



# CNMV Strategic areas 2017-2018

## 2017 Activity Plan





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# 1 Introduction

The Comisión Nacional del Mercado de Valores (CNMV), following its practice since 2007, presents its Activity Plan for 2017. The 2017 Plan is based on the CNMV Strategic Areas identified for 2017-2018, which are set out below.

Publication of the Activity Plan is intended to increase transparency and encourage the exchange of information with markets, investors, supervised entities and other stakeholders.

As in previous years, the Activity Plan represents only a limited part of the work of the CNMV; it only includes those objectives that meet the criteria of timeliness, or which are innovative in relation to the CNMV's normal functions, and whose publication may be in the public interest. This means the Plan does not include many of the tasks performed by the CNMV in its routine authorising, registering and supervising of institutions, or in its supervision of markets, recording of transactions or monitoring of regulated information. Nor does it include actions related to sanctions or reviews of enquiries and complaints by investors.

Inevitably, much of the institution's work in 2017 will be determined in large part by its functions under the Securities Market Act (LMV) as the agency responsible for supervision and inspection of Spanish securities markets and the activity of those involved in them, and by the general economic and financial environment in 2017.

## Economic and financial environment<sup>1</sup>

### Highly uncertain short- and medium-term outlook for the global economy

The forecasts of international agencies for 2017 are hedged about with a high level of uncertainty. Much of this stems from recent events such as the outcome of the UK referendum on leaving the European Union (Brexit) and last November's US elections. Note that the US election results were not known until after publication of the forecasts used to prepare this document. Other important sources of uncertainty concern the state of China's economy and financial system and the calendar, pace and impact of the normalisation of monetary policy now under way in the US.

The leading international agencies expect the global economy to grow by 3.4% in 2017, three-tenths of a point faster than in 2016. However, the pick-up in GDP growth is not expected to be evenly spread. While growth is forecast to accelerate in emerging economies and the US, the euro area is expected to continue the slowdown seen in

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1 Information in this section is drawn from, among other sources, the CNMV Bulletin, the CNMV Financial Stability Report (first edition published in February 2017), the ESMA Trends, Risk and Vulnerabilities and Risk Dash Board reports, information published by the BME, the IMF World Economic Outlook and the European Commission's European Economic Forecast, Autumn 2016.

2016, which would result in annual growth of 1.5%, two-tenths slower than the prior year. A narrowing gap in GDP growth rates is also likely to affect the Spanish economy which in 2016 considerably outpaced the euro area average. Spain's economy is forecast to grow by 2.3% in 2017, nine-tenths slower than estimated for 2016.

### **The political situation in the US and Europe raise doubts about the prospects for international trade and the process of economic integration**

One of the big risks of the current political climate in Europe and the US is the potential breakdown in the decades-long consensus about the benefits of cross-border economic integration. In an environment of fragile growth, inward-looking or frankly protectionist policies have taken hold and could affect the flow of global trade and processes of economic integration, particularly in the European Union, where uncertainty is being boosted by the upcoming elections in the Netherlands, France and Germany during 2017. What is more, expectations are being raised about a possible change in the direction of US policy on financial regulation.

### **China's new weight in the world economy is making markets more sensitive to its current reform process**

Growth in the Chinese economy has slowed over recent years, although it is still expected to top 6% in 2017. China has launched a reform process intended to achieve an orderly transition to a more balanced growth model, but doubts persist as to the real state of its economy and financial system.

### **Markets will continue to keep a close watch on monetary policy trends in the US and Europe**

The US Federal Reserve has now begun a process of returning monetary policy to normal after several years of combining intense conventional measures with other equally aggressive non-conventional measures to keep interest rates low and stimulate the economy. The European Central Bank (ECB), which had applied the same policy combination somewhat later in the day, recently announced it would be keeping policy rates unchanged for a prolonged period and, on non-conventional policies, expects to keep its asset purchase programmes running until at least the end of 2017.

As a result, monetary policy of the Fed and ECB has started to diverge and, in principle, the ECB's highly expansive measures could continue to affect the performance of securities markets in 2017. That said, European interest rates may start to rise if some of the expectations for the new US administration's economic policy become a reality. Under certain scenarios, the Fed, which recently hiked its Funds rate, could find itself forced to bring forward its calendar of rate rises with every probability that this would affect yields on European fixed income assets.

### **Market risk is high, especially in fixed income**

The possibility that the Federal Reserve could tighten rates faster has increased rate risk in financial markets, already high since the Fed announced the first change in tone of its monetary policy. It should not be forgotten that, in recent years, low rates have encouraged fixed income issuance and investment in this asset class. A key consequence has been a narrowing spreads between investment grade and low-



er-rated bonds. Any increase in interest rates may therefore mean spreads widen. Market risk is also significant for equities.

The prospect of market risks emerging in potential scenarios of rising interest rates cannot be ruled out and should be watched closely not only by investors but also by supervisors. In fact, European supervisory institutions have already launched initiatives to improve liquidity monitoring in fixed income markets and other sensitive areas, such as investment funds, whose fixed-income portfolios have swollen considerably of late.

### **Brexit brings risks for the financial sector but also, perhaps, opportunities**

In coming months, the European economy could be affected by the negotiation of Brexit conditions and the policies of the new US government. Brexit will be particularly important for uncertainty about the UK's trade and financial relations with EU member states and this could negatively impact activity in various economic sectors, including the financial sector.

It is likely to have some impact on the Capital Markets Union initiatives being taken forward in 2016, which aim to foster mechanisms such as crowdfunding, venture capital and alternative markets. It will also directly affect the European Securities Market Authority (ESMA) which will have to adapt its workings when the national authority overseeing Europe's biggest financial center leaves.

