CNMV
Comisión Nacional del Mercado de Valores

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Quarter II

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

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Abbreviations

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

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

I Market survey (*)

(*) This article has been prepared by staff of the CNMV's Research, Statistics and Publications Department.

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1 Overview

The pace of financial markets in the year's first half was largely set by macro-financial figures and indicators that tended to confirm the relative strength of activity in the United States and Japan, the deceleration of the big emerging market economies and the absence of recovery in Europe. On the monetary policy front, salient developments were the Federal Reserve's statement that it would phase out expansion measures as activity and employment data came increasingly up to speed and, above all, the Bank of Japan's decision to embark on the largest monetary stimulus in recent times in order to boost activity and raise inflation rates as far as 2% by late 2014. In the euro area, the ECB announced in spring that it was cutting its main refinancing rate by a further 25 bp to 0.5% in the light of tame inflation and low economic activity.

Against this backdrop, leading stock indices carried their late 2012 rally through to the opening months of 2013. The advance was especially pronounced in the United States and Japan on a series of activity indicators outstripping market expectations, with index gains to mid-June[1] of over 13% and 22% respectively. European stock markets also moved higher, albeit with some levelling off versus 2012 in a context of greater economic weakness and a certain fragility, as concerns over the vulnerabilities of the region's banking sector refused to go away. A series of mixed messages pushed index volatility to around 30% on average, and an even higher 50% in Japan on doubts about the outcome of its monetary expansion programme.

The dominant trends on world debt markets were, firstly, a small upturn in the long-term bond yields of the most buoyant advanced economies and, secondly, a run-down in the bond yields of Europe's more vulnerable economies, which nonetheless reversed some way in the middle months. The sovereign spreads of this last group had by then pulled back substantially from mid-2012 highs but were still significantly above their pre-crisis levels. Meantime, corporate bond markets on both sides of the Atlantic continued to ride high on the tide of liquidity brought by expansionary monetary policies, as the "search for yield" intensified among determined investor publics. One result of this quest was a large-scale move into lower quality debt instruments, and the consequent narrowing of spreads.[2]

In Spain, the latest activity figures, corresponding to the year's first quarter, showed a quarterly fall of GDP of 0.5% (0.3 points less than in the prior quarter) widening

1 The closing date for this report is 15 June.

2 The Federal Reserve's late June announcement that it would start scaling back asset purchases at the end of the year and finalise the program by mid-2014, if the economy performs as forecast, triggered a fall in stock market prices and a rise in long-term bond yields.

to 2.0% in annual terms, against -0.1% and -1.1% respectively in the euro area as a whole. The analyst consensus as we write is that Spanish GDP will contract by around 1.5% in 2013, and return to positive growth in 2014, albeit by a small margin only. Headline inflation, which peaked at 3.5% in October 2012 after the VAT hike, eased steadily thereafter as far as 1.7% in May this year. Labour market figures deteriorated further in the first quarter of 2013, which closed with a jobless rate exceeding 27.2% of the active population and a 4.6% decline in employment. The big news on the budget front was the EU's admission that fiscal consolidation could be shifted down a gear, translating as a two-year extension (to 2016) of the Spanish government's deadline for bringing the fiscal deficit below 3%. The current year target, finally, has been set at 6.5% of GDP.

In domestic debt markets, the sizeably improved financial conditions of the latter half of 2012 carried over into the first months of 2013. Public and private debt yields headed lower till May, more sharply at the short end, then widened slightly from that point onwards. The yield spread between the German and Spanish ten-year bond narrowed to mid-June levels of just over 300 bp compared to the 396 bp of December 2012. Despite falling yields, the volume of fixed-income issues filed with the CNMV receded 63.5% in the first-half period to 69.64 billion euros, one of the reasons being banks' lesser funding requirements in terms of their commitments and lending activity.

The performance of Spanish stock markets, like those elsewhere, was marked by an abundance of liquidity and renewed appetite for risk, although eventually the slow pace of domestic activity had a damper effect on prices. The Ibex 35 shed 1.2% in the first six months, in contrast to the gains chalked up on most European indices. However, volatility and liquidity conditions held within normal limits, and were barely ruffled by events like the Cyprus rescue or the political stalemate in Italy. Finally trading volumes continued to thin (by 13.5% from January to June) in line with the decline observed on other world exchanges.[3]

3 The Ibex 35 lost 6.4% between 15 June, the closing date for this report, and 24 June in the wake of the Federal Reserve's announcement, with other European indices experiencing similar falls.

Key financial indicators

TABLE 1

	Q3 12	Q4 12	Q1 13	Q2 13[8]
Short-term interest rates (%)[1]				
Official interest rate	0.75	0.75	0.75	0.50
Euribor 3 month	0.25	0.19	0.21	0.20
Euribor 12 month	0.74	0.55	0.55	0.49
Exchange rates[2]				
Dollar/euro	1.29	1.32	1.28	1.33
Yen /euro	100.4	113.6	120.9	126.4
Medium and long-term government bond yields[3]				
Germany				
3 year	0.08	0.02	0.06	0.22
5 year	0.46	0.35	0.40	0.58
10 year	1.52	1.36	1.41	1.56
United States				
3 year	0.34	0.35	0.38	0.50
5 year	0.66	0.69	0.81	1.07
10 year	1.70	1.71	1.94	2.15
Corporate debt risk premium: spread over ten-year government bonds (bp)[3]				
Euro area				
High yield	500	378	301	317
BBB	112	67	59	44
AAA	-121	-81	-84	-78
United States				
High yield	541	507	450	445
BBB	190	165	143	150
AAA	38	29	44	57
Equity markets				
Performance of main world stock indices (%)[4]				
Euro Stoxx 50	8.4	7.4	-0.5	2.0
Dow Jones	4.3	-2.5	11.3	3.4
Nikkei	-1.5	17.2	19.3	2.3
Other indices (%)				
Merval (Argentina)	4.5	16.4	18.4	-5.3
Bovespa (Brazil)	8.9	3.0	-7.5	-12.5
Shanghai Comp. (China)	-6.3	8.8	-1.4	-3.3
BSE (India)	8.0	4.8	-5.0	2.0
Spanish stock market				
Ibex 35 (%)	8.5	6.0	-3.0	1.9
P/E of Ibex 35[5]	11.1	11.7	11.3	12.0
Volatility of Ibex 35 (%)[6]	34.4	22.3	21.3	22.5
SIBE trading volumes[7]	2,345	2,148	2,593	2,445

Source: CNMV, Thomson Datastream, Bloomberg, Reuters, Banco de España, Bolsa de Madrid, MEFF and AIAF.

1 Monthly average of daily data. The official interest rate corresponds to the marginal rate at weekly auctions at the period close.

2 Data at period end.

3 Monthly average of daily data.

4 Cumulative quarterly change in each period.

5 Price earnings ratio.

6 Implied at-the-money (ATM) volatility on nearest expiry at period end. Arithmetical average for the quarter.

7 Daily average in million euros.

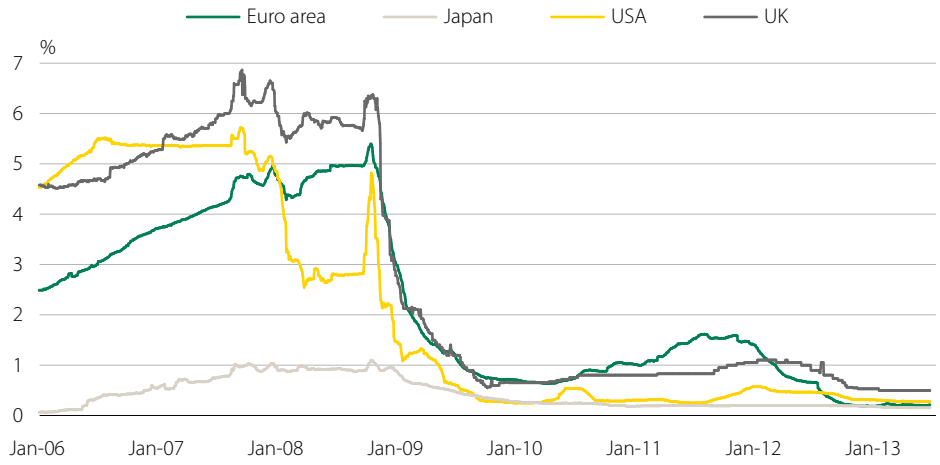
8 Data to 15 June.

2 International financial background

2.1 Short-term interest rates

Short-term rates held at record lows in the first half of 2013 against a backdrop of subdued growth in the major advanced economies, the euro area in particular, and still tame inflation. As figure 1 shows, three-month interbank rates moved consistently within the 15 bp to 27 bp range in the euro area, United States and Japan, while those in the United Kingdom ran slightly higher, albeit likewise flat, as far a mid-year levels of 50 bp.

Three-month interest rates FIGURE 1



Source: Thomson Datastream. Data to 15 June.

Setting the pace was the ECB's decision to lower rates once more from 0.75% to 0.5%[4] in response to the prolonged area-wide recession and inflation rates safely below the monetary authority's target level. This latest cut, effective from the first days of May, took the official rate to its lowest ever level in the history of Economic and Monetary Union, and, along with other, non-conventional measures adopted by the ECB, reflects the upkeep of a loose monetary policy designed to relaunch growth and get credit flowing into the real economy.

Elsewhere, salient monetary developments were the Federal Reserve's announcement that it would unwind the monetary stimulus measures in its quantitative easing package ahead of the original schedule, assuming the favourable progress of economic activity and, above all, unemployment rates, and the Bank of Japan's decision to launch the largest monetary stimulus in the country's recent past. Specifically, the Japanese authority unveiled plans last April to double the monetary base by end-2014 through the aggressive purchase of long-term bonds, ETFs and other assets, in order to push inflation towards a target level of 2%. This Bank of Japan's strategy has points of similarity with the anti-crisis measures adopted by the Federal Reserve and ECB, but differs in the scale of quantitative easing compared to the

4 The ECB has lowered its rates four times since November 2011, by 25 bp on each occasion.

size of the national economy, shorter time frame, and the fact that some of the assets eligible for the programme carry a relatively higher risk.

Short-term interest rates[1] (%) TABLE 2

	Dec 09	Dec 10	Dec 11	Dec 12	Sep 12	Dec 12	Mar 13	Jun 13
Euro area								
Official[2]	1.00	1.00	1.00	0.75	0.75	0.75	0.75	0.50
3 month	0.71	1.02	1.43	0.19	0.25	0.19	0.21	0.20
6 month	1.00	1.25	1.67	0.32	0.48	0.32	0.33	0.31
12 month	1.24	1.53	2.00	0.55	0.74	0.55	0.55	0.49
United States								
Official[3]	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 month	0.25	0.30	0.56	0.31	0.39	0.31	0.28	0.27
6 month	0.45	0.46	0.78	0.51	0.67	0.51	0.45	0.41
12 month	1.00	0.78	1.10	0.85	1.00	0.85	0.73	0.68
United Kingdom								
Official	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3 month	0.65	0.80	1.05	0.53	0.67	0.53	0.50	0.50
6 month	0.95	1.05	1.40	0.70	0.93	0.70	0.67	0.67
12 month	1.45	1.50	1.90	1.00	1.38	1.00	0.95	0.95
Japan								
Official[4]	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month	0.28	0.18	0.20	0.18	0.19	0.18	0.16	0.15
6 month	0.48	0.35	0.34	0.29	0.32	0.29	0.26	0.24
12 month	0.70	0.57	0.55	0.49	0.54	0.49	0.45	0.43

Source: Thomson Datastream.

1 Average daily data except official rates, which correspond to the last day of the period. Data to 15 June.

2 Marginal rate at weekly auctions.

3 Federal funds rate.

4 Monetary policy rate.

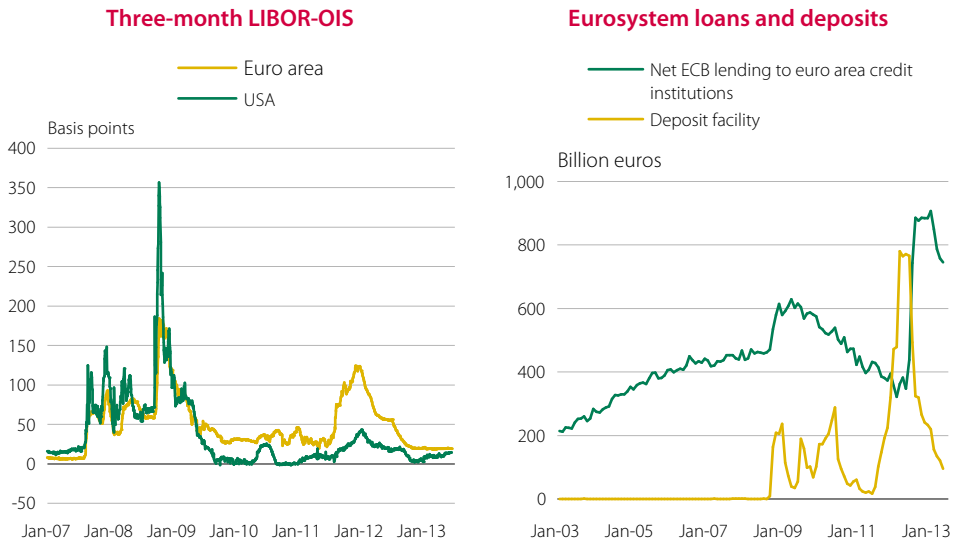
As table 2 shows, six- and twelve-month interbank rates remained settled, or even decreased slightly, over the first six months of 2013. In the euro area, rates progressed smoothly to mid-June levels of 0.31% and 0.49% respectively, anticipating by some distance the reduction in official rates. Short rates in the United States declined rather more steeply, but, by the closing date for this report, remained higher than those of the euro area or Japan.

In tune with the calmer mood prevailing, both US and euro Libor-OIS spreads held at reduced levels (between 14 bp and 19 bp) over the first-half period, accompanied by trading volumes that have yet to recoup their pre-crisis state. Meantime, net Eurosystem lending to banks in the region dropped slightly in the spring months,[5] lending support to the view that tensions have lessened. This is not to forget, however, the fragility brought by weak growth, problems of bank asset quality, and the hurdles faced by some institutions in raising funds on capital markets.

5 As did their balance on deposit with the monetary authority.

Interbank spreads and Eurosystem financing

FIGURE 2



Source: Thomson Datastream and Banco de España.

Three-month forward rates at mid-June 2013 were pricing in no change for the next few months in either US or euro official rates (see table 3).

Three-month forward rates (FRAs)[1] (%)

TABLE 3

	Dec 09	Dec 10	Dec 11	Dec 12	Sep 12	Dec 12	Mar 13	Jun 13
Euro area								
Spot	0.70	1.01	1.36	0.19	0.22	0.19	0.21	0.21
FRA 3x6	0.82	1.04	1.06	0.17	0.18	0.17	0.26	0.23
FRA 6x9	1.21	1.13	0.93	0.17	0.19	0.17	0.31	0.27
FRA 9x12	1.61	1.23	0.90	0.20	0.23	0.20	0.33	0.31
FRA 12x15	1.90	1.34	0.91	0.23	0.25	0.23	0.35	0.38
United States								
Spot	0.25	0.30	0.58	0.31	0.36	0.31	0.28	0.27
FRA 3x6	0.42	0.39	0.65	0.30	0.31	0.30	0.33	0.29
FRA 6x9	0.77	0.47	0.71	0.33	0.32	0.33	0.37	0.32
FRA 9x12	1.23	0.61	0.75	0.35	0.34	0.35	0.39	0.36
FRA 12x15	1.59	0.78	0.75	0.38	0.35	0.38	0.42	0.41

Source: Thomson Datastream.

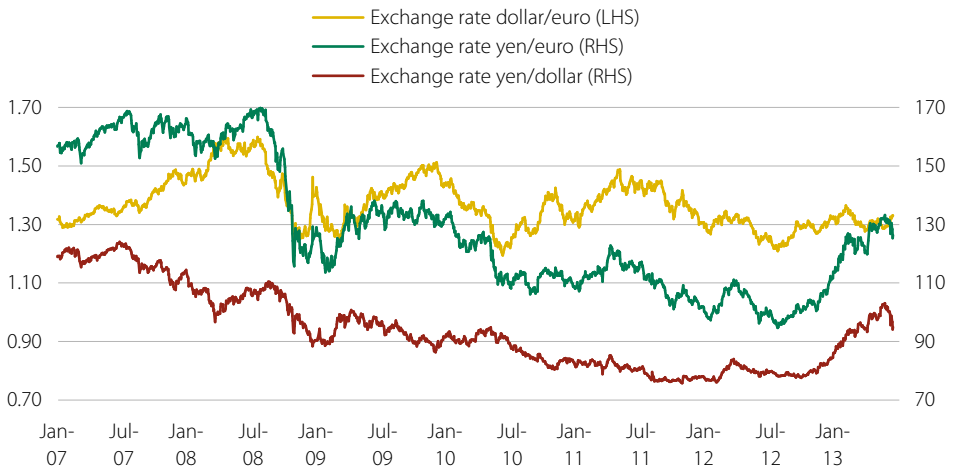
1 Data at period end. Data to 15 June.

2.2 Exchange rates

The main events on currency markets in the first six months of 2013 were the relative stability of euro vs. dollar rates, which moved between 1.28 and 1.36 dollars/euro, and, more strikingly, the yen's tumble against other leading currencies, only alleviated slightly towards the end of the reference period. The yen's descent began

in summer 2012, when it was trading at 95 against the euro and 78 against the dollar, and proceeded without interruption until the first weeks of 2013. From this point on, it traced a more variable course, especially against the euro. From April, the Bank of Japan's unveiling of its monetary base expansion plans sent the Japanese currency falling once more as far as 133 yens/euro and 103 yens/dollar, though with signs of an upturn around mid-June (see figure 3).

Dollar/euro and yen/euro exchange rates FIGURE 3



Source: Thomson Datastream. Data to 15 June.

2.3 Long-term interest rates

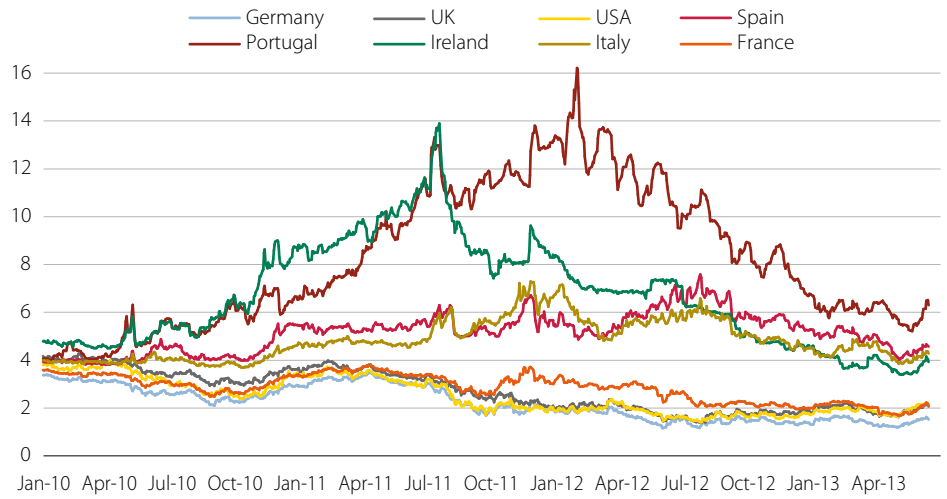
International financial markets, and debt markets particularly, spent the first six months awash with liquidity thanks to the markedly expansionary monetary stance of central banks in most economically developed areas. Record low interest rates and the calming of tensions on Europe's debt markets as of mid-2012 triggered a search for yield which has seen money being ploughed into riskier instruments in both fixed-income and equities markets. The result, in some cases, has been to push prices out of sync with the fundamentals of the underlying economies.

Despite the healthier state of debt markets since the second half of 2012, we can still point to a degree of fragility. This is especially so in Europe, where the Cyprus rescue and the problems of the Slovenian economy were compounded by data confirming the region's economic weakness and denting near-term prospects of a solid recovery. Concerns over the quality of banks' assets and the funding difficulties faced by the sector continued to weigh on the progress of European markets. That said, the measures taken by the euro-area monetary authority, notably its recent decision to cut official rates, and the admission by EU leaders that fiscal consolidation can proceed more slowly, were welcomed by the markets in the form of an upturn in debt prices.

On the macro front, the publication of upbeat indicators on the US economy, which showed both employment and consumption gathering speed, allied with Japan's announcement of its monetary expansion plan, prompted sizeable rises in the long-

-term yields of their respective sovereign instruments, which nonetheless traded volatilely over the period.

Long-term government bond yields (ten years) FIGURE 4



Source: Thomson Datastream. Data to 15 June.

Long-term government bond yields strained higher among the most robust advanced economies, especially in the second quarter in the cases of the United States and Japan. Ten-year yields in the United States, United Kingdom, Germany and Japan averaged 2.2%, 2.1%, 1.6% and 0.8% respectively in June 2013, after widening 10 to 45 bp from the averages of December last. Except in Germany, yields rose less on shorter dated assets, causing the curve to steepen sharply between three and ten-year maturities in the middle months of 2013 (see table 4).

Medium and long term government bond yields[1] (%) TABLE 4

	Dec 09	Dec 10	Dec 11	Dec 12	Sep 12	Dec 12	Mar 13	Jun 13
Germany								
3 year	1.55	1.16	0.41	0.02	0.08	0.02	0.06	0.22
5 year	2.27	1.91	0.92	0.35	0.46	0.35	0.40	0.58
10 year	3.22	2.90	1.99	1.36	1.52	1.36	1.41	1.56
United States								
3 year	1.37	0.98	0.38	0.35	0.34	0.35	0.38	0.50
5 year	2.33	1.92	0.88	0.69	0.66	0.69	0.81	1.07
10 year	3.59	3.29	1.97	1.71	1.70	1.71	1.94	2.15
United Kingdom								
3 year	1.67	1.14	0.55	0.50	0.26	0.50	0.34	0.56
5 year	2.69	2.07	0.82	0.85	0.62	0.85	0.71	1.16
10 year	3.94	3.61	2.12	1.85	1.77	1.85	1.90	2.08
Japan								
3 year	0.21	0.25	0.18	0.12	0.12	0.12	0.07	0.17
5 year	0.47	0.46	0.34	0.17	0.20	0.17	0.11	0.31
10 year	1.26	1.18	1.00	0.73	0.79	0.73	0.60	0.83

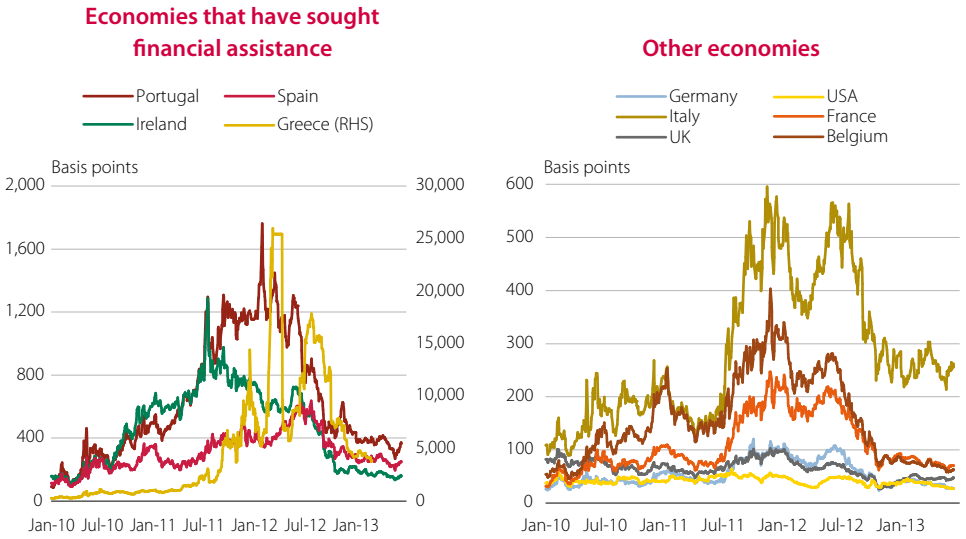
Source: Thomson Datastream.

1 Monthly average of daily data. Data to 15 June.

Meantime, the long-term bonds of the European economies most caught up in the debt market turmoil of recent years felt the benevolent effects of the calmer mood prevailing. Yields fell substantially to the start of May, before turning up slightly in the weeks that followed (see figure 4). Indicators of sovereign credit risk contagion from weaker to sounder economies prolonged the downtrend of the previous months, with barely a blip in response to adverse events like the Cyprus rescue and Italy's political stalemate.

The sovereign risk spreads of more vulnerable economies narrowed sharply to May and turned flat thereafter (see figure 5). Mid-year spreads were a good way below the highs of last summer, though still wider than they were in the run-up to the crisis. Specifically the five-year sovereign CDS of Spain, Italy, Portugal and Ireland were trading at 249 bp, 256 bp, 363 bp and 159 bp respectively at mid-June 2013, compared to the 295 bp, 285 bp, 436 bp and 218 bp of end-2012 and the 637 bp, 563 bp, 903 bp and 577 bp recorded at the height of last year's market turmoil.

Sovereign credit spreads (five-year CDS) FIGURE 5

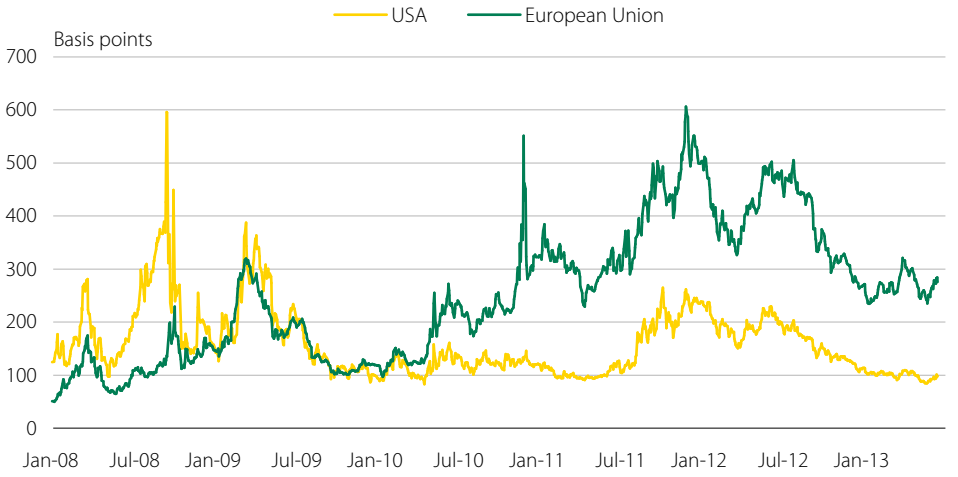


Source: Thomson Datastream. Data to 15 June.

Concerns about the health of Europe's banking system have died down substantially in the last year, as evidenced by the fall in spreads from 500 bp in mid-2012 to less than 300 bp in mid-June 2013. Certain doubts persist, however, about the sector's ability to return to acceptable levels of profitability in the short to medium term, given the sluggishness of output growth and the constraints some banks face in accessing capital markets. In the United States, conversely, bank spreads have hovered around the 100 bp mark for most of this year, on the perception that they have made far greater headway in restructuring and recapitalisation than their European peers.

Bank sector credit spreads (five-year CDS)

FIGURE 6



Source: Thomson Datastream, indices drawn up by CMA. Data to 15 June.

For some months, now the abundance of liquidity in financial markets has been driving a search for yield that has sparked heavy buying of lower-quality debt securities and other instruments. The result has been a sharp drop in the credit spreads of certain corporate debt segments. As we can see from table 5, spreads on high-yield corporate bonds fell consistently throughout the first half of 2013 for both US and euro-area borrowers, as far as 445 bp and 317 bp respectively. To put this in perspective, remember that high-yield risk premiums peaked at over 20 points towards the 2008 close and over 7 points amid the turbulence of late 2011.

Corporate bond risk premiums[1]

TABLE 5

Spread versus ten-year government bonds, in basis points

	Dec 09	Dec 10	Dec 11	Dec 12	Sep 12	Dec 12	Mar 13	Jun 13
Euro area[2]								
High yield	714	462	739	378	500	378	301	317
BBB	242	170	287	67	112	67	59	44
AAA	28	14	-22	-81	-121	-81	-84	-78
United States								
High yield	582	461	683	507	541	507	450	445
BBB	189	145	261	165	190	165	143	150
AAA	51	37	98	29	38	29	44	57

Source: Thomson Datastream.

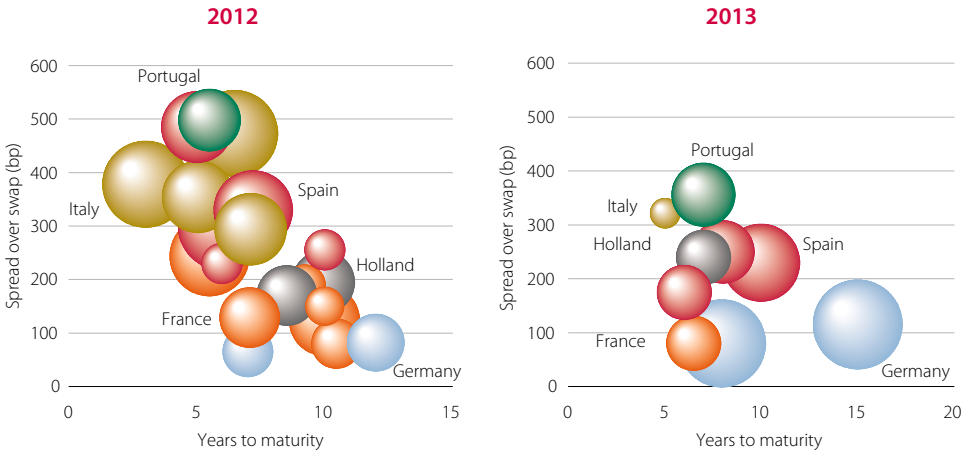
1 Monthly average of daily data. Data to 15 June.

2 Based on a synthetic bond representative of the whole area.

One development that has affected business financing throughout the crisis has been a certain fragmentation of euro-area capital markets, which has led to disparities in the funding costs of companies operating in the same sector but in different jurisdictions (see figure 7). Although these cost gaps have closed a little in recent months, there remains a persistent difference that does not respond solely to the

relative health of companies' home economies or areas of business, and which threatens to hamper the activity of those faced with most costly borrowing, especially at a time when bank finance is tight.

Debt issuance of European telecommunications companies[1] FIGURE 7



Source: Dealogic. 2013 data to 15 June.

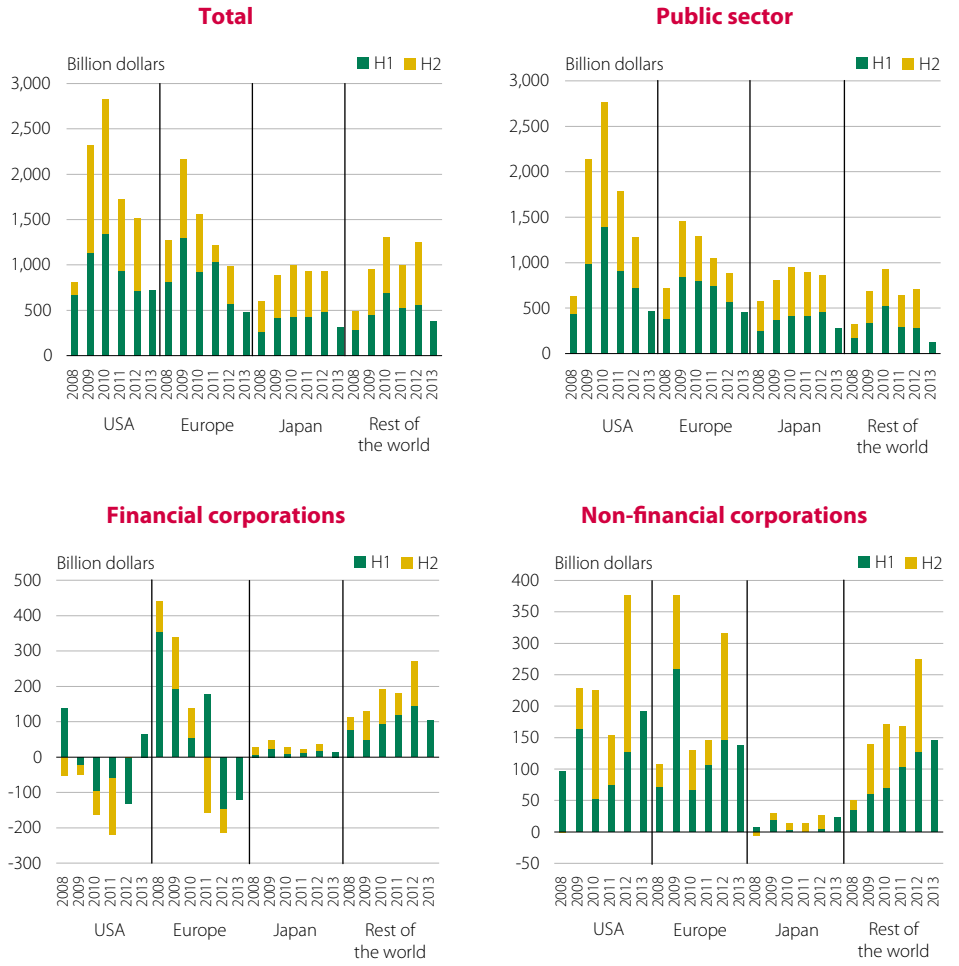
1 Long-term investment-grade floating-rate bonds. The size of the bubble is proportional to the size of the issue.

Long-term debt issuance in international markets reflected all these trends, with total net volumes down 19% versus the year-ago period to 1.9 trillion dollars. Issuance shrinkage had its origin exclusively in the public sector (-34.7%), as a result of the fiscal consolidation under way in many jurisdictions.

By way of contrast, private-sector issue volumes increased sizeably with respect to the first half of 2012, led by the non-financial corporate sector. Issuance by this sector came to 497 billion dollars, 22.2% more than in the year-ago period, with US companies especially active players. Financial sector issuance improved in both the United States and Europe, though note that net debt financing in the United States was positive for the first time since 2008.

Net international debt issuance

FIGURE 8



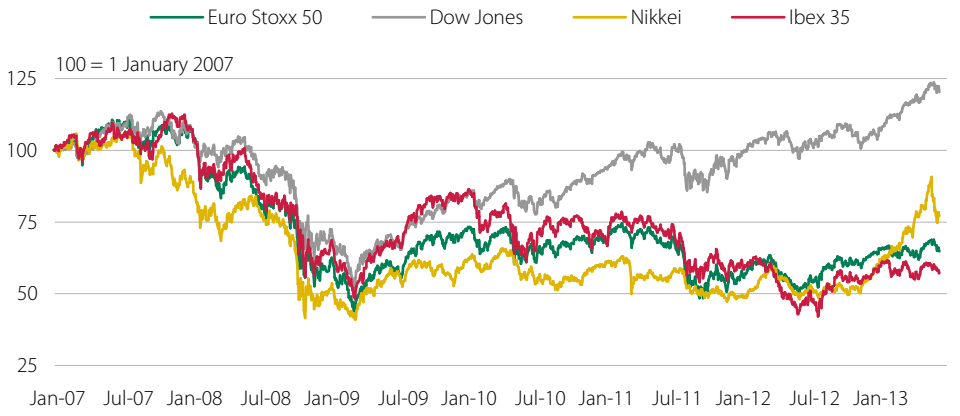
Source: Dealogic. Six-monthly data.

2.4 International stock markets

Leading international stock market indices ended the first-half period in positive territory, though with something of a gap opening up between the main advanced economies. US and Japanese indices topped the list with year-to-date gains of over 13% and 22% on the greater vigour of their respective economies. In Japan's case, the launch of a monetary stimulus programme powered the benchmark index to heights unseen since 2008, though a partial correction around mid year (see figure 9) ushered in a more volatile price environment.

Performance of main world indices

FIGURE 9



Source: Thomson Datastream. Data to 15 June.

The calmer market mood of second-half 2012 triggered a price run-up that lasted into 2013, albeit with some loss of steam. Not all markets, moreover, fared equally well. Out in front was the German index, with a first-half gain of 6.8%, followed by the Euronext 100, with 5%. The Spanish and Italian benchmarks experienced fewer variations as initial losses gave way to a small advance in the second quarter, leaving the Italian index up by 1.4% and the Spanish index down by 1.2% (see table 6).

Performance of main world indices[1] (%)

TABLE 6

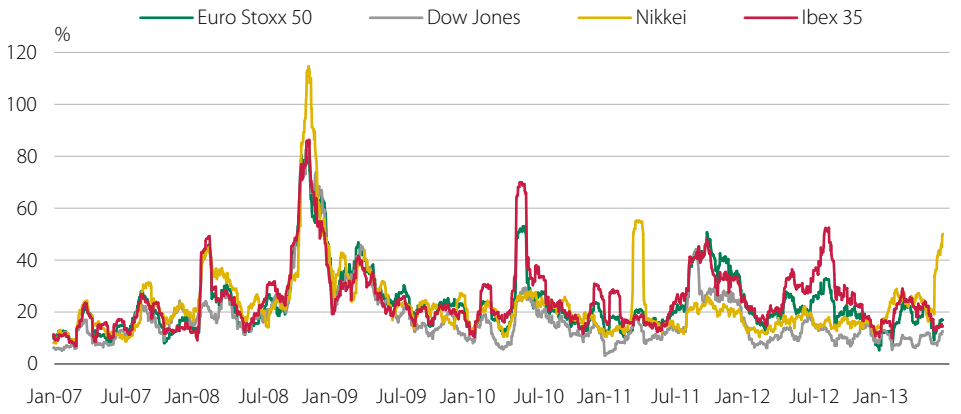
								Q2 13	
	2009	2010	2011	2012	Q3 12	Q4 12	Q1 13	%/ prior qt.	%/ 31/12/12
World									
MSCI World	27.0	9.6	-7.6	13.2	6.1	2.1	7.2	2.0	9.4
Euro area									
Euro Stoxx 50	21.1	-5.8	-17.1	13.8	8.4	7.4	-0.5	1.7	1.2
Euronext 100	25.5	1.0	-14.2	14.8	5.0	6.0	4.7	0.4	5.2
Dax 30	23.8	16.1	-14.7	29.1	12.5	5.5	2.4	4.3	6.8
Cac 40	22.3	-3.3	-17.0	15.2	4.9	8.5	2.5	2.0	4.5
Mib 30	20.7	-8.7	-24.0	10.2	8.6	6.0	-2.6	4.1	1.4
Ibex 35	*29.8*	*-17.4*	*-13.1*	*-4.7*	*8.5*	*6.0*	*-3.0*	*1.9*	*-1.2*
United Kingdom									
FTSE 100	22.1	9.0	-5.6	5.8	3.1	2.7	8.7	-1.6	7.0
United States									
Dow Jones	18.8	11.0	5.5	7.3	4.3	-2.5	11.3	3.4	15.0
S&P 500	23.5	12.8	0.0	13.4	5.8	-1.0	10.0	3.7	14.1
Nasdaq-Cpte	43.9	16.9	-1.8	15.9	6.2	-3.1	8.2	4.8	13.4
Japan									
Nikkei 225	19.0	-3.0	-17.3	22.9	-1.5	17.2	19.3	2.3	22.0
Topix	5.6	-1.0	-18.9	18.0	-4.2	16.6	20.3	2.1	22.9

Source: Datastream.

