CNMV
Comisión Nacional del Mercado de Valores

EXHIBITS
Annual Report CNMV
2019

Index of exhibits

The first year of work of the Macroprudential Authority Financial Stability Board (AMCESFI)

EXHIBIT 1

In March 2020, the Macroprudential Authority Financial Stability Board (AMCESFI) completed its first year of work. This authority was created under Royal Decree 102/2019[1] following the recommendations of the European Systemic Risk Board (ESRB)[2] and the International Monetary Fund (IMF)[3] in response to Spain's need for a systemic risk committee with macroprudential powers involving all national financial supervisors, as well as the Ministry of Economy.

AMCESFI, which held its first meeting in April 2019, seeks to improve the coordination of macroprudential supervision at the national level and help prevent or mitigate systemic risks, which should result in a more sustainable contribution by the financial system to economic growth. The Authority is made up of a Board, a Technical Financial Stability Committee as a support body, and the sub committees that the Board resolves to set up. These bodies are made up of representatives of the Ministry of the Economy and Digital Transformation, the Bank of Spain and the CNMV, with the possibility of inviting other public authorities, such as the Fund for Orderly Bank Restructuring (FROB) or the Independent Authority for Fiscal Responsibility. The Minister for Economic Affairs and Digital Transformation chairs the Board, of which the Governor of the Bank of Spain is deputy chairperson. Other members of the board include the Chairperson of the CNMV, the Deputy Governor of the Bank of Spain, the Deputy Chairperson of the CNMV, the Secretary of State for Economy and Business Support and the General Director of Insurance and Pension Funds.

The Deputy Governor of the Bank of Spain acts as chairperson and the Secretary-General for the Treasury and International Financing acts as deputy-chairperson of the Technical Committee.

AMCESFI, in compliance with its objective of monitoring and analysing factors that may affect systemic risk, has the capacity to issue opinions, warnings and recommendations. It may also make recommendations to supervisors for them to take specific measures. In addition, sector supervisors must inform the AMCESFI in advance about their intention to activate, recalibrate or deactivate any of their macroprudential tools.

The AMCESFI Board and Technical Committee held regular meetings throughout 2019 and so far in 2020, intensifying the frequency of their sessions starting in March 2020 during the COVID-19 crisis. The most relevant issues on which the CNMV has contributed to AMCESFI's work relate to monitoring portfolio liquidity and redemptions in investment funds and their leverage, as well as conducting stress tests at these institutions and, in general, the risks related to non-bank financial intermediation. Topics related to financial markets have also been discussed, such as fragmentation, stress levels and the analysis of short positions in Spanish securities. Recently, contributions have also been made on sustainable finances and on the risks to financial stability deriving from excessive reliance by financial institutions and their regulatory and supervisory authorities on the credit ratings granted by the rating agencies. In the context of the COVID-19 crisis, all these works have been updated, and detailed monitoring of the most relevant risk indicators carried out.

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

Following the creation of AMCESFI, the CNMV set up the Financial Stability Committee (CEF) within the institution in July 2019, headed up by the chairperson and deputy chairperson of the CNMV, the general manager of Entities, the general manager of Policy and International Affairs, the general manager of Markets, the manager of the Department of Research and Statistics, the deputy manager of Economic and Financial Stability and the deputy manager of the unit for resolution and specific tasks relating to financial stability. This committee, which meets prior to the meetings of the AMCESFI Board and Technical Committee, has the following objectives: i) to identify, analyse, prioritise and monitor factors that may cause systemic risk in the securities markets, ii) propose the adoption of appropriate measures for the management of risks that may affect financial stability, including the use of the macroprudential tools assigned to it by the CNMV and iii) serve as support for representatives of the CNMV in AMCESFI.

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1 Royal Decree 102/2019 of 1 March creating the Macroprudential Authority Financial Stability Board, establishing its legal regime and implementing certain aspects relating to macroprudential tools.

2 *Recommendation of the European Systemic Risk Board of 22 December 2011 on the macroprudential mandate of national authorities* (ESRB/2011/3). Available at: https://www.esrb.europa.eu/pub/pdf/recommendations/ESRB_2011_3.en.pdf?da108dbb14efccdf98f4544534e2ef4e

3 *Spain Financial System Stability Assessment.* IMF Country Report No. 17/321. This assessment is part of the bilateral surveillance in accordance with Article IV of the IMF's Articles of Agreement.

Very few new listings

EXHIBIT 2

2019 was a year of very few IPOs. This is cause for concern, because an equity market with critical mass that encourages investors to invest in companies and enables companies to raise capital is important for the financial system to play its role effectively. It leads to companies obtaining more of their financing through the market and being less dependent on bank financing, as well as a more resilient model for financing the economy in terms of financial stability. In the United States, where the economy recovered relatively rapidly and easily after the financial crisis, companies obtain around half of their financing directly from the market, raising capital or issuing debt instruments, while in Europe, and particularly Spain, financing received through these channels is much lower. More listed companies also means more companies with greater transparency and more companies available, directly or through funds, to any investor.

In addition, in times such as the present in which passive investment and institutional investment in general – from large fund managers, including pension funds, and sovereign wealth funds – is increasing in importance, the most securitised countries, with the most listed companies, in which these have a greater weight, naturally receive higher investment flows.

In Europe, and particularly in Spain, there were very few IPOs in 2018 and 2019 for various reasons. These include low interest rates, which make it easy to access other sources of financing, and a somewhat pessimistic, end-of-cycle, uncertain environment, aggravated by factors such as trade disputes and Brexit. The last months of 2018 were very negative for equities and a large part of 2019 was dominated by a feeling of insecurity, although overall it turned out to be a good year for investing in shares. There is also a structural factor in play: the general increase in venture capital and private equity (also in Spain), which have positive elements but compete with the option of tapping the markets, as an alternative or delaying such actions, in terms of both price and process. IPO processes are complex, relatively visible and take time (at least six or eight months), and consequently raise uncertainty about the attitudes of potential investors when the offer is launched. The acquisition of an equity interest by a venture capital fund – and there are some very large ones, capable of taking controlling or significant stakes in large companies – can generally be carried out quickly and discreetly. In addition, venture capital has been paying particularly well, among other reasons because it more easily values expectations of improvement in management, which the venture capital funds themselves promote.

In any case, stock market listing – on the primary market or on alternative markets such as MAB – remains an attractive option for many reasons and will continue to be the preferred choice in many cases. Being on the stock market broadens the possibilities of financing, fosters professionalism and rigour in management, is an incentive to grow –an important point in a country with a large number of companies that are too small –, gives prestige, reinforces the brand, helps attract and retain talent and, as it allows control to be maintained, is a natural solution for successful family businesses that reach a certain size.

At the moment there is a broad debate in Europe about the need, after Brexit, to progress with the project to achieve Capital Markets Union and there is agreement that this project will need to include the promotion of IPOs. There are many options available: easing certain requirements and obligations relating to listing without detriment to the necessary rigour; supporting market entry methods that are simpler than the standard one to date, such as direct listing with subsequent publication; not applying reporting or other obligations to listed companies only where it could make sense to require them from all companies; expanding the range of options available to interested companies, with concepts such as loyalty shares; extending some areas of the corporate regime for primary market companies to SMEs that decide to list; correcting the bias in tax regulations in favour of debt vs capital financing, etc. More companies must be encouraged to list on the stock markets.

Implementation of the prospectus regulation

EXHIBIT 3

On 21 July, the implementation of Regulation (EU) 2017/1129[1] (hereinafter, the Prospectus Regulation or the Regulation) was completed. This Regulation replaced Directive 2003/71/EC[2] and introduced significant changes in the rules governing the prospectuses of public offerings of securities or IPOs on regulated markets.

Main objectives and changes in the new Prospectus Regulation

The main objective of the Regulation is to achieve greater harmonisation and a standardised application of prospectus regulations in the various countries of the European Union. It also continues the reduction of administrative requirements, which had already started with Directive 2010/73/EU,[3] amending Directive 2003/71 /EC, in particular to facilitate access to capital markets for smaller enterprises.

To this end, in addition to certain changes in thresholds and adjustments to exemptions from obligation to publish a prospectus, the Regulation includes significant changes in, among other aspects, certain sections of the prospectus, such as risk factors and the summary, and introduces new types of prospectus, such as the EU growth prospectus, the universal registration document and the simplified prospectus for secondary issues. The new Regulation also seeks to clarify and improve the provisions relating to other aspects of the prospectus rules, such as the publication of supplements, including rules on the opening of periods for the revocation of orders in favour of issuers, when appropriate, requirements relating to the publication of the prospectus and the system of sanctions.

Implementing rules of the Prospectus Regulation

At the same time, on 21 July, Delegated Regulation (EU) 2019/980[4] and Delegated Regulation (EU) 2019/979[5] also entered into force, containing most of the delegated acts of the European Commission and regulatory technical standards drawn up by ESMA, respectively.

These implementing regulations include a full review of the annexes that establish the minimum content of the prospectus, including the formulation of annexes referring to the new types of prospectus mentioned above, as well as those with key financial disclosures that must appear in the summary. Other salient points are the prospectus approval procedures and the inclusion of detailed rules on the scope of the prospectus review, in order to achieve a high level of harmonisation among the different European competent authorities.

Implementation of the Prospectus Regulation

Although the Prospectus Regulation is already fully applicable, certain implementing regulations must still be rolled out (e.g. the rule governing the minimum disclosure requirements for the document that must be made available to the public when seeking exemption from the obligation to publish a prospectus for offerings or IPO in connection with a takeover bid through an exchange offer, merger or spin-off). ESMA will shortly complete the update of the frequently asked questions (Q&A) documents on prospectuses and change the old recommendations on prospectuses into guidelines for the implementation of the new regulation.

Lastly, in relation to the new Level 3 material prepared by ESMA, it should be noted that the guidelines on risk factors are already applicable, which should serve to facilitate the implementation of the new approach introduced by this regulation to this important section of the prospectus, with the aim of making its content easier to understand and more useful.

1 Regulation (EU) 2017/1129 of the European Parliament and of the Council, of 14 June 2017, on the prospectus to be published when securities are offered to the public or admitted to trading, and repealing Directive 2003/71/EC.
2 Directive 2003/71/EC of the European Parliament and of the Council, of 4 November, on the prospectus to be published when securities are offered to the public or admitted to trading, and amending Directive 2001/34/EC.
3 Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010, amending Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading, and Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.
4 Commission Delegated Regulation (EU) 2019/980 of 14 March 2019, supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council with regard to the format, content, examination and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Commission Regulation (EC) No. 809/2004.
5 Commission Delegated Regulation (EU) 2019/979 of 14 March 2019, supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council with regard to regulatory technical standards on key financial information in the summary of a prospectus, the publication and classification of prospectuses, advertisements for securities, supplements to a prospectus, and the notification portal, and repealing Commission Delegated Regulation (EU) No. 382/2014 and Commission Delegated Regulation (EU) 2016/301.

Non-bank financial intermediation in Spain

EXHIBIT 4

In December, the CNMV published a report on non-bank financial intermediation (NBFI) in Spain, as an update and supplement to the first analysis of entities forming part of this group published in the *CNMV Bulletin* for the first quarter of 2019.[1] The update, which will be published twice a year, aims to illustrate the most recent trends in NBFI in terms of its main figures as well as to assess its most significant risks.