But Brexit could also bring opportunities for other European financial markets. The expectation that an exit agreement will not include points like passporting for British investment services and funds could encourage some firms that currently operate in the EU via the UK to relocate. Some activities and businesses could move to other financial centres. In fact, several of the continent's markets already have initiatives under way to try and tempt such business out of the UK. In general, from now on, there will probably be added incentives for financial institutions to base more activities in other EU countries and less in the UK.

### **The banking sector may continue to attract market attention due to difficulties in a number of countries**

Financial market also continue to pay close attention to risks afflicting Europe's banking sector. Banks' traditional lending business has been hit by the demand-side impact of still sluggish economic growth, a squeeze on interest margins from low interest rates and increased capital requirements.

Also, solvency problems have emerged in some countries, of particular concern in Italy due to the size of the country and its banks. These problems are now playing out within a new legal and institutional context, in which the bank supervision and resolution strand of Banking Union is being rolled out.

### **New technologies will continue to bring new operators and business models into the financial industry**

Intensive application of new digital technologies will continue to have a growing impact on the financial services industry, encouraging the creation of new business lines and the appearance of new operators, both providing services to issuers and

investors and in the back office. Their adoption will intensify competition within the industry and so poses a challenge on all fronts for established firms. It also represents a challenge for the regulators and supervisors who will have to assess its risks to meet their obligations of investor protection, transparency and orderly market functioning. Supervisors have already begun to develop initiatives in this field, both through international bodies (ESMA and IOSCO) and at a national level.

### **Spain's markets and financial sector in 2017 will essentially face similar risks to other euro area countries**

As mentioned above, growth is higher in Spain than elsewhere in the euro area, which means it is starting from a better place in confronting the slowdown anticipated for 2017. On a macro scale, the fundamental challenges are still the reduction of the public deficit and unemployment. In the markets and financial sector, the challenges are generally similar to those faced by the rest of the euro area, basically those outlined above. Here, too, Spain can count on a better starting position on some points than other countries. In the banking sector, for instance, the clean-up and restructuring process in train since 2012 has considerably reduced perceptions of risk.

### **Nevertheless, there are also some considerable challenges specific to Spain**

In equities, close attention will need to be paid to the trading of Spanish-listed securities on other regulated markets and European multilateral trading facilities. These facilities already process a substantial share of the trading in Spanish securities, mainly the heaviest-weighted stocks in total capitalisation. The delocalisation of trading abroad is a phenomenon common to all Europe's established markets, although in Spain it has taken rather longer to take hold. In the last year, there was a significant jump in such trading, starting in May and coinciding with the launch of reforms to the securities clearing and settlement system.

As regards fixed income markets, as in the rest of Europe, activity is still being heavily conditioned by the ECB's monetary policy decisions. Gross issuance recorded by the CNMV in 2016 was significantly down on 2015 and the same is true of Spanish companies' issuance abroad. In these markets the CNMV will have to keep a close eye on trends in issuance abroad, although this phenomenon is common to all major European markets.

The Spanish collective investment industry continued to expand in 2016, thanks mainly to net inflows to funds. Investor preferences remain oriented toward fixed income funds. As noted above, market risk is particularly acute in the bond market and close attention will need to be paid to funds with the greatest proportion of this asset class in their portfolios. Another watch point will be investment in foreign funds marketed in Spain, which is growing at a notable pace.

As for non-bank investment services companies, these are facing a highly demanding environment both as regards market conditions (last year brought a substantial drop in equity trading volumes) and increasing competition from other intermediaries, which has tended to drive down brokerage fees. That said, solvency and liquidity in the sector remains generally respectable. In addition, as mentioned, the introduction of new technologies to the financial sector is favouring the entry of new competitors and forcing established players to rethink their business strategies.

At the time of writing, work continues to draft regulations implementing much of the European legislation of the last few years (such as the technical standards for implementing the Markets in Financial Instruments Directive – MiFID II). This should be completed in 2017 and the necessary changes made at national level, given that many of the measures approved in prior years will come into force in the short term.

The Market Abuse Directive and Regulation (MAD/MAR) entered into force on 3 July 2016, the Central Securities Depository Regulation (CSDR) will be applied in full during the first months of 2017<sup>2</sup>, and MiFID II and its accompanying regulation (MiFIR) will apply as of January 2018. The same goes for the Benchmarks Regulation, partly in force now though the bulk of its provisions will not come in until 2018.

Also expected to receive final approval are a number of other regulations, such as the Money Market Funds Regulation and, in the context of Capital Market Union, there has been a recent push to review the Prospectus Directive, European Venture Capital Funds and European Social Entrepreneurship Funds Regulations.

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2 The exact date depends on when ESMA finishes work on the technical standards and processes for approval by European institutions.



## 2 Implementation of the 2016 Activity Plan

In its 2016 Activity Plan the CNMV set 44 objectives in the strategic areas identified for that year. At the publication date of the 2017 Activity Plan, 82% of the 2016 objectives had been met. Specifically, of the 36 objectives completed, 89% of initiatives had been completed on time and the remaining 11% had been completed satisfactorily but with some delay, mainly due to reprioritising by the CNMV or the lack of the corresponding regulatory authority.

As a result, in 2016 the institution successfully implemented more of its Activity Plan than in previous years: 82% in 2016 compared to 79% in 2015, 75% in 2014 and 72% in 2013.

Below, we detail the objectives set in 2016 according to the four sections of the Plan: operational improvements in the CNMV, market supervision, supervision of financial intermediaries and relations with investors and other stakeholders.