1 In local currency. Data to 15 June.

A string of apparently contradictory macro and financial messages had a destabilising effect on first-half prices. As a result, benchmark index volatility climbed to nearly 25% in spring before settling back to mid-June levels closer to 15% in most cases, not far off the 10% approximately of year-end 2012. Japanese stock volatility, as remarked earlier, surged to levels testing 50% (for the first time since the March 2011 earthquake), due largely to doubts about the outcome of the Bank of Japan's extraordinary monetary stimulus package (see figure 10).

Historical volatility of main stock indices FIGURE 10



Source: Thomson Datastream. Data to 15 June.

The dividend yields of leading world indices headed lower in the first-half period, especially in Europe. This trend, which has lasted for various years now, is pulling top index yields into closer alignment, though with the European block conserving a small lead. By mid-year, specifically, dividend yields in Europe ranged from the 3.3% of the Dax 30 to the 5.4% of the Cac 40, compared to the 2.5% of the S&P 500 and the 1.8% of Japan's Topix index (see table 7).

Dividend yield of main stock indices (%) TABLE 7

	2008	2009	2010	2011	2012	Sep 12	Dec 12	Mar 13	Jun 13
S&P 500	3.5	2.3	2.2	2.6	2.6	2.5	2.6	2.5	2.5
Topix	2.7	1.8	1.9	2.6	2.3	2.5	2.3	1.9	1.8
Euro Stoxx 50	7.5	4.2	4.8	6.3	5.0	5.1	5.0	4.9	4.7
Euronext 100	7.9	4.2	4.3	5.6	4.8	5.0	4.8	4.7	4.7
FTSE 100	5.8	3.7	3.8	4.1	4.1	4.1	4.1	4.0	4.0
Dax 30	5.4	3.5	2.9	4.2	3.4	3.5	3.4	3.4	3.3
Cac 40	8.1	5.0	5.2	7.0	5.7	6.0	5.7	5.6	5.4
Mib 30	8.6	3.4	3.8	5.4	4.1	4.3	4.1	4.1	3.5
Ibex 35	6.2	3.9	5.9	6.9	5.4	5.4	5.4	4.9	4.7

Source: Thomson Datastream. Data to 15 June.

The price-earnings ratios (P/E) of main international indices moved higher in the first two quarters as share prices continued their ascent. The multiples of US and Japanese indices climbed from around 13 at end-2012 to approaching 14 times in

June 2013, while those of European indices rose by a smaller margin to mid-year levels running from the 11.2 of the Euro Stoxx 50 to the 12.2 of the Euronext 100. On a broader time perspective (see figure 11), P/E ratios continue at fairly reduced levels, especially in Europe.

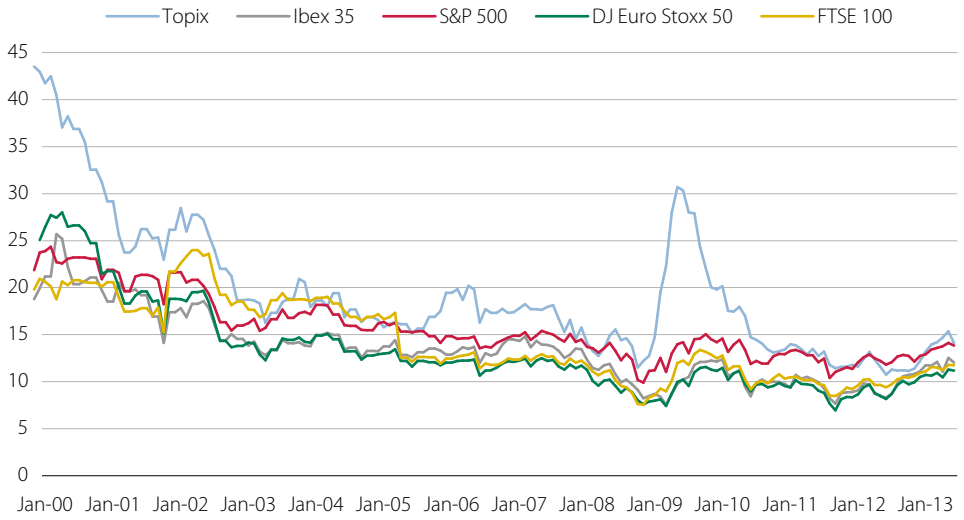
P/E[1] of main stock indices TABLE 8

	2008	2009	2010	2011	2012	Sep 12	Dec 12	Mar 13	Jun 13
S&P 500	11.3	14.6	13.1	11.7	12.7	12.8	12.7	13.7	13.8
Topix	15.6	19.3	13.6	11.6	13.0	11.4	13.0	14.1	14.1
Euro Stoxx 50	7.8	11.5	9.5	8.5	10.6	10.1	10.6	10.7	11.2
Euronext 100	8.3	12.7	10.6	9.4	11.2	10.7	11.2	11.9	12.2
FTSE 100	8.3	12.5	10.5	9.3	11.0	10.7	11.0	11.4	11.7
Dax 30	8.8	12.7	10.8	9.0	11.1	10.6	11.1	11.3	11.3
Cac 40	8.0	12.1	10.0	8.7	10.7	10.1	10.7	11.0	11.6
Mib 30	7.6	12.4	10.0	8.4	10.4	9.8	10.4	10.6	11.7
Ibex 35	8.7	12.3	9.7	9.2	11.7	11.1	11.7	11.3	12.0

Source: Thomson Datastream. Data to 15 June.

1 The earnings per share making up the ratio denominator is based on 12-month forecasts.

P/E[1] of main stock indices FIGURE 11



Source: Thomson Datastream. Data for the last trading session in each month. Data to 15 June.

1 The earnings per share making up the ratio denominator is based on 12-month forecasts.

Other leading stock indices, predominantly those of emerging markets, performed divergently both between and within regions after the strong advance of full-year 2012. Confirmation that the growth rates of the largest economies had cooled in recent months, and a certain upswing in perceived country risk (see figure 12) weighed on a number of indices in Latin America and Asia. Latin American stock markets lost between 5.9% and 20.3% of their start-out value, with only the Venezuelan and Argentine indices continuing in positive territory. In Asia too, most leading indices lost ground to mid-June, with the Chinese index down 4.7%, the Indian 3.1%, and

the Hong Kong index 7.4% (see table 9). Other Asian indices managed gains ranging from the 3.1% of the Taiwan benchmark to the 10.3% of Indonesia's Jakarta Composite.

In Eastern Europe, finally, only the Russian index recorded losses, while remaining indices headed higher to varying degrees on the heels of last year's second-half advance. Gains among this group ranged from the Polish index's 1.7% to the 27.9% of the Bulgarian Sofix.

Performance of other leading world indices

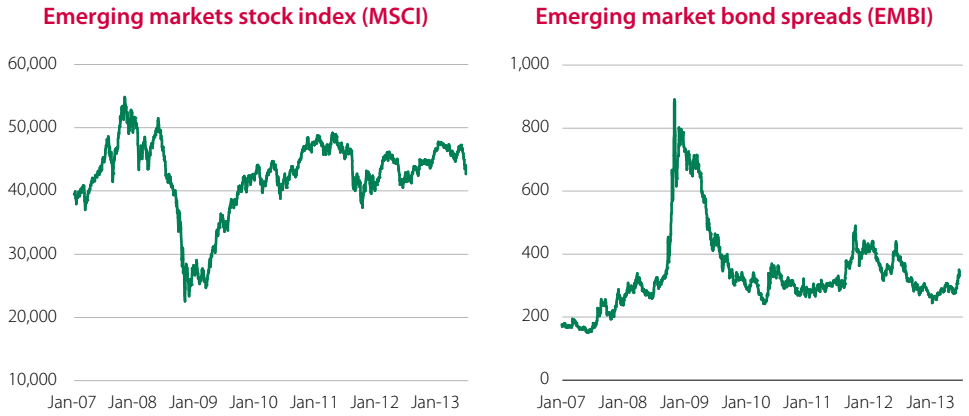
TABLE 9

	Index	2009	2010	2011	2012	Q3 12	Q4 12	Q1 13	% prior qt.	% 30/12/12
Latin America										
Argentina	Merval	115.0	51.8	-30.1	15.9	4.5	16.4	18.4	-5.3	12.1
Brazil	Bovespa	82.7	1.0	-18.1	7.4	8.9	3.0	-7.5	-12.5	-19.1
Chile	IGPA	46.9	38.2	-12.4	4.7	-2.5	2.5	3.0	-8.6	-5.9
Mexico	IPC	43.5	20.0	-3.8	17.9	1.7	6.9	0.8	-10.9	-10.2
Peru	IGRA	99.2	66.4	-16.7	5.9	7.3	-4.8	-3.7	-17.2	-20.3
Venezuela	IBC	57.0	18.6	79.1	302.8	22.3	53.0	31.5	41.8	86.5
Asia										
China	Shanghai Comp.	80.0	-14.3	-21.7	3.2	-6.3	8.8	-1.4	-3.3	-4.7
India	BSE	85.0	15.7	-25.7	30.0	8.0	4.8	-5.0	2.0	-3.1
South Korea	Korea Cmp. Ex	49.7	21.9	-11.0	9.4	7.7	0.0	0.4	-5.8	-5.4
Philippines	Manila Comp.	63.0	37.6	4.1	33.0	1.9	8.7	17.8	-8.8	7.4
Hong Kong	Hang Seng	52.0	5.3	-20.0	22.9	7.2	8.7	-1.6	-6.0	-7.4
Indonesia	Jakarta Comp.	87.0	46.1	3.2	12.9	7.8	1.3	14.5	-3.6	10.3
Malaysia	Kuala Lumpur Comp.	45.2	19.3	0.8	10.3	2.3	3.2	-1.0	5.4	4.3
Singapore	SES All-S'Pore	64.5	10.1	-17.0	19.7	6.3	3.5	4.5	-4.4	-0.2
Thailand	Bangkok SET	63.2	40.6	-0.7	35.8	10.8	7.2	12.2	-6.1	5.3
Taiwan	Taiwan Weighted Pr.	78.3	9.6	-21.2	8.9	5.7	-0.2	2.8	0.2	3.1
Eastern Europe										
Russia	Russian RTS Index	128.6	22.5	-21.9	10.5	9.3	3.5	-4.4	-11.4	-15.3
Poland	Warsaw G. Index	46.9	18.8	-20.8	26.2	7.2	8.5	-4.9	6.9	1.7
Romania	Romania BET	61.7	12.3	-17.7	18.7	4.3	9.0	9.5	-4.8	4.2
Bulgaria	Sofix	19.1	-15.2	-11.1	7.2	10.6	6.6	11.2	15.0	27.9
Hungary	BUX	73.4	0.5	-20.4	7.1	7.2	-2.2	-1.7	9.4	7.5
Croatia	CROBEX	16.4	5.3	-17.6	0.0	1.3	1.5	15.4	-10.3	3.5

Source: Thomson Datastream. Data to 15 June.

Risk valuation in emerging economies

FIGURE 12



Source: Thomson Datastream and Bloomberg. Data to 15 June.

According to the World Federation of Exchanges (WFE), worldwide stock market trading volumes[6] receded 22.4% in aggregate terms in 2012, with all major exchanges sharing in the decline.[7] The mild recovery observed in the opening months of 2013 (3.1% to May) was almost entirely due to the trading upswing in Japan, while other leading markets continued in decline.

Trading volumes on main international stock markets

TABLE 10

Billion euros

Exchange	2009	2010	2011	2012	Q3 12	Q4 12	Q1 13	Q2 13[5]
United States[1]	22,451	23,188	21,940	17,995	4,238	4,066	4,050	3,188
New York	12,627	13,553	12,866	10,416	2,478	2,432	2,422	1,861
Tokyo[2]	2,656	2,872	2,831	2,787	608	709	1,118	1,206
London[3]	1,270	2,084	2,021	1,698	406	377	428	297
Euronext	1,383	1,533	1,520	1,221	301	264	309	224
Deutsche Börse	1,084	1,237	1,252	987	239	213	243	183
BME[4]	886	1,037	925	667	153	138	162	131

Source: World Federation of Exchanges and CNMV.

1 As of 2009, the sum of the New York Stock Exchange (NYSE), Euronext and Nasdaq OMX; previously the New York Stock Exchange, Nasdaq OMX and the American Stock Exchange.

2 Including figures for the Japan Exchange Group-Osaka and Japan Exchange Group-Tokyo. The merger between the Tokyo Stock Exchange and Osaka Stock Exchange was approved in July 2012. The company Japan Exchange Group was incorporated in 2013 to operate these two platforms.

3 Incorporating Borsa Italiana as of 2010.

4 Bolsas y Mercados Españoles. Not including Latibex.

5 Data corresponding to April and May except BME, up to 15 June.

6 In US dollars.

7 Trading in local currency. The figures in table 10 are presented in euros for the purpose of comparison.

3 Spanish markets

3.1 Fixed-income markets

ECB monetary policy measures contributed to a significant improvement in the financing conditions of Spanish agents over the second half of 2012. The benefits, however, have faded progressively in 2013, accompanied by a stall in the issuance activity of domestic banks.

In this context, short-term treasury bill rates prolonged their decline, especially in the opening quarter. From end-2012 to June 2013, the interest rates of Letras del Tesoro to one year fell by an average of 93 bp to 0.4%, 0.7% and 1.2% in three, six and twelve-month tenors respectively (see table 11).

Short-term interest rates[1] (%) TABLE 11

	Dec 09	Dec 10	Dec 11	Dec 12	Sep 12	Dec 12	Mar 13	Jun 13
Letras del Tesoro								
3 month	0.41	1.60	2.20	1.14	0.93	1.14	0.29	0.41
6 month	0.65	2.71	3.47	1.68	1.74	1.68	0.85	0.69
12 month	0.88	3.09	3.27	2.23	2.52	2.23	1.37	1.17
Commercial paper[2]								
3 month	0.76	1.37	2.74	2.83	2.85	2.83	1.49	1.27
6 month	1.25	2.52	3.52	3.58	3.56	3.58	1.72	1.43
12 month	1.63	3.04	3.77	3.80	3.69	3.80	1.90	1.75

Source: Thomson Datastream and CNMV. Data to 15 June.

1 Monthly average of daily data.

2 Interest rates at issue.

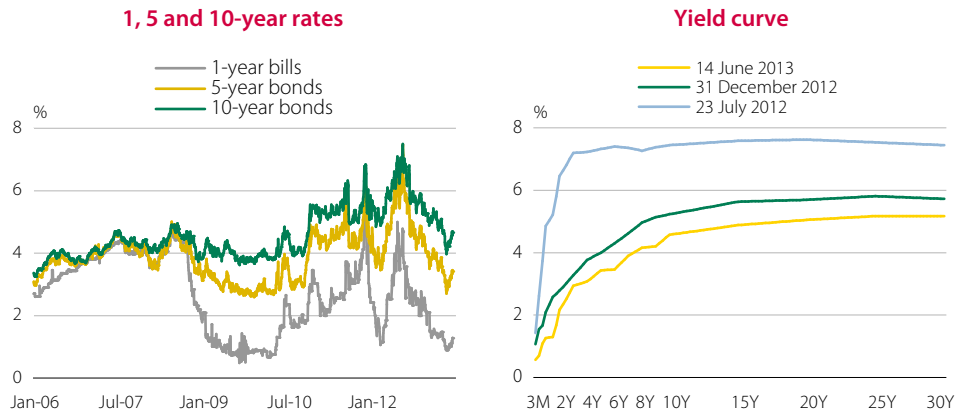
Long-term government bond yields held to the downward course initiated in late July 2012, before tracing a small upturn form early May that returned them to more or less mid-April levels. Specifically, three, five and ten-year yields dropped an average of 77 bp versus last year's to 2.7%, 3.3% and 4.6% respectively in June 2013 (see table 12).

Looking at the progress of government bond yields since the worst days of the sovereign debt crisis, we can see that the fall has been steepest at the short end of the curve. This, in effect, denotes a growing confidence in Spain's ability to meet its upcoming debt redemptions (see right-hand panel of figure 13).

Spain's sovereign risk premium as derived from 5-year CDS continued to narrow in the first six months, albeit at a more sedate pace than in the period from late July to the end of last year (see figure 14). The decrease was broken off on two occasions. Firstly in the second half of March, under the influence presumably of the crisis erupting in the Cypriot banking system, and, secondly, from mid-May onwards, when sovereign spreads crept higher once more as far as 250 bp in the middle of June (300 bp in late March and end-2012). Meantime, the Spanish/German ten-year yield spread reduced from the 396 bp of last year's close to 380 bp at the end of March and just over 300 bp in mid-June. This lessening perception of sovereign risk not only extended to all European countries, but was accompanied by a rapid fall in indicators of sovereign risk

contagion from the most fragile to the soundest economies. These indicators, moreover, barely budged in response to the Cyprus rescue and Italy's unsteady political climate.

Spanish government debt yields FIGURE 13



Source: Thomson Datastream. Data to 15 June.

Short-term commercial paper rates traced a sharper decline than public debt instruments, which likewise levelled out as the months advanced. Specifically, the rates for three, six and twelve-month paper dropped by an average 170 bp and 22 bp in the first and second quarter respectively as far as 1.3%, 1.4% and 1.8% (see table 11). Meantime, corporate bond yields in the three and five-year tenor rose by around 30 bp in the second quarter to 3.1% and 3.7% respectively, while ten-year yields fell by around 40 bp to 5%. This contrasted with the opening quarter, when yields decreased broadly in tandem (by between 120 and 140 bp) across the long end of the curve.

Medium and long-term corporate bond yields[1] (%) TABLE 12

	Dec 09	Dec 10	Dec 11	Dec 12	Sep 12	Dec 12	Mar 13	Jun 13
Public fixed income								
3 year	1.95	3.87	4.01	3.40	3.88	3.40	2.85	2.73
5 year	2.67	4.65	4.65	4.22	4.84	4.22	3.65	3.34
10 year	3.75	5.38	5.50	5.33	5.92	5.33	4.93	4.58
Private fixed income								
3 year	2.60	4.39	5.43	4.19	5.00	4.19	2.81	3.08
5 year	3.65	4.96	5.91	4.66	5.99	4.66	3.45	3.66
10 year	4.46	6.28	8.06	6.79	8.52	6.79	5.40	5.01

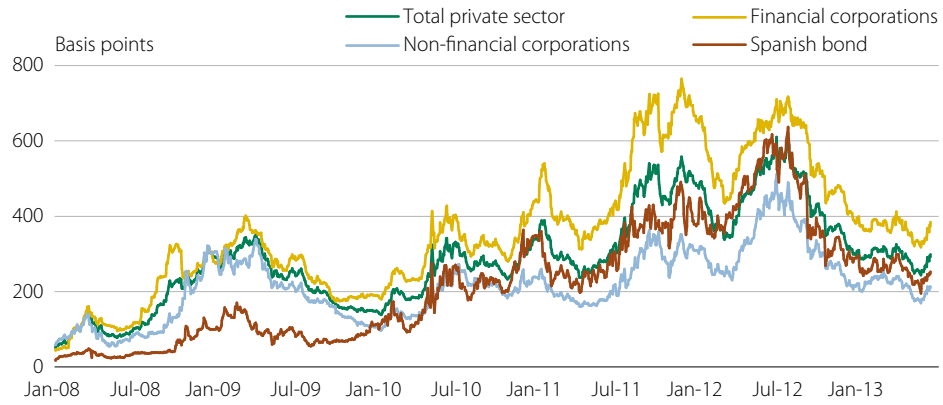
Source: Thomson Datastream, Reuters and CNMV. Data to 15 June.

1 Monthly average of daily data.

The credit spreads of Spanish financial and non-financial corporations tended to mirror the first-half progress of sovereign risk premiums. The premium paid by corporate borrowers, gauged from the CDS of their issued bonds, narrowed at a slower pace than in the last five months of 2012, as far as 384 bp and 213 bp for financial and non-financial issuers (400 bp and 220 bp respectively at the 2012 close). As with sovereign debt, however, this downward movement was partly wiped out from mid-May onwards (see figure 14). The narrowing of risk premiums across all

sectors of the Spanish economy was accompanied as of August 2012 by a decoupling in the price movements of public debt and financial and non-financial sector shares, which has likewise reversed slightly since early May. This reversal may have something to do with the second-quarter increase in banks' exposure to Spanish public debt and, in some cases, increased capital requirements deriving from the obligation to make additional provisions for restructured loans.

Aggregate risk premium[1] based on the five-year CDS of Spanish issuers FIGURE 14



Source: Thomson Datastream. Data to 15 June.

1 Levels for "Total private sector", "Financial corporations" and "Non-financial corporations" correspond to the simple average of component entities.

Fixed-income issuance was fairly subdued during the first half of 2013, despite the easier financial conditions prevailing. At 69.64 billion euros, the gross volume of fixed-income issues registered with the CNMV was down by a hefty 63.5% versus the same period in 2012. Behind the decline were falling sales of instruments popular with financial institutions, including commercial paper, covered bonds and guaranteed non-convertible debt, one of the reasons being banks' lesser funding requirements in terms of their commitments and lending activity. In particular, much of the decrease is explained by banks having less need to accumulate securities eligible as collateral in Eurosystem financing operations.

Commercial paper issuance dropped by 72.2% year on year to 21.33 billion euros (30.6% of the total against 40.3% in the first half of 2012). Mortgage covered bonds saw a similar year-on-year decline of over 70% to 14.93 billion (21.4% of the total, compared to 26.4% one year before). Issuance of territorial covered bonds – secured on loans to public authorities – slumped to less than 2 billion euros in contrast to the 6 billion euros of first-half 2012. And, finally, sales of non-convertible bonds, at around 19 billion, were down more than half versus the year-ago period as issuers scaled back their recourse to state-guaranteed financing (despite which government-backed bonds still amounted to 74% of the total against 91% in first-half 2012). Unlike last year, when vulnerable institutions relied on guaranteed bonds to build up collateral for the ECB's three-year refinancing operation in February, in 2013 this kind of issuance has been confined to the notes placed by SAREB (14.09 billion euros) to offset the transfer of assets from Group 2 entities.

Hybrid instruments were increasingly in disuse, and now make up a residual portion of total issuance. The amount of convertible bond issues slumped by 83.8% to

440 million euros, while preference share issues have dried up entirely in the past eighteen months.

Finally, asset-backed securities picked up steam compared to the first half of 2012, with issue volumes expanding almost 14% to 12.23 billion euros (17.6% of the total versus 5.6% respectively).

Fixed-income issuance by foreign subsidiaries of Spanish issuers receded 42% year on year in the first four months to just over 24 billion euros (see table 13). The decline was steepest in short-term instruments, with volumes down 68% year on year to a little over 5 billion euros, while longer term issuance dropped by 23% to around 19 billion euros.

Gross fixed-income issues

TABLE 13

Filed[1] with the CNMV				2012				2013	
	2010	2011	2012	Q1	Q2	Q3	Q4	Q1	Q2[2]
NOMINAL AMOUNT (million euros)	**226,449**	**288,992**	**357,830**	**120,822**	**91,425**	**60,680**	**84,904**	**44,462**	**25,181**
Mortgage covered bonds	34,378	67,227	102,170	26,000	33,350	29,800	13,020	9,195	5,740
Territorial covered bonds	5,900	22,334	8,974	3,200	4,100	1,674	0	95	1,520
Non-convertible bonds and debentures	24,356	20,192	86,442	31,305	15,231	91	39,815	15,595	3,497
Convertible/exchangeable bonds and debentures	968	7,126	3,563	1,128	1,592	0	843	425	15
Asset-backed securities	63,261	68,413	23,800	9,195	1,535	1,884	11,185	8,052	4,175
Domestic tranche	62,743	62,796	20,627	7,810	1,535	1,884	9,398	6,965	3,542
International tranche	518	5,617	3,173	1,385	0	0	1,788	1,087	633
Commercial paper[3]	97,586	103,501	132,882	49,993	35,617	27,230	20,041	11,100	10,234
Securitised	5,057	2,366	1,821	616	630	275	300	180	150
Other	92,529	101,135	131,061	49,377	34,987	26,955	19,741	10,920	10,084
Other fixed-income issues	0	0	0	0	0	0	0	0	0
Preference shares	0	200	0	0	0	0	0	0	0
Pro memoria:									
Subordinated debt issues	9,154	29,277	7,633	2,772	1,788	581	2,492	1,557	699
Covered issues	299	10	0	0	0	0	0	0	193

Abroad by Spanish issuers				2012				2013	
NOMINAL AMOUNT (million euros)	**2010**	**2011**	**2012**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2[4]**
Long term	51,107	51,365	50,353	22,990	3,417	10,783	13,164	16,076	2,786
Preference shares	0	0	0	0	0	0	0	0	0
Subordinated debt	0	242	307	0	307	0	0	0	0
Bonds and debentures	50,807	51,123	50,046	22,990	3,110	10,783	13,164	16,076	2,786
Asset-backed securities	300	0	0	0	0	0	0	0	0
Short term	76,624	68,677	41,730	18,109	10,138	6,547	6,936	3,166	2,251
Commercial paper	76,624	68,677	41,730	18,109	10,138	6,547	6,936	3,166	2,251
Securitised	248	322	11,590	3,651	3,487	2,756	1,695	0	0
Total	**127,731**	**120,043**	**92,083**	**41,099**	**13,555**	**17,330**	**20,100**	**19,242**	**5,036**

Source: CNMV and Banco de España.

1 Including those admitted to trading without an issue prospectus.

2 Data to 15 June.

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

4 Data corresponding to the month of April.

3.2 Equity markets

3.2.1 Prices

As in other economies, domestic equity markets were buoyed throughout the period by the abundance of liquidity deriving from central banks' accommodative monetary policies amid still frail global growth prospects and a growing appetite for risk. Price, volatility, issuance and liquidity indicators for domestic exchanges suffered only mild setbacks in response to occasional instability episodes, though, on the downside, trading volumes were moving at their lowest levels since 2004.

The Ibex 35 rose 1.9% in the second quarter after the 3% retreat of the first three months (see table 14) to register 1.2% losses year to date.[8] Smaller cap indices fared significantly better with year to date gains of 8.5%, after 1.1% and 7.3% advances in the first and second quarter. Conversely, the indices grouping the Latin American securities traded on domestic platforms dropped between 15% and 17%, with losses heavier in the second quarter.

Performance of Spanish stock indices (%) TABLE 14

								Q2 13[1]		
	2009	2010	2011	2012	Q3 12[1]	Q4 12[1]	Q1 13[1]	% prior qt.	% Dec	% y/y
Ibex 35	29.8	-17.4	-13.1	-4.7	8.5	6.0	-3.0	1.9	-1.2	20.5
Madrid	27.2	-19.2	-14.6	-3.8	8.2	6.1	-3.2	1.8	-1.5	19.6
Ibex Medium Cap	13.8	-5.6	-20.7	13.8	4.0	12.6	2.2	6.2	8.5	33.0
Ibex Small Cap	17.6	-18.3	-25.1	-24.4	11.0	-6.0	7.3	1.1	8.5	14.3
FTSE Latibex All-Share	97.2	9.0	-23.3	-10.7	2.6	-6.7	-1.2	-14.8	-15.8	-16.2
FTSE Latibex Top	79.3	9.7	-17.1	-2.6	-1.2	-2.9	5.2	-16.8	-12.4	-12.0

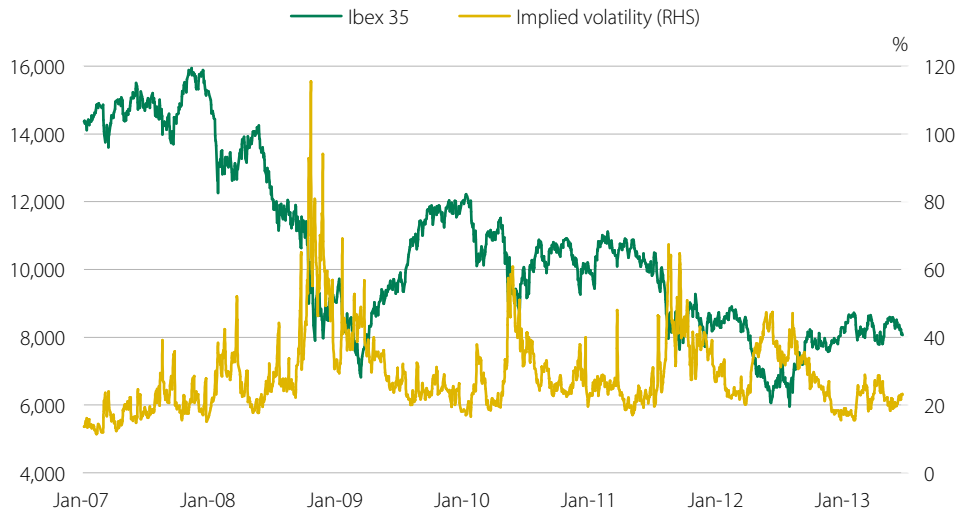
Source: Thomson Datastream.

1 Change vs. previous quarter. Data to 15 June.

Ibex 35 volatility held at historically reduced levels, with occasional blips coinciding with domestic and, above all, international instability episodes such as the Cyprus crisis or the political stalemate in Italy. By mid-June, the indicator was standing upwards of 20% after rises in the first and last weeks of February and in the stretch from mid-March to mid-April (see figure 15). However, volatility at no point broke above the 30% mark, and stayed comfortably remote from the highs recorded in periods of turbulence, like that of April 2012 when concerns mounted about the vulnerability of some Spanish banks.

8 The Ibex 35 lost 6.4% between 15 June, the closing date for this report, and 24 June in the wake of the Federal Reserve's announcement, with other European indices experiencing similar falls.

Ibex 35 performance and implied volatility FIGURE 15



Source: Thomson Datastream and MEFF. Data to 15 June.

* Implied at-the-money (ATM) volatility on nearest expiry.

The various sectors of the Madrid General Index (IGBM) performed divergently in the opening quarters. As we can see from table 15, consumer services prolonged last year's bull run to lead the first-half advance with a price gain of 19.2% (12.6% and 5.9% in the first and second quarter respectively, on the heels of the 12.7% rise of 2012), followed by oil and energy, which fell 3% in the first quarter then recouped 10.8% in the second for a year-to-date advance of 7.6% (contrasting with the 16% price slide of 2012). Next came basic materials, industry and construction, and technology and telecommunications, with more moderate first-half gains of 4.6% and 2.2% respectively, leaving behind their 2012 losses of 8% and 18.3%. Conversely, the financial and real estate services sector shed 8.9% in the first quarter on top of the 4.7% losses of last year, albeit with the decline levelling off in the second quarter. Finally, the consumer goods sector slipped back 4.5%, exclusively in the second quarter, after bucking last year's trend with a price surge of 55.6%.

Performance of the Madrid Stock Exchange by sector and leading shares[1]

TABLE 15

Annual %, unless otherwise indicated

	Weighting[2]	2012	Q3 12	Q4 12	Q1 13	Q2 13 % prior qt.	Q2 13 % Dec	Q2 13 % y/y
Financial and real estate services	**42.68**	**-4.7**	**11.5**	**5.4**	**-9.4**	**0.5**	**-8.9**	**13.2**
Real estate and others	0.14	-14.4	36.5	31.7	-7.8	-0.7	-8.5	57.2
Banks	40.74	-4.8	6.2	5.0	-10.1	0.2	-9.9	11.3
BBVA	13.31	8.1	8.6	15.6	-2.8	1.5	-1.3	32.6
Santander	22.10	17.1	14.5	8.0	-12.0	3.9	-8.6	18.8
Oil and energy	**15.64**	**-16.0**	**5.8**	**10.6**	**-3.0**	**10.8**	**7.6**	**34.0**
Iberdrola	6.33	-6.3	-0.6	18.9	-10.3	14.4	2.6	32.2
Repsol YPF	4.73	-30.4	19.4	4.7	3.4	9.7	13.4	50.6
Basic materials, industry and construction	**6.56**	**-8.0**	**4.6**	**8.8**	**-0.9**	**5.5**	**4.6**	**30.7**
Construction	3.76	-9.3	4.0	14.6	-0.7	6.2	5.5	42.2
Technology and telecommunications	**17.50**	**-18.3**	**1.1**	**-0.3**	**3.9**	**-1.6**	**2.2**	**7.7**
Telefónica	14.65	-21.9	0.0	-1.8	2.9	-4.4	-1.6	1.0
Consumer goods	**12.43**	**55.6**	**16.5**	**9.1**	**0.2**	**-4.6**	**-4.5**	**27.4**
Inditex	9.23	66.7	18.5	9.2	-2.0	-5.6	-7.4	27.4
Consumer services	**5.18**	**12.7**	**2.4**	**13.0**	**12.6**	**5.9**	**19.2**	**46.9**

Source: Thomson Datastream, Bolsa de Madrid and BME. Data to 15 June.

1 Shares capitalising at more than 3% of the IGBM, adjusted for free float.

2 Relative weight (%) in the IGBM as of 1 January 2013.

Shares with greatest impact on IGBM change[1]

TABLE 16

Share	Sector	Jun 2013 Contribution to IGBM change (p.p.) / prior qt.	Jun 2013 Contribution to IGBM change (p.p.) /Dec 12
Positive impact			
Iberdrola	Oil and energy	0.91	0.16
Banco Santander	Financial and real estate services	0.85	-1.89
Repsol	Oil and energy	0.46	0.63
Amadeus IT Holding	Technology and telecommunications	0.31	0.57
Gas Natural SDG	Oil and energy	0.21	0.23
BBVA	Financial and real estate services	0.20	-0.18
ACS	Basic materials, industry and construction	0.17	0.12
Negative impact			
Telefónica	Technology and telecommunications	-0.64	-0.23
Inditex	Consumer goods	-0.51	-0.69
Change in IGBM		**1.75**	**-1.50**

Source: Thomson Datastream and Bolsa de Madrid. Data to 15 June.

1 The shares listed are those having most impact (equal to or more than 0.15 points in absolute terms) on the quarterly change in the IGBM. The sample comprises all shares that were neither delisted not suspended from trading at the start of the last quarter considered.

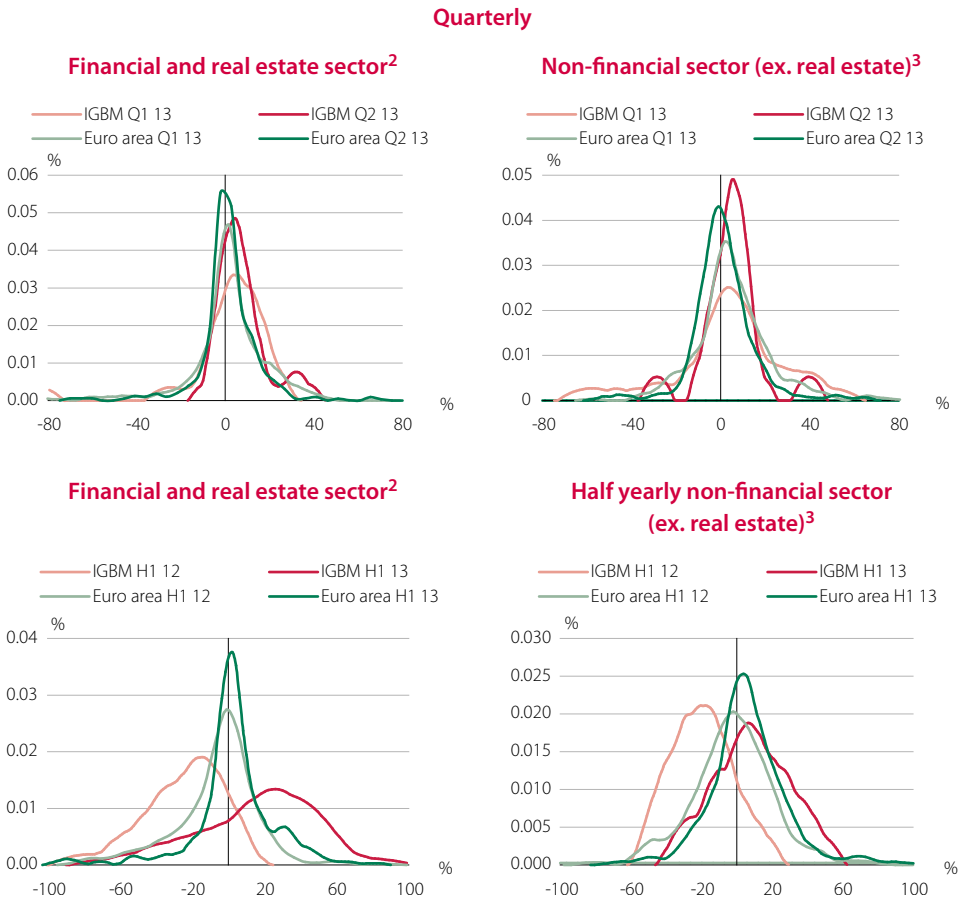
Examining the impact of each IGBM company in the second quarter of 2013, we see that the most positive input came from one firm in the electricity and gas sub-sector and the largest cap financial group, which together summed 68% of the index gain (see table 16). The greatest negative impact corresponded to a company in the tele-

communications sub-sector and another in textiles, clothing and footwear, which detracted 45% from its second-quarter growth.

