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The CNMV publishes this Quarterly Bulletin to spread studies in order to contribute to the best knowledge of the Stock Markets and their regulation.

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Acronyms

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

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

I Securities markets and their agents: situation and outlook

Contents

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1 Executive summary

- The international macroeconomic and financial setting has experienced some improvement in these last few months. Expansionary measures by governments and central banks and the gradual recovery of world trade allowed almost most advanced economies to pull clear of recession in the second half of 2009. Meantime, the absence of inflationary pressures has kept official interest rates running at lows in almost all areas.
- Forecasts by leading international organisations say that world GDP should grow by around 4% in 2010, thanks to the dynamism of emerging economies and firming recovery among the developed countries. However downside risks persist, to do mainly with the sustainability of public finances and the threat of further deterioration in labour markets. The big upcoming challenge is still how to engineer the withdrawal of stimulus packages.
- Against this backdrop, international equity markets had a somewhat erratic second half, in comparison to the first, as the waters were stirred by announcements hinting at regulatory changes in the United States and evidence of the worsening fiscal situation of certain European economies, Greece in particular. However, volatility died down significantly in the first half of March 2010, helping North American and Japanese indices into positive territory year to date,[1] while European indices continued in losses.
- Government bond markets have performed divergently in the last six months in tune with the newsflow on their economies, their safe haven potential and the degree of deterioration of their public finances, while private fixed-income markets are apparently heading back to a certain normality in financing conditions and issue volumes. The euro, meantime, has gone on losing ground against the dollar, due to the greater relative strength of the U.S. economy and doubts over Europe's public finances.
- Spanish GDP continued to contract, though rather more slowly, in the fourth quarter of 2009 (-0.1%), which closed with a full-year decline of 3.6%. Tensions worsened in the labour market (with the unemployment rate rising to 18.8% of the labour force in the fourth quarter of 2009) and public finances (the public deficit swelled from 4.1% of GDP in 2008 to 11.2% in 2009). Both IMF and OECD forecasts for the Spanish economy point to further growth slippage in 2010 followed by a mild recovery in 2011.
- Spanish deposit-taking entities again had to deal with a complex environment, with weak economic activity taking its toll on income statements through the dual route of falling business and loan-book deterioration. The sum of outstanding loans to companies and households continued to decrease (-0.9% in January), though at a slightly slower rate than elsewhere in the euro area (-1.3%).

1 The closing date for this report is 15 March.

Non performing loan ratios moved higher once more (5.3% in January) though the rate of advance is apparently slowing. Entities were able to fund themselves without too much difficulty in 2009, thanks to the support measures launched by the national authorities and the ECB. However, large differences persist with regard to their financial strength.

- The combined profits of non financial listed companies rose by 14.7% in 2009 to 24.33 billion euros, thanks to an improved performance by real estate and construction firms, which emerged from the heavy losses of 2008. Companies in other sectors, notably industry and energy, reported some degree of earnings decline albeit on a smaller scale than in 2008. Listed company debt rose by 4.6% in 2009 with leverage ticking up from 1.6 to 1.7. The debt coverage ratio increased in the year, while interest coverage came down.
- Spanish equity markets have had a rough start to 2010 (Ibex 35 down 8.2%), with losses cutting deeper than elsewhere in Europe. The price slide extended to all sectors, but were especially intense among financial and telecommunications firms. Stock market turnover showed signs of recovery after the fluctuations of 2009, while issuance activity remained slow, as it has done since 2008.
- Domestic short-term interest rates remained at lows over the opening quarter of 2010, in line with ECB policy, while long government yields moved higher in the first two months before easing back in March. Gross fixed-income issuance was down 19% versus 2009, accompanied by a shift in the mix favouring non convertible bonds and debentures, mortgage bonds and preference shares. Some markets, especially markets in securitised products, have continued to struggle in 2010. In contrast, non government-backed bond issues rose in the period, while Spanish issuers raised more of their funding on international markets.
- Investment fund assets climbed from 167 billion to 170 billion euros in full-year 2009, after a two-year decline driven by unitholder redemptions and portfolio depreciation. Unitholder numbers fell in 2009, while inter-fund mergers reduced the overall number in operation. The proportion of less-liquid assets has stayed more or less constant since mid-2009, at approximately 8.6% of fund portfolios. In this context, the total assets in the care of CIS managers dropped slightly in 2009, while their aggregate earnings were less than half what they were in 2008, with lower fee revenues as the main culprit. The outlook for the collective investment industry looks brighter on the whole, though some risks loom in the shape of the recent upswing in price volatility on financial markets and the increase in redemptions signalled by preliminary data for 2010.
- Real estate investment funds continued to suffer the effects of the property market downturn, compounded by a growing wave of redemption orders. The result is that some funds have been forced to sell off assets, to reappraise holdings and/or to reduce or even suspend redemptions. There is little chance, furthermore, that things will get better until the Spanish real estate market is back on its feet. Meantime, the hedge fund industry has seemingly embarked on a modest recovery, more visibly among funds of hedge funds.
- Investment firms are still weathering their particular storm. The aggregate pre-tax profits of broker-dealers and brokers fell 29% and 54% respectively in 2009. Only CIS managers were able to buck the trend with an increase of 20%. The number of investment firms in losses reduced slightly from 28 in 2008 to 26 in

2009. The sector's solvency levels have held up reasonably well, despite a small decline in the margin reflecting the new rules introduced by CNMV Circular 12/2008 on the solvency of investment firms.

- The wave of defaults in the U.S. subprime mortgage market has driven investors away from securitised products, causing a worldwide demand slump. How well these markets recover will depend on the ability of regulators and industry to lay down a new development framework that mitigates conflicts of interest among the intervening parties, enhances the reliability of rating agencies and makes for simpler, more standard and more transparent products. The search is now on for measures to revitalise the securitisation market, with the involvement of both sides. Its success will hang on striking the right balance between new regulatory elements and new industry practices.

2 Macro-financial setting

2.1 International economic and financial developments

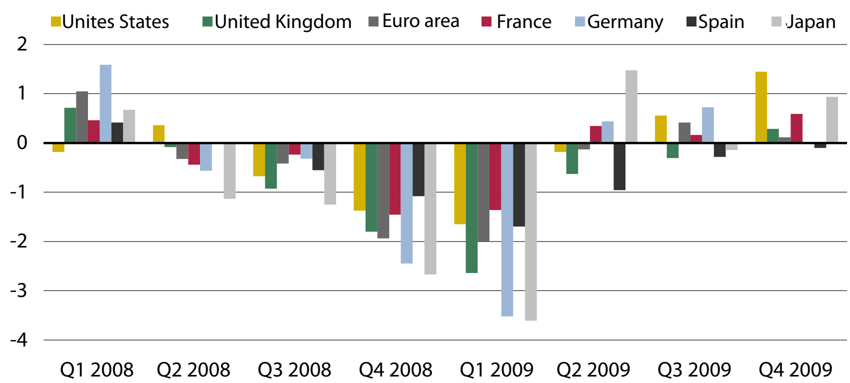
Mild improvement in the macroeconomic and financial setting...

Since the latest instalment of "Securities markets and their agents: situation and outlook" published in the CNMV Bulletin for the third quarter of 2009, the macroeconomic environment has improved to some degree, aided by the gradual normalisation of key financial system components.

... thanks to expansionary measures by governments and central banks, which have helped most advanced economies pull clear of recession.

The expansionary measures taken by governments and central banks and the revival of world trade combined to lift most advanced economies out of recession starting in the second half of 2009. As figure 1 shows, the first to post positive quarter-on-quarter growth rates were France, Germany and Japan (second quarter of 2009), followed by the United States (third quarter) and United Kingdom (fourth quarter). The emerging economies, less directly exposed to the financial turmoil unleashed by the crisis, again outperformed their more developed counterparts albeit with large differences from one region to another. Asia, with China at its head, was the most dynamic of the emerging group with a 2009 growth rate of 8.7%, followed by Latin America (notably Brazil, which has been expanding at rates upwards of 1.0% since the second quarter of 2009). Eastern European economies too showed some recovery, though their progress has been slower.

GDP: quarterly change, % FIGURE 1



Source: Thomson Datastream.

World GDP could expand around 4% in 2010 on the firming recovery of developed economies and a renewed growth spurt among the emerging group.

In view of this nascent recovery across advanced and emerging economies, leading international organisations (see table 1) are now forecasting world GDP growth of 4% in 2010 (vs. the -0.8% of 2008, according to IMF estimates), based on the firming recovery of developed economies and a renewed growth spurt by the emerging group (from 2.1% in 2009 to 6.0% in 2010, again according to the IMF). Among the developed economies,[2] the United States is tipped to see growth of around 2.5% against the more modest projections for leading European economies, from the 1.0% of Italy to the 1.5% of Germany (the exception being Spain, where growth could contract between 0.3% and 0.6%). In any case, forecasts are subject to considerable uncertainty, because much of the upturn owes to transient factors, like fiscal and monetary stimulus programmes or the stock-building cycle.

Gross domestic product (% annual change) TABLE 1

					IMF(*)		OECD(*)	
	2006	2007	2008	2009	2010F	2011F	2010F	2011F
World	5.0	5.2	3.0	-0.8	3.9 (+0.8)	4.3 (+0.1)	-	-
United States	2.8	2.1	0.4	-2.5	2.7 (+1.2)	2.4 (-0.4)	2.5 (+1.6)	2.8
Euro area	3.0	2.7	0.6	-3.9	1.0 (+0.7)	1.6 (+0.3)	0.9 (+0.9)	1.7
Germany	3.2	2.5	1.2	-4.8	1.5 (+1.2)	1.9 (+0.4)	1.4 (+1.2)	1.9
France	2.4	2.3	0.3	-2.3	1.4 (+0.5)	1.7 (-0.1)	1.4 (+1.2)	1.7
Italy	2.1	1.6	-1.0	-4.8	1.0 (+0.8)	1.3 (+0.6)	1.1 (+0.7)	1.5
Spain	3.9	3.6	0.9	-3.6	-0.6 (+0.1)	0.9 (+0.0)	-0.3 (+0.6)	0.9
United Kingdom	2.8	2.6	0.5	-4.8	1.3 (+0.4)	2.7 (+0.2)	1.2 (+1.2)	2.2
Japan	2.0	2.3	-1.2	-5.3	1.7 (+0.0)	2.2 (-0.2)	1.8 (+1.1)	2.0
Emerging	7.8	8.3	6.1	2.1	6.0 (+0.9)	6.3 (+0.2)	-	-

Source: IMF and OECD.