As regards **operational improvements in the CNMV** 86% of the seven objectives were met in 2016. The remaining objective had reached a very advanced stage. This was the objective for the new software application to support investigations of possible abuse of insider information, which, although it has been tested satisfactorily, is still pending final phase implementation.

As for the fifteen objectives in the **market supervision** section, 73% were met and only four unmet.

It was decided to carry over one of these – implementation changes required by ECC Order 461/2013, on the content and structure of the annual corporate governance report, the annual remuneration report and other reporting instruments – to the 2017 Plan so it could incorporate changes such as those required by the amendment of Article 540 of the Capital Companies Law.

Secondly, on the objective relating to supervision of issues related to audit committees, work has begun on the supervision of audit committees of public interest entities. A technical guide to best practice is awaiting publication and has been included as an objective in the 2017 Activity Plan.

Finally, work on revising the guidelines for issuance and publication of a technical guide for the verification of takeover bids was not completed in 2016. The revision of the issuance guidelines has been included as an objective of the 2017 Activity Plan. The takeover guide, following a review of priorities, has been shelved for the moment.

In **supervision of financial intermediaries**, 75% of the objectives in the 2016 Activity Plan were met, with three left uncompleted. However, work began in 2016 on all three and is expected to be completed in 2017.

The adoption of new cooperation agreements on resolution should be definitively approved in the near future.

Specifications for the requirements in the ESMA guide on the specific knowledge and skill requirements of sales network professionals should also be published in the first half of 2017.

The objective of producing a Circular with warnings about products unsuitable for retail investors could not be completed on time as the Spanish Council of State only issued its statutory report in late 2016.

Finally, all nine objectives regarding **relations with investors and other stakeholders** were completed.

### 3 Strategic areas 2017-2018

In an innovation introduced this year, the CNMV has decided to lay out its strategic areas on a two year horizon. As in previous years, specific objectives for completion this year have also been defined.

Based on the CNMV's statutory duties and the key identified features of the environment, four strategic areas have been defined for the coming two years.

#### 1. Prioritisation of supervision and promotion of market transparency

With the entry into force, application and implementation of the new common European rules on market abuse (MAD/MAR), the extension of investor protection techniques (MiFID II, PRIIPs, etc.) and imminent new European regulations in other areas (CSDR, Prospectus Regulation, etc.), it is worth remembering that the core *raison d'être* of the CNMV is its role as a supervisory body that **promotes the integrity and transparency of markets** and is **charged with safeguarding investors' interests**.

The essential objective is to strengthen, through rigorous use of its supervisory powers, the general perception of the Spanish market as a **market of integrity** where the legitimate interests of individuals interact within the rules of the game in the most transparent manner and with high standards of investor protection.

Meeting this objective, worthwhile in itself, should also be of benefit to all stakeholders, attracting and retaining investor's funds in the market and thereby making the Spanish market deeper and more resilient to episodes of financial instability.

Consequently, in a continuation of recent years' practice, over the next two years the CNMV will be paying special attention to **improving market transparency, the proper functioning of its infrastructures** and compliance with the most important standards of **behaviour and investor's protection**.

To do this it will continue to strictly supervise compliance with financial information regulations by issuers, intensify the attack on market abuse by using new powers granted under EC regulations and strengthening its investigatory tools. It will also oversee the proper functioning of market infrastructure and will pay additional attention to information provided to retail investors by investment services companies and by issuers themselves.

Accordingly, with corporate governance rules now stable after the profound changes of recent years, the CNMV will continue to pay special attention to **corporate governance** of listed companies, with the objective of continuing to support improvements in corporate cultures and promoting the commitment of companies to ethical and social values.

At the same time, the CNMV will maintain its **policy of publishing technical guides and criteria** to increase transparency on its areas of action and make it easier for supervised firms to comply with regulations. It will also work to promote **fluid interactions with the sector**. Over the next few years, and especially in 2017, this will mainly mean creating the systems for dialogue to make sure the switchover to new regulations takes place efficiently, seeking to promote competitiveness in the financial sector and enhance investor protection.

## 2. Enhance the attractiveness and competitiveness of Spanish securities markets

It is more important than ever to have **advanced and competitive capital markets** in today's economic environment of modest growth, both worldwide and in the EU, and great uncertainty on the consequences of recent events such as Brexit and the US presidential elections. In particular, a further push is needed in the area of regulation, where the CMMV will be exercising its role of advisor and proposer to the Government and its own regulatory powers. The ultimate aim is to foster greater diversity in the sources of corporate financing<sup>3</sup>, encouraging economic growth and job creation and providing new investment opportunities for savers.

It is necessary to increase confidence in Spanish securities markets as a source of company finance and **build a stable and competitive regulatory regime**. **The CNMV will be working to this end in coordination with the sector and will strive to ground regulatory policy in rigorous analysis of the underlying national and international situation**. This means analysing in advance the potential outcomes of its regulatory policy decisions. It will also be seeking to study – after the event, with appropriate frequency and detail – the impacts of specific regulatory decisions and measures to fine-tune their scope and/or amend them where appropriate.

In 2017 and 2018, the CNMV will focus on preparing the institution and sector for the entry into force of the new European regulations. To do this, it will be paying special attention in this area to its role in presenting regulatory proposals and advice to the Government and the Ministry of the Economy, Industry and Competitiveness on matters affecting markets and securities, including work deriving from the adaptation of the Securities Market Act to MiFID II and MAD/MAR. The aim will be to provide clarity and legal security and to pursue a simplification of regulations that minimises processing and demands on the sector. This, without in any way compromising its commitment to investor protection.