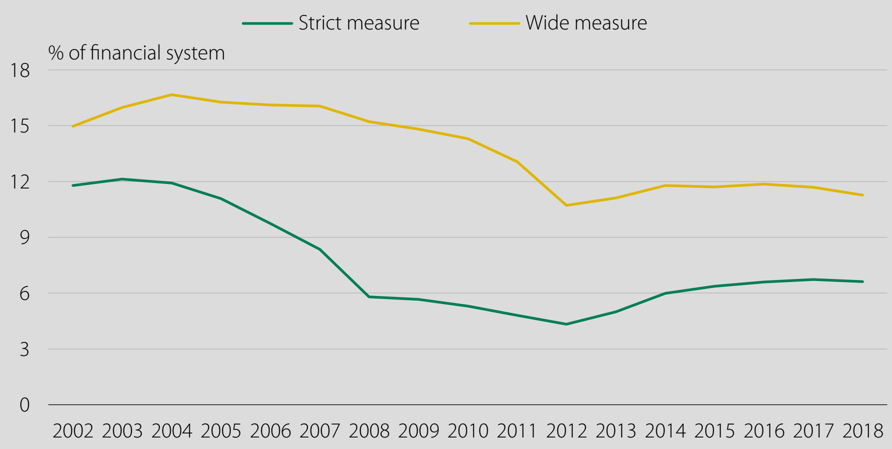
Following the methodology of the Financial Stability Board (FSB), which determined five economic functions for identifying entities belonging to NBFI based on the activity they carry out (rather than on their legal form),[2] in Spain this includes fixed income, funds, mixed funds, money market funds, hedge funds and SICAVs (economic function 1, EF1); finance companies (EF2); broker-dealers (EF3); mutual guarantee companies and crowdfunding platforms (EF4), and special purpose vehicles (SPV) whose purpose is the securitisation of assets (EF5).[3]

Thus, according to available information, assets belonging to NBFI in Spain at the end of 2018 (in their broader measure) totalled €504 billion, down 5.3% compared with 2017. This was due to the decrease in the outstanding balance of securitisations and the decline in investment fund assets, affected by the turbulence seen at the end of 2018, and the increase in redemptions made by participants. The narrow measure of NBFI, obtained by stripping out the assets of entities consolidated in banking groups, stood at €296 billion for Spain, 6.7% of the Spanish financial system.

Looking at the historical performance of these activities, NBFI grew at a fast and sustained pace until 2007 with cumulative growth of 66.3% between 2002 and 2007, in the narrow measure, and 151.9% for the broader measure. From then on, with the onset of the crisis, the assets managed by entities belonging to NBFI began to decrease, especially in 2008, marking a modest recovery from 2013 onwards. It is worth mentioning that despite the growth in NBFI in the years prior to the crisis, in relative terms, as a fraction of the financial system as a whole, these activities substantially lost weight. It therefore follows that the increase in NBFI was lower than that registered by the financial system as a whole, especially by banks (see Figure E4.1).

Relative weight of NBFI

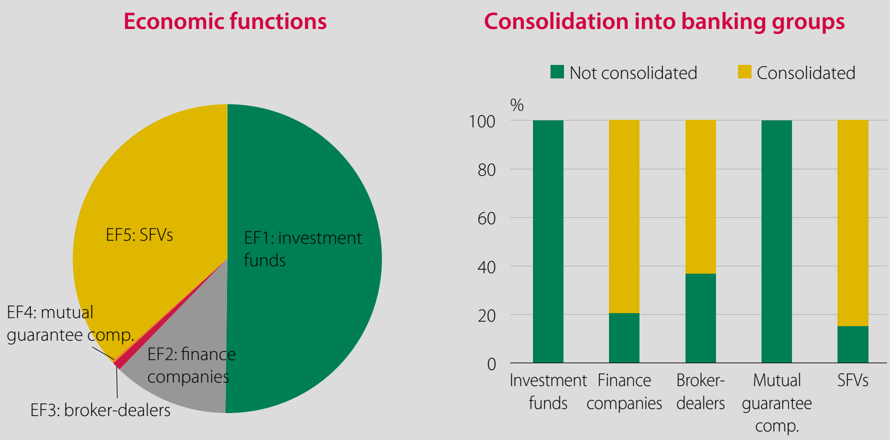
FIGURE E4.1



Source: CNMV and Bank of Spain.

Regarding the breakdown by different types of entity, EF1 (certain classes of investment funds) and EF5 (securitisation vehicles) account for the largest percentage of the total, with 50.2% and 36.6%, respectively (see left hand panel of Figure E4.2). Despite having reduced its size in absolute terms, the relative importance of EF1 in 2018 increased by 0.8 pp, while the weight of EF5, with a fall in total financial assets, declined by 2.3%. These two sub-sectors are followed by finance companies (EF2), with 12.1% of the total, and, far behind, by entities classified under EF3 and EF4. Stripping out the entities that are consolidated in banking groups, these values change significantly. Investment funds (where there is no consolidation) gain weight, accounting for 85.5% of the total, while the weight of securitisation vehicles and finance companies, with a very high fraction of the total that is consolidated into banks (see right hand panel of Figure E4.2), falls to 9.4% and 4.2% of NBFI, respectively.

Breakdown of NBFI. 2018 FIGURE E4.2



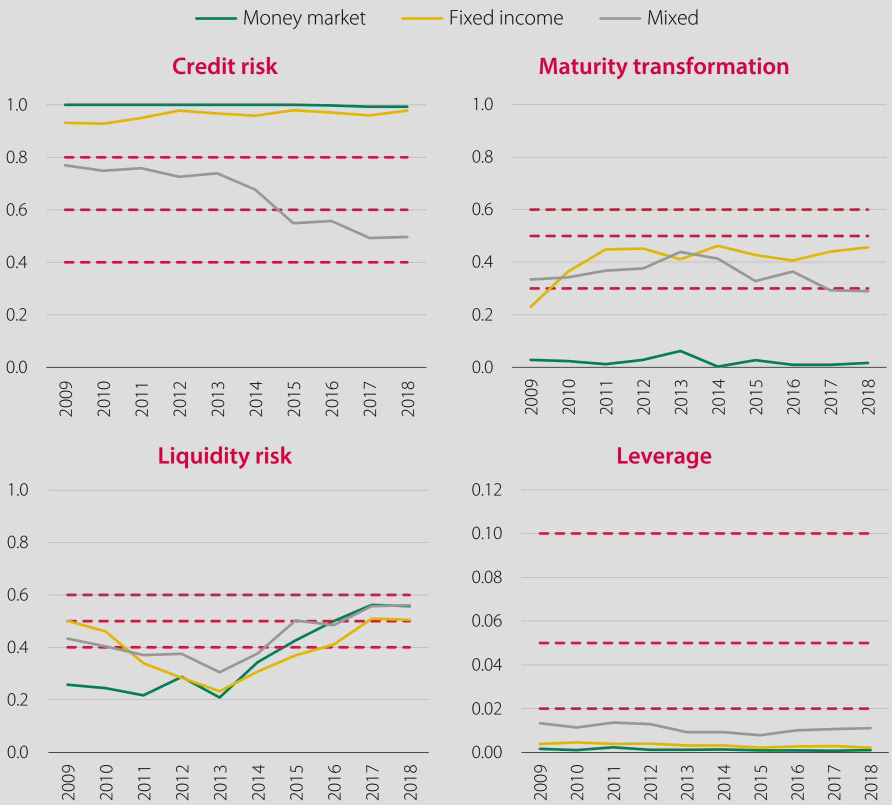
Source: CNMV and Bank of Spain.

In order to identify and monitor the potential risks associated with NBFI, indicators have been calculated that attempt to quantify the credit risk, maturity transformation, liquidity risk and leverage of the entities with the most significant activity (investment funds,[4] finance companies, broker-dealers and SPVs).[5]

As seen in Figure E4.3, the main risks associated with Spanish investment funds are not very high, with the exception of credit risk, since, due to their nature, these funds have a high percentage of credit assets in their portfolios. As might be expected, at the end of 2018 money market funds had a higher percentage of these assets, practically 100%, followed by fixed income funds, with 98%. For mixed funds, on the other hand, the figure was 50% at the end of the previous year and has been gradually decreasing since 2009, when it was close to 80%. In relation to maturity transformation risk, only fixed income funds show a moderate risk, with 46% of assets being long-term.

The liquidity assessment shows that reduced liquidity assets[6] are at medium level in the three categories, at between 50% and 60%, having increased steadily in all cases since 2013.[7] The level of direct leverage (short and long-term debt in relation to total assets) of the funds analysed, which is limited in Spanish legislation which establishes that CIS (except for hedge funds) can become indebted only temporarily and for exceptional reasons, in no case exceeded 2%, not even individually. However, CIS may also leverage themselves through the use of derivatives. The information available to the CNMV does not suggest any significant vulnerabilities in the risks that this type of transaction may generate, which are essentially counterparty and market risk.[8]

Risk trends in investment funds FIGURE E4.3



Source: CNMV and Bank of Spain.

For securitisation funds, the most significant risk, and the one that must be monitored most closely, is maturity transformation risk (the ratio of current liabilities to current assets). This risk indicator has ranged from 62% to 73% in the last nine years (70% in 2018). This indicates that there is a moderate degree of asymmetry in the maturities of liabilities in relation to the assets, although, in individual terms, this ratio exceeded 100% in 14% of vehicles.

Finance companies have high levels of credit risk due to the composition of their balance sheets (more than 90% of assets are loans granted), and high levels of liquidity risk. In contrast, maturity transformation risk has historically been below 25%. Broker-dealers also had high credit risk (around 90%) at year-end 2018, which had been gradually increasing since 2012, while the remaining risks were all low or moderate.

1 See Ispierto, A. (2019). "Non-bank financial intermediation in Spain". *CNMV Bulletin*, Quarter I, pp. 79-122.
2 See FSB (2013). *Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities*.
3 The inclusion in NBFI of vehicles that perform the activity of direct lending is currently also being debated (loans or credits that are being granted to companies, generally of medium or small size, mostly by closed ended CIS). At the end of 2018, there were a total of 31 entities of this type registered; their aggregate assets were still very low (close to €370 million), but a significant increase is expected due especially to the creation of two funds of this type by two large Spanish financial institutions.
4 The risks associated with money market funds, fixed income funds and mixed funds are analysed separately.
5 Mutual guarantee companies are not included as they account for less than 0.5% of the sector.
6 Reduced liquidity assets are the assets resulting after subtracting from total financial assets those considered liquid, namely deposits, public debt, guaranteed issues, repos and 50% of the value of the equity portfolio.
7 It should be noted that a more detailed analysis of the private fixed income assets of IFs (considered to be reduced liquidity), which takes into account their maturity and share price availability reveals that only around 7% of these assets can be considered truly illiquid, while this figure was 30% in 2009.
8 With regard to market risk, information on UCITS and quasi-UCITS that use the commitment methodology, which represent 98.8% of total sector assets, reveals that the average level of exposure to market risk was around 26% of total assets, a figure well below the 100% limit permitted under current legislation.

An estimate of cost and returns of Spanish CIS between 2009 and 2019

EXHIBIT 5

On 10 January 2019, ESMA published its first report on the performance and costs of retail investment products, in which a comparative analysis of the returns earned and expense ratios borne by CIS complying with the UCITS Directive (requirements of Directive 2009/65/EC) and domiciled in 14 jurisdictions of the European Union was carried out. The analysis carried out by ESMA was not conclusive for all periods considered nor harmonised between fund categories, and has several limitations that relate to the coverage of the data, methodology issues and the possibility that the data quality is not sufficiently high. ESMA mentions access to homogeneous and comparable data as a condition that could limit the interpretation of its study on the performance and costs of UCITS. Currently, there is no unified European framework for collecting UCITS data, so ESMA used the Thomson Reuters Lipper business database, which publishes data received from managers and covered 68% of the European UCITS market in 2017 and 74% in 2018.

After the publication of this report and given the relevance of this topic both for the CNMV and for all potential participants in these institutions, an analysis of the performance and costs of Spanish CIS[1] was undertaken by the institution using the data available to the CNMV, which are of high quality and correspond to the entire CIS industry, over a long period of time (from 2008 to 2019). For this purpose, the institutions were segmented into different investment categories and an assessment was made of the differences between the CIS that are mainly marketed to retail investors and those mainly marketed to institutional investors, as well as the differences observed between CIS of management companies belonging to a banking group and those of managers that can be considered independent. In addition, reliable calculations of returns were made, thereby overcoming some of the limitations found in the ESMA work.