The distribution of IGBM companies according to second-quarter movements in price closely mirrored that of the opening quarter (see upper panels of figure 16). The salient development was the increase in the number of firms reporting quarterly gains from 0% to 10% (up from 27% to 37% of the total) at the expense of those reporting losses (down from 50% to 43%). As we can see from the upper panels of figure 16, this pattern was more pronounced among non-financial listed companies.

Meantime, the distribution of the year-to-date returns of IGBM companies was noticeably more skewed towards positive values than in the same period in 2012. This contrasts with the experience of euro-area listed companies, whose return distribution was essentially unaltered (see lower panels of figure 16). We can also say that Spanish listed companies exhibited more return dispersion than their euro-area peers.

Distribution of share returns[1] FIGURE 16



Source: Bolsa de Madrid and Thomson Datastream. Data to 15 June 2013.

1 Analysis run on the companies forming each index on 15 June 2013, when the Spanish IGBM comprised 106 companies against the 1,373 of the euro-area index.

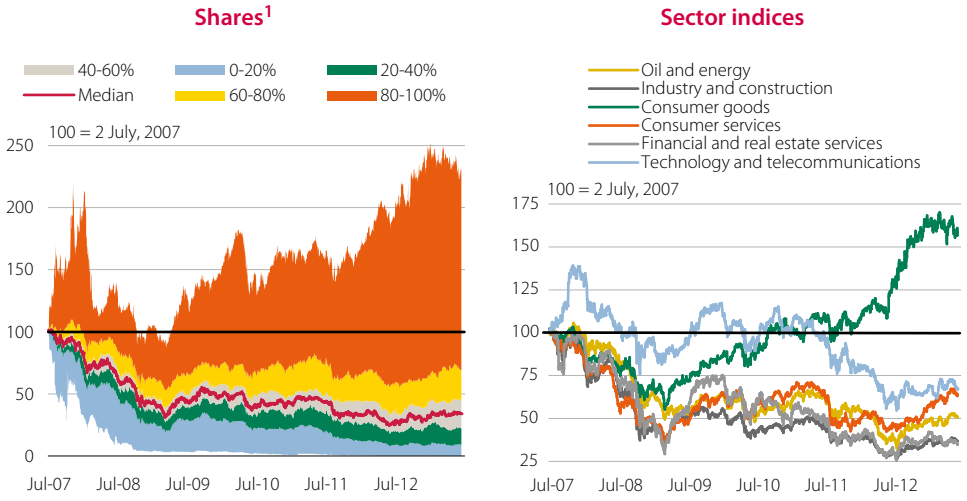
2 The financial and real estate sector comprises credit institutions, insurance undertakings, portfolio and holding companies, other investment service providers and real estate companies: 18 companies in Spain (17% of index members) against 344 (25%) in the euro area.

3 The non-financial sector (ex. real estate) comprises listed companies not included in the financial and real estate sector.

Analysis of the time dispersal of IGBM share prices reveals a greater variability since the onset of the crisis. Although this phenomenon is not unique to Spain, it is more strongly in evidence here than in other euro-area economies. If we track the performance, for instance, of the 20% of shares registering the largest gains between the start of the crisis in summer 2007 and mid-June 2013, we find that their cumulative price change ranged from -30% to 125%. Meantime, the cumulative returns of the 20% of the shares faring worst ranged from -91% to the practical total loss of the share's value as at July 2007 (see left-hand panel of figure 17). The median cumulative return in the intervening period was -66%. In 2013 to date, this dispersal in price movements has presumably corrected slightly, from the side of the shares performing best since the summer of 2007.

In parallel, the right-hand panel of figure 17 tracks the progress of IGBM sector indices from the same base date (July 2007). Some of the shares forming part of the best-performing group since the start of the crisis belong to the consumer goods sector, while the shares that have lost most value are basically those connected to the real estate sub-sector.

Performance of IGBM shares and sector indices FIGURE 17



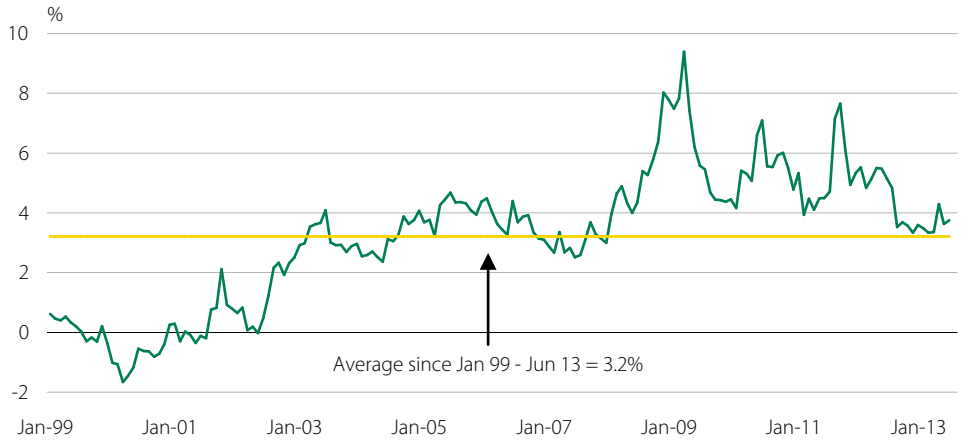
Source: Bolsa de Madrid. Data to 15 June.

1 Shares trading on the base date (2 July 2007) and still trading on the terminal date considered (15 June 2013), making 93 shares in all.

After a first-quarter fall, the price-earnings ratio (P/E) edged back upwards to a mid-June level of 12 times, ahead of the 11.7 of end-2012. Given that prices have fallen year to date, this higher P/E owed to the aggregate decline in the earnings forecasts of Ibex 35 companies. On this showing, the Ibex 35 multiple held within the upper range of the European table.

The earnings yield gap (indicating the risk premium on equity investment versus long-term government bonds) held largely to the settled course of the last four months of 2012, with readings to April cleaving close to the series average since 1999 (3.2%). As figure 18 shows, the indicator then inched up to mid-June levels of 3.8% (3.3% at the 2012 close and 3% at end-September 2012).

Earnings yield gap[1] of the Ibex 35 FIGURE 18



Source: Thomson Datastream.

1 Difference between stock market yield, taken as earnings/price and 10-year bond yields. Monthly data to 15 June.

3.2.2 Trading, issuance and liquidity

Trading on Spanish stock markets remained thin over the first quarters of 2013 (see table 17), with volumes down by 13.5% year on year to a June total of 292.80 billion euros. Average daily trading stood at 2.46 billion in the second quarter, below the 2.61 billion average of the first three months, which was also roughly the average of all last year.[9]

Trading volumes on the Spanish stock market TABLE 17

Million euros

	2010	2011	2012	Q3 12	Q4 12	Q1 13	Q2 13[1]
All exchanges	**1,037,284**	**925,667**	**667,443**	**153,483**	**169,847**	**162,136**	**130,663**
Electronic market	1,032,447	920,879	663,076	152,438	168,681	160,793	129,578
Open outcry	165	48	40	8	18	6	3
of which SICAV[2]	8	6	–	–	0	–	0
MAB[3]	4,148	4,380	4,025	947	1,060	1,238	995
Second market	3	2	0	0	0	0	0
Latibex	521	358	302	90	89	99	86
	75.2	81.2	82.4	80.2	79.9	n.a.	n.a.

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

1 Cumulative data from 1 April to 15 June.

2 Open-ended investment companies.

3 Alternative investment market. Data from the start of trading on 29 May 2006.

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

9 Average daily trading in 2012, at 2.60 billion euros, was the lowest since 2004. The averages corresponding to 2009, 2010 and 2011 were 3.49, 4.05 and 3.60 billion respectively.

Equity issuance on domestic markets amounted to 21.35 billion euros in the first six months, more than triple the amount of the same period last year (see table 18). This upswing had its origins in capital increases at two medium banks as part of their recapitalisation processes, which took place in February and May and were mainly subscribed by the Fund for Orderly Bank Restructuring (FROB). These operations, involving mandatory measures for the management of hybrid instruments, accounted for 94% of issue volumes in the period.

Equity issuance[1]

TABLE 18

				2012		2013	
	2010	2011	2012	Q3	Q4	Q1	Q2[2]
CASH AMOUNT[3] (million euros)	16,017	17,146	21,142	5,695	6,962	4,996	16,359
Capital increases	15,407	17,019	19,911	5,291	6,186	4,996	16,359
Of which, rights offerings	959	6,239	2,457	75	0	0	1,055
Domestic tranche	62	5,827	2,457	75	0	0	1,055
International tranche	897	412	0	0	0	0	0
Public offerings	610	127	1,231	405	776	0	0
Domestic tranche	79	125	1,231	405	776	0	0
International tranche	530	2	0	0	0	0	0
NO. OF FILINGS[4]	69	92	105	27	30	28	30
Capital increases	67	91	103	26	29	28	30
Of which, rights offerings	12	8	7	1	0	0	3
Of which, bonus issues	15	22	22	10	4	9	9
Public offerings	3	2	3	1	1	0	0
NO. OF ISSUERS[4]	46	46	38	20	17	17	18
Capital increases	45	45	38	19	16	17	18
Of which, rights offerings	12	8	7	1	0	0	3
Public offerings	2	2	3	1	1	0	0

Source: CNMV.

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

2 Cumulative data from 1 April to 15 June.

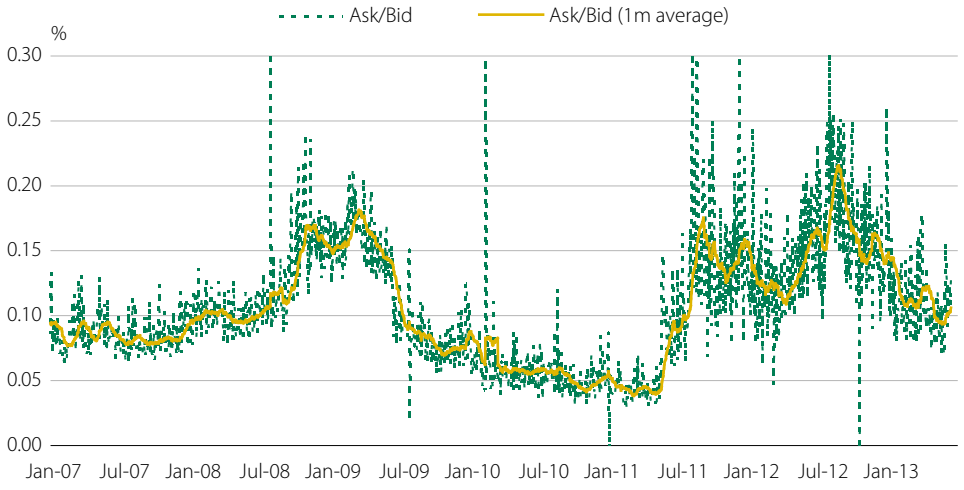
3 Excluding amounts recorded in respect of cancelled transactions.

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

Finally, liquidity conditions in the Spanish stock market, as measured by the bid/ask spread, kept up the improvement initiated in September 2012, with only occasional blips in the first quarter, coinciding with the instability episode in Cyprus and the political stalemate in Italy (see figure 19). Although some slight deterioration appeared to set in during the first weeks of June, the mid-month spread of 0.11% (in line with the series average since 2003) improved on both the end-2012 level (0.15%) and the highs of August that same year (0.22%).

Liquidity indicator (bid/ask spread) of the Ibex 35

FIGURE 19



Source: Thomson Datastream. Data to 15 June.

II Reports and analyses

The effect on prices of share dealing by directors

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1 Introduction

European regulations do not prevent the directors of listed companies from dealing in shares of their own companies or other financial instruments linked to their prices. If these transactions are not based on material non-public information and do not take place during periods in which there is a legislative restriction on transactions (which would be considered an offence and could lead to a penalty), they may be performed without any obligations beyond their subsequent disclosure to the authorities and to the issuer. These disclosures must be disseminated in the market.

Even when the directors or executives of a company do not deal based on inside information, it is reasonable to suppose that they will be in a position to perform a more accurate assessment of their company than most market participants, either because they have access to better non-material information on the company or its industry, or because they have a greater capacity to process that information. Their trading therefore constitutes valuable information which, in the opinion of regulators, should be made available to the public in an orderly manner.

As will be commented below, academic literature supports this point of view as it considers that early access to information on the trading of directors leads to a reduction in their possible profits and better market functioning in the sense that it increases the efficiency of price discovery and liquidity.

This article aims to analyse the main characteristics of the trading performed by directors of Spanish listed companies with shares of their own companies, using for this purpose the data of the Public Registry regulated in CNMV Circular 2/2007. The data analysed correspond to the period between January 2007 and June 2012.

In addition, the article aims to analyse the short-term effect of this trading on the market price of the share. The aim is to measure the impact which these transactions have on said price and to analyse whether the changes observed are more closely related to the time of the purchase or the time of disclosure to the market by the CNMV. This second aspect may be of interest in order to assess the effectiveness of regulation given that directors have a period of five days to report their trading from the day on which they perform the transaction.

This article is structured as follows: Section 2 reviews the empirical and theoretical literature relating to the trading of directors of listed companies. Section 3 briefly describes current legislation in the European Union and in Spain on this matter. Section 4 presents the features of the transactions to be studied in the document, particularly as regards their size. Section 5 focuses on presenting the results obtained on the relationship between trading by directors and the market price of the affected shares. Section 6 presents the conclusions.

2 Review of the literature on share dealing by directors of listed companies

There are numerous reasons why directors buy and sell shares of their own company. It may be due to factors arising beyond their will, such as inheritances, compliance with company law, takeover bids, enforcement of pledges or reasons relating to remuneration systems. This article focuses on the transactions which do not contain an explicit reason in the notification provided by directors, supposing that, in these cases, directors simply act so as to maximise their own welfare in terms of profitability and risk.

The simplest analysis of director behaviour would indicate that they tend to diversify risk, limiting the share position which they hold in their company. However, empirical evidence suggests that listed companies often have directors who concentrate a large part of their assets in their company. This may be due to several reasons, which include the desire to ensure their control benefits as explained by Eckbo *et al.* (1998),[1] or the use of this mechanism to reduce the asymmetric information problems which may arise with regard to their effort as directors (Jensen and Meckling, 1976)[2] and with regard to the value of the company when it requires financing (Leland and Pyle, 1977).[3]

This article focuses its attention on the changes in directors' shareholdings and the short-term relationship with the market price. In this regard, we assume that the transactions are specifically motivated by deviations between the market price and the directors' estimate of the company's fundamental value.

As indicated above, there are reasons to believe that, in general, directors can make a more accurate assessment than the market as regards the company's value, even without the use of non-public information. It seems reasonable to suppose that when appointing directors, their capacity to process available information and obtain valuable conclusions for the company has been taken into account. It also seems reasonable to suppose that this skill may be acquired or at least improved through discharging their duties. In addition, it is possible that directors have non-public information which, although not of a precise nature and not therefore considered as inside information with the meaning indicated by Section 81 of the Spanish Securities Market Act, may allow them to assess their company more accurately than the market.[4]

If market participants believe that directors have better information than they do, or greater capacity to process it, information on director dealing will be considered

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1 Eckbo, B. and Smith, D. (1998). "The Conditional Performance of Insider Trades", in *The Journal of Finance*, Vol. 53, pp. 467-498.

2 Jensen, M. and Meckling W. (1976). "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure", in *Journal of Financial Economics*, Vol. 3, 4, pp. 305-360.

3 Leland, H. and Pyle, D. (1977). "Informational Asymmetries, Financial Structure, and Financial Intermediation", in *The Journal of Finance*, Vol. 32, pp. 371-387.

4 In the United States, the legal distinction between precise and non-precise has been criticised for its ambiguity and untenability by some authors, including Eric Engle (2010) "Insider trading in U.S. and E.U. law: a comparison", in *European Business Law Review*, Vol. 26, pp. 465-490, 2010, who, partly for this reason, is in favour of legalising all types of stock market trading, whether or not it is based on asymmetrical information.

valuable and participants will adapt their strategies in order to take it into account. For their part, regulators have thought that this information is important for investors and they have designed mechanisms so that it flows promptly to the market. From the perspective of regulators, the disclosure of this information contributes towards reducing informational asymmetry in the market and may also be an element for preventing improper use of inside information.

2.1 Empirical evidence on trading by directors

There is extensive academic literature which conducts empirical analyses of the effects of dealing by directors on the market price and the possibility that directors may obtain higher than market returns based on that information. One of the first papers is that published by Lorie and Niederhoffer (1968),[5] which, using U.S. market data for the period 1950-1960, finds that this type of trading is beneficial for the director. These authors made a recommendation to the Securities and Exchange Commission and stock markets to strengthen the rules on reporting these transactions, reducing the time periods for publication and disclosing greater information.

Numerous authors have confirmed this relationship between director dealing and the short to medium-term share price. These include the paper by Seyhun (1986),[6] which, with data from the United States, shows that the effect on prices is greater when the transaction is made by company executives, such as the Chief Executive Officer, who is assumed to have better information. Also noteworthy is the analysis by Lakonishok and Lee (2001),[7] also on the U.S. market, which finds evidence that purchases (sales) by directors are on average related to increases (decreases) in the prices of the affected shares.

In Europe, Betzer and Theissen (2009)[8] analyse data for German companies corresponding to the period 2002-2004, during which German legislation did not require as much transparency in this matter as other developed countries. These authors observe a greater effect on prices following the transaction or following its disclosure to the market than that seen in Anglo-Saxon countries, whose regulation required greater transparency, and they therefore support adopting the legislation of those countries.

A much more extensive study, that of Korczak *et al.* (2012),[9] analyses data from 19 European countries, including a period in which the Market Abuse Directive had already been transposed in several of those countries. These authors conclude that

5 Lorie, J. and Niederhoffer, V. (1968). "Predictive and Statistical Properties of Insider Trading", in *Journal of Law and Economics*, Vol. 11, 1, pp. 35-53.

6 Seyhun, H. (1986). "Insider's profits, costs of trading, and market efficiency", in *Journal of Financial Economics*, Vol. 16, pp. 189-212.

7 Lakonishok, J. and Lee, I. (2001). "Are insider's trades informative?", in *Review of Financial Studies*, Vol. 14, 1, pp. 79-11.

8 Betzer, A. and Theissen, E. (2009). "Insider trading and corporate governance - The case of Germany", in *European Financial Management*, Vol. 15, 2, pp. 402-429.

9 Korczak, A., Korczal, P. and Traczykowski, J. (2012). *Profitability of Insider Trading in Europe: A Performance Evaluation Approach*. Working paper. Available at SSRN.

directors, on average, do not achieve an abnormal positive profitability with trading in the shares of their company, although they do in the sub-samples by country and by period. The authors believe that their results support the conclusion that the Market Abuse Directive has managed to reduce the profitability of this type of trading. For the Spanish data analysed, corresponding to the period 2006-2009, these authors do not find an abnormal and significant positive profitability for short periods of holding the shares following their acquisition by directors.

Specifically for data on Spanish non-financial companies for the period 1992-1996, Del Brio *et al.* (2002)[10] find that the purchases made by directors are correlated in time with abnormal increases in the share prices of their companies. This paper also finds evidence that, at the time of public disclosure of the transaction, there is also an abnormal behaviour of prices for a period of four days. In the opinion of these authors, these results suggest a lack of effectiveness of the regulation in force at that time.

A common result of these studies is to find that purchases have a greater effect than sales on the price. As summarised by Lakonishok and Lee (1998),[11] "insiders have many reasons to sell shares but the main reason to buy shares is to make money". This difference in the probability that an observed trade is due to reasons other than investment return lead external investors to assign purchases greater informational value, producing the aforementioned effect.

Dardas and Güttler (2011)[12] make a very thorough summary of the theoretical effects of trading depending on the characteristics of the transactions or the company, and in turn test them empirically. These authors demonstrate that the highest volume transactions have more effect; trades by top-level executives will result in stronger reactions in the market than trades by lower levels; multiple purchases (sales) by different insiders have a greater effect than single purchases (sales); announcements of trades in small firms lead to a greater effect than in relatively large firms; and announcements in companies in which the asymmetric information is more important have a greater effect than in others.

2.2 Modelling director behaviour

2.2.1 Share trading as a result of exogenous changes in the company's value

A simple model of director behaviour will predict that the director will take the decision to buy or sell the company's shares when the price deviates from the company's fundamental value based on the assumptions that the director possesses better information than the market and that the company's fundamental value is independent from the director's dealings.

10 Del Brio, E. B., Miguel, A. and Perote, J. (2002). "An Investigation of Insider Trading Profits in the Spanish Stock Market", in *Quarterly Review of Economics and Finance*, 42, pp. 73-94.

11 Lakonishok, J. and Lee, I. (1998). *Are Insiders' Trades Informative?* NBER Working Paper w6656. Available at http://ssrn.com/abstract=119828

12 Dardas, K. and Güttler, A. (2011). "Are Directors' Dealings Informative? Evidence from European Stock Markets", in *Financial Markets and Portfolio Management*, Vol. 25, 2, pp. 111-148.

According to this simple model, trading is a zero-sum game, which does not increase the aggregate economic value and therefore harm the other participants in the market. In the long term, this trading may have negative effects on the ability of companies to raise funds in the primary market as non-director shareholders will tend to reduce the amount they invest so as to protect themselves from said harm. In this regard, the legislation applicable to the securities market should limit the harm caused by this type of trading.

In this scenario of exogenous changes to a company's value, Huddart *et al.* (2000)[13] study the optimal behaviour of a director who has the incentive to buy or sell shares of their company before the information is known by the public in a context characterised by the existence of *ex post* disclosure obligations and in which market participants take into account the possibility that this behaviour may arise. In particular, the paper considers a context in which the action of the directors is restricted by the response of the market maker, which acts in line with the Kyle model and, therefore, adjusts its prices as a result of the presence of unexpected flows in the supply and demand of shares.

The aforementioned authors demonstrate that the *ex post* disclosure obligations reduce the expected profits of the directors from this trading. In turn, due to the reduction of the asymmetrical information effect, market liquidity increases, which benefits investors who base their decisions on public information. Finally, and associated with the above, the quality of the price discovery process increases as said higher quality information is incorporated. In this regard, the combination of the practices of private agents and public legislation limits the harm of this type of trading.

The above theoretical forecasts, in which prompt disclosure of information on trading reduces the profits of director dealing, is consistent with the study by Betzer *et al.* (2012)[14] for the United States in the period prior to the Sarbanes-Oxley Act, when legislation required directors to report their trading on the tenth day of the month following that in which took place. This rule therefore allowed trading on the first day of the month which would not be disclosed to the public until 40 days later. The authors find that on average the market became aware of these transactions with a delay of 35 days, which suggests that directors have strong incentives to behave strategically when performing their trading. Based on their conclusions, the author supports the reform introduced by the Sarbanes-Oxley Act, which establishes stricter rules for reporting trading.[15]

2.2.2 Share purchasing as an indication of the quality of the project

The model's predictions on the behaviour of the director and its consequences in terms of social welfare might be different if we assume that the director's trading

13 Huddart, S., Hughes, J. and Levine, C. (2000). *Public Disclosure and Dissimulation of Insider Trades*. Available at SSRN.

14 Betzer, A., Gider, J., Metzger, D. and Theissen, E. (2011). *Strategic Trading and Trade Reporting by Corporate Insiders*. Available at SSRN.

15 The Sarbanes-Oxley Act established that the time limit for directors and executives to report their trading with the shares of their companies was two business days.

may affect the company's fundamental value as such transactions issue a signal on the quality of the company which may be picked up by possible lenders. Following the model of Leland and Pyle (1977),[16] directors with better information on an investment project for which the company requires financing may contribute towards the financing being obtained under more favourable conditions if they increase their exposure to the project's risk by increasing their shareholding in the company. Given that purchases are costly in terms of lower portfolio diversification, if the lenders believe that the directors have greater information on the project than they do, they may interpret the decision to buy as a positive signal on the project's expected return, which might in turn lead to lower financing costs. This case would not be a zero-sum game, but a game in which all the participants may improve in the sense of Pareto improvements.

The model of Leland and Pyle (1977) focuses on the financing of entrepreneurs, and therefore its extension to listed companies needs to be qualified. Firstly, listed companies are normally of a relatively significant size and therefore their investments which have been executed, those in the process of execution or those in the project stage are larger and with different levels of asymmetric information, which may therefore have an ambiguous effect on the aforementioned signal. Consequently, for an already large company with profitable projects in execution about which there is no uncertainty, the signal will lose value. However, for a company in which there is a high level of asymmetric information with regard to its current activities, the signal may gain even more value in terms of reducing financing costs, as it will not only be effective for the new project, but it will also indicate that the director has positive perspectives as regards former projects and that the company, therefore, is in a good economic position.

Secondly, it is important to take into account that a director of a listed company usually owns a relatively small percentage of the shares. In these cases, if the directive indicates the quality of the investments through additional purchases, the director will be assuming all the costs of this signal without necessarily receiving a sufficiently high benefit in terms of the fall in financing costs. In contrast, the other shareholders of the company will benefit from the signal issued without having incurred any cost (free riders). Due to this problem, it might be expected that in these cases the purchases based on the indication of the quality of the projects, and of the company, will be lower than would be socially desirable. When their initial participation in the company's capital is very low, we may even rule out that directors act for these reasons.

However, even in this last case, if the informational advantage of the directors is very significant, they will be able to take advantage of it by acquiring shares in the market before the project is known. Accordingly, they may partially offset the problem of the free riders and, in turn, offer an indication which reduces the company's financing costs. The model of Huddart *et al.* (2000)[17] would be applicable to a situation of this type. Consequently, the director will benefit more from this trading if prior to issuing the signal to possible lenders – which would lead to an increase in

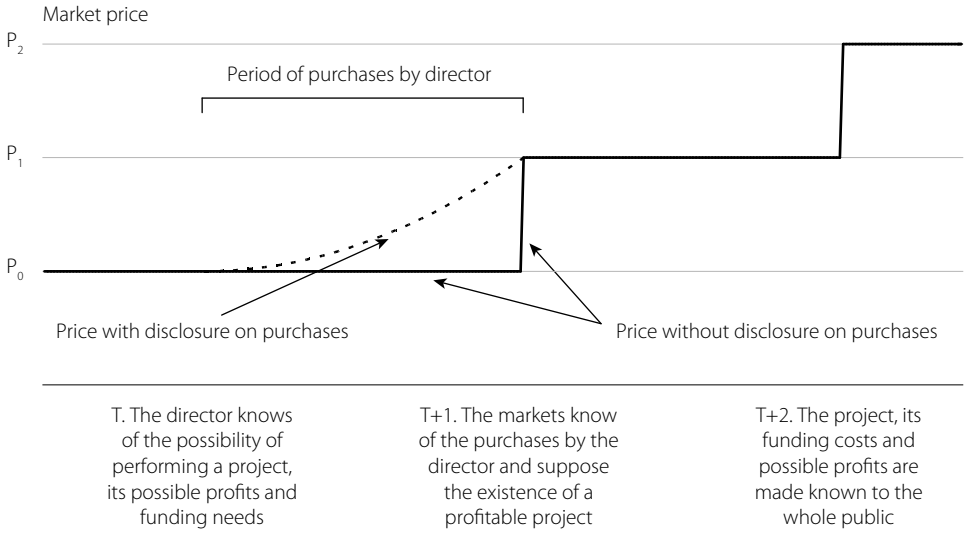
16 Leland and Pyle (*op. cit.*). See note 3.

17 Huddard *et al.* (*op. cit.*). See note 13.

the market price of the share – he /she has been able to buy their holding at the previous price without the market reacting to the transactions.

Figure 1 shows a process of this type chronologically. In this company, the director learns on T of the possibility of the company executing a profitable project which requires external financing, which will be cheaper if the director issues a signal through buying shares. This director buys shares up to the moment T+1, at which point the public becomes aware of this trading without knowing the intention of executing the project. Subsequently, on T+2 the public becomes fully aware of said project and the financing costs for the company, for which it is possible to assess the increase in the value of the company.

Adjustment in the market price following knowledge of the purchases by the director FIGURE 1



Source: CNMV.

On the vertical axis, we can see the company's market price as a result of these events. In reverse chronological order, on T+2, once the asymmetrical information on the project and its financing costs has disappeared, the market has now processed all the information on the transaction leading to a price P_2. On T+1, the public is not aware of the investment project, but the fact that the director has purchased shares generates a signal on its possible existence and a revaluation of the company which will increase its price up to P_1, which is higher than the price at the start, P_o. The effect on the price of this signal will be larger, the larger the purchase and the larger the problems of asymmetrical information, as usually happens, for example, in projects in high-technology sectors.

The transition of the market price between the period T and T+1 will depend on the transparency rules for director dealing. If there are no reporting requirements, the director may acquire the shares in a gradual manner which does not affect the market price, as shown in the continuous line, thus benefitting from the full price difference at each moment. However, a regulation which requires said transparency will lead to a similar development to that represented by the dotted line, in which

the market price would react to the knowledge of the director's purchases or, if the director wanted to perform the purchases before reporting, the reaction of the market to unexpected flows of purchases of said shares.

3 Legislation on transparency in trading by directors

Spanish legislation on trading by directors and significant shareholders is the result of the transposition to Spanish law of the corresponding European directives and regulations, especially Directive 2003/6/EC, of the European Parliament and of the Council, on market abuse and its implementation in Commission Directive 2004/72/EC on managers' transactions.

Directive 2003/6/EC establishes that "persons discharging managerial responsibilities [...] should, at least, notify to the competent authority the existence of transactions conducted on their own account relating to shares of the said issuer [...]. Member States shall ensure that public access to information concerning such transactions, on at least an individual basis, is readily available as soon as possible". Directive 2004/72/EC establishes that the notification of transactions shall be made in a period of five working days, and it also establishes the minimum content of said notification.

In this regard, we can see that European legislation is consistent with the model of Huddart *et al.* (2000)[18] indicated above by establishing the need for prompt notification, which combined with the reaction of the market itself to imbalances in supply and demand in the order book, limits the capacity of directors to benefit from their informational advantage.

Directive 2003/6/EC is materialised in Spanish legislation through amendment of the Securities Market Act by means of Law 44/2002, of 22 November, on Reform Measures of the Financial System, which was subsequently implemented by Royal Decree 1333/2005, of 11 November, which implements the Securities Market Act in matters of market abuse, and CNMV Circular 2/2007, of 19 December, on model forms for notification of significant holdings of directors and executives, transactions by issuers in own shares and other model forms.

The directors and executives that perform transactions in shares of the companies in which they discharge their functions, or other related financial instruments, must report these transactions to the CNMV in a period of five working days. The content of the notification is as follows: 1) name of the person who is a director or executive of the issuer; 2) reason for which reporting is required; 3) name of the issuer; 4) description of the security or financial instrument 5); nature of the transaction; 6) date, market on which the transaction has been performed, price and volume.

The Circular establishes eight model reporting forms in eight annexes. For directors and executives, Annexes 3 to 5 are used in this study. For example, Annex 3 requires

18 Huddard *et al.* (*op. cit.*). See note 13.

information, *inter alia*, on the person required to report, the issuer, the reason for the notification, details of the transactions (transaction date, price and volume) and the associated voting rights. In addition, it contains information on whether this transaction has been carried out directly by the reporting party or by closely related persons. It also offers information on the final possession of voting rights following the transaction. Finally, data is available on the date on which the CNMV made the information available to the public on its website.

4 Data used

The information used in the analysis is taken from the CNMV's Registry on transactions by company directors and executives. This information is sent by the person subject to the obligation – the directors themselves in this case – using the model forms established by CNMV Circular 2/2007, of 19 December, which approves the model forms for notification of significant holdings of directors and executives, transactions by issuers in own shares and other model forms. This registry is accessible through the CNMV's website.

The analysed period covers from January 2007 to June 2012. The analysis uses information on all issuers for which Spain is the home Member State, including those which are more illiquid, as the aim of this document is to assess the regulation applied to all issuers.

Analysed transactions by directors and executives TABLE 1

Number of transactions and percentage of capital affected

	Purchases	Sales
Total companies analysed	117	117
Total companies over which analysed transactions performed	98	78
Multivariate approach		
Number of transactions	4,977	1,914
Percentage of capital affected by the transactions		
25th percentile	0.001%	0.001%
Median	0.004%	0.005%
Mean	0.094%	0.079%
90th percentile	0.063%	0.087%
Univariate approach. Observations analysed		
Number of transactions	2,300	991
Percentage of capital affected by the transactions. Median		
Capitalisation. Low. 1st quartile	0.0055%	0.0113%
Capitalisation. Medium. 2nd and 3rd quartile	0.0049%	0.0059%
Capitalisation. Large. 4th quartile	0.0007%	0.0063%
Liquidity. Low. 1st quartile	0.0037%	0.0055%
Liquidity. Medium. 2nd and 3rd quartile	0.0057%	0.0073%
Liquidity. Large. 4th quartile	0.0005%	0.0090%
Liquidity. Blue chips. Companies in the Eurostoxx 50	0.0002%	0.0118%

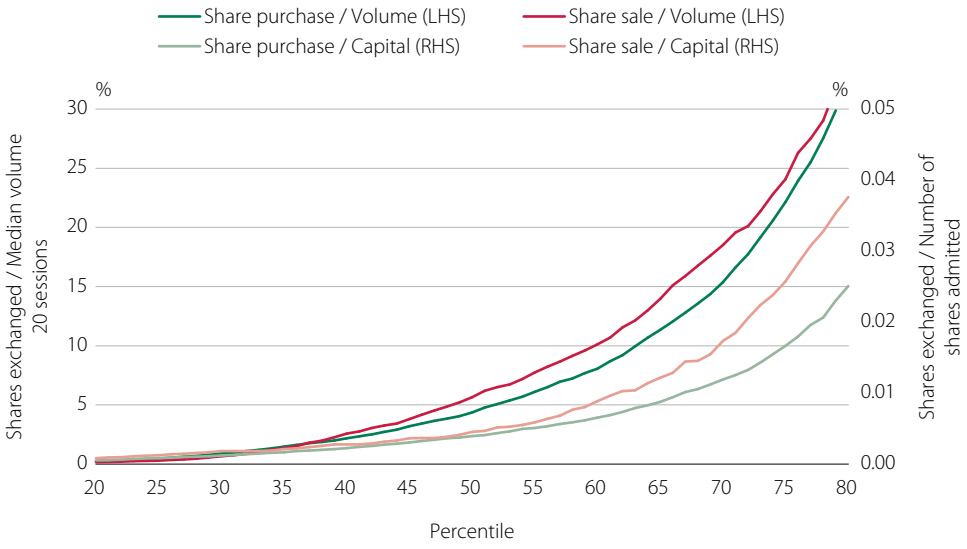
Source: CNMV.

In addition, as this article focuses on the analysis of transactions which arise from possible asymmetrical information held by directors, it does not consider those transactions which have a specific reason for reporting, such as appointments or removals of directors, admission to trading of the issuer or changes in the number of the issuer's voting rights. Neither does the study include transactions in which the sales price appears blank or zero, or those performed through derivatives. In particular, the analysis excludes acquisitions resulting from remuneration systems, inheritances or enforcement of pledges.

In order to calculate the daily return of the affected shares and the return adjusted to the evolution of the market, we have used the total return of the shares calculated by Thomson Datastream, which capitalises the dividends paid. The Ibex 35 with dividends has been used as the market benchmark, and the German bond as risk-free interest rate.

As will be explained below, a univariate approach has been used as well as another multivariate approach in order to verify the robustness of the results. For methodological reasons, which are referred to in section 5.1, the univariate approach does not use those transactions on a specific company which took place in the five days subsequent to another transaction, which means that the final sample analysed consists of 2,300 purchases and 991 sales. The multivariate approach does not exclude these transactions and therefore the sample includes 4,977 purchases and 1,914 sales.

Distribution[1] of the size of the transactions by directors[2] compared with volume[3] and capitalisation[4] FIGURE 2



Source: CNMV.

1 The horizontal axis shows the percentile of the transaction or group of directors according to their relative size, ordered from lowest to highest. In order to facilitate graphic interpretation, figures are only shown for the percentiles between 20% and 80%.

2 Based on the information from the multivariate approach. For each company, the net purchases and sales of all the directors on the day of interest are grouped together.

3 Ratio between the net value of the trades on a day and the market volume; it is calculated as the median of the shares traded on the electronic market during the 20 sessions immediately prior to the transactions by the directors. The median has been used so as to reduce the bias of outliers.

4 Ratio between the net value of the trades and the shares admitted to trading.

In addition, the univariate approach uses estimates separated by strata according to the size of the trade, capitalisation of the company and its liquidity. Said strata will be established by quartiles.

As can be seen in table 1 and figure 2, directors' transactions are generally of a relatively low volume compared with the total amount of shares issued by the affected companies. However, if said size is compared with the typical volume of said companies in the electronic market, we can see that it frequently accounts for a significant percentage. At least 50% of the net purchases by directors on one day account for 4.4% of the usual trading of these shares[19] and, in the case of net sales, 5.6%.

It should also be highlighted that the purchases are usually relatively smaller than the sales, both measured in terms of the number of shares of the company and in terms of the trading.

5 Empirical modelling and results

As indicated, in order to obtain greater robustness of the analysis of the data of the Spanish market, we have used two different approaches: a univariate approach, based on the methodology of studying events which are assumed to be isolated, and a multivariate approach, which allows analysis of the set of observations at the same time.