In parallel, the CNMV will continue to **work with other European supervisors** to coordinate implementation of regulations in as homogenous a way as possible and avoid possible regulatory or supervisory arbitrage between countries.

Additionally, as regards Brexit, the CNMV is **taking forward measures in coordination with other bodies and institutions that will help attract financial business to Spain**. This has meant defining specific procedures to draw companies in and streamline their relationship with the CNMV<sup>4</sup>. A range of other initiatives are also

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3 Such an effort is all the more necessary today given Spanish firms' excessive dependence on bank lending, which means that any squeeze on credit, such as we saw during the crisis, tends to cut off finance to the real economy.

4 For instance, promoting the use of English as the language of communication with CNMV, with pre-authorisations and personalised advice.



under way to make Spain an attractive option for companies. All this, not only with a view to possible relocations of existing UK business but also looking forward to future investments and an expansion of the European financial industry which, until recently, few would have seen as an alternative location to London.

As we said, given the shifting context in Europe and worldwide, cooperation between different supervisory bodies remains essential. Among other actions the CNMV will be supporting initiatives by IOSCO and seeking to raise visibility of the fact that it is based in Madrid. In particular, the CNMV will be backing initiatives that build up the Madrid head office as a central node in the management and development of various training activities related to global securities markets.

In parallel, the **CNMV must continue to fulfil its increased obligations as a not only effective but also efficient supervisor**. To this end it must continue the process, begun in recent years, of making the CNMV a flexible institution with agile procedures that can adapt quickly in response to the dynamism of financial markets. The CNMV will therefore pursue the necessary flexibility to call on the human resources it needs to properly carry out its functions (whose scope is expanding due to European and national legislation) and to retain them, seeking to reduce current incentives for specialist technical personnel to move on to other supervisors or the private sector. It will also be intensifying its investment in technology and completing the project to adapt the CNMV to electronic administration and digitisation of documentation.

Finally, it must work to **promote innovation**. Specifically, the CNMV will be creating a website to receive information, petitions or requests of any kind related to the FinTech phenomenon to keep the institution abreast of changes in this area and work with companies that have innovative projects of interest to the Spanish market.

On this last point, it must intensify monitoring of issues related to **market technological developments**, working to ensure the technology used by market participants is ever more resilient to cyber risks, reducing contingencies and enhancing public confidence. This means that the CNMV will have to work to drive forward the use of new technologies in capital markets without neglecting supervision of the risks this may bring with it.

### 3. Develop the analysis and monitoring of financial stability in matters relating to capital markets

The financial crisis has highlighted the growing interdependence of financial stability and capital markets. A major part of the work that the Financial Stability Board (FSB) is taking forward relates closely to the activities of regulators in IOSCO member securities markets. This work will be the **basis of the regulatory regime** that, in the medium term, will define the framework for the role of national securities supervisors.

The CNMV, as the Spanish securities market regulator, plays an active part in IOSCO and the FSB. Also, in Europe, it is a member of ESMA, whose remit includes maintaining financial stability, and the European Systemic Risk Board (ESRB) which has issued recommendations stressing the need for EU member States to put in place a framework for macro-scale action and tools by establishing macro-prudential authorities.

Given the importance of these questions, the CMMV must in the next few years intensify analysis and monitoring of those areas of financial markets with the potential to impact financial stability. To do this it will use, among other tools, appropriate indicators that can measure stress levels in financial markets and the sources of risk.

#### 4. Strengthen financial education and support for investors

The increasing complexity of markets, financial relationships between individuals and companies and financial products and services themselves make it abundantly clear that more needs to be done to educate current and future consumers of these products and services, if they are to make informed and responsible decisions.

As a complement to the policy of preventative supervision of recent years, the CNMV has been working on the Financial Education Plan alongside the Banco de España and with support from the General Secretariat of the Treasury and Financial Policy and the Directorate General for Insurance and Pension Funds. The aim is to make the Spanish population more aware of the importance of financial education at all stages of life, with particular emphasis on its value as a fundamental element in stability and the protection of financial consumers. Initiatives under this plan have been supported by a wide range of collaborators playing an active part in achieving its aims.

Eight years into the plan it is time for a strategic review. By analysing results achieved so far, we can set new and more ambitious targets to guide the plan's future and lay the groundwork for the next stage: the Financial Education Plan 2017-2021.

Objectives must focus on bolstering financial education in schools, increasing financial content in the school curriculum, structuring and expanding the network of collaborators and consolidating a communication strategy for the Financial Education Plan that raises its profile and reaches more financial consumers.

Another imperative for the CNMV is to attend to investor demands for an improved system for managing **complaints** reaching the institution. Following the transposition into Spanish law of the Directive on alternative dispute resolution for consumer disputes<sup>5</sup>, the CNMV will work with the Government and other financial supervisors in Spain to develop a system that better satisfies the demands of financial consumers. This calls for analysis of how to establish an extra-judicial system for resolving disputes with investors in a way that saves time and money and helps boost investor confidence in the Spanish financial system. Notwithstanding the above, it is also necessary to consider possible wider-reaching reforms in the area of complaints, as announced in February by the Minister of the Economy, Industry and Competitiveness at the Congress of Deputies.

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5 Directive 2013/11/EU, of the European Parliament and Council, of 21 May 2013, on alternative dispute resolution for consumer disputes and amending Regulation (EC) 2006/2004 and Directive 2009/22/EC.

## 4 2017 Activity Plan

### 4.1 CNMV's operational improvements

In the current environment, having a good supervisor is a more crucial competitive advantage than ever for securities markets and financial centres.

For this reason, the 2017 Activity Plan specifies a set of objectives designed to make the CNMV more efficient and flexible. Similarly, every effort will be made to give the supervisor the financial and human resources it needs to meet the challenges in its strategic areas for 2017-2018.