The results of the analysis of the performance of Spanish CIS carried out by the CNMV reveals that returns of fixed income institutions evolved in line with market benchmarks over the years of the study, while for equity institutions the average return was higher than several benchmarks. Money market CIS tracked the trend in short-term interest rates in the euro area, peaking in 2102 at 2.84% and ending the study period at 0.24% (annual average of 1.07%). A similar trend, albeit with higher values, was seen in fixed income funds, which recorded highs (above 5%) in the period of the sovereign debt crisis and which, after a negative performance in 2018, achieved a return of 2.5% in the last year of the study (average 2.39%). On the other hand, the pure equity categories presented higher average returns (13.20% in global equity and 9.50% in euro equity), evidencing higher variability due to their nature.

Gross return

TABLE E5.1

%

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Money market	1.5	1.8	2.5	2.8	2.0	1.1	0.4	0.3	0.0	-0.2	0.2
Absolute return	6.0	3.6	-0.3	5.6	4.4	3.7	1.5	1.8	2.9	-3.4	5.5

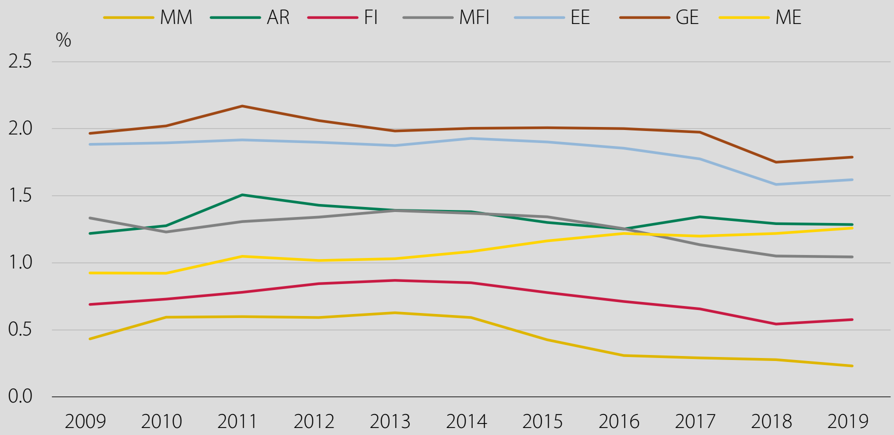
Fixed income	3.6	1.0	3.1	5.1	4.4	4.1	1.1	1.3	0.9	-0.7	2.5
Mixed fixed income	5.9	-0.3	1.1	5.7	7.0	4.9	1.7	1.6	2.5	-2.4	5.8
Mixed equity	13.6	2.8	-3.1	7.5	10.9	6.9	2.8	3.5	5.2	-4.6	11.0
Euro equity	35.3	-0.1	-9.7	13.5	30.8	5.0	5.5	4.6	13.8	-11.1	16.8
Global equity	42.7	17.9	-7.8	14.8	24.5	10.3	10.0	7.4	11.5	-10.2	24.1

Source: CNMV.

An analysis of the net returns of the institutional and retail funds showed relatively harmonised results during the period studied and across investment categories. Overall, CIS in the hands of institutional investors outperformed those of retail investors in most periods. However, the performance of institutional CIS was more variable, offering higher returns than retail CIS in periods of market gains and lower returns during falls. On average, the difference between the two types of CIS is not very large and stands at 0.4 pp (3.4% for institutional and 3.0% for retail investors). An analysis of the net returns of CIS by type of manager reveals that average results obtained by independent managers were higher than those of managers belonging to banking groups on average (4.3% vs. 2.8%), mainly associated with a better performance by the equity investment categories or those with a high proportion of equities.

Current costs borne by CIS differ more widely among investment categories, with equity schemes having the highest expenses. Thus, in 2019 the average expense ratio of the euro equity and global equity investment categories stood at 1.62% and 1.79% of assets respectively, while in the money market and fixed income investment categories it was 0.23% and 0.58% respectively. The expense ratio shows a downward trend in most investment categories in the period analysed, due to increased competition between entities and the environment of low interest rates, which has brought significant downward pressure to bear on fees charged by funds that invest mainly in debt. Results by type of investor reveal that costs borne by institutional investors (0.75%) were considerably less than those borne by retail investors (1.19%), consistently, in all years and in all investment categories, although the difference did narrow slightly during the study period. By type of manager, the results are less conclusive, with the greatest differences seen in the euro and global equity and absolute return investment categories, in which the CIS of independent managers bear lower costs than those of managers belonging to banking groups.

Weighted average expense ratio by investment category FIGURE E5.1



Source: CNMV. MM: money market, AR: absolute return, FI: fixed income, MFI: mixed fixed income, EE: euro equity, GE: global equity and ME: mixed equity.

According to ESMA's calculations for the aforementioned study, Spanish CIS present, in general terms, levels of both performance and costs that are lower than the European average. However, according to the study, this is not the case in all investment categories and for all periods. This can be observed especially in fixed income and mixed funds while equity funds, in addition to showing lower returns, would have higher costs. Absolute return funds would show higher gross and net returns, with an inconclusive balance in regard to costs.

The calculations made by CNMV place returns and costs of Spanish CIS below the estimates made by ESMA. In any case, the comparison must be treated with caution with regard to both factors:

– The methodology followed in the CNMV study to calculate returns differs from that used by ESMA, which is based on annual averages of quarterly data and smooths out the time series in a way that makes it difficult to perform not just this comparison but also comparisons using market benchmarks.

– As regards costs, the ESMA study does not distinguish between jurisdictions in which marketing costs are included in the management fees and those in which they are explicit for the investor. As a result, the former, Spain among them, show a systematic upward bias in the estimated cost ratio.

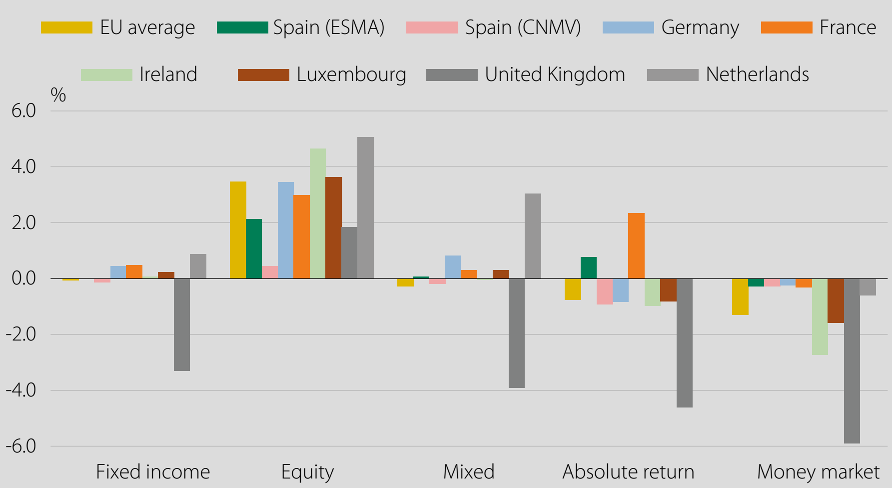
Taking into account these considerations and with specific reference to the last three financial years available in the ESMA study (2016-2018):

– The gross return on Spanish CIS, which is below the European average according to ESMA calculations, would be somewhat lower, especially in the equity and absolute return categories. The differences in the fixed income and mixed investment categories are much smaller.

– CNMV calculations (based on the data available to the institution) place the average costs for Spanish CIS below the ESMA estimate for Spain and also for the average of EU countries, with the exception of equity funds. Furthermore, if we take into account the volume of rebates in Spain, which between 2016 and 2018 represented 57.2% of management fees, and subtract the amount resulting from applying this percentage from the amount represented by management fees as a portion of total expenses (87.2% on average), Spanish CIS that were already more competitive (fixed income and mixed funds) would become even more so, while those that seemed to have higher costs, such as equity funds, would actually have lower costs than most countries, with the exception of the Netherlands.

– In terms of net return, the amount actually received by the unitholders for the period 2016-2018, it can be concluded that, in general, Spanish fixed income, mixed and absolute return CIS would be practically in line with the EU average, while equity funds would show a worse performance (due to their lower returns and higher costs). In the first investment categories mentioned, the lower returns are offset by lower costs. On the other hand, money market CIS show net returns above the EU average, although their relative significance in Spain is very low (see Figure E5.2). In this case, the adjustment to factor in rebates (marketing costs) would place the net return of Spanish CIS above the EU average in all categories except equity funds.

Net returns[1] in 2016-2018 FIGURE E5.2



Source: ESMA and CNMV. (1) The calculations made for Spain do not deduct marketing expenses.

1 See Cambón, M.I., Gordillo, J.A. and Pedrón, G. (2020). "Analysis of the return and expenses of CIS (IFs and SICAVs) domiciled in Spain between 2009 and 2019", *CNMV Bulletin,* Quarter I, pp. 91-152.

Non-financial information statement: First year of application of Law 11/2018

EXHIBIT 6

Law 11/2018 expanded, relative to Royal Decree-Law 18/2017, the scope of disclosures of non-financial information required of issuers for financial years beginning on 1 January 2018 or later. This has been reflected in the annual financial statements received by the CNMV throughout 2019. Some improvement in the quality of information has been observed, to which the obligation for NFIS to be examined by an independent verification service provider may have contributed. In 81% of cases this was one of the top four audit firms (Deloitte, EY, PwC and KPMG). The CNMV has reviewed the contents of the NFIS included in the 2018 consolidated management reports of 96 issuers (95 in 2017), making the following observations:

– The identification of the frames of reference used and their scope should be more precise. It is necessary to specify the framework(s) applied, their degree of application (total or partial), and whether they are Spanish, European or international frameworks. In any case, they must be widely accepted and of high quality.

– The calculation method used to obtain specific data included in the report must be provided, e.g. average remuneration and how it has evolved by gender, age and professional category, and the wage gap.

– ESMA stresses the importance of information neutrality and of not focusing only on the positive aspects. However, when, in exceptional circumstances, the entity can prove that certain disclosures would be seriously detrimental to the issuer or its commercial or competitive position, this must not in any case prevent the necessary information from being provided to give users an accurate and balanced understanding of the situation, performance and development of the issuer or its group and the impact of its activity.o In this regard, as recommended by the 2017 European Commission guidelines, in these situations it is possible to provide relevant information in a grouped and less detailed way, so long as it is useful for investors and other relevant stakeholders.

– ESMA also reminds issuers of the importance of the information related to environmental aspects, indicating the impact of the company or its group on the environment and climate change and vice versa (impact of environment and climate change on the company or its group). Specifically, it is recommended that the European Commission's NFIS Guidelines of June 2017 and the June 2019 Supplement on Climate Change be taken into account, and that the information be consistent with the 2017 recommendations of the task force on climate-related financial disclosures, included at the request of the Financial Stability Board (FSB). The overriding aim is to ensure that companies provide disclosures of the impact of climate change on their business and the risks to which they are exposed.

CNMV initiative to promote the presence of women on boards of directors and in senior management

EXHIBIT 7

Since 2018, the CNMV has made public in a separate report information on the presence of women on boards of directors and in senior management that listed companies report in their Annual Corporate Governance Reports (ACGRs).

This report contains individualised information for each of the listed companies, which are then grouped together into the following categories depending on their stock-market capitalisation: Ibex 35 companies, companies with a level of capitalisation of over €500 million and other companies.