* Figures in brackets show the change over the previous published forecasts. IMF, forecasts published in January 2010 (versus October 2009). OECD, forecasts published November 2009 (versus June 2009).

Inflationary pressures remain generally muted, allowing official interest rates in almost all world regions to be kept at lows.

Inflationary pressures remain well under control, to judge by the performance of prices in most, though not all economies. Inflation rates in main world economies touched lows in the middle months of 2009, before climbing back up at differing intensities. Although both the United States and United Kingdom have experienced a relatively sharp run-up in prices, especially in the last few months, there are powerful arguments for leaving official rates at their current lows. Firstly, underlying inflation remains subdued, in keeping with a low level of capacity utilisation and high unemployment rates. And secondly, mid-term inflation prospects are well within acceptable bounds. Official rates accordingly held at lows over the first quarter of 2010: 0%-0.25% in the United States,[3] 0.1% in Japan,[4] 0.5% in the United Kingdom and 1% in the euro area, though the central banks of some developed economies, like Australia and Norway, have hiked them on at least one occasion since end-2009, urged by their economic recovery readings and a larger-than-forecast inflation jump.

Some one-off support measures for financial markets and institutions have concluded or are being wound down...

Some of the support measures deployed by governments and central banks to aid financial markets and institutions are now being carefully and selectively deactivated in response to what appears to be a return to normality. But the speed of withdrawal is being timed to fit with the nature of the measure. Hence liquidity provision to financial institutions, the recapitalisation of struggling entities and the guarantees extended for debt financing are all being scaled back considerably; in some

2 IMF and OECD forecasts.

3 Since 16 December 2008.

4 Since 19 December 2008.

cases because the measure had expired, but in many other cases, due to scant (even zero) take-up by the target public. In December 2009, the ECB announced the phased withdrawal of certain extraordinary measures in light of the improvement in financing markets – specifically, that the one-year re-financing operation that same month would be the last of its kind, and that six-month tenders would be discontinued as of March 2010. Meantime, liquidity provision through its fixed-rate full allotment operations would be prolonged until at least the first quarter of 2010, while the covered bond purchase program would be withdrawn around mid-year. Credit institutions are still using these last instruments as collateral for ECB loans in view of languishing demand for asset-backed securities.

Weak activity plus fiscal stimulus and financial sector support measures have pushed up the deficits and public debt of developed economies.

The downturn in activity, allied with governments' strenuous stimulus and support efforts, have caused burgeoning budget deficits and public debt in both developed and, to a lesser extent, emerging economies. The public deficit of the OECD group of countries is projected to reach 8.25% of GDP in 2010, and to stick at around 8% in 2011 in countries like the United States, Japan, United Kingdom, France or Spain. Projections for the OECD countries' public debt expect it to top 100% of GDP in 2011, a full 30 points more than in 2007, before the onset of the crisis. This being so, there is general agreement that maintaining exceptional fiscal packages over any length of time could threaten the sustainability of public accounts. At the same time, the authorities feel there is a need to keep them in place until output recovery looks sufficiently solid.

Equity markets have been in an unsettled mood over the last few months...

International equity markets have performed unevenly in recent months after the strong run-up of the central quarters of 2009. Specifically, the fourth-quarter period saw a rather directionless market, as investors waited in vain for signs of a robust international upturn, which the indicators refused to confirm. The result was a price variation on main European indices that ranged from the -0.1% of the Italian market to the 5.0% of Germany's Dax. Japanese and U.S. indices fared rather better though gains in no case stretched above 8% (see table 2).

Performance of main stock indices[1] (%)

TABLE 2

	2006	2007	2008	2009	4Q 08	4Q 09	1Q10 (To 15 March) % prior qt	%/Dec	% y/y[2]	% low[3]
World										
MSCI World	18.0	7.1	-42.1	27.0	16.9	3.7	1.2	1.2	56.3	71.6
Euro area										
Euro Stoxx 50	15.1	6.8	-44.4	21.1	19.6	3.2	-3.2	-3.2	45.7	58.6
Euronext 100	18.8	3.4	-45.2	25.5	21.6	3.7	-0.3	-0.3	47.2	56.8
Dax 30	22.0	22.3	-40.4	23.8	18.0	5.0	-0.9	-0.9	49.3	59.9
Cac 40	17.5	1.3	-42.7	22.3	20.9	3.7	-1.2	-1.2	43.8	54.4
Mib 30	19.0	-8.0	-48.7	20.7	19.6	-0.7	-2.2	-2.2	53.6	69.4
Ibex 35	*31.8*	*7.3*	*-39.4*	*29.8*	*20.1*	*1.6*	*-8.2*	*-8.2*	*47.5*	*60.7*
United Kingdom										
FT 100	10.7	3.8	-31.3	22.1	20.8	5.4	3.3	3.3	49.0	57.9
United States										
Dow Jones	16.3	6.4	-33.8	18.8	15.0	7.4	2.1	2.1	47.3	62.5
S&P 500	13.6	3.5	-38.5	23.5	15.0	5.5	3.2	3.2	52.1	70.1
Nasdaq-Cpte	9.5	9.8	-40.5	43.9	15.7	6.9	4.1	4.1	65.0	86.2
Japan										
Nikkei 225	6.9	-11.1	-42.1	19.0	1.8	4.1	1.9	1.9	42.0	51.7
Topix	10.2	43.5	1.9	-12.2	-41.8	5.6	3.5	3.5	29.6	32.1

Source: Datastream.

1 In local currency.

2 Year -on-year change to the reference date.

3 Change vs. 2009 low. The low of the MSCI World index (9 March) is taken as a common date.

... with uncertainty mounting over certain European economies' deteriorating public finances and possible novelties in U.S. financial regulations. In recent weeks, improved agent confidence has sent share prices rising once more.

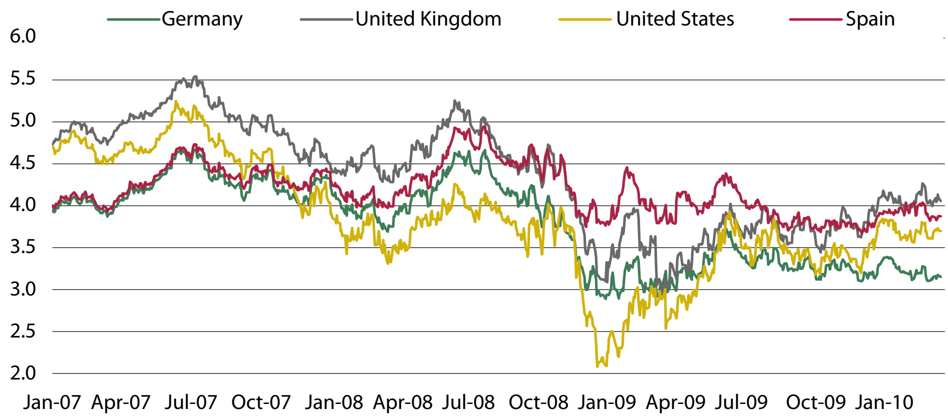
A number of factors conspired to boost investor risk aversion in January and February 2010, giving rise to instability episodes that pushed down share prices and heightened volatility. Chief among them were the uncertainty generated by announcements in the U.S. hinting at changes in financial regulations, and fears about the grave state of Greece's public finances, which tended to spread by contagion to other European countries. Fortunately, during the first fortnight in March, the easing of tensions in the Greek case after the government's launch of a fiscal consolidation plan plus a set of more positive macro and corporate earnings data sent share prices rising once more. The first quarter of 2010[5] accordingly brought gains in America (from the 2.1% of the Dow Jones to the 4.1% of the Nasdaq) and Japan (from the 1.9% of the Nikkei 225 to the 3.5% of the Topix) and losses in Europe (from the -0.3% of the Euronext 100 to the -8.2% of the Ibex 35).

Government bond markets have performed divergently in tune with economic prospects, safe haven potential and the state of each country's public finances.

Public and private debt markets have turned in a divergent performance in these past months, with various factors at work. In the case of government bond markets, the long-term yields of developed countries headed generally higher in the last three months of 2009, in tune with improved macroeconomic prospects. As of the start of this year, yields began turning down in the United States and Germany, probably denoting a new "flight to quality" triggered by the uncertainties mentioned earlier, which has spurred an intense buying round in the government bonds perceived as strongest in solvency and liquidity. In the case of other European economies, concerns over the sustainability of public finances have pushed up their benchmark yields (see figure 2).

5 Data to 15 March.

Ten-year government bond yields (%) FIGURE 2

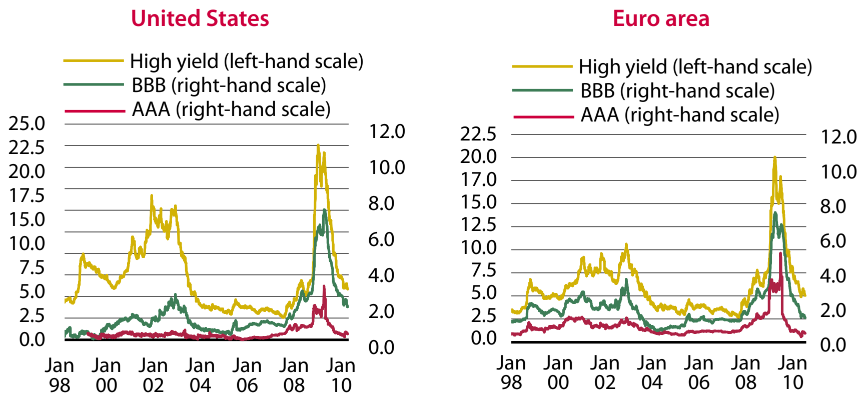


Source: Thomson Datastream. Data to 15 March.

Financing conditions in private debt markets are approaching normality.

In private debt markets, price and volume indicators point firmly in the way of normalisation. On the price front, 2009 brought a sturdy decline in the risk premiums paid by European and American issuers. In fact current levels are, in many cases, similar to those found at times of greater macro and financial stability (see figure 3), even after the small upturn of the last few weeks. As to volumes, net bond issues in international markets rose to 6.3 trillion dollars in 2009, a full 3.3 trillion more than in 2008 and 1.6 trillion more than in 2007. This marks a break with the pattern of the two previous years, when fixed-income issuance fell by 8% and 35% respectively (see exhibit 4 for more details). It seems then that lower issuance costs allied with tougher access to bank finance are driving a shift in entities' financing mix from bank loans to debt (see figure 4).

