrid	3.0	-7.4	-2.2	7.6	-15.0
Ibex Medium Cap	-1.8	13.7	-6.6	4.0	-13.7
Ibex Small Cap	-11.6	6.4	8.9	31.4	-7.5
FTSE Latibex All-Share	-16.1	-39.2	71.0	9.0	10.3
FTSE Latibex Top	-11.1	-34.6	67.8	7.3	14.8
Sectors[1]					
Oil and gas	-9.8	-21.0	32.7	-11.9	-1.5
Chemical	-17.1	56.7	198.2	55.4	8.8
Basic materials	17.8	-8.5	24.0	26.1	-10.0
Construction and construction materials	9.9	6.3	-4.3	15.8	0.2
Industrial goods and services	-1.4	9.1	8.4	29.8	-12.8
Healthcare	1.1	23.9	-7.8	12.9	-3.6
Utilities	27.3	7.9	-0.7	3.1	12.0
Banks	8.1	-22.7	-1.1	11.9	-28.1
Insurance	-9.2	-5.1	15.5	0.1	-12.8
Real estate	46.3	12.6	-5.0	15.6	-8.3
Financial services	5.3	-2.7	-1.3	7.3	-7.5
Telecommunications and media	3.8	-8.2	-8.3	-3.2	-11.9
Consumer discretionary	-0.1	29.7	3.1	-9.5	-23.4
Consumer staples	-7.8	5.5	-6.0	-1.0	-35.7

Source: Thomson Datastream. (1) Thomson Datastream classification.

1.2.3 Outlook and risks

According to the IMF's forecast published in April this year, the GDP of the Spanish economy will grow by 2.1% in 2019 and by 1.9% in 2020. These forecasts were 0.1 percentage points down for 2019 and the same for 2020 compared with the previous forecasts published in January and, therefore, fell outside the IMF's generalised downgrades in growth forecasts for the most important economies. With these figures, the growth differential between Spain and the euro area would stand at 0.8 percentage points this year and 0.4 points next year (0.8 pp on average between 2016 and 2018).

The most significant risks to the national economic outlook relate to: i) the need to further consolidate the public accounts and, in particular, reduce the level of public debt; ii) the high, although falling, unemployment rate, together with the challenges resulting from the ageing population; iii) the possible prolongation of the political uncertainty resulting from both parliamentary fragmentation and the conflict in Catalonia; and iv) the negative impact on the business of Spanish exporters with greater exposure to markets with trade restrictions and also to those which are suffering a sharper slowdown in demand.

The most important financial risks include those relating to the maintenance of interest rates at low levels for longer than expected a few months ago, in view of the intensity of the economic slowdown in the euro area. This environment will continue, on the one hand, to apply downward pressure on bank profits and, on the other hand, to encourage borrowing by agents and the search for yield. Neither should the triggering of occasional episodes of turmoil in financial markets be ruled out as a result of any of the existing sources of uncertainty (for example, the possibility of a hard Brexit).

The creation of a macro-prudential authority in Spain (AMCESFI)

EXHIBIT 2

The aim of macro-prudential policy is to preserve the stability of the financial system as a whole by strengthening its resilience and mitigating systemic risks. Policies related to financial stability have traditionally been focused on the banking system, placing special emphasis on the size of banks. However, the last financial crisis revealed that other agents and activities performed outside the banking business might be a source or a channel for transmitting systemic risk in certain circumstances. Since then, and following the recommendations of the G20, national authorities and international institutions have been working on improving the resilience of activities and entities related to non-bank financial intermediation (previously known as shadow banking) and on building an institutional and regulatory framework for detecting and analysing systemic risks that will include all segments of the financial system. At a European level, this work resulted in the European Systemic Risk Board (ESRB) being set up in 2011, responsible for macro-prudential oversight of the European Union's financial system and for preventing and mitigating systemic risk.

In 2011, the ESRB issued a recommendation[1] that called on EU countries to designate an authority responsible for macro-prudential oversight. This recommendation was justified as a result of the improvement in the effectiveness of macro-prudential policy as the responsibility for taking measures to maintain financial stability was placed at a national level. In addition, in its latest review of the Spanish financial system,[2] the IMF also indicated, among other aspects, that Spain should establish a Systemic Risk Council for inter-agency coordination on systemic risk factors, surveillance, and system-wide financial sector policies. Following the recommendation by the ESRB, most Member States of the European Union (with the exception of Italy) have established their macro-prudential authorities in recent years. They have done this by creating a new authority with the participation of the pre-existing supervisory authorities or, in many cases, by designating the central bank as the authority, or by setting up an inter-agency cooperation structure with a leading role for the central bank or the pre-existing integrated supervisory authority.

Although the formal creation of an actual macro-prudential authority in Spain began in the final months of last year, there already was a committee with similar functions to those planned for the new macro-prudential authority. This precursor committee, which was called CESFI (Financial Stability Committee), was set up in 2006 and was made up of members representing

the Bank of Spain, the CNMV and the Directorate-General for Insurance and Pension Funds, and the Ministry of Economy. The CESFI met frequently during the most complicated years of the sovereign debt crisis in Europe but was then inactive for several years. The CESFI met again in June 2018 under the authority of the Minister for Economy and Business, and gave its full support for her initiative to set up a proper macro-prudential authority in Spain, following the recommendations of the ESRB and the IMF.

A draft Royal Decree creating the Macro-prudential Authority Financial Stability Board (AMCESFI) was published at the end of 2018. This draft Royal Decree was submitted to public consultation until 26 December and finally approved on 1 March.[3] According to the content of this Royal Decree, the AMCESFI, which has held its first meeting in April, seeks to improve the coordination of macro-prudential oversight at a national level and help to prevent or mitigate systemic risks, which should help the financial system to support rather than hamper economic growth. The Authority is made up of a Board, a Technical Committee as support body and the sub-committees that the Board decides to create. The Board is made up of the Minister for Economy and Business, who acts as chairperson, the Governor of the Bank of Spain, who takes on the vice-chair, the President of the CNMV, the Deputy Governor of the Bank of Spain, the Vice-President of the CNMV, the State Secretary for Economy and Support for Business, and the Director-General for Insurance and Pension Funds. The Deputy Governor of the Bank of Spain acts as chairperson and the Secretary-General for the Treasury and International Financing acts as vice-chairperson of the Technical Committee. All bodies are granted the possibility of inviting other public authorities to attend, such as the Fund for Orderly Bank Re-structuring (Spanish acronym: FROB) and the Independent Fiscal Responsibility Authority.

The AMCESFI's mission is, firstly, to monitor and analyse those factors that might affect systemic risk and, secondly, to issue the opinions, warnings and recommendations that it deems appropriate in view of its prior analyses. It may also make macro-prudential policy recommendations to supervisors for them to take specific measures. The recipients of the Authority's recommendations must explain how they will comply with them or provide appropriate justification, as the case may be, of the reasons why they deem it unnecessary or inappropriate to follow them. Supervisory powers are maintained by the competent national authorities that have exercised them to date, which have more information and experience in monitoring the supervised entities. Their independence is therefore respected.

In addition, sector supervisors must inform the AMCESFI in advance about their intention to activate, recalibrate or deactivate any of their macro-prudential tools. In particular, they must report on measures relating, for example, to capital buffer requirements, the establishment of limits to sectoral concentration, the setting of conditions for the granting of loans and other operations, or the application of higher risk weightings for real estate exposures. The measures falling under the remit of the CNMV include the suspension of redemptions of collective investment scheme units, decisions aimed at strengthening the level of liquidity of collective investment schemes and the banning or restriction of short selling. A few months before this,

Royal Decree-Law 22/2018, of 14 December, establishing macro-prudential tools, had granted additional powers to the Bank of Spain, the CNMV and the Directorate-General for Insurance and Pension Funds to address possible risks to the Spanish financial system from a macro-prudential perspective. In the specific case of investment funds, the CNMV is granted the power to set, in certain circumstances, liquidity requirements for collective investment schemes and undertakings.[4]

Finally, in order to contribute towards maintaining financial stability within the European Union, the requirement to cooperate with the macro-prudential authorities of other Member States as well as with the competent European institutions is regulated. The AMCESFI will be accountable through the preparation of an annual report and the appearance of the Authority's chairperson before the corresponding committee of the Lower House of Parliament.

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1 Recommendation of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3). https://www.esrb.europa.eu/pub/pdf/recommendations/ESRB_2011_3.en.pdf?da108dbb14efccdf98f4544534e2ef4e

2 Spain Financial System Stability Assessment. IMF Country Report No. 17/321. This assessment is part of bilateral surveillance under Article IV of the IMF's Articles of Agreement.

3 Royal Decree 102/2019, of 1 March, creating the Macro-prudential Authority Financial Stability Board, establishing its legal regime and implementing certain aspects relating to macro-prudential tools.

4 Royal Decree-Law 22/2018, of 14 December, establishing macro-prudential tools.

2 Markets and issuers

2.1 Equity markets

Share prices on Spanish equity markets followed a downward path for much of the year 2018, which worsened in the second half, leading the Ibex 35 to close the year with losses of 15%, which were spread across most sectors. In this context, equity market capitalisation fell as the amount of funds raised through capital increases was the lowest figure in recent years and insufficient to offset the falls in share prices. In addition, the unfavourable performance of stock markets limited the number of new companies going public.

Trading of Spanish shares remained stable in 2018, with a rearrangement between the activity on national markets, which fell following the slight recovery in 2017, and the activity on other regulated markets, multilateral trading facilities and competing trading venues, which continued to rise. This growth led to the market share of the latter standing close to 37% at the end of 2018 when taking total trading into account (lit plus dark).[1, 2]

2.1.1 General overview

The Spanish equity markets started 2018 with significant falls, following on from the downward trend of the second half of 2017, in the expectation that the first steps to normalise European monetary policy would start to be taken shortly, following the path set by the Federal Reserve.[3] Subsequently, the announcement of protectionist measures by the Trump Administration increased fears of a trade war between the United States and China[4] and the rise in political uncertainties in Europe prevented a substantial recovery in prices. In this context, the Ibex 35 fell by 4.4% in the first quarter and ended the second quarter with hardly any changes.

The weak market performance in the first half of the year worsened along the second half as the aforementioned uncertainties were compounded by tensions between the Italian government and the European Union with regard to the Italian budget, the problems of some emerging economies where Spanish companies hold significant economic interests and, at the end of the year, the fear of a slowdown in the world economy and doubts relating to Brexit. The Ibex 35 fell by 2.4% in the third quarter and by a further 9% in the fourth. This raised the annual losses to 15%,

1 Both type of trading (lit plus dark) are subject to market rules but to different transparency regimes, less demanding for dark trading.

2 Only taking lit trading into account, the market share of the competing trading venues stands at 38%.

3 The Federal Reserve has raised interest rates nine times in a row since 2015. For further details about the monetary policy decisions of the leading central banks, see Heading 1.1.

4 The first measure of the trade war was the United States and China establishing a series of reciprocal tariffs.

in line with the European Eurostoxx 50 index and with other European benchmark indices,[5] with the exception of the German Dax 30, which recorded the worst performance of them all.

The implied volatility of the Ibex 35 remained low for most of the year, while recording temporary upturns linked to various episodes of uncertainty. These upturns were similar to those of other European indices but lower than those recorded by US indices. At the end of the year, the implied volatility stood at 21.8%, slightly higher than in December 2017 (15.5%). The annual averages were not very different: 15.1% in 2018 and 15.5% in 2017, and similar to those of most European indices with the exception of the Italian index, which recorded higher volatility.[6]

Stock-market capitalisation fell sharply and stood at 595.66 billion euros, the lowest figure in the last 5 years. This reduction is the result of the fall in share prices (which amounted to 15%,[7] the worst performance since 2010), the lower value of the new companies admitted to trading compared with delisted companies and the drop in the amount of funds raised through capital increases, which also recorded their lowest figure of the last 5 years.

The volumes traded in the Spanish stock market recovered in the first half-year and fell in the second, coinciding with the time of the largest shift of trading to other regulated markets, multilateral trading facilities and competing trading venues. In the year as a whole, equity trading on official secondary markets fell by 8% to around 580 billion euros, its lowest volume since 2003. Domestic stock markets continue to account for a large part of the trading of the Spanish securities listed on them, but they once again lost relative weight in favour of their competitors, which at year-end accounted for around 40% of total trading, 6 percentage points (pp) up on 2017.[8] The trend towards fragmentation of the Spanish market is therefore consolidated as it now stands at a similar level to that of the main European markets, which had already passed through this process.

As is the norm, non-resident investors once again played a very important role in the Spanish equity market, both in terms of trading and in ownership, which reached a record high at the end of 2017. According to the BME's *Market Report 2018*, foreign investors accounted for a little over 80% of trading, maintaining their status as the main pillar for market liquidity. For their part, Spanish households accounted for a little over 20% of share ownership, worth 111.43 billion euros in September 2018, 14% less than at year-end 2017.[9]

Table 2.1.1 compares the size of the main international equity markets by using capitalisation and trading to nominal GDP ratios. In 2018, the capitalisation to GDP ratio decreased for all markets as a result of the price falls in the leading

5 In 2018, the European Eurostoxx 50, Dax 30, Cac 40 and Mib 30 indices fell by 14.3%, 18.3%, 11.0% and 16.1%, respectively, while the US Dow Jones, S&P 500 and Nasdaq indices fell by 5.6%, 6.2% and 3.9%, respectively. The Japanese Nikkei 225 and Topix indices recorded annual losses of 12.1% and 17.8%, respectively.

6 The average implied volatility of the European Eurostoxx 50, Dax 30, Cac 40 and Mib 30 indices was 13.2%, 14.9%, 13.6% and 19.4% respectively, while for the US Dow Jones, S&P 500 and Nasdaq indices, it stood at 14.5%, 13.3% and 18.5%, respectively.

7 The Ibex 35 fell 15% in the year, as did the IGBM.

8 Includes trading subject to market rules (lit and dark).

9 According to the *Financial Accounts* of the Bank of Spain.

international stock markets in the context of GDP growth worldwide, with particularly significant falls in Canada and China. The falls in the United States and in Europe were more moderate, reflecting the more discreet and stable performance of these markets. There is greater heterogeneity in the case of trading, with rises in the United States and, to a lesser extent, in Canada and Japan, stability in regulated European markets and a fall in China. As in 2017, the performance of trading in regulated European markets was affected by the impact of competition from other regulated markets, MTFs and competing trading venues, as well as by volatility remaining at low levels, which discouraged algorithmic and high-frequency trading (HFT). The fall in the ratio in Spain was sharper than in other European markets as it was affected by the loss of market share to the benefit of its competitors.

Market capitalisation and trading on regulated markets as a percentage of nominal GDP TABLE 2.1.1

%

	Market capitalisation[1]		Trading volume	
	2017	2018	2017	2018
USA[2]	162.7	148.5	131.1	176.2
Canada	173.7	148.8	94.4	106.0
China[3]	100.2	75.4	147.2	114.5
Japan	127.7	106.6	118.6	126.9
London Stock Exchange[4]	128.8	107.8	65.7	68.9
Euronext[5]	100.3	86.4	46.7	49.4
Germany	57.8	45.3	39.8	45.4
Italy[4]	37.3	30.9	36.6	35.7
Spain	60.2	49.3	55.8	49.0

Source: World Federation of Exchanges; Eurostat; statistical offices of the United States, Canada and Japan; Datastream and CNMV. (1) In local currency, the market capitalisation figures correspond to the last working session of the year. (2) The numerator is the combined total of the NYSE Euronext US and Nasdaq. (3) Includes data from the Hong Kong, Shanghai and Shenzhen stock markets, as well as the GDP of the People's Republic of China and Hong Kong. (4) Although Borsa Italiana was integrated into the LSE Group, here the percentages of capitalisation and trading over GDP corresponding to each country are provided separately. (5) The denominator is the sum of the nominal GDP of France, the Netherlands, Belgium and Portugal.

2.1.2 Listed companies and capitalisation

Spanish stock markets closed 2018 with 148 listed companies, two less than at year-end 2017.[10] Five companies joined the electronic market, all of them newly listed companies: one real estate company (Metrovacesa),[11] one SOCIMI (Arima Real Estate), one energy company (Solarpack), one mining company (Berkeley Energía) and one restaurant operator (Amrest Holding). Meanwhile, there were seven delistings, six from the electronic market and one from the open outcry market.[12] Among the companies delisted from the electronic market, four were delisted following

10 This total refers to the official equity markets and hence does not include the companies listed on the Latibex or on the MAB, which are multilateral trading facilities.