For each company, the number of women directors by category (executive, proprietary, independent and other external directors) is published and their percentage with regard to the boards as a whole in each one of these categories, as well as the total number of women directors and their percentage of the board as a whole.

These figures are also disseminated with regard to women in senior management, i.e., the number of women in senior management of each listed company and their percentage with regard to the total number of senior managers as reported by listed companies.

A summary table of the data published is included below:

Presence of women on the board of directors and in senior management

TABLE E7.1

	Total women				Ibex 35				Over €500 million			
	2017		2018		2017		2018		2017		2018	
	No.	% of total	No.	% of total	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Total women board members	**258**	**18.9**	**272**	**19.9**	**103**	**22.8**	**110**	**23.9**	**81**	**18.4**	**77**	**19.2**
Proprietary	72	15.7	73	15.3	19	16.5	25	20.8	30	17.7	22	13.9
Executive	10	4.5	10	4.3	3	4.2	4	5.4	2	2.8	1	1.7
Independent	163	28.1	178	30.7	77	33.9	77	34.1	46	27.5	53	34.2
Other external	13	12.2	11	9.8	4	10.3	4	10.0	3	9.4	1	3.4
Women in senior Mgmt. (ex. senior Mgmt. board members)	**156**	**14.8**	**168**	**15.8**	**62**	**14.3**	**71**	**16.0**	**60**	**16.9**	**61**	**17.7**

Source: CNMV.

The aim of publishing this data is to promote a significant presence of women at the highest level of corporate governance, in line with the various provisions and recommendations established both in the recast text of the Corporate Enterprises Act and in the Good Governance Code of Listed Companies, with regard to these companies approving policies that ensure diversity on their boards of directors.

CNMV initiatives on social responsibility

EXHIBIT 8

To reach an optimal level of development without compromising capacity for future growth is an objective that has gradually gained weight in society, and is now a key aspect of the political, economic and social agenda. Therefore, different initiatives in the field of sustainability have been developed, both Spanish and international, highlighting its role as a way of creating value in the short and long term.

The finance sector has not been oblivious to this phenomenon and multiple initiatives are being implemented to include environmental, social and governance (ESG) factors into investment decision-making. In addition, there are more and more initiatives to measure, review and disseminate these criteria in the financial sector, which is playing a key role in the transition towards a more sustainable economic system.

In this context, the securities markets have an important job to do in the implementation of these factors, through sustainable action in relation to aspects such as the corporate governance of listed companies or certain characteristics of investment products.

The CNMV is aware of this and actively participating in various national and international forums related to sustainable finance.

At the international level, the deputy chairperson of the CNMV heads up one of the two working groups created by the IOSCO Sustainable Finance Network, dedicated to evaluating and analysing initiatives developed by the public and private sectors in more than 30 jurisdictions. The results of this study will be included in a document that was presented to the IOSCO Board at its February 2020 meeting.

In Europe, the deputy chairperson of the CNMV also chairs the ESMA Coordination Network on Sustainability. Members of this committee include the national authorities of all ESMA members and its fundamental mission is to ensure the adoption of common lines of action in the field of sustainability, not only within the different ESMA committees and working groups but also within those of the different member authorities. This committee coordinates all of ESMA's work on sustainability and channels the mandates received from the European Commission, including notably the recent analysis published in December on the possible existence of undue short-term pressure on corporations as regards their investments, which contains a series of recommendations addressed to the Commission regarding the disclosure of information on sustainability factors and on the policies adopted by institutional investors to engage their stakeholders.

The CNMV participates in another European working group led by ESMA, the ESG Disclosures Subgroup, belonging to the Joint Committee Subcommittee on Consumer Protection and Financial Innovation, dedicated to writing the regulatory technical standards that will complement the obligations established by Regulation (EU) 2088/2019 of the European Parliament and of the Council, of 27 November, on sustainability-related disclosures in the financial services sector. Specifically, this group is drawing up the standards that develop the obligations of entities (market participants and financial advisors) to report on adverse incidents involving sustainability factors in their decision-making and investment advisory processes, as well as those related to pre-contractual, periodic information and that published on their website about products with sustainable investment objectives or that promote environmental or social features.

Over the past year, the CNMV held several events on financial sustainability, among which its participation in COP 25, held in Madrid in December, should be highlighted. The CNMV organised a round table attended by the most senior representatives of the securities market supervisors of Germany, Portugal and Chile and in which the deputy chairperson of the CNMV acted as moderator in a discussion about the situation of sustainable finance and the challenges faced by supervisors in these new areas.

A further example of the interest given to this matter is the creation within the CNMV of an internal committee in charge of identifying, analysing and monitoring various initiatives, both external and within the CNMV.

The supervisor is also fully aware of this transformation and, therefore, in 2019, various initiatives were carried out in the area of corporate social responsibility aimed at improving the organisation's impact on society, including:

– Measures to encourage recycling and reduce the consumption of certain materials, such as plastic or paper, through the installation of recycling points in all buildings and awareness campaigns on the use of resources carried out by the Health and Safety Committee.

– Actions aimed at promoting the well-being of employees, for instance, organising mindfulness sessions aimed at stress management for employees.

– Measures to promote mobility with fewer emissions, through the installation of charging points for employees' electric vehicles.

Additionally, various financial education initiatives were carried out, which is particularly relevant for the promotion of sustainability. Specifically, in 2019, the CNMV took part in the third edition of World Investor Week, promoted by the IOSCO, in which it highlighted the work carried out in this area to improve the financial knowledge of the population, which included talks in schools and to especially disadvantaged groups.

The CNMV also participates in training for different groups with the collaboration of the ONCE Foundation and various juvenile centres in the region of Madrid. To date, these training activities have been aimed at people with disabilities, minors in detention centres and minors at risk of social exclusion. The actions carried out in the area of social responsibility are part of the Financial Education Volunteer Programme, which involves CNMV staff.

Additionally, training sessions and workshops have been provided for young people in secondary education on responsible consumption, saving, budgeting and specific areas of sustainable finance. An infographic on sustainable finance has been published, in addition to an informative quick guide on the subject, with the aim of raising awareness of the principles and criteria of sustainability among investors and the public at large.

In addition, apart from specific initiatives that supplement the activities carried out so far, in 2020, the CNMV will adopt a broader approach that involves the entire organisation in this area. During the year, a study will be made of the subject by the CNMV to define the current situation and indicate the path it should take. This will take the form of a global sustainability plan to guide the actions of the organisation to allow it to provide services to society in the most sustainable way possible.

Brexit and the markets

EXHIBIT 9

In 2019, the preparatory work for the United Kingdom's exit from the European Union (Brexit) continued.

In the absence of recognition of equivalence by the European Commission of UK trading venues, the European Securities and Markets Authority (ESMA) and the competent authorities continued to work intensively on analysing and detecting areas of secondary market activity where supervisory guidance is necessary.

Relocation and restructuring of trading venues, intermediaries and providers of data supply services in the European Union

Overall, many of the authorisation processes at the European level were continued and completed during the year.

In Spain, Dowgate MTF was authorised to operate as a multilateral trading facility (MTF). Credit Suisse started its centralised operations for the rest of Europe from its Spanish subsidiary.

Application of the trading obligation for shares

The liquidity fragmentation of European shares among the different trading venues in the United Kingdom and the European Union (EU) has raised doubts about the application of the trading obligation for shares set out in Article 23 of Regulation (EU) No. 600/2014 (MiFIR).

This obligation is not applicable to transactions in shares which are traded in the EU on a non-systematic, ad-hoc, irregular and infrequent basis.

In the context of Brexit, uncertainty surrounding the application of this obligation has led ESMA and the competent authorities to clarify their opinion on this matter. First, in March, it was announced that shares with ISINs starting with a country code corresponding to an EU27 Member State and, in addition, shares with an ISIN from Iceland, Liechtenstein and Norway were within the scope of the trading obligation. Furthermore, it was considered that shares of the United Kingdom, with ISINs with the prefix GB that could be considered liquid in the EU would also be subject to the obligation.

However, in May, ESMA and the competent authorities revised this opinion to mitigate the possible risks associated with disruptions in trading, indicating that the obligation would applied only to shares with ISINs with a country code corresponding to EU Member States, Iceland, Liechtenstein and Norway.

Post-trade transparency and limits on commodity derivatives positions

In October, ESMA and the competent authorities clarified that in order to avoid duplicative trading reports by EU entities occurring in trading venues of third countries that meet a series of criteria, such trading would not be considered over the counter (OTC). This implies that the trades carried out in these trading venues would not have to be made public through approved publication arrangements (APA) by the EU entities executing them in those markets. Pending completion of the assessment of third countries, it was clarified that reporting through an APA would not be required in the case of Brexit.

In the case of commodity derivatives traded in trading venues in third countries, and for the purpose of calculating positions by EU entities, it was stated that, as with issue of transparency, when the trading venue is located in a third country that meets criteria that are the subject of an ESMA assessment, trades would not be considered to be economically equivalent OTC (EEOTC) contracts, but as trades equivalent to those trades in the EU. This implies that EU entities could use their positions in such equivalent third-country markets to offset their positions in EU markets.

Finally, regarding pure OTC trades with investment companies in the United Kingdom, it was clarified that these would no longer be considered EU investment companies from the end of the transition period. Therefore, trading with these companies would generate a reporting obligation through an APA for EU counterparties, following the reporting standards provided for cases where only one counterparty is an EU investment firm.

Royal Decree-Law 5/2019

The purpose of Royal Decree-Law 5/2019 of 1 March is to deal with the contingency of a no-deal Brexit in the field of the Spanish legal system by regulating, among other issues, those relating to the provision of investment services (Article 19).

With regard to secondary markets, the CNMV has further clarified certain issues by publishing answers to FAQs, which are available on its website (Brexit section).

These include the issue of access to UK and EU trading venues, clarifying that Spanish legislation does not establish additional requirements to become a member of a trading venue in a third country. In the inverse case, for third country members to obtain access to Spanish trading venues there are no requirements other than those applicable to residents of the EU and in any case applicable under Article 69 of the Securities Market Act (LMV) and any that might be established by the rules of the trading venue itself.

Regarding direct electronic access (DEA), it is noted that UK investors will be able to use DEA to Spanish trading venues without having to request authorisation as an investment company. However, DEA providers must have the status of an investment firm under MiFID II.

Another key issue addressed in the FAQ document is OTC trading. The CNMV has clarified that during the transition period market participants may continue to trade OTC in instruments that are not subject to trading obligations under MiFIR. In the case of OTC derivatives, it has also indicated that trades that derive directly from pre-existing contracts, involve non-essential modifications of these or are explicitly foreseen in them, may be continued. Lastly, it has indicated that the counterparty in a transaction with a Spanish company will not need authorisation to act as an investment firm in the EU in accordance with MiFID II, as long as the transaction is at the initiative of the Spanish party, and this includes interbroker-dealer activity.

Reform of Circular 1/2017 on liquidity contracts

EXHIBIT 10

The new regulatory feature regarding liquidity contracts in 2019 was the publication on 10 December of CNMV Circular 2/2019 of 27 November, amending CNMV Circular 1/2017 of 26 April on liquidity contracts.

Two years after the entry into force of Circular 1/2017 and in accordance with Article 13.8 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council, of 16 April, on market abuse, the CNMV proceeded to review this market practice in accordance with the established procedure. As a result, two amendments were made to the text of the Circular, which respond to sector demands and to the experience gleaned from supervising this accepted market practice. Specifically, having detected that certain conditions laid down in the Circular could pose an obstacle to the signing of liquidity contracts by some issuers of relatively illiquid securities, two changes were approved, the fundamental purpose of which is to increase the number of companies that could potentially enter into liquidity contracts and to ease some restrictions on trading during the auction period.