Corporate bond risk premiums[1] (basis points) FIGURE 3

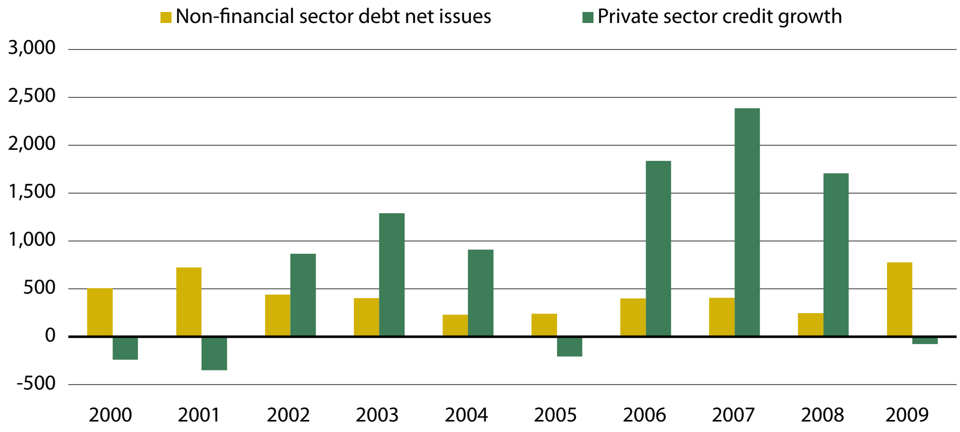


Source: Thomson Datastream (Merrill Lynch, IBOXX indices). Data to 15 March.

1 Expressed as the yield spread between bonds of the same maturity and credit quality belonging to a given index and 10-year government bonds (a synthetic bond in the case of the euro area).

Financing of non financial private companies (billion dollars)

FIGURE 4



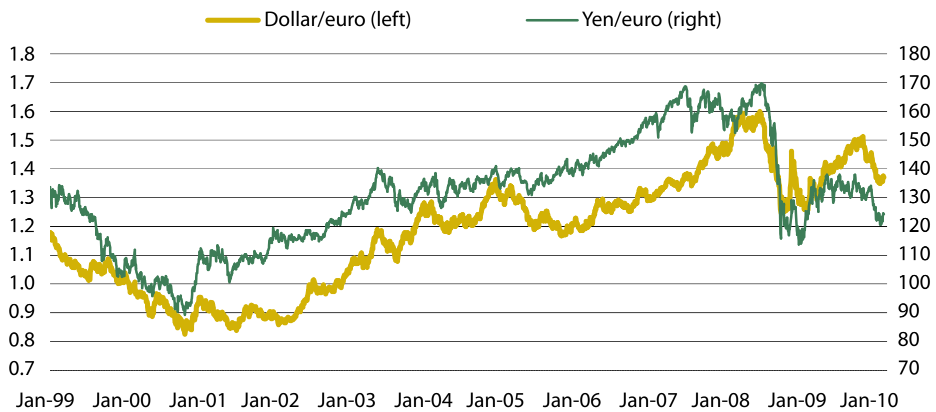
Source: Dealogic and Thomson Datastream. The loans series has been constructed by aggregating the lending to non financial companies series for the euro area and the United Kingdom and resident sector lending series in the United States and Japan.

The euro has lost ground against the dollar since December last, on the greater strength of the U.S. economy and doubts over European public finances.

In currency markets, after a strong run by the euro against the U.S. currency, which took it from 1.25 dollars in March 2009 to above 1.50 dollars in the month of December, the trend has inverted in the last few weeks in view of the relative strength of the American vs. the European economy and concerns over the public finances of some euro area countries. The result has been euro depreciation against the dollar, to around the 1.37 dollar mark[6], and against the Japanese yen (from around 133 yens at end-2009 to the 124 yens of mid-March 2010).

Euro exchange rates vs. the dollar and yen

FIGURE 5



Source: Thomson Datastream. Data to 15 March.

6 By way of an end-February low of 1.35 dollars/euro.

Exhibit 1: Compensation practices in the financial industry: recent initiatives

At the request of the G20, the Financial Stability Forum (FSF) published its *Principles for Sound Compensation Practices* in April 2009, directed at significant financial institutions but also applicable to any large, systemically important firms. They are basically designed to promote prudent risk management by financial institutions that is geared to long-term growth and stability, in place of the short-termism encouraged by pre-crisis compensation practices.

The FSF principles revolve around three main axes. The first is the effective governance of compensation systems, with the recommendation that boards of directors should actively oversee their design and operation. The second involves the obligatory alignment of these systems with the goals of prudent risk management. In particular, compensation policy should consider all the types of risk that employees may take on behalf of the company, and ensure that variable pay is sensitive to the time horizon of the same. The third axis refers to the disclosure of compensation practices and supervisory oversight. The former is a vital input for stakeholders to evaluate the quality of the firm's strategy and risk posture. Supervisors, meantime, must review compensation practices as part of their broader evaluation of the risk carried by the firm.

In September 2009, the Financial Stability Board (FSB), successor to the FSF, published a set of implementation standards for its principles for compensation practices, including specific guidelines on the reform of corporate governance, global standards for pay structure, transparency and the role of supervisors. The FSB also called on the three main international forums for financial sector supervisors to undertake all necessary measures to support the implementation of the standards. This request has already given rise to a number of initiatives. In the banking sector, the Basel Committee on Banking Supervision (BCBS) has set up a Network of Senior Supervisors to exchange experiences on the topic and has developed an evaluation methodology for supervisors to follow in their review of financial institution compensation practices. In insurance, the International Association of Insurance Supervisors (IAIS) is working on a set of supervisory standards based on the FSB principles. And, finally, the International Organisation of Securities Commissions (IOSCO) has centered its attention on the transparency of listed company compensation practices, to decide how the FSB principles can be merged within its own catalogue of *Principles for Periodic Disclosure for Listed Entities*.

The FSB has recently launched a peer review among member organisations to analyse the implementation status of it principles and standards, focusing on the measures planned or deployed by different jurisdictions, and those taken by systemically important financial institutions. It is hoped that this review will be completed by late March 2010.

Looking now at specific national and regional initiatives, the reform proposal Restoring American Financial Stability was sent to the United States Senate in early 2010. The bill includes some radical measures to put a rein on executive pay, among them: (i) the right of shareholders to have an advisory vote on the compensation of company executives ("say on pay"), (ii) the independence of the remuneration committee and (iii) an obligation on listed firms to establish "claw back" policies to recover executive compensation awarded on the basis of inaccurate financial statements.

In the European Union, the Larosière Report, published in February 2009, had already trained its sights on compensation policies, urging that financial sector bonuses should be calculated on a multiannual basis and be reflective of real earnings without being guaranteed beforehand. In April 2009, the European Commission adopted two sets of recommendations on compensation policies. The first of these, aimed at financial institutions, embraces the spirit of the FSF principles, and has been proposed for incorporation into the recast capital requirements directive currently awaiting approval. The second sets out guidelines on the structure and level of the remuneration of listed company directors, with four stand-out recommendations: (i) the placing of limits on severance payments for the early termination of contracts ("golden parachutes"), (ii) a balance between fixed and variable compensation components, with the latter linked to measurable management targets, (iii) bonuses to be designed with a view to sustainable performance and (iv) the return of variable components of remuneration awarded on the basis of misleading information.

In Spain, the CNMV issued a consultation paper in December 2009 proposing to update the Unified Good Governance Code in line with the European Commission's Recommendation of 30 April 2009 on the remuneration of the directors of listed companies. The recast Code is expected to be approved in the third quarter of 2010 for application in companies' annual corporate governance reports corresponding to the same year.

Also, the future Sustainable Economy Law, whose draft was approved by the Council of Ministers on 19 March 2010, will at the CNMV's urging make existing provisions on compensation policies legally binding on all listed companies. The effect will be to enhance the transparency of director and executive pay along with remaining compensation policies and practices. Among its requirements, listed firms will have to submit an annual remuneration statement to the advisory vote of the general shareholders' meeting, with details on the implementation of its compensation policies and an itemisation of payments received by all directors and senior officers.

The new law will also tighten up disclosure requirements for credit institutions regarding the remuneration of employees whose actions may have a material impact on risk exposure. The Banco de España had already called on credit institutions to adopt the FSF principles by 31 December 2009.

Finally, a number of countries are discussing the possibility, temporarily at least, of taxing lavish bonuses awarded at a time of large state aids to the banking industry. The UK, in particular, has imposed a one-off "windfall" tax to run from December 2009 to April this year. France is debating a similar levy, while Spain and Germany have ruled out any such move.

2.2 National economic and financial developments

Quarterly National Accounts data for 4Q 2009 show that Spain's GDP fell 0.1% in quarterly terms (against -0.3% the quarter before) and 3.1% in annual terms (-4.0% in the third quarter). The result was a full-year contraction of 3.6%. This marks a run of seven quarters of negative GDP growth, though the rate of decline has been gradually slowing since 2Q 2009. Further, a look at the growth mix shows that main components pulled closer into line as the year progressed, with the negative contribution of domestic demand easing from -6.6 points in the third quarter to -5.3 points in the fourth, and net exports dropping back from a positive 2.6 to 2.2 points.

Spanish GDP declined more slowly in the fourth quarter of 2009 (-0.1%), which closed with a negative growth rate of 3.6%...

On the demand side, salient fourth-quarter developments were the recovery of household consumption, which registered a positive quarterly rate (0.3%) for the first time in two years, the quarterly fall in government consumption (-1.7%) and the slower decline of gross fixed capital formation (from -2.4% in the third quarter to -1.0% in the fourth), with equipment investment picking up strongly (from 1.8% to 3.1%) and construction investment braking its fall (from -2.6% to -2.2%). Export growth quickened from 2.1% to 3.0% between the third and the closing quarter, while import growth rose from 1.7% to 2.1%. Finally, household consumption fell by 5% in the full-year period, gross fixed capital formation by 15.3% (-23.1% in equipment and -11.2% in construction), exports of goods and services by 11.5% and imports by 17.9%. The only positive change was in government consumption, which moved up 3.8%.

...and a better balanced mix between domestic and external demand.