5.1 Univariate approach

The univariate approach focuses on studying isolated events, i.e. the individual analysis of purchases and sales by directors. In order to conduct this study, an estimate is made of a CAPM model, which uses the Ibex 35 as the benchmark index. The parameters of this model are used to calculate the abnormal returns in the five subsequent days (post-event period). The two days prior to the trade are not considered in the regression model so as to avoid possible uncontrolled biases.

The main advantage of this method is that it allows a high level of flexibility and, therefore, an adjustment in the estimates of the variance of atypical returns. This in turn provides increased robustness when testing statistically whether on average the purchases or sales of directors are associated with abnormal variations in prices.

However, this method also imposes limitations on the data which may be used. Given that the presence of another trade of the same or another director on the same company over the period prior or subsequent to the event would alter said results, it is necessary to eliminate from the sample all transactions which took place in a period of five days subsequent to another transaction.

19 In order to analyse the typical liquidity of the shares, we have used the ratio of the number of shares affected on a day by trading by directors of the company (at the net value of purchases and sales) divided by the median of the number of shares which have been traded on the electronic market during the 20 sessions immediately prior to said acquisition.

Furthermore, those sales which took place in the ten days prior to a takeover bid aimed at the issuer will also be deleted as it is considered that the effect of these sales, although significant, is not related to the phenomenon under analysis.

Each observation of the sample will be grouped into a series of subgroups according to the characteristics of the transaction or the company so as to determine whether these characteristics lead to changes in the abnormal return of the transaction. The criteria used were as follows:

– Size of the transaction. The sample has been divided into four groups of equal size depending on the percentage of shares of the company which are affected.

– With regard to the size of the company, the transactions will be classified depending on the market value of the affected company. Accordingly, three groups will be established: the first made up of companies in the first quartile, the second group, by the second and third quartiles, and the third group will be made up of the fourth quartile.

– The different groups depending on the liquidity of the affected companies will be as follows. Firstly, a blue-chip group will be created comprising the shares included both in the Ibex 35 and in the Eurostoxx 50. The rest of the companies will be grouped depending on their trading volume in a similar manner to that used to group the companies by size.

Table 2 shows the results of the statistical testing for the purchase and sale transactions. The information offered may only be interpreted in terms of the size of the effect on the price and its significance (marked with a grey background), but not in terms of the economic return.

For the set of the sample, it cannot be ruled out that the purchases by directors are correlated to simultaneous rises in the market price. However, when analysing the results by sub-samples, we can see that a result significantly different from zero is only obtained from transactions of a relatively large size. This is in line with the expectations of the aforementioned theory, as a larger purchase has a larger informational value.

However, within these relatively large purchases, we can see that the significance is concentrated in relatively large and very liquid companies. Given that, in general, small companies have greater problems of asymmetrical information on the intrinsic value of the shares, purchases by directors might be expected to be a stronger signal. One possible statistical problem which may be affecting the results is that, in general, modelling by means of CAPM does not match as well in the case of less liquid companies, which could lead to a relatively high variance which may affect the reliability of the statistical data.

With regard to sales, we can state that they do not generate a significant effect on the price, with the exception of medium-sized transactions for small companies. This result is in line with the forecasts of the theory, which assigns less informational value to sales than to purchases.

Effect of transactions by directors on share prices on the five days following the transaction (ratio t[1]) TABLE 2

Purchases / sales	Company characteristics		Transaction size: Small	Small-medium	Medium-large	Large	Total
Purchases	Total		0.23	-0.79	1.63	3.31	2.04
	Size	Small	-1.86	-0.18	0.34	0.06	-0.65
		Medium	0.42	0.72	1.38	2.76	2.53
		Large	-0.43	-0.57	0.39	3.15	1.24
	Liquidity	Low	0.05	0.38	1.33	1.02	1.39
		Medium	0.94	-1.15	0.59	3.75	2.08
		High	-0.80	0.39	-0.85	1.26	0.21
		Blue chip	-1.01	1.67	0.52	1.99	1.55
Sales	Total		-0.73	1.08	-2.01	0.46	-0.65
	Size	Small	1.07	-2.26	1.03	1.07	0.34
		Medium	-0.07	-1.33	-1.50	-1.12	-2.25
		Large	-0.73	2.47	0.69	0.30	1.21
	Liquidity	Low	-0.10	-1.58	-0.26	1.87	0.10
		Medium	1.00	-1.88	0.32	-1.23	-1.08
		High	-1.01	2.54	-0.56	-0.61	0.04
		Blue chip	0.60	-0.13	-0.45	-1.28	-0.74

Source: CNMV.

1 The ratio t is the ratio between the accumulated abnormal returns of the share following the event divided by the expected variance in the returns. Those results which are significantly different from zero at 10% probability, and with the expected sign, are shown with a grey background.

5.2 Multivariate approach

As indicated above, the multivariate statistical analysis makes it possible to test the robustness of the above analysis. In addition, with this new analysis we may obtain more detailed information on certain aspects of the effects of share trading by directors.

This methodology allows us to use a greater number of observations as it is not necessary to delete those trades which overlap in the period subsequent to others. Furthermore, it also makes it possible to study as a separate phenomenon the effect on the price both on the day of the purchase and on the day on which the CNMV discloses this information to the market through its website.

The chosen method allows the effect of the transactions and their reporting to be different for each of the companies analysed. However, it imposes as a restriction that for one company, this effect must be similar throughout the sample period, with it being only sensitive to differences in the size of the transaction.

The model also uses the daily return of the share as a dependent variable although in this case it is not restricted to a time window, but uses the period between January 2007 and June 2012. By construction, the error variance is considered constant during the sample period for each company.

This approach makes it possible to use more data than the univariate method. Consequently, it is applied to the data of 117 companies, considering a total of 4,977 purchases and 1,914 sales by directors.

As control variables, we have used those included in the CAPM model (free of risk return and return of the Ibex 35). In order to analyse the effect of trading by directors on share prices, the following variables are entered into the model:

– Variable which takes the value 1 on the date that the director buys shares and zero on other dates.

– Variable which takes the value 1 on the date that the director sells shares and zero on the other dates.

– Variable which takes the value 1 on the date the share purchase is registered with the CNMV and published and zero on the other dates.

– Variable which takes the value 1 on the date the share sale is registered with the CNMV and published and zero on the other dates.

– Size of the purchase, measured as the Napierian logarithm of the percentage of the capital acquired in the transaction.

– Size of the sale, measured as the Napierian logarithm of the percentage of the capital disposed of in the transaction.

The statistical testing has shown that both purchases and sales of shares affect the share price on the day on which they take place and they do so with the expected sign. In addition, the effect on the same day as the transaction is sensitive to the size of the transaction performed by the director so that larger purchase (sale) transactions produce a greater rise (fall) in the share price.

Multivariate approach. Effect on share prices TABLE 3

	Ratio (mean)[1]	Wald Test	99% test	Prob.
Purchases with an effect on the day of the transaction	0.00205	116063	239.4	0
Purchases with an effect on the day of registration	-0.00001	598	133.5	0
Sales with an effect on the day of the transaction	-0.01496	4644951	181.8	0
Sales with an effect on the day of registration	-0.00092	35336	111.1	0
log(ACC/NOSH) Purchases	0.00010	77621	127.6	0
log(ACC/NOSH) Sales	-0.00299	4280164	90.8	0

Source: CNMV.

1 The table shows the mean of the estimated ratios for each one of the shares analysed in the sample, the mean of the dummy variable created for each one of the events (purchases on the day of the transaction or registration) and the mean of the variable of the size of the purchase in relation to total capitalisation. The ratios arise from a CAPM model and should therefore be interpreted as the average effect of the purchase or sale on the return of the share adjusted by the general evolution of the market. The comparisons of significance are made by means of the Wald test and, therefore, they apply to the set of estimates of the sample.

However, in contrast to the expectations of the theory, the day on which the purchase transactions are registered with the CNMV there is a fall in share prices. Although the effect is relatively small, it is significant and might indicate that, for the sample set, the market has already processed the information on the purchases by the directors at the time of the reporting. Nevertheless, the authors of this article do not have a clear explanation for this phenomenon. Notifications of sales do have the expected effect on prices.

6 Conclusions

Securities market legislation allows the directors of a company to trade in the shares of their own company providing said trading is not related to material information, which would be subject to a penalty for market abuse. Excluding these cases, we can assume that the directors of a listed company will have a greater capacity to assess their company than other investors, either through their education, training or access to non-material information which is not known by the rest of the market.

This fact means that other market participants pay special attention to trading by directors as these transactions may provide a signal as regards future changes in the company's value or at least its market price. In a simple behavioural model in which a director buys (sells) shares simply to take advantage of the company being undervalued (overvalued), we can expect that requiring directors to report their transactions will increase informational efficiency and market liquidity and reduce the possible profits which the director may obtain from this trading.

European legislation, and with it Spanish legislation, follows this transparency model on purchases and sales of shares and other related financial contracts. It requires that they be reported in a period of five days, detailing the reasons, instruments, amounts and price, and requires that this information be disclosed to other participants.

Using the data available in the CNMV's Public Registry on the notifications of transactions by directors and executives for the period 2007-2012, we have studied the transactions and their short-term impact on the price of the affected shares.

Using two different approaches, we have found that on average purchases by directors are usually related to increases in the share price, and these increases are concentrated on the purchase days. With regard to sales, the results have been mixed as a conclusive result has only been obtained in one of the approaches.

In addition, the variance in the share prices is sensitive to the size of the transactions performed by the directors of the company (both individually and on an aggregate basis), which is again in line with the theory that, as the director's economic risk increases, the signal provided by his/her transaction for other participants in the market is more powerful.

In addition, we have found that the effect of this trading on the price is concentrated at the time of the trade and not at the time it is registered with the CNMV and made

available to other market participants. In accordance with the theoretical model used, it could be expected that the price effect should be concentrated specifically at the time that the notification is disclosed.

At any event, with the data from the Spanish market, we can conclude that the impact on the price as a result of trading by directors is very low. This is largely due to the small size of the typical transaction in the sample used. However, the decision on the size of the trade by the director is not separate from securities market legislation or the market institutions. We could expect that regulation on the reporting of these transactions, the sensitivity of market participants to these transactions and the regulation of market abuse will encourage directors and managers to perform relatively small transactions and that the benefit obtained would normally be low.

Spanish mortgage-backed securitisation funds: features at the time of their incorporation and performance over the period 1993-2012

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1 Introduction

Securitisation became particularly important as an instrument for funding during the years prior to the global crisis. Spain was no exception. In 2006, securitisation issues accounted for 49% of long-term fixed-income issues made by Spanish companies and financial institutions. Their importance in the Spanish primary market remained significant after the crisis began. In 2008, these issues accounted for 82% of gross private sector issues, and between 2008 and 2012 as a whole they accounted for 42%.[1]

Since 2009, securitisation has been losing importance among Spanish financial institutions in favour of other forms of financing, such as *cédulas hipotecarias* (covered bonds), which are more advantageous for issuers as they have a lower issue cost, they have become better accepted by private investors against the backdrop of the current difficulties in markets and, above all, because they have received better treatment than asset-backed securities in the operations which financial institutions carry out in the Eurosystem, where they are used as collateral to receive liquidity. This has also been the case in other European countries.

The fact that securitisation is no longer interesting for investors makes it necessary to review the manner in which this type of structure was designed in the past and to verify its development over the years. In this regard, the financial crisis can be seen as a first level laboratory for assessing the resistance of this type of financial instrument under extremely adverse conditions. Various academic studies and other studies conducted by private international institutions have addressed the problems of securitisation over recent years with the aim of identifying deficiencies and bad practices which, according to fairly widespread opinion, made it one of the key triggers of the financial crisis in 2007.

The aim of the work carried out is to analyse to what extent Spanish securitisation has followed or avoided the patterns of behaviour indicated by the main academic papers in this area over recent years. This article anticipates part of the research performed, specifically that relating to mortgage securitisation in Spain. A second document will shortly be published which provides a wider analysis of the issues presented below, extending the scope of study to securitisation as a whole in Spain.

The data used in this paper mainly come from the information provided to the CNMV by economic agents involved in the securitisation process. Specifically, the paper uses the information provided by originators on the loan portfolios which are included in the funds when they are established. This information is usually

1 Gross issues registered with the CNMV.

provided in the documents required for establishing a securitisation fund. Another important source of information for this work was the public information which fund managers send to the CNMV on a half-yearly and annual basis in compliance with current legislation.

The article is organised as follows: Section 2 summarises some of the issues which have recently been discussed by academic literature and, in general, by experts as regards securitisation. Section 3 refers to the source and characteristics of the data that will be used in the analysis. Section 4 analyses the role of mortgage securitisation in the more general context of Spanish securitisation and describes the basic characteristics of the assets which support it. Section 5 focuses on the different significant aspects for analysing the quality of securitised mortgage assets, such as their age, the interest rate, the loan-to-value ratio or the non-performing loans (NPL) ratio. Section 6 analyses the main characteristics of the mortgage-backed securities issued by Spanish securitisation funds. The article closes with a section of conclusions.

2 Recent issues of interest as regards securitisation

Since the start of the financial crisis, securitisation has been accused of bringing about a reduction in the quality of the loans granted by financial institutions due to widespread use of the "originate-to-distribute" model. According to this point of view, the aforementioned model favoured financial institutions granting loans and then immediately assigning them to more or less opaque securitisation special purpose vehicles which in turn redistributed the risk with relative ease to different types of investors. The funding generated allowed financial institutions to start the process once again by granting new loans without worrying too much about the quality of the assets generated.

The academic studies performed on this issue are not unanimous. Some authors support the idea that the securitisation processes reduced the incentives of financial agents to perform thorough studies on debtors. This line is supported by, for example, the papers by Demyanyk and Van Hemert (2008), Hull (2008), Kranier and Laderman (2009) and Purnanandam (2010).[2] However, other authors defend the idea that although standards have been somewhat relaxed, there was no absolute failure of financial institutions to meet their obligations. This line is supported, for example, by the papers by Bubb and Kaufman (2009) and Bhardwaj and Sengupta (2009).[3]

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2 Demyanyk, Y. and Hemert, O. (2009). "Understanding the Subprime Mortgage Crisis", in *The Review of Financial Studies*. Available at http://rfs.oxfordjournals.org/content/early/2009/05/04/rfs.hhp033.full; Hull, J. C. (2009). "Credit Crunch of 2007: What Went Wrong? Why? What Lessons Can Be Learned?", in *Journal of Credit Risk*, 5, 2, pp. 3-18; Krainer, J. and Laderman, E. (2009). *Mortgage Loan Securitization and Relative Loan Performance*. Federal Reserve Bank of San Francisco. Available at http://www.frbsf.org/publications/economics/papers/2009/wp09-22bk.pdf; Purnanandam, A. (2010). *Originate-to Distribute Model and the Sub-Prime Mortgage Crisis*. Federal Deposit Insurance Corporation, Center for Financial Research, Working Paper 2010-08.

3 Bubb, R. and Kaufman, A. (2009). *Securitization and Moral Hazard: Evidence from a Lender Cutoff Rule*. Federal Reserve Bank of Boston, Public Policy Discussion Papers. Available at http://www.bos.frb.org/economic/

One issue which is also debated as regards securitisation is the possibility that the originators may have made use of their advantages as regards access to information, retaining quality assets on their balance sheets and placing those assets with a higher probability of default in the market. Some authors, including Ambrose *et al.* (2003),[4] rejected this possibility with the argument that originators would try to avoid incurring in the reputational risk which this process could cause. However, the data offered by other subsequent papers, such as that by Elul (2009),[5] showed that, in some cases, securitised loans performed worse than those retained by the originators.

The "originate-to-distribute" model was not fully adopted by credit institutions in Spain as at least part of the credit risk of securitised loans remained on the balance sheets of the originators, which never fully separated themselves from the securitised assets, which they still administered, or the vehicles, with respect to which they also acted as counterparty in contracting credit enhancement.

The studies focused on Spain support the idea that securitisation may have softened the requirements for access to credit for certain sectors of the population compared with previous periods. The contribution to the growth in credit through this route injected risk into the financial system as these loans showed higher levels of default with the change in the economic cycle as demonstrated by Carbó-Valverde *et al.* (2011) and Jiménez *et al.* (2011).[6]

3 The data to be analysed

Since the beginning, securitisation has been very much linked to the real estate sector. According to data provided by the International Monetary Fund (IMF),[7] 34% of all private-label securitisation generated during the years of maximum growth in securitisation corresponded to residential mortgage loans. Spain has been no exception. Between 1993 and 2012, mortgage-backed securities accounted for 63% of securitisation issues (see figure 1).

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ppdp/2009/ppdp0905.pdf; Bhardwaj, G. and Sengupta, R. (2010). *Where is the Smoking Gun? A Study of Underwriting Standards for US Subprime Mortgages.* Federal Reserve Bank of St. Louis, Working Paper 2008-036D. Available at http://economics.rutgers.edu/dmdocuments/Sengupta_SmokingGun.pdf

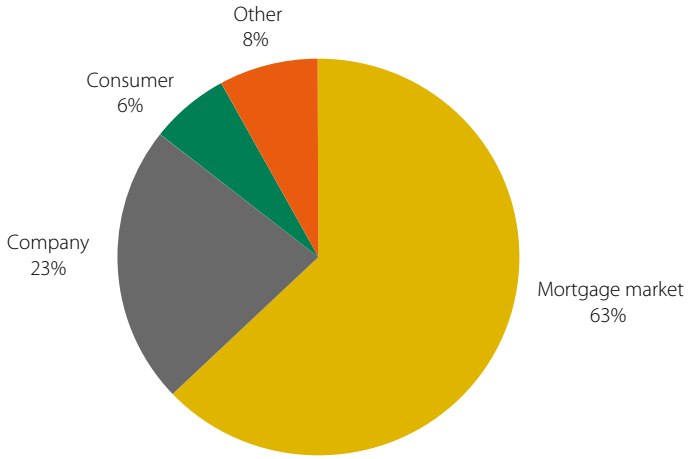
4 Ambrose, B., Lacour-Little, M. and Sanders, A. (2005). "Does Regulatory Capital Arbitrage, Reputation, or Asymmetric Information Drive Securitisation?", in *Journal of Financial Services Research*, 28, pp. 113-133.

5 Elul, R. (2009). *Securitisation and Mortgage Default: Reputation vs. Adverse Selection*. Federal Reserve Bank of Philadelphia, Working Paper 09-21.

6 Carbó-Valverde, S., Marqués-Ibáñez, D. and Rodríguez Fernández, F. (2011). *Securitization, Bank Lending and Credit Quality, the Case of Spain.* European Central Bank, Working Paper 1329, April 2011. Available at http://www.ecb.int/pub/pdf/scpwps/ecbwp1329.pdf; Jiménez G., Mian, A., Peydró, J. L. and Saurina, J. (2011). *Local versus aggregate lending channels: the effects of securitization on corporate lending supply.* Bank of Spain, Working Document No. 1144.

7 IMF (2009). "Restarting Securitization Markets: Policy Proposals and Pitfalls". *Global Financial Stability Report*, chapter 2. Available at www.imf.org/external/pubs/ft/gfsr/2009/02/pdf/chap2.pdf

Securitised assets by purpose: 1993-2012[1, 2 and 3] FIGURE 1



Source: CNMV.

1 Mortgage market: *participaciones hipotecarias* (mortgage participations), mortgage loans and covered bonds.

2 Consumer: consumer loans, car loans and leasing.

3 Other: territorial bonds, Treasury bonds and other loans.

As indicated above, this article analyses the characteristics of securitised mortgage portfolios using the information provided by the originators during the process of establishing securitisation funds. Spanish legislation establishes that incorporation of a securitisation fund must be verified and registered with the CNMV under the terms provided in Law 24/1988 on securities issues. The documentation which must be filed includes a prospectus with the content established in Regulation (EC) 809/2004, of 29 April 2004, which includes overall statistics relating to the securitised assets, such as: creation date of the assets, maturity dates, geographic and industry distribution of the loans or historic NPL ratio of the portfolio, etc.

Data has been drawn from the mortgage portfolios securitised from 1993 (the year in which the first securitisation fund was registered with the CNMV) up to 2012. Only those funds which have issued securities traded on organised Spanish markets have been taken into consideration. A total of 436 securitisation funds have been considered, accounting for total loans of 510 billion euros.

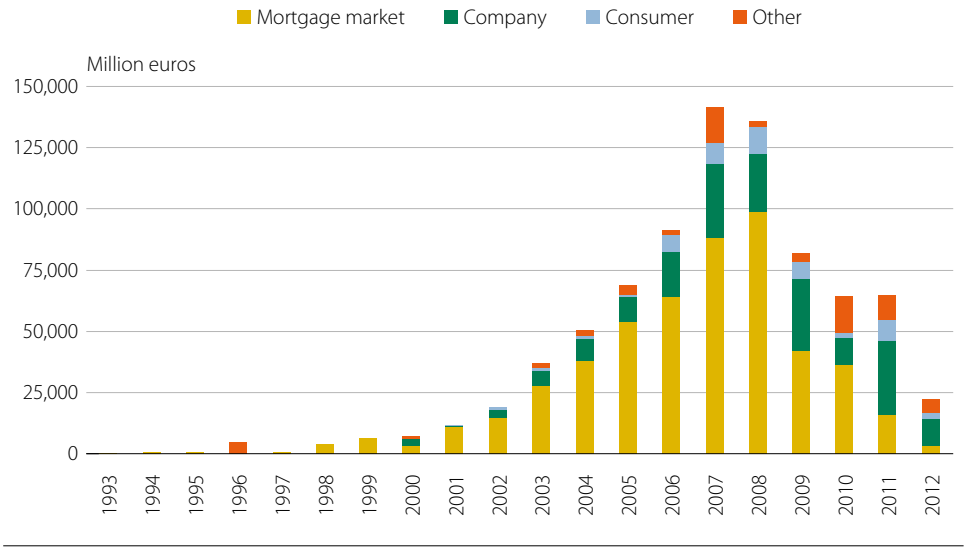
Given the importance acquired by the securitisation market within the financial system over the last decade, regulators considered it appropriate to increase the requirements on the information which funds were disclosing to the market. Accordingly, in March 2009, Circular 2/2009 was published. This was subsequently amended by CNMV Circular 4/2010 which, *inter alia*, establishes a framework of obligations applicable to the preparation of periodic reporting for securitisation funds. According to this new regulation, the funds must publish, by means of a standardised form and electronic reporting of data every six months, the following information: balance sheet, income statement, statement of cash flows, detailed information on the situation of the assets assigned to the fund (nature of the assets, outstanding amounts, NPL ratio, amounts declared as defaults, residual life, prepayments, etc.) and the liabilities issued (interest rates, redemptions carried out, average life, current ratings, etc.), as well as the situation of the credit enhancements included in the fund.

This article will analyse the information provided by management companies of the 252 funds with mortgage market assets on their balance sheets which were in operation as at 31 December 2012, which, as a whole, recorded an outstanding balance of 233 billion euros at that date.

4 Securitisation of assets related to the Spanish mortgage market

From a legal point of view, mortgage securitisation in Spain is based on Law 19/1992, of 7 July, on the Legal Regime of Real Estate Investment Companies and Funds and on Mortgage Securitisation Funds, amended by the fourth final provision of Law 5/2009, of 29 June, and by Law 15/2011, of 16 June. The preamble of the aforementioned law recognised that the objective of providing a specific legislative framework for securitisation in Spain was to contribute towards lowering the cost of funding for house buying. From that time up to 2011,[8] securitisation in Spain was strongly linked to the mortgage market despite the institutional effort to involve other sectors of the economy[9] (see figure 2).

Classification of securitised assets between 1993 and 2012 FIGURE 2



Source: CNMV.

In fact, up to 2000, the funds with bond issues mainly held mortgage-backed securities, specifically *participaciones hipotecarias* (mortgage participations, hereinafter PH).[10] PH are securities issued by credit institutions that operate in the mortgage market which allow third parties to participate in the loans included in their portfo-

8 2012 was the only year in which securitisation operations linked to the mortgage market were not the most important. These operations only accounted for 14% of all the securitised assets that year.

9 In this regard, we can highlight the numerous Agreements to Promote Asset Securitisation Funds in order to foster business funding implemented since 1999 both by central government and by regional authorities.

10 Securitisation funds which only include PH in their assets receive the name of mortgage securitisation funds.

lios. Each PH is associated with a certain loan, which must meet a series of characteristics to be considered as eligible to this effect. These requirements include the following: mortgage with a maximum loan-to-value ratio of 80% and the obligation to take out damage insurance, etc.[11]

The advantage of securitising PH lies in the speed of the process as it is not necessary to amend the public document formalising the loan, the beneficiary of the mortgage guarantee in the Property Registry or to inform the debtor of the change in creditor.

PH were set up as a low risk asset both due to the qualities inherent to this type of security, as mentioned above, and the assets chosen to back these first securitised PH, as we shall see later. All of this, together with the simplicity of the financial design of the first funds, led to Spanish securitisation receiving a positive assessment in financial markets and contributed towards generating growing demand for these securities.

As from 2002, securitisation of mortgage loans was driven by a legislative amendment, which supported the incorporation in securitisation funds of loans which did not meet the requirements established for PH thanks to the creation of a new legal figure under the name *certificado de transmisión hipotecaria* (mortgage transfer certificates – hereinafter, CTH).[12] The new legislation facilitated the assignment of mortgage loans to securitisation funds through CTH or mixed portfolios made up of PH and CTH. Securitisation based on these formulas grew significantly from 4.57 billion euros in 2002 to a high of 63.57 billion euros in 2008.

In addition to PH and CTH, another of the widely used securities of the mortgage market is the *cédula hipotecaria* (covered bond). The main difference between a PH and a covered bond lies in the fact that the former is backed by a specific loan, while the second is linked to the whole of the loan portfolio considered eligible for collateral purposes. There is also a significant difference between both instruments relating to the transfer of credit risk. The PH transfers the default risk from the creditor of the loan directly to the fund. This is not the case with the covered bond. In this case, the fund is exposed to the risk associated with the issuing financial institution, with the mortgage portfolio acting as collateral for the amounts owed to the fund. In addition, if that financial institution enters into pre-bankruptcy proceedings, the fund would be a preferential creditor in the order of payment.

As a whole, the assignments of assets linked to the mortgage market from the start of securitisation in Spain up to 2012 amounted to 510.15 billion euros, of which more than half (268.44 billion euros) were found in funds of CTH or combinations of PH and CTH, 185.39 billion euros were assigned in the form of covered bonds and 56.33 billion euros in mortgage securitisation funds made up solely of PH.

It is difficult to quantify the real contribution of securitisation to the growth of the Spanish real estate market during the years of economic expansion, although em-

11 Royal Decree 716/2009, of 24 April, which implements certain aspects of Law 2/1981, of 25 March, on regulation of the mortgage market and other rules of the mortgage system, establishes the characteristics of PH and the requirements for issuing them.

12 Section 18 of Law 44/2002, of 22 November, on Reform Measures of the Financial System, introduced the figure of the *certificado de transmisión hipotecaria* (mortgage transfer certificate).

pirical studies conducted in this regard agree that the Spanish financial sector used securitisation as a source of liquidity with which to meet the growing demand for credit in those years.[13] As a general approximation we can say that between 2000 and 2006, according to the data published by the Spanish Mortgage Association, the gross amount of mortgage credit totalled 1.17 trillion euros. Over the same years, the aggregate volume of issues of mortgage-backed securities totalled 214.2 billion euros, an amount equivalent to 18% of gross mortgage loans over the period.

5 Aspects relating to the quality of securitised mortgage assets

5.1 Age of the portfolios of securitised mortgage loans

The "originate-to-distribute" model is based on rapid turnover of the loans originated by a financial agent. Critics of the model highlight that the ease with which financial institutions generate credit business and transfer the associated risks may have led to less concern as regards the quality of the loans they granted.

With regards to securitised mortgage loans, an important aspect to remember when assessing the quality of the transferred risk is the age of the transferred loans. The sooner a loan is assigned to the fund, the less credit history will be available on the loan. In addition, data based on the experience of financial institutions suggest that, irrespective of the quality of the borrower initially estimated or the evolution of significant macroeconomic factors, the probability of default of a loan is higher during the first years.[14]

There is no specification in legislation with regard to the age which the assets assigned to a fund must have. However, some originators demonstrate that the loans that they are going to sell have been on their balance sheet for a specific period of time or a specific number of payments have been made on the loan. This information is included both in the prospectus registered with the CNMV when incorporating a securitisation fund and in the fund's incorporation document. It is also usual to include a table classifying the loans depending on their age.

Based on the information contained in the prospectuses, a calculation has been made of the average annual weighted age of the mortgage loans securitised through assignment of PH or baskets of PH and CTH (securitisations based on covered bonds are not included as in this case specific loans are not directly securitised). The series calculated for the period 1993-2012 is presented in figure 3.

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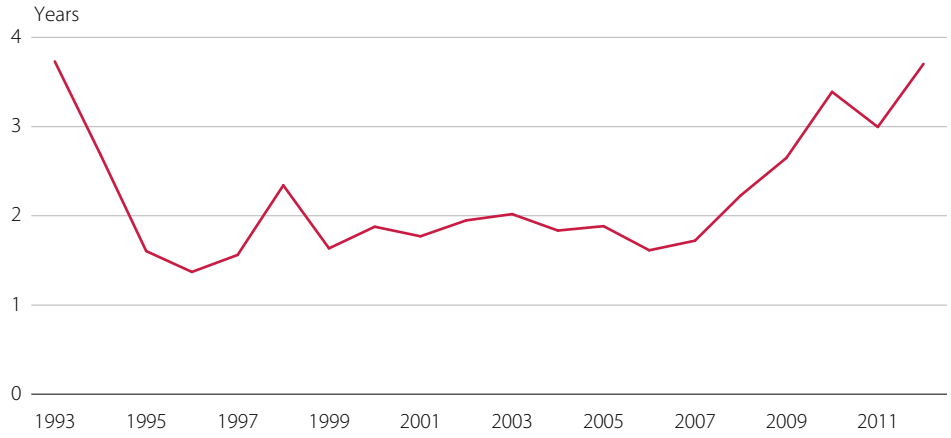
13 See Jiménez *et al.* (*op. cit.*) and Catarineu, E. and Pérez, D. (2008). "La titulización de activos por parte de las entidades de crédito: el modelo español en el contexto internacional y su tratamiento desde el punto de vista de la regulación prudencial" [Securitisation of assets by credit institutions: the Spanish model in the international context and its treatment from the point of view of prudential regulation], in *Estabilidad Financiera*, No. 14, Bank of Spain, May 2008.

14 See, for example, the 2010 BBVA Annual Report, specifically figure 5, which shows that the first four or five years of the life of a loan are particularly relevant as regards the probability of default, with the probability falling gradually over the following years.

Age of securitised mortgage loans[1] FIGURE 3



Source: CNMV.

1 Includes PH and CTH.

As shown in figure 3, the funds initially included loans with ages of around three years, which provided investors with a relatively extensive credit history of the securitised portfolios. Between 2000 and 2006, i.e. during the period of maximum growth in securitisation, the age of the assigned loans was lower, at around two years. As from 2007, the age rose significantly, up to 3.7 years in 2012.

Therefore, the period of strong growth in mortgage securitisation in the last decade was accompanied by a certain reduction in the age of the assigned loans, which, however, still stood at a reasonable level as it meant that the financial institutions held their exposure to the loans which they later assigned for some two years.

The increase in the age of the loans during the years of the crisis shown in figure 3 is partly explained by Spanish financial institutions using asset-backed securities as collateral for obtaining liquidity in the European Central Bank (ECB). Financial institutions were the main subscribers of their own issues over the period. Given that the ECB required top credit ratings for the asset-backed securities which were to be used for this purpose, the originators used high quality loans with a proven credit history. Another influencing factor in the increase in the age of the assigned loans was the progressive fall in the granting of loans, which forced originators to increasingly use older loans.

5.2 Interest rate of mortgage loans

One of the common debates relating to securitisation is whether it facilitated the creation of assets with a remuneration which did not reflect their actual inherent risks. The analysis conducted by Kara *et al.* (2011)[15] on a sample of European loans concludes that those banks which were more involved in securitisation were those which conducted more aggressive price policies in the newly created loans during the period of economic expansion. They also observed that these same banks tight-

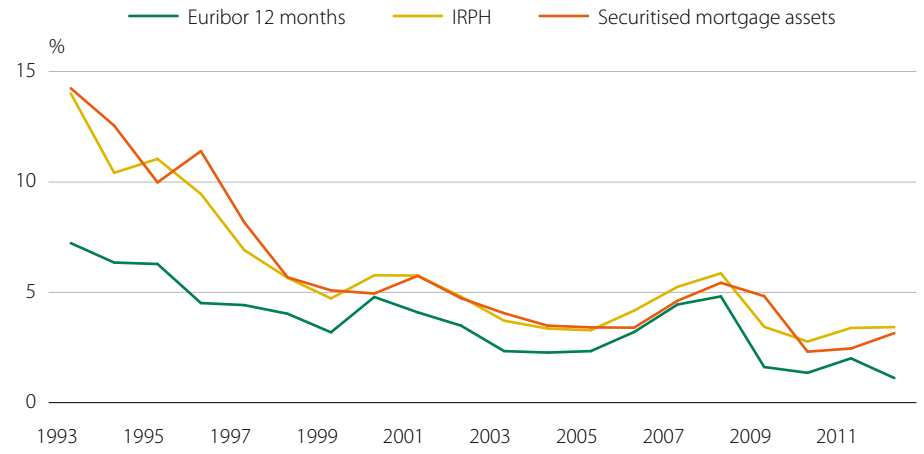
15 Kara, A., Marqués-Ibáñez, D. and Ongena, S. (2010). *Securitization and Lending Standards: Evidence from the Wholesale Loan Market*. European Central Bank, Working Paper 1362.

ened their protocols following the outbreak of the crisis. In the specific case of the Spanish financial market, there are no notable differences with regard to interest rates between the most active originators and the others.

Assuming that financial institutions would have conducted a thorough analysis when granting loans, they do not seem to have subsequently used securitisation to unload portfolios of loans with a high level of risk, which would therefore have had a surcharge in the interest rate charged to the borrower.

In general, the average interest rate of securitised portfolios moved in line with[16] the benchmark rates in the Spanish mortgage market, as shown in figure 4. The downward trend shown by interest rates is more the result of monetary policy decisions taken by the corresponding authorities than to the growth in securitisation. There was a rise in benchmark interest rates as from 2006, which became sharper with the start of the crisis as a result of the closure of interbank markets. However, this rise was offset as from 2008 by central banks with across-the-board reductions in interest rates to improve market liquidity.

Average rate of securitised mortgage loans[1, 2 and 3] FIGURE 4



Source: CNMV and Bank of Spain.

1 One-year Euribor except for the period 1993-1998, in which the one-year LIBOR has been used.

2 IRPH: benchmark interest rate of mortgage loans published by the Bank of Spain.

3 Securitised mortgage assets include PH and CTH.

5.3 The loan-to-value (LTV) ratio of securitised mortgage loans

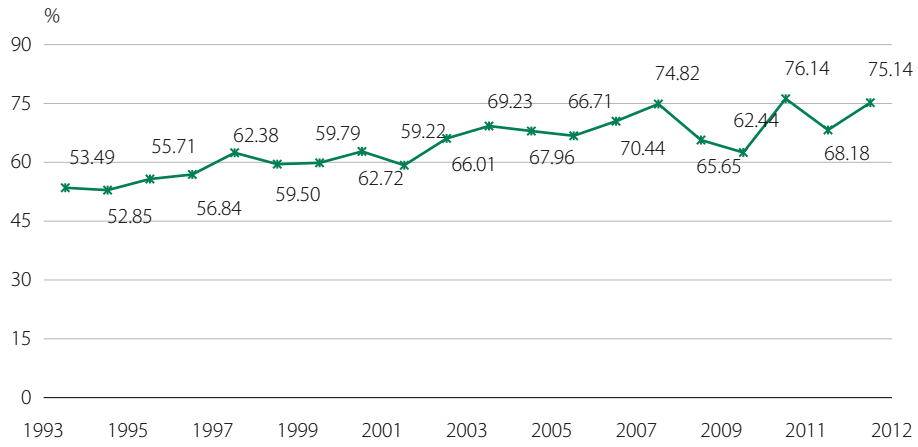
The LTV analysed in this paper is calculated as the ratio between the outstanding balance of the loan at the time it was securitised and the latest available valuation of the residence, which may coincide with that performed at the time the loan was granted.

16 It is important to take into account that securitised loans were originated, on average, two years previously and therefore the interest rate curve for asset-backed securities in figure 4 replicates that of the mortgage market with a lag.

As indicated, up to 2000 most securitisation was performed through *participaciones hipotecarias*. According to legislation, when PH refer to loans to acquire, build or restore properties, the LTV ratio must be lower than 80%. The average weighted LTV ratios of the portfolios securitised over these years show that, in practice, this ratio remained at levels lower than that percentage, specifically at between 50% and 60% (see figure 5).

Subsequently, with the appearance of CTH, this limit disappeared and the ratio rose progressively up to close to 75% by 2007. At any event, although at specific times there were funds which included loans with an LTV ratio even above 100%, the average remained below 80%.

Average loan-to-value ratios of securitised mortgage loans FIGURE 5



Source: CNMV.

One of the elements which influenced the increase in the LTV ratio was the lengthening of the terms for returning mortgage loans. The loans securitised in 1993 had an average initial life of 14 years. In 2000, the period had increased to 24 years and as from 2007 the average life reached 30 years. Lengthening the time given to return a loan improves the debtor's capacity to pay the bank as it reduces the regular payments that need to be made. This led to an increase in the amount requested and the probability of the request being approved. The progressive increase in the amount of the loans granted to individuals was not fully offset by an increase in the value of the properties despite the sharp increase in prices, which was reflected in increasingly higher LTV ratios.