The first of these amendments establishes a new volume limit of €20,000 per session for the trades executed by the financial intermediary in the framework of a liquidity contract. This limit is established as an alternative to the threshold of 25% of the average trading in the previous 30 sessions, and is open to issuers whose shares do not have a liquid market and which are traded either on a regulated market through the price fixing system, or on a multilateral trading facility.

Furthermore, based on the comments from the sector received in the public consultation phase, this new alternative limit would also exceptionally be applicable to the contracts of issuing companies that request them, and whose shares are traded on a regulated market through the general trading system. This would require the prior authorisation of the CNMV and a favourable report from the governing company of the corresponding regulated market, justifying the classification of the share as highly illiquid even though it is not traded in the price fixing system.

The second amendment refers to the auction period and removes the previous restriction on being able to hold simultaneous purchase and sale orders for shares. It also adds an obligation for the financial intermediary, which must take the necessary measures to prevent order crossing.

Amendments to EMIR

EXHIBIT 11

In 2019, two reforms of the EMIR[1] Regulation were introduced: on 19 June, EMIR Refit[2] entered into force, with predominantly technical changes, and on 12 December, EMIR 2.2[3] was published in the *Official Journal of the European Union (OJEU)*, reforming the way in which Central Counterparties (CCPs) must be supervised, both those of third countries and those established in the European Union.

EMIR Refit

In 2015, a review of EMIR was embarked upon, taking into account its impact on the industry, leading in 2019 to an amendment of this European regulation known as EMIR Refit. Although no fundamental changes were made to the basic obligations contained in the Regulation, the new legislation has sought to simplify some EMIR requirements, while adopting a more proportionate approach, without compromising its objectives or, particularly, without jeopardising financial stability.

The most significant changes are:

– Two categories of financial counterparties are created based on their volume of activity in derivatives markets. Only financial counterparties with large volumes of activity will be subject to the clearing obligations. In any case, financial counterparties must periodically calculate the size of their positions and notify the competent authorities and the European Securities and Markets Authority (ESMA) when they exceed the relevant clearing threshold.[4]

– Clearing members are required to offer clearing services on fair, reasonable, non-discriminatory and transparent commercial terms. The European Commission is preparing an implementing regulation with details of these requirements.

– ESMA is expected to propose to the European Commission the suspension of the clearing and trading obligations through trading venues in certain exceptional situations.

– Reporting obligations for intragroup contracts in which one of the parties is a non-financial counterparty are eliminated, subject to prior notification to the competent authority.

– Financial counterparties have the obligation to report to trade repositories on behalf of non-financial counterparties with a low volume of activity in the derivatives market with which they enter into derivative contracts. The reporting of contracts by non-financial counterparties is now voluntary. However, they are required to provide the necessary data to the financial counterparties so that they can draw up a full contract report.

– The need is established for the competent authorities to approve the internal models used by counterparties to exchange collateral in derivative contracts that are not cleared through a CCP.

– CCPs must develop tools to simulate the calculation of margin requirements for their members and clients and must provide them with more information about their risk management system.

– Certain provisions related to the operation of trade repositories are amended, which reinforce ESMA's supervisory powers, and requirements are imposed on these infrastructures aimed at improving the quality of the information reported.

EMIR 2.2

A second reform, known as EMIR 2.2[5] and related to the CCP supervision system, was published on 12 December 2019 and entered into force on 1 January 2020.

EMIR 2.2 regulates the supervision of both CCPs established in the European Union and those domiciled in third countries. The decision of the United Kingdom to leave the European Union (EU) has been carefully taken into account in the legislative text, since several of the CCPs currently most used by European Union counterparties are located in the UK. Therefore, numerous amendments have been made to the system applicable to third-country CCPs. The most significant are:

– A classification system for third-country CCPs according to their systemic importance for the EU. ESMA will make an analysis of each CCP to determine whether it is systemically important for the EU. If so, the CCP will be classified as Tier 2 and if it is not systemically important for the EU it will be classified as Tier 1.

– Tier 2 third-country CCPs will be subject to more intensive supervision by ESMA, both with regard to prudential requirements and rules of conduct and governance. However, a Tier 2 CCP may request that compliance with the requirements set forth in the EMIR Regulation be deemed to be fulfilled based on their home-country regulations. In this case, ESMA will assess whether the obligations existing in that country and those applicable in the EU are comparable.

– ESMA has been empowered with the necessary authority to impose penalty payments and fines on third-country CCPs that infringe any EMIR requirements. ESMA will also be able to conduct inspections and on-site inspections of Tier 2 CCPs and of any third parties to whom those CCPs have outsourced operational functions, services or activities.

– It also provides that ESMA should be able to determine whether the activities of a third-country CCP are too systemically-important for the EU to be provided from outside the Union. In this case, ESMA may propose to the European Commission that it issue an implementing act restricting the activities of that CCP if they are not provided from within the EU.

For CCPs established in the European Union, EMIR 2.2 introduces some amendments to reinforce its supervisory powers and foster greater convergence in the actions and decisions of the competent authorities. The latter are still ultimately responsible for supervising the CCPs in the European Union, but the list of actions requiring the opinion of supervisory colleges has been expanded and the role of ESMA has been strengthened.

In particular, ESMA will review the proposals of the competent authorities in key areas such as CCP authorisation, expansion of its activities or services, record keeping, acquisition of significant interests in a CCP, conflicts of interest, outsourcing, rules of conduct and interoperability. Additionally, when a CCP wishes to implement any significant change in the models and parameters used in its risk control mechanisms, it must submit its proposal for approval by both the competent authority and ESMA.

In the area of governance, the new functions that ESMA will perform in relation to CCPs, both in the EU and in third countries, will require a significant increase in the means and resources necessary to carry out its work. Also, a permanent committee has been created in ESMA for CCP supervision, in which all competent authorities that supervise a CCP domiciled in their territory, as well as other relevant public authorities, participate. This committee has the function of preparing and carrying out all the tasks related to the CCPs for which ESMA is responsible under EMIR.

1 Regulation (EU) No. 648/2012 of the European Parliament and of the Council, of 4 July, on OTC derivatives, central counterparties and trade repositories.
2 Regulation (EU) No. 2019/834 of the Parliament and of the Council, of 20 May, amending Regulation (EU) No. 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories.
3 Regulation (EU) 2019/2099 of the European Parliament and of the Council, of 23 October 2019, amending Regulation (EU) No. 648/2012 as regards the procedures and authorities involved for the authorisation of CCPs and requirements for the recognition of third-country CCPs.
4 Additionally, financial and non-financial entities that choose not to calculate the size of their activity in derivatives will be subject to the clearing obligation.
5 Regulation (EU) 2019/2099. See Note 3.

Horizontal review of the online operations of credit and savings institutions

EXHIBIT 12

In accordance with its 2019 Activity Plan, the CNMV carried out a horizontal review of the online operations of a selection of entities that provide investment services. Specifically, it verified appropriate compliance with the main rules of conduct that apply in online transactions, prior to the execution of transactions of or on behalf of the client, whether through the website, mobile apps or specific investment platforms. The analysis was performed on a sample of eight credit institutions that accounted for 54% of the total transactions carried out online in 2018.

The main objectives of the action were to review the reception and transmission of orders, investment advisory and discretionary portfolio management services. In addition, for funds distributed outside the areas of management or advisory services, the search engines and comparison tools of collective investment schemes (CIS) hosted on the websites of the selected entities were analysed to assess compliance with the requirements that warrant the receipt of incentives.

i) Review of the reception and transmission of orders (RTO) service.

– Regarding the procedure established for assessing appropriateness test, we found that some entities do not have effective controls in place to prevent inconsistencies in completing the questionnaire to assess appropriateness. In this regard we verified that no checks were carried out on significant, contradictory differences between the personal data provided by clients on registration (e.g., level of education) and those entered when completing the questionnaire. Furthermore, the systems allowed seemingly mutually inconsistent responses to be entered to the various questions. In this area, entities must either establish control systems to prevent clients from continuing with the assessment if any inconsistencies in their responses are detected, until some kind of additional supervisory actions have been performed (referral to the branch, call to the account executive, etc.), or discuss with the client the answers provided so as to resolve the inconsistencies. In any case, they must ensure that the information provided is sufficient to enable them to correctly assess the appropriateness of the transaction.

  Furthermore, entities generally allowed the test to be taken repeatedly and the answers to be changed, imposing no kind of restriction.

  Lastly, some entities did not inform their clients about the specific families of instruments to which they were applying the assessment.

– In regard to the provision of prior information on the instrument to the client, we would highlight the fact that, on the one hand, when exchange-traded funds (ETFs) were being contracted, in some cases no specific information was provided on the features and risks of the instrument, and on the other hand that the purchase of warrants did not generally include a warning to the client that the instruments being acquired could be used if necessary to absorb losses ("bail-in-able").

– The incidents detected in relation to the warnings given to clients related mostly to transactions with non-complex instruments. They were mainly related to erroneously informing the client about the mode in which the transaction was being executed; e.g., some entities provided the client with an "execution only notice when the client had been unwilling to complete the appropriateness questionnaire or when the client had had to complete one but the information provided was not taken into account in the assessment. It should be noted that entities must consider in the appropriateness test for the transaction all prior information available about the client.

– Lastly, some entities did not require the purchase order to be "signed" before sending (by entering a key, coordinates, verification code or similar), which is considered necessary.

ii) Review of the provision of investment advisory and discretionary portfolio management services.

– Following the entry into force of MiFID II, it is required by law to draw up a basic advisory agreement (in a durable medium) when the entity intends to perform periodic assessments of the suitability of the recommended financial instruments or services. The entities reviewed complied with this obligation, including mention of the non-independent nature of the service provided and of the fact that they received the corresponding remuneration via incentives. However, incidents were detected in the information provided by the entities with respect to the types of financial instruments used to make investment recommendations and the relationship with the providers or issuers of these instruments (generally group entities).

– In the analysis of suitability assessment procedures for both services, as was the case in the appropriateness test, various incidents were detected in relation to the consistency of the information collected. Furthermore, regarding the provision of advisory services, in some cases there were no control mechanisms to verify consistency between the information obtained from the suitability test and that included in the current appropriateness test.

– In some investment proposals, the description of how the recommendation fits with the client's personal characteristics and investment objectives was incomplete.

iii) Analysis of compliance with the requirements that justify the receipt of incentives in the distribution of funds that do not relate to management or advisory services.

– In regard to the requirement to provide access to a wide range of instruments that includes an appropriate number of non-related third-party products, at least 25% of the total funds offered by all the entities reviewed, and to which access was provided through their search engines, corresponded to third-party funds. The obligation to offer at least two third-party funds in the same category was generally met.

– Regarding the provision of tools to help clients make investment decisions, all the entities reviewed had fund search engines that offered access to information on their own funds and those of third-party managers, which complies with the requirement to improve the quality of the service and collect incentives, since the tools made available to clients must provide them with added value and not just deliver mandatory information.

– In this regard an evaluation was carried out to determine whether these tools offered the client simultaneous data on particularly relevant information on returns, minimum subscription amounts and commissions of the various funds selected, and some deficiencies came to light in several of the entities reviewed.

– In relation to the information on unit classes in the same fund or sub-fund, it was verified for a sample of funds that entities generally provide their clients with information on the various classes available. However, if the client performed an ISIN search, the system did not show the existence of other classes in the same sub-fund.

Monitoring the activity of European Union entities in Spain under the freedom to provide services regime

EXHIBIT 13

Approximately 3,500 European Union entities authorised to operate in Spain under the freedom to provide services regime without a permanent establishment, i.e., without a branch or related broker, are registered in the CNMV registry. This number contrasts very significantly with the barely 200 existing Spanish investment firms. Entities under the freedom to provide services regime, the great majority of which are located in the United Kingdom, although there are also a significant number based in Cyprus, do not report on their activity to the CNMV, so the information available about them has historically been very limited.