Spain: main macroeconomic variables (% annual change) TABLE 3

					European Commission*	
	2006	2007	2008	2009	2010F	2011F
GDP	**4.0**	**3.6**	**0.9**	**-3.6**	**-0.6 (+0.2)**	**1.0**
Private consumption	3.8	3.7	-0.6	-5.0	-0.5 (+0.6)	0.9
Government consumption	4.6	5.5	5.5	3.8	1.7 (-3.0)	2.2
Gross fixed capital formation, of which:	7.2	4.6	-4.4	-15.3	-8.4 (-0.4)	-1.3
Equipment	9.9	9.0	-1.8	-23.1	-6.0 (+3.6)	2.2
Exports	6.7	6.6	-1.0	-11.5	1.3 (+1.2)	3.3
Imports	10.2	8.0	-4.9	-17.9	-2.7 (-0.3)	2.2
Net exports (growth contribution, pp)	-1.4	-0.9	1.4	2.8	1.0 (+0.3)	0.3
Employment	3.2	2.9	-0.6	-6.7	-2.3 (+0.4)	-0.4
Unemployment rate[1]	8.5	8.3	11.4	18.1	20.0 (-0.5)	20.5
HICP	3.6	2.8	4.1	-0.3	1.1 (+0.3)	2.0
Current account (% GDP)	-9.0	-10.0	-9.6	-5.1	-4.6 (+1.7)	-4.2
General government (% GDP)	2.0	2.2	-4.1	-11.4	-10.1 (-0.3)	-9.3

Source: Ministry of Economy and Finance, National Statistics Office (INE) and European Commission.

1 Eurostat definition.

* Forecasts published in autumn 2009 (with respect to spring 2009), except GDP and inflation forecasts for 2010, published in February (with respect to autumn 2009).

On the supply side, keynote developments were the recovery of industrial output (up from -1.7% in the third quarter to 0.5% in the fourth) and the relative stability of service sector value-added (varying from 0.1% to 0.0% respectively). Meantime, construction value-added declined by 1.2% in each of the last two quarters of 2009. Over the full-year period, the GDP contraction was 14.7% in industry, 6.3% in construction and 1.0% in services.

The supply-side contraction of 2009 was strongest in industry and construction branches.

Annual inflation moved higher from September 2009 (-1.0%) to January 2010 (1.0%), before easing to a February rate of 0.8%. The run-up was driven by more volatile index components, energy especially, while the underlying rate held more or less flat

Annual inflation moved higher from September 2009 ...

... to January 2010, with volatile components in the lead, then eased slightly in the month of February. In general, inflation is expected to stay tame in the absence of demand pressures.

in the interval of 0.1% to 0.3%. Inflation will likely stay low-key through 2010 in the absence of significant demand pressures, though the VAT hike in July and the chance of a renewed rise in commodity prices (again, mainly energy products) could usher in a mild upward trend. Spain's inflation differential vs. the euro area turned negative in December 2008 and dropped as far as -0.9 p.p. in May 2009 before narrowing once more over the year's second half. In 2010 to date, the differential has hovered consistently around the zero mark.

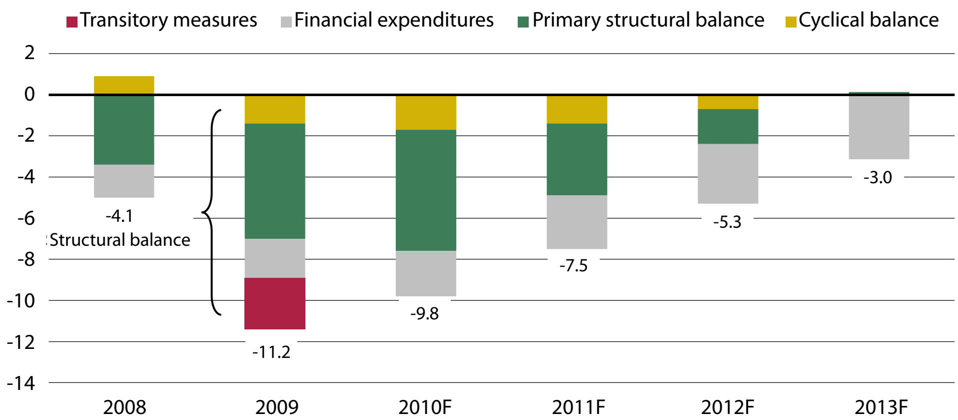
Labour market conditions continued to deteriorate though with tailing-off. Spain ended the year with an unemployment rate equivalent to 18.8% of the labour force.

Labour market data for the fourth quarter of the year point to further deterioration, albeit at a rather slower rate. According to the labour force survey, employment fell by 6.1% in 2009 (by 1,210,000 to 18,646,000) while jobless numbers climbed by around 35% (1,118,000 to 4,326,000). The unemployment rate moved up nine decimal points vs. the previous quarter to 18.8%, while labour force numbers fell by a marginal 0.4%. Preliminary January 2010 data for registered unemployment and Social Security affiliates point in the same general direction.

The public deficit widened from 4.1% in 2008 to 11.2% in 2009 on a combination of economic weakening, extraordinary fiscal measures and an increase in the structural component.

The latest data on Spain's public finances put the 2009 deficit at 11.2% of GDP compared to 4.1% in 2008. Disaggregated totals from the Ministry of Finance for these same years (see figure 6) show that 2.5 points of this 7.3-point jump had their origin in one-off anti-crisis measures, with another 2.3 points due to the cyclical downturn in output, 2.2 points to falling revenues or increased structural spending and 0.3 points to increased financial charges. At the same time, government anti-crisis measures[7] are estimated to have added 1.5 points to 2009 growth. The Stability Programme for 2009-2013 envisages a gradual reduction in the public deficit from the 11.4% of 2009 to 3.0% in 2013. Meantime public debt is expected to go on rising from last year's 55.2% of GDP to 74.3% in 2012 and 74.1% in 2013.

Fiscal balance of the Spanish economy (% GDP) FIGURE 6



Source: Ministry of Economy and Finance. Stability Programme 2009-2013.

The Stability Programme envisages a gradual decrease in the deficit to 3% in 2013 and an upward progression in public debt to the year 2012 (74.3% of GDP).

The envisaged 8-point decline in the public deficit between 2009 and 2013 will be achieved through an upswing in output growth, consistent with the elimination of the cyclical deficit, the withdrawal of one-off measures and, above all, what should be a large reduction in the structural deficit, currently calculated at 5.7% of GDP. This last objective will be secured by means of the consolidation measures set out in table 4.

7 These can be divided into three main groups: 1) extraordinary funds (1.1% GDP), primarily the Local Investment Plan and the Plan to Boost the Economy and Employment, 2) tax measures in support of liquidity (0.7% of GDP) and 3) exceptional deferral of tax liabilities (0.7% of GDP).

Fiscal restrictions (% GDP) TABLE 4

	Measure	Revenue	Expenditure
2010 Budget	VAT increase	+0.7	
	Increase in excise taxes	+0.3	
	Abolition of €400 personal income tax rebate	+0.4	
	Increased taxation of savings	+0.1	
	Corporate income tax cuts for small firms	-0.1	
	Cuts in current expenditure		-0.8
New measures	Additional spending cuts in 2010		-0.5
	Central Government Austerity Plan 2011-2013		-2.6
	Spending cuts by regional and local government		-0.5
Total revenue		**+1.4**	
Total expenditure			**-4.4**

Source: Ministry of Economy and Finance.

The latest forecasts from leading international organisations include a small revise-up in the growth rates of the Spanish economy, which will nonetheless repeat negative growth in 2010 (ranging from -0.3% to -0.6%).[8] This should be followed by a mild upswing in 2011 to the region of 1%. Unemployment rates will stick at around 20% of the labour force, with no firm recovery in sight until 2011.

IMF and OECD forecasts for the Spanish economy augur a renewed growth contraction in 2010 and mild recovery in 2011.

On the financial front, Spanish deposit-taking entities again had to deal with a complex environment, with weak economic activity taking its toll on income statements through the dual route of falling business and loan-book deterioration.

Spanish deposit-taking entities have continued to operate in a complex environment...

In effect, credit institutions obtained aggregate net profits of 12.96 billion euros in 2009, 29.7% less than in full-year 2008. Improvement in net interest income and gross income (up by 22.4% and 1.7% respectively) could not counter the inroads made by steeper impairment losses on financial and other assets (up by 4.30 billion and almost 6.55 billion euros respectively).

... with the downturn in activity eroding both business volumes and asset quality.

The year-on-year change in aggregate outstanding loans to Spanish businesses and households stood at -0.9% in January 2010 against -0.5% one month before and 6.1% in December 2008. The fall was a little deeper in the euro area (-1.3% in January, against -0.6% in December 2009 and 5.8% in December 2008), but with some major differences in the mix. Specifically, loans to businesses in the euro area have decelerated more sharply since April 2009 as far as a year-on-year rate of -3.8% in January 2010 against +1.1% in Spain. Conversely, consumer and home purchase loans to households have held up more strongly, with the latter fighting back from the -0.3% low of September 2009 to +1.8% in January 2010, while the year-on-year rate in Spain has barely budged from 0%. Consumer lending, meantime, has been registering annual growth rates close to zero for several months now, compared to annual falls in Spain since mid-2009 of between -2.6% and -3.1%.

Outstanding loans to businesses and households sank further to January (-0.9% year on year) though improving slightly on the euro area's -1.3%.

In this complex landscape, the non performing loans ratio of Spanish entities continued the advance initiated three years back though at a rather more moderate pace (see figure 7). In January 2010, the ratio stood at 5.3% (5.2%for the banks and 5.3%for the savings banks) compared to the 3.9% of the same month in 2009, the 1.0% of 2008 and the 0.8% of 2007. The bulk of NPL entries in the past year correspond to loans granted to construction companies and real estate developers, both with a strongly cyclical profile.[9]

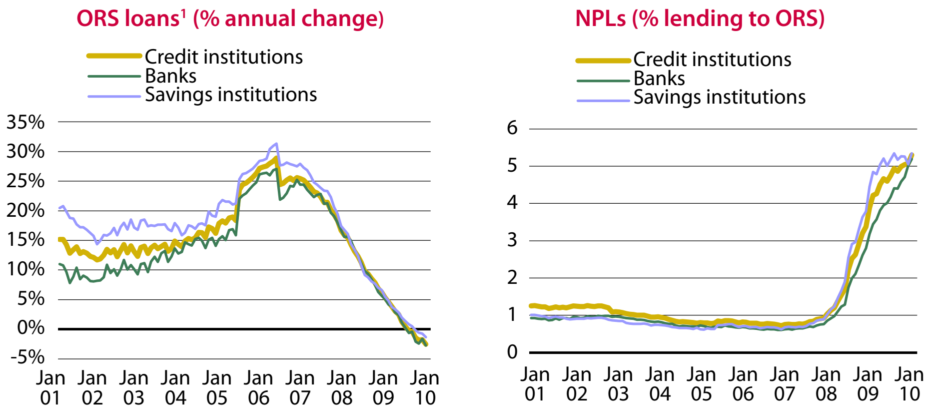
Non performing loans continue to advance (5.3% in January) though at a rather slower pace.