11 Metrovacesa returned to the market in February 2018 after being delisted in 2013 as a result of a delisting bid.

12 Annex I.3 provides further information on new listings and delistings.

the settlement of the corresponding takeover bids (Abertis, Saeta Yield, Funespaña and Sotogrande), another as a result of a merger by acquisition (Axiare Patrimonio, SOCIMI, which was taken over by Inmobiliaria Colonial, SOCIMI) while another was delisted as a result of a resolution of the CNMV's Executive Committee (Reyal Urbis, which was in liquidation following an insolvency procedure). In addition, Ronsa, S.A. was delisted from the open outcry market of the Bilbao Stock Exchange.

Number of companies listed on Spanish stock markets[1] TABLE 2.1.2

		Electronic market				
	All markets	Total	National	Foreign	Open outcry	Second market
Listed at 31/12/17	150	134	127	7	12	4
Listed at 31/12/18	148	133	125	8	11	4
New listings in 2018	**5**	**5**	**4**	**1**	**0**	**0**
New listings	5	5	4	1	0	0
Listed due to merger	0	0	0	0	0	0
Change of market	0	0	0	0	0	0
Delistings in 2018	**7**	**6**	**6**	**0**	**1**	**0**
Delistings	6	5	5	0	1	0
Delistings due to mergers	1	1	1	0	0	0
Change of market	0	0	0	0	0	0
Net change in 2018	**-2**	**-1**	**-2**	**1**	**-1**	**0**

Source: CNMV. (1) Totals do not include MAB, Latibex or ETFs.

Stock market capitalisation fell by a little over 15% in 2018 to 592.66 billion euros, its lowest level for the last 5 years. This decrease was mainly the result of the fall in the value of companies,[13] but also due to the fact that the value of the delisted companies was greater than that of the new companies admitted to trading and the fact that the amount of the funds raised through capital increases was the lowest of the last five years.

The performance of the prices of the sectors represented in the Spanish stock market was unfavourable in most cases, although the falls were not across the board, either in terms of sectors or in terms of shares. The greatest falls were recorded by banks, companies from the transport and communications sector, companies from the textile sector, the mining sector and from the basic metals sector. The impact of these falls on the general index largely depends on the weightings of the sectors, which showed significant differences in the case of Spain, with the financial sector being particularly important (see Table 2.1.4 and Annexes I.5 and I.7). The largest falls in terms of capitalisation corresponded to banks and, to a lesser extent, to companies in the transport and communications sector, which lost one of its leading members following the settlement of the takeover bid for Abertis. The loss of this company, together with the fall in stock market prices, significantly reduced the capitalisation of the sector. It is also important to note the negative performance, for the second consecutive year, of the leading company in the textile sector, which suffered the effects of the doubts relating to its business model in a context of sharp growth in e-commerce competitors.

13 The most representative indices of the Spanish markets, the Ibex 35 and the IGMB, fell by 15% in 2018.

Capitalisation[1] of equity on Spanish stock markets

TABLE 2.1.3

Million euros

	2015	2016	2017	2018	% change 18/ 17
All markets	**626,700.2**	**630,995.3**	**701,029.6**	**592,662.6**	**-15.5**
Electronic market	625,639.3	629,589.7	699,691.2	591,166.2	-15.5
National	624,640.4	628,080.6	697,909.0	590,057.8	-15.5
Foreign[2]	998.9	1,509.1	1,782.3	1,108.4	-37.8
Open outcry[3]	1,040.3	1,291.6	1,288.5	1,459.1	13.2
Madrid	296.9	289.9	165.9	219.4	32.3
Barcelona	887.7	1,136.6	1,134.3	1,318.4	16.2
Bilbao	943.3	54.0	54.0	56.5	4.5
Valencia	150.1	349.2	211.3	257.0	21.6
Second Market	20.6	114.1	49.9	37.4	-25.2

Source: CNMV. (1) Only includes capitalisation of companies that were traded at some time during the year. Excludes Latibex, MAB and ETFs. (2) The capitalisation of foreign companies listed on Spanish markets is based on the number of shares registered by Iberclear. (3) The market capitalisation of companies traded by open outcry in more than one market has been included in the figures for each market at the price for that market, but only once in the total for all markets.

The increases, which on average were smaller than the falls, were concentrated in companies from the energy sector (electricity companies), which, in turn, was the sector that recorded the largest growth in capitalisation. In addition, the capitalisation of the food and the real estate sectors also rose as each sector received a new medium-sized company: a new restaurant company in the case of the former and a real estate company in the case of the latter.

In terms of capitalisation, concentration in the market remains high, although there is a little more dispersion than in the previous year. As a result of this greater dispersion, in 2018 a total of 7 securities accounted for around half the market capitalisation, compared with the 6 companies that were necessary the previous year, although once again 17 Ibex 35 securities accounted for 75% of capitalisation. Similarly, as has been the case in previous years, the percentage of the 5 Spanish securities included in the Eurostoxx 50 index in the total capitalisation of the Spanish stock market continued to fall to stand at 42%, its lowest level of recent years (44%, 47% and 55% in 2017, 2016 and 2015, respectively), which reflects the greater growth of medium-sized companies compared with the traditional large companies and leading banks.

Number of listed companies and capitalisation by sector[1] TABLE 2.1.4

Million euros

Sector	2017	2018	2017	2018	% change 18/17
Oil	1	1	22,521.5	21,505.7	-4.5
Energy	9	9	95,910.3	105,712.9	10.2
Mining & basic metals	7	8	7,677.4	5,891.8	-23.3
Cement and construction materials	3	3	3,157.7	3,060.5	-3.1
Chemical and pharmaceuticals	8	8	19,362.0	18,774.1	-3.0
Textile and paper	10	10	94,443.0	73,879.3	-21.8
Metal-mechanical	15	15	13,402.8	11,213.2	-16.3
Food	13	14	7,353.5	8,708.8	18.4
Construction	9	8	35,730.5	33,827.2	-5.3
Real estate and SOCIMIs	20	19	16,023.6	17,197.6	7.3
Transport and communications	8	7	111,801.3	83,934.6	-24.9
Other non-financial	30	29	66,976.4	57,173.8	-14.6
Total non-financial sector	**133**	**131**	**494,359.9**	**440,879.5**	**-10.8**
Banks	10	10	190,682.5	137,697.9	-27.8
Insurance	2	2	12,679.8	11,056.6	-12.8
Portfolio companies	5	5	3,307.4	3,028.7	-8.4
Total financial sector	**17**	**17**	**206,669.8**	**151,783.2**	**-26.6**
Total	**150**	**148**	**701,029.6**	**592,662.6**	**-15.5**

Source: CNMV. (1) Only includes capitalisation of companies that were traded at some time during the year. Excludes Latibex, MAB and ETFs.

2.1.3 Listings, issues and public offerings

80 capital increases were carried out in 2018, 4 fewer than in the previous year, corresponding to a total of 45 companies listed on Spanish stock markets, the same number as in 2016 and 2017 (see Annexes I.1 and I.2 for further details). The decrease in the number of transactions of this type was allied to a significant decrease in the amount of funds raised, which amounted to a little over one third of the amounts obtained in the previous year, with a total of 11.33 billion euros.

65% of the capital increases were aimed at raising funds compared with 87% the previous year, while the remaining 35% were capital increases against reserves. The value of capital increases raising funds fell significantly, from 25.79 billion euros in 2017 to a little under 7.4 billion euros in 2018. This fall was the result of the lower needs of the financial sector, which has increased its capital base and strengthened its balance sheets on an ongoing basis over recent years, as well as the conclusion of the capital restructuring of the major industrial companies that has been undertaken in recent years.

As in 2017, capital increases with non-monetary consideration accounted for a significant portion of capital increases aimed at raising funds, although their amount fell significantly compared with the previous year. In contrast, accelerated book builds grew to almost 2 billion euros (822 million euros in 2017). Particularly noteworthy was the placement of Amrest Holding for an amount of 1.91 billion euros, which in turn joined the electronic market through a direct listing. The volume of

the other capital increases aimed at raising funds was low: even traditional increases with pre-emptive subscription rights only amounted to 900 million euros, the lowest volume recorded over recent years.

Capital increases, 15 of which were associated with scrip dividend transactions (2 more than in the previous year) rose slightly (3.5%) after falling for 3 years running (see Table 2.1.5). This slight increase, both in terms of number and volume, might represent a change in the trend of the dividend policies followed by some companies in recent years, in which they had chosen to cancel this format or reduce the amount in favour of the traditional policy of paying in cash. Faced with a scenario of lower growth prospects, companies might be choosing to reduce remuneration in cash again to the benefit of payment in shares with the aim of retaining more financial resources on the balance sheet for the future.

Primary and secondary public offerings[1] TABLE 2.1.5

Million euros

	2015	2016	2017	2018	% change 18/17
Capital increases aimed at raising funds	**19,106.1**	**13,846.7**	**25,786.2**	**7,389.8**	**-71.3**
With pre-emption right	7,932.6	6,513.3	7,831.4	888.4	-88.7
Without pre-emption right[2]	0.0	807.6	956.2	200.1	-79.1
Accelerated book builds	8,092.3	0.0	821.8	1,999.1	143.3
Increases with non-monetary consideration[3]	365.2	1,791.7	8,469.3	2,999.7	-64.6
Capital increase by conversion	1,868.7	2,343.9	1,648.8	388.7	-76.4
Other	847.4	2,390.2	6,058.8	913.8	-84.9
Bonus issues	**9,627.8**	**5,898.3**	**3,807.3**	**3,939.7**	**3.5**
Of which, scrip dividend	9,627.8	5,898.3	3,807.3	3,915.2	2.8
Total capital increases	**28,733.9**	**19,745.1**	**29,593.6**	**11,329.5**	**-61.7**
Secondary offerings	**8,331.6**	**500.6**	**2,944.5**	**733.7**	**-75.1**

Source: CNMV. (1) Does not include data from the MAB, ETF or Latibex. (2) Primary offerings. (3) Capital increases with non-monetary consideration have been recorded at market prices.

Despite the growth of the economy and the interest of several companies in going public over the year, the poor performance of stock markets led to these plans being cancelled or delayed. These include cancellation of the operation of the second largest oil company in Spain (Cepsa), the prospectus of which had even been registered with the CNMV. There was only one public offering, that of a real estate company (Metrovacesa) in an amount of a little over 700 million euros, merely a quarter of the almost 3 billion euros raised in the 7 public offerings in 2017. The only offering in 2018 took place in the electronic market, where there were two companies that went public through a primary offering, one SOCIMI and one energy company.

2.1.4 Trading

Spot trading

The trading of Spanish securities admitted to trading on Spanish markets remained practically unchanged in 2018, standing at 931.02 billion euros (933.42 billion euros

in 2017). Trading in these securities has followed a downward trend for several years, which was temporarily interrupted in 2017, but which resumed in 2018. Furthermore, trading on Spanish markets continued its decline. This trend began following implementation of MiFID I[14] has been consolidated with MiFID II and MiFIR.[15] This legislation, which allows securities trading in trading venues other than the home regulated market, has led to a process of fragmentation characterised by a shift of some securities trading to these competing venues.[16] The fragmentation began earlier in other European countries and although Spain joined this trend subsequently, the market shares of competing markets in the trading of Spanish securities has now reached levels similar to those of other European countries.

As mentioned above, the trading of securities in Spanish stock markets recovered slightly in 2017, which continued in the first few months of 2018. This trend was reversed in the second half of the year as a result of intensified competition from other trading venues. The amount traded over the year as a whole in Spanish markets fell by 8.5% to 579.81 billion euros. This amount still accounts for the bulk of the trading and, in relative terms, corresponds to a little over 62% of the total (compared with 68% in 2017 and 72% in 2016).

At the same time, the amount traded through BME's competing trading venues grew by 17.2% to 350.8 billion euros in 2018 (see Table 2.1.6). Their market share stood at around 40% of total trading of Spanish securities,[17] a percentage that has practically doubled over the last three years. The increase in trading in these venues also took place in a context of low volatility that does not favour some types of trading such as algorithmic and high-frequency trading (HFT), which are traditionally executed to a greater extent in such venues.

Particularly noteworthy once again among the competing trading venues was the Cboe Global Markets (Cboe) regulated market, which operates through two different order books, Chi-X and BATS. Aggregate trading on this market grew to over 278 billion euros, accounting for almost 80% of the market share of these alternative trading venues and 30% of the total amount traded with Spanish equity securities admitted to trading on official Spanish markets. Cboe thus consolidates its position as BME's main competitor as its volume of trading is now almost 50% of the size of the latter, compared with 30% in 2017. Similarly, Cboe has changed the composition of the trading between its two order books, so that the relative weight of Chi-X has been falling in favour of BATS, which has recorded a fourfold increase in trading over the last three years. Other competitors have gradually been losing relative weight, with the only significant one being Turquoise, with a market share of a little over 12% of the trading of BME's competitors.

14 MiFID I entered into force in 2007 and allowed the trading of securities in European regulated markets and MTFs other than the home regulated markets.

15 They were implemented in 2017.

16 This process of relocation from traditional regulated markets to competing trading venues has spread throughout Europe, affecting an increasing number of markets, including small-sized markets. One of the leading trading venue operators – Cboe Global Markets (Cboe) – performs this activity in a total of 15 European markets, including smaller markets such as Helsinki and Copenhagen.

17 Calculation made on trading subject to market rules (lit and dark).

Total trading in Spanish equity listed on official Spanish markets[1]

TABLE 2.1.6

Million euros

	2014	2015	2016	2017	2018	% change 18/17
Total	**1,002,992.8**	**1,162,979.7**	**878,329.9**	**933,416.3**	**931,019.3**	**-0.26**
Admitted on SIBE	**1,002,095.8**	**1,161,222.9**	**877,408.4**	**932,763.1**	**930,607.1**	**-0.23**
BME	849,934.5	925,978.7	634,914.5	633,385.7	579,810.4	-8.46
Chi-X	95,973.0	150,139.9	117,419.4	117,899.2	106,869.7	-9.36
Turquoise	28,497.5	35,680.5	51,051.8	44,720.1	42,883.4	-4.11
BATS	18,671.0	35,857.6	44,839.8	75,411.6	171,491.3	127.41
Other[2]	9,019.8	13,566.2	29,182.9	61,346.5	29,552.2	-51.83
Open outcry	**92.5**	**246.1**	**7.9**	**8.1**	**8.2**	**1.50**
Second Market	**0.7**	**13.8**	**3.2**	**0.7**	**0.8**	**8.56**
ETF[3]	**803.9**	**1,496.8**	**910.4**	**644.5**	**403.2**	**-37.44**

Source: Bloomberg and CNMV. (1) Includes trading subject to market or MTF rules (lit plus dark) of equity instruments admitted to trading on Spanish official secondary markets and identified by means of an ISIN issued in Spain. Hence, this does not include foreign securities admitted to trading on those markets whose ISIN is not issued in Spain. (2) It is calculated as the difference between the amount traded of the EU Composite calculated by Bloomberg for each share and the amount traded for the markets and MTF included in the Table, and hence includes trading on other regulated markets and MTFs, as well as OTC trading. (3) Only ETFs with Spanish ISIN.

In the main European regulated markets considered as a whole,[18] trading fragmentation in 2018 was very similar to the Spanish case, although some of them recorded a slight reversal of this trend with a certain recovery of the share of the regulated market to levels above 60%. In aggregate terms, around 40% of European equity trading subject to market rules takes place outside the regulated market on which the securities are admitted to trading. Even though one of the basic aims of the new regulatory framework established by the MiFID II Directive and the MiFIR Regulation was to increase transparency levels in the market and redirect OTC trading to regulated environments, reported trading (including systematic internalisation) would have fallen very slightly to under 40% of total trading, which reveals the reluctance of operators to increase the transparency of their transactions and redirect OTC trading to environments subject to greater transparency.