#### Improved efficiency

As part of its efficiency drive, the CNMV will redouble its commitment to a rapid-response service culture.

On this point, the first priority for 2017 (I) is an initiative that aims to promote Spain as an international financial centre and, specifically, make it easier for foreign entities to contact the CNMV. The “**CNMV in English**” initiative will mean that first contact with any CNMV service can normally be done in English and the establishment of English-speaking access points. In similar outward-looking vein, the CNMV will continue to update and improve its website, expanding the English content as far as possible and developing specific proposals to make it easier to use English in most of the CNMV's administrative procedures.

The second major objective in 2017 (II) is to set up, or at least lay the foundations, for the CNMV to have the **right resources** to face the challenges and exploit the capacities of the new supervisory regime. This demands initiatives to strengthen the staff and expand the CNMV's autonomy to manage its human resources.

In addition, it is sensible to better **protect staff** against any liabilities they may incur in doing their job and, while open to other proposals, the possibilities of professional liability insurance will be considered.

Also, it is now nearly four years since the CNMV designed and launched its **risk map** and it is time for an action plan to review and update it. This will mean, in 2017 (II), carrying out critical analysis of the risks, impacts, probable outcomes, controls and indicators with a view to making the map more useful for internal risk management.

Another priority for 2017 (II), building on the analysis begun in 2016, is to revise the procedures and criteria for authorising and registering entities, the aim being to **further simplify procedures** and, where possible, propose regulatory changes that would help streamline processes at the CNMV.

Also, in the context of the transposition of EU regulations, it is a priority in 2017 (I) to study the **system for publicising penalties** imposed by the CNMV and identify possible improvements. In the same area, criteria will be defined for applying the new paragraph 7 of LMV Article 275, introduced in 2015, on the possibility of publicising the launch of sanction procedures.

Finally, with a view to incorporating into everyday practice lessons learnt from the **intervention and bankruptcy of entities under its supervision**, the CNMV will be launching initiatives, in 2017 (II), to refine and implement regulatory proposals and supervisory actions identified in 2016. Notably, these include evaluating, and if necessary proposing a regulatory change to enable, the segregation of cash at fund depositaries, individualised client balances for bank deposits by investment funds or the substitution of custodians.

### Citizen's file

In 2017 (II), the "citizen's file" will be introduced. This was proposed in the National Interoperability Framework, part of the Electronic Administration programme, and will allow entities and individuals to access, subject to digital identification, all the information the CNMV holds on them, including data from the processing of filings, electronic notifications sent out or emails sent to them. This project will complete the work of recent years which has already made part of this information accessible.

### Improvements in the functioning of the CNMV

TABLE 1

	Initiative	Planned timetable (*)
<b>Improved efficiency</b>	CNMV in English	2017 (I)
	Initiatives to strengthen and introduce greater flexibility to staff management	2017 (II)
	Staff protection	2017 (II)
	Action plan to review CNMV risk map	2017 (II)
	Review of procedures and criteria for authorising and registering entities and proposed regulatory changes	2017 (II)
	Proposals on publicising sanctions procedures	2017 (I)
	Implementation of regulatory proposals and supervisory actions derived from recent experience of interventions and bankruptcy among CNMV supervised entities	2017 (II)
<b>Citizen's file</b>	Introduction of the CNMV "Citizen's file"	2017 (II)

(\*) Half-year by which the commitment is to be completed.

## 4.2 Market Supervision

### Benchmarks

In June 2016 the European Benchmarks Regulation was published and will apply as of 1 January force from 1 January 2018. Following its designation as competent authority, the CNMV will have to comply with the new obligations imposed by the Regulation. To do this, it plans to design a benchmark supervision plan in 2017 (II). The CNMV's new competences include authorising and registering index administra-

tors and the supervision, inspection and sanctioning of administrators and any persons contributing to or involved in the compilation of benchmarks.

Additionally, the CNMV will monitor closely and participate in developing the corresponding level 2 regulations, to be completed in 2017. Finally, a working group is planned in collaboration with the sector to track the implications of the reforms for the Spanish market.

### Financial information

In 2017 the CNMV will continue with its efforts to monitor financial information on issuers and will intensify its cooperation with other European supervisory bodies to coordinate the implementation of Community legislation as homogeneously as possible.

As part of the annual plan for supervision of financial information by issuers of securities under substantive review to be carried out over the coming year, in 2017 (II), greater emphasis will be laid on the quality and transparency of the breakdowns that issuers include in their financial statements in accordance with *IFRS 9 (Financial Instruments)*, *IFRS 15 (Revenue from contracts with customers)* and *IFRS 16 (Leases)*.

In addition, it is considered a priority in this area to review via a sample of issuers, in 2017 (II), compliance with the guidelines on **alternative performance measures** for issuers developed by ESMA and the planned ESMA Q&A on this matter. The ultimate objective of the review is to make sure that publication of these alternative performance measures improves the comparability, reliability and comprehensibility of issuers' financial information.

### Non-financial information

In recent years, the CNMV has made significant changes to the framework of regulations and recommendations. No further major changes are therefore contemplated and the focus will rather be on proper application. However, it is felt that a review should be conducted, in 2017 (II), of **the standard forms for the Annual Corporate Governance Report (ACGR) and the Annual Remuneration Report for Directors (ARR)** with a view to improving the format, avoiding duplication and enhancing flexibility.