8 Source: IMF, OECD and European Commission.

9 The NPL ratio for construction and real estate business was 9.6% in December 2009, against an overall ratio for productive activities of 6.2% at the same date.

Deposit-taking entities; loans and NPLs

FIGURE 7



Source: Banco de España. Data to January.

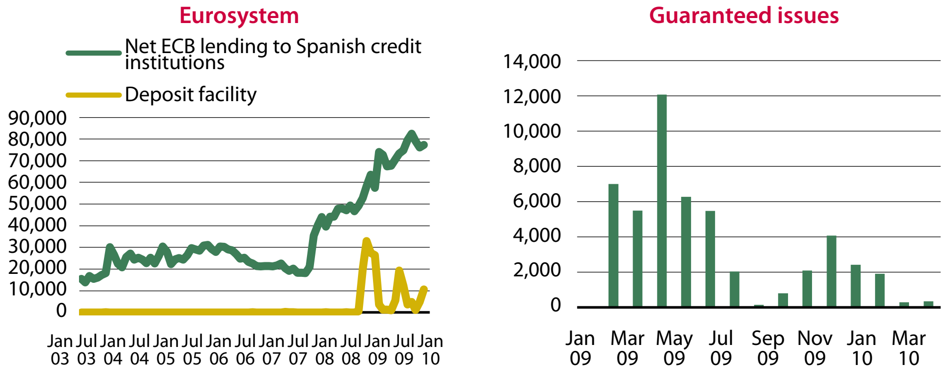
1 ORS = Other resident sectors.

Financing conditions stayed relatively comfortable thanks to support measures of the national authorities and ECB …

Financial institutions enjoyed fairly relaxed financing conditions throughout 2009 thanks to the help received from official quarters in the shape of state or ECB guarantees for debt financing, the extraordinary liquidity provided from the outset of the crisis and, more recently, the purchase programme for covered bonds. In effect, government-backed bond issues amounted to 48 billion euros in 2009, while recourse to Eurosystem credits held more or less stable, ranging from 75 billion to 82.50 billion euros since August 2009 (see figure 8). As to other debt instruments, securitisation markets remained virtually shut, while entities wishing to strengthen their capital turned increasingly to preference shares and, more recently, convertible bonds. Improved access to wholesale debt markets through 2009 also enabled a small resurgence in non guaranteed issues, particularly among the larger operators.

Financing of Spanish credit institutions (million euros)

FIGURE 8



Source: Banco de España and CNMV. Eurosystem data to January. The figures for guaranteed issues run to 15 March.

...amid a general move to strengthen institutions' capital adequacy. However, large differences persist with regard to their financial strength.

The capital adequacy of Spanish deposit-taking entities strengthened further in the first half of 2009. The BIS ratio was 11.7% in June 2009, well clear of the 8% minimum requirement and also 46 basis points higher than one year before. The tier 1 ratio for this same month was 9% (against the minimum requirement of 4%), 86 basis points more than in 2008. This improvement, moreover, extends to a large number of entities as regards both the total and core capital ratios, though note that levels vary widely in tune with their respective financing strategies and borrowing capacity.

The aggregate net profits of non financial listed companies climbed 14.7% vs. 2008 to 24.33 billion euros. As table 5 shows, this increase was entirely due to the better relative performance of firms engaging in construction and real estate activities, which fought back from aggregate losses of over 7.10 billion euros in 2008 to just over 1.15 billion profits in 2009. That said, economic weakness continued to take its toll. Hardest hit were industry sector firms, which scraped combined 2009 profits of just over 300 million euros (against more than 900 million in 2008) and those in the energy sector, whose profits dropped by 27% to 11.80 billion. The profits of retail and service companies also declined, though by a rather more moderate 3.6%, to an aggregate total of 11 billion euros.

Aggregate profits of non financial listed companies grew 14.7% in 2009. Leading the upside were contractors and real estate developers, which shook off the heavy losses of the previous year.

Breaking down listed companies in terms of their net profit for the year (see figure 9, panel a), we find that the number reporting minor losses (between -100 million and zero euros) rose between 2008 and 2009, while the number just slightly in profit (between zero and 100 million euros) fell. The smaller numbers reporting heavy losses (above 500 million euros) reflected the improved performance of real estate companies. Finally, among the companies in profit over both these years (see figure 9, panel b), we can see that earnings slippage has moderated to some extent.

The number of companies with minor losses was a little higher in 2009, while the number slightly in profit fell. The general story, however, was of some moderation in profits decline.

Earnings by sector[1]: non financial listed companies TABLE 5

	EBITDA[2]		EBIT[3]		Net profit	
Million euros	2008	2009	2008	2009	2008	2009
Energy	26,899	29,043	18,174	18,385	16,118	11,797
Industry	3,309	2,797	1,828	1,274	912	303
Retail and services	30,390	29,022	18,867	17,454	11,449	11,042
Construction and real estate	1,920	4,749	-1,101	1,634	-7,127	1,168
Adjustments	-439	-270	-251	-94	-137	+24
AGGREGATE TOTAL	**62,079**	**65,341**	**37,517**	**38,653**	**21,215**	**24,334**

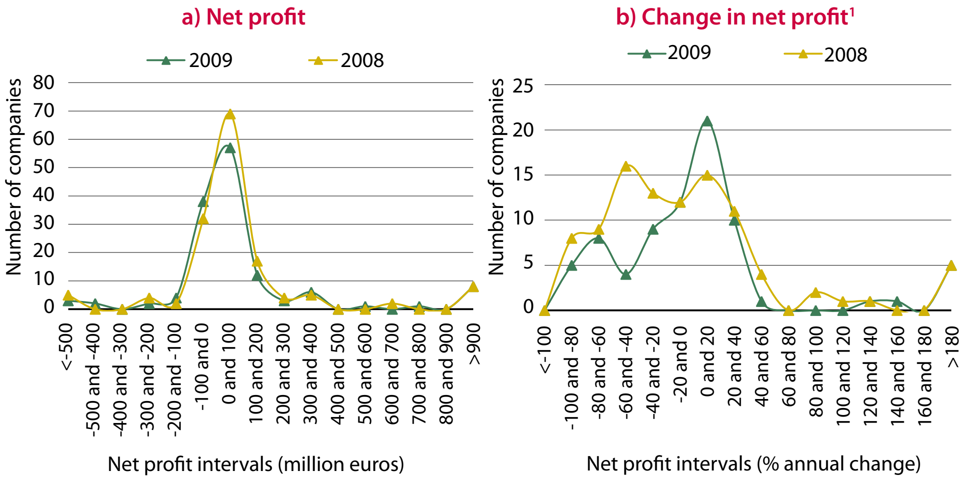
Source: CNMV.

1 Year-to-date earnings.

2 Earnings before interest, taxes, depreciation and amortisation.

3 Earnings before interest and taxes.

Non financial listed companies by: FIGURE 9



Source: CNMV.

1 Number of entities distributed according to the change in their net profit, including only those with a positive net outcome in both years.

Listed company debt rises by 4.6% in 2009 while leverage ratios tick upwards.

The debt of non financial listed companies was 323.7 billion at the 2009 close, 4.6% more than at end-2008. The largest increase corresponded to companies in the energy sector, whose combined debt swelled by almost 18 billion euros in the course of the year, due basically to Unión Fenosa's takeover of Gas Natural (see table 6). The debt of remaining sectors reduced in year-on-year terms, with construction and real estate (-12.7%) and retail and services (-6.3%) leading the downside. Financial leverage –the ratio of debt to net equity – edged up from 1.6 in 2008 to 1.7 in 2009, with all sectors except retail and services sharing in the increase.

The debt coverage ratio increased in 2009, though this was accompanied by some improvement in companies' interest coverage.

The debt coverage ratio, measuring the years needed to repay existing debt assuming constant EBITDA, rose from 4.6 in 2008 to 5 in 2009 for the sample as a whole. Construction and real estate companies were again to the fore with a drop from 32 to 22 years. Meantime, lower interest rates and more resistant earnings secured a general improvement in interest coverage ratios (EBIT/interest expenses up from 2.0 to 2.4). However sectoral differences loomed large, with retail and services and construction and real estate faring considerably better, against the worsening performance of industrial and energy firms (see table 6).

Gross debt by sector: listed companies TABLE 6

Million euros		2005	2006	2007	2008	2009
Energy	Debt	58,586	59,191	69,172	82,608	100,573
	Debt/ Equity	0.9	0.9	0.8	0.9	1.1
	Debt/ EBITDA[1]	2.4	2.2	2.5	2.8	3.5
	EBIT[2]/ Interest expenses	4.0	4.7	4.1	3.7	3.4
Industry	Debt	12,760	15,684	13,312	15,645	15,115
	Debt/ Equity	0.8	0.8	0.6	0.7	0.9
	Debt/ EBITDA	2.1	2.1	1.8	2.7	5.4
	EBIT/ Interest expenses	6.5	5.7	5.9	3.4	1.5
Construction and real estate	Debt	48,324	111,000	138,933	119,788	104,593
	Debt/ Equity	2.2	3.1	3.1	3.8	4.1
	Debt/ EBITDA	6.5	11.5	10.8	31.9	22.0
	EBIT/ Interest expenses	2.8	2.0	1.2	0.0	0.3
Retail and Services	Debt	55,710	91,522	96,941	112,322	105,289
	Debt/ Equity	1.7	2.5	1.7	2.1	1.8
	Debt/ EBITDA	2.7	3.6	3.0	3.6	3.6
	EBIT/ Interest expenses	3.4	2.4	3.2	2.9	3.4
Adjustments[3]	Debt	-7,942.0	-11,199.0	-17,391.0	-20,802.0	-1,907
AGGREGATE TOTAL[4]	**Debt**	**167,438**	**266,198**	**300,967**	**309,561**	**323,663**
	Debt/ Equity	1.3	1.7	1.5	1.6	1.7
	Debt/ EBITDA	2.9	3.9	4.0	4.6	5.0
	EBIT/ Interest expenses	3.8	3.3	3.0	2.0	2.4

Source: CNMV.

1 Earnings before interest, taxes, depreciation and amortisation.

2 Earnings before interest and taxes.

3 In drawing up this table, we eliminated the debt of issuers consolidating accounts with some other Spanish listed group. The figures in the adjustments row correspond to eliminations from subsidiary companies with their parent in another sector.