Trading on official markets operated by BME

Equity trading on the markets operated by BME took place predominantly on the SIBE trading platform (see Table 2.1.7) – known as the electronic market – with a reduction in trading on the open outcry market and on the second market to insignificant levels. Aggregate trading of the two MTFs operated by BME – MAB and Latibex – barely amounted to 1% of the volume traded on the SIBE. The amount traded on the SIBE fell by 9% and stood at a little over 586 billion euros,[19] while the number of trades fell by 13.2% to a little over 44 million. The number of trades has fallen for 4 years running as a result of both greater competition from other trading venues and the fall in market volatility, which discourages the activity of high-frequency trading

18 Including the main stock markets in the euro area and the London securities markets.

19 This figure includes the trading of Exchange-Traded Funds (ETFs), which amounted to 3.03 billion.

and the number of high-frequency trades. Despite the fall in the number of total trades, the fall in the number of high-frequency trades meant that the cash average per trade rose to 13,284 euros, 4% up on the previous year, with 2 consecutive years of rises.[20]

Equity trading on markets operated by BME

TABLE 2.1.7

Million euros

	2015	2016	2017	2018	% change 18/17
Total	**957,990.7**	**652,226.2**	**649,883.3**	**590,852.6**	**-9.1**
Official markets	**951,290.3**	**647,003.2**	**644,766.7**	**586,364.1**	**-9.1**
SIBE	**951,030.4**	**646,992.6**	**644,757.8**	**586,355.1**	**-9.1**
of which ETFs	12,633.8	6,045.2	4,464.1	3,027.6	-32.2
Open outcry	**246.1**	**7.5**	**8.1**	**8.2**	**0.9**
Madrid	19.4	3.2	1.8	0.8	-57.4
Bilbao	7.5	0.0	0.1	0.0	-24.3
Barcelona	219.1	4.2	6.3	7.4	17.4
Valencia	0.1	0.0	0.0	0.0	21.0
Second Market	**13.8**	**3.2**	**0.7**	**0.8**	**8.6**
MAB	**6,441.7**	**5,066.2**	**4,985.8**	**4,336.9**	**-13.0**
Latibex	**258.7**	**156.7**	**130.8**	**151.6**	**15.9**

Source: CNMV.

The number of orders fell by 3.1% on 2017 to 409.7 million, the lowest figure since 2014.[21] The order to trade ratio rose to 9.26 (8.3 in 2017), but so did the amount per trade, which confirms the fall in algorithmic and high-frequency trading as many orders were eventually executed or cancelled as a result of the scenario of low market volatility.[22]

With regard to the types of trading on the electronic market, Table 2.1.8 shows the fall in trading of all "regular trading", with falls of over 10% in the amount traded in the two most significant types: order-based trading (52% of the total) and block trading (35%). In terms of trading volume, order-based trading fell by almost 36 billion euros, while block trading fell by almost 28 billion euros. Regulated markets, multilateral trading facilities and trading venues that are competitors of BME account for a large part of block trading. The volume attributed to other types of trading grew by 53% as a result of the high volume of trading corresponding to the settlement of the takeover bid for Abertis.

20 Algorithmic trading is characterised by a high number of orders that are usually of a small volume, which leads to a reduction in the average size of the trades.

21 In 2015, 2016 and 2017, there were 645, 611 and 422 million orders, respectively.

22 High frequency trading is characterised by the performance of a very high number of trades of securities with a very short average life (less than one session), the aim of which is to benefit from small changes in the price of securities. This type of trading is best suited to scenarios of high market volatility.

Trading on BME by type[1]

TABLE 2.1.8

Million euros

	2014	2015	2016	2017	2018	% change 18/17
Regular trading	831,962.6	903,397.2	618,600.9	619,108.6	552,716.8	-10.7
Order-based	453,294.9	475,210.0	350,783.5	335,917.3	300,107.8	-10.7
Applications	73,056.8	96,187.7	68,631.6	51,316.0	48,644.1	-5.2
Block trades	305,610.8	331,999.5	199,185.8	231,875.3	203,965.0	-12.0
Off-hours	7,568.9	3,137.9	2,196.1	2,373.8	1,667.3	-29.8
Other types	24,912.5	31,861.5	20,150.4	18,811.3	28,833.5	53.3

Source: CNMV. (1) Does not include data for Latibex, MAB or ETFs.

Stock market trading continued to be highly concentrated in a small number of shares. In 2018, 6 and 14 shares were necessary to account for 50% and 75%, respectively, of the cash amount traded on SIBE (5 and 16 shares in 2017). The shares with the highest level of trading were the same as in the preceding two years – Banco Santander, BBVA, Telefónica, Inditex and Iberdrola – all of which are components of the Spanish Ibex 35 index and the European EuroStoxx 50 (see Annexes I.6 and I.8 for further details regarding trading and distribution).

Short positions

The aggregate position of short sales according to information received by the CNMV rose slightly during 2018 to a year-end 0.84% of total share capitalisation of the electronic market, more than the 0.7% at year-end 2017. At the end of the year, there were 5 and 12 shares in short positions of 5% and 2% of their individual capitalisation, respectively, compared with the 5 and 16 shares in the same situation in 2017. Three companies of the distribution, telecommunications, and engineering sectors, which headed up this list in the previous year, remained among the individual shares with the highest short positions. There were also significant short positions in other shares from the construction, real estate, media and banking sectors.

Short positions

TABLE 2.1.9

	% short positions/ capitalisation[1]	No. companies with short positions > 2%[2]	No. companies with short positions > 5%[2]
2014	0.57	14	2
2015	0.86	20	7
2016	0.97	18	6
2017	0.70	16	5
2018	0.84	12	5

Source: CNMV. (1) The figure for aggregate net short positions includes the sum at the end of each reference year of the individual positions declared (equal to or greater than 0.5%), plus the sum of all positions equal to or greater than 0.2% and less than 0.5% for all securities included in the SIBE. (2) Number of companies whose aggregate net short positions at the end of each reference year were greater than 2% and 5%, respectively, of their capital (including the sum of the individual positions declared - equal to or greater than 0.5% – plus the sum of all positions equal to or greater than 0.2% and less than 0.5%).

The information on aggregate short positions provided in this section comes from communications made in compliance with the rules set out in Regulation 236/2012 and its delegated regulations, which make it obligatory to report short positions if they account for 0.2% of share capital and therefore do not include short positions accounting for smaller percentages.

The CNMV decided to stop publishing information on short positions as from 2019 and apply the same criteria as other European regulators for several reasons. On the one hand, this periodical publication was a particular feature of the Spanish market, which made it somewhat asymmetric compared with other European securities subject to supervision by other competent authorities. In addition, the fact the prevailing European regulations on short positions oblige the same percentage thresholds to be applied for reporting, regardless of the capitalisation of the company, means that information on short positions of companies with low market capitalisation may be wrongly interpreted and give rise to a perception of a greater accumulation of these positions compared with those of larger companies, with the consequent generation of distorted signals to the market. After analysing the issue and undergoing a consultation process with the sector, the CNMV decided to stop publishing these fortnightly positions.

2.1.5 Takeover bids (OPAs)

In 2018, 6 takeover bids for a potential amount of 23.84 billion euros were authorised (25.3 billion if we include the acquisitions agreed on previously), much higher than the figure recorded in recent years and the highest figure in recent years (see Table 2.1.10). A list of the takeover bids authorised during the last year can be found in Annex I.9.

By volume, the largest transaction was the voluntary takeover bid by Hochtief AG for Abertis Infraestructuras, S.A. in an amount of 18.18 billion euros, which accounted for over 75% of the total amount. This bid competed with that made initially by Atlantia SpA, which had been authorised the previous year. The process concluded in 2018 with an agreement between the two bidders.

The other bids were a delisting bid for Funespaña, S.A. made by its controlling shareholder, Mapfre; a mandatory bid for NH Hotel Group, as the Thai group Minor had acquired an interest greater than 30%; and another three voluntary bids to take over and subsequently promote delisting made by Terp Spanish Holdco, S.L.U. for Saeta Yield, S.A., Alzette Investment, S.à R.L. for Hispania Activos Inmobiliarios SOCIMI, S.A., and DS Smith, Plc for Papeles y Cartones de Europa, S.A. (Europac).

All the bids were made with payment in cash at a price defined as fair by applicable legislation and in all except the bid for NH Hotel Group, the price was supported by a valuation report. Similarly, the four voluntary bids were made subject to certain conditions allowed in this type of transaction, which were met in all cases.

The results obtained in the bids for Saeta and Europac allowed in both cases a squeeze out of all the shareholders as they both received acceptance equal to or greater than 90% of the shares covered by the respective bids, with the bidders obtaining 90% or more of the capital, which led to the delisting of the shares.

Takeover bids TABLE 2.1.10

Million euros

	2014	2015	2016	2017	2018
Authorised[1]					
Number	7	9	5	5	6
Potential amount	478	5,049	1,682	18,183	23,842
Potential amount plus agreements prior to acquisition[2]	644	7,360	1,743	19,902	25,298
Carried out[3]					
Number	7	8	5	4	6
Amount	216	4,394	853	1,309	19,582
Amount plus agreements prior to acquisition[2]	382	6,705	914	1,502	21,038

Source: CNMV. (1) Authorised during the year. (2) Potential amount of takeover bids plus cash volume of acquisitions agreed prior to each bid. (3) All bids authorised during the year, even if completed in the following year, except where the bid was unsuccessful or was withdrawn. Does not include the amounts for squeeze outs.

2.1.6 Multilateral trading facilities

Latibex

Securities traded on Latibex performed positively in most quarters of the year, in the context of high volatility of exchange rates but stable commodity prices[23] and relatively high oil prices.[24] Latin American economies found themselves in a process of slowing economic growth – with particular problems in the Argentinian economy. However, they improved on expectations in the second half of the year, particularly the Brazilian economy,[25] which allowed a significant gain in share prices over those months as Brazilian companies are widely represented in this market. As was the case in the previous year, the depreciation of the Brazilian real weighed down on the prices of the Latibex index, which was partially offset by the rising value of the Mexican peso.[26] In this context, the two indices representative of Latin American securities included in this MTF, the FTSE Latibex All-Share and the FTSE Latibex Top, recorded gains of 10.3% and 14.8% in 2018, respectively, compared with 9% and 7.3% in 2017.

It should be noted that the securities traded on Latibex[27] account for a very small part of the total number of shares admitted to trading for the different companies in their main trading markets in Latin America. In fact, the market value of the shares admitted to trading on this MTF – which fell by 4.5% to 233.3 million euros – accounts for only 0.1% of the capitalisation of the companies traded there. As in previous years, most of the balance registered in Iberclear corresponded to Brazilian companies, although their relative weight fell to 70% to the benefit of Mexican companies, whose share rose to 29%. The total number of companies traded on this market was 19, one fewer than the previous year.

23 The CRB raw industrials index in euros fell by 2% in 2018 (-8.5% in 2017).

24 Oil prices rose from an average of 54.75 dollars per barrel in 2017 to 71.67 dollars in 2018.

25 The IMF expects its growth to stand at 1.3% in 2018 (1.1% in 2017), but raised its forecast to 2.5% in 2019.

26 In 2018, the Brazilian real depreciated by 11.2% against the euro, while the Mexican peso appreciated by 4.2%.

27 These securities must be previously registered in Iberclear.

Unlike what happened with the market value of the companies traded on Latibex, the trading of these shares grew by 15.8% to 151.6 million euros, of which 65% corresponded to Brazilian companies and 35% to Mexican companies. The trading of shares of Peruvian companies stood at very low levels while there were hardly any transactions with the shares of Argentinian companies.

Companies listed on Latibex by country TABLE 2.1.11

Million euros

	No. of companies		Negotiable securities at market price[1]			Trading volume		
Country	2017	2018	2017	2018	% change 18/17	2017	2018	% change 18/17
Argentina	2	2	4.2	2.4	-43.4	0.2	0.0	-84.3
Brazil	10	10	194.2	155.4	-20.0	108.3	98.2	-9.3
Mexico	7	6	34.9	64.8	86.0	0.0	53.1	142.4
Peru	1	1	0.0	0.0	0.0	0.0	0.3	-35.2
Total	**20**	**19**	**233.3**	**222.7**	**-4.5**	**130.8**	**151.6**	**15.8**

Source: CNMV. (1) Securities deposited in Iberclear.

The Alternative Stock Market (MAB)

The various segments traded on the MAB multilateral trading facility once again recorded a similar performance to that of the previous year, maintaining the number of companies in expansion, noteworthy growth in the number of SOCIMIs and a slight decline in the number of SICAVs.

Companies listed on MAB by segment TABLE 2.1.12

Million euros

	No. of companies		Market capitalisation[1]			Trading volume		
	2017	2018	2017	2018	% change 18/17	2017	2018	% change 18/17
Growth stocks	41	41	1,734.7	1,318.2	-23.4	294.2	157.1	-46.6
SICAV	2,864	2,722	33,702.3	27,720.1	-17.7	4,566.5	3,973.9	-13.0
Hedge funds	14	15	448.7	458.9	2.3	55.5	15.4	-72.2
SOCIMIs	46	64	7,919.0	10,513.4	32.8	69.6	69.9	0.4
Total	**2,965**	**2,842**	**43,804.8**	**40,020.7**	**-8.6**	**4,985.8**	**4,216.3**	**-15.4**

Source: CNMV. (1) Includes only the value of those entities for which there was trading during the year.

SOCIMIs have accumulated 4 consecutive years of strong growth supported by specific tax legislation to a total of 64 companies, which confirms the recovery of the real estate market. A total of 19 SOCIMIs entered the Spanish markets in 2018, 18 of which joined the MAB. SOCIMIs are the Spanish adaptation of the real estate investment vehicles (REIT) that exist in other countries[28] and are characterised by having a tax treatment which exempts them from paying corporate income tax and allows them to enjoy a 95% credit on transfer tax and stamp duty. In return, they are required to distribute 80% of the profits obtained from rental income and 50% of the gains generated by the sale of assets. Their activities focus on the promotion, refurbishment and transaction of leased real estate, holdings in other SOCIMIs and the performance of ancillary real estate activities. They are also required to have a minimum capital of 5 million euros, through either a monetary or a non-monetary contribution, and be listed on a regulated market or multilateral trading facility such as the MAB. This type of company allows investors to diversify their investment and access a real estate portfolio with greater ease and liquidity than in the case of direct investment in real estate assets.

The number of companies listed in the growth stock segment remained unchanged at 41 because, although 3 companies joined the market – Robot, Tier1 Technology and Alquiber —another 3 were delisted — Gowex, Vousse Corp and Carbures. This last company merged with Inypsa to create a new company named Airtificial, which is listed on the electronic market. The amount traded fell by nearly 47% to 157 million euros, while capitalisation fell by almost 23% to under 1.32 billion euros, its lowest level since 2013, which is largely explained by the delisting of the company Carbures. In addition, the companies listed in this segment conducted 11 capital increases[29] for an aggregate amount of 115 million euros, 26 million more than in the previous year.

Lastly, the number of SICAVs fell again in 2018, with 142 delistings to stand at a total number of 2,722, with capitalisation that fell to almost 6 billion euros. This fall in the capitalisation of SICAVs can be explained both by the delisting of companies and by the unfavourable market trend in 2018.

At the end of 2016, BME and the investor association Big Ban Angels created a joint initiative called Pre-Market Environment (EpM) so as to allow companies with great growth potential to discover the functioning of stock markets and access new investors. The project currently has 13 companies in the start-ups segment, belonging to 11 different sectors of activity, that obtain aggregate revenue of 70 million euros and represent a committed private investment of 25 million euros. In addition, for more mature companies, a growth segment has been created with specific development programmes that will facilitate their access to the MAB.

2.1.7 Exchange-Traded Funds (ETFs)

The trading of Exchange-Traded Funds (ETFs) began on the Spanish market in 2006 and reached a figure of close to 70 in 2011. However, this form of trading has dropped off and had almost disappeared by 2018. Although they are a simple and transparent product with low management costs, which allow, due to their

28 Law 11/2009, 26 October, regulating SOCIMIs.
29 Source: BME.

flexibility, investors to diversify positions by type of asset, market, sector, geographic area and even strategy, their expansion in the Spanish market has been penalised by their different tax treatment compared with traditional (non-listed) investment funds. In addition, ETFs listed on the Spanish stock exchange have also been penalised in comparison with those distributed in Spain and listed on international markets, to which the tax deferral of gains could be applied. In this regard, the position of the CNMV has always been to standardise tax treatment so as to eliminate the competitive edge of the relatively high tax penalties for those listed on the Spanish market compared with those listed abroad. As a consequence of these factors, ETFs listed on Spanish markets have lost a great deal of the interest of both issuers and fund managers present in the Spanish stock market, which have decided to delist their less liquid issues to the benefit of ETFs listed on other markets.

At year-end 2018, a draft bill was being processed to standardise the tax treatment of ETFs irrespective of the market on which they are listed so as to extend the same tax system that existed for ETFs listed in Spain to ETFs listed abroad and distributed in Spain.

In this context, trading volumes of these products fell for the third consecutive year to 3.03 billion euros, 32% down on 2017 and the lowest volume since 2013, while assets managed fell to 1.17 billion euros at year-end 2018, a fall of 37%. Trading became even more concentrated in a small number of funds (those referenced to the Ibex 35 accounted for over 95% of the total trading volume), of which one single fund accounts for over half. At year-end, six ETFs were traded on Spanish stock markets managed by two financial institutions (in 2015, over 55 different ETFs were traded), two fewer than in 2017. Entities have continued to delist the less liquid issues and one German entity abandoned this activity. Of the six issues currently traded, four correspond to a French entity and two to a Spanish entity, whose references are linked to the performance of the Ibex 35 and Eurostoxx 50 stock market indices.