From among the 322 funds which securitised mortgage loans between 1993 and 2012, excluding those of covered bonds, only 36 funds had an average LTV ratio of their portfolio at the time of incorporation greater than 80% according to the data provided by the originator on the portfolio of loans to be securitised. Most of these funds were set up in 2007 and 2008 and related to portfolios originated on average between one and two years prior to the establishment of the fund. We can also see the trend of some entities to group together into one fund only loans with an LTV of over 80%.

In general, portfolios with high LTV are more vulnerable as these loans are more sensitive to falls in property prices and they have, all things being equal, a higher

probability of default due to the debtor's greater leverage. The rating agency Moody's (2013)[17] assigns in its report a default frequency of 25% for loans with an LTV of 100%, with this frequency falling to 11.5% for loans with LTV of 80%.

The performance of the assets included in the aforementioned funds compared with the other mortgage portfolios supports that idea given that, while the NPL ratio of securitised mortgage assets as a whole stood at around 2.39%, that of the assets included in those 36 funds stood at 3.95%.

5.4 Doubtful loans and defaults of securitised mortgage assets

The rapid impairment of loan portfolios as from 2006 made investors think that the risk which was spreading through the market could be higher than originally thought and the different market agents began to wonder whether originators had taken advantage of their access to information in order to place in the markets those assets with higher probabilities of default in the future, whilst retaining higher quality loans on their balance sheets.

In the particular case of Spanish securitisation, the originators generally provide investors with information on the NPL ratio of the portfolio which they are going to assign and, in any event, they guarantee at the time of their assignment to the fund that all the assets are up-to-date in their obligations and that they may be a maximum of 30 days in arrears.[18]

In addition to guaranteeing the quality of the assets at the time of their assignment, the originators include, in the different scenarios presented to the investor on future flows of the securities, estimates of the possible development of the portfolio in terms of non-performing loans, defaults and recovery levels of unpaid amounts. The assumptions for these parameters are based on the historic performance of the assigned assets or, if that information is not available, an extrapolation based on similar portfolios included in the originator's balance sheet.

The estimate of the future NPL ratio of portfolios securitised by originators between 1993 and 1997 was very low compared with the data on doubtful loans in the mortgage market in those years (see figure 6). This supports the idea that the originators used portfolios of high-quality assets in their first operations with the aim of creating trust in this budding market and to ensure access to this new source of funding, in line with the observations of Albertazzi, Eramo, Gambacorta and Salleo (2011)[19] in the Italian securitisation market.

Subsequently, as from 2000, the levels of forecast NPL ratios are in line with the average for the mortgage sector. It is therefore not clear that the originators had taken advantage of their better information on the quality of the securitised loans. As shown in figure 6, the NPL ratio forecast by originators for asset-backed securi-

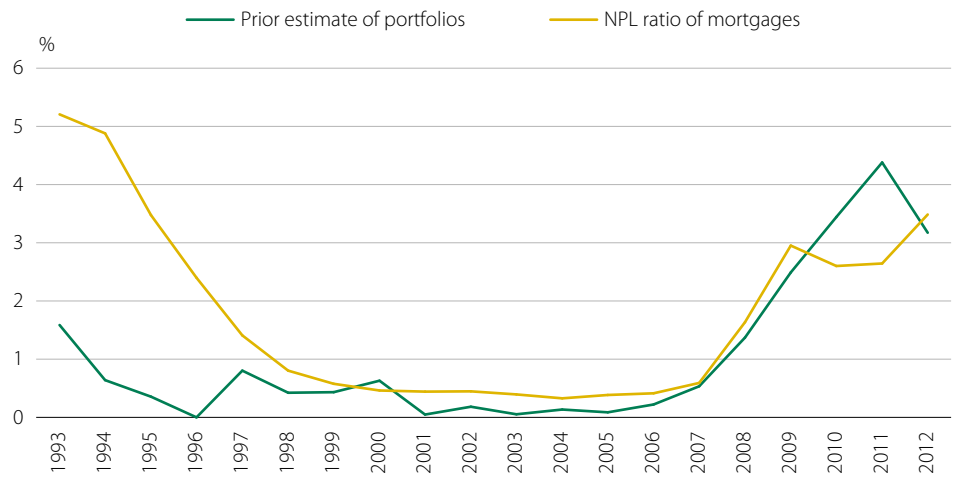
17 Moody's (2013). *Approach to Rating Spanish Residential Mortgage Backed Securities.*

18 Delays in payment of obligations for periods of less than 30 days are known in Spain as technical arrears.

19 Albertazzi, U., Eramo, G., Gambacorta, L. and Salleo, C. (2011). *Securitization is not that evil after all.* Bank for International Settlements, BIS Working Paper 341. Available at http://www.bis.org/publ/work341.pdf

ties is only clearly above the market average in 2010 and 2011. In 2010, the forecast NPL ratio of most of the securitised portfolios stood at relatively low levels, but the weighted average rose to 3.4% due to the impact of one deal with a forecast NPL ratio of 8%. In the case of operations registered in 2011, the average weighted NPL ratio estimated by originators was 4.4%, although various funds securitised portfolios with values of around 6% or 7%.

NPL ratio of securitised mortgage loans FIGURE 6



Source: CNMV.

The actual NPL ratios have substantially exceeded the estimates used by originators over the years of economic growth. According to data provided by the fund managers, at the end of 2010 the percentage of securitised mortgage loans classified as doubtful stood at 1.5%. In December 2012, this figure had risen to 2.39%.

There are a wide variety of factors that influence the performance of a loan. At a macroeconomic level, interest rates, property prices and employment levels have typically been indicated as strongly correlated to the NPL ratio. At a microeconomic level, we can highlight the financial effort made by families to buy the home or the debtor's job stability.

In the case of the Spanish credit market, the worsening of the economic situation with extremely high levels of unemployment, together with the high-level investment undertaken by families in purchasing homes, appear as two of the main reasons behind the rapid increase in the amount of doubtful mortgage loans.

Table 1 shows the doubtful and default levels of securitised mortgage loans in force in December 2012, bearing in mind the year of incorporation of the fund. As shown in the table, the portfolios assigned over the period 2005-2009 show the worst performance. Given that the age of these portfolios is on average two years, these portfolios mainly contain loans originated over the period 2003-2007, i.e. during the period of greatest growth in mortgage credit and securitisation. These data therefore fall in line with the hypothesis of a certain relaxing of criteria for granting mortgage loans to individuals over the period of greatest securitisation activity.

Doubtful and default loans by year of creation of the fund TABLE 1

	Doubtful	Default
1999[1]	1.28	0
2000	1.17	0
2001	0.84	0
2002	1.41	0.03
2003	1.84	0.02
2004	2.49	0.18
2005	5.27	0.34
2006	5.82	0.99
2007	5.41	1.54
2008	4.78	0.60
2009	4.69	0.14
2010	3.09	0.17
2011	1.21	0.02
2012	0.14	–

Source: CNMV.

1 There are no outstanding funds prior to 1999.

6 Aspects relating to asset-backed securities

In order to obtain the credit rights that will make up their assets, securitisation funds issue one or several series of securities. One of the specific features of securitisation is its capacity to create various series of securities with different risk profiles from one group of assets with a certain level of risk. The risk associated with a series of securities is determined by different factors, which include the risk and size of the underlying portfolio, the size and period of amortisation of that series and its level of seniority within the fund.

There is not much literature on the parameters used by arrangers to decide the number of tranches in a securitisation deal, although the work performed in this regard indicates that the complexity in the design of the issues goes hand-in-hand with the level of sophistication of the investors and the level of development of that market.[20]

It should also be pointed out that there is some differentiation depending on the underlying asset in that securitisation funds of covered bonds usually have only one series of securities, while those of CTH and corporate loans normally have more than two series. Similarly, it can be seen that as from 2008, the year that the market for selling these securities closed and from when they have all been retained by the originator, the number of series issued by the funds fell.

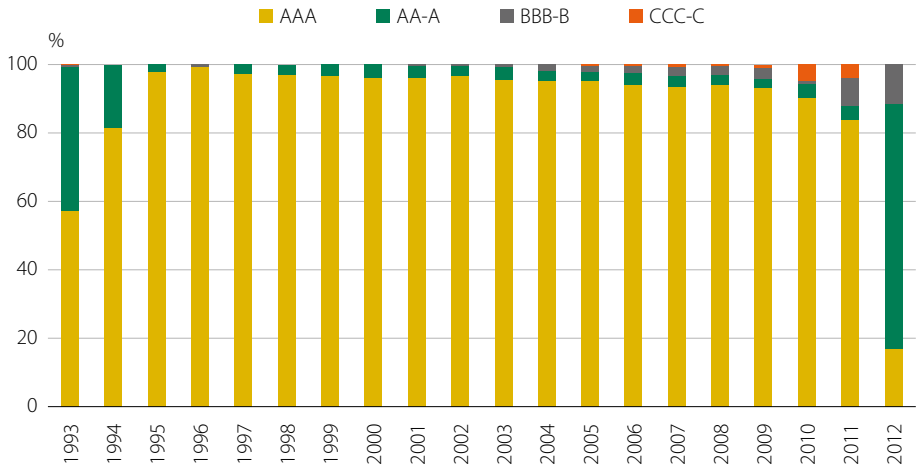
20 See, for example, Firla-Cuchra, M. and Jenkinson, T. (2006). *Why are Securitization Issues Tranched?* Available at http://www.economics.ox.ac.uk/Research/wp/pdf/paper225.pdf

Specifically, with regard to mortgage securitisation deals, excluding those based on covered bonds, a common characteristic is the creation of one series with the highest rating,[21] the senior tranche, together with several smaller series with lower ratings or without ratings, known as equity tranches. The most subordinate tranches within the structure are liable for the first percentage of losses of the securitised portfolio and are normally retained by the originator with the aim of providing an additional enhancement to the preferential tranches so that these obtain an even higher rating.

As indicated, over the years of the financial crisis, originating Spanish financial institutions retained most of the issued asset-backed securities with the aim of using them as collateral in liquidity operations with the ECB. Initially, one of the conditions established by the ECB in these operations was that the securities used as collateral had to have an AAA rating at the time of their issue.[22] The progressive reduction in the credit ratings of asset-backed securities, due to the impairment of the underlying assets and the downgrades of ratings of the service providers (administration of loans and credit enhancement) hired by the funds, led the ECB in December 2011 to relax the eligibility criteria of the assets presented as collateral, placing the threshold at securities classified as A. It lowered this threshold again in 2012 to BBB.[23]

The relaxing of the requirements established by the ECB had an immediate impact on the structure of securities issues in 2012, as shown in figure 7. In this year, for the first time bonds rated as A and AA became the most significant tranches, to the detriment of the series rated as AAA.

Structure of issues of asset-backed securities FIGURE 7



Source: CNMV.

21 There may sometimes be various series with the highest rating. This happens when a fund issues a series of securities guaranteed either by the central government or by regional institutions.

22 Resolution adopted by the Governing Council of the European Central Bank on 20 January 2009.

23 Resolutions adopted by the Governing Council of the European Central Bank on 8 December 2011 and 22 June 2012.

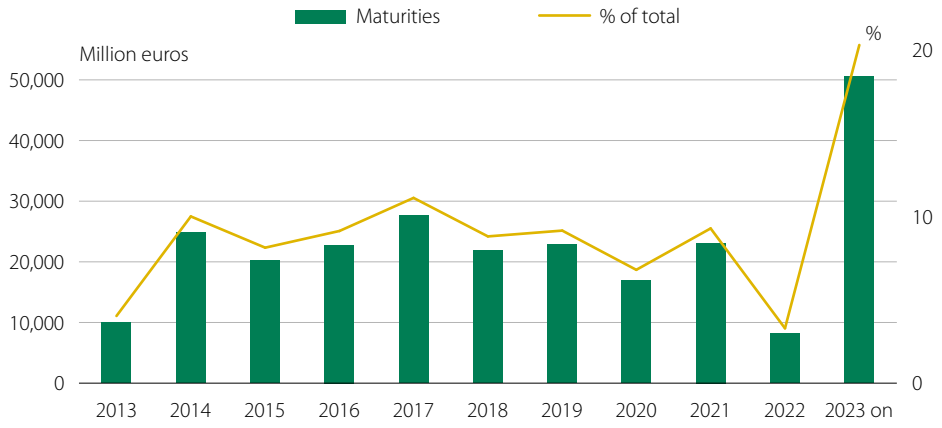
6.1 Average life of the securities from mortgage securitisations

In addition to occupying the preferential position in the seniority of claims, senior series are characterised by having shorter average lives than the other series.[24] Over the first few years of securitisation, the average life was around four years, but this figure increased progressively to 8.4 years in 2012. During the most significant period of securitisation in Spain, the average life of senior series stood at between five and six years, while that of subordinate series ranged between 10 and 11 years over that same period. As from 2008, the average life of equity series also underwent a significant increase to around 15 years.

An exception is the evolution of securities backed by covered bonds. In this case, the average life stood at around 10 years prior to the start of the crisis. However, as from 2008, the maturity periods fell drastically to between three and five years. The reason for this uneven performance can be found in the nature of the securities issued by this type of fund. The amortisation of the securities guaranteed by covered bonds takes place in one single payment upon maturity of the covered bond and, as a result of the need to obtain the highest ratings, the originators reduced the maturity period of securitised covered bonds.

Figure 8 shows the maturity forecast of mortgage-backed securities (MBS)[25] for the coming years in accordance with the latest information sent by the management companies of securitisation funds to the CNMV.[26] According to this data, there will be MBS maturities in 2013 for a nominal amount of close to 10.04 billion euros and in the coming five years the accumulated maturities will total 105.58 billion euros, 42.4% of the amount currently outstanding. The greater specific weight of maturities in the coming years is largely due to the recent importance of securitisation funds backed by covered bonds, which, as indicated above, were established with much shorter average lives than in the past.

Schedule of maturities of asset-backed securities FIGURE 8



Source: CNMV.

24 The average life of a security is obtained by weighting the principal payments of the security over its life.

25 According to the data on estimated residual life provided by fund management companies.

26 Data at December 2012.

At any event, it is important to take into account the fact that asset-backed securities do not exactly have a fixed amortisation schedule. As individuals meet their loan payment obligations, including through prepayments, the cash flows generated are transferred to the securities by means of partial amortisations. Consequently, the amortisations of the principal of the securities are affected both by the NPL ratio of the underlying assets and by the prepayments of the underlying loans.

In December 2012, the outstanding balance of mortgage-backed securities in circulation in Spanish secondary markets totalled 233.32 billion euros, 73.3% of all those existing in the market. Since 2009, the outstanding balance of asset-backed securities has fallen by around 29.3%, due to the fall in issues, which have not offset the amortisations. Another reason for this fall was the progressive drops in the credit ratings of Spanish asset-backed securities, which have left many series of securities that cannot be used as collateral with the ECB. This has led to their early amortisation and liquidation of the issuing funds by the credit institutions which held them in their portfolios.

6.2 Rating of mortgage-backed securities

Securitisation deals generated a considerable volume of assets which obtained the highest credit rating both in Spain and throughout the world. During the years of greatest growth in securitisation, between 2000 and 2006, it is estimated that between 50% and 60% of the long-term fixed-income assets placed in global financial markets which obtained this rating came from securitisation deals.[27]

In the specific case of Spanish securitisation, 87% of the securities issued between 1993 and 2012 obtained the maximum credit rating at the time of their creation, a truly noteworthy percentage compared with other developed markets. For example, in 2007, 95% of the asset-backed securities issued in Spain were rated as AAA, while in Europe this percentage stood at 68% and in the United States at 30%.[28]

It is worth considering whether the generation of this high volume of assets considered as high-quality was consistent with the risk inherent to the underlying assets and to the financial structures used for placing them on the market, above all if we consider the drastic downgrading in credit ratings which asset-backed securities have suffered since the start of the financial crisis. Academics and regulators have studied whether the strong demand for assets with a high credit rating from investors over the period of economic expansion, the limited number of credit rating agencies and conflicts of interest generated by the provision of other services to issuers by these agencies led to a relaxing of the standards applied in credit rating. Among the studies, we can highlight those conducted by Ashcraft *et al.* (2009) and Mathis (2009),[29] which found evidence of a progressive deterioration in the quality

27 See CNMV Annual Report (2009) and Joint Forum (2011).

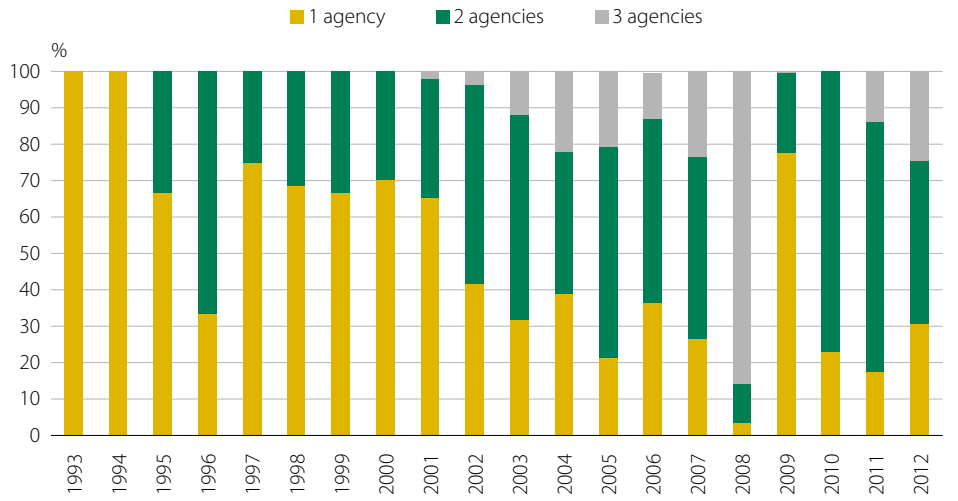
28 According to data published by the Association for Financial Markets in Europe.

29 Ashcraft, A., Goldsmith-Pinkham P. and Vichery, J. (2010). *MBS Ratings and the Mortgage Credit Boom.* European Banking Centre, Working Paper 2010-24S. Available at http://arno.uvt.nl/show.cgi?fid=107205; Mathis, J., McAndrews, J. and Rochet, J. C. (2009). "Rating the raters: Are reputation concerns powerful enough to discipline rating agencies?", in *Journal of Monetary Economics,* 56(5), pp. 657-674.

of the procedures of rating agencies during the years of economic growth. Other authors, such as Benmelech and Dlugosz (2009), and Skreta and Veldkamp (2009)[30] highlight the practices followed by originators known as rating shopping[31] to explain the high percentage of top ratings in the field of securitisation.

At any event, it seems certain that the legal framework and practices of the market set up a system which is highly dependent on the actions of rating agencies in issues in the primary market, particularly in securitisations. Spain is no exception as legislation requires the securities generated by securitisation funds to be rated by an agency.[32] However, as shown in figure 9, during the period of greatest growth in securitisations, it was common for a deal to have the participation of several rating agencies. The presence of more than one agency has risen since 2010 after the ECB imposed the requirement of two ratings for securities to be used as collateral in credit operations with the Eurosystem.[33]

Number of ratings of asset-backed securities FIGURE 9



Source: CNMV.

Regulation has also led to financial institutions and institutional investors depending excessively on rating agencies. For example, the Joint Forum has identified some areas in which the dependence of investor behaviour on ratings may be excessive, which include: the development of investment policies of some financial institutions which are limited to compliance with minimum levels of ratings in their portfolio; the calculation of regulatory limits on capital requirements, particularly relevant in the case of Europe as regards securitisations and application of the standard

30 Benmelech, E. and Dlugosz, J. (2009). *The Credit Rating Crisis*. NBER Working Paper 15045. Available at http://www.nber.org/papers/w15045.pdf; Skreta, V. and Veldkamp, L. (2009). "Ratings Shopping and Asset Complexity: A Theory of Ratings Inflation", in *Journal of Monetary Economics*, Vol. 56, No. 5, pp. 678-695.

31 Rating shopping is the arbitrage performed by an institution between the different credit rating agencies in order to obtain the best possible rating.

32 Royal Decree 926/1998, Article 2.3(b).

33 Resolution of the Governing Council of the European Central Bank on 20 November 2009.

accounting method; and the requirement of certain levels of credit rating for certain types of mutual funds, pension funds and insurance companies.[34]

The dependence of the financial system on rating agencies was also demonstrated from the moment in which they began to downgrade the ratings of asset-backed securities. For example, mutual funds, forced to maintain certain credit quality ratios in their portfolios, found themselves in a difficult position as they accumulated asset-backed securities with increasingly lower ratings without the possibility of selling them on the secondary market.

As shown in figure 10, Spanish asset-backed securities have been severely affected by the downgrades in ratings during the financial crisis. The main factors which have triggered these downgrades can be found in the impairment of the portfolios of underlying assets, as explained in the section above, and the downgrades of ratings of Spanish financial institutions providing services to the funds, partly as a result of their own situation and partly as a consequence of the downgrades to the sovereign rating.[35]

Similarly, the downgrade of asset-backed security issues is also linked to a factor which is external to the securitisation industry. This is the in-depth review which rating agencies have conducted of their procedures for granting credit ratings as a consequence of the criticism received for not anticipating the events which took place in 2007. This review has led to a modification of a large part of the ratings granted in previous years.

As a consequence of all of this, at the end of 2012 there were hardly any securities which retained the top rating. Most of the outstanding securities were divided between the ratings of BBB and AA, which accounted for 37% and 32% of the total outstanding balance, respectively (see figure 10).

Ratings of asset-backed securities FIGURE 10

Source: CNMV.

34 See Joint Forum (2009). *Stocktaking on the use of credit ratings*. Available at http://www.bis.org/publ/joint22.pdf

35 See *CNMV Bulletin*, Quarter III/2012, which includes an analysis of the impact of the downgrades and the credit rating of sovereign debt in different areas of the Spanish economy.

6.3 Defaults in the case of mortgage-backed securities

Despite the substantial downgrade suffered by asset-backed securities in terms of credit rating, there are no significant default rates in these securities recorded by securitisation funds. According to the information sent by the management companies of securitisation funds to the CNMV, at the end of 2012 the funds recorded total unpaid amounts of 205 million euros, of which 132.5 million euros corresponded to unpaid interest and 72.7 million euros to unpaid principal. Although the doubtful loans of securitised portfolios amounted to 2.39%, the default rate[36] stood at 0.087% due to the limiting effect of the credit enhancements which these vehicles possess. Most of the unpaid amounts corresponded to funds registered between 2006 and 2008, the period in which a significant increase in doubtful loans was recorded (see table 1). The funds established in 2007 show the worst performance, with a default percentage of 0.4%.

The international comparison highlights the low-level of the default rate of Spanish mortgage securitisation funds. In fact, according to Standard & Poor's (2013),[37] the default rate of securitisations for house buying in Europe as a whole stood at 0.24% in 2012 and at 19.2% in the United States, while the figure worldwide stood 11.4%. Even though the securitisation deals originated in Europe have shown greater solidity than those originated in the United States, mortgages securitisation is undergoing a certain recovery in the United States, while it remains stagnant in European markets, including the Spanish market.

7 Conclusions

Events which have occurred since the start of the crisis have highlighted a set of deficiencies within the securitisation industry. The studies performed in this regard highlighted the role that securitisation may have had in worsening the processes for granting loans due to the remoteness which originators achieved from these assets once transferred to third parties through securitisation. Another of the identified problems referred to the use which originators may have made of informational advantages as regards the quality of the loans, making securitisation a mechanism for off-loading those assets which were not interesting for the entity.

The first few studies performed focused on the U.S. sub-prime loan market, which was the trigger for the financial crisis in 2007. However, the conclusions obtained were generalised to all segments of financing for house buying and other types of securitisation: corporate loans, credit rights arising from use of credit cards, car financing, etc.

This assimilation also took place geographically and the idea spread that securitisation has been carried out in the same way in different economic areas. However,

36 Calculated as unpaid amounts over total outstanding amounts of the fund.

37 Standard & Poor's (2013). *Global Structured Finance Default Study; 1978-2012: A Defining Moment For Credit Performance Stability*. Available at http://static.ow.ly/docs/Global%20Structured%20Finance%20Default%20Study%201978-2012%20A%20Defining%20Moment%20For%20Credit%20Performance%20Stability_19Xu.pdf

securitisation has been conducted differently in each country, depending on the specific features and needs of the economic agents involved in these types of deals: originators, managers, and investors.

The securitisation market in Spain has not been an exception and it has its own particular features, whilst at the same time sharing practices, procedures and, sometimes, legislation with similar countries. The aim of this paper was to describe the main features of Spanish securitisation of mortgage assets and to analyse to what extent this was in line with or separate from the problems attributed to securitisation in general.

The data analysed in this paper do not support the idea that Spanish securitisation contributed towards implementing the "originate-to-distribute" model among the originators of mortgage loans for the purchase of Spanish homes, which were mainly financial institutions. The fact that the loans remained on the balance sheets of the financial institutions for an average of two years before assignment indicates that securitisation was not a mechanism to obtain liquidity, but an end in itself. In addition, it is important to take into account that, unlike the case in other markets such as the U.S. market, Spanish originators continued to be involved in the deals which they had promoted and they therefore had incentives to maintain minimum quality levels of the assets created and the strength of the structures.

Furthermore, the features of the securitised portfolios do not show evidence that these institutions have made a biased use of information relating to the underlying loans, backed up by the fact that the interest rates of the securitised loans are in line with those recorded for the mortgage market as a whole and the leverage of the debtors does not show abnormally high levels.

However, the data on doubtful loans and defaults of the securitised portfolios do allow us to think the criteria for granting loans may have relaxed to some extent over the years of greatest growth in securitisation. In fact, we can see that the portfolios originated in the years of greatest growth in mortgage credit and securitisation, i.e. between 2003 and 2007, are those which are showing the worst performance. Accordingly, securitisation may have contributed significantly to the excessive growth of demand for credit over the period prior to the crisis.

Even though securitisation may have contributed to the sharp increase in risk taken on by financial institutions over the period of credit growth, there does not seem to have been an excessive transfer of risk to investors in asset-backed securities. The quality of securitised assets and the incorporation of credit enhancements in the securitisation structures have made it possible to maintain the default ratios associated with the issues of mortgage-backed securities at levels lower than those recorded in other economic areas.

III Regulatory novelties

Summary of recent IOSCO reports on regulation standards

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1 Introduction

This article presents a summary of four key reports issued by the International Organisation of Securities Commissions (IOSCO) over recent months which establish new recommendations as regards industry regulation and/or practices.

As is well known, IOSCO is the key international body as regards the setting of regulation standards. Its recommendations are widely followed by countries with developed markets, and are increasingly followed by emerging markets. The IMF uses the recommendations and criteria for assessing compliance which IOSCO has developed as a benchmark in its periodic assessments of the financial sector in the area of securities markets.

IOSCO uses the term "principles" to refer to its recommendations. This term provides an accurate description of the essence of the reports, which do not usually contain detailed guidelines, but rather general statements which, according to this organisation, should form the basis both for regulation standards and codes of conduct and practices in the industry. Consequently, a summary of these principles may be particularly attractive for those who are interested in the criteria which form the basis for regulation standards and which are not always easy to deduce by simply reading the regulations.

This article is structured as follows: section 2 refers to the principles for ongoing disclosure which issuers of asset-backed securities must provide in the interest of greater transparency. Section 3 contains recommendations applicable to intermediaries in the distribution of complex financial products with the aim of improving customer protection. Sections 4 and 5 summarise the recommendations on collective investment schemes as regards liquidity risk management and portfolio valuation respectively.

2 Principles for ongoing disclosure for investors in asset-backed securities

In November 2012, IOSCO approved a report[1] which revises the standards recommended by this organisation as regards disclosures to investors on asset-backed securities.

A significant number of the range of standards approved by IOSCO address the disclosure obligations for issuers of financial instruments. However, up to only a few

1 IOSCO, *Principles for Ongoing Disclosure for Asset-Backed Securities*, November 2012. Available at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD395.pdf

years ago, IOSCO recommendations in this area were not directly applicable to issues of asset-backed securities given the particular nature of both these issues and their issuers. As a result of the financial crisis, especially as a consequence of the impact of issues of sub-prime mortgage-backed securities, IOSCO detected the need to draw up principles taking into account the specific features of asset-backed securities.

The first step in this direction was taken in April 2010, when IOSCO published a report[2] which aimed to provide guidelines to regulators which were drawing up or reviewing their regimes as regards the disclosures that issuers should make available to investors in public offerings and listings of asset-backed securities.

As a supplement to these principles, IOSCO has now published the report discussed herein, which refers to the ongoing disclosures for asset-backed securities, i.e. periodic public reporting and disclosure of material events relating to these securities when they are admitted to trading on a secondary market.

These principles have been developed so that they may be adapted by securities regulators. In addition, although the principles are applicable to public offerings of asset-backed securities, they may also provide guidance to those jurisdictions which are drawing up disclosure requirements for the private distribution of asset-backed securities.

The principles laid down by IOSCO in this report are summarised below:

– Principle 1. Updated information regarding the asset-backed securities should be disclosed in reports prepared on an annual and other periodic basis, as appropriate to the type of information to be disclosed and its usefulness to investors.

– Principle 2. The occurrence of material events and other current or *ad hoc* information should be disclosed in event-based disclosure reports. Such reports should also be used to disclose price sensitive information and information pertaining to a predefined list of events as required by the regulations of a jurisdiction.

– Principle 3. All disclosures should aim to increase the transparency of information for investors and to allow investors to independently perform due diligence in their investment decisions.

  In order to increase transparency, information contained in the different reports should be readily understandable by investors, relevant to their decision-making needs, and reliable. In addition, disclosure should facilitate comparability both with disclosure in other reports of that entity and with disclosure provided by other entities for similar securities. With regard to this principle, IOSCO specifies the characteristics of the information provided to investors as follows:

  • It must be updated on an ongoing basis in order to reflect any changes which may be relevant for interested parties.

2 IOSCO, *Disclosure Principles for Public Offerings and Listings of Asset-Backed Securities*, April 2010. Available at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD318.pdf

- It will cover that information relating to the underlying assets which should be known by agents in securitisations in a manner which respects rules on confidentiality.

- Details should be provided on planned credit enhancements.

- If derivative instruments are used which alter cash flows (and whose primary purpose is not to provide the aforementioned credit enhancement), then the existence and key features of these derivative instruments must be disclosed.

- Reference must be made to any legal proceedings that are pending against the participants in a securitisation programme.

- Information must be provided on any relationship between the participants in a securitisation programme and transactions with related parties.

- In some jurisdictions which require the actions of a servicer, an assessment of its performance together with an independent third party check on the servicer must be made available to investors. The IOSCO report expressly describes two mechanisms for complying with this obligation: including an attestation regarding servicing compliance in an annual report or obtaining a report of an independent auditor if audited financial statements are required for the servicer.

- Distribution and pool performance information should be provided, especially relating to unpaid loans. The data should be easily comparable and aimed at avoiding the need for investors to rely excessively on credit rating agencies.

- Information should be provided on a periodic basis about all assets of the pool that were the subject of a demand to repurchase and/or replace.

- As indicated above, there is a series of events which should be disclosed when they take place, which does not exclude their subsequent disclosure in other periodic reports where required by the regulator. Events falling under this category include: change of servicer or trustee, change in credit enhancement, changes to credit rating or change of credit rating agency, information on payments, early redemption of securities, etc.

– Principle 4. The information should be complete, clear and not misleading. There should therefore be no material omission of information and no reliance on boilerplate language.

– Principle 5. Disclosure should be presented in a format that facilitates the analysis of information by investors. To that end, the use of technology could provide a quick and easy way to compare and analyse information.

– Principle 6. The parties responsible for disclosure should be clearly identified. This obligation for identification refers both to the person or entity responsible for publishing the disclosure and the person or entity responsible for gather-

ing the information from other persons or entities which form part of the securitisation structure. Ongoing disclosure reports should be signed by the issuer, the servicer or the representatives of either, as the case may be.

– Principle 7. Information should be disclosed in a timely manner to ensure that the information is current and disclosed with sufficient frequency so as to be of use to investors.

– Principle 8. All investors and market participants should have equal and simultaneous access to disclosure, except in certain circumstances which have been previously regulated and which allow information to be provided previously to some investors or interested parties without incurring in market manipulation or abuse.

– Principle 9. Disclosure should be equivalent in all markets so that if a security is admitted to trading on more than one market (belonging to different jurisdictions), the information required in one market should be made available promptly to the other markets.

– Principle 10. Ongoing reports should be filed or otherwise made available to the regulator, in compliance with the regulations it establishes, so as to allow it to appropriately review said reports. This may be done by transmission of the ongoing report to the regulator, or by sending the regulator notice of the filing in a separate registry established for this purpose.

– Principle 11. Information should be stored to facilitate public access to it in an easy manner and at the lowest possible cost to investors.

3 Suitability requirements with respect to the distribution of complex financial products

In January 2013, IOSCO published a report[3] aimed at clarifying the role of intermediaries and their obligation to assess the suitability of complex financial products when distributing them to customers.

IOSCO's objectives and principles relating to securities regulation include the obligation for financial intermediaries to obtain information from customers on their circumstances and investment objectives which may be relevant for the provision of investment services.[4] Similarly, when the services provided by the intermediary include advice or product recommendations, the report specifies that this advice must be based on adequate knowledge of the customer's needs and situation. Application of these principles takes on particular importance with regard to the distribution of complex financial products.

3 IOSCO, *Suitability Requirements With Respect To the Distribution of Complex Financial Products*, January 2013. Available at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD400.pdf

4 IOSCO, *Objectives and Principles of Securities Regulation*, June 2010. Available at http://www.compliance-exchange.com/governance/library/ioscoprinciples2010.pdf

Although complex financial products do not always involve higher risk for the investor than other products, they are usually characterised by features which are more difficult to understand, even for professional customers. IOSCO has therefore issued these principles, which promote effective customer protection in relation to the distribution of complex financial products by intermediaries, including guidance on how to apply the suitability requirements.

These principles should be understood as recommendations applicable both to retail and non-retail investors, unless otherwise indicated. An attempt was made to provide the term "distribution" with the broadest and most functional meaning possible, and it therefore includes selling, advising, recommending and managing discretionary accounts / individual portfolios. However, these principles are limited to the application of suitability requirements (and associated requirements) to the distribution made by financial intermediaries. They are not, therefore, aimed at the issuers or producers of complex financial products (unless they are the intermediaries themselves).

It also should be pointed out that these principles aim to rectify deficiencies which have been seen with regard to the distribution of these complex products, in particular: the investor may suffer difficulties in understanding certain risks that are not clear, such as the fact that the transactions of these products involve various counterparties; in some cases the intermediaries have remunerated their representatives with special incentives in the sale, even if the products were not the most suitable for customers, and without the customers being aware of this situation; or that the features of these products mean that their valuation may also be difficult for intermediaries, especially if they lack the *ad hoc* tools and computer models and their trading on secondary markets is non-existent or very low.

As is the case with all IOSCO principles, they are aimed at a large number of jurisdictions and therefore take the form of general requirements. In the case of Europe, they have already been partially incorporated into the range of EU legislation.

The principles approved are as follows:

– Principle 1. Classification of customers: Intermediaries should be required to adopt and apply appropriate policies and procedures to distinguish between retail and non-retail customers when distributing complex financial products. The classification of customers should be based on a reasonable assessment of the customer concerned, taking into account the complexity and risks of different products. The regulator should consider providing guidance to intermediaries in relation to customer classification.

  This principle covers certain objective criteria which may serve as a starting point for classifying the customer. These include the nature, financial capacity, experience and knowledge of complex financial products, as well as the ability to understand the features (including risks) and value of financial products.

  It also highlights the importance of intermediaries making their own assessments of the customer's experience and knowledge, even if the customer has requested to be classified as non-retail. In case of doubt, intermediaries should

consider the customer as "retail". Intermediaries should keep the customer informed about the category in which they have been placed and review or update information on their customers on a periodic basis or whenever the intermediary becomes aware that the information has changed.

– Principle 2. General duties: Irrespective of the classification of a customer as retail or non-retail, intermediaries should be required to act honestly, fairly and professionally. They must also take reasonable steps to manage or mitigate conflicts of interest which may arise in the distribution of complex products, and where there exists a potential risk of damage to the customer's interest, they must inform the customer of the nature and/or source of conflict before the provision of the service or the performance of the transaction so as to allow the customer to make an informed decision.

– Principle 3. Disclosure requirements: Customers should receive or have access to material information to evaluate the features, costs and risks of complex financial products. Any information communicated by intermediaries to their customers should be fair, comprehensible and balanced.

  These requirements must be taken into account by the intermediary both when it advises and when it recommends the purchase of complex financial products and they should be tailored, as appropriate, to the type of customer. The aim of the requirement is for the customer to be able to identify the costs and charges relating to the purchase of the product, as well as whether the product is illiquid.

  Wherever possible, intermediaries should provide customers with comparative information concerning alternative investment products. To this end, regulators may require a particular format summarising the key features of the product.

– Principle 4. Protection of customers for non-advisory services: If the sale has not been associated with the provision of advisory services, regulators should provide for a series of protections to be applied by intermediaries.

  These minimum protections include warning the customer when the transaction may not be appropriate or prudent, disclosing to the customer the features and specific risks associated with the transaction, imposing specific requirements for the acquisition of certain complex products (e.g. requiring written approval by firm managers to authorise the opening of an account to trade such products) or banning the distribution of those products which are particularly complex to retail customers.

– Principle 5. Suitability requirements applicable to the provision of advisory services and portfolio management: Whenever an intermediary recommends the purchase of complex financial products, the advice or the acquisition of that product on behalf of the customer should be based on an assessment on whether the structure and risk-reward profile of the financial product is consistent with such customer's experience, knowledge, investment objectives, risk profile and financial capacity (which includes the capacity for loss) and liquidity needs.

Given the particular relationship of reliance in the cases mentioned in the above paragraph, the provision of such services calls for stricter protections, although the suitability requirements should be tailored to the complexity and risks of the product and the customer's level of sophistication. Before issuing recommendations, the intermediary should consider whether among the products it offers there are less complex, less costly alternative financial products that would be more suitable for the customer.