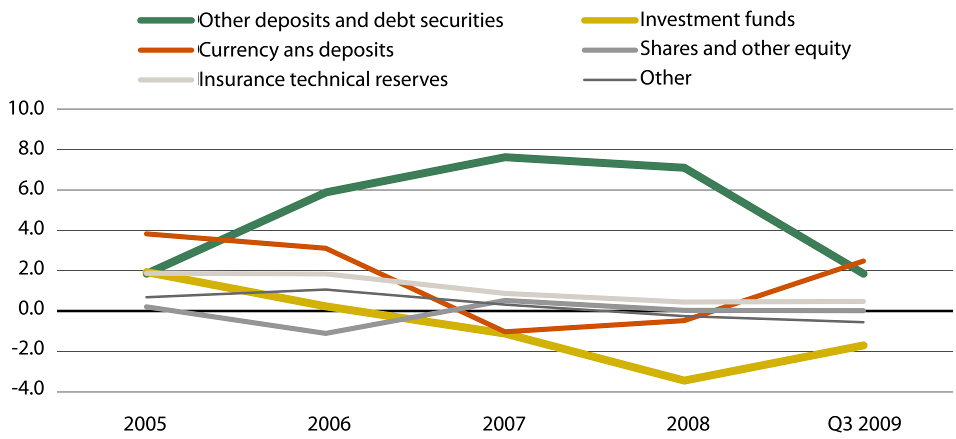
4 This table did not previously include any financial entities, comprising credit institutions, insurance companies and portfolio companies. However as IPP (Periodic Public Information) forms are the same for portfolio companies as for non-financial companies starting in 2008, it has been decided to include them in the aggregate figure. Data for the 2007 close have been restated to factor the impact of Criteria Caixacorp.

Household indebtedness has receded further while ...

Household asset indicators for the third quarter of 2009 offered more of the same: namely, a continuing increase in the savings rate (to above 18% of gross disposable income) and a decrease in indebtedness ratios (to around 125% of gross disposable income). Where we can see changes emerging is in household wealth, whose apparent stabilisation after the run-down of 2008 and first-half 2009 is a product of two opposing forces: the rising prices of financial assets and the depreciation of real estate. In all, households' net financial asset purchases climbed to around 3.5% of GDP in September 2009 (cumulative four-quarter data), almost one point higher than in June. By instrument, investment funds have made a significant come-back, while we can detect some reallocation towards cash vs. term deposits on the liquid side of the investment mix (see figure 10).

... increased savings rates have encouraged more funds into collective investment at the expense of term deposits.

Households: financial asset acquisitions (% GDP) FIGURE 10



Source: Banco de España, *Cuentas Financieras*. Cumulative four-quarter data.

Investment fund subscriptions and redemptions (million euros)[1] TABLE 7

Category	Subscriptions				Redemptions			
	1Q09	2Q09	3Q09	4Q09[8]	1Q09	2Q09	3Q09	4Q09[8]
Fixed income[1]	18,299.3	15,572.6	19,696.6	20,150.3	19,963.9	19,433.2	20,089.9	21,710.4
Balanced fxd income[2]	361.9	515	1,081.7	3,309.0	806.2	549.3	576.6	792.3
Balanced equity[3]	71	156.3	541.5	366.6	493	284.4	554.2	264.9
Spanish equity[4]	362.1	489.3	589.2	743.2	751.4	515.9	455.6	734.9
Intern. equity[5]	390.8	598.4	775	1,165.3	506.3	592	457.5	609.5
Fixed-income guaranteed	3,180.6	3,783.2	2,544.8	2,246.8	3,587.1	3,300.3	4,046.6	4,070.5
Equity guaranteed[6]	636.5	1,369.3	1,683.7	1,899.6	2,372.5	2,944.0	3,100.5	2,574.1
Global funds	600.6	971.5	389.4	792.9	1,538.5	588	141.6	280.5
Passively managed[7]		62.1	204.4	269.0		307.8	164.3	235.9
Absolute return[7]		567.8	1,256.4	2,221.5		627.3	924.6	1,672.1
Hedge funds	23.5	72.2	66.5		108.3	18.1	24.5	
Funds of hedge funds	35.5	9.2	170.1		294.6	79.8	57.5	
TOTAL	**23,961.8**	**24,166.9**	**28,999.2**	**33,164.3**	**30,421.8**	**29,240.1**	**30,593.5**	**32,945.1**

Source: CNMV.

1 To 1Q09: Short and long fixed income, international fixed income and money market funds. From 2Q09: Euro and international fixed income and money market funds.
2 To 1Q09: Balanced fixed income and balanced international fixed income. From 2Q09: Balanced euro fixed income and balanced international fixed income.
3 To 1Q09: Balanced equity and balanced international equity. From 2Q09: Balanced euro equity and balanced international equity.
4 To 1Q09: Spanish equity and euro equity. From 2Q09: Euro equity (including Spanish equity).
5 To 1Q09: International equity Europe, Japan, United States, emerging markets and others. From 2Q09: International equity.
6 To 1Q09: Guaranteed equity. From 2Q09: Guaranteed and partially guaranteed equity.
7 New categories as of 2Q09. All absolute return funds were previously classed as global funds.
8 Estimated data.

2.3 Outlook

Leading forecasters augur a return to robust growth in 2010 and 2011, led by the emerging economies. However, this scenario faces a series of downside risks...

The forecasts of leading international organisations (IMF and OECD) augur world growth of around 4.0% in 2010 and slightly more in 2011, confirming expectations of an international upswing. The consensus is that growth will be led by the emerging economies, with the Asia group strongly to the fore, and a firming recovery of economic activity in developed economies, especially the United States. However, improvement to date has relied heavily on the one-off stimulus measures approved by governments,[10] and it is hard to know how well it will withstand the phasing-out of these extraordinary aids.

...chiefly related to the labour market and public finances. The big upcoming challenge is how to engineer the withdrawal of stimulus packages.

The main downside risks for macrofinancial projections have to do with the sustainability of public finances in various advanced economies, additional labour-market deterioration, with the risk of an upturn in structural unemployment, the persistence of global demand imbalances and, finally, the possibility of crisis after-shocks in certain markets or institutions. In these delicate moments, the challenge for economic policy is how to withdraw extraordinary stimulus packages and, even more so, the timing of that withdrawal.

Forecasts for the Spanish economy are rather more pessimistic.

Current projections for the Spanish economy suggest recovery will lag that of other advanced economies. According to the latest IMF forecasts, issued in January 2010, Spain will be the only major developed economy to remain in recession through 2010, though labour-market and fiscal deterioration should begin to gradually revert as of 2011. The risks for this scenario, again according to the IMF, start with the prospect of deeper labour-market deterioration as government measures targeted directly on mitigating unemployment begin to be phased out. A case in point is the Local Investment Fund, which will be allocated five billion euros in 2010 against the eight billion paid in 2009. Another worry is how the country will cope with the burgeoning public deficit of 2009. A large and sustained increase in public sector borrowing requirements could bring pressures to bear on financing conditions with a knock-on effect in the private sector. Finally, the financial industry is still a focus of concerns regarding the further impairment of real estate sector assets and the eventual scale and success of its restructuring process.

3 Spanish markets

3.1 Equity markets

Most equity markets have recorded losses year to date...

Most Spanish exchanges have registered heavy losses since the start of 2010,[11] the exception being trading platforms for Latin American shares. Volatility, however, has remained fairly subdued, despite a recent upturn and the tightening of liquidity conditions – otherwise notably better than one year back.

...with concerns over European public finances and talk of new financial regulations as contributory factors.

The Ibex 35 has started the year with a price slide of 8.2% on the heels of the 30% gain of 2009 (see table 2). Factors at work included the skepticism abroad about

10 For G 20 countries, the IMF (*World Economic Outlook*, October 2009) estimates the growth boost deriving from discretionary fiscal stimulus measures at between 1.2 and 4.7 points in 2009 and 0.1 and 1.0 points in 2010. The cost of these measures for the same group of countries is reckoned at 2.0% of GDP in 2009 and 1.5% in 2010.

11 Data to 15 March.

European public finances after the troubles besetting Greece, and the uncertainties caused by a string of U.S. government announcements hinting at new fiscal and regulatory measures with a potentially large impact on the nation's banks. After quickening losses since the end of January, the index managed to reverse the trend in early March.

Trading platforms for Latin American securities (Latibex) outperformed the Ibex 35 all last year and up to the present date (the FTSE Latibex All-Share index practically doubled its value in 2009). Small and medium cap indices, meantime, have dropped back 3.7% and 0.6% respectively since the start of 2010, after more modest 2009 advances than remaining national indices (17.6% and 13.8% respectively).

Trading platforms for Latin American securities and small cap firms are proving the most resilient.

As table 8 shows, most sectors have shed some of their value in 2010, with financial institutions leading the downside, followed by telecommunications, energy producers and suppliers (oil, gas and utilities) and construction and materials. Insurance too has had a rougher ride this year, while real estate losses have been fairly contained compared to the price tumble of the last three years. Among the risers, the only truly solid gains belonged to non banking entities providing financial services and companies in the discretionary consumer goods sector. In figures 11 and 12, we can see that financial sector prices have been dragging on the Ibex 35 since early 2010, and also that the correction has been steeper among companies taking most of their income from foreign markets. This is the reverse of the story from March to December 2009, when companies with an international presence, principally in Latin America, fared better than their more home-market oriented peers.

Most sectors have shed some of their value, with financials and telecoms leading the downside.