Half of the funds traded follow passive management strategies based on tracking the above indices, while the others are inverse and leveraged funds linked to the Spanish index, which concentrate almost one third of the amount traded in the segment.

At any event, it is worth pointing out the anomaly in the Spanish market of the low investment in this type of product which amount to an investment in the rest of Europe of approximately 630 billion euros.

2.2 Fixed income

During 2018, activity in the primary fixed-income markets by Spanish issuers was underpinned by a context of low interest rates, but there were also other factors pushing in the opposite direction, such as changes in borrowing needs over the year and the existence of alternative sources of financing. As a whole, both aggregate gross and net issues were lower than in 2017, although they resulted in a 2% increase in the outstanding debt balance (very similar to that of the euro area, although with significant differences between sectors).

Total gross issues fell by close to 5% in 2018 as a result of both fewer issues by public authorities – in parallel with the reduction in borrowing needs as a result of the

gradual reduction in the public deficit – and the fall in issues by financial institutions, which continued to find the financing offered by the Eurosystem a more attractive alternative. In contrast, debt issues by non-financial companies increased significantly as low interest rates and the expectation that they would be raised in the short term encouraged these companies to obtain financing in capital markets.

In 2018, Spanish issuers continued registering fewer private fixed-income issues with the CNMV and increasing their issues abroad. These issues abroad reached an amount that was close to the 90% of the total volume registered with the CNMV, with a substantial increase in commercial paper, which exceeded 50 billion. Also noteworthy was the increase in fixed-income issues abroad by the subsidiaries of Spanish companies and, within these, those made by financial institutions. These are foreign subsidiaries of Spanish companies and therefore their issues do not count as Spanish private fixed income, but they may be an alternative source of financing for the Spanish parent companies.

In 2018, debt assets were traded in a new context resulting from the entry into force of MiFID II and MiFIR on 3 January, which introduced greater competition by allowing these assets to be traded on regulated markets, Multilateral Trading Facilities (MTFs), Organised Trading Facilities (OTFs) and Systematic Internalisers (SIs). From the point of view of Spanish trading venues, it is worth noting the fall in private debt trading on the AIAF regulated market, which is the result of increased competition among trading venues and a change in the channelling of bilateral trades, which are now also performed through SIs or considered as OTC trades. With regard to Spanish OTFs, it is important to note that two facilities began operating: CIMD and CAPI.

2.2.1 General overview

While the ECB maintained its expansive monetary policy stance in 2018, at the end of the year it began to reduce the volume of net asset purchases as a first step in the scheduled shift in its policy stance. Net asset purchases fell from 30 billion euros per month in October to 15 billion in December 2018, the month in which the end of the purchase programme was confirmed. However, the ECB announced that it would maintain a sufficiently accommodative monetary policy stance throughout 2019, and reinvest the principal payments from maturing securities purchased under the programme. With regard to the planned interest rate hikes, for much of 2018 the ECB favoured making the first rate rise at the end of the summer of 2019. However, the sharp slowdown in growth in the euro area, which began to become evident at the end of 2018, once again delayed the date of this first rate hike, which is unlikely to take place at all in 2019.

The confirmation that the change in the trend of the ECB's monetary policy would be slow and gradual led to interest rates, both of public debt and private fixed income, to close 2018 at similar levels to those of 2017 and close to their historic lows.

In 2018, both volumes of gross and net fixed-income issues fell compared with 2017, during which they had grown substantially. However, net issues remained positive, which contributed to a moderate increase in outstanding debt. In 2018, Spanish issuers placed fixed-income securities in the primary market for an amount of 416.66 billion euros, which exceeded the maturities by 31.37 billion euros. This led to a 2% increase in outstanding securities, which is in line with that recorded in the

euro area (2.1%). However, while in the euro area financial institutions were the main contributors to this increase, in Spain their net issues were negative (-14.43 billion euros). The increase in the outstanding balance of fixed-income instruments was mainly concentrated in public authorities, with net issues of 37.93 billion euros. Non-financial companies also contributed to the increase in the outstanding balance, although with a much more moderate volume, with net issues of 7.87 billion euros.

The lower level of issues by Spanish financial institutions in 2018 contrasted with the behaviour of these institutions in the rest of the euro area, where their issues led to an increase in the outstanding debt balance of 2.8% (-2.3% in the case of Spanish financial institutions). One of the reasons for this difference might be the intensive use by Spanish credit institutions of the low-rate financing facilities offered by the ECB. At year-end 2018, the balance of lending granted by the Eurosystem to Spanish credit institutions amounted to 167.42 billion euros, accounting for 23% of all Eurosystem lending and a share that almost triples the share that the Bank of Spain holds in the ECB's capital (8.34%). It may therefore be deduced that Spanish institutions make use of this type of financing to a greater proportion than other European institutions. This fact, together with the moderate fall in lending and the reduction in the problematic assets of Spanish banks might explain them having less need to obtain financing from the debt market.

Issues and outstanding balances: breakdown by issuer

TABLE 2.2.1

Million euros

	Amount[1]			*Pro memoria:* euro area	
	2017	2018	% change 18/17	2018	% change 18/17
Gross issues[2]	**437,872**	**416,664**	**-4.8**	**7,275,245**	**-1.4**
Public authorities	241,868	219,420	-9.3	2,308,559	-3.7
Financial institutions	180,229	176,356	-2.1	4,298,833	-0.9
Non-financial companies	15,774	20,888	32.4	667,854	3.6
Net issues[2]	**37,187**	**31,373**	**-15.6**	**274,415**	**32.1**
Public authorities	46,903	37,929	-19.1	111,599	-31.9
Financial institutions	-18,032	-14,428	20.0	120,374	535.4
Non-financial companies	8,315	7,873	-5.3	42,442	-40.7
Outstanding balances[3, 4]	**1,678,646**	**1,712,005**	**2.0**	**16,947,261**	**2.1**
Public authorities	989,023	1,026,951	3.8	8,117,355	1.4
Financial institutions	653,103	637,848	-2.3	7,546,161	2.8
Non-financial companies	36,521	47,206	29.3	1,283,745	2.3

Source: Bank of Spain, CNMV and ECB. The data for the debt of public authorities in this table are not directly comparable with the data drawn up according to the Excessive Deficit Protocol, mainly due to the fact that the latter methodology excludes securities held in the portfolios of public authorities and includes currency swaps. (1) Includes issues by Spanish companies in Spain and abroad. (2) For currency issues of public authorities, the exchange value in euros is used by applying the average exchange rate for the month published by the ECB. For currency issues of financial institutions and non-financial companies, the exchange value in euros is used by applying the exchange rate for the last day of the month published by the ECB. (3) For the outstanding balances of currency issues, the exchange value in euros is used by applying the exchange rate of the ECB at the end of the period. (4) Outstanding balances cannot be adjusted with net issues because of the use of different exchange rates for currency issues.

There was also a notable increase in gross issues by subsidiaries of Spanish financial institutions abroad, the volume of which doubled in 2018, rising from 19.46 billion euros to 41.97 billion euros. To a certain extent, the financing obtained abroad by the subsidiaries might be an alternative source of financing for the group's Spanish parent company.

2.2.2 Public debt

The movements in government bond yields in 2018 were the result of decisions and expectations relating to the ECB's monetary policy, upgrades in the credit ratings given by the leading rating agencies and the presence of some uncertainties. Movements in the first few months of the year were largely the result of the effect of the improvement in the credit rating given to the Kingdom of Spain by the four rating agencies considered by the Eurosystem, which resulted in a slight fall in the risk premium and the yield on government bonds. In contrast, in the second half of the year, uncertainty relating to Italian public finances and the possibility that the accommodative monetary policy would be reversed faster than expected led to certain temporary upturns in yields. Finally, the narrowing of the differences between the positions of the Italian government and the European Union with regard to Italian public accounts and the confirmation by the ECB that its monetary policy would remain accommodative at least until the second half of 2019[30] led to government bond yields at most maturities and the sovereign credit risk premium to close the year at similar levels to those of 2017.

In this context, short-term government bond yields remained in negative terrain for the fourth consecutive year and closed 2018 at levels close to historic lows. Consequently, the yield in the secondary market of 3-month, 6-month and 12-month treasury bills at the end of December (on average) stood at -0.50%, -0.41% and -0.33%, respectively. These values are in line with the minimum annual yield of -0.40% established by the ECB in its debt purchase programme (deposit facility rate). With regard to the longer terms, the yield on 3-year, 5-year and 10-year government bonds in December (on average) stood at -0.04%, 0.43% and 1.43%, respectively. These values are very close to those recorded at the end of 2017, with a slight increase in 5-year yields (12 bp), while 10-year yields closed the year at almost exactly the same level as year-end 2017 (see Table 2.2.2).

30 In mid-December, the ECB's president reiterated the bank's commitment to maintaining rates at current levels (0%) at least through the summer of 2019, and in any case for as long as necessary. By the end of December 2018, the ECB had acquired public debt for 2.17 trillion euros, of which 260.82 billion euros corresponded to Spanish debt.

Interest rates for public debt[1]

TABLE 2.2.2

%

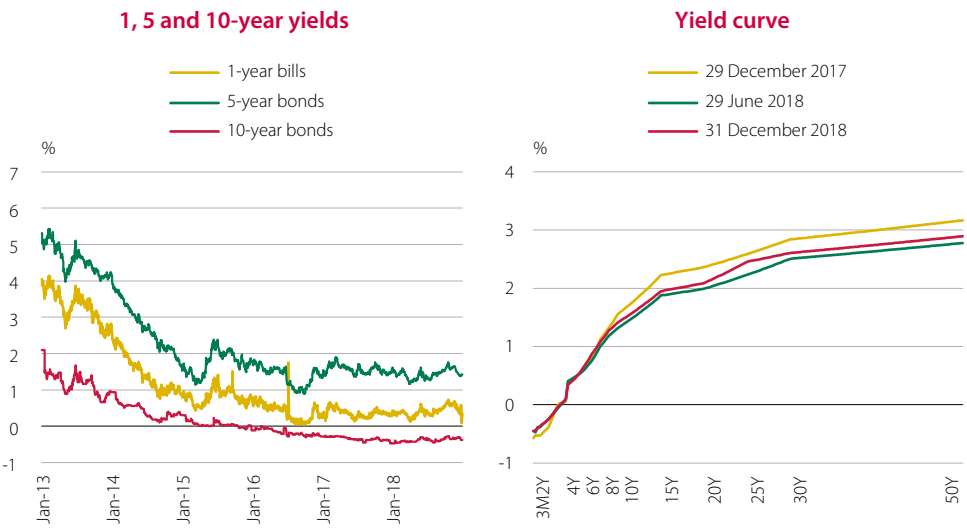
	Dec-15	Dec-16	Dec-17	Dec-18
Treasury bills				
3 months	-0.15	-0.47	-0.62	-0.50
6 months	-0.01	-0.34	-0.45	-0.41
12 months	-0.02	-0.25	-0.42	-0.33
Medium and long-term government bonds				
3 years	0.24	0.04	-0.09	-0.04
5 years	0.72	0.35	0.31	0.43
10 years	1.73	1.44	1.46	1.43

Source: Thomson Datastream. (1) Monthly average of daily data.

The yield curve of Spanish government bonds at year-end 2018 was practically identical to that of year-end 2017 up to maturities of 8-10 years. However, at longer maturities, yields at 31 December 2018 were slightly below those of year-end 2017.

Spanish government debt yields

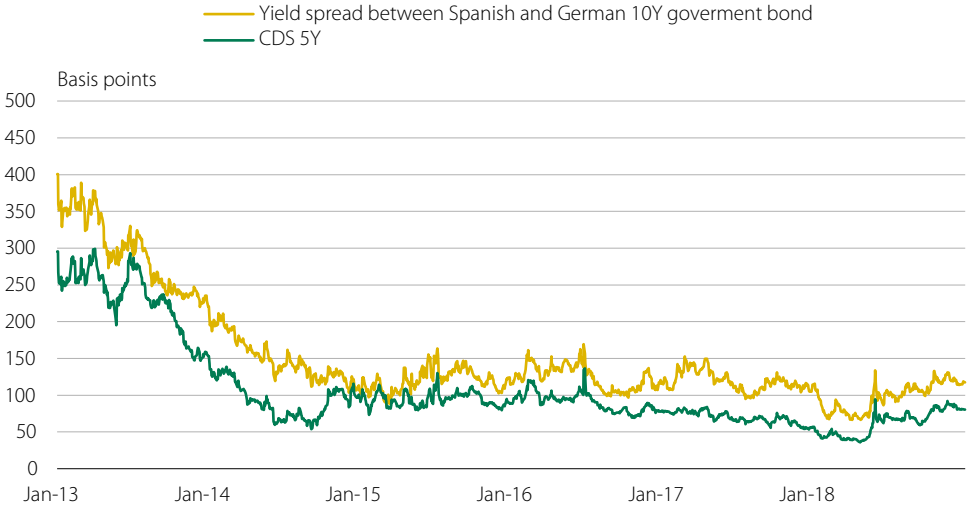
FIGURE 2.2.1



Source: Thomson Datastream and Bloomberg.

The risk premium, measured as the spread between the yields on the Spanish 10-year sovereign bond and the 10-year German bond, stood at 118 bp at the end of 2018, a figure similar to that recorded at the end of 2017 (114 bp), but in the higher part of the range between the annual high of the end of May (134 bp) and the low recorded in April (66 bp). The risk premium measured by using the CDS of the Spanish sovereign bond – whose market is less liquid than that of the German bond – recorded more significant increases and stood at 80 bp at the end of 2018, compared with 57 bp at the end of 2017 (see Figure 2.2.2).

Risk premium paid by Spanish issuers: public sector FIGURE 2.2.2



Source: Thomson Datastream and CNMV.

2.2.2.1 Primary market

The volume of gross issues registered by the public authorities in 2018 stood at 219.42 billion euros, 9.3% below the figure for the previous year. The breakdown by type of issuer shows that Central Government was responsible for 98.3% of all issues (215.7 billion euros), while the amount issued by the regional governments (3.72 billion euros) accounted for a very low percentage of the total (1.7%). The State provides financing to both autonomous regions and local authorities through various mechanisms, such as the Fund for Financing of the Autonomous Regions and the Fund for the Financing of Local Authorities, which explains their extremely low need to obtain financing directly from the markets.

Gross issues by public authorities TABLE 2.2.3

Nominal amount in million euros

	2015	2016	2017	2018	% change 18/17
State	**240,594**	**223,067**	**236,506**	**215,702**	**-8.8**
Short-term	97,871	100,996	94,439	80,984	-14.2
Long-term	142,723	122,071	142,067	134,717	-5.2
Regional governments	**4,046**	**4,866**	**5,305**	**3,718**	**-29.9**
Short-term	424	482	532	458	-13.8
Long-term	3,621	4,384	4,774	3,260	-31.7
Local authorities	**0**	**0**	**56**	**0**	-100.0
Short-term	0	0	0	0	–
Long-term	0	0	56	0	–
Total public authorities	**244,639**	**227,933**	**241,868**	**219,420**	**-9.3**

Source: Bank of Spain and CNMV.

Total net issuance by the public authorities in 2018 amounted to 37.93 billion euros, 19.1% down on the net volume in 2017, a year in which they had increased significantly. Despite the fall, it contributed towards a 3.8% increase in the balance of outstanding debt. Net issues by Central Government stood at 41.68 billion euros, while net issues by regional governments and local authorities were negative (-3.62 billion euros and -134 million euros, respectively), as the redeemed volume was higher than the issued volume.

Long-term issues by Central Government amounted to 50.08 billion euros, while in shorter-term debt, redemptions were 8.44 billion euros higher than issues. This made it possible once again to increase the average life of outstanding debt, which stood at a historic high of 7.45 years at the end of 2018. The aim of extending the average life is to take advantage of the current context of interest rates at historic lows to reduce the refinancing risk of the debt and the level of vulnerability relating to the financial burden in the event of a period of interest rate hikes.

2.2.2.2 Secondary market

As a result of the changes introduced by incorporation into Spanish law of the new European legislation on securities markets (MiFID II and MiFIR), which entered into force on 3 January 2018, new issues by the Spanish Treasury are registered and admitted to trading on the AIAF fixed-income market. These changes led to the suspension, on 16 April 2018, of publication of the Bank of Spain's *Public Debt Market Bulletin*.

Spanish public debt is traded on AIAF (regulated market), on SENAF (multilateral trading system), on CAPI OTF and on CIMD OTF (two Spanish organised trading facilities). SENAF (the Electronic System for Trading Financial Assets) is a multilateral trading facility for Spanish sovereign debt run by Bolsas y Mercados Españoles Renta Fija (BME RF), aimed at market creators in order to meet their liquidity commitments.