Any obligation relating to the customer's suitability applies both to the intermediary and to its representatives. This also implies that the intermediary's staff should receive sufficient training to match the features and risks to the results on the suitability of the investment.

In the event that a liquid secondary market for the product does not exist, intermediaries should draw the customer's attention to this fact. It is also necessary to assess whether the duration and liquidity of the investment match the customer's investment time horizon and, in the case of a customer seeking products specifically for hedging purposes, intermediaries should check for consistency between both types of investment. Intermediaries should keep written evidence of this process of matching products to the customer's needs, thus facilitating the work of regulators as well as the resolution of any claims.

– Principle 6. Intermediaries should have sufficient information in order to have a reasonable basis for any investment recommendation, to advise on a product or provide discretionary management services for customers which include complex financial products.

  If the intermediary is aware that it does not have sufficient information, it should abstain from making the recommendation or providing the service to the customer or, if it does carry this out, it should warn the customer that the recommendation is based on limited information. Intermediaries should never recommend products that they do not understand.

– Principle 7. Compliance function and internal policies and procedures: Intermediaries should establish this function in their organisation and develop internal policies and procedures that support compliance with suitability requirements, including when developing new products for customers.

  Those discharging the compliance function should ensure the correct functioning of products and processes which guarantee the appropriate management of conflicts of interest, fair treatment of all customers and application of suitability requirements.

– Principle 8. Incentives: In order to ensure appropriate distribution of the products, intermediaries should be required to develop and apply appropriate incentive policies.

  In particular, intermediaries must avoid providing incentives to staff to recommend certain products when there may be others which better satisfy the customer's needs. The obligation imposed by regulators on intermediaries so that

they disclose their remuneration structures and policies may help towards the correct application of this principle.

– Principle 9. Enforcement: Regulators should supervise and examine intermediaries on an ongoing basis to help ensure they comply with suitability requirements and with other customer protection requirements as regards the distribution of financial products. To this end, regulators should perform enforcement actions.

  On-site and off-site visits, as well as thematic reviews, should be conducted to ensure that intermediaries comply with IOSCO principles. Regulators should also take into consideration the manner in which intermediaries resolve disputes and address customer complaints and, particularly where intermediaries belong to a multinational group, the corresponding regulators should cooperate in their supervisory actions.

4 Principles of liquidity risk management for collective investment schemes

On 4 March this year, the IOSCO Board published a document[5] with the aim of establishing certain benchmark guidelines for determining the quality of regulation and industry practices as regards liquidity risk management in collective investment schemes (CIS).

Since the start of the financial crisis, the issues relating to the liquidity of financial institutions and financial products have played a key role in the concerns of regulators, although the debates on possible reforms have particularly focused on the banking sector. Although the probability of liquidity problems with systemic potential is lower than in the case of financial institutions, the experience of U.S. money market funds has revealed that this potential cannot be ignored in the case of CIS.

The IOSCO report summarised herein establishes 15 principles in order to address the specific features of liquidity risk management in the context of the functioning of a CIS. These principles are grouped together in two major sections depending on whether they refer to measures prior to the launch of the vehicle or to measures which should be conducted on an ongoing basis during the life of the CIS.

It is important to mention that IOSCO has published a specific document[6] relating to temporary suspensions of redemptions in CIS, which are mostly due to serious liquidity problems.

The principles approved by IOSCO relating to liquidity risk management prior to the launch of the vehicle are as follows:

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5 IOSCO, *Principles of Liquidity Risk Management for Collective Investment Schemes*, March 2013. Available at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD405.pdf

6 IOSCO, *Principles on Suspensions of Redemptions in Collective Investment Schemes*, January 2012. Available at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD367.pdf

– Principle 1. The responsible entity should draw up an effective liquidity risk management process, compliant with local jurisdictional liquidity requirements.

  It indicates that, prior to launching a new CIS, the entity responsible for its operation (in Spain this would be the CIS management company) should undertake to maintain liquidity requirements that will be applied during the life of the vehicle.

  Liquidity risk management should be effective in a wide range of market conditions. Where the CIS is likely to be at a greater risk of liquidity problems, the responsible entity should establish a more rigorous liquidity risk management process. This would be the case for a CIS with a high proportion of illiquid assets or a narrow investor base.

  The entity responsible for the CIS does not need to construct a new liquidity risk management process for each new CIS providing it already operates one with similar characteristics.

– Principle 2. The responsible entity should set appropriate liquidity thresholds which are proportionate to the redemption obligations and liabilities of the CIS.

  The responsible entity should establish specific definitions and liquidity thresholds which are in line with the principle of fair treatment of all investors and the CIS's investment strategy. For example, a daily dealing CIS should have much stricter liquidity requirements than a CIS in which investors would not be expected to redeem before a set period expired.

– Principle 3. The responsible entity should carefully determine a suitable dealing frequency for units in the CIS.

  Where there are no specific legal requirements, a realistic subscription and redemption frequency in line with the CIS's objectives and approach should be established. The ability to obtain tax benefits or access to a wider market distribution should not lead to a higher frequent daily frequency than is appropriate.

– Principle 4. Where permissible and appropriate for a particular CIS, and in the interests of investors, the responsible entity should include in the CIS's documents of incorporation the ability to use specific tools or exceptional measures which could affect redemption rights.

  Responsible entities should consider the use of tools and exceptional measures under the condition that fair treatment of investors is not compromised and where permitted by applicable laws.

– Principle 5. The responsible entity should consider liquidity aspects related to its proposed distribution channels

  The responsible entity should assess how decisions relating to the distribution of the CIS may affect its liquidity. It should consider market conditions when forecasting the volume and type of possible investors.

In many jurisdictions, future unit-holders invest through aggregated accounts, which makes it impossible to know the make-up of the underlying investor base, for example if there are many investors with small holdings or few investors with large holdings. In these situations, the responsible entity should make every effort to obtain investor concentration information, for example through contractual arrangements.

– Principle 6. The responsible entity should ensure that it will have access to, or can effectively estimate, relevant information for liquidity management.

  The responsible entity should know its needs as regards the information necessary to effectively manage liquidity risk and whether it will be able to access that information during the life of the CIS.

– Principle 7. The responsible entity should ensure that liquidity risk and its liquidity risk management process are effectively disclosed to prospective investors.

  As part of the disclosures available to investors, the responsible entity must provide an explanation of liquidity risk, including the potential impact which it may have on the CIS and its unit-holders, together with a summary of how it intends to mitigate that risk. It should also provide an explanation of any tools and exceptional measures which could affect redemption rights.

  Furthermore, it is also important that the unit-holders have basic information on liquidity during the life of the vehicle, such as the frequency of subscription and redemption dealing.

The liquidity risk management principles applicable during the life of the vehicle are as follows:

– Principle 8. The responsible entity's liquidity risk management process must be supported by strong and effective governance.

  Good governance is essential for the liquidity risk management process to be effective and for all the risks to be considered and managed as a whole.

– Principle 9. The responsible entity should effectively perform and maintain its liquidity risk management process.

  Once the liquidity risk management process has been established, it must be followed and maintained throughout the life of the CIS. The following principles establish important considerations relating to following this process.

– Principle 10. The responsible entity should regularly assess the liquidity of the assets held in the portfolio.

  In addition to measuring and managing the liquidity of the CIS on a periodic basis, responsible entities should take into account the interconnection of liquidity risk with other risk factors such as market risk or reputational risk.

– Principle 11. The responsible entity should integrate liquidity management in investment decisions.

  The responsible entity should consider the liquidity of the assets it intends to purchase or to which the CIS could be exposed. It should only carry out transactions which do not compromise the ability of the CIS to comply with its redemption and other obligations.

  Assessment of liquidity risk should include both information on trading (volumes, number of trades, etc.) and an analysis, for each type of asset, of the number of days it would take to sell without moving market prices.

  In addition, the assessment of the CIS's liquidity should also consider collateral arrangements, for example taking into account that the collateral received from a counterparty in a derivative transaction may become illiquid at a particular point in time. That is to say, the liquidity "quality" of assets accepted as collateral should also be incorporated into the analysis of the CIS's liquidity risk.

  Where a CIS is winding up, the responsible entity should consider liquidity issues and balance the early return of proceeds to investors with the need to secure a fair price for the CIS's assets.

– Principle 12. The liquidity risk management process should facilitate the ability of the responsible entity to identify an emerging liquidity shortage before it occurs.

  It should be possible to identify liquidity pressures before they crystallise. The responsible entity needs to manage future cash flows so as not to harm liquidity levels.

– Principle 13. The responsible entity should be able to incorporate relevant data and factors into its liquidity risk management process in order to create a robust and holistic view of the possible risks.

  In performing the liquidity risk management process, the responsible entity should take into consideration quantitative and qualitative factors to seek to ensure that in all but exceptional circumstances the CIS can meet its commitments.

  The responsible entity should have some degree of knowledge of the investor base and, while ensuring the fair treatment of all investors, it should identify those investors with a large unit-holding in order to keep up-to-date about whether they intend to make significant redemptions.

– Principle 14. The responsible entity should conduct assessments of liquidity in different scenarios, including stressed situations.

  This type of assessment should be conducted as part of the liquidity risk management process. Certain scenarios which should be analysed include: calculating the number of days that it would take to sell certain assets to meet its obligations (possibly high level of redemption requests) in very stressed market situations,

or to demonstrate, with regard to collateral, that the quantity of liquid assets available is sufficient to meet settlement of margin calls on derivative positions.

– Principle 15. The responsible entity should ensure appropriate records are kept, and relevant disclosures made, relating to the performance of its liquidity risk management process.

  As part of the liquidity risk management process, responsible entities should be able to demonstrate to the regulator that, in general, robust liquidity arrangements are in place and that they work effectively. This requires access to historical information.

  Furthermore, when an exceptional measure is applied, unit-holders and potential investors should be informed appropriately and on an ongoing basis. It should be mentioned that in some jurisdictions, regulators must also be informed and/or must approve the application of any such measures in advance.

5 Principles for the valuation of collective investment schemes

In May 2013, IOSCO published a document[7] which includes a series of principles that aim to serve as the basis for the different market participants when establishing quality regulation and appropriate practices within the industry as regards the valuation of CIS.

It is critical that a CIS properly value all assets in its portfolio as the shares are bought and sold depending on the value of assets and liabilities at a specific moment. This means that if the valuations of the assets in the portfolio of a CIS are incorrect, investors may pay more for their shares or receive less upon redemption.

The report summarised herein revises the principles and guidelines developed in a previous document,[8] in order to incorporate the changes that have taken place both in regulation and in financial markets over the last decade. Many complex and hard-to-value assets are now available to CIS. The value of such assets cannot be determined by using quoted prices (so-called mark-to-market). They are calculated using internal models which involve the use of subjective criteria, which increases regulatory risks and requires a series of principles and guidelines in order to achieve certain uniformity of criteria.

In drawing up these principles, IOSCO has also taken into account another of its reports[9] from 2007, which establishes nine principles for guaranteeing that the fi-

7 IOSCO, *Principles for the Valuation of Collective Investment Schemes*, May 2013. Available at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD413.pdf

8 IOSCO, *Regulatory Approaches to the Valuation and Pricing of Collective Investment Schemes*, May 1999. Available at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD91.pdf

9 IOSCO, *Principles for the Valuation of Hedge Fund Portfolios*, November 2007. Available at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD253.pdf

nancial instruments of hedge funds are properly valued and that these are not distorted leading to a disadvantage for the fund's investors.

IOSCO proposes the following 11 principles to comply with the aforementioned objectives:

– Principles 1 and 2. The responsible entity should establish policies and procedures and clearly specify the methodologies used for valuing each type of asset.

  Firstly, there should be a series of written rules which describe the procedures to be followed when valuing an asset. These rules should, in turn, explicitly contain the methodology used when valuing each type of asset. Given that the CIS may hold very different types of assets, the methods and procedures of each CIS must be appropriate to the complexity and the type of assets, as well as to market conditions.

  If possible, assets should be valued in line with the market price. However, if this price is not appropriate, as is the case of assets with very low liquidity or without a secondary market, other valuation techniques should be used. The more illiquid an asset's market, the more robust the valuation process needs to be.

– Principle 3. The valuation policies and procedures should seek to address conflicts of interest.

  Conflicts of interest regarding valuation of a CIS's portfolio may arise in a number of ways. The report highlights the situations in which complex or illiquid assets need to be valued. In these cases, the responsible entity is the most reliable source of information – or the only source of information – for valuing the assets. However, the entity may have incentives to overvalue the assets under management, especially when some of the fees are calculated based on the value of the portfolio.

  In order to solve this and other possible conflicts of interest, the report proposes, for example, that a third party (which could be the depository) should review the valuations, or not permit the responsible entity to establish the valuation function. It is also important to bear in mind, as far as possible, that an automated valuation process may help reduce possible human influences on valuations.

– Principle 4. The assets held or employed by CIS should be consistently valued according to the policies and procedures.

  Once the most appropriate valuation procedures and techniques are established, it should be made clear that assets are to be valued in accordance with those procedures. Furthermore, it is important for there to be consistency between similar types of assets and between all the CIS which belong to the same operator.

  The established methodology may not be appropriate in certain exceptional circumstances. In this case, it is appropriate to use alternative techniques,

which could lead to a change in the value of the asset. However, in order to avoid any arbitrary decisions, an explanation of this deviation should be given, documenting the reasons for the change in the methodology and ensuring that the price override is reviewed by a third party, and describing in detail the final methodology used.

– Principle 5. A responsible entity should have procedures in place that seek to detect, prevent, and correct pricing errors. Pricing errors that result in a material harm to CIS investors should be addressed promptly, and investors fully compensated.

  A pricing error in an asset may occur for different reasons, such as late notification of a trade or simply as a result of human error. The responsible entity should have procedures in place to detect these errors and should review its calculation methods if this could reduce the probability of errors occurring.

  For material pricing errors, investors should be compensated fully for the amount lost (or not gained) due to the pricing error or, otherwise as established by rules applicable in the corresponding jurisdiction.

– Principle 6. The responsible entity should provide for the periodic review of the valuation policies and procedures to seek to ensure their continued appropriateness and effective implementation. A third party should review the CIS valuation process at least annually.

  The review of the valuation procedures should assess whether these are in line with the established methods and whether any pricing error has been corrected according to the indicated procedures. This review should be carried out by an entity or person independent from the valuation process with the aim of achieving the greatest objectivity possible.

– Principle 7. The responsible entity should conduct initial and periodic due diligence on third parties that are appointed to perform valuation services.

  In the event that the responsible entity appoints a third party to perform valuation services, due diligence must be conducted to determine that the service provider has appropriate control systems and valuation policies, as well as staff with appropriate knowledge and experience.

– Principle 8. The responsible entity should seek to ensure that arrangements in place for the valuation of the assets in the CIS's portfolio are appropriately disclosed to investors in the CIS offering documents or otherwise made transparent to investors.

  In the case of the United States, for example, the prospectus of the CIS must specify that the price of the unit is based on the net asset value (NAV) of the CIS. It must also provide information on the methods used to value the assets in the portfolio (for example, if this is done at market price or amortised cost).

– Principle 9. The purchase and redemption of CIS interests should not generally be effected at historic NAV.

  Forward pricing is considered to be the most appropriate practice for effecting purchases and redemptions as it ensures that the existing and future investors are treated equally. In principle, calculating the net asset value using the latest price would only be justified in those cases in which it would minimise the risk of trades by participants with insider information.

– Principle 10. A CIS's portfolio should be valued on any day that CIS units are purchased or redeemed.

  Investors should be able to purchase or redeem units at the price which reflects the value of the CIS's assets at that time. If the assets are not valued every time there are redemptions or new subscriptions, this could generate purchases and sales at too low or too high a price, depending on the case, which could also affect the service providers or the CIS operator.

– Principle 11. A CIS's NAV should be available to investors at no fee.

IV Legislative Annex

New legislation since publication of the CNMV bulletin for the first quarter of 2013 is as follows:

Spanish legislation

– Order ECC/461/2013, of 20 March, which establishes the content and structure of the annual corporate governance report, the annual report on director remuneration and other disclosure instruments of listed companies, savings banks and other entities which issue securities admitted to trading on official securities markets.

  This Order unifies the regulation on certain disclosure obligations of listed companies, savings banks and other entities which issue securities admitted to trading on official secondary markets.

  Specifically, the Order establishes the structure and content of the following two reports:

  – Annual corporate governance report (ACGR):

    a) The content of the report for listed companies retains the structure set forth in the previous Order, but the new Order introduces some new aspects, such as the obligation to include information on the following items: a) securities which are not traded on a regulated EU market; b) a restriction on the free transferability of securities and on voting rights; c) rules applicable to amending the company's articles of association.

    b) With regard to savings banks, the Order introduces a reference to the different committees making up the structure of these entities, rules relating to conflicts of interest and a description of the main features of internal risk control and management systems.

    c) In addition, listed companies, savings banks and entities which issue securities admitted to trading must include in their corporate governance report information on the number and category of women making up the board and its committees, the measures adopted to integrate women into the boards of directors and, if these have been undertaken, information on the content of these measures.

  – Annual report on director remuneration in listed companies and savings banks (as well as the control committee of the latter) which issue securities admitted to trading on official securities markets. It establishes, for the first time, the content of the reports, which includes:

    a) Information on the remuneration policies for the current year (fixed and variable components, remuneration in kind, employee benefit systems, information on the decision-making process for

remuneration policy, actions adopted to reduce risks, time limits set for availability of the shares following acquisition of ownership, significant changes in the remuneration policy, conditions in the contracts of those who discharge senior management functions, etc.).

b) General forecast of remuneration policies for the coming years.

c) Summary of the remuneration policies for the previous year.

d) Itemised list of remuneration received during the previous year.

Both reports will be published as a significant event and will be sent to the CNMV, which will publish them on its website.

Another noteworthy new aspect, introduced by the sole additional provision, is the extension of the requirement to publish the annual corporate governance report and the annual report on director remuneration imposed upon savings banks that do not issue securities admitted to trading on an official secondary market.

In addition, the Order gives regulatory status to the definitions of the categories of directors included in the Unified Good Governance Code. The main new aspect in this regard is that any director who has held the position of independent director for a term exceeding 12 years can no longer be considered to be an independent director.

Finally, this Order repeals Order ECO/3722/2003, of 26 December, on the annual corporate governance report and other disclosure instruments of listed companies and other entities and Order ECO/354/2004, of 17 February, on the annual corporate governance report and other disclosures of savings banks which issue securities admitted to trading on official securities markets.

At the same time, the Order gives authority to the CNMV within a period of three months to set forth in detail the content and structure of the annual corporate governance reports and the annual reports on director remuneration, for which purpose it may make use of standardised forms. Meanwhile, CNMV Circulars 1/2004, 4/2007 and 2/2005 on this issue remain in force.

– Royal Decree-Law 6/2013, of 22 March, on the protection of holders of certain savings and investment products and other financial measures (correction of errors published on 4 April 2013).

Article 1 of this Royal Decree-Law regulates the creation, composition and operating procedures of the hybrid capital instrument and subordinated debt monitoring committee. This is a decision-making body under the Ministry of Economic Affairs and Competition through the Office of the State Secretariat for the Economy and Business Support. Its main objective is to analyse the factors behind judicial and non-judicial claims as a result of the marketing of hybrid capital instruments and subordinated debt by credit institutions in which

the Fund for the Orderly Restructuring of the Banking Sector (Spanish acronym: FROB) has a shareholding. It will also be responsible for making proposals relating to the marketing of these products as well as determining the criteria by which certain claims may be submitted to arbitration.

In addition, this Royal Decree-Law requires that, one month after it is established, the committee submit a report to the Spanish Lower House on the basic characteristics of the marketing of hybrid capital instruments and subordinated debt to retail customers over recent years. In addition, it must submit a quarterly report on the elements underlying the claims mentioned in the above paragraph.

The Committee will comprise: a) the Chairperson of the CNMV (who, in turn, will chair this Committee); b) the Deputy Governor of the Bank of Spain (as Vice Chairperson); c) the General Secretary for Health and Consumer Affairs; d) the General Secretary for the Treasury and Financial Policy; e) the Chairperson of the Consumer and User Council.

Secondly, Article 2 amends the fifth additional provision and adds an additional section to Royal Decree-Law 21/2012, of 13 July, on liquidity measures of public authorities and the financial sector, empowering the Deposit Guarantee Fund (Spanish acronym: FGD) to perform the following operations:

– Acquisition of shares or subordinated debt instruments issued by the Asset Management Company for Assets Arising from Bank Restructuring (Spanish acronym: SAREB).

– In the context of managing hybrid capital instruments and subordinated debt within the framework of Law 9/2012, of 14 November, on the restructuring and resolution of credit institutions, acquisition of unlisted shares, delivered as mandatory swaps for the previous instruments in the financial institutions in which the FROB has a holding, at market prices.

In addition, with the aim of strengthening the assets of this Fund, the member institutions are required to make a special one-off contribution of an additional 0.3% of eligible deposits at 31 December 2012.

In addition, Royal Decree-Law 6/2013 includes a series of additional and final provisions of particular importance. These are:

– The first additional provision amends Section 51.3 of Law 16/2009, of 13 November, on payment services, in order to comply with the mandate contained in Regulation (EU) No. 260/2012, of the European Parliament and of the Council, of 14 March 2012, establishing technical and business requirements for credit transfers and direct debits in euros and amending Regulation (EC) No. 924/2009. To this end, the Minister for Economic Affairs and Competition is authorised to grant authorisations and exemptions in the cases and under the terms provided for in the Regulation. Similarly, the Bank of Spain is designated as the competent authority responsible for ensuring compliance.

– The second additional provision establishes that the customer service department and ombudsman of the financial institutions will address the claims relating to the commitment undertaken by credit institutions in the framework of the function of the Government provided in the sole additional provision of Royal Decree-Law 27/2012, of 15 November, on urgent measures to strengthen the protection of mortgage debtors and pursuant to which the Social Housing Fund was created.

– The first final provision amends Law 44/2002, of 22 November, on financial system reform measures, which allows the Bank of Spain to set different thresholds for disclosure to its Central Credit Register according to the disclosure purpose (supervision or data recording). This reform was in response to the commitment to reforms undertaken by Spain in the framework of the Memorandum of Understanding signed for European financial assistance for the recapitalisation of credit institutions.

– The second final provision amends the consolidated text of the Private Insurance Regulation and Supervision Act, approved by Royal Legislative Decree 6/2004, of 29 October, to allow Spanish insurance companies to use underwriting agencies to arrange insurance.

– The third final provision amends Law 9/2012, of 14 November, on the restructuring and resolution of credit institutions as follows:

  a) The loans transferred to SAREB will not be classed as subordinated in the event of the debtor's possible bankruptcy proceedings, even if SAREB is a shareholder of the debtor company. However, if the loan had already been classed as subordinated before it was transferred, it will retain that status.

  b) In respect of the loans acquired by SAREB after the declaration of bankruptcy proceedings, it will be entitled to adhere to proposed agreements presented by any legitimate party and the right to vote at the shareholders' meeting.

  c) SAREB may be the beneficiary of any of the "*hipotecas de máximo*" (mortgages securing multiple debts or obligations up to a set maximum amount) provided for in Section 153 bis of the Mortgage Act that exist or that may subsequently be arranged on any assets transferred pursuant to this Law.

  d) The contractual netting and financial collateral arrangements regime contained in Chapter II of Royal Decree-Law 5/2005 will apply to SAREB.

  e) Amendment of the wording of Section 44.2 b) of this Law empowering the FROB so that when it resolves that an institution should buy back the securities concerned, it may determine that the buyback price be reinvested, not only to buy back the institution's own shares but also to acquire shares of other credit institutions owned by that

institution, or that said payment be made in kind through the delivery of shares or "*cuotas participativas*" (non-voting equity units in savings banks) directly or indirectly available under treasury stock of the institution or the credit institution in which it has a holding.

– Order ECC/680/2013, of 8 April, which authorises the amendment of Articles 11 and 12 of the Regulation of the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.

This Order amends Articles 11 and 12 of the Regulation of the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores (Sociedad de Sistemas). Its purpose is to exempt the entities which are trading members of the corresponding Stock Exchanges or multilateral trading facilities from the obligation to hold, at the same time, the status of participating entity in the Sociedad de Sistemas. As from entry into force of this Order, these entities will simply need to sign an agreement with a participating entry, which will then be responsible for the registration, clearing and settlement resulting from the dealing performed by the trading member and will be liable for these actions as regards the member and the system.

– Royal Decree 256/2013, of 12 April, incorporating the guidelines of the European Banking Authority, dated 22 November 2012, on the assessment of the suitability of members of the management body and key function holders into legislation on credit institutions.

This Royal Decree is based on the guidelines of 22 November 2012 on the assessment of the suitability of the persons who effectively manage the activity of credit institutions established by the European Banking Authority in compliance with the mandate conferred by Directive 2006/48/EC, of the European Parliament and of the Council, of 14 June 2006, relating to the taking up and pursuit of the business of credit institutions.

However, for reasons of consistency, it was decided to make the new legislation applicable not only to credit institutions but also to electronic money institutions, payment institutions, appraisal companies, counter-guarantee companies, foreign currency exchange establishments and mixed financial holding companies. This has led to the amendment of different royal decrees depending on the entity affected.

Specifically, this Royal Decree introduces the following substantial amendments relating to the assessment of the suitability of members of the management body and key function holders:

– With regard to the commercial and professional reputation requirement for the person holding the office subject to this legislation, the Royal Decree provides for a wide range of criteria to be taken into account by the Bank of Spain, which can be grouped into three main areas: a) professional history; b) existence of convictions for serious criminal offences, minor offences and administrative penalties; and c) existence of material investigations.

– With regard to the knowledge and experience requirement of the person holding the office subject to this legislation, the Royal Decree introduces the following new aspects: a) the requirements of appropriate knowledge and experience for all members of the board; b) the requirement of theoretical knowledge in addition to professional experience; and c) the assessment of the experience of the board of directors as a whole with the aim of ensuring its effective capacity for taking independent and autonomous decisions to the benefit of the entity.

– It adds a new requirement whereby members of the board of directors must be in a position to practice good governance of the institution, which basically translates as broader rules on conflicts of interest.

In addition, this Royal Decree requires that the affected institutions have internal units and procedures to carry out the selection and ongoing assessment of the person holding the office subject to these rules. Similarly, these institutions must identify the key positions for performing the institution's activity and keep a list of the people who hold the positions, which must be available to the Bank of Spain together with documentation supporting the suitability assessment performed by the institution.

The Bank of Spain, for its part, shall assess these criteria at the time of the authorisation and throughout the life of the institution, which may in turn be subject to penalties if it fails to comply with the rules.

– Law 1/2013, of 14 May, on measures to strengthen protection of mortgage debtors, debt restructuring and social rent.

This Law aims to strengthen the framework of protection for those debtors who, as a result of exceptional circumstances resulting from the current economic and financial crisis in Spain, are in a financial or asset situation which deserves special protection.

Therefore, Chapter 1 of the Law establishes an immediate two-year moratorium on evictions of families especially at risk of social exclusion.

Chapter II contains a series of measures which affect the mortgage market. To this end, it amends the Mortgage Act – Decree of 8 February 1946 – by introducing measures including the following: a) placing limits on late payment interest on primary residences to three times the statutory interest rate; b) banning the compounding of late-payment interest; and c) improvements in the non-judicial procedure (for example by holding one single electronic auction).

It also amends Law 2/1981, of 25 March, on regulation of the mortgage market. Noteworthy among the new aspects are: a) strengthening of the independence of appraisal companies (*inter alia*, audit of annual accounts, significant holding of 10%); and b) mortgage loans used to finance acquisition, construction or reform of a primary residence may only be eligible assets for the issuance of mortgage-covered bonds if they have a maximum term of 30 years.

However, it should be taken into account that the ninth transitional provision does not require this limit with regard to the term of mortgage loans prior to this law for them to continue to be eligible for the purpose of issues of mortgage-covered bonds. In addition, it deletes the third paragraph of Article 5, which stated "If, for reasons related to the market or for any other circumstances, the value of the mortgaged asset decreases below the initial valuation more than 20%, the financial institution can demand to extend the mortgage to other assets, unless the debtor opts to repay the loan in its totality or pay the part of the loan exceeding the amount resulting from applying to the current valuation the percentage which originally determined the amount of the loan".

Finally, Chapter III includes amendments in the Civil Procedure Act which affect mortgage executions and Chapter IV amends Royal Decree-Law 6/2012, of 9 March, on urgent measures to protect mortgage debtors with no means of support. This last chapter states that compliance with the Code of Good Practices – relating to the professional granting of mortgage loans – by adhering institutions will be supervised by a control committee made up of 11 members, one of which will be designated by the CNMV.

– CNMV Circular 2/2013, of 9 May, on the key investor information document and the prospectus of collective investment schemes.

This Circular aims to adapt CNMV Circular 3/2006, of 26 October, on the prospectus of collective investment schemes (CIS) to two pieces of European legislation in this area: Directive 2009/65/EC, of the European Parliament and of the Council, and Commission Regulation (EU) No. 583/2010. One of the most noteworthy new aspects is the requirement for a key investor information document to replace the previous simplified prospectus. To this end, the aforementioned circular is repealed, whilst maintaining the qualifications included in the transitional rules.

This Circular therefore regulates:

– The form, content and standard forms for the key investor information document and the prospectus of CIS. These documents will be filed with the CNMV electronically.

– The special features which correspond to the key investor information document of non-financial CIS, hedge funds and funds of hedge funds.

– It also sets forth the special features for the prospectus and key investor information document when the aim of the CIS is to conduct an investment policy which replicates, reproduces or takes as reference a certain stock or debt securities index.

– New requirements are established as regards the amendment or updating of elements of the prospectus and the key investor information which are considered essential and which require registration prior to their entry into force.

– New obligations are established as regards advertising and new circumstances listed giving unit-holders the right to withdrawal or prior notification.

– It establishes other contents of the prospectus relating to the need for efficient management of portfolios and derivative financial instruments, as well as management of the margins relating to these operations.

In addition, it amends various circulars: a) CNMV Circular 5/2007, of 27 December, on significant events of collective investment schemes; b) CNMV Circular 4/2008, of 11 September, on the content of the quarterly, half-yearly and annual reports of collective investment schemes and the statement of position; c) CNMV Circular 6/2010, of 21 December, on derivatives trading by collective investment schemes; and d) CNMV Circular 6/2008, of 26 November, on determination of the net asset value and operational aspects of collective investment schemes.

European legislation

– Regulation (EU) No. 345/2013, of the European Parliament and of the Council, of 17 April 2013, on European venture capital funds.

This Regulation aims to regulate European venture capital funds ("EuVECA") in such a way that they are able to provide financing to innovative small and medium-sized enterprises in the European Union which are anchored in the real economy.

To this end, it imposes on the managers of collective investment schemes with the designation "EuVECA" the requirement to market qualifying venture capital funds with a series of uniform requirements (sufficient funds, organisation, filing of annual reports, conflicts of interest or delegation of functions, etc.).

This Regulation also establishes a set of uniform rules so that qualifying venture capital funds may be marketed among eligible investors throughout the European Union. Noteworthy among these rules are:

a) The assets of the portfolios of investment funds "with a passport" must not exceed 500 million euros.

b) The investors must exclusively be institutional or qualified retail investors who are committed to investing a minimum of 100,000 euros.

c) 70% of their aggregate capital contributions and uncalled committed capital must be invested in the qualifying assets. Qualifying investments should be in the form of equity or quasi-equity instruments.

f) The use of leverage is not permitted.

g) The instruments of incorporation of these funds should contain provisions on the valuation of assets.

h) In order to use the designation "EuVECA", the qualifying European venture capital firms must, as a first step, be established in the European Union.

In addition, the European Securities and Markets Authority shall maintain a central database listing all managers of qualifying venture capital funds registered in the European Union and the qualifying venture capital funds that they market, as well as the countries in which those funds are marketed.

This Regulation shall apply from 22 July 2013, with the exception of Article 9(5), which shall apply from 15 May 2013. Supervision of compliance with this Regulation shall correspond to the competent authorities of the home Member States.

– Regulation (EU) No. 346/2013, of the European Parliament and of the Council, of 17 April 2013, on European social entrepreneurship funds.

The aim of this Regulation is to support the growth of social undertakings in the EU by facilitating their financing through primary investment.

To this end, it imposes a series of uniform requirements throughout the territory of the European Union that must be met by those managers of collective investment schemes which use the designation "EuSEF" to market qualifying European social entrepreneurship funds. These requirements relate to sufficient funds, filing of annual reports, conflicts of interest, delegation of functions and procedures for measuring their positive social impact.

This Regulation also establishes a set of uniform rules so that social entrepreneurship funds may be marketed to eligible investors throughout the European Union. Noteworthy among these rules are:

a) These funds must invest at least 70% of their aggregate capital contributions and uncalled committed capital in assets that are qualifying investments.

b) The instruments which must be used by these funds when making investments are defined (equity and quasi-equity instruments, debt instruments, investments into other qualifying social entrepreneurship funds, secured or unsecured loans, and grants).

c) They must be marketed only to professional customers or qualified retail customers who are committed to investing a minimum of 100,000 euros.

In addition, the European Securities and Markets Authority shall maintain a central database listing all managers of qualifying social entrepreneurship funds, and the qualifying social entrepreneurship funds that they market.

This Regulation shall apply as from 22 July 2013, with the exception of Article 3(2), Article 10(2), and Article 14(4), which shall apply as from 15 May 2013. Supervision of compliance with this Regulation shall correspond to the competent authorities of the home Member States.

– Directive 2013/14/EU of the European Parliament and of the Council, of 21 May 2013, amending Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of over-reliance on credit ratings.

  The aim of this Directive is to amend the three aforementioned directives so as to integrate into their articles the general principle of rejecting over-reliance on credit ratings in the risk management processes and systems of institutions for occupational retirement provision, management and investment companies with regard to UCITS and alternative investment fund managers, and to adapt this principle to their particular features.

– Commission Regulation (EU) No. 301/2013, of 27 March 2013, amending Regulation (EC) No. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002, of the European Parliament and of the Council, as regards Annual Improvements to International Financial Reporting Standards, 2009-2011 Cycle.

  On 17 May 2012, the International Accounting Standards Board (IASB) published the Annual Improvements to International Financial Reporting Standards (IFRS) 2009-2011 Cycle, with the aim of streamlining and clarifying the standards. Three of the improvements, namely the amendments to Appendix D of IFRS 1, International Accounting Standard (IAS) 16, and IAS 34, are clarifications or corrections of the respective standards. The other three improvements, namely the amendments to IFRS 1, IAS 1, and IAS 32, involve changes to the existing requirements or additional guidance on the implementation of those requirements. This Regulation incorporates the amendments into Regulation (EC) No. 1126/2008 on International Accounting Standards.

V Statistics Annex

1 Markets

1.1 Equity

Share issues and public offerings[1]

TABLE 1.1

	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[2]
CASH VALUE[3] (million euro)								
Total	16,016.5	17,145.9	21,142.1	5,296.5	5,695.3	6,961.9	4,996.0	16,358.0
Capital increases	15,407.0	17,018.9	19,910.7	5,245.9	5,290.5	6,185.9	4,996.0	16,358.0
Of which, primary offerings	958.7	6,238.8	2,457.3	1,510.8	75.0	0.0	0.0	1,054.8
With Spanish tranche	61.6	5,827.1	2,457.3	1,510.8	75.0	0.0	0.0	1,054.8
With international tranche	897.2	411.7	0.0	0.0	0.0	0.0	0.0	0.0
Secondary offerings	609.5	127.0	1,231.4	50.6	404.8	776.0	0.0	0.0
With Spanish tranche	79.1	124.7	1,231.4	50.6	404.8	776.0	0.0	0.0
With international tranche	530.4	2.3	0.0	0.0	0.0	0.0	0.0	0.0
NOMINAL VALUE (million euro)								
Total	6,318.3	5,704.8	4,705.9	1,512.5	1,008.8	1,209.2	4,987.2	12,083.6
Capital increases	6,309.3	5,698.8	4,595.2	1,509.7	977.3	1,132.8	4,987.2	12,083.6
Of which, primary offerings	6.8	2,070.6	613.1	82.1	8.2	0.0	0.0	568.2
With Spanish tranche	6.4	1,888.4	613.1	82.1	8.2	0.0	0.0	568.2
With international tranche	0.4	182.2	0.0	0.0	0.0	0.0	0.0	0.0
Secondary offerings	9.0	6.0	110.6	2.8	31.5	76.4	0.0	0.0
With Spanish tranche	8.9	5.9	110.6	2.8	31.5	76.4	0.0	0.0
With international tranche	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
NO. OF FILES[4]								
Total	69	92	105	25	27	30	28	26
Capital increases	67	91	103	25	26	29	28	26
Of which, primary offerings	12	8	7	2	1	0	0	3
Of which, bonus issues	15	22	22	6	10	4	9	7
Secondary offerings	3	2	3	1	1	1	0	0
NO. OF ISSUERS[4]								
Total	46	46	38	16	20	17	17	16
Capital increases	45	45	38	15	19	16	17	16
Of which, primary offerings	12	8	7	2	1	0	0	3
Secondary offerings	2	2	3	1	1	1	0	0

1 Includes registered offerings with issuance prospectuses and listings admitted to trading without register issuance prospectuses.
2 Available data: May 2013.
3 Does not include registered amounts that were not carried out.
4 Includes all registered offerings, including the issues that were not carried out.