Performance of Spanish stock indices (%) TABLE 8

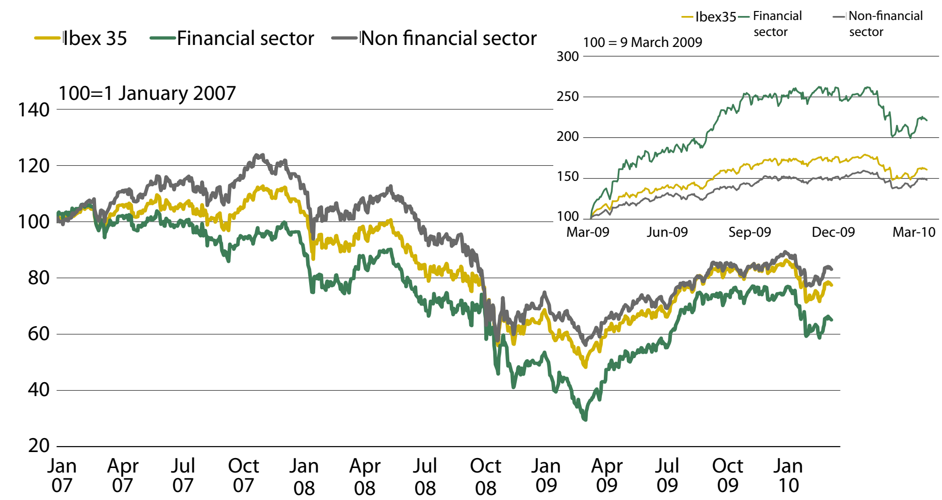
							1Q09 (to 15 March)		
Index	**2006**	**2007**	**2008**	**2009**	**3Q09[1]**	**4Q09[1]**	**% prior qt**	**% Dec**	**% y/y**
Ibex 35	31.8	7.3	-39.4	29.8	20.1	1.6	-8.2	-8.2	43.5
Madrid	34.5	5.6	-40.6	27.2	20.9	1.0	-8.5	-8.5	41.3
Ibex Medium Cap	42.1	-10.4	-46.5	13.8	11.7	-5.9	-0.6	-0.6	32.0
Ibex Small Cap	54.4	-5.4	-57.3	17.6	17.9	-11.2	-2.7	-2.7	24.8
FTSE Latibex All-Share	23.8	57.8	-51.8	97.2	15.6	14.6	5.4	5.4	75.7
FTSE Latibex Top	18.2	33.7	-44.7	79.3	12.4	17.6	4.2	4.2	77.4
Sector[2]									
Oil and gas	18.3	1.8	-30.8	-20.1	10.6	-5.1	-6.7	-6.7	14.1
Chemicals	-20.4	-58.4	-67.8	3.4	28.3	-15.8	0.8	0.8	23.2
Basic materials	69.3	-17.2	-45.4	23.1	19.1	-5.1	-3.4	-3.4	50.6
Construction mat. and construction	61.6	-12.0	-51.0	25.5	12.0	-5.4	-6.5	-6.5	28.5
Industrial goods and services	28.4	6.9	-41.9	29.3	17.5	0.6	-2.1	-2.1	39.3
Health	40.7	19.2	-45.0	17.7	4.6	-7.9	0.2	0.2	24.0
Utilities	42.0	18.5	-31.0	-7.8	16.4	2.1	-6.0	-6.0	14.2
Banks	27.6	-4.5	-47.9	46.3	26.7	1.3	-11.9	-11.9	75.8
Insurance	44.7	-13.3	-25.0	19.8	31.2	-4.3	-5.4	-5.4	72.1
Real estate	100.4	-42.6	-58.6	-43.8	33.3	-25.8	-0.5	-0.5	-22.9
Financial services	91.1	-35.6	-44.3	20.8	9.8	-7.3	6.8	6.8	57.1
Telecommunications and media	29.4	26.3	-31.4	23.5	17.1	3.2	-8.8	-8.8	19.7
Discretionary consumption	21.2	-7.7	-39.2	37.0	18.8	7.3	4.8	4.8	77.4
Basic consumption	12.9	6.9	-22.5	-8.4	12.0	-0.8	0.8	0.8	18.0

Source: Thomson Datastream.

1 Change on previous quarter.

2 Classification obtained from Thomson Datastream.

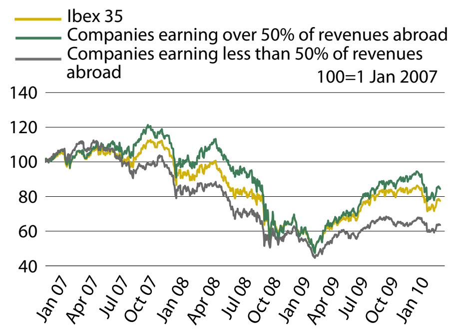
Ibex 35: financials vs. non financials[1] FIGURE 11



Source: Thomson Datastream. Data to 15 March.

1 Each company is weighted according to the share of its market cap. in the market capitalisation of the Ibex 35 at the close of the preceding year.

Performance of Ibex 35 companies by degree of internationalisation[1] FIGURE 12



Source: Bloomberg, Thomson Datastream and IMF. Data to 15 March for the left-hand figure. The IMF revised its 2010 and 2011 forecasts in January this year, but has not yet released its revised forecasts for 2012-2014. October 2009 forecasts are accordingly left to apply for the entire period (2009-2014).

1 In the left-hand graph, each company is weighted according to its share in the market capitalisation of the Ibex 35 at the close of the preceding year. The yardstick used for internationalisation is 2008 operating profits, in the case of credit institutions, and 2008 revenues for all other firms.

Exhibit 2: Proposed disclosure regime for short positions in the European Union

On 2 March 2010, the Committee of European Securities Regulators (CESR) unveiled its model for a pan-European short selling disclosure regime.

The model has been sent to the European Commission with the intention of having it written into a Community instrument of secondary legislation, preferably a new directive or, failing that, an amendment to the Transparency Directive. In the interim, member jurisdictions with enabling mechanisms in their national legal system should start work now on implementing the new regime. Others are urged to adopt the model on a best efforts basis pending the enactment of the new legal norm.

The text was adopted after weighing up the pros and cons of short selling and in view of the felt need to provide a common disclosure system. Short sales can boost market liquidity and serve both to mitigate market bubbles and to facilitate efficient risk management through their utility as hedging instruments. But there is also widespread concern that using them abusively could undermine financial stability and contribute to disorderly markets. The financial sector is especially at risk in view of its trustee role and as a potential propagator of systemic risk, and because the soundness of an institution is often judged by the strength of its share price.

Under the new model, the supervisor should be notified of any short positions in securities listed on regulated markets or multilateral trading facilities in the European Economic Area. Net short positions equal to or higher than 0.2% of the company's issued share capital should be notified to the regulator but need not be publicly disclosed. Net short positions equal to or exceeding 0.5% of share capital should be disclosed to both the regulator and the market. The supervisor will likewise be notified of any 0.1% step-up in ownership after the original disclosure is triggered. The time limit for disclosure is the end of the trading day following the day on which the obligation is triggered (T+1, where T is the day the threshold is breached).

Notices should state the identity of the short position holder, the identity of the issuer on which the position is held, the size of the position and the date on which the position was created or was no longer held.

CESR's view is that market makers should be exempt from any blanket disclosure regime in attention to their particular characteristics and their role as ongoing providers of liquidity. But steps are needed to prevent other participants from trying to elude disclosure obligations by masquerading as market makers. In this respect, CESR understands that a market maker should have no need to take short positions in a systematic manner. By the same token, agents who engage in proprietary trading, i.e. acting more as investors than liquidity providers, will not be exempt.

CESR will continue working on the technical side of the new model, to facilitate its uniform implementation. Points covered will include: i) a precise definition of "market maker", ii) aggregation of positions in the case of groups, asset managers and fund managers, iii) the mechanics of disclosure to the regulator and the market and iv) calculating net positions in special cases (capital increases, convertible bond issues, etc.).

CESR is also looking at the option of harmonising other aspects of short selling. It will according pursue with urgency a common position on whether to accept or ban naked short selling. If an agreement can be reached, the proposal will also be sent to the European Commission, concurrently with the short position disclosure model, in order to secure a uniform treatment of all short selling activity across the European Union.

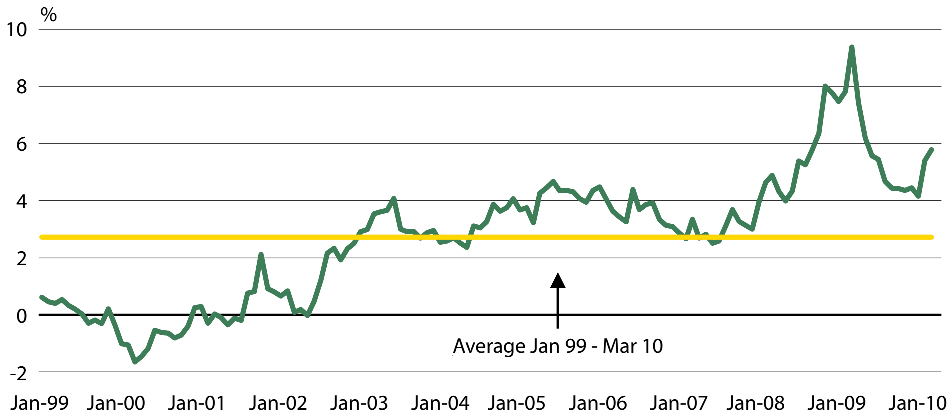
The main differences between the rules currently applying in Spain on the disclosure of short positions and the CESR proposal reside in the thresholds and scope of the disclosure obligation. According to the CESR model, participants must disclose short positions held in all market-traded securities, not just in the shares of financial issuers, as is the case today. Also, the public disclosure threshold for individual short positions will rise from 0.25% to 0.5% of the issuer's share capital, while regulators will have to be informed, for oversight purposes, of all those exceeding 0.2%. Finally, the CESR proposes a minimum step-up of 0.1% for regulator or public disclosure, while current rules specify the reporting or public disclosure of any increase in a previously disclosed position or its reduction to below 0.25% of capital.

The CNMV will study what measures are needed to implement the model in Spain as soon as CESR has hammered out the technical details.

The lower P/E of the Ibex 35 traces mainly to the intervening price correction...

The price-earnings ratio[12] (P/E) of Spanish shares fell to 10.4 from the 12.3 of end-2009 as a result of the intervening price correction and, rather less so, improved corporate earnings prospects. This takes the ratio back to the readings of halfway through 2009. The year-to-date decline has run deeper than in other leading international exchanges, widening the negative differential in their respect. It also caused the earnings yield gap (reflecting the return premium required to be invested in equity versus long-term government bonds) to break out of the downtrend initiated in March 2009 (see figure 13).

Earnings yield gap[1] of the Ibex 35 FIGURE 13



Source: Thomson Datastream and CNMV.

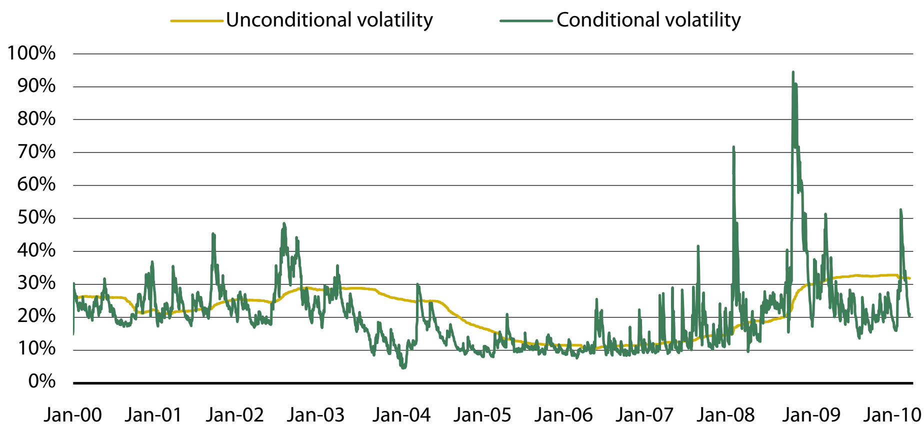
1 Difference between stock market yield, taken as earnings/price, and ten-year Spanish government yields. Monthly data to March 2010.