AIAF is a regulated fixed-income market perfectly adapted to MiFID II legislation, which extended its scope of action in 2018 to admit to trading sovereign debt issues from other countries, such as Germany, France, the Netherlands, Belgium, Austria, Portugal and Ireland and those under the European Stability Mechanism (ESM).

In 2018, the public debt traded in AIAF platform rose by almost 500 times, so that it grew from an insignificant figure in 2017 – 120 million euros in government bonds and 4 million euros in treasury bills – to 56.12 billion euros and 24.77 billion euros in bonds and bills, respectively, in 2018. One of the reasons that explains its rise, as mentioned previously, lies in the fact that it is adapted to the MiFID II legislation, meeting the pre-and post-trading transparency obligations imposed under this new legislation. For its part, public debt traded on SENAF was somewhat lower than that of AIAF in 2018.

In relation to the two Spanish organised trading facilities – CAPI OTF and CIMD OTF – authorised by the CNMV in January 2018, it should be pointed out that the volume of Spanish public and private debt traded in 2018 stood at 92 billion euros in the case of CAPI OTF (35.3 billion in foreign debt) and 257.66 billion euros in the case of CIMD OTF (52.25 billion in foreign debt). Debt and derivative financial instruments can be traded on these facilities (see Section 2.3.3).

Total trading of fixed-income instruments in Spanish trading venues. 2018 TABLE 2.2.4

Venue	Type of debt	Nominal amount (million euros)
AIAF		
	Corporate	429
	Sovereign	
	Spanish	80,899
	Foreign	12,913
SENAF		
	Sovereign	70,918
MARF		
	Corporate	8
OTF[1]		
CAPI	Corporate and sovereign	
	Spanish	92,000
	Foreign	35,301
CIMD	Corporate and sovereign	
	Spanish	257,662
	Foreign	52,252

Source: CNMV. (1) Sovereign debt (the majority) is not distinguished from corporate debt.

As regards the trading of Spanish public debt on other foreign trading venues, noteworthy is MTS Spain, a public debt trading platform that forms part of MTS Markets, an entity of the London Stock Exchange group, which is authorised as a multilateral trading facility by the FCA. The volume of trading of Spanish government bonds on this platform fell by 17.4% in 2018 (28.59 billion euros), representing 1% of the total, while trading of treasury bills fell by 62% (117.42 billion), representing 6.4% of all trading of these instruments.

As shown in Table 2.2.5, the bulk of public debt trading was registered in the section of other platforms and OTC. This heading includes both volumes traded through different MTFs of the three market operators reflected in the Table (SENAF, MTS and EuroMTS), as well as the amount traded through other OTFs, SIs and OTC trades.

The volume of government bonds traded on other platforms and OTC trades rose significantly in 2018, which was much greater in the case of government bonds. This rise in the trading of government bonds on the secondary market would be in line with that seen in the primary market, in which net issues of bonds were positive, while net issues of treasury bills were negative. It might also have been influenced by other factors, such as the evolution of both types of asset, or purely statistical effects.[31]

31 Until 2017, trading data came from the Bank of Spain, while in 2018 the data are obtained from the General Secretariat of the Treasury, using data from Iberclear on the settlement of both own-account transactions and transactions on behalf of third parties, and therefore the statistics may not be fully comparable.

Public debt trading by trading platform

TABLE 2.2.5

Million euros

	2015	2016	2017	2018	% change 18/17
Unstripped bonds					
SENAF	15,039	14,580	37,818	26,242	-30.6
AIAF/SEND	233	112	120	56,121	46,738.8
MTS Spain	136,430	164,814	164,722	136,132	-17.4
EuroMTS	18,807	11,648	6,051	7,083	17.1
Other platforms and OTC	10,143,946	8,047,692	9,080,255	13,880,941	52.9
Total	**10,314,455**	**8,238,845**	**9,288,965**	**14,106,518**	**51.9**
Treasury bills					
SENAF	48,121	100,883	70,905	44,676	-37.0
AIAF/SEND	30	8	4	24,767	596,114.3
MTS Spain	146,458	247,257	189,080	136,828	-27.6
EuroMTS	8,641	6,604	2,903	1,294	-55.4
Other platforms and OTC	1,702,494	1,710,623	1,504,502	1,975,475	31.3
Total	**1,905,744**	**2,065,376**	**1,767,394**	**2,183,040**	**23.2**

Source: General Secretariat of the Treasury and International Financing and BME RF.

2.2.3 Private fixed income

In parallel with the case of public debt, the yield on short-term private fixed-income assets closed the year at all-time lows and slightly lower than at the end of 2017. In December, the yields on commercial paper when issued stood at values ranging between 0.07% for the 12-month benchmark and 0.24% for the 3-month benchmark. The fact that the average yield on shorter-term commercial paper is higher than that of longer-term commercial paper is due to the low number of instruments considered in the average and the higher credit quality of the issuers that issue long-term commercial paper.

Yields on private fixed income[1]

TABLE 2.2.6

%

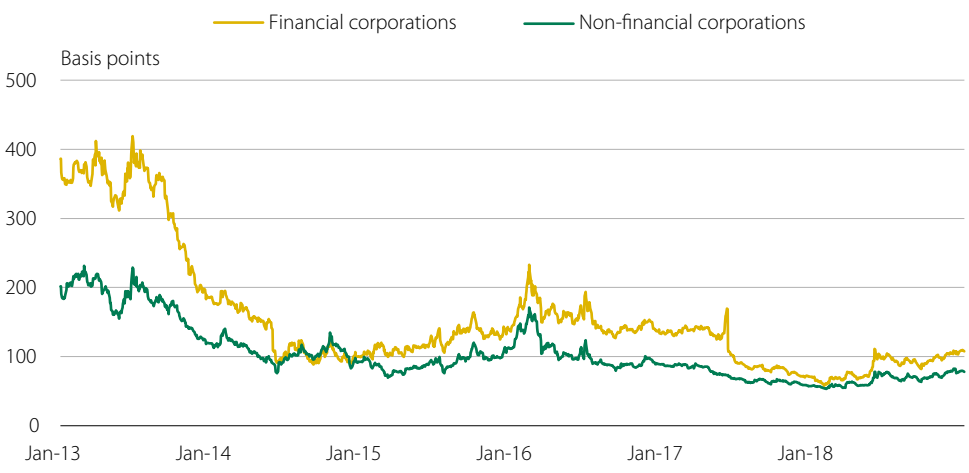
	Dec-15	Dec-16	Dec-17	Dec-18
Short term (commercial paper)[2]				
3 months	0.31	0.18	0.39	0.24
6 months	0.42	0.20	0.26	0.19
12 months	0.53	0.15	0.19	0.07
Medium and long-term				
3 years	0.66	0.69	0.44	0.67
5 years	1.95	1.43	0.41	0.55
10 years	2.40	2.14	1.16	1.52

Source: Thomson Datastream and CNMV. (1) Monthly average of daily data. (2) Interest rate at issuance.

The yields on longer-term corporate bonds were affected by the negative impact of the termination of the ECB's corporate sector purchase programme,[32] as well as the increase in the corporate bond risk premium. Both factors, together with the perspective that the slowdown in economic growth would affect the growth rates of corporate earnings in a context of expected rate hikes in the medium term, led corporate bond yields to rise slightly across most maturities on the curve. In the first three quarters of 2018, long-term corporate bonds recorded a negative spread with respect to government bonds thanks to the positive effect of the purchase programme for these assets, both in primary and secondary markets. However, the termination of the programme reversed the trend at the end of the year and the yields once again moved above those of government bonds across all maturities on the curve. At year-end 2018, yields on 3-, 5- and 10-year corporate bonds stood at 0.67%, 0.55% and 1.52%, respectively, which implies a spread with regard to government bonds of 71 bp, 12 bp and 9 bp, respectively, and a certain increase on the level of these yields at year-end 2017.

The credit risk premiums of Spanish issuers obtained from 5-year CDS followed a slight upward trend in 2018, which was more intense in the case of financial institutions as they are more exposed to some of the sources of uncertainty present in 2018 (exposure to Italian debt assets, emerging economies in difficulties, regulatory and tax uncertainties, etc.). At the end of the year, the average risk premium of financial institutions stood at 108 bp (70 bp in 2017), while those of non-financial companies stood at 78 bp (58 bp in 2017).

Risk premium paid by Spanish issuers: private sector[1] FIGURE 2.2.3



Source: Thomson Datastream and CNMV. (1) Simple average of the 5-year CDS of a sample of issuers.

2.2.3.1 Primary market

Debt issues registered with the CNMV in 2018 followed the downward trend of recent years and recorded the lowest volume of the decade, standing at 101.3 billion euros, 7.5% down on 2017. Issues of most debt assets, both long and short term, fell. Increases were recorded in issues of long-term bonds, with a volume of 35.84 billion

32 The corporate sector purchase programme had purchased a cumulative volume of 178.19 billion euros up to mid-February 2019, of which around 10% corresponded to Spanish issuers.

euros, of which 29.75 billion euros were issued by the SAREB.[33] Debt issued by the SAREB, which accounted for 83% of total long-term bonds and almost one third of total private fixed-income issues registered with the CNMV, is not placed in the market, but is fully subscribed by its shareholders.

With regard to the other categories, issues of asset-backed securities fell by 38% to 18.15 billion euros. This reduction is mainly the result of the sharp fall in issues of mortgage-backed securities, which fell from 14.89 billion euros to 683 million euros, which could not be offset by the increase in securitisations of loans to SMEs (from 3.75 billion euros to 10.44 billion euros).

As in recent years, the amount of securitisation bonds subscribed by the issuer or assignor of the receivables was very high – 71.8% compared with 82% in the previous year. Since the start of the financial crisis, financial institutions have used this way of issuing debt in order to provide these assets as collateral to the ECB and obtain funding from the Eurosystem. The other securitisation issues, i.e., those that effectively went to the market, were mainly securitisation bonds of debt issued to finance the electricity deficit (2.68 billion euros) and car loans. Annexes I.17 and I.18 provide greater detail about securitisation bond issues registered with the CNMV.

Gross issues registered at the CNMV: breakdown by instrument

TABLE 2.2.7

Nominal amount in million euros

	2014	2015	2016	2017	2018
Long-term	**96,604**	**109,298**	**116,068**	**91,576**	**85,987**
Non-convertible bonds and debentures	41,155	39,100	40,170	30,006	35,836
Subordinated debt	1,000	500	512	1,550	500
Convertible bonds and debentures	750	53	0	0	0
Mortgage bonds	23,838	31,375	31,643	29,824	26,575
Territorial bonds	1,853	10,400	7,250	350	2,800
Asset-Backed Securities (ABS)	29,008	28,370	35,505	29,415	18,145
Mortgages	17,310	9,458	19,621	14,885	683
Companies (SMEs)	8,750	14,124	7,500	4,850	10,442
Other	2,948	4,788	8,384	9,680	7,020
Preferred shares	0	0	0	1,000	2,850
Other issues	0	0	1,500	981	0
Short term[2]	**33,654**	**27,310**	**22,960**	**17,911**	**15,089**
Commercial paper	33,654	27,310	22,960	17,911	15,089
Asset-backed	620	2,420	1,880	1,800	240
Total	**130,258**	**136,607**	**139,028**	**109,487**	**101,295**

Source: CNMV. (1) Issued by mortgage securitisation funds. (2) The figures for commercial paper issues correspond to the amounts placed.

33 Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria [Management Company for Assets Arising from the Banking Sector Reorganisation].

The volume of commercial paper issues registered with the CNMV and admitted to trading on AIAF also fell in 2018, thus prolonging the downward trend of recent years. These issues stood at 15.09 billion euros, a fall of 16% on the figure recorded in 2017. In parallel, there was a significant increase in issues of commercial paper abroad by Spanish issuers. In 2018, these issues amounted to 50.93 billion euros, much more than double the figure recorded in the previous year. The leading Spanish issuer abroad was the Official Credit Institute (Spanish acronym: ICO), with a total issued amount of 22.38 billion euros, accounting for 44% of the commercial paper issued abroad.

In parallel with the increase in commercial paper issues abroad, there was a significant fall in issues of long-term bonds, with the volume issued abroad falling by 31.5% on the previous year (from 49.88 billion euros to 34.18 billion euros).

The volume of issues by the subsidiaries of Spanish companies abroad rose by 39% to 90.18 billion euros. Particularly noteworthy was the increase in issues by financial institutions, which more than doubled in amount in 2018, rising from 19.46 billion euros to 41.97 billion euros.

Gross private fixed income issued by Spanish issuers in foreign markets TABLE 2.2.8

Nominal amount in million euros

	2014	2015	2016	2017	2018
Long-term	**35,281**	**33,362**	**31,655**	**61,125**	**38,425**
Preferred shares	5,602	2,250	1,200	5,844	2,000
Subordinated debt	3,000	2,918	2,333	5,399	2,250
Bonds and debentures	26,679	28,194	28,122	49,882	34,175
Securitisation bonds	0	0	0	0	0
Short-term	**21,441**	**32,984**	**26,932**	**23,646**	**50,933**
Commercial paper	21,441	32,984	26,932	23,646	50,933
Asset-backed	0	0	0	0	0
Total	**56,722**	**66,347**	**58,587**	**84,771**	**89,358**
***Pro memoria*: Gross issues of subsidiaries of Spanish companies resident abroad**					
Financial institutions	10,201	14,875	11,427	19,459	41,966
Non-financial companies	31,969	40,411	45,247	45,361	48,212
Total	**42,170**	**55,286**	**56,674**	**64,820**	**90,178**

Source: Bank of Spain.

There was a noteworthy increase recorded by the MARF. Designed in 2013 as an MTF, it incorporates into fixed-income markets issues by smaller companies, many of which were not present in capital markets. This market has grown continuously since its creation, with a sharp rise in commercial paper admitted to trading in 2018. The nominal amount placed grew by 60% on 2017 and stood at 5.76 billion euros, accounting for over one third of the volume of new issues of commercial paper admitted to trading on AIAF in 2018.

Admission to MARF TABLE 2.2.9

Nominal amount in million euros

	2015	2016	2017	2018
Non-convertible bonds and debentures	355.5	398.6	75.8	365.0
Securitisation bonds	0.0	1,782.5	242.5	234.1
Commercial paper	431.7	23.5	3,651.6	5,759.6
Total	**787.2**	**2,204.6**	**3,969.9**	**6,358.7**

Source: CNMV.

2.2.3.2 Secondary market

As with the trading of public debt, the information relating to the trading of private fixed-income instruments has been affected by the entry into force of MiFID II on 3 January 2018. The objectives of this Directive include attracting more trading towards multilateral trading environments subject to organised and transparent trading rules, to the detriment of bilateral OTC trading. Multilateral facilities operate according to three possibilities: regulated markets, MTFs and OTFs. Bilateral trading can be channelled through SIs or be strictly OTC.

This new legislative framework has encouraged increased competition between the different facilities and trading venues, which seems to have negatively affected activity on AIAF, the Spanish regulated market. Trading of private fixed-income instruments on this market fell from 66.78 billion euros in 2017 to 429 million in 2018, as a consequence not only of this increased competition, but also the change in the channelling of bilateral trading, which, as mentioned above, is currently performed through SIs on a strictly OTC basis (AIAF is no longer involved). As mentioned previously, the CNMV authorised two Spanish OTFs in January 2018 (CAPI OTF and CIMD OTF), on which private fixed-income instruments began to be traded (see Table 2.2.4).

It should be noted that the trading of private debt assets on Spanish trading venues accounts for a small proportion of the total trading of these assets. Some preliminary estimates suggest that the most significant trading continues to be OTC (with an approximate relative share of 45% of total trading), followed by that performed on the Bloomberg Multilateral Trading Facility. This MTF is based in the United Kingdom and would have been the MTF that concentrated the largest trading volume in 2018 (a little over 30% of total). Two other MTFs (Tradeweb and MarketAxees), also domiciled in the United Kingdom, together would have performed a little over 10% of private fixed-income trading.

Total trading of private fixed-income instruments issued by Spanish companies.[1] 2018 TABLE 2.2.10

Million euros

	2018
Bilateral trading (OTC)	93,198
Bloomberg (MTF)	64,418
Tradeweb (MTF)	17,804
MarketAxees (MTF)	5,716
Other MTFs and SIs[2]	26,238
Total	**207,374**

Source: CNMV. (1) Data estimated from information contained in TREM (Transaction Reporting Exchange Mechanism). (2) This heading includes the sum of the volumes traded on multilateral trading facilities other than those indicated above, whether regulated markets (including AIAF in Spain), other multilateral trading facilities (including MARF), organised trading facilities (including CAPI OTF and CIMD OTF, registered in Spain) and other systematic internalisers (Banco Santander and BBVA are SIs authorised in Spain).