In recent years, the involvement of some of these entities in large-scale marketing operations to retail investors of contracts for difference (CFDs) and other complex and high-risk instruments has become apparent. This is an activity about which ESMA, the CNMV and other supervisors have expressed concern, since the analyses carried out show that it generally creates significant losses for investors.

There have been various measures established to improve the protection of investors in this area, most notably the ESMA decisions of 22 May 2018, under Article 40 of Regulation (EU) 600/2014, to restrict the marketing, distribution and sale of CFDs to retail clients and to prohibit the marketing, distribution and sale of binary options to retail clients. When the validity of the ESMA decisions expired, in the summer of 2019, the CNMV approved several product intervention measures, in accordance with Article 42 of Regulation (EU) 600/2014 (MiFIR), with a very similar content to those of ESMA.

Regarding the supervision of the activity carried out by free service providers, the scheme established under EU regulations assigns supervisory authority in the first instance to the authority of the home Member State, an arrangement which might not provide sufficient incentive for effective monitoring. In accordance with Article 86 of the MiFID, the CNMV, as host supervisor, is empowered to inform the home supervisor of any actions for which these entities are responsible that could contravene the regulations and, only in the event that clear detrimental action persists, it could take appropriate measures to protect investors and ensure the market is operating properly, including the possibility of preventing the infringing entities from carrying out further transactions.

For all these reasons, to ensure proper investor protection and make it easier for the supervisory authorities of the home state to carry out their work, the CNMV included in its 2019 Activity Plan strengthening of the monitoring (not supervision) of the activity of entities under the freedom to provide services regime in Spain. The investment firms and credit and savings institutions supervision department therefore prepared a map of EU entities under the freedom to provide services regime, in which it established a review priority based on various parameters, such as the level of activity in CFDs (information obtained from other authorities through the prior work carried out by ESMA), as well as their presence in mass media or promotional events and the nature and relevance of claims and complaints submitted by investors.

Monitoring of the entities identified referred mainly to the legal restrictions applicable to the marketing, distribution and sale of CFDs to retail clients, as well as the information provided to investors through their websites and particularly, whether the information shown is generally appropriate and balanced.

As a result of these actions, a series of incidents and emerging risks were identified, and relayed to the home supervisor in cases where this was considered necessary, to ensure that proper corrective measures were adopted. The most significant measures are listed below:

– Restrictions established by ESMA and by the CNMV on the marketing, distribution and sale of CFDs to retail investors, in force since August 2018. The reviews carried out reveal the use of dubious practices by some entities:

  • Incitement of retail clients to request to be treated as professional clients, as CFD marketing restrictions do not apply to the latter. Among other strategies, clients were encouraged to carry out transactions that would offer proof of experience with these instruments, while in other cases entities' websites gave unbalanced emphasis to the "benefits" of becoming a professional client.

  • Encouraging the transfer of operations to third countries outside the European Union that have fewer restrictions on the marketing of these products. For instance, the websites of some entities show comparisons of operating restrictions with those offered by subsidiaries of their group in third countries not subject to ESMA restrictions, thereby illegally promoting the activity through entities located in third-country states.

– Performance by unauthorised persons of marketing activities and provision of investment services for which authorisation is required:

  • Promotion of transactions involving the replication by numerous investors of the transactions performed by a master investor not authorised as an investment firm, commonly known as "social trading". In this type of activity, ESMA considers (see ESMA/2012/382, Q.9) that a discretionary portfolio management investment service is being provided and, therefore, that authorisation is required. The CNMV shares this view and considers that in the provision of the management service, which must be carried out by the entity's staff, the rules of conduct must be complied with in all cases, particularly those relating to suitability assessments and compliance with the duty of informing clients.

  • Performance of client acquisition activities. Several entities advertise "associate or affiliate programmes", in which third parties obtain payment for the clients they successfully sign up. In some cases, such programmes may also allow the provision of advisory and management services by these unauthorised persons.

The CNMV has informed the home supervisors that these client acquisition policies are not permitted in accordance with the provisions of Article 144 of the Securities Market Act, which stipulates that only authorised entities – and their related brokers, with certain provisos – may carry out marketing, client acquisition and investment services activities.

– Incidents related to advertising activities, particularly:

  - Covert advertising. Articles published in the media were identified that broadly promote and advertise the activity carried out by these entities, which have nonetheless stated that the advertising was not contracted by them. This type of undeclared advertising goes against regulatory requirements as it includes information that is unclear and may be misleading.

  - Advertising that showcases zero commission stock broking services, which is erroneous as the costs involved in the transactions are not reported.

To date, two EU supervisory authorities have published measures taken against entities under the freedom to provide services regime, which include operating bans. In the coming months, the CNMV will continue to monitor the activities carried out under the freedom to provide services regime and does not rule out the implementation of similar measures in the event that situations detrimental to the interests of investors in Spain or to the smooth operation of the markets persist in relation to incidents previously reported to the home supervisor.

Technical Guide 3/2019 on the authorisation procedure for new firms

EXHIBIT 14

On 28 November 2019, following its submission to public consultation, the CNMV approved its Technical Guide 3/2019 on the authorisation procedure for new firms, thereby fulfilling one of the commitments made in its 2019 Activity Plan.

The guide is intended for promoters of authorisation projects for investment firms (IFs), collective investment scheme management companies (CISMCs), closed-ended collective investment scheme management companies and crowdfunding platforms (CPs), and contains recommendations and best practices to facilitate and streamline the authorisation process.

The authorisation process for new firms is in general a laborious one in which the promoters have to submit a great deal of documentation to comply with the applicable regulations, which are highly harmonised in the European Union and increasingly complex and prolific, which makes granting authorisation a demanding and detailed process.

To help developers, the CNMV has published guides or manuals explaining the steps that must be followed and the documentation to be provided to successfully complete the procedure. Direct dialogue with interested parties is also provided to clarify any related queries.

In this regard, and to ensure the swift and efficient processing of authorisation procedures, Technical Guide 3/2019 offers developers the possibility of a structured initial contact, which it calls pre-notification, to help identify the main requirements for the procedure before the application is officially filed.

This pre-notification process may consist of one or more meetings prior to the presentation of the formal authorisation request to discuss and make a preliminary analysis of the project and the documentation that the promoters must provide. To ensure the effectiveness of this phase, the CNMV website contains forms for promoters with the main information required, considering the specific features of each firm, which should be completed before the corresponding meetings and serve as a guide during them.

The pre-notification process does not in any way preclude any other preliminary meetings that may be arranged to discuss the project being put forward and obtain a first impression from the CNMV on the matter. In any case, for these meetings to be productive, it is also advisable for promoters to submit a brief note in advance with the questions that they wish to discuss.

Also, in the legal authorisation phase of the procedure, once a prior analysis of the project has been carried out and with the aim of speeding up said procedure, the Technical Guide recommends that the documentation forming the application be presented along with a standard document that certifies the documentation provided and that includes the checks that the applicant has carried out. The purpose of this self-review is to avoid the most frequently repeated errors in the documentation provided.

Technical Guide 3/2019 also states that the CNMV should take into account the nature, scale and complexity of the specific firm to ensure a proportionate application of the authorisation requirements.

Lastly, it establishes that the CNMV is empowered by Law 39/2015, of 1 October, on the Common Administrative Procedure of Public Administrations, to consider applications for authorisation to have been withdrawn if all the legally required documentation is not provided and this is not rectified at the request of the CNMV within the period granted.

CIS liquidity analysis

EXHIBIT 15

Based on the confidential information that management companies submit to the CNMV on a monthly basis, regular off-site supervision is carried out to monitor the liquidity levels of the assets held by the CIS, with the objective of identifying and anticipating possible liquidity problems that may arise, as well as detecting deficiencies in the controls and procedures that management companies must implement to ensure proper liquidity management.

For this purpose, based on a predefined methodology that combines information from different market sources, a liquidity level is assigned to each of the CIS assets, which allows institutions that could potentially present significant exposures to investments with the lowest levels of liquidity to be identified.

The result of the latest global measure undertaken in 2019 (at 30 September) showed that the estimated volume of assets with potentially lower levels of liquidity was not very significant. Specifically, €6,904 million, accounting for 2.29% of the total volume of assets managed by CIS. Additionally, exposure to these assets was highly diversified, with 83 institutions having exposures above the thresholds that the CNMV considers to be of supervisory interest for the purpose of more exhaustive analysis. These 83 entities represented 1.99% of the total number of entities registered.

The management companies of these CIS were checked to ensure that they have adequate controls and procedures in place; specifically, that they:

– Use a methodology that takes into account as many parameters or factors as possible to establish a liquidity level for each investment, giving priority to quantitative information on traded volumes, price ranges, number of existing counterparties, etc.

– Make estimates of the time horizons necessary for an orderly settlement of each of the positions and ensure that these are global estimates, i.e., that they consider all the investments of their funds in the same asset.

– Carry out stress tests on both the assets and liabilities of the fund, with the aim of anticipating possible liquidity problems in exceptional situations.

– Ensure that for each fund there are internal limits or thresholds for investment in assets that could present liquidity problems and that, if these are surpassed, an exhaustive analysis of the circumstances is performed, and where appropriate, measures are implemented to ensure that there are no conflicts of interest between investors, and that the risk level of the CIS is not significantly increased.

– Contingency plans are drawn up detailing the circumstances and conditions under which the different regulation-approved tools or mechanisms would be activated: notice periods, temporary borrowing, partial subscriptions and redemptions, creation of special purpose sub-funds or “side pockets” and even the temporary suspension of the fund.

The objective of these supervisory analyses is to ensure that the management companies do not generate conflicts of interest among investors, that in the daily liquidity management of their institutions the principle of equity is respected at all times using what is known as the "slicing approach" (the proportionate sale of the liquid and illiquid portfolios to meet redemptions) and that the entity has contingency plans to activate the measures or tools indicated in exceptional situations or circumstances.

Lastly, it should be noted that the exposures of CIS to certain categories of assets which, due to their characteristics, could create liquidity management problems, were also assessed as a preventive measure. Specifically, the last analysis performed focused on investments held in fixed income assets with low credit ratings (high-yield debt), as well as in equities of companies with low capitalisation (small caps). The management companies of the institutions identified as having the highest exposures were required to improve the transparency provided to unitholders, issuing a warning in the KID of the higher potential liquidity risk that such institutions may have in adverse market situations, as a consequence of investing in these assets.

CIS investments in group CIS

EXHIBIT 16

In 2019, the CNMV carried out an analysis of the practices followed by Spanish management companies when their funds invest in other funds managed by the same manager or by other management companies of the same group.

The study revealed that most management companies that carry out this type of operation invest in portfolio asset classes (also called "clean" classes) or reverse the portion of the management that could be attributed to the marketing costs of the investment fund when they invest in underlyings with more expensive classes or in funds with no classes. Some management companies even apply more favourable conditions for unitholders, with rebates of the entire management fee for the underlying fund or establishing a class with 0% fee (class zero), which is the one in which their CIS invest.

However, a small number of management companies were detected which were not offering rebates of the distribution costs to the investment fund when these were included in the class in which the investment was made, which is a less transparent practice. Additionally, this practice would be different from the practice applied when investing in foreign CIS outside the group (in which case the rebates received are always paid to the investing fund). For this reason, the CNMV is considering an amendment to the regulations affecting this issue.

In any case, pending such regulatory amendment, a statement was published on 19 December 2019 explaining that in regard to investment by CIS in other CIS with the same management company or managed by a company belonging to the same group, in which there are no classes with no marketing fee, (portfolio or "clean" asset classes), good practice is considered to be the establishment by the management company of mechanisms that ensure that the marketing costs included in the fee for the underlying fund are transferred back to the investing fund, taking into account that for this type of investment there has been no such marketing.