Primary and secondary offerings. By type of subscriber

TABLE 1.2

Million euro	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[1]
PRIMARY OFFERINGS								
Total	958.7	6,238.8	2,457.3	1,510.8	75.0	0.0	0.0	1,054.8
Spanish tranche	61.6	5,815.7	6.8	1.5	0.0	0.0	0.0	0.0
Private subscribers	2.5	2,206.3	4.1	1.5	0.0	0.0	0.0	0.0
Institutional subscribers	59.1	3,609.4	2.8	0.0	0.0	0.0	0.0	0.0
International tranche	897.2	411.7	0.0	0.0	0.0	0.0	0.0	0.0
Employees	0.0	11.4	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	2,450.5	1,509.2	75.0	0.0	0.0	1,054.8
SECONDARY OFFERINGS								
Total	609.5	127.0	1,231.4	50.6	404.8	776.0	0.0	0.0
Spanish tranche	79.1	124.7	0.0	0.0	0.0	0.0	0.0	0.0
Private subscribers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Institutional subscribers	79.1	124.7	0.0	0.0	0.0	0.0	0.0	0.0
International tranche	530.4	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Employees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	1,231.4	50.6	404.8	776.0	0.0	0.0

1 Available data: May 2013.

Companies listed[1]

TABLE 1.3

	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[2]
Total electronic market[3]	129	130	127	128	127	127	127	126
Of which, without Nuevo Mercado	129	130	127	128	127	127	127	126
Of which, Nuevo Mercado	0	0	0	0	0	0	0	0
Of which, foreign companies	6	7	7	7	7	7	7	7
Second Market	6	7	8	7	7	8	8	8
Madrid	2	2	2	2	2	2	2	2
Barcelona	4	5	6	5	5	6	6	6
Bilbao	0	0	0	0	0	0	0	0
Valencia	0	0	0	0	0	0	0	0
Open outcry ex SICAVs	28	27	23	24	24	23	23	23
Madrid	13	13	11	11	11	11	11	11
Barcelona	18	17	13	14	14	13	13	13
Bilbao	8	8	7	7	7	7	7	7
Valencia	6	6	4	4	4	4	4	4
Open outcry SICAVs	1	0	0	0	0	0	0	0
MAB[4]	3,144	3,083	3,015	3,059	3,034	3,015	3,011	3,023
Latibex	29	29	27	27	27	27	27	27

1 Data at the end of period.
2 Available data: May 2013.
3 Without ETFs (Exchange Traded Funds).
4 Alternative Stock Market.

Capitalisation[1]

TABLE 1.4

Million euro	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[2]
Total electronic market[3]	531,194.2	498,148.1	532,039.7	443,405.2	490,027.9	532,039.7	539,926.0	575,693.1
Of which, without Nuevo Mercado	531,194.2	498,148.1	532,039.7	443,405.2	490,027.9	532,039.7	539,926.0	575,693.1
Of which, Nuevo Mercado	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies[4]	61,317.5	82,471.4	99,072.0	85,013.5	89,988.0	99,072.0	108,982.0	116,746.7
Ibex 35	322,806.6	320,672.5	324,442.0	272,514.9	302,019.9	324,442.0	321,700.5	341,086.5
Second Market	109.9	59.7	20.6	57.8	46.3	20.6	72.8	76.2
Madrid	22.8	25.5	20.3	23.6	23.6	20.3	23.6	26.9
Barcelona	87.1	34.2	0.3	34.2	22.7	0.3	49.3	49.3
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAVs	5,340.7	3,704.9	3,233.0	3,364.7	3,257.6	3,233.0	3,165.6	3,129.6
Madrid	1,454.7	833.3	667.1	682.9	673.4	667.1	629	630.5
Barcelona	3,580.2	3,242.3	2,945.9	3,053.6	2,953.6	2,945.9	2,874.6	2,838.1
Bilbao	45.9	328.8	77.8	78.9	78.9	77.8	248.7	234.1
Valencia	760.4	240.2	350.9	379.6	369.4	350.9	344.6	342.1
Open outcry SICAVs[5]	126.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MAB[5,6]	24,718.6	23,646.0	23,776.0	23,315.7	24,188.7	23,776.0	24,669.2	25,400.0
Latibex	210,773.5	402,008.5	350,635.5	358,599.2	369,568.3	350,635.5	342,939.4	327,585.6

1 Data at the end of period.
2 Available data: May 2013.
3 Without ETFs (Exchange Traded Funds).
4 Foreign companies capitalisation includes their entire shares, whether they are deposited in Spain or not.
5 Calculated only with outstanding shares, not including treasury shares, because capital stock is not reported until the end of the year.
6 Alternative Stock Market.

Trading

TABLE 1.5

Million euro	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[1]
Total electronic market[2]	1,026,478.5	917,383.3	691,558.3	196,896.4	151,267.7	168,208.0	160,019.8	104,460.8
Of which, without Nuevo Mercado	1,026,478.5	917,383.3	691,558.3	196,896.4	151,267.7	168,208.0	160,019.8	104,460.8
Of which, Nuevo Mercado	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies	6,415.3	5,206.3	4,102.1	963.9	851.6	780.8	1,168.9	826.1
Second Market	3.0	2.3	0.4	0.2	0.2	0.0	0.0	0.4
Madrid	2.8	1.7	0.4	0.2	0.2	0.0	0.0	0.2
Barcelona	0.3	0.5	0.0	0.0	0.0	0.0	0.0	0.2
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAVs	157.2	42.8	49.9	7.3	8.3	17.7	5.6	2.7
Madrid	15.7	16.1	3.0	0.4	0.8	0.3	2.5	0.3
Barcelona	135.7	26.4	37.7	6.9	7.4	9.0	3.1	2.4
Bilbao	3.9	0.1	8.5	0.0	0.0	8.5	0.0	0.0
Valencia	1.9	0.3	0.7	0.1	0.0	0.0	0.0	0.0
Open outcry SICAVs	8.1	5.6	0.0	0.0	0.0	0.0	0.0	0.0
MAB[3]	4,147.9	4,379.9	4,329.6	1,104.5	947.0	1,060.0	1,238.1	825.8
Latibex	521.2	357.7	313.2	61.7	89.5	88.7	98.9	70.2

1 Available data: May 2013.
2 Without ETFs (Exchange Traded Funds).
3 Alternative Stock Market.

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

TABLE 1.6

Million euro	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[2]
Regular trading	983,584.5	873,485.4	658,891.4	187,871.7	143,171.9	159,082.8	153,802.1	101,524.0
Orders	541,879.8	505,870.1	299,022.0	81,004.3	61,468.6	52,601.8	85,760.3	54,768.8
Put-throughs	58,678.1	69,410.4	80,617.0	30,160.1	21,441.3	16,986.8	13,449.6	10,570.5
Block trades	383,026.6	298,204.9	279,252.4	76,707.3	60,262.0	89,494.2	54,592.1	36,184.6
Off-hours	17,209.5	9,801.8	9,630.0	2,006.8	3,506.5	3,300.4	2,959.0	1,413.1
Authorised trades	2,660.5	3,492.6	7,936.9	2,301.0	2,202.6	2,406.5	1,099.4	491.8
Art. 36.1 SML trades	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tender offers	312.0	4,216.8	9.6	9.6	0.0	0.0	0.0	220.1
Public offerings for sale	1,448.2	3,922.1	0.0	0.0	0.0	0.0	0.0	2.6
Declared trades	2,273.4	2,212.7	545.0	539.7	2.4	3.0	3.0	0.0
Options	11,474.7	11,730.3	9,603.4	2,991.2	1,472.1	2,838.9	964.4	189.0
Hedge transactions	7,515.8	8,521.5	4,942.0	1,176.4	912.3	576.3	1,192.0	620.2

1 Without ETFs (Exchange Traded Funds).
2 Available data: May 2013.

Margin trading for sales and securities lending

TABLE 1.7

Million euro	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[1]
TRADING								
Securities lending[2]	556,246.7	493,602.4	395,859.3	115,376.8	79,731.5	102,447.3	103,130.3	76,660.2
Margin trading for sales of securities[3]	598.0	518.3	199.2	100.3	16.8	6.1	62.3	66.0
Margin trading for securities purchases[3]	65.9	73.0	44.4	7.0	11.1	10.3	12.4	4.0
OUTSTANDING BALANCE								
Securities lending[2]	36,195.9	35,626.7	34,915.1	33,174.2	39,075.3	34,915.1	33,761.3	34,880.9
Margin trading for sales of securities[3]	9.9	7.0	1.2	13.2	1.6	1.2	4.9	14.1
Margin trading for securities purchases[3]	5.0	3.9	2.5	2.2	2.5	2.5	1.9	2.5

1 Available data: May 2013.
2 Regulated by Article 36.7 of the Securities Market Law and Order ECO/764/2004.
3 Transactions performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions.

1.2 Fixed-income

Gross issues registered[1] at the CNMV

TABLE 1.8

	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[2]
NO. OF ISSUERS								
Total	115	101	71	29	19	32	19	14
Mortgage covered bonds	25	30	26	11	15	11	9	6
Territorial covered bonds	6	7	11	7	2	0	1	1
Non-convertible bonds and debentures	39	23	24	12	6	8	6	6
Convertible bonds and debentures	2	5	3	2	0	1	1	1
Backed securities	36	34	16	2	1	9	5	2
Commercial paper	58	49	35	12	5	9	4	2
Of which, asset-backed	2	2	1	0	0	1	0	0
Of which, non-asset-backed	56	47	34	12	5	8	4	2
Other fixed-income issues	0	0	0	0	0	0	0	0
Preference shares	0	1	0	0	0	0	0	0
NO. OF ISSUES								
Total	349	353	334	100	48	69	61	45
Mortgage covered bonds	88	115	94	22	27	18	15	9
Territorial covered bonds	9	42	18	8	2	0	1	1
Non-convertible bonds and debentures	154	87	134	50	13	23	27	28
Convertible bonds and debentures	3	9	7	4	0	2	3	1
Backed securities	36	45	35	2	1	17	11	4
Commercial paper	59	53	46	14	5	9	4	2
Of which, asset-backed	2	2	1	0	0	1	0	0
Of which, non-asset-backed	57	51	45	14	5	8	4	2
Other fixed-income issues	0	0	0	0	0	0	0	0
Preference shares	0	2	0	0	0	0	0	0
NOMINAL AMOUNT (million euro)								
Total	226,448.9	288,992.0	357,830.2	91,425.1	60,679.5	84,903.7	44,462.4	20,887.7
Mortgage covered bonds	34,378.5	67,226.5	102,170.0	33,350.0	29,800.0	13,020.0	9,195.0	5,290.0
Territorial covered bonds	5,900.0	22,334.2	8,974.0	4,100.0	1,674.0	0.0	95.0	220.0
Non-convertible bonds and debentures	24,356.0	20,191.7	86,441.5	15,230.7	91.1	39,814.9	15,595.4	1,888.7
Convertible bonds and debentures	968.0	7,125.9	3,563.1	1,592.3	0.0	842.5	424.8	15.0
Backed securities	63,260.5	68,412.8	23,799.6	1,535.3	1,884.0	11,185.0	8,052.0	4,175.0
Spanish tranche	62,743.0	63,455.9	20,627.1	1,535.3	1,884.0	9,397.5	6,965.1	3,541.7
International tranche	517.5	4,956.9	3,172.5	0.0	0.0	1,787.5	1,086.9	633.3
Commercial paper[3]	97,586.0	103,501.0	132,882.0	35,616.9	27,230.5	20,041.2	11,100.2	9,299.0
Of which, asset-backed	5,057.0	2,366.0	1,821.0	630.0	275.0	300.0	180.0	150.0
Of which, non-asset-backed	92,529.0	101,135.0	131,061.0	34,986.9	26,955.5	19,741.2	10,920.2	9,149.0
Other fixed-income issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preference shares	0.0	200.0	0.0	0.0	0.0	0.0	0.0	0.0
Pro memoria:								
Subordinated issues	9,154.2	29,198.9	7,633.5	1,788.3	580.9	2,492.0	1,556.5	699.0
Underwritten issues	299.0	10.0	0.0	0.0	0.0	0.0	0.0	193.0

1 Includes issuance and trading prospectuses.
2 Available data: May 2013.
3 The figures for commercial paper refer to the amount placed in the year.

Issues admitted to trading on AIAF[1]

TABLE 1.9

Nominal amount in million euro	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[2]
Total	223,404.5	278,656.0	363,952.5	85,145.2	69,879.2	81,533.4	44,982.2	22,175.1
Commercial paper	99,784.4	102,042.0	134,346.9	32,233.4	31,278.3	18,964.1	12,581.9	8,533.1
Bonds and debentures	24,728.6	12,311.9	92,733.5	15,868.4	692.9	39,732.8	15,609.8	2,037.0
Mortgage covered bonds	32,861.0	68,346.5	103,470.0	28,800.0	34,350.0	12,820.0	9,395.0	5,290.0
Territorial covered bonds	5,900.0	20,334.2	8,974.0	4,800.0	1,674.0	0.0	0.0	315.0
Backed securities	60,030.5	75,421.4	24,428.1	3,443.3	1,884.0	10,016.5	7,395.5	6,000.0
Preference shares	100.0	200.0	0.0	0.0	0.0	0.0	0.0	0.0
Matador bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Includes only corporate bonds.
2 Available data: May 2013.

AIAF. Issuers, issues and outstanding balance

TABLE 1.10

	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[1]
NO. OF ISSUERS								
Total	634	613	568	596	572	568	545	531
Corporate bonds	634	613	568	596	572	568	545	530
Commercial paper	60	45	42	49	46	42	36	34
Bonds and debentures	93	91	95	96	94	95	93	93
Mortgage covered bonds	33	43	49	46	50	49	50	51
Territorial covered bonds	12	13	18	18	19	18	12	12
Backed securities	459	437	385	415	391	385	369	364
Preference shares	59	60	60	60	60	60	58	45
Matador bonds	12	12	11	12	12	11	11	10
Government bonds	–	–	–	–	–	–	–	1
Letras del Tesoro	–	–	–	–	–	–	–	1
Long Government bonds	–	–	–	–	–	–	–	1
NO. OF ISSUES								
Total	3,630	4,382	4,907	5,285	5,208	4,907	4,459	4,241
Corporate bonds	3,630	4,382	4,907	5,285	5,208	4,907	4,459	4,093
Commercial paper	958	1,778	2,529	2,757	2,762	2,529	2,150	1,866
Bonds and debentures	645	624	558	600	583	558	564	535
Mortgage covered bonds	253	296	328	316	334	328	326	322
Territorial covered bonds	26	49	52	58	55	52	43	43
Backed securities	1,641	1,527	1,334	1,446	1,366	1,334	1,272	1,247
Preference shares	93	94	94	94	94	94	92	69
Matador bonds	14	14	12	14	14	12	12	11
Government bonds	–	–	–	–	–	–	–	148
Letras del Tesoro	–	–	–	–	–	–	–	13
Long Government bonds	–	–	–	–	–	–	–	135
OUTSTANDING BALANCE[2] (million euro)								
Total	850,181.7	882,395.1	879,627.5	899,458.8	886,354.6	879,627.5	848,906.4	1,519,714.1
Corporate bonds	850,181.7	882,395.1	879,627.5	899,458.8	886,354.6	879,627.5	848,906.4	812,052.3
Commercial paper	23,233.6	37,549.1	64,927.5	66,983.5	75,777.8	64,927.5	50,854.3	45,207.0
Bonds and debentures	146,077.7	131,756.8	161,225.4	132,981.0	125,944.4	161,225.4	168,809.8	156,032.6
Mortgage covered bonds	195,734.8	241,149.7	293,142.8	283,064.8	309,736.1	293,142.8	288,052.8	277,232.8
Territorial covered bonds	18,350.0	31,884.2	33,314.3	35,284.2	33,579.6	33,314.3	31,014.3	30,268.3
Backed securities	434,835.1	407,908.0	315,373.5	364,253.6	327,492.8	315,373.5	299,019.5	296,778.9
Preference shares	30,891.8	31,088.6	10,813.4	15,833.0	12,765.1	10,813.4	10,325.1	5,738.1
Matador bonds	1,058.8	1,058.8	830.7	1,058.8	1,058.8	830.7	830.7	794.6
Government bonds	–	–	–	–	–	–	–	707,661.8
Letras del Tesoro	–	–	–	–	–	–	–	90,396.2
Long Government bonds	–	–	–	–	–	–	–	617,265.7

1 Available data: May 2013.
2 Nominal amount.

AIAF. Trading

TABLE 1.11

Nominal amount in million euro	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[1]
BY TYPE OF ASSET								
Total	4,383,118.7	7,388,185.7	3,119,755.1	555,233.8	674,389.1	961,635.0	445,730.4	291,420.2
Corporate bonds	4,383,118.7	7,388,185.7	3,119,755.1	555,233.8	674,389.1	961,635.0	445,730.4	291,399.3
Commercial paper	385,238.9	227,534.5	199,794.9	42,897.4	55,717.4	43,443.5	30,211.6	26,913.7
Bonds and debentures	922,393.1	484,705.8	164,098.6	40,927.5	44,398.4	37,341.6	104,970.8	48,854.4
Mortgage covered bonds	271,441.8	662,177.0	994,071.3	168,803.9	302,081.0	275,727.2	115,745.9	64,304.2
Territorial covered bonds	14,458.2	544,780.9	595,599.6	180,778.2	108,473.6	127,290.5	22,225.5	31,987.5
Backed securities	2,784,775.4	5,462,806.2	1,136,966.1	114,957.9	156,980.5	470,358.1	172,164.5	104,173.3
Preference shares	4,635.7	6,065.0	28,781.3	6,593.8	6,616.4	7,438.9	403.9	15,094.0
Matador bonds	175.7	116.3	443.2	275.1	121.8	35.1	8.3	72.2
Government bonds	–	–	–	–	–	–	–	20.9
Letras del Tesoro	–	–	–	–	–	–	–	3.4
Long Government bonds	–	–	–	–	–	–	–	17.5
BY TYPE OF TRANSACTION								
Total	4,383,118.7	7,388,185.7	3,119,755.1	555,233.8	674,389.1	961,635.0	445,730.4	291,420.2
Outright	288,927.3	343,099.6	428,838.0	121,364.6	78,110.9	77,828.8	66,158.8	79,904.1
Repos	304,493.2	198,514.7	108,771.9	29,885.1	18,513.0	18,811.8	18,095.0	12,116.6
Sell-buybacks/Buy-sellbacks	3,789,698.3	6,846,571.5	2,582,145.2	403,984.2	577,765.2	864,994.5	361,476.7	199,399.4

1 Available data: May 2013.

AIAF. Third-party trading. By purchaser sector

TABLE 1.12

Nominal amount in million euro	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[1]
Total	553,896.6	487,543.3	454,385.7	129,837.4	84,419.9	82,251.6	71,301.0	60,493.7
Non-financial companies	162,949.5	131,765.2	77,452.1	17,333.2	19,618.1	19,089.8	16,710.7	6,882.3
Financial institutions	289,950.4	256,975.8	282,733.9	90,698.5	46,946.5	41,576.2	33,736.1	40,633.3
Credit institutions	102,372.1	139,538.2	207,555.6	68,400.6	38,309.4	31,434.2	21,555.2	28,769.3
IICs[2], insurance and pension funds	125,899.4	103,899.9	69,568.7	21,122.2	7,132.0	8,701.1	10,460.9	10,432.2
Other financial institutions	61,678.9	13,537.7	5,609.6	1,175.8	1,505.2	1,440.9	1,720.0	1,431.7
General government	3,117.7	2,602.7	5,448.2	747.2	1,005.9	322.3	479.4	560.7
Households and NPISHs[3]	14,244.4	10,230.3	11,517.9	2,373.7	3,137.1	3,213.5	1,106.1	4,044.2
Rest of the world	83,634.6	85,969.3	77,233.7	18,684.8	13,712.3	18,049.8	19,268.7	8,373.2

1 Available data: May 2013.
2 IICs: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.
3 Non-profit institutions serving households.

Issues admitted to trading on equity markets[1]

TABLE 1.13

	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[2]
NOMINAL AMOUNTS (million euro)								
Total	868.0	2,681.6	7,522.0	1,765.9	880.2	0.0	779.3	0.0
Non-convertible bonds and debentures	400.0	0.0	0.0	0.0	0.0	0.0	779.3	0.0
Convertible bonds and debentures	468.0	2,681.6	7,522.0	1,765.9	880.2	0.0	0.0	0.0
Backed securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NO. OF ISSUES								
Total	8	6	7	2	3	0	2	0
Non-convertible bonds and debentures	7	0	0	0	0	0	0	0
Convertible bonds and debentures	1	6	7	2	3	0	2	0
Backed securities	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0

1 Includes only corporate bonds.
2 Available data: May 2013.

Equity markets. Issuers, issues and outstanding balances

TABLE 1.14

	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[1]
NO. OF ISSUERS								
Total	60	59	52	56	55	52	51	48
Private issuers	46	46	39	43	42	39	38	35
Non-financial companies	5	4	3	4	4	3	3	3
Financial institutions	41	42	36	39	38	36	35	32
General government[2]	14	13	13	13	13	13	13	13
Regional governments	3	3	3	3	3	3	3	3
NO. OF ISSUES								
Total	247	240	220	224	224	220	216	207
Private issuers	145	133	122	124	125	122	122	111
Non-financial companies	7	6	3	5	5	3	3	3
Financial institutions	138	127	119	119	120	119	119	108
General government[2]	102	107	98	100	99	98	94	96
Regional governments	64	74	67	69	68	67	65	61
OUTSTANDING BALANCES[3] (million euro)								
Total	41,091.3	43,817.5	37,636.4	45,444.9	43,726.1	37,636.4	36,778.1	31,367.4
Private issuers	19,261.5	17,759.6	13,625.4	19,645.5	16,429.5	13,625.4	12,965.5	12,346.8
Non-financial companies	376.6	375.4	194.9	195.1	195.1	194.9	195.0	195.0
Financial institutions	18,884.8	17,384.2	13,430.6	19,450.4	16,234.4	13,430.6	12,770.6	12,151.9
General government[2]	21,829.9	26,057.8	24,010.9	25,799.4	27,296.6	24,010.9	23,812.6	19,020.5
Regional governments	19,442.4	24,014.4	22,145.0	23,932.2	25,429.9	22,145.0	22,047.3	17,377.2

1 Available data: May 2013.
2 Without public book-entry debt.
3 Nominal amount.

Trading on equity markets

TABLE 1.15

Nominal amounts in million euro	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[1]
Electronic market	504.5	386.1	1,198.3	784.5	137.5	144.6	974.5	81.7
Open outcry	7,525.6	4,942.5	3,746.6	392.6	904.7	347.6	111	1,905.3
Madrid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Barcelona	7,146.7	4,885.4	3,407.8	389.9	863.1	341.0	7.2	1,853.5
Bilbao	2.3	0.5	0.2	0.0	0.0	0.0	0.0	0.0
Valencia	376.6	56.6	338.7	2.7	41.6	6.6	103.8	51.8
Public book-entry debt	331.1	883.4	1,189.0	321.4	464.4	6.6	6.5	1.1
Regional governments debt	62,029.0	63,443.7	54,015.1	14,588.0	13,761.1	12,521.7	8,393.9	11,722.6

1 Available data: May 2013.

Organised trading systems: SENAF y MTS. Public debt trading by type

TABLE 1.16

Nominal amounts in million euro	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[1]
Total	265,966.0	84,090.9	40,034.0	9,235.0	4,979.0	6,841.0	11,401.0	9,651.0
Outright	110,011.0	81,905.0	40,034.0	9,235.0	4,979.0	6,841.0	11,401.0	9,651.0
Sell-buybacks/Buy-sellbacks	155,433.0	2,185.9	0.0	0.0	0.0	0.0	0.0	0.0
Others	522.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: May 2013.

1.3 Derivatives and other products

1.3.1 Financial derivatives markets: MEFF

Trading on MEFF

TABLE 1.17

Number of contracts	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[1]
Debt products	14	18	45,240	10,796	18,659	15,783	6,019	1,145
Debt futures[2]	14	18	45,240	10,796	18,659	15,783	6,019	1,145
Ibex 35 products[3,4]	6,946,167	5,819,264	5,410,311	1,884,757	1,370,029	1,035,203	1,375,908	1,056,167
Ibex 35 plus futures	6,280,999	5,291,956	4,745,067	1,683,154	1,183,751	856,141	1,238,369	960,461
Ibex 35 mini futures	357,926	307,411	242,477	95,423	62,721	34,786	47,616	33,242
Ibex 35 dividend impact futures	–	3,154	2,162	382	210	1,015	584	51
Call mini options	122,158	86,096	225,704	55,375	64,746	86,915	49,390	37,626
Put mini options	185,083	133,801	194,902	50,423	58,601	56,347	39,949	24,787
Stock products[5]	57,291,482	55,082,944	55,753,236	1,4627,113	12,394,790	12,196,833	8,253,014	4,331,956
Futures	19,684,108	24,758,956	21,220,876	6,357,895	3,397,488	4,377,763	4,199,543	956,382
Stock dividend futures	–	–	25,000	0	0	23,500	24,300	0
Call options	17,186,515	12,050,946	14,994,283	2,977,728	4,272,914	3,409,731	1,966,022	1,319,908
Put options	20,420,859	18,273,042	19,513,077	5,291,490	4,724,388	4,385,839	2,063,149	2,055,666
Pro-memoria: MEFF trading on Eurex								
Debt products[6]	373,113	267,713	161,376	51,603	28,209	42,392	49,336	20,414
Index products[7]	604,029	451,016	266,422	71,498	61,078	55,070	35,316	12,769

1 Available data: May 2013.
2 Contract size: 100 thousand euros.
3 The number of Ibex 35 mini futures (multiples of 1 euro) was standardised to the size of the Ibex 35 plus futures (multiples of 10 euro).
4 Contract size: Ibex 35, 10 euros.
5 Contract size: 100 Stocks.
6 Bund, Bobl and Schatz futures.
7 Dax 30, DJ EuroStoxx 50 and DJ Stoxx 50 futures.

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

Issues registered at the CNMV

TABLE 1.18

				2012			2013	
	2010	2011	2012	II	III	IV	I	II[1]
WARRANTS[2]								
Premium amount (million euro)	4,915.3	5,544.6	3,834.3	1,202.9	751.3	957.7	1,505.4	463.8
On stocks	2,537.4	3,211.7	2,231.7	685.2	468.2	568.6	909.9	287.1
On indexes	1,852.6	1,786.8	1,273.5	435.7	229.7	297.8	516.3	128.5
Other underlyings[3]	525.4	546.0	329.1	82.0	53.3	91.4	79.1	48.2
Number of issues	8,375	9,237	7,073	1,798	1,319	2,223	3,326	758
Number of issuers	9	9	7	4	5	6	6	3
OPTION BUYING AND SELLING CONTRACTS								
Nominal amounts (million euro)	64.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On stocks	47.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On indexes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other underlyings[3]	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Number of issues	7	0	0	0	0	0	0	0
Number of issuers	1	0	0	0	0	0	0	0

1 Available data: May 2013.
2 Includes issuance and trading prospectuses.
3 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.

Equity markets. Warrants and ETF trading

TABLE 1.19

				2012			2013	
	2010	2011	2012	II	III	IV	I	II[1]
WARRANTS								
Trading (million euro)	1,603.2	1,550.2	762.9	178.6	195.2	145.7	207.4	129.7
On Spanish stocks	759.8	654.2	349.0	78.0	94.9	72.4	94.3	58.3
On foreign stocks	60.7	97.8	87.6	15.5	17.4	20.4	34	15.3
On indexes	689.5	518.2	268.6	73.4	75.1	44.5	70.1	49.7
Other underlyings[2]	93.2	280.0	57.7	11.7	7.9	8.3	9.0	6.5
Number of issues[3]	7,750	13,165	11,980	3,069	2,919	2,816	3,106	2,605
Number of issuers[3]	10	9	34	9	9	7	7	6
CERTIFICATES								
Trading (million euro)	22.0	92.1	16.8	6.6	2.7	1.1	0.1	0.5
Number of issues[3]	16	32	13	4	3	2	1	1
Number of issuers[3]	2	2	7	2	2	1	1	1
ETFs								
Trading (million euro)	6,229.7	3,495.4	2,935.7	815.5	1,027.0	454.0	639.1	896.4
Number of funds	65	75	74	75	73	74	75	75
Assets[4] (million euro)	827.8	327.2	274.7	262.5	277.3	274.7	264.3	n.a.

1 Available data: May 2013.
2 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.
3 Issues or issuers which were traded in each period.
4 Assets from national collective investment schemes is only included because assets from foreign ones are not available.
n.a.: No available data.

1.3.3 Non-financial derivatives

Trading on MFAO[1]

TABLE 1.20

				2012			2013	
Number of contracts	2010	2011	2012	II	III	IV	I	II[2]
On olive oil								
Extra-virgin olive oil futures[3]	165,840	63,173	78,566	10,577	33,350	34,639	30,818	13,514

1 Olive oil futures market.
2 Available data: May 2013.
3 Nominal amount of the contract: 1,000 kg.

2 Investment services

Investment services. Spanish firms, branches and agents

TABLE 2.1

	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[1]
BROKER-DEALERS								
Spanish firms	50	49	46	48	47	46	46	46
Branches	80	78	15	25	17	15	16	16
Agents	6,560	6,589	6,267	6,531	6,305	6,267	6,263	6,263
BROKERS								
Spanish firms	45	45	41	45	43	41	41	41
Branches	13	14	10	12	12	10	10	10
Agents	689	655	601	633	622	601	549	549
PORTFOLIO MANAGEMENT COMPANIES								
Spanish firms	6	6	6	6	6	6	6	6
Branches	5	5	5	5	5	5	5	5
Agents	2	2	2	2	2	2	2	2
FINANCIAL ADVISORY FIRMS[2]								
Spanish firms	58	82	101	97	101	101	107	111
CREDIT INSTITUTIONS[3]								
Spanish firms	186	187	172	188	181	172	165	163

1 Available data: May 2013.
2 Investment services company created by Law 47/2008, of 19 December, which modifies Law 24/1988, of 28 July, on the Securities Market, and regulated by Circular CR CNMV 10/2008, of 30 December.
3 Source: Banco de España.

Investment services. Foreign firms

TABLE 2.2

	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[1]
Total	2,671	2,814	2,992	2,907	2,950	2,992	3,036	3,063
European Economic Area investment services firms	2,238	2,377	2,534	2,459	2,501	2,534	2,578	2,604
Branches	40	36	37	35	39	37	35	35
Free provision of services	2,198	2,341	2,497	2,424	2,462	2,497	2,543	2,569
Credit institutions[2]	433	437	458	448	449	458	458	459
From EU member states	423	429	448	438	439	448	448	449
Branches	55	55	55	56	55	55	55	55
Free provision of services	368	374	393	382	384	393	393	394
Subsidiaries of free provision of services institutions	0	0	0	0	0	0	0	0
From non-EU states	10	8	10	10	10	10	10	10
Branches	8	7	8	8	8	8	8	8
Free provision of services	2	1	2	2	2	2	2	2

1 Available data: May 2013.
2 Source: Banco de España and CNMV.

Intermediation of spot transactions[1]

TABLE 2.3

Million euro	I 2012 Spanish organised markets	I 2012 Other Spanish markets	I 2012 Foreign markets	I 2012 Total	I 2013 Spanish organised markets	I 2013 Other Spanish markets	I 2013 Foreign markets	I 2013 Total
FIXED-INCOME								
Total	810,305.1	1,711,997.7	185,669.9	2,707,972.7	616,241.8	1,730,437.7	121,386.6	2,468,066.1
Broker-dealers	126,743.8	479,484.1	114,729.2	720,957.1	601,621.9	499,387.4	85,852.2	1,186,861.5
Brokers	683,561.3	1,232,513.6	70,940.7	1,987,015.6	14,619.9	1,231,050.3	35,534.4	1,281,204.6
EQUITY								
Total	168,501.1	618.3	15,909.8	185,029.2	143,194.5	1,104.9	14,348.8	158,648.2
Broker-dealers	164,298.0	430.6	14,579.8	179,308.4	138,226.7	479.7	11,722.9	150,429.3
Brokers	4,203.1	187.7	1,330.0	5,720.8	4,967.8	625.2	2,625.9	8,218.9

1 Period accumulated data. Quarterly.

Intermediation of derivative transactions[1, 2]

TABLE 2.4

Million euro	I 2012 Spanish organised markets	I 2012 Foreign organised markets	I 2012 Non-organised markets	I 2012 Total	I 2013 Spanish organised markets	I 2013 Foreign organised markets	I 2013 Non-organised markets	I 2013 Total
Total	465,907.8	1,277,144.6	117,791.1	1,860,843.5	578,589.0	962,230.8	135,250.5	1,676,070.3
Broker-dealers	464,070.1	1,098,028.2	74,092.2	1,636,190.5	576,888.1	954,427.8	68,815.3	1,600,131.2
Brokers	1,837.7	179,116.4	43,698.9	224,653.0	1,700.9	7,803.0	66,435.2	75,939.1

1 The amount of the buy and sell transactions of financial assets, financial futures on values and interest rates, and other transactions on interest rates will be the securities nominal or notional value or the principal to which the contract reaches. The amount of the transactions on options will be the strike price of the underlying asset multiplied by the number of instruments committed.
2 Period accumulated data. Quarterly.

Portfolio management. Number of portfolios and assets under management[1]

TABLE 2.5

	I 2012 IIC[2]	I 2012 Other[3]	I 2012 Total	I 2013 IIC[2]	I 2013 Other[3]	I 2013 Total
NUMBER OF PORTFOLIOS						
Total	144	11,570	11,714	123	10,860	10,983
Broker-dealers	83	4,681	4,764	67	3,920	3,987
Brokers	56	3,671	3,727	51	3,836	3,887
Portfolio management companies	5	3,218	3,223	5	3,104	3,109
ASSETS UNDER MANAGEMENT (thousand euro)						
Total	2,147,924	7,597,017	9,744,941	1,618,616	8,242,095	9,860,711
Broker-dealers	927,511	2,963,183	3,890,694	1,053,239	2,625,150	3,678,389
Brokers	1,117,723	1,561,719	2,679,442	451,901	1,611,401	2,063,302
Portfolio management companies	102,690	3,072,115	3,174,805	113,476	4,005,544	4,119,020

1 Data at the end of period. Quarterly.
2 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes. Includes both resident and non resident IICs management.
3 Includes the rest of clients, both covered and not covered by the Investment Guarantee Fund, an investor compensation scheme regulated by Royal Decree 948/2001.