2.3 Derivatives markets

The activity of Spanish organised derivatives markets (the MEFF Exchange, where financial derivatives and electrical power contracts are traded) fell slightly, which contrasted with the growth of these markets worldwide. In addition, the first two OTFs where derivatives are traded were created. These are a new type of trading venue introduced by MiFID II. In addition, as in recent years, both the trading of warrants on the secondary stock market and the volume of those issued in the primary market continued to fall compared with previous years.

The volume of derivative contracts traded on international financial markets recorded a new all-time in 2018, with a total of 30.28 billion contracts traded (20.2% up, the highest growth rate since 2010). This growth was spread over the two segments existing in the market, which in both cases set a new record, with 17.15 billion contracts (15.6%) for futures and 13.13 billion contracts for options (26.8%).

By geographic area, there was an increase in trading in all the major regions, with significant growth in the number of contracts recorded in the Asia-Pacific (27.1%) and Latin American (40.8%) regions, although Asia-Pacific and North America are still the regions with the highest market shares (37% and 34.9%, respectively). Trading in Europe grew by 6.7% up to an all-time high of 5.27 billion contracts (of which, 4.17 billion corresponded to futures and 1.1 billion to options), accounting for 17.4% of the global market. Particularly important among the European markets due to their size are the Eurex and ICE Futures Europe markets, which recorded the highest contract volumes and growth rates.

Trading on European financial derivatives markets TABLE 2.3.1

Thousands of contracts

	2016	2017	2018	% change 18/17
Eurex	1,727,460	1,675,898	1,951,763	16.5
ICE Futures Europe	973,858	1,166,947	1,276,090	9.4
Euronext	126,241	140,276	149,254	6.4
Nasdaq Exchange Nordic Markets	91,077	86,420	87,272	1.0
London Stock Exchange Group	54,065	42,538	46,105	8.6
MEFF	40,205	39,246	38,396	-2.2

Source: Eurex, Futures Industry Association, Intercontinental Exchange and CNMV.

2.3.1 MEFF Exchange

Financial derivatives

Trading of derivative contracts on the MEFF fell by 2.2% in 2018 on the previous year as the growing activity in contracts on indices (1%) was not enough to offset the decline in derivative contracts on shares (-2.9%). Also, despite this market having a futures contract on the Spanish 10-year sovereign bond, there was no recorded activity – as had been the case in 2017 – due to competition from a similar contract on the German Eurex market.[34]

In the segment of Ibex 35 financial derivatives, the most traded contracts were Ibex 35 futures, which grew by 1.3% due to the increase in the larger Plus contracts (1.2%) and, to a lesser extent, in Ibex 35 dividend impact contracts (63.1%). In contrast, the smaller-sized Mini contracts fell (-7.9%) as did contracts on banks and energy sector indices (-64.6%), which remain concentrated in the banking sector. In addition, Ibex 35 option contracts fell by 2.8%.

Trading of equity derivatives fell by 2.9% in the year due to the fall in the traded volume of stock futures contracts (-8.3%), while the number of stock option contracts remained practically the same (-0.4%). In addition, as in previous years, trading was concentrated in a small number of underlying assets (Banco de Santander, BBVA, Telefónica, Iberdrola and Repsol), that accounted for around 92% of total trading both of futures and options, similar percentages to those recorded in 2017. Banco de Santander stock futures and options alone accounted for 73% and 33% of the total, respectively. Dividend futures grew by 36.1%, with their traded volume reaching an all-time high since their introduction in 2012.

34 On 26 October 2015, Eurex launched its Euro-BOND Futures contract, a future whose underlying asset is the Spanish sovereign 10-year bond. In 2018, 173,450 contracts of this type were traded on this market (Source: Eurex).

Trading on MEFF Exchange[1]

TABLE 2.3.2

Number of contracts

	2015	2016	2017	2018	% change 18/17
Debt contracts	**8,012**	**360**	**0**	**0**	**–**
10-year bond future	8,012	360	0	0	–
Ibex 35 contracts	**8,279,939**	**7,468,299**	**6,911,671**	**6,983,287**	**1.0**
Ibex 35 futures[2]	7,735,524	7,146,060	6,481,301	6,564,971	1.3
Plus	7,384,896	6,836,500	6,268,290	6,342,478	1.2
Mini[2]	318,129	249,897	161,886	149,023	-7.9
Dividend impact	32,499	58,044	43,372	70,725	63.1
Sector		1,619	7,753	2,745	-64.6
Ibex 35 options[2]	544,416	322,239	430,370	418,315	-2.8
Contracts on shares	**31,769,507**	**32,736,458**	**32,335,004**	**31,412,879**	**-2.9**
Stock futures	10,054,830	9,467,294	11,671,215	10,703,1912	-8.3
Dividend futures	292,840	367,785	346,555	471,614	36.1
Dividend futures plus	1,152	760	880	200	-77.3
Stock options	21,420,685	22,900,619	20,316,354	20,237,873	-0.4
Total	**40,056,458**	**40,205,117**	**39,246,675**	**38,396,166**	**-2.2**

Source: CNMV. (1) The differences in the nominal value of the different products make it impossible to compare them based on the number of contracts traded. However, the evolution of trading over time in each type of product can be tracked. (2) In the case of the Mini futures and options, the number of contracts traded is calculated by dividing by ten so as to standardise the individual size of the contract with those of the Ibex 35 Plus future (it is taken into account that the multiplier of the index used to calculate the nominal value of the contract is one euro in the first two cases and ten euros in the latter case).

New developments in the financial derivatives segment

The main new development in the financial derivatives sector since the start of the year was the establishment of a new RFQ (request for quote) system. This trading system, which is added to the existing electronic trading system (with orders and pre-arranged trades), allows members to enter requests for quotes to other members on the contracts admitted to trading on MEFF's financial derivatives segment. Requests may be initiated by any participant in the market and recipients are able to enter the corresponding responses, which may be an acceptance (accepting the price proposed by the applicant) or a proposal (in the event that the request was made without a price), without the option to propose a contract other than that referred to in the request to which they are responding.

With regard to products, the main new aspect was the introduction from December of Ibex 35 Micro futures, which are characterised by having the Ibex 35 index as underlying, standard weekly and monthly maturities and a multiplier of 0.1 euros, compared with the 10 euros and 1 euro of the Ibex 35 future and Ibex 35 Mini future, respectively. Approval of this new contract entailed changes to the general conditions and to some market circulars, which were modified in order to include the particular features of this new product.

In addition, as from December the timetable for accepting trades within the pre-arranged trade system in the financial derivatives segment was extended to 7 pm for contracts with short hours (those other than Ibex 35 futures, Ibex 35 Mini futures and Ibex 35 Micro futures), maintaining 8:15 pm as the deadline for accepting pre-arranged trades for contracts during extended hours (Ibex 35 futures, Ibex 35 Mini futures and Ibex 35 Micro futures).

In addition, BME launched a new range of daily indices related to the MEFF options and futures market and the Ibex 35 index. These include a volatility index, a volatility trend index and a set of options strategy indices.

Market members

At year-end 2018, MEFF Exchange had a total of 88 market members, 2 fewer than the previous year. Of these 88, 56 traded in the financial derivatives segment and 36 in the power segment. During the year, the members of the power derivatives segment remained the same while the number of members of the financial derivatives segment fell by 2.

Number of members in MEFF Exchange TABLE 2.3.3

Segment	Traders	Own account traders	Total entities	Change 18/17
Financial derivatives	43	13	56	-2
Power	7	29	36	0
Total entities[1]	**46**	**42**	**88**	**-2**
Change 2018	**-2**	**0**	**-2**	**-**

Source: MEFF Exchange and CNMV. (1) The total is lower than the sum of members in each segment due to there being entities participating in more than one segment.

2.3.2 MEFF Power

The total trading volume in this segment fell to 12.3 TWh in 2018, a fall of 31.2% on the previous year. The cash value of the registered contracts amounted to 683 million euros, compared with 854 million euros in 2017, a fall of 20.1%. The decrease in this cash value is lower than that recorded in the energy volume as a result of the year-on-year increase in the prices of Spanish electricity futures, in line with other European electricity markets. This explains the fact that the reduction in the cash value is lower than the absolute value of the recorded decrease in energy volume.

In a context of very low trading volume, the period of greatest activity was the last quarter of the year, with highs in October and November, in contrast with the summer months, in which hardly any activity was recorded, unlike in 2017. The fall in year-on-year activity affected all types of contracts except monthly contracts, which grew by 9.4%, and was particularly sharp in the longer contracts. Quarterly and annual contracts fell by 42.8% and 34.8%, respectively, in year-on-year terms. In addition, there were fewer transactions recorded over the year (1,894, 4.3% down on 2017 and an average of 7.5 trades per day), which were also of a smaller size (15 contracts and 6.5 GWh on average, compared with 17.2 contracts and 9.1 GWh on average in 2017).

The open position at year-end 2018 stood at 5.5 TWh (with closing prices valued at nearly 317 million euros), lower than the 8.0 TWh of the open position at the end of the previous year, then valued at 422 million euros. The underlying volume fell by 31.8% in year-on-year terms, while the valuation of the position was 24.9% lower as a result of the increase in prices.

Despite the overall reduction in the open position in 2018, that relating to annual contracts almost doubled (1.1 to 2.1 TWh), accounting for 37.6% of the total position, compared with 13.2% at the end of 2017. The composition of the terms of the trades changed because, although the overall volume of annual contracts fell, trades with more distant maturity periods started to be made (annual for 2020 and beyond), which had been very rare up to the previous year.

At the end of 2018, this market had a total of 201 participants, 3 more than in 2017.

2.3.3 Organised Trading Facilities (OTFs)

MiFID II Directive introduced a new category of trading venue called Organised Trading Facilities (OTFs), where only fixed-income instruments and derivatives may be traded. In OTFs, unlike on regulated markets and MTFs, trading may be carried out under discretionary rules. Furthermore, under certain circumstances, the OTF operator is allowed to carry out matched principal trading in fixed-income securities and derivative instruments and to trade on its own account in those sovereign debt instruments for which there is no liquid market.

In January 2018, the CNMV authorised the operation of the first two OTFs – CAPI OTF and CIMD OTF. The former operates in financial derivatives and foreign exchange, while the latter operates in two differentiated segments: financial derivatives and electricity derivatives.

Trading on Organised Trading Facilities (OTFs) TABLE 2.3.4

Financial derivatives segment	No. of trades	Cash amount (million euros)
Financial derivatives[1]	2,250	737,350
FX derivatives[2]	1,247	367,268
Total	**3,497**	**1,104,618**
Energy derivatives segment	**2,041**	**1,344**

Source: CNMV. (1) Correspond to trades with swaps, basis swaps, futures on interest-rate indices and overnight indexed swaps. (2) Correspond to trades with foreign exchange futures.

In their first year of activity, OTFs performed 3,497 trades with financial derivatives and 2,041 with energy derivatives, for a cash amount of 1.1 trillion and 1.34 billion euros (as will be discussed below), respectively. Among the financial derivatives, around two thirds of the transactions and the cash amount traded corresponded to interest-rate derivatives, such as different types of swaps and futures, while the remaining third were transactions with derivatives whose underlying were foreign exchange rates.

Energy derivatives segment

CIMD's energy derivatives segment is where swaps with financial settlement against the daily average of the price of the Spanish (SPEL) and Italian (ITEL) electricity spot markets are traded. These contracts have settlement periods ranging from one day (daily contracts) to one year (annual or calendar), in addition to contracts of intermediate duration: weekly, monthly and quarterly. The relevant times of the settlement period for calculating the average of the spot price against which the derivative is settled may be all of the times of the period (base load contracts) or only those between 8 am and 10 pm on the days from Monday to Friday included in the settlement period (peak load contract). In the energy segment of CIMD's OTF, SPEL derivatives in base load and ITEL derivatives in base and peak load are traded.

In the year as a whole, the total trading of these instruments amounted to a volume of 25.1 TWh, 74.6% in SPEL derivatives and 25.4% in ITEL swaps, mostly in base load. The total cash trading volume amounted to 1.34 billion euros, 71.5% in Spanish derivatives and 28.5% in the Italian electricity underlying, a more balanced distribution than in the physical volume as a result of the higher average price of the Italian electricity swaps than those for Spanish electricity.

With regard to the contract settlement periods, particularly noteworthy was the trading of annual contracts of SPEL derivatives, which amounted to 11.5 TWh (61.2% of total trading of "Spanish" derivatives), while trading was more evenly spread for Italian contracts as the annual contracts accounted for 42.8% of total volume, with more small trades in contracts with a settlement period of less than one month.

2.3.4 Warrants and certificates

In 2018, both the number of warrants issued and the volume issued continued to fall, while their trading on the secondary market remained practically unchanged compared with the previous year. This took place in a scenario of low market volatility, which discourages the use of this type of instrument. In the case of certificates, the primary market once again recorded no activity (there have been no issues since 2010), while activity on the secondary market continued to shrink, with a fall of 11.5% in the amount of the premiums traded down to their lowest ever level.

Issues

5,231 warrants were issued in 2018, an 8.7% drop on 2017 and the lowest figure since 2006. The number of issuers decreased to 5, all of which are banks, with the de-registration corresponding to an engineering company that issued warrants in the previous year as part of its restructuring process. The total amount of premiums was 2.09 billion euros, 14.3% less than in 2017, the majority being contracts whose underlying assets were shares and indices, although indices lost relative weight to the benefit of other underlying. In aggregate terms, the total amount of issues was the lowest in recent years, with significant falls of almost 20% in the premiums of index issues. In contrast, despite their low volume, there were significant issues of currencies and commodities, whose premiums grew by 50.4% and 204.1%, respectively. Meanwhile, as mentioned previously, no issue of certificates was registered with the CNMV.

Warrant issues registered with the CNMV

TABLE 2.3.5

Thousand euros

	Number		Amount of premium				
	Issuers	Issues	Total	Shares	Indices[1]	Currencies	Commodities
2014	6	8,574	3,644,239	1,770,915	1,697,295	99,964	76,065
2015	8	9,059	3,479,064	1,807,276	1,486,148	106,199	79,441
2016	5	7,809	2,688,574	1,438,206	1,153,143	57,305	39,920
2017	6	5,730	2,433,614	939,528	1,443,030	32,415	18,642
2018	5	5,231	2,084,891	818,952	1,160,478	48,767	56,695

Source: CNMV. (1) Includes baskets of securities and of indices.

Secondary market

The trading of warrants on the secondary market fell slightly in 2018 to 456.6 million euros, its lowest level in the last 15 years. Trading was mainly concentrated in index warrants, which accounted for 70% of the total, and, to a lesser extent, stock warrants, which accounted for 29%. Contracts with the other assets (currencies and commodities), which had grown in the year in the primary market, saw a reduction in trading to less than half the figure recorded in 2017 and only accounted for 1% of the total market.

Trading in warrants on the electronic market

TABLE 2.3.6

Premiums traded, in thousand euros

		Premiums traded, by type of underlying				
	No. of Issues	Indices[1]	Shares	Currencies[2]	Commodities	Total
2014	7,612	364,302	430,984	14,209	8,202	817,698
2015	7,530	691,995	370,256	20,004	13,604	1,095,859
2016	6,296	420,353	280,953	5,025	9,209	715,541
2017	5,082	266,016	186,717	2,018	7,837	462,588
2018	4,191	317,881	133,863	1,390	3,542	456,676

Source: CNMV. (1) Includes baskets of securities and of indices. (2) Includes fixed-income warrants in the years in which these were traded.

Trading in certificates on the electronic market

TABLE 2.3.7

Premiums traded, in thousand euros

		Premiums traded, by type of underlying				
	No. of issues[1]	Indices[2]	Shares	Currencies	Commodities	Total
2014	2	0.0	0.0	0.0	1,682.5	1,682.5
2015	2	0.0	0.0	0.0	1,135.1	1,135.1
2016	2	0.0	0.0	0.0	400.5	400.5
2017	2	0.0	0.0	0.0	362.2	362.2
2018	2	0.0	0.0	0.0	320.4	320.4

Source: CNMV. (1) The number of issues states the issues that recorded trading in each period. (2) Includes baskets of securities and of indices.

The amount of premiums traded in the certificates segment was once again very low due to the absence of new issues of this type of asset. Trading fell to 0.32 million euros, corresponding to the only two issues active on the market, whose underlying assets are gold and oil (both were issued by the same bank in 2007 and 2010, respectively).