Progress in the reform of interest-rate benchmarks

EXHIBIT 17

The transition[1] towards benchmarks that are more robust and representative of the economic reality that they are trying to measure, as well as the adoption of risk-free (or almost risk-free) rates, progressed significantly in 2019, although there are still major challenges to be faced in the coming years relating to its implementation and consolidation and the strength of current and future contracts.

In the euro area, the European Central Bank (ECB) has published the euro short-term rate, or €STR since 2 October 2019 The €STR reflects the euro unsecured overnight borrowing costs of euro area banks. This benchmark has been recommended by the working group as the euro risk-free rate[2] (the working group on euroRFR) to replace the Eonia as it is considered more robust, transparent and representative, being calculated by the ECB on the basis of the individual transactions reported by the 52 largest entities in the euro area and includes deposits with financial entities other than credit institutions.

In response to these recommendations and to facilitate a smooth transition from one benchmark to another, the administrator of the Eonia (European Money Markets Institute, EMMI) reformulated its calculation as the sum of the €STR plus a spread, determined by the ECB, of 8.5 basis points. In accordance with this new methodology, the administrator received the corresponding authorisation from the Belgian Markets and Financial Services Authority (FSMA) in accordance with Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016, on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014 (hereinafter, BMR), which allows the Eonia to continue to be used until 3 January 2022, the date on which it is expected to disappear.

The aforementioned working group also recommended to market participants that they gradually and as swiftly as possible replace the Eonia with €STR as the benchmark interest rate on their products and contracts and make the necessary contractual and operational adjustments to use the €STR as a benchmark.[3]

The other major benchmark in the euro area, the Euribor, which measures the cost of financing banks but in terms ranging from 1 week to 12 months, was fully adapted to European regulations during the year, its methodology was improved to more accurately reflect the market situation, and the governance and control environment surrounding its calculation reinforced, with the added value that both the administrator and contributors are subject to supervision. In this way, the benchmark allows the same underlying interest to be measured in a much more precise way and in compliance with European regulations. The index obtained authorisation from the Belgian FSMA on 2 July 2019, which allows supervised entities of the European Union to continue using the Euribor in the future.

As with the other authorised benchmarks under the BMR, all new contracts signed from 1 January 2018 must include, where feasible and appropriate, certain fallback provisions to provide for the termination or possible disappearance of the benchmark, as required by the new European regulation (Article 28.2 of the BMR).

For this reason, the EuroRFR working group is also working on fallback rates for the Euribor, based on interest rates determined based on the €STR. Since most risk-free benchmarks are overnight rates, they must be converted to forward rates to be used as an alternative in certain contracts that require a term component.

No consensus has yet been reached on the choice of the most suitable method from among the possible approaches: the backward-looking approach (*a priori* more appropriate for derivative contracts) and the forward-looking approach (which is considered more suitable for contracts and spot instruments).

Similar groups have been formed in other jurisdictions, which have also recommended risk-free rates. As in the euro area, in countries such as Japan, Switzerland and Australia, the coexistence of the reformed and improved Ibor indices with new risk-free rates is considered a viable option.

However, in the areas of influence of the pound sterling and the US dollar, where the most widely used index is the Libor (in its different terms and currencies), the authorities are recommending that this benchmark be replaced by alternative risk-free indices – Sterling Overnight Index Average (SONIA) in the United Kingdom and Secured Overnight Financing Rate (SOFR) in the United States – before the end of 2021 (the date on which the UK authorities are expected to stop requiring banks belonging to the LIBOR panel to contribute).

Therefore, the central banks, following the recommendations of the Financial Stability Board (FSB), have provided the markets with benchmarks that comply with the highest standards in terms of transparency and governance, but their general adoption poses some challenges and implications that must be managed properly. Institutions must give due attention to the different approaches and the particular characteristics of the transition in each of the markets, while authorities and market participants must deal with pending developments and facilitate the transition together.

CCPs will play a key role in the transition process, adjusting their discount curves in a coordinated manner and permitting the offsetting of transactions referenced to the new benchmarks.

The International Swaps and Derivatives Association (ISDA) and other associations and sponsors of framework agreements, at European and national level, are also working to adjust framework agreements for financial transactions. The International Accounting Standards Board (IASB) is preparing a project to address the effects of interest rate reform on financial reporting and hedge accounting.

The European authorities are preparing an amendment to the regulations on over-the-counter derivatives, central counterparties and trade repositories (EMIR Regulation), to prevent contracts currently exempt from centralised clearing or bilateral collateralisation requirements from becoming subject to these standards as a result of the new benchmarks or through the inclusion of fallback clauses.

This reform is one of the main challenges facing the financial markets and will continue to focus the attention of and require collaborative actions from the public and private sectors in the coming years.

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1 More information on the origin and context of the reform can be found in Exhibit 16 in the *CNMV Annual Report* for 2018.

2 This group, headed by the ECB, the European Commission, the European Securities and Markets Authority (ESMA) and the Belgian Financial Services and Markets Authority (FSMA), with the participation of industry members, is in charge of identifying risk-free indices that can be used as alternatives to current indices, defining paths for an orderly transition and reinforcing current and future contracts.

3 The ECB's website (https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html) contains all the information on the recommendations of this working group.

Progress in the market infrastructure resolution framework

EXHIBIT 18

Central Counterparties or clearing houses (CCPs) intervene between the participants in the financial markets, acting as buyers against all sellers and as sellers against all buyers for a given group of contracts.

CCPs in the European Union are subject to very strict requirements. However, there is no harmonised regulatory framework in the European Union if CCPs are faced with serious difficulties, beyond the provisions of the EMIR Regulation,[1] or if they fail. In other words, there are no harmonised provisions for the recovery and resolution of CCPs throughout the European Union.

The lack of standard conditions, powers and processes for the recovery and resolution of CCPs has been considered by European legislators as an obstacle to the proper functioning of the internal market and hinders cooperation between national authorities in the event of the failure of a CCP and the application of appropriate loss allocation mechanisms among its members, both within the Union and globally, and since November 2016,[2] with the publication of the European Commission proposal, work has been under way to develop a new regulation governing the framework for the recovery and resolution of CCPs.

The objective of the proposed regulation is to achieve the orderly recovery of CCPs in different scenarios of financial difficulty by applying robust and integrated recovery plans, agreed between CCPs and their clearing members, and to ensure that if this is insufficient and if the resolution conditions are met, the authorities act swiftly to preserve financial stability, guarantee the continuity of the CCP's essential functions and protect taxpayers as far as possible.

Following the entry into force of the Regulation, Member States will designate CCP resolution authorities, which will have a harmonised set of powers to undertake all relevant preparatory and resolution actions. In addition, resolution authority colleges will be created, which will provide a framework for the resolution authorities and other relevant bodies to carry out the following tasks: i) exchange of relevant information for the development of resolution plans, the application of preparation and prevention measures, and resolution; ii) design of resolution plans; iii) assessment of the resolvability of CCPs; iv) identification, evaluation and removal of obstacles to the resolvability of CCPs, and v) coordination of the public communication of resolution plans and strategies.

At the international level, in October 2011, the Financial Stability Board (FSB) adopted the key attributes (KA) of effective resolution regimes for financial institutions. This document establishes the elements that the FSB considers necessary for an effective resolution regime. The report was approved by G20 leaders in November 2011 at the Cannes Summit as a new international standard for resolution regimes.

Subsequently, in November 2018, in the FSB report on the implementation of resolution reforms, it was established that the authorities responsible for the resolution of systemically important CCPs in more than one jurisdiction[3] should: i) undertake resolution planning as set out in the FSB Guide, ii) establish a Crisis Management Group (CMG) for CCPs that are considered systemic in more than one jurisdiction, iii) adopt cooperative agreements (CoAgs), and iv) launch a process of resolvability analysis along with resolution planning.

In this context, on 2 April 2019 the CNMV Executive Committee approved the creation of the BME Clearing CMG as a channel for the sharing and consultation of initiatives to ensure the resolution plans of entities are better prepared and, where appropriate, provide management advice, thus getting ahead of the tasks that will be established under the new regulation.

In its work plan for 2020, the FSB has established that in September the CMGs must inform the IMF Cross-Border Crisis Management Group (IMFCBCM)[4] of the results of the analysis of financial resources and the treatment of equity in resolution.[5] At the same time, the CMGs must have completed a preliminary analysis of resolvability and resolution planning focused on scenarios where losses occur for reasons other than member default (also known as non-default loss scenarios) such as cyber theft or incidents with the bank that has custody of the collateral.

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

2 In February 2020, this Regulation was being discussed by the European Commission, the Council and the European Parliament.

3 In 2017, CPMI-IOSCO identified the Spanish CCP, BME Clearing, as a systemically important CCP in more than one jurisdiction, using the FSB Guide to CCP Resolution and Resolution Planning as a reference.

4 FSB group created in 2015, with the purpose of developing CCP resolution strategies and plans, as well as the cross-border implementation of resolution actions.

5 For this analysis, the CMG should follow the guidelines established in the draft FSB guidelines *Financial resources to support CCP resolution and the treatment of CCP equity in resolution*. The final version of these guidelines is expected to be published in the last quarter of 2020.

Behavioural Economics for Investors guide

EXHIBIT 19

The *Behavioural Economics for Investors* guide, published by the CNMV in October 2019, aims to put forward a series of proposals aimed at investors, which facilitate the practical application of the main premises of behavioural economics to investment decision-making. This guide continues the line started in 2017 with the publication of the factsheet entitled *Main Investor Biases.*

The guide is aimed at current and future investors and includes an introduction with the main contributions of behavioural economics to neoclassical economic theory, it then offers a description of the investment decision-making process, establishes the relationship between the most frequent cognitive biases in this type of decision and, lastly, includes several techniques to mitigate these biases.

Behavioural economics, or economic psychology, is a strand of economics that aims to complement neoclassical economic theory by contributing knowledge from other disciplines such as sociology, psychology, anthropology or neuroscience and whose purpose is to facilitate understanding of the financial decision-making process.

The neoclassical economic paradigm is based on three theoretical features that are rarely observed in the real world, in particular: i) the unlimited rationality of investors, ii) their full capacity to process all relevant information in an efficient and unbiased way and iii) the efficiency of the markets (i.e. that they gather together all the available information and there is a balance between return and risk). Behavioural economics moves away from this paradigm. People do not always make decisions rationally, thinking of costs and benefits, but often take into account social norms and expectations and follow patterns of cooperation. Their preferences depend on the context they are in and their own mental models. The human mind does not function like a computer, but is affected by psychological and social factors when making decisions.

Two main factors are involved in the decision process: Firstly, analytical capacity, i.e. the ability to evaluate and understand the context in which a decision is made and its possible repercussions, and secondly, emotions, i.e. the psychological state of the person making the decision.

Unlike neoclassical economic theory, which considers that the decision-making process is based on the careful analysis and calculation of all available options, behavioural economics considers that emotions and intuition play a fundamental role in this process.

People do not always make choices in a rational and critical way. In fact, around 70% of decisions are made following intuitive and automatic processes rather than analytical and controlled processes. This fast and intuitive way of thinking is open to the influence of biases that lead people to make decisions that may turn out to be wrong. Biases are thinking strategies, mental shortcuts that facilitate and accelerate decision-making, and that have their origin in the heuristic nature of the human mind, the cultural context of each individual, the social nature of the human being and in emotions.

There are numerous biases described by the various theorists on the subject and many of them affect the investment process. These include confirmation bias, authority bias, social proof, or hyperbolic discount bias, among others, as described in the *Behavioural Economics for Investors* guide. In each phase of the investment process (product selection, contracting and monitoring), different biases come into play and it is important that the investor is aware of them so that they can be mitigated.

These cognitive biases affect everyone and it is impossible to completely eliminate them. However, it is feasible to lessen their effects and make them less recurrent. For this purpose, there are various techniques related to the acquisition of training and cognitive techniques designed to interpret the factors involved in decision-making differently (e.g., *pre-mortem* analysis or checklists).

