PRESS RELEASE

CNMV BULLETIN: INCLUDES THE USUAL REPORT ON SECURITIES MARKETS AND THEIR AGENTS AND TWO STUDIES, ONE ON THE REMUNERATION OF BOARD MEMBERS IN SPAIN AND ANOTHER ON THE EVOLUTION OF THE RATINGS OF SPANISH DEBT SECURITIES

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- The study on remunerations shows that the ownership structure of Spanish companies, which is fairly concentrated, has a clerly moderating impact on remunerations, although it is lower in family businesses managed by members of the family itself.

- The article on the evolution of the ratings of Spanish debt securities during the first months of the crisis shows that their credit quality is very high.

The Spanish National Securities Market Commission (CNMV) has published its quarterly bulletin for the third quarter of 2020. This edition includes the biannual report "Securities markets and their agents: situation and outlook", which analyses the impact of the shock caused by COVID-19 on financial markets and on the entities subject to the CNMV's supervision. It also includes two articles: the first one analyses the determining factors of board members' remuneration and the second details the evolution of credit ratings of Spanish debt securities during the first months of the crisis.

The biannual report describes the deterioration in the national and international economic activity as a result of the crisis and the evolution of financial markets following the turmoil undergone in March.

Following the publication of the issue of this series the GDP data for the first and second quarters of the year were made available, reflecting the severity of the crisis, with falls in production exceeding 10% in many cases, and even close to 20% in the worst hit economies, such as Spain's.

The forecasts of the evolution of the activity published by various bodies and institutions are subject to a large degree of uncertainty as they depend on the evolution of the pandemic (Europe is currently

For further information:
CNMV Communications Department
Tel.: 91 5851530 - comunicacion@cnmv.es

witnessing the second wave of COVID-19, which has triggered renewed limitations on mobility and other restrictions affecting economic activity), on the degree of effectiveness of the support measures adopted by the governments and on the changes to investment and consumption patterns of economic agents. In the case of the Spanish economy, the latest IMF forecasts point to a GDP decline this year of 12.8%, the worst within the most relevant European economies, due to the importance in our economy of sectors hard hit by the crisis, such as tourism. A significant deterioration of public accounts is also expected.

In this context, domestic financial markets have gradually recovered from the turmoil witnessed at the beginning of the crisis, giving rise to a moderate decline in the indicator regularly published by the CNMV which measures the stress in the financial system. The performance of equity markets was more unfavourable as in the second quarter after having barely recovered the losses of the first months, they started to fall again in the third quarter. By 30 September, the Ibex-35 had fallen by 29.7% in the year, the biggest decline among large European indices, in a context of normalisation of volatility and liquidity levels and declining trading volumes.

In debt markets, declines were observed in the yield of public and private debt segurities in both the second and the third quarters of the year, mainly due to the measures adopted by the ECB, characterised by the purchase of a significant amount of (public and private) debt and banks' access to funding under favourable conditions. Moreover, fixed-income issuing decreased in the third quarter of the year, although the cumulated amount through September 30 increased by 16% to 144 billion euros, Mainly due to the dynamism observed in previous months.

With regard to the entities supervised by the CNMV, noteworthy is the recovery of the main figures of the investment fund industry, and the positive trend in the profit and loss account of broker-dealers. In the first case, the total figure for the first quarter of the year shows a 5.6% decrease in the total assets of investment funds to 263 billion euros, almost 90% of which due to the decline in portfolios' values and the effect of redemptions, which were concentrated in March, and which exceeded the subscriptions during that period. Following that month's turmoil, the main indicators of collective investment gradually recovered, while the CNMV carried on with the tasks related to analysing liquidity credit risks of portfolios, the suitability of asset valuations and the implementation, where appropriate, of the liquidity management tools available. As of 30 June 2020, total assets of open-ended collective investment schemes amounted to 26.228 billion euros. As at said date, the CNMV the number of registered entities totalled 2,518 open-ended collective investment schemes; with 52 de-registrations and one registration recorded in the first half of the year.

The venture capital sector subject to the CNMV's supervision remained dynamic during the first quarter of 2020, recording a total of 52 registrations and 12 de-registrations of vehicles (venture capital firms or funds).

With regard to the performance of investment firms, it is noteworthy the increase in the aggregate pre-tax profit of broker-dealers in the first half of the year, which was mainly due to the increase in the activity of a large firm, registered in Spain in the context of Brexit.

Furthermore, the biannual report includes three text boxes related to the recent reform of the listed companies Good Governance Code, five priority areas of work identified by the European Systemic Risk Board in the context of the crisis and the conclusions of a study by the CNMV Research and Statistics Department on the impact (in terms of prices, liquidity, trading volume and other variables) of the ban on creating or increasing net short positions in Spanish shares that was in force between 17 March and 18 May 2020.

Regarding the articles included in the bulletin, the first one is an article by porofessorsMaría Gutiérrez Urtiaga, from Universidad Carlos III de Madrid, and Maribel Sáez Lacave, from the Universidad Autónoma de Madrid, entitled "Determinantes de la remuneración de los consejeros en España" (Determining factors of board members' remuneration in Spain), which analyses the determining factors of the level and the structure of board members' remuneration, distinguishing between various categories (chief executive officers, other executive directors, proprietary and independent directors). To carry on the study, a sample with 6,391 observations from board members of Spanish listed companies for the period 2014-2018 was used. The results show that remunerations essentially respond to the contracting needs of companies, bearing in mind the specific characteristics of each company-board member pair. However, there is also part of the remuneration that responds to the directors' capacity to influence, which is lower when there are control and supervisory mechanisms in place and, in particular, the presence of significant shareholders and good quality in the structure of the board of

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CNMV Communications Department
Tel.: 91 5851530 - comunicacion@cnmv.es

directors, with a special focus on the importance of quality and the role of independent directors. Thus, the concentrated ownership structure of Spanish companies has a moderating impact on remunerations, although the impact is lower in the case of family businesses managed directly by members of the family itself.

Finally, also included is an article by María Isabel Cambón and Juan Ángel Gordillo, both from the CNMV Research and Statistics Department, detailing the evolution of credit ratings of all Spanish debt securities (sovereign and corporate debt, including that of financial institutions) during the first months of the crisis (between March and June) in order to determine to what extent their credit ratings have fallen as a result of the decline in economic activity. The analysis shows that the credit quality of Spanish debt is high as most of the debt qualifies as investment grade (96.6% of the average outstanding balance), although an increase in the amount of BBB-rated debt, the lowest level of the investment grade group just above the high yield group, is observed. This pattern has also been observed in all European countries in the sample. This work will be updated in the coming months.

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