The CNMV will also be introducing changes arising from the planned amendment of Capital Companies Law Article 540 on details of policies and measures to promote diversity, which refer not just to gender but also to other aspects such as age, experience and knowledge. This legal change, intended to apply to ACGRs from 2017, following amendment of Order ECC/461/2013, will mean amending CNMV Circular 5/2013, which defines the standard forms for the ACGR.

### Technical guides

The CNMV plans, under powers granted to it by Article 21.3 of the revised LMV, to continue publishing technical guides setting out the criteria, practice, methodologies or procedures that it considers appropriate for supervised entities and groups to comply with applicable regulations.

Accordingly, following up work done in 2016 and having established supervision procedures for the obligations of audit committees at public interest entities, the CNMV will draft, in 2017 (I), a technical guide on functional best practice for **audit committees**.

Secondly, it also plans, in 2017 (II), to carry out a critical review of **issuance guidance**. The following guides will be updated and upgraded to technical guides with the aim of eliminating obstacles and streamlining processing of securities issues: the commercial paper guide, the guide on procedures for verifying equity and fixed income transactions and the guide on verification of securitisation transactions. This objective completes the work of the 2016 Activity Plan, which remained unfinished due to the transposition of the new Community regulation on prospectuses and securitisation transactions.

### **Monitoring the activities of securities markets**

In line with work done in previous years, the CNMV has included as part of its 2017-2018 Strategy a special focus on rigorous exercise of its supervisory powers.

Besides this but in the same field of action, the CNMV, in 2017 (I), will seek to **simplify procedures for placing fixed income issues for the institutional market**, to further streamline processing of these transactions.

It will also, in 2017 (I), amend Circular 3/2007 on **accepted market practices** for liquidity contracts on equities. This objective appeared in the CNMV's 2016 Activity Plan but was postponed pending the ESMA publishing its opinion on the matter, which it did in December 2016.

The CNMV will also carry out, in 2017 (II), a comparative analysis of regulations and supervisory practice for **treasury shares** in other jurisdictions (EU and US) and decide if any action would be desirable in this area.

Additionally, to upgrade investigations of market abuse in line with changed regulations, in 2017 (II) it will acquire and develop **new software applications** to analyse data and monitor such investigations.

Finally, in 2017 (II), a series of measures will be initiated to prepare for upcoming regulations on the **recovery and resolution of central counterparties**. The CNMV plans to participate in developing the ESMA level 2 regulation and create a working group including BME Clearing and the CNMV to facilitate adaptation to new prudential regulations and the culture of resolvability.

### **MiFID II and Central Securities Depositories Regulation: approval of infrastructure entities**

The CNMV has also set as an objective for 2017 (II) the drafting and publication of **criteria for the approval of new markets and data providers**. These criteria will apply to new and existing markets, which will have to adapt to the requirements of the regulation, as well as to other kinds of institution identified in MiFID II, such as data providers.

Similarly, again related to the application of MiFID II and MiFIR, in 2017 (II), the CNMV will have to approve a **new regulatory framework for commodity derivatives**. The CNMV will set position limits for commodity derivatives and establish a system for daily reporting of detailed positions in these products.

Regarding the entry into force of the CSD Regulation, the CNMV, in 2017 (II), will steer through the procedure to **authorise Iberclear as a central securities depository**.

Finally, as a continuation of the 2016 review of Circular 9/2008 on accounting standards and reserved and public information statements for market infrastructures, it is planned, in 2017 (II), to adapt an analytical accounting model for the Iberclear to meet the requirements of the Central Securities Depositories Regulation. This will improve economic and financial monitoring by providing individual data on the revenue and expenses of basic and auxiliary services.

## Market Supervision

TABLE 2

	Initiative	Planned timetable (*)
<b>Benchmarks</b>	Benchmark supervision plan	2017 (II)
<b>Financial reporting</b>	Review of adaptation to IFRS 9 (Financial instruments), IFRS 15 (Revenue from customer contracts) and IFRS 16 (Leases)	2017 (II)
	Review of compliance with criteria and best practice outlined in ESMA guidelines on alternative performance measures for listed issuers	2017 (II)
<b>Non-financial information</b>	Amendment of Circular 5/2013 defining the standard forms for the annual corporate governance report	2017 (II) <sup>C</sup>
<b>Technical guides</b>	Technical guide on best functional practice for audit committees of public interest entities	2017 (I)
	Critical review of guides on issuance (equities, fixed income, securitizations and commercial paper)	2017 (II)
<b>Supervision of securities market activities</b>	Simplification of procedures for fixed income placements aimed at the institutional market	2017 (I)
	Amendment of Circular 3/2007 on accepted market practices for liquidity contracts on equities	2017 (I)
	Comparative analysis of regulations and supervisory practice for treasury shares	2017 (II)
	Strengthening of software support tools for market abuse investigations	2017 (II)
	Monitoring and implementation of regulations under development on recovery and resolution of central counterparties	2017 (II) <sup>C</sup>
<b>MiFID II and Regulation of Central Securities Depositories: approval of infrastructure entities</b>	Initiation of the process for approving new markets and data providers	2017 (II)
<b>Depositories: approval of infrastructure entities</b>	Establishment of the new CNMV framework for commodity derivatives	2017 (II)
	Authorisation of Iberclear as central depository in accordance with the CSD Regulation	2017 (II)
	Review of Circular 9/2008 on accounting standards and reserved and public information statements for market infrastructures	2017 (II) <sup>C</sup>

(\*) Half-year by which the commitment is to be completed.

<sup>C</sup> Conditional objectives whose realisation does not depend solely on the CNMV.

## 4.3 Supervision of Financial Intermediaries

### New capacities and responsibilities

In 2017 (I) the CNMV plans to evaluate possible investor protection initiatives for complex high-risk products (such as CFDs) and regarding cold calling.