World Investor Week

EXHIBIT 20

World Investor Week is an initiative approved in May 2016 by the IOSCO Board, with the following objectives:

i) The dissemination of key messages and the implementation of activities that improve investor education and protection.

ii) Fostering learning opportunities for investors.

iii) Strengthening collaboration between IOSCO members regarding investor protection and education.

All IOSCO members, in addition to other institutions, international associations, foundations, etc. can join this initiative voluntarily and flexibly. The activities of World Investor Week are not focused on a specific investor segment. Each participating jurisdiction decides which area they should be directed at and the type of activities to be carried out. Non-commercial activities only are permitted and initiatives must be free of charge.

In 2019, the third edition of the World Investor Week was held, in which a total of 89 IOSCO jurisdictions took part, including the CNMV. According to the data reported by the participants, the activities reached a total of 108 million people and more than 15,000 institutions or organisations participated, compared with 2,378 in 2018.

The leading multilateral organisations also support the World Investor Week. These include the G20, the World Bank Group, the Organisation for Economic Cooperation and Development (OECD), the Inter-American Development Bank (IDB) and the International Network of Financial Services Ombudsman Schemes (INFO network). Nine regional and global organisations also took part, such as the CFA Institute, the Global Financial Literacy Excellence Centre (GFLEC), the International Forum for Investor Education (IFIE) and the World Federation of Exchanges (WFE).

The commitment made by third parties in the activities carried out in 2019 evidences the growing importance given to this campaign at an international level.

In Spain, by way of opening ceremony for the Week, on 1 October, the Palacio de la Bolsa de Madrid hosted an initiative entitled “Ring the bell for financial literacy”. The event, promoted by the Bolsas y Mercados Españoles (BME), the International Organisation of Securities Commissions (IOSCO) and the World Federation of Exchanges (WFE), was overseen by Tajinder Singh, Deputy Secretary General of IOSCO, and Nandini Sukumar, Secretary General of the WFE, who were accompanied by Ángel Benito, director of the CNMV, and Javier Hernani, CEO of BME. The initiative seeks to emphasise the importance of increasing knowledge of economics and finance among the general population. More than 30 exchanges around the world rang their bells in support of financial literacy.

During the Week, IOSCO members disseminated key messages through communication campaigns and developed educational programmes with the aim of improving knowledge and understanding of the key financial concepts. Standouts include activities such as webinars, seminars, workshops, website launches, factsheets, games and the distribution of content through social networks.

The CNMV worked mainly through social networks, disseminating and publishing the following content:

– Messages and warnings on various topics: explaining that all investments include risk, the importance of checking that intermediaries are registered, of getting informed before investing, the importance of diversification, etc.

– Information on the enquiry telephone lines available to investors.

– Infographics on topics such as Fintech, investment profiles and boiler rooms.

– A video called *About the CNMV and how it can help you.*

In order to evaluate the results and increase the effectiveness and impact of each campaign, the corresponding evaluations of World Investor Week were conducted, which are submitted to the board of IOSCO. The number of activities, webinars, conferences, seminars, workshops, etc. reported totalled 33,579, 2,770% more than the previous year, in which 1,170 activities were reported. Online activities continued to grow. The number of educational posts on social networks grew by around 830% and there were five million followers of these contents.

Once again, the results amply outpaced the objectives set by IOSCO. This initiative is now firmly established and will be built on further in the coming years.

The Capital Markets Union: Current situation and next steps

EXHIBIT 21

With the mandate of the "Juncker Commission" coming to an end, the European Commission has undertaken the measures announced in 2015 as part of its Action Plan on Building a Capital Markets Union in 2019, as well as the nine priority measures identified in the review of this Plan carried out in June 2017. Specifically, in March 2019 the Commission informed the Council of the progress achieved, highlighting that ten of the 13 measures initially proposed had been completed. While the three initiatives related to sustainable finance have not been completed, an agreement has been reached for two of the three measures initially proposed.

However, although the original action plan had almost been concluded, the European Commission decided to carry out several additional initiatives to meet the objectives that had been set, since, although progress has been noted, a single and competitive capital market is still more of an aspiration than a reality. Regulatory and other obstacles continue to hinder the movement of investments.

As a first step, a high-level group established by the Finance Ministers of Germany, France and the Netherlands, with the support of the Ministries of Finance of Spain, Sweden, Poland and Italy and made up of academics and experts in the field, published a report in October 2019 that included a series of additional recommendations to strengthen global competitiveness and the attractiveness of the EU financial markets to finance the economy, its growth and job creation (https://www.nextcmu.eu/).

As a continuation of this work, the European Commission decided to form a new group, which it has called the High Level Forum on Capital Markets Union, and which includes industry executives, as well as experts and academics. This group is made up of 28 experts, including Spaniards Belén Romana and Ignacio Izquierdo, and aims to develop the Capital Markets Union project to mobilise capital for companies, offer better opportunities for investment and boost economic growth in Europe. The first meetings of this group have already taken place and it is expected to publish a report with its proposals in the first half of 2020.

The CNMV and Brexit

EXHIBIT 22

Since the United Kingdom took the decision to leave the European Union, and while the form of the withdrawal and future relations with the EU were being negotiated, the CNMV has worked, in coordination with the Ministry of Economic Affairs and Digital Transformation and other Spanish and European organisations, to preserve financial stability and protect investors, while constantly taking into account the need to foster the competitiveness of the Spanish market.

Although the negotiations between the European Union and the United Kingdom were completed in November 2018 and a draft Withdrawal Agreement was drawn up, this was not approved by the British Parliament, and therefore, uncertainty surrounding the process remained high throughout 2019.

In March 2019, as the initial Brexit date approached (29 March) without an agreement having been reached that would allow an orderly exit by the United Kingdom, Royal Decree-Law 5/2019, of 1 March, adopting contingency measures in Spain to prepare for a withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union without the conclusion of the agreement provided for in Article 50 of the Treaty on European Union, was published. However, it was also established that this Royal Decree-Law would not enter into force if, prior to that date, a withdrawal agreement between the European Union and the United Kingdom had been formalised.

Therefore, the CNMV created a new section on its website called "After Brexit: issues relating to the financial sector", with useful information for market participants and investors, such as a list of documents of interest on the possible consequences and implications of Brexit and some interpretative criteria, in the form of questions and answers, on the provisions relating to the securities market and investment services contained in the aforementioned Royal Decree-Law.

After the first Brexit date was postponed, in October 2019 negotiators from the European Commission and the United Kingdom reached a consensus on the Withdrawal Agreement, which was approved by the British Parliament and by the European Parliament in January 2020. Once the necessary internal procedures were completed by both parties, the Withdrawal Agreement entered into force at midnight on 31 January 2020, at which time the United Kingdom ceased to be a Member State of the European Union and became a third country.

This was the start of a transition period, which will end on 31 December 2020 and may be extended once for a maximum of one or two years, if the United Kingdom and the European Union so agree before 1 July 2020. During this time, entities will be able to continue to carry out their activities normally.

During this period, the European Union and the United Kingdom will negotiate the terms of their future relationship on the basis of the Political Declaration agreed in October 2019, a relationship that will cover trade, economic cooperation and security and must be based on a balance of rights and obligations and ensure a framework of equality.

Cybersecurity

EXHIBIT 23

The Fintech Plan published by the European Commission in 2018[1] includes, as one of its three lines of action, an increase in cybersecurity through self-regulation by market participants and supervision by the authorities. Specifically, the Plan highlights the existence of barriers to the exchange of information on cyber threats in the financial sector and considers that it would be very useful to carry out Europe-wide stress tests. The European authorities (ESMA, EBA and EIOPA) are working in these areas to ensure that all member countries assume their responsibilities in an efficient and harmonised manner.

The main community standard in this area is the NIS[2] Directive, which establishes measures for a high common level of security of network and information systems across the Union. This Directive and its regulatory implementation define the requirements for reporting incidents to the corresponding CSIRTs,[3] the roles and responsibilities that the industry and the authorities must take on and the collaboration that must be established among EU countries.

Recently, the European Commission, aware of the relevance of this issue in the financial sector, published a consultation[4] to collect opinions on how to improve the requirements for managing risks relating to security, and information and communication technologies (ICT) in the EU's different regulations on financial services and how to harmonise the notification of ICT incidents within the sector.

In line with EU initiatives, the CNMV considers it a priority that entities under its supervision implement the necessary measures and controls in regard to technological risk. Therefore, in compliance with one of the objectives set out in the 2019 Activity Plan, the CNMV sent out a questionnaire to investment firms and CIS management companies that addresses the main organisational and operational issues in this area. The initiative seeks to provide an overview of the status of this sector in relation to cybersecurity.

Although there is a considerable degree of diversity among these entities and, therefore, the principle of proportionality must be applied in terms of the measures and controls that each of them should implement, there are certain basic factors that all entities must take into account. The questionnaire seeks information related to:

- The resources dedicated by each entity to this issue.
- The organisational framework (i.e., procedures, policies and responsibilities).
- The operational factors in place to provide proper risk management.
- The measures adopted with respect to service providers, with special reference to cloud services.

– The protection measures that the entity has implemented to ensure cybersecurity and data protection.

The information collected through the questionnaire will provide a better understanding of the situation of these entities in relation to cybersecurity and establish good practices, guides and recommendations that will shore up the resilience of the securities markets.

1 *FinTech action plan: For a more competitive and innovative European financial sector.*

2 Directive (EU) 2016/1148 of the European Parliament and of the Council, of 6 July 2016, on measures for a high common level of security of network and information systems across the Union.

3 Computer Security Incident Response Team.

4 *Consultation document. Digital Operational Resilience Framework for financial services: Making the EU financial sector more secure.*

CNMV digital transformation plan

EXHIBIT 24

In recent years, new technologies have been included into practically all sectors and others that were already used are evolving to offer solutions that are sufficiently developed to be applied in various business models. Public authorities are no strangers to this phenomenon and many are undertaking what is known as the *digital transformation process*.

The CNMV has also embarked on a process of digital transformation to become a more effective, efficient, transparent and secure digital institution by incorporating new technologies, with the overarching aim of improving the execution of its purpose (market supervision, investor protection, boosting the competitiveness of the Spanish financial markets and promoting the financial education of citizens).

To this end, it is designing a comprehensive plan supported by a more intensive use of data, implementing new work tools and evolving towards more digital channels to access information and interact with both investors and the entities that it supervises. One of the main lines of this project is processing and analysis of data through the use of advanced technological tools and means, which may involve artificial intelligence and machine learning to automate processes and support the tasks of supervision and investor protection. It involves driving a global process that concerns technology but that will also have an impact on the organisation's culture, leading to a readjustment of work processes and changing the way in which the various areas of the organisation interact with their environment.

This plan is aimed at improving organisational performance by promoting more efficient ways of working so that supervisory functions can be improved, but also at responding to the growing technological demands of the financial sector and, specifically, investors, infrastructures and investment firms. Therefore, new ways of communicating with the supervisor and sharing information will be proposed, with a focus on creating initiatives aimed at regulatory compliance (RegTech) and new services.

This process is being promoted by the institution's most senior executives, who form the Digital Transformation Committee, which will approve initiatives that are part of the CNMV's digital ambition. A Digital Transformation Office has also been set up to manage and monitor the projects to implement these initiatives. Training will play a key role, not only in the area of technology, but particularly in regard to cultural change that will make it easier to undertake new projects. The digital transformation process has a time horizon of four years, although it marks the beginning of a process of continuous review of the status of digital maturity and proposals for improvement.

This, of course, does not imply that the CNMV will transform in the sense of changing its lines of action as a supervisor, which are established in the Securities Market Act. The objective is to optimise resources and tasks, as well as digitising its actions and services.