2.3.5 Atypical financial contracts

During the year, 11 issues of atypical financial contracts were registered with the CNMV whereby a credit institution receives money from its clients and undertakes to reimburse them according to how one or a number of securities perform in the market, with no commitment to repay the principal received in full. Reimbursement consists of either the delivery of certain listed securities, or the payment of a sum of money, or both. These contracts are characterised by not being admitted to trading on organised secondary markets. The amount of the traded premiums totalled 953 million euros, less than half the 1.96 billion euros traded in 2017, with the underlying being mostly shares.

Issues of call and put options registered with the CNMV TABLE 2.3.8

Thousand euros

	Number		Amount of premium				
	Issuers	Issues	Total	Shares	Indices[1]	Commodities	Exchange rates
2014	0	0	0	0	0	0	0
2015	1	1	5,000	5,000	0	0	0
2016	1	4	650,000	650,000	0	0	0
2017	2	15	1,964,500	1,950,000	14,500	0	0
2018	2	11	953,000	950,000	3,000	0	0

Source: CNMV. (1) Includes baskets of securities and of indices.

A new feature of regulation in this regard in 2018 is Royal Decree-Law 14/2018, of 28 September, which attributes jurisdiction over structured deposits (type of atypical financial contract that guarantees 100% of the capital) to the CNMV.

2.4 Clearing, settlement and registry

2.4.1 Iberclear

The Securities Registry, Clearing and Settlement Management Company (Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal), which operates under the business name of Iberclear, is the Spanish central securities depository. It provides the initial registration service (notary service), the service of provision and maintenance of securities accounts (central maintenance service or central deposit function) and manages the ARCO securities settlement system (settlement service), as well as other related ancillary services, in the terminology of the CSDR.[35]

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

At the end of 2018, Iberclear had 67 participating entities (including central counterparties and other CSDs with which Iberclear has links), 1 fewer than at year-end 2017. In 2018, 4 entities registered and 5 entities deregistered, most as a result of merger processes.

2.4.1.1 Registration activity

Since its integration into Target2-Securities (T2S) in September 2017, Iberclear manages one single platform (ARCO), in which all securities are integrated.

At the end of the year, a total of 8,499 issues were registered with Iberclear, with a nominal amount of 1.66 trillion euros. Compared with the figures of the previous year, there was a fall both in the number of outstanding issues (-7.2%) and in their amount (-0.3%). This overall fall took place despite the increase in the number of issues and the amount of sovereign debt securities admitted, as shown in Table 2.4.1.

Iberclear ARCO. Registry TABLE 2.4.1

Million euros

Securities registered	2017	2018	% change 18/17
Number of issues	**9,155**	**8,499**	**-7.2**
Public debt	472	486	3.0
Corporate debt	2,254	2,129	-5.5
Other securities	6,429	5,884	-8.5
Nominal balance registered	**1,666,693**	**1,661,254**	**-0.3**
Public debt	989,698	1,036,073	4.7
Corporate debt	530,290	485,873	-8.4
Other securities	146,705	139,308	-5.0

Source: Iberclear and CNMV.

2.4.1.2 Settlement activity

The total figure for settlement is not directly comparable with that for 2017 as fixed income was incorporated into the ARCO platform in September 2017, with implementation of phase II of the reform carried out in Spain in the clearing, settlement and registration systems, and the coding of the transactions does not allow for an exact match. However, according to the estimate made, it should be noted that, with regard to fixed income and in overall terms, activity fell significantly (by 56% in terms of the number of transactions and by 63% in cash terms). This is due to the fact that, following incorporation into Target2-Securities, balance movements within the same third-party account are no longer reported and calculated in Iberclear as they do not give rise to settlement instructions through the system.

With regard to equity trades from CCPs, the activity continues to shrink, in line with the market's lower level of activity. With regard to bilateral trading, it is estimated that there was an increase of 2.3% in the number of trades and 1.3% in the cash amount.

Iberclear SCL/ARCO. Registry

TABLE 2.4.2

Million euros

	2017		2018	
	Trades	Amount	Trades	Amount
Trades from CCPs	**2,367,529**	**2,782,727**	**2,512,771**	**7,850,520**
Sovereign debt[1]	78,490	2,092,330	282,626	7,167,911
Corporate debt[1]	–	–	–	–
Equity	2,289,039	690,397	2,230,145	682,609
Bilateral and platform trades	**8,538,996**	**33,278,388**	**6,652,376**	**12,884,526**
Sovereign debt[1]	2,703,625	30,742,801	1,167,172	11,520,441
Corporate debt[1]	556,919	1,321,559	85,074	134,177
Equity	5,278,452	1,214,028	5,400,130	1,229,909
TOTAL	**10,906,525**	**36,061,115**	**9,165,147**	**20,735,046**

Source: Iberclear and CNMV. (1) For 2017, sovereign and corporate debt securities include all types of transactions in the periods before and after 15 September, the date of phase II of the reform, when Iberclear was incorporated into T2S and fixed income into the ARCO platform. In addition, prior to incorporation into ARCO, transactions from fixed income CCPs could not be identified as they were processed as bilateral trades.

Iberclear. Settlement incidents ARCO

TABLE 2.4.3

Million euros

	2017		2018	
	Trades	Amount	Trades	Amount
Sovereign debt[1]	24,999	436,864	51,138	761,471
Corporate debt[1]	1,726	2,618	5,965	7,590
Equity	745,317	239,366	917,761	294,144
Total failed trades	**772,042**	**678,848**	**974,864**	**1,063,205**
Buy-ins and settlement in cash	104	2	78	9

Source: Iberclear and CNMV. (1) For 2017, the information on sovereign and corporate debt securities only corresponds to the period subsequent to 15 September, the date of phase II of the reform, when Iberclear was incorporated into T2S and the fixed income into the ARCO platform.

The figures on efficiency in fixed income and the total for 2018 are not directly comparable with those of 2017. This is due to the fact that for that year only the incidents corresponding to the period subsequent to 15 September, once the fixed-income securities were incorporated into the ARCO platform, were calculated. However, considering efficiency on this platform from that date, the percentage of failed trades in 2018 was lower than in the last 14 weeks of 2017 (4.3% of failed trades compared with 5.5% in 2017), with better performance of sovereign debt (4.1%) compared with corporate debt (7.5%).

For its part, inefficiency in equity rose to around 2%. This is due to the greater weight of bilateral trades, which generally have worse efficiency ratios.

2.4.2 BME Clearing

BME Clearing is the Central Counterparty (CCP) authorised to provide clearing services in Spain in accordance with Regulation (EU) 648/2012 of the European

Parliament and of the Council, of 4 July 2012, on OTC derivatives, central counterparties and trade repositories (EMIR).

Table 2.4.4 shows the distribution of active members in BME Clearing, differentiated by segment and by type of member. In 2018, 10 new entities registered while 10 deregistered, leaving the number of BME Clearing members at 132 at year-end.

Number of members in BME Clearing by segment TABLE 2.4.4

	Clearing			Non-clearing				
Segment	General	Individual	Special indiv.	Non-clearing	Ordinary	Propietary	Total entities	Change 18/17
BME Clearing Financial Derivatives	7	27	–	10	–	13	57	1
BME Clearing Energy	6	–	–	–	–	31	37	2
BME Clearing Repo	–	25	–	–	–	–	25	-3
BME Clearing Swap	–	8	–	–	–	–	8	0
BME Clearing Equity	9	16	5	–	24	–	54	-1
TOTAL ENTITIES (*)	**17**	**50**	**5**	**10**	**24**	**44**	**132**	–
Change 2017	-1	-1	-2	-1	1	4	0	–

Source: BME Clearing and CNMV. (*) The "total entities" row does not correspond to the sum by segments as one entity may participate in several segments.

2.4.2.1 BME Clearing Derivatives

Transactions in financial derivatives traded on MEFF are cleared in this segment. In the course of 2018, 7 entities deregistered and 6 registered, leaving the number of members at 57 at year-end (1 less than in 2017), as shown in Table 2.4.4.

2.4.2.2 BME Clearing Energy

The main new development in this segment in 2018 was the launch on 24 May of the new clearing service for natural gas contracts. Unlike electricity contracts, these contracts are settled by physical delivery at a Spanish virtual balancing point (VBP).[36] The new contracts that BME Clearing accepts for clearing are natural gas futures and spot transactions, as well as loan or deposit transactions. Specifically, the contracts traded on BME Clearing are day-ahead contracts and the whole range of natural gas futures (with weekly, monthly, quarterly, seasonal or annual maturities).

BME Clearing manages the risk and the margins as well as registering the positions, notifying the Spanish gas Transmission System Operator (TSO), Enagás, while performing the settlements and corresponding invoicing.

Current trading of gas derivatives in Spain is performed through bilateral OTC transactions. The volume of deliveries resulting from this trading is reported by means of notifications of gas transfers and acquisitions to the TSO (Enagás). In this

36 The virtual balancing point is the virtual exchange point of the transport network where users can transfer ownership of gas as entry or exit thereof.

context, BME Clearing clears contracts for two different types of gas: natural gas and liquefied natural gas. This latter type of gas must be processed in a regasification plant as a prior step to its conversion into natural gas and its subsequent commercial distribution. Natural gas contracts are settled by means of the notification to the TSO of the delivery of gas at the virtual balancing point, while liquefied natural gas contracts are settled by means of notification of the delivery to a regasification plant.

This activity was approved in 2017 and in April 2018, the CNMV Board approved the establishment of agreements between BME Clearing and three OTFs, the new category authorised under the MiFID II framework, for CCP clearing of the gas contract transactions executed therein. Since then and up to the end of the year, 22 participating entities have joined, with a registered volume up to December of 1.4 TWh.

In addition to gas, electricity derivatives (traded on MEFF) continued to attract the interest of entities active in the industry to become market participants, the number of which rose from 146 at the end of 2017 to 156 in the final months of 2018. Despite this trend, a lower number of contracts were registered and hence the registered volume of electricity derivatives fell by 30% in 2018 and stood at 12.5 TWh.

Activity in BME Clearing Energy TABLE 2.4.5

Nominal volume in million euros

	2017			2018		
	Electricity	Gas	Total	Electricity	Gas	Total
Cash volume	854	–	**854**	689	35	**724**
Number of transactions	1,982	–	**1,982**	1,908	48	**1,956**
TWh	17.9	–	**17.9**	12.5	1.4	**13.9**

Source: CNMV and BME Clearing.

With regard to the number of members registered in this segment of BME Clearing, 1 entity de-registered in 2018 and 3 new entities were added, leading the total number of members to stand at 37 (2 more than in 2017), as shown in Table 2.4.4.

2.4.2.3 BME Clearing Equity

The equity segment is the central counterparty service for transactions in securities traded on the stock exchange. This segment began operating on 27 April 2016, the starting date of the new clearing, settlement and registry system, which made it obligatory for trading on shares and subscription rights carried out through multilateral segments of official secondary markets to be cleared through a CCP.

Another milestone was reached in September 2017 with the connection of Iberclear and BME Clearing to the pan-European securities settlement platform Target2-Securities, thus completing the second and final phase of the reform.

In 2018, a cash volume of 1.14 trillion euros was registered, 12.2% down on 2017, as shown in Table 2.4.6.

Activity in BME Clearing Equity TABLE 2.4.6

	2017	2018
Nominal volume in million euros	1,294,553	1,136,782
Number of transactions	101,960,566	88,278,588

Source: CNMV and BME Clearing.

At the end of 2018, this segment had 56 clearing members, 2 more than at year-end 2017, after 4 new additions and 2 de-registrations (see Table 2.4.4).

2.4.2.4 BME Clearing Repo

The Repo fixed-income segment offers the central counterparty service for Spanish public debt repos, thus eliminating counterparty risk for participating entities.

In April 2018, the CNMV Board approved the establishment of an agreement between BME Clearing and BrokerTec to register trades of this platform in the repos segment. Financial institutions trade repos bilaterally and clear them in BME Clearing. Through this agreement, the banks that operate through the BrokerTec platform – the main platform for trading Spanish debt repos – can clear their transactions in BME's CCP, thus benefiting from access to greater liquidity.

Nevertheless, activity in this segment fell significantly in 2018. The total registered volume stood at 155.64 billion euros, with a monthly average of 190 trades. At the end of 2018, the average open position of the last 10 days, equivalent to the financing provided, stood at 8.24 billion euros, with an average financed term of 26 days.

A total of 3 members de-registered from this segment in 2018 and therefore the number of active members stood at 25 at the end of the year, all of which were individual clearing members.

Activity in BME Clearing Repo TABLE 2.4.7

	2017	2018
Nominal volume (in million euros)	295,256	155,639
Number of transactions	4,915	2,145

Source: CNMV and BME Clearing.

2.4.2.5 BME Clearing Swap

This segment offers the central counterparty service for the trading of OTC interest-rate derivatives. It began operating in 2016.

Despite the changes over the past year, activity in this segment continued to fall. In 2018, only 11 transactions were registered for a nominal amount of under 150 million euros, well below the 47 transactions of 2017 for an amount of over 2.2 billion euros.

At year-end 2018, this segment had eight clearing members (no change on 2017), all individual clearers.

2.4.3 European initiatives in changes to registry, counterparty, clearing, and settlement services

Progress in the implementation of Regulation (EU) 909/2014 on improving securities settlement in the European Union and on central securities depositories (CSDR)

The Central Securities Depositories Regulation (CSDR) provides, together with T2S, a key basis for a single capital market. The aim of this Regulation is to establish standardised requirements for the settlement of financial instruments throughout the European Union and to harmonise the organisation and conduct of European CSDs.

The development of Level 2 implementing measures of the CSDR (level 1) began in 2017 and was completed on 13 September 2018 with publication in the *Official Journal of the European Union* of Commission Delegated Regulation (EU) 2018/1229, of 25 May 2018 (level 2), supplementing Regulation (EU) No. 909/2014 of the European Parliament and of the Council, with regard to regulatory technical standards on settlement discipline. This level 2 measure will enter into force in September 2020.

With regard to Level 3 measures, in order to help achieve the aim of ensuring supervisory convergence and a standardised implementation of the CSDR and of associated Level 2 measures, in 2018 ESMA published a series of guidelines, recommendations, opinions, and Q&As.

Among the most important guidelines were those concerning the process for calculating the indicators used to determine the most important currencies in which trades are settled, guidelines referring to the process for calculating the indicators used to determine the substantial importance of a CSD of a host Member State, and guidelines on the cooperation between authorities pursuant to Articles 17 and 23 of the CSDR. These sets of guidelines were published on 28 March 2018 on ESMA's website, and the CNMV has notified its intention to comply with them.

Lastly, in application of the provisions of Article 17 of the CSDR, since October 2017 Iberclear's authorisation process of as a CSD has been taking place under the terms of that Regulation. Work relating to this process by Iberclear, the CNMV and the Bank of Spain continued in 2018.

Finally, it is important to note the creation by the CNMV at the end of 2018 of a contact group on the clearing, settlement and registry system, as a channel for dissemination and for consultation with regard to national and European Union regulatory initiatives in the context of post-trading and also as a forum for discussion on application of issues that affect this sector and proposals for improvement.

3 Financial institutions and investment services

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.

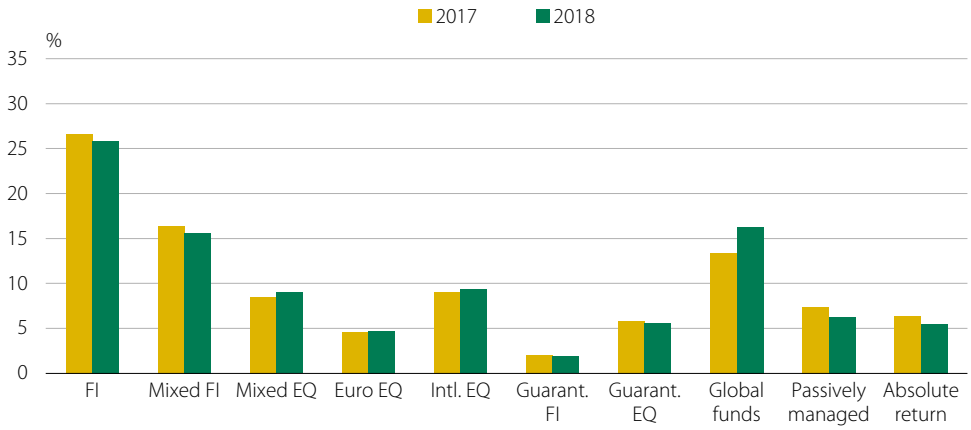
As shown in Statistical Annex II.1, the fund categories that recorded the largest falls in assets under management were, in this order, fixed-income funds (3.68 billion euros down on 2017, a drop of 5.2%) and passively managed funds (down 3.34 billion euros, a drop of 17.1%). It should be noted that 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[1]

TABLE 3.1.1

Million euros

	2017	%	2018	%	% change 18/17
Assets	**265,195**	**100.0**	**259,095**	**100.0**	**-2.3**
Financial investment portfolio	**244,598**	**92.2**	**241,016**	**93.0**	**-1.5**
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
Cash	**19,988**	**7.5**	**16,897**	**6.5**	**-15.5**
Net balance (debtors/creditors)	**608**	**0.2**	**1,182**	**0.5**	**94.4**

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 registered at 31/12/17	New registrations	De-registrations	Firms registered at 31/12/18
Total financial CIS	**4,564**	**111**	**289**	**4,386**
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
Total IIC inmoa Total real estate CIS biliarias	**7**	**0**	**0**	**7**
Real estate mutual funds	3	0	0	3
Real estate investment companies	4	0	0	4
Total foreign UCITS marketed in Spain	**1,013**	**117**	**106**	**1,024**
Foreign funds	455	47	73	429
Foreign companies	558	70	33	595
CIS management companies	**109**	**11**	**1**	**119**
Depositories	**54**	**0**	**17**	**37**

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.