Additionally, in light of the diverse case studies on crowdfunding platforms following implementation of Law 5/2015, of 27 April, on the promotion of corporate finance, which brought the authorisation, registration and supervision of these platforms within the CNMV's remit, it is proposed to draft a **review proposal**, in 2017 (I), **of the regulation of crowdfunding platforms**, with the aim of extending its scope and introducing a number of improvements.

In addition, the 2016 **supervisory framework** for crowdfunding platforms will be **implemented**, in 2017 (II).

### Guides and circulars

The CNMV will, in 2017 (II), issue a second **Circular on prudential matters**, which will complement the current Circular 2/2014 on regulatory options regarding the solvency of investment firms and their groups. The new circular will specify obligations in areas such as certain capital buffers, self-assessment processes and market information provided through firms' websites.

Similarly, in 2017 (II), the CNMV will amend Circular 7/2008 on **financial reporting standards**, annual financial statements and reserved financial statements for investment firms, fund management companies and venture capital management firms, bringing it in line with new general principles, including among other matters the treatment of intangible assets

Also, in response to identified weaknesses in current procedures for management firms' treatment of related party transactions, and as a complement to the guide published in January 2017, a technical guide about conflicts of interest in collective investment institutions will be elaborated in 2017 (I) in order to transmit action guidelines to the sector.

Finally, the CNMV plans, in 2017 (II), to review Circular 2/2011 on **information on foreign collective investment institutions** registered with the CNMV. The aim is to review the statistical information provided by firms selling foreign funds in Spain to facilitate monitoring of this fast-growing segment of the fund market.

### Horizontal reviews

The CNMV plans, in 2017, to carry out a horizontal review of compliance in several areas of regulation. This will be done by analysing the compliance of all entities with a number of specific regulations or criteria. The reviews will look at the following areas:

- **Stress procedures in place at asset management firms** for interest rate movements, planned for 2017 (I). Depending on results obtained, asset managers may then be asked to provide information on the procedures and results of



their stress tests and, if applicable, to put in place additional measures and enhance the information provided to unitholders.

- Content of **marketing information published on credit institutions' websites**, planned for 2017 (II).
- Content of **credit institutions' periodic compliance reports**, planned for 2017 (II).
- Compliance of **asset management firms with new corporate governance requirements**, planned for 2017 (II).
- Compliance with **the obligations of depositaries** defined in Circular 4/2016 on the functions of depositaries of collective investment institutions and entities regulated by Law 22/2014, of 12 November, planned for 2017 (II).

### Supervision of Financial Intermediaries

TABLE 3

	Initiative	Planned timetable (*)
<b>New capacities and responsibilities</b>	Evaluation of possible investor protection initiatives for complex high-risk products and regarding cold calling	2017 (I) <sup>C</sup>
	Proposal on reform of regulation of crowdfunding platforms	2017 (I) <sup>C</sup>
	Introduction of a new supervisory framework for crowdfunding platforms	2017 (II)
<b>Drafting/amendment of guides and circulars</b>	Circular on certain aspects of the solvency of investment firms and their groups	2017 (II)
	Amendment of Circular 7/2008 on investment firms' financial reporting standards	2017 (II)
	Technical guide about conflicts of interest in collective investment institutions	2017 (I)
	Review of Circular 2/2011 on information on foreign funds registered with the CNMV	2017 (II)
<b>Horizontal reviews</b>	Horizontal review of stress procedures in place at investment management firms for interest rate movements	2017 (I)
	Horizontal review of the content of marketing information published on credit institutions' websites	2017 (II)
	Horizontal review of credit institutions' periodic compliance reports	2017 (II)
	Horizontal review of fund management firms' corporate governance	2017 (II)
	Horizontal review of fund depositaries' practice in carrying out their new functions	2017 (II)

(\*) Half-year by which the commitment is to be completed.

<sup>C</sup> Conditional objectives whose realisation does not depend solely on the CNMV.

## 4.4 Relations with Investors and other Stakeholders

### Financial Stability

In the next few years, the CNMV will be developing its analysis and monitoring of those aspects of securities markets with the potential to impair financial stability. Accordingly, in 2017 (I), it will draw up a **report on its role in the design of macro-prudential policy** as it affects capital markets.

Similarly, it will, in 2017 (I), publish a quarterly **financial stability report** on the CNMV website. These reports are based on its analyses of the conditions for financial stability which quantify the levels of stress in Spanish securities markets, detecting shifts in the level of different financial risks and identifying the main sources of risk. This will be done using tested tools for such analysis, including a synthetic stress indicator and so-called heat maps.

Thirdly, in 2017 (I), the CNMV will publish as one of the statistical series available on its website the data underlying the **Spanish financial markets stress indicator**. This is in response to researchers and professionals who have expressed interest in having more frequent access to this data series. The CNMV will also be constructing a **synthetic liquidity indicator for Spanish fixed income markets**, based on four basic characteristics: transaction costs, depth, breadth and resilience.

Finally, in 2017 (II), the CNMV will perform an **analysis of the characteristics of redemptions from Spanish investment funds at times of financial stress**. The aim is to learn lessons from the experience of the recent financial crisis to identify those characteristics of investment funds which may be most exposed to liquidity spirals and, hence, to identify the specific funds and types of fund most likely to suspend payments in stress scenarios and investigate the behaviour of retail and institutional investors at such times and how they can influence each other.

### **Improved collaboration with other institutions**

In recent years, the CNMV has maintained a policy of active collaboration with other supervisors and institutions.

In line with this policy it plans, in 2017 (II), to develop the Spanish securities market as a window into Europe for Latin American financial products. Among the initiatives planned is the fostering of relations with supervisory authorities in Latin American countries and the analysis of possible equivalence for issuance and listing prospectuses between jurisdictions.

### **FinTech**

New financial technologies or FinTechs present an opportunity to improve financial markets. Their application will make possible business models that are more focused on the final investor and enhance the efficiency and competitiveness of the financial industry.

To stimulate FinTech initiatives in Spain, the CNMV will launch, in 2017 (I), a portal for FinTech proposals. This will offer help to developers and financial institutions on aspects of financial markets regulation that may affect their projects and will create an informal space for communicating with developers and financial entities on their initiatives in this area.

### **Cyber security**

Following up on work done in 2016, in 2017 (II), the CNMV will analyse possible actions to improve cyber security in the financial sphere. It therefore plans to step up its participation in international working groups looking into this issue and will

push for the adoption of all necessary measures by market infrastructure managers and heads of supervisory bodies to raise standards of cyber security.

### Publication of criteria

With the upcoming entry into force, application and implementation of new common European rules on investor protection, entities are seeking clarification in several areas. It is therefore necessary to publish criteria that will help with the application of certain practical points. The CNMV considers two actions would be useful, in 2017 (II), issuing sets of criteria for the application of MiFID II and PRIIPs.

### Financial Education Plan

The recent financial crisis and the complexity of today's markets have revealed a growing need to focus on the financial education of consumers.

To this end, the CNMV plans to draft, in 2017 (I), a **new Financial Education Plan** for 2017-2020. The new Plan, which would again be rolled out jointly with the Bank of Spain and with the support of the General Secretariat of the Treasury and Financial Policy and the Directorate General for Insurance and Pension Funds, will seek to raise awareness among the Spanish population about the importance of financial education at all stages of life, with special emphasis on the value of such education as a fundamental element in stability and protection of the financial consumer. In addition, it is planned to strengthen the role of the network of collaborators which has played an active role in developing initiatives in this field.

Also, in 2017 (II), the CNMV will start the process of **modifying the website [finanzasparatodos.com](http://finanzasparatodos.com)**, to update its image and improve accessibility and the visualisation of content.

### Investor Section

The CNMV will carry out, in 2017 (II), a **review of the Investor Section** of its website which will include, at least, the introduction of a catalogue, organised by topic, of criteria followed in dealing with complaints and the publication of general communications on significant events about which it has received, or is likely to receive, multiple enquiries. Particularly important in this respect is the CNMV's intention to review the **factsheets and investor guides** whose content could be extended or amended.

### Complaints

The CNMV must also attend to investor demands for an improved system for managing complaints that arrive at the institution. Accordingly, in 2017 (II), it will be revising the structure and format of the **Annual report on attention to complaints and enquiries**. As part of this review it will be expanding the data input by asking entities to provide concrete information on complaints resolved before they reach the CNMV complaints service so that this area can be addressed in the Report.

Additionally, the CNMV plans, in 2017 (II), to work with the Ministry of the Economy, Industry and Competitiveness and other supervisors on developing a **system**

for the extrajudicial settlement of complaints that will save time, enhance investor confidence and transpose into the financial field the provisions of Directive 2013/11/EU of the European Parliament and Council, of 21 May 2013, on **alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC**. All this notwithstanding possible changes flowing from any reforms in the area of complaints, as announced by the Ministry for the Economy, Industry and Competitiveness in the Congress of Deputies.

### Unauthorised entities

In 2017 (II), the CNMV plans to step up its actions against unauthorised entities.

It will therefore, among other actions, seek agreement with the Ministry of the Interior to create a specific mailbox for reporting the existence of possible unauthorised entities and publication, through the Investor Section of the website and Communications Department, a regular communication listing warnings issued by the CNMV about unauthorised entities in the current year. The communication will include practical advice on how to avoid such entities.

### Relations with Investors and other Stakeholders

TABLE 4

	Initiative	Planned timetable (*)
<b>Financial Stability</b>	Drafting of a report on the CNMV's role in the design of macro-prudential policy	2017 (I)
	Quarterly financial stability reports	2017 (I)
	Incorporation of weekly or monthly data in the CNMV statistical series based on two new indicators: <ul style="list-style-type: none"> <li>- Spanish financial markets stress indicator</li> <li>- Synthetic liquidity indicator for Spanish fixed income markets</li> </ul>	2017 (I)
	Analysis of the characteristics of redemptions from Spanish investment funds at times of financial stress	2017 (II)
<b>Improved collaboration with other bodies</b>	Developing the Spanish securities market as a window into Europe for Latin American financial products	2017 (II)
<b>FinTech</b>	Portal for FinTech proposals	2017 (I)
<b>Cybersecurity</b>	Analysis of possible actions to improve cyber security in the financial sphere	2017 (II)
<b>Publication of criteria</b>	Dissemination of criteria on MiFID II application	2017 (II)
	Dissemination of criteria applicable to PRIIPs supervision	2017 (II)
<b>Financial education plan</b>	Drafting of the 2017-2020 Financial Education Plan	2017 (I)
	Start the process of modifying the Finanzasparatodos website	2017 (II)
<b>Investor Section</b>	Review of the Investor Section	2017 (II)
<b>Complaints</b>	Review of the structure and format of the Annual report on attention to complaints and enquiries	2017 (II)
	System for the extrajudicial resolution of complaints	2017 (II) <sup>C</sup>
<b>Unauthorised entities</b>	Step up actions against unauthorised entities	2017 (II) <sup>C</sup>

(\*) Half-year by which the commitment is to be completed.

<sup>C</sup> Conditional objectives whose realisation does not depend solely on the CNMV.