12 On the basis of one-year forward earnings.

Year-to-date, volatility on Spanish equity markets has experienced a brief resurgence to over 50% before easing back to manageable levels (see figure 14), while the sensitivity of index volatility to falling prices has lessened to some degree (see figure 15). The last month has also brought some slight deterioration in the bid-ask spread capturing equity market liquidity conditions, after the solid improvement registered since March 2009. That said, average monthly spreads continue more or less in line with their pre-crisis levels (see figure 16).

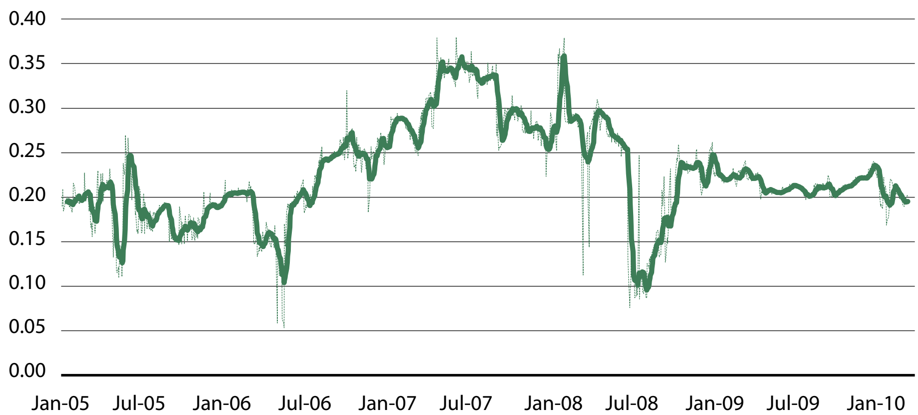
...in a period marked by a temporary upswing in volatility and slightly tighter liquidity conditions.

Historical volatility. Ibex 35 FIGURE 14



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

Volatility asymmetry of the Ibex 35 FIGURE 15



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

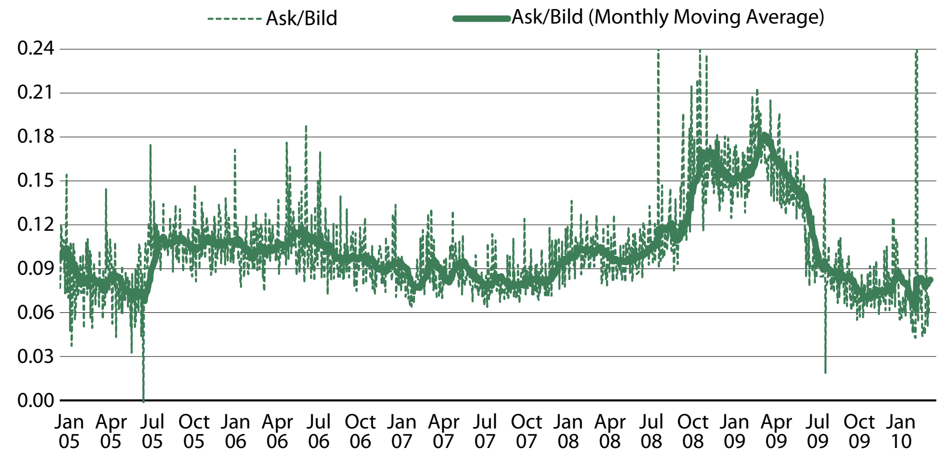
The parameter shown measures the sensitivity of conditional volatility to negative surprises in returns, in an asymmetric GARCH model (*).

(*) The specified equation is: $\ln(P_t / P_{t-1}) = \alpha + \varepsilon_t$

with variance: $\sigma_t^2 = \omega + \theta \cdot \varepsilon_{t-1}^2 + \beta \cdot \sigma_{t-1}^2 + \eta \cdot \varepsilon_{t-1}^2 \cdot [1 \Leftrightarrow \varepsilon_{t-1} < 0] + u_t$

Ibex 35 liquidity. Bid/ask spread (%)

FIGURE 16



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

After an erratic 2009, stock market turnover appears to pick up tentatively in the opening months of 2010...

Spanish stock market turnover, measured in average daily volumes, staged something of a come-back in the first two and a half months of 2010, after an erratic 2009 performance concluding in a year-long decline of 29%. Average daily trading to mid-March stood at 3.75 billion euros, an increase of 7% with respect to full-year 2009.[13]

Turnover on the Spanish stock market

TABLE 9

Million euros	2006	2007	2008	2009	3Q09	4Q09	1Q10[1]
All exchanges	**1,154,294**	**1,667,219**	**1,243,387**	**886,135**	**216,778**	**259,065**	**191,172**
Electronic market	1,146,390	1,658,019	1,235,330	880,544	215,405	257,388	190,135
Open outcry	5,318	1,154	207	73	14	12	10
of which SICAVs[2]	4,581	362	25	20	8	2	2
MAB[3]	1,814	6,985	7,060	5,080	1,249	1,544	899
Second Market	49	193	32	3	0	0	0
Latibex	723	868	758	435	110	120	127
Pro-memoria: non resident trading (% of all exchanges)							
	58.4	61.6	65.5	na	64.9	na	na

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

1 Cumulate data from 1 January to 15 March.

2 Open-end investment companies.

3 Alternative equity market. Data since the start of trading on 29 May 2006.

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

...though issuance activity remains sunk in lethargy.

The improved price, liquidity and volatility conditions of 2009 were still not enough to get equity issuance moving again. The final issuance tally was 11.39 billion euros, a long way short of pre-crisis totals.

13 In 2009, average daily trading volumes closed at 3.49 billion euros compared to 4.89 billion in 2008.

Equity issues and public offerings[1]

TABLE 10

	2006	2007	2008	2009	2009 3Q09	2009 4Q09	2009 1Q10[2]
CASH AMOUNTS[3] (million euros)	29,436	69,955	16,349	11,391	1,087	2,311	231
Capital increases	26,977	67,887	16,340	11,389	1,087	2,309	231
Of which, rights offerings	645	8,503	292	17	7	10	6
National tranche	303	4,821	292	17	7	10	6
International tranche	342	3,681	0	0	0	0	0
Public offerings	2,459	2,068	10	2	0	2	0
National tranche	1,568	1,517	10	2	0	2	0
International tranche	891	551	0	0	0	0	0
NUMBER OF FILINGS[4]	86	100	54	53	11	19	9
Capital increases	77	91	53	53	11	19	9
Of which, rights offerings	8	8	2	2	1	1	1
Of which, bonus issues	20	19	18	11	4	3	1
Public offerings	14	12	2	1	0	1	0

Source: CNMV.

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

2 Data to 15 March 2010.

3 Excluding amounts recorded in respect of cancelled transactions.

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

Exhibit 3: Changes in the Spanish securities clearing, settlement and registration system

On 15 February 2010, the CNMV issued a public consultation paper proposing a series of changes in the Spanish clearing, settlement and registration system for equity securities, which add up to major overhaul of this all-important market segment. The proposals it contains draw on the thoughts and recommendations set out in *Securities clearing, settlement and registry systems in Europe. Current situation, ongoing initiatives, and recommendations*, prepared jointly by the CNMV and Banco de España at end-2007.

The clearing, settlement and registration of securities trades is a vital part of any financial system. These activities, whose purpose is the correct performance of the agreed cash-for-securities exchange, take in every step in the post-trade process leading up to the handover of the securities and the registration of their new ownership. The effectiveness and legal certainty of post-trade mechanisms, far less visible than their trading counterparts, is accordingly essential to uphold the efficiency, competitiveness and stability of the financial system.

The Spanish post-trade system for equity securities (shares), dating from almost two decades back, was designed to operate in a very different trading and technological landscape, and also exhibits certain singularities with respect to almost all neighbour markets. By and large, we can say that the Spanish system has acquitted itself well, with a degree of soundness and risk control, and an absence of incidents, that can stand comparison with any other front-line international market. It also stands out for its discipline and traceability, though admittedly certain complexities make for a difficult fit with European projects like the Eurosystem's Target 2 Securities (T2S).

The CNMV's proposals are designed to achieve a more efficient, competitive system and, above all, one more closely compatible with those of neighbour countries, and also flexible enough to embrace the changes taking place in securities markets. Specifically, the CNMV proposes modifying the system along three main lines:

1. Move finality to the point of settlement and enhance system versatility. In the Spanish stock market, transaction finality, understood as the irrevocable, unconditional nature of settlement instructions, is acquired immediately after a trade is closed, when the details are received by Iberclear. In parallel, mechanisms are activated in order to guarantee delivery, ensuring that all trades are settled on their value date. But this is not always achievable in practice, however many cautions these mechanisms incorporate. The proposal, as such, is to move finality to the time of effective settlement –the rule in almost all other European systems– while relaxing the delivery assurance mechanisms currently in place. Another novelty would be to allow different settlement terms, based on the standards operating in other European systems; one of the demands voiced by market participants.

2. Institute a central counterparty (CCP). One way to conserve settlement certainty would be to create a CCP to stand as a buyer to sellers and as a seller to buyers, centralising and organising the credit risk of market participants. This too would align the structure of the Spanish post-trade system with that of other international bourses. The CCP's netting capacity would also boost efficiency by reducing the number of transactions pending settlement at a given time.

3. Postpone the assigning of a registration code until after settlement. At present, all stock market sales must be assigned a registration code before they can proceed to settlement. In future, however, the central depository (Iberclear) would run a prior control of securities balances, maintaining a numerical code that identifies the securities for registration purposes but allowing their a posteriori contribution. This would simplify and speed up process flows, enabling the kind of pared down settlement cycle that will be increasingly demanded in the European Union.

On a practical score, the changes proposed by the CNMV will require the amendment of various provisions, among them the Securities Market Law, Royal Decree 116/1992 on the book-entry system, stock market regulations and Iberclear regulations, as well as new regulations to govern, for instance, the principles of CCP structure and operation.

A Steering Committee has been set up, chaired by the CNMV Vice President and with the involvement of the Banco de España, Bolsas y