EXHIBIT 3

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

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,[1] 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.

1 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[1]

TABLE 3.1.3

Million euros

	2017	%	2018	%	% change 18/17
Assets	**31,425**	**100.0**	**27,836**	**100.0**	**-11.4**
Financial investment portfolio	**28,805**	**91.7**	**24,841**	**89.2**	**-13.8**
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
Intangible assets	**0.0**	**0.0**	**0.0**	**0.0**	**–**
Property, plant and equipment	**0.6**	**0.0**	**0.5**	**0.0**	**-16.7**
Cash	**2,421.7**	**7.7**	**2,731.9**	**9.8**	**12.8**
Net balance (debtors/creditors)	**197.5**	**0.6**	**262.6**	**0.9**	**33.0**
***Pro-memoria*: No. of shareholders**	**421,273**	**–**	**416,029**	**–**	**-1.2**

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[1]

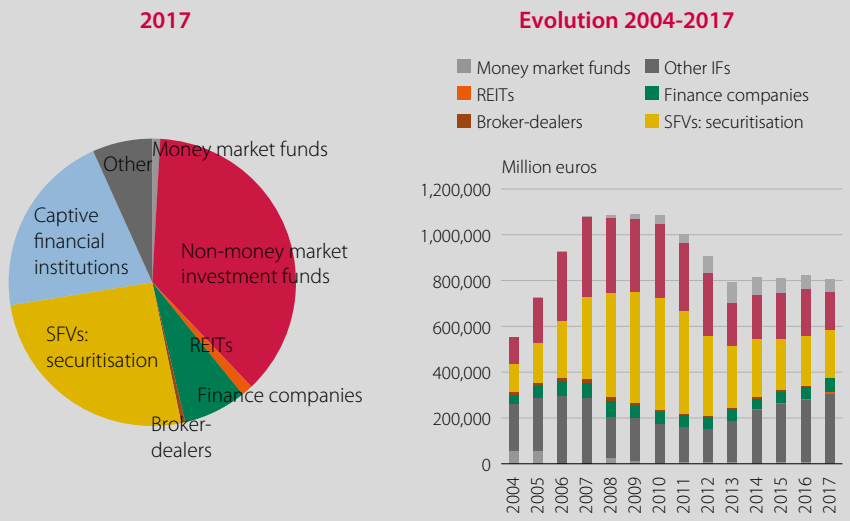
EXHIBIT 4

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.[2]

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

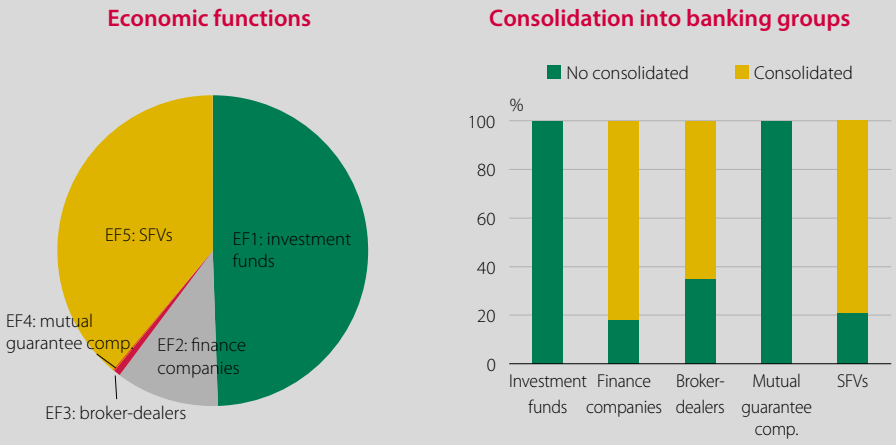
companies, crowdfunding platforms and vehicles which in recent years have been performing the activity known as direct lending.[3]

– **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,[4] finance companies, broker-dealers

and SFV).[5] 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 NBFI (2017)[1] TABLE E4.1

	Investment funds					
	Money market	Fixed income	Mixed	Finance companies	Broker-dealers	SFVs: securitisation
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 Ispierto 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).[1]

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.

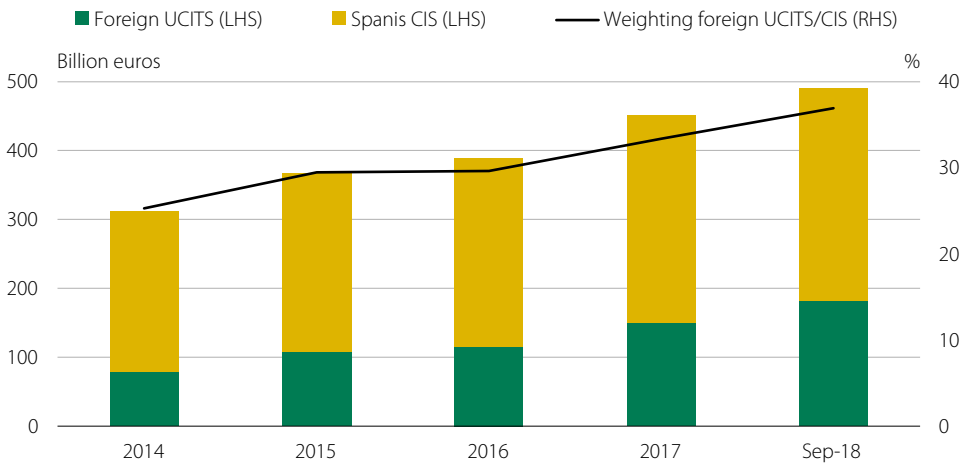
3.1.5 Foreign UCITS marketed in Spain

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

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[1] FIGURE 3.1.2



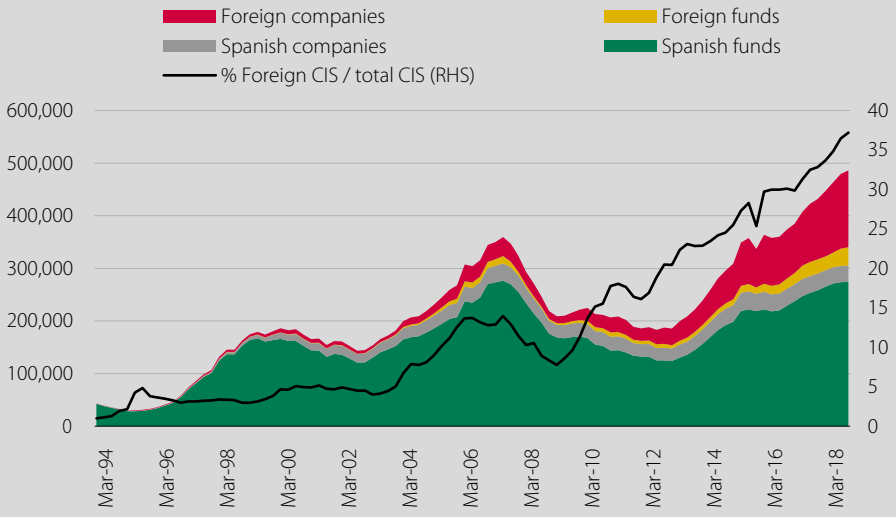
Source: CNMV. (1) As from the first quarter of 2018, the data on unit-holders and investment volume are estimated with the data received to date: 99.2% of the reporting entities in the first quarter, 95.5% in the second and 93.9% in the third.

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[1] 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

Thousand euros

	2017	2018	Change (%)
Interest margin	**3,361**	**1,745**	**-48.1**
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
Gross profit	**1,244,867**	**1,732,326**	**39.2**
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	–
Net operating profit	**753,109**	**1,117,351**	**48.4**
Other gains/losses	1,455	-1,926	-232.4
Profit (loss) before tax	**754,564**	**1,115,425**	**47.8**
Income tax expense	-204,655	-312,116	52.5
Profit from continuing operations	**549,909**	**803,309**	**46.1**
Profit from discontinued operations	0	0	-
Net profit (loss) for the year	**549,909**	**803,309**	**46.1**

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[2] (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.[3] 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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2 Including the activity of CIS management.

3 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.[4] 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[1]
For security services	**1,476**	**1,334**	**1,436**	**1,575**	**10.6**
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
Marketing of non-bank financial products	**4,211**	**4,389**	**4,380**	**4,268**	**28.6**
Mutual funds	2,296	2,187	2,290	2,074[1]	13.9
Pension funds	458	520	498	492[1]	3.3
Insurance	1,224	1,446	1,330	1,507	10.1
Other	236	236	262	195	1.3
***Pro memoria*:**					
For securities services and marketing of mutual funds	3,772	3,521	3,726	3,649	24.5
Total revenue from commissions	**13,617**	**13,486**	**14,295**	**14,924**	**100.0**

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 brokers[1]	Credit institutions (CI)	Total	% CI/total
Total investment services	**385**	**3,649**	**4,033**	**90.5**
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[2]	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[5]

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

5 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
Spanish firms	**89**	**7**	**5**	**91**
Broker-dealers	41	1	3	39
Brokers	48	6	2	52
Foreign firms	**2,869**	**215**	**82**	**3,002**
With a branch	53	11	3	61
Free provision of services	2,816	204	79	2,941
***Pro memoria*:**				
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.

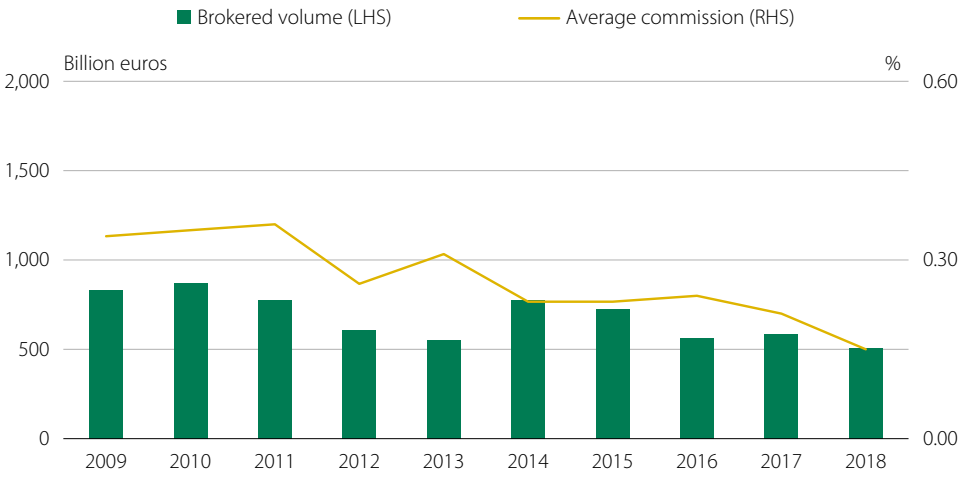
Results

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[1]

TABLE 3.2.4

Thousand euros

	2017	2018	% change 18/17
Interest margin	**21,377**	**73,969**	**246.0**
Net commissions	**402,154**	**296,037**	**-26.4**
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
Profit from financial investments	**43,725**	**27,088**	**-38.0**
Net exchange differences	4,353	283	-93.5
Other products and operating charges	24,154	16,331	-32.4
Gross profit	**495,763**	**413,708**	**-16.5**
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
Net operating profit	**145,364**	**85,837**	**-40.9**
Other gains/losses	13,197	18,016	36.5
Profit (loss) before tax	**158,561**	**103,853**	**-34.5**
Income tax expense	37,878	12,082	-68.1
Profit from continuing operations	**120,683**	**91,771**	**-24.0**
Profit from discontinued operations	**36,382**	**0**	**-100.0**
Net profit (loss) for the year	**157,065**	**91,771**	**-41.6**

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 (total)[1]	No. of loss-making firms	Amount of the losses before tax
Broker-dealers			
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[1]

TABLE 3.2.6

Thousand euros

	2017	2018	% change 18/17
Interest margin	**3,127**	**1,583**	**-49.4**
Net commissions	**120,194**	**135,782**	**13.0**
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
Profit from financial investments	**1,139**	**-51**	**–**
Net exchange differences	-578	85	–
Other products and operating charges	-1,128	-364	67.7
Gross profit	**122,754**	**137,035**	**11.6**
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	–
Net operating profit	**16,929**	**12,031**	**-28.9**
Other gains/losses	-163	501	–
Profit (loss) before tax	**16,766**	**12,532**	**-25.2**
Income tax expense	4,876	5,073	4.0
Profit from continuing operations	**11,890**	**7,459**	**-37.3**
Profit from discontinued operations	**0**	**0**	**–**
Net profit (loss) for the year	**11,890**	**7,459**	**-37.3**

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[1]	No. of loss-making firms	Amount of the losses before tax
Brokers			
2015	22,781	12	-3,689
2016	10,822	11	-7,402
2017	16,766	13	-7,952
2018	12,532	21	-10,947

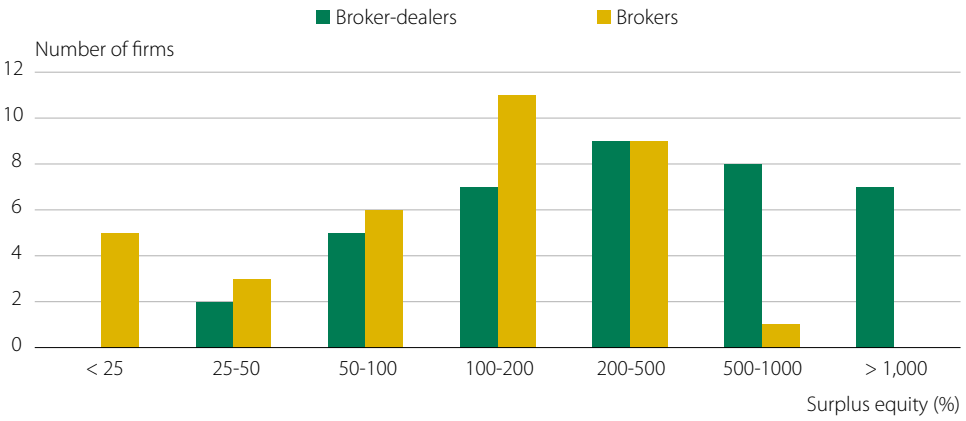
Source: CNMV. (1) Includes results from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

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).[6]

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[1] TABLE 3.2.8

Thousand euros

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

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.[7] It is estimated that the amount of

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

revenue for providing investment services in Spain[8] 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.

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

Horizontal review of compliance with the obligations of the PRIIPs Regulation

EXHIBIT 6

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,[9] 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 31/12/17	New registrations	De-registrations	Firms at 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
Total venture capital undertakings	**311**	**43**	**16**	**338**
Closed-end collective investment companies	13	6	0	19
Closed-end collective investment funds	2	10	0	12
Total closed-end collective investment undertakings	**15**	**16**	**0**	**31**
Total venture capital undertakings + closed-end collective investment undertakings	**326**	**59**	**16**	**369**
Management companies of closed-end collective investment undertakings	**89**	**8**	**3**	**94**

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[1]	1	–	–	–	1
Total	**24**	**21**	**9**	**12**	**66**

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 20187 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
Total	**1**	**17**	**9**	**2**	**29**

Source: CNMV.

Number of rejected or withdrawn crowdfunding platforms TABLE 3.3.4

	2016		2017		2018		Cumulative total	
Platform type	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[1]	0	1	0	0	–	–	0	1
Total	**1**	**7**	**4**	**4**	**1**	**13**	**5**	**24**

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[1]			of which[1]			of which[1]			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
Total	**1**	**1**	**0**	**12**	**7**	**3**	**8**	**4**	**2**	**5**	**2**	**2**	**26**	**14**	**7**

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.