Financial advice. Number of contracts and assets advised[1]

TABLE 2.6

	I 2012 Retail clients	I 2012 Professional clients	I 2012 Total[2]	I 2013 Retail clients	I 2013 Professional clients	I 2013 Total[2]
NUMBER OF CONTRACTS						
Total	7,706	129	7,856	9,335	264	9,654
Broker-dealers	1,427	12	1,444	1,295	13	1,341
Brokers	4,784	107	4,907	6,337	245	6,604
Portfolio management companies	1,495	10	1,505	1,703	6	1,709
ASSETS ADVISED (thousand euro)						
Total	3,623,904	4,578,741	8,570,567	5,299,348	2,093,322	7,843,675
Broker-dealers	891,979	66,060	1,252,394	619,965	24,231	978,055
Brokers	2,081,895	1,059,386	3,214,848	3,955,705	1,568,975	5,641,826
Portfolio management companies	650,030	3,453,295	4,103,325	723,678	500,116	1,223,794

1 Data at the end of period. Quarterly.
2 Includes retail, professional and other clients.

Aggregated income statement. Broker-dealers

TABLE 2.7

			2012			2013	
Thousand euro[1]	2010	2011	2012	II	III	IV	I	II[2]
I. Interest income	102,054	91,542	56,161	32,651	43,328	56,161	7,515	8,778
II. Net commission	533,858	490,517	410,740	234,842	324,639	410,740	97,329	126,485
Commission revenues	798,152	776,641	589,027	331,330	460,661	589,027	142,577	185,843
Brokering	555,207	529,711	348,403	200,721	276,779	348,403	88,899	116,450
Placement and underwriting	8,499	7,446	6,869	4,089	4,689	6,869	4,293	4,295
Securities deposit and recording	22,367	21,060	19,775	10,091	15,090	19,775	4,308	5,767
Portfolio management	13,880	16,186	14,883	6,881	10,005	14,883	3,544	4,751
Design and advising	53,722	60,712	12,067	26,539	19,856	12,067	4,551	5,726
Stocks search and placement	36	485	50	25	31	50	15	19
Market credit transactions	9	8	8	6	6	8	6	6
IICs[3] marketing	65,487	59,588	45,050	23,113	33,927	45,050	11,374	15,472
Other	78,944	81,446	141,924	59,864	100,278	141,924	25,586	33,357
Commission expenses	264,294	286,124	178,287	96,488	136,022	178,287	45,248	59,358
III. Financial investment income	48,588	271,956	9,403	92,439	39,959	9,403	36,603	49,287
IV. Net exchange differences and other operating products and expenses	26,081	-194,355	-28,522	-56,355	24,051	-28,522	-5,908	-5,742
V. Gross income	710,580	659,659	447,782	303,577	431,977	447,782	135,539	178,808
VI. Operating income	276,253	207,379	35,304	92,286	129,448	35,304	29,470	42,545
VII. Earnings from continuous activities	196,834	148,553	-12,057	78,460	107,043	-12,057	27,353	39,212
VIII. Net earnings of the period	196,834	148,553	-12,057	78,460	107,043	-12,057	27,353	39,212

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
2 Available data: April 2013.
3 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

Results of proprietary trading. Broker-dealers

TABLE 2.8

	Interest income		Financial investment income		Exchange differences and other items		Total	
Thousand euro[1]	I 2012	I 2013	I 2012	I 2013	I 2012	I 2013	I 2012	I 2013
Total	7,206	7,514	110	36,603	34,600	-10,563	41,916	33,554
Money market assets and public debt	712	1,430	4,975	5,035	–	–	5,687	6,465
Other fixed-income securities	4,818	1,643	15,479	17,099	–	–	20,297	18,742
Domestic portfolio	4,323	746	11,783	15,422	–	–	16,106	16,168
Foreign portfolio	495	897	3,696	1,678	–	–	4,191	2,575
Equities	2,021	3,869	129,313	-156,113	–	–	131,334	-152,244
Domestic portfolio	211	48	1,836	1,889	–	–	2,047	1,937
Foreign portfolio	1,810	3,821	127,477	-158,002	–	–	129,287	-154,181
Derivatives	–	–	-149,339	169,543	–	–	-149,339	169,543
Repurchase agreements	-987	-436	–	–	–	–	-987	-436
Market credit transactions	0	0	–	–	–	–	0	0
Deposits and other transactions with financial Intermediaries	2,216	615	–	–	–	–	2,216	615
Net exchange differences	–	–	–	–	29,760	-8,399	29,760	-8,399
Other operating products and expenses	–	–	–	–	6,350	2,490	6,350	2,490
Other transactions	-1,574	394	-318	1,039	-1,510	-4,654	-3,402	-3,221

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

Aggregated income statement. Brokers

TABLE 2.9

				2012			2013	
Thousand euro[1]	2010	2011	2012	II	III	IV	I	II[2]
I. Interest income	1,629	2,481	1,912	946	1,401	1,912	391	552
II. Net commission	109,165	97,886	93,246	46,663	67,075	93,246	24,515	33,424
Commission revenues	126,055	112,351	108,198	53,623	77,220	108,198	28,394	38,640
Brokering	38,176	36,354	38,112	17,993	28,968	38,112	10,384	13,578
Placement and underwriting	2,748	2,870	3,128	1,620	1,871	3,128	199	396
Securities deposit and recording	366	441	576	311	458	576	138	192
Portfolio management	19,489	12,352	14,476	5,487	8,356	14,476	3,044	4,224
Design and advising	3,618	5,349	3,123	2,455	3,822	3,123	1,065	1,295
Stocks search and placement	304	61	88	0	0	88	55	55
Market credit transactions	27	42	30	14	23	30	3	3
IICs[3] marketing	23,946	21,381	25,949	9,880	15,124	25,949	7,111	9,617
Other	37,381	33,500	22,715	15,864	18,599	22,715	6,396	9,281
Commission expenses	16,890	14,465	14,952	6,960	10,145	14,952	3,879	5,216
III. Financial investment income	456	622	1,255	787	1,093	1,255	91	200
IV. Net exchange differences and other operating products and expenses	-1,416	-1,539	-1,459	-953	-1,340	-1,459	-208	-302
V. Gross income	109,834	99,450	94,954	47,443	68,229	94,954	24,789	33,874
VI. Operating income	9,457	7,758	4,598	2,589	3,398	4,598	3,375	5,390
VII. Earnings from continuous activities	6,452	5,489	3,583	2,357	2,960	3,583	3,373	5,330
VIII. Net earnings of the period	6,452	5,489	3,583	2,357	2,960	3,583	3,373	5,330

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
2 Available data: April 2013.
3 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

Aggregated income statement. Portfolio management companies

TABLE 2.10

				2012			2013	
Thousand euro[1]	2010	2011	2012	II	III	IV	I	II[2]
I. Interest income	407	682	733	390	559	733	283	241
II. Net commission	10,097	7,988	7,879	3,832	5,921	7,879	2,014	2,772
Commission revenues	20,994	18,477	17,887	8,864	13,408	17,887	4,625	6,286
Portfolio management	18,020	16,582	16,307	8,115	12,168	16,307	4,226	5,751
Design and advising	1,160	1,894	1,579	749	1,240	1,579	399	534
IICs[3] marketing	34	0	0	0	0	0	0	0
Other	1,779	0	0	0	0	0	0	0
Commission expenses	10,897	10,489	10,008	5,032	7,487	10,008	2,611	3,514
III. Financial investment income	51	186	4	-51	-41	4	-7	8
IV. Net exchange differences and other operating products and expenses	22	-11	-1	48	9	-1	19	9
V. Gross income	10,577	8,845	8,615	4,219	6,448	8,615	2,309	3,030
VI. Operating income	1,154	1,526	1,406	639	1,071	1,406	576	730
VII. Earnings from continuous activities	939	1,042	953	439	728	953	393	486
VIII. Net earnings of the period	939	1,042	953	439	728	953	393	486

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
2 Available data: April 2013.
3 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

Surplus equity over capital adequacy requirements[1]

TABLE 2.11

	Surplus		Number of companies according to its surplus percentage									
Thousand euro	Total amount	%[2]	<50	<100	<150	<200	<300	<400	<500	<750	<1000	>1000
Total	1,106,049	319.33	15	22	8	3	15	11	3	8	2	6
Broker-dealers	1,040,039	355.90	2	8	3	2	11	7	3	4	1	5
Brokers	53,556	160.50	11	13	5	1	3	3	0	4	0	1
Portfolio management companies	12,454	59.97	2	1	0	0	1	1	0	0	1	0

1 Available data: March 2013.
2 Average percentage is weighted by the required equity of each company. It is an indicator of the number of times, in percentage terms, that the surplus contains the required equity in an average company.

Return on equity (ROE) before taxes[1, 2]

TABLE 2.12

		Number of companies according to its annualized return							
	Average[3]	Losses	0-5%	6-15%	16-30%	31-45%	46-60%	61-75%	76-100%	>100%
Total	9.99	29	15	19	14	6	3	4	1	2
Broker-dealers	9.72	13	10	9	9	2	2	0	1	0
Brokers	15.20	14	4	8	4	4	1	4	0	2
Portfolio management companies	6.59	2	1	2	1	0	0	0	0	0

1 ROE has been calculated as:

$$ROE = \frac{Earnings\ before\ taxes\ (annualized)}{Own\ Funds}$$

Own_Funds= Share capital + Paid-in surplus + Reserves – Own shares + Prior year profits and retained earnings – Interim dividend.
2 Available data: March 2013.
3 Average weighted by equity, %.

Financial advisory firms. Main figures

TABLE 2.13

				2011		2012	
Thousand euro	2009	2010	2011	I	II	I	II
ASSETS ADVISED[1]							
Total	1,410,985	15,802,743	16,033,109	16,498,814	16,033,109	14,663,856	14,769,051
Retail clients	364,284	1,715,084	2,181,943	1,895,320	2,181,943	2,415,002	3,259,987
Professional	1,046,702	13,995,206	13,831,973	14,501,823	13,831,973	12,205,216	11,454,933
Other	0	92,453	19,193	101,671	19,193	43,638	54,132
COMMISSION INCOME[2]							
Total	3,183	20,745	31,052	14,116	31,052	13,940	25,828
Commission revenues	3,183	20,629	30,844	14,080	30,844	13,855	25,653
Other income	0	116	209	36	209	85	175
EQUITY							
Total	1,500	10,057	12,320	10,469	12,320	13,098	15,249
Share capital	1,043	3,014	3,895	3,386	3,895	4,328	4,485
Reserves and retained earnings	36	242	950	2,915	950	5,904	7,139
Income for the year[2]	421	6,801	7,474	4,168	7,474	2,866	3,626

1 Data at the end of each period. Half-yearly.
2 Accumulated data from the beginning of the year to the last day of every semester.

3 Collective investment schemes (IICs)[a, b]

Number, management companies and depositories of collective investment schemes registered at the CNMV

TABLE 3.1

				2012			2013	
	2010	2011	2012	II	III	IV	I	II[1]
Total financial IICs	5,627	5,460	5,246	5,373	5,293	5,246	5,243	5,236
Mutual funds	2,429	2,341	2,205	2,284	2,224	2,205	2,207	2,195
Investment companies	3,133	3,056	2,981	3,025	3,007	2,981	2,979	2,983
Funds of hedge funds	32	27	24	28	26	24	24	24
Hedge funds	33	36	36	36	36	36	33	34
Total real estate IICs	16	14	14	14	14	14	15	15
Real estate investment funds	8	6	6	6	6	6	6	6
Real estate investment companies	8	8	8	8	8	8	9	9
Total foreign IICs marketed in Spain	660	739	754	743	749	754	753	764
Foreign funds marketed in Spain	379	426	421	421	418	421	417	421
Foreign companies marketed in Spain	281	313	333	322	331	333	336	343
Management companies	123	114	105	110	110	105	105	102
IIC depositories	114	97	84	90	87	84	83	80

1 Available data: May 2013.

Number of IICs investors and shareholders

TABLE 3.2

				2012			2013	
	2010	2011	2012	II	III	IV	I[1]	II[2]
Total financial IICs	5,578,524	5,249,813	4,815,636	5,046,010	4,939,311	4,815,636	4,927,984	4,982,344
Mutual funds	5,160,889	4,835,193	4,410,771	4,634,772	4,531,940	4,410,771	4,523,140	4,576,878
Investment companies	417,635	414,620	404,865	411,238	407,371	404,865	404,844	405,466
Total real estate IICs	76,223	30,678	26,155	28,655	28,522	26,155	25,069	23,759
Real estate investment funds	75,280	29,735	25,218	27,716	27,587	25,218	24,048	22,738
Real estate investment companies	943	943	937	939	935	937	1,021	1,021
Total foreign IICs marketed in Spain[3]	865,767	761,380	817,309	789,088	819,911	817,309	887,121	–
Foreign funds marketed in Spain	193,233	177,832	163,255	180,064	186,878	163,255	186,449	–
Foreign companies marketed in Spain	666,534	583,548	654,054	609,024	633,033	654,054	700,672	–

1 Provisional data for foreign IICs.
2 Available data: April 2013.
3 Exchange traded funds (ETFs) data is not included.

IICs total net assets

TABLE 3.3

				2012			2013	
Million euro	2010	2011	2012	II	III	IV	I[1]	II[2]
Total financial IICs	170,073.1	155,982.6	147,722.2	148,594.6	149,122.7	147,722.2	154,845.3	158,479.8
Mutual funds[3]	143,918.2	132,368.6	124,040.4	125,120.7	125,108.2	124,040.4	130,295.4	133,497.7
Investment companies	26,155.0	23,614.0	23,681.8	23,473.9	24,014.5	23,681.8	24,549.9	24,982.1
Total real estate IICs	6,437.5	4,807.1	4,485.5	4,691.2	4,608.6	4,485.5	4,915.2	4,892.3
Real estate investment funds	6,115.6	4,494.6	4,201.5	4,386.0	4,313.9	4,201.5	4,071.4	4,050.4
Real estate investment companies	321.9	312.5	284.1	305.1	294.7	284.1	843.8	841.9
Total foreign IICs marketed in Spain[4]	36,692.9	29,969.5	37,990.7	34,555.4	38,409.5	37,990.7	44,504.2	–
Foreign funds marketed in Spain	8,535.9	6,382.9	6,248.7	7,199.6	7,591.8	6,248.7	7,599.1	–
Foreign companies marketed in Spain	28,156.9	23,586.6	31,742.0	27,355.8	30,817.7	31,742.0	36,945.1	–

1 Provisional data for foreign IICs.
2 Available data: April 2013.
3 For March 2013, mutual funds investments in financial IICs reached 3.4 billion euro.
4 Exchange traded funds (ETFs) data is not included.

a IICs: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

b In this document, neither hedge funds nor funds of hedge funds are included in the figures referred to mutual funds.

Mutual funds asset allocation[1]

TABLE 3.4

				2012				2013
Million euro	2010	2011	2012	I	II	III	IV	I[2]
Asset	143,918.2	132,368.6	124,040.4	131,994.5	125,120.7	125,108.2	124,040.4	130,295.4
Portfolio investment	137,295.4	126,370.0	118,446.5	125,415.1	119,257.1	119,558.0	118,446.5	123,616.6
Domestic securities	89,630.2	90,394.4	82,929.6	88,306.4	83,543.1	83,428.6	82,929.6	88,257.3
Debt securities	68,575.1	72,076.1	65,999.1	71,341.6	67,492.7	67,268.2	65,999.1	67,522.7
Shares	3,829.2	3,087.0	3,140.8	2,896.1	2,812.9	2,942.0	3,140.8	3,327.5
Investment collective schemes	7,338.6	6,038.5	3,170.7	3,827.9	3,566.2	3,326.8	3,170.7	3,563.9
Deposits in Credit institutions	9,460.8	8,961.2	10,333.3	10,049.9	9,415.4	9,650.0	10,333.3	13,647.7
Derivatives	426.2	231.5	285.7	191.0	256.0	241.6	285.7	195.5
Other	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign securities	47,626.5	35,968.1	35,512.7	37,097.8	35,708.0	36,123.3	35,512.7	35,355.8
Debt securities	30,337.4	22,713.5	20,493.9	22,699.0	21,937.0	21,553.5	20,493.9	18,969.8
Shares	8,385.8	7,037.3	7,668.6	7,443.8	7,069.7	7,452.0	7,668.6	8,241.2
Investment collective schemes	8,404.7	6,061.6	7,112.3	6,746.4	6,485.3	6,928.3	7,112.3	7,904.4
Deposits in Credit institutions	108.0	23.0	45.8	58.8	59.8	37.4	45.8	36.9
Derivatives	387.1	131.6	191.6	149.1	154.7	151.5	191.6	203.1
Other	3.6	1.1	0.6	0.7	1.5	0.6	0.6	0.5
Doubtful assets and matured investment	38.6	7.5	4.2	10.9	6.0	6.1	4.2	3.6
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash	6,531.4	5,837.6	5,374.7	6,398.4	5,630.4	5,324.0	5,374.7	6,397.1
Net balance (Debtors - Creditors)	91.4	161.1	219.2	181.0	233.3	226.2	219.2	281.6

1 Hedge funds and funds of hedge funds are not included in these figures due to the entry into force, on 31 December 2008, of Circular CR CNMV 3/2008 which establishes a different deadline in reporting accounting information to CNMV.
2 Provisional data.

Investment companies asset allocation

TABLE 3.5

				2012				2013
Million euro	2010	2011	2012	I	II	III	IV	I[1]
Asset	26,155.0	23,614.0	23,681.8	24,465.8	23,473.9	24,014.5	23,681.8	24,549.9
Portfolio investment	25,187.3	22,521.9	22,512.4	23,175.1	22,149.6	22,300.8	22,512.4	23,310.1
Domestic securities	12,881.4	12,385.3	11,568.0	12,695.2	11,613.0	11,196.4	11,568.0	11,859.7
Debt securities	5,435.9	7,460.8	6,021.4	7,415.2	7,006.9	6,562.6	6,021.4	5,937.5
Shares	2,988.6	2,508.5	2,271.7	2,385.9	2,275.2	2,149.5	2,271.7	2,336.8
Investment collective schemes	758.7	667.4	701.0	694.0	646.1	650.7	701.0	800.6
Deposits in Credit institutions	3,675.2	1,721.7	2,531.9	2,164.7	1,649.6	1,794.8	2,531.9	2,740.9
Derivatives	-5.9	-5.2	7.7	1.9	1.4	4.0	7.7	10.0
Other	29.0	32.2	34.3	33.4	33.9	34.6	34.3	33.9
Foreign securities	12,298.1	10,131.1	10,940.2	10,473.9	10,531.5	11,100.0	10,940.2	11,446.1
Debt securities	3,606.8	3,070.6	2,489.2	2,966.6	3,024.4	2,972.9	2,489.2	2,217.1
Shares	4,166.0	3,384.3	3,587.8	3,493.5	3,345.4	3,433.4	3,587.8	3,822.5
Investment collective schemes	4,390.5	3,516.3	4,700.2	3,840.0	3,997.7	4,523.9	4,700.2	5,261.0
Deposits in Credit institutions	12.1	10.8	14.0	13.8	12.1	11.0	14.0	13.5
Derivatives	119.9	145.1	147.1	156.3	147.6	154.6	147.1	130.2
Other	2.8	3.9	1.8	3.9	4.2	4.2	1.8	1.7
Doubtful assets and matured investment	7.9	5.5	4.3	6.0	5.1	4.4	4.3	4.3
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fixed assets	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Cash	832.0	854.6	959.7	1,071.7	1,030.2	1,530.9	959.7	1,076.2
Net balance (Debtors - Creditors)	135.5	237.4	209.6	218.8	294.0	182.7	209.6	163.4

1 Provisional data.

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

TABLE 3.6

	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[2]
NO. OF FUNDS								
Total financial mutual funds	2,408	2,310	2,185	2,255	2,197	2,185	2,185	2,176
Fixed-income[3]	537	508	454	479	459	454	448	439
Mixed fixed-income[4]	160	140	125	132	128	125	126	127
Mixed equity[5]	138	128	117	122	119	117	120	124
Euro equity	172	148	127	135	129	127	126	122
Foreign equity	232	220	211	220	214	211	209	205
Guaranteed fixed-income	276	351	398	385	393	398	409	414
Guaranteed equity[6]	499	420	361	384	369	361	348	341
Global funds	192	203	192	198	194	192	182	176
Passive management	61	59	85	75	75	85	103	114
Absolute return	141	133	115	125	117	115	114	112
INVESTORS								
Total financial mutual funds	5,160,889	4,835,193	4,410,771	4,634,772	4,531,940	4,410,771	4,523,140	4,576,878
Fixed-income[3]	1,622,664	1,384,946	1,261,634	1,326,504	1,297,686	1,261,634	1,283,052	1,308,994
Mixed fixed-income[4]	270,341	206,938	188,574	195,137	193,992	188,574	194,084	197,496
Mixed equity[5]	171,336	145,150	138,096	141,784	140,387	138,096	140,132	141,331
Euro equity	266,395	237,815	220,450	225,774	220,342	220,450	231,881	233,449
Foreign equity	501,138	448,539	398,664	432,816	417,276	398,664	409,552	412,985
Guaranteed fixed-income	790,081	1,042,658	1,075,852	1,070,002	1,082,897	1,075,852	1,114,875	1,124,575
Guaranteed equity[6]	1,065,426	912,298	727,880	832,332	783,203	727,880	703,587	682,868
Global funds	105,720	127,336	101,321	105,966	105,824	101,321	104,718	106,686
Passive management	90,343	100,416	125,003	108,166	110,678	125,003	170,399	196,855
Absolute return	277,445	229,097	173,297	196,291	179,655	173,297	170,860	170,413
TOTAL NET ASSETS (million euro)								
Total financial mutual funds	143,918.2	132,368.6	124,040.4	125,120.7	125,108.2	124,040.4	130,295.4	133,497.7
Fixed-income[3]	56,614.6	46,945.5	40,664.6	42,837.8	41,512.2	40,664.6	42,690.3	43,905.0
Mixed fixed-income[4]	7,319.0	5,253.6	5,500.9	5,430.9	5,512.9	5,500.9	5,965.6	6,133.2
Mixed equity[5]	3,470.5	2,906.1	3,179.9	3,040.3	3,116.2	3,179.9	3,593.6	3,741.7
Euro equity	5,356.8	4,829.2	5,270.2	4,516.5	4,891.7	5,270.2	5,691.8	5,910.5
Foreign equity	8,037.3	6,281.2	6,615.0	6,373.7	6,663.2	6,615.0	7,224.0	7,316.7
Guaranteed fixed-income	26,180.2	35,058.0	36,445.0	35,421.7	36,489.9	36,445.0	37,653.1	38,147.8
Guaranteed equity[6]	22,046.5	18,014.5	14,413.2	15,943.0	15,383.0	14,413.2	13,925.5	13,660.2
Global funds	4,440.3	5,104.7	4,358.6	4,272.1	4,288.4	4,358.6	4,366.9	4,441.4
Passive management	2,104.8	1,986.2	2,991.2	2,190.9	2,456.2	2,991.2	4,511.4	5,522.3
Absolute return	8,348.1	5,989.7	4,601.9	5,093.9	4,794.4	4,601.9	4,673.3	4,702.0

1 Mutual funds which have sent reports to the CNMV, excluding those in process of dissolution or liquidation.
2 Available data: April 2013.
3 From III 2011 on includes: Fixed income euro, Foreign fixed-income, Monetary market funds and Short-term monetary market funds. Until II 2011 included: Fixed income euro, Foreign fixed-income and Monetary market funds.
4 Mixed euro fixed-income and Foreign mixed fixed-income.
5 Mixed euro equity and Foreign mixed equity.
6 Guaranteed equity and partial guarantee.

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

TABLE 3.7

				2012			2013	
	2010	2011	2012	II	III	IV	I	II[1]
INVESTORS								
Total financial mutual funds	5,160,889	4,835,193	4,410,771	4,634,772	4,531,940	4,410,771	4,523,140	4,576,878
Individuals	5,019,902	4,706,193	4,293,071	4,509,469	4,410,151	4,293,071	4,400,031	4,451,472
Residents	4,954,891	4,645,384	4,237,534	4,451,177	4,353,203	4,237,534	4,344,170	4,395,487
Non-residents	65,011	60,809	55,537	58,292	56,948	55,537	55,861	55,985
Legal entities	140,987	129,000	117,700	125,303	121,789	117,700	123,109	125,406
Credit Institutions	524	490	473	492	485	473	500	494
Other resident Institutions	139,550	127,765	116,589	124,123	120,632	116,589	121,922	124,217
Non-resident Institutions	913	745	638	688	672	638	687	695
TOTAL NET ASSETS (million euro)								
Total financial mutual funds	143,918.1	132,368.6	124,040.4	125,120.7	125,108.2	124,040.4	130,295.4	133,497.7
Individuals	113,660.6	106,627.6	101,963.8	102,223.9	102,386.1	101,963.8	106,634.4	108,862.2
Residents	111,900.1	105,088.0	100,515.7	100,763.1	100,914.7	100,515.7	105,154.3	107,356.8
Non-residents	1,760.5	1,539.6	1,448.0	1,460.9	1,471.4	1,448.0	1,480.1	1,505.3
Legal entities	30,257.5	25,741.1	22,076.6	22,896.8	22,722.0	22,076.6	23,661.0	24,635.5
Credit Institutions	1,926.1	1,446.7	1,075.4	1,274.6	1,258.3	1,075.4	610.5	568.6
Other resident Institutions	27,644.6	23,880.7	20,657.1	21,259.1	21,116.5	20,657.1	22,662.2	23,648.9
Non-resident Institutions	686.9	413.7	344.1	363.1	347.2	344.1	388.2	418.0

1 Available data: April 2013.

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

TABLE 3.8

				2012				2013
Million euro	2010	2011	2012	I	II	III	IV	I
SUBSCRIPTIONS								
Total financial mutual funds	78,805.2	58,145.0	51,006.7	12,932.8	11,127.7	18,221.5	8,724.7	17,899.8
Fixed-income	41,656.1	27,206.2	32,924.2	7,776.1	5,897.5	14,366.3	4,884.3	9,266.2
Mixed fixed-income	3,538.8	1,332.4	1,440.2	358.9	379.1	310.6	391.6	784.9
Mixed equity	1,221.7	815.7	590.0	101.5	196.1	94.7	197.7	396.6
Euro equity	1,673.0	2,085.0	1,257.5	284.5	350.6	312.1	310.3	699.9
Foreign equity	4,455.2	3,835.1	1,693.8	561.2	385.1	393.4	354.1	698.3
Guaranteed fixed-income	11,513.4	13,965.7	7,976.3	2,340.3	2,538.7	1,851.5	1,245.8	2,956.0
Guaranteed equity	5,120.1	2,570.7	1,420.7	474.4	494.9	272.4	179.0	469.3
Global funds	3,018.1	3,261.6	1,270.9	468.3	295.8	168.6	338.2	500.8
Passive management	683.8	924.7	1,402.2	249.6	366.8	263.6	522.2	1,689.9
Absolute return	5,924.8	2,147.7	1,031.0	318.1	223.1	188.3	301.5	437.9
REDEMPTIONS								
Total financial mutual funds	104,385.6	68,983.6	63,744.4	14,585.3	15,465.6	21,398.1	12,295.4	13,654.7
Fixed-income	68,806.1	37,633.9	38,767.8	8,503.0	7,859.9	16,247.2	6,157.7	7,353.2
Mixed fixed-income	4,955.7	3,258.1	2,215.4	596.8	626.3	484.2	508.1	471.7
Mixed equity	1,311.8	1,136.2	973.1	235.5	323.6	163.0	251.0	185.2
Euro equity	2,369.9	1,933.0	1,421.2	436.0	336.8	314.2	334.2	425.3
Foreign equity	3,303.3	4,652.7	2,114.4	575.2	549.3	449.3	540.6	583.0
Guaranteed fixed-income	6,797.4	6,737.4	8,829.3	1,756.2	3,059.8	1,793.0	2,220.3	2,427.3
Guaranteed equity	7,620.2	5,632.3	4,944.2	1,206.0	1,365.9	1,077.5	1,294.8	1,030.3
Global funds	2,694.4	2,316.3	1,278.4	310.4	367.6	269.7	330.7	301.1
Passive management	1,474.1	1,199.2	830.1	220.3	252.2	195.8	161.8	467.2
Absolute return	5,053.0	4,484.7	2,370.4	745.8	724.2	404.2	496.2	410.4

1 Estimated data.

Financial mutual funds asset change by category: Net subscriptions/redemptions and return on assets

TABLE 3.9

				2012				2013
Million euro	2010	2011	2012	I	II	III	IV	I
NET SUBSCRIPTIONS/REDEMPTIONS								
Total financial mutual funds	-25,580.6	-10,853.1	-14,597.3	-3,421.1	-4,419.4	-3,177.2	-3,579.6	4,224.4
Fixed-income	-27,149.9	-10,423.6	-7,739.7	-2,496.5	-2,060.0	-1,885.4	-1,297.8	1,729.5
Mixed fixed-income	-1,417.0	-1,980.4	-18.8	302.2	-167.8	-46.1	-107.1	419.0
Mixed equity	-90.0	-375.5	35.8	219.8	-100.8	-45.2	-38.0	349.0
Euro equity	-696.9	142.0	-115.4	-171.8	18.2	13.5	24.7	275.0
Foreign equity	1,152.1	-796.0	-425.3	-17.2	-180.8	-38.6	-188.7	122.3
Guaranteed fixed-income	4,716.0	7,809.3	-338.8	749.0	-430.5	215.7	-873.0	537.8
Guaranteed equity	-2,500.1	-4,053.9	-4,225.9	-896.4	-1,030.4	-1,040.2	-1,258.9	-651.9
Global funds	323.6	972.2	-1,021.0	-710.2	-199.8	-105.5	-5.5	-61.0
Passive management	-790.3	60.8	823.8	30.2	233.6	140.0	420.0	1,477.0
Absolute return	871.7	-2,207.9	-1,571.9	-430.2	-501.0	-385.4	-255.3	27.7
RETURN ON ASSETS								
Total financial mutual funds	135.7	-673.3	6,289.3	3,053.1	-2,452.8	3,175.6	2,513.4	2,035.2
Fixed-income	64.5	744.9	1,459.6	653.0	-203.9	560.1	450.4	296.4
Mixed fixed-income	-56.4	-85.1	266.1	131.1	-88.2	128.2	95.0	45.8
Mixed equity	-53.4	-189.0	238.2	108.3	-93.0	121.1	101.8	64.7
Euro equity	-254.1	-666.9	558.8	158.2	-316.1	361.8	354.9	146.5
Foreign equity	877.4	-947.2	759.1	549.2	-258.8	328.2	140.5	486.7
Guaranteed fixed-income	-170.4	1,070.4	1,727.4	870.5	-824.3	852.8	828.4	670.5
Guaranteed equity	-392.8	21.8	624.5	290.5	-435.2	480.2	289.0	164.2
Global funds	123.1	-307.8	274.9	151.1	-73.7	121.8	75.7	69.3
Passive management	-109.7	-163.9	196.8	42.7	-96.5	135.6	115.0	47.4
Absolute return	107.7	-150.5	184.1	98.4	-63.0	85.8	62.9	43.7

Financial mutual funds return on assets. Detail by category

TABLE 3.10

				2012				2013
% of daily average total net assets	2010	2011	2012	I	II	III	IV	I
MANAGEMENT YIELDS								
Total financial mutual funds	1.09	0.45	6.03	2.56	-1.73	2.83	2.31	1.86
Fixed-income	0.78	2.28	4.33	1.65	-0.30	1.58	1.34	0.92
Mixed fixed-income	0.61	-0.15	6.05	2.59	-1.33	2.65	2.06	1.09
Mixed equity	0.11	-4.30	9.20	3.71	-2.67	4.34	3.68	2.25
Euro equity	-3.05	-10.77	12.84	3.70	-6.40	8.15	7.49	3.10
Foreign equity	14.80	-11.05	13.51	8.70	-3.51	5.48	2.60	7.57
Guaranteed fixed-income	-0.11	3.77	5.30	2.51	-2.30	2.58	2.50	2.00
Guaranteed equity	-0.46	1.29	5.26	1.97	-2.34	3.36	2.26	1.45
Global funds	4.15	-4.55	7.80	3.79	-1.42	3.18	2.11	1.97
Passive management	-2.50	-6.27	7.99	2.38	-4.46	5.92	4.23	1.42
Absolute return	2.49	-0.90	4.93	1.99	-0.90	2.11	1.67	1.24
EXPENSES. MANAGEMENT FEE								
Total financial mutual funds	0.91	0.93	0.94	0.24	0.23	0.23	0.24	0.24
Fixed-income	0.65	0.64	0.66	0.17	0.16	0.16	0.17	0.17
Mixed fixed-income	1.20	1.17	1.10	0.29	0.27	0.27	0.27	0.28
Mixed equity	1.65	1.59	1.51	0.39	0.38	0.37	0.36	0.37
Euro equity	1.78	1.80	1.77	0.44	0.44	0.44	0.44	0.43
Foreign equity	1.84	1.77	1.74	0.47	0.43	0.41	0.42	0.46
Guaranteed fixed-income	0.62	0.72	0.79	0.19	0.19	0.20	0.21	0.21
Guaranteed equity	1.24	1.24	1.23	0.30	0.30	0.31	0.31	0.30
Global funds	1.06	1.11	1.01	0.33	0.23	0.23	0.22	0.31
Passive management	0.72	0.75	0.81	0.22	0.20	0.20	0.19	0.18
Absolute return	1.06	1.08	1.03	0.30	0.26	0.23	0.24	0.29
EXPENSES. DEPOSITORY FEE								
Total financial mutual funds	0.09	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Fixed-income	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Mixed fixed-income	0.10	0.12	0.08	0.02	0.02	0.02	0.02	0.02
Mixed equity	0.12	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Euro equity	0.11	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Foreign equity	0.12	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Guaranteed fixed-income	0.07	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Guaranteed equity	0.10	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Global funds	0.09	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Passive management	0.07	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Absolute return	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02

Mutual funds quarterly returns. Detail by category

TABLE 3.11

				2012				2013
In %	2010	2011	2012	I	II	III	IV	I
Total financial mutual funds	0.35	-0.08	5.50	2.41	-1.75	2.72	2.08	1.64
Fixed-income	0.11	1.56	3.54	1.51	-0.47	1.35	1.12	0.76
Mixed fixed-income	-0.54	-1.34	4.95	2.30	-1.55	2.41	1.75	0.83
Mixed equity	-0.98	-5.64	7.83	3.25	-2.90	4.12	3.30	2.02
Euro equity	-2.94	-11.71	12.31	3.34	-6.34	8.16	7.28	3.05
Foreign equity	14.22	-10.83	13.05	8.91	-3.63	5.27	2.32	7.49
Guaranteed fixed-income	-0.67	3.28	4.85	2.48	-2.32	2.42	2.27	1.72
Guaranteed equity	-1.79	0.14	5.07	1.63	-2.43	3.89	1.99	1.16
Global funds	3.22	-4.64	7.44	3.56	-1.23	2.93	2.03	1.75
Passive management	-2.36	-7.33	7.10	1.97	-4.31	5.44	4.04	0.96
Absolute return	1.53	-1.87	3.84	1.68	-1.04	1.82	1.36	1.01

Hedge funds and funds of hedge funds

TABLE 3.12

	2010	2011	2012	2012 I	2012 II	2012 III	2012 IV	2013 I[1]
HEDGE FUNDS								
Investors/shareholders	1,852	2,047	2,427	2,077	2,169	2,305	2,427	2,425
Total net assets (million euro)	646.2	728.1	918.6	775.3	774.5	828.7	918.6	964.4
Subscriptions (million euro)	236.6	201.1	347.6	71.5	60.7	83.0	132.4	75.0
Redemptions (million euro)	268.6	92.5	212.7	49.8	43.8	50.9	68.2	52.8
Net subscriptions/redemptions (million euro)	-32.0	108.6	134.8	21.7	16.8	32.1	64.2	22.2
Return on assets (million euro)	26.3	-26.5	55.7	25.5	-17.7	22.2	25.7	23.0
Returns (%)	5.37	-2.60	7.11	3.66	-2.42	2.66	3.15	2.64
Management yields (%)[2]	6.33	-1.88	8.00	3.60	-1.48	2.72	3.01	2.76
Management fee (%)[2]	1.91	1.66	1.38	0.37	0.32	0.32	0.36	0.31
Financial expenses (%)[2]	0.07	0.06	0.04	0.01	0.01	0.01	0.01	0.01
FUNDS OF HEDGE FUNDS								
Investors/shareholders	4,404	3,805	3,338	3,592	3,607	3,513	3,338	3,307
Total net assets (million euro)	694.9	573.0	540.0	568.0	561.4	561.3	540.0	543.1
Subscriptions (million euro)	47.9	10.6	23.6	2.0	7.4	13.7	0.5	–
Redemptions (million euro)	184.8	120.1	74.3	13.5	13.2	21.2	26.4	–
Net subscriptions/redemptions (million euro)	-136.9	-109.6	-50.8	-11.5	-5.9	-7.5	-25.9	–
Return on assets (million euro)	21.7	-12.3	17.6	6.4	-0.7	7.4	4.5	–
Returns (%)	3.15	-1.70	0.88	1.15	-2.21	1.38	0.60	1.50
Management yields (%)[3]	4.38	-0.47	4.56	1.45	0.16	1.66	1.22	–
Management fee (%)[3]	1.25	1.25	1.28	0.32	0.30	0.32	0.33	–
Depository fee (%)[3]	0.08	0.08	0.08	0.02	0.02	0.02	0.02	–

1 Available data: February 2013. Return refers to the period December-February.
2 % of monthly average total net assets.
3 % of daily average total net assets.

Management companies. Number of portfolios and assets under management[1]

TABLE 3.13

	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II[2]
NUMBER OF PORTFOLIOS								
Mutual funds	2,429	2,341	2,205	2,284	2,224	2,205	2,207	2,195
Investment companies	3,068	3,002	2,922	2,967	2,949	2,922	2,922	2,921
Funds of hedge funds	32	27	24	28	26	24	24	24
Hedge funds	31	35	35	35	35	35	33	34
Real estate investment fund	8	6	6	6	6	6	6	6
Real estate investment companies	8	8	8	8	8	8	9	9
ASSETS UNDER MANAGEMENT (million euro)								
Mutual funds	143,918.2	132,368.6	124,040.4	125,120.7	125,108.2	124,040.4	130,295.4	133,497.7
Investment companies	25,361.3	23,037.8	23,011.0	22,849.4	23,363.1	23,011.0	23,936.4	24,295.6
Funds of hedge funds[3]	694.9	573.0	539.6	561.4	561.3	539.6	543.1	–
Hedge funds[3]	643.5	694.7	882.5	738.0	791.0	882.5	964.4	–
Real estate investment fund	6,115.6	4,494.6	4,201.5	4,386.0	4,313.9	4,201.5	4,071.4	4,050.4
Real estate investment companies	321.9	312.5	284.1	305.1	294.7	284.1	843.8	841.9

1 It is considered as "assets under management" all the assets of the investment companies which are co-managed by management companies and other different companies.
2 Available data: April 2013.
3 Available data for I Quarter 2013: February 2013.

Foreign Collective Investment Schemes marketed in Spain[1]

TABLE 3.14

				2012				2013
	2010	2011	2012	I	II	III	IV	I[2]
INVESTMENT VOLUME[3] (million euro)								
Total	36,692.9	29,969.5	37,990.7	31,835.1	34,555.4	38,409.5	37,990.7	44,504.2
Mutual funds	8,535.9	6,382.9	6,248.7	6,595.4	7,199.6	7,591.8	6,248.7	7,559.1
Investment companies	28,156.9	23,586.6	31,742.0	25,239.7	27,355.8	30,817.7	31,742.0	36,945.1
INVESTORS/SHAREHOLDERS								
Total	865,767	761,380	817,309	768,467	789,088	819,911	817,309	887,121
Mutual funds	193,233	177,832	163,255	175,819	180,064	186,878	163,255	186,449
Investment companies	666,534	583,548	654,054	592,648	609,024	633,033	654,054	700,672
NUMBER OF SCHEMES								
Total	660	739	754	765	743	749	754	753
Mutual funds	379	426	421	445	421	418	421	417
Investment companies	281	313	333	320	322	331	333	336
COUNTRY								
Luxembourg	290	297	310	303	302	308	310	307
France	225	284	272	300	278	279	272	276
Ireland	75	87	90	90	89	90	90	90
Germany	20	20	31	20	22	23	31	31
UK	16	19	22	20	21	21	22	22
The Netherlands	1	1	1	1	1	1	1	1
Austria	27	25	23	25	24	20	23	21
Belgium	5	5	3	5	5	5	3	3
Malta	1	1	1	1	1	1	1	1
Denmark	0	0	1	0	0	1	1	1

1 Exchange traded funds (ETFs) data is not included.
2 Provisional data.
3 Investment volume: participations or shares owned by the investors/shareholders at the end of the period valued at that moment.

Real estate investment schemes[1]

TABLE 3.15

				2012			2013	
	2010	2011	2012	II	III	IV	I	II[2]
REAL ESTATE MUTUAL FUNDS								
Number	7	6	6	6	6	6	6	6
Investors	75,280	29,735	25,218	27,716	27,587	25,218	24,048	22,738
Asset (million euro)	6,115.6	4,494.6	4,201.5	4,386.0	4,313.9	4,201.5	4,071.4	4,050.4
Return on assets (%)	-4.74	-3.23	-5.53	-1.23	-1.64	-1.93	-2.59	-0.61
REAL ESTATE INVESTMENT COMPANIES								
Number	8	8	8	8	8	8	9	9
Shareholders	943	943	937	939	935	937	1,021	1,021
Asset (million euro)	321.9	312.5	284.1	305.1	294.7	284.1	843.8	841.9

1 Real estate investment schemes which have sent reports to the CNMV, excluding those in process of dissolution or liquidation.
2 Available data: April 2013. In this case, return on assets is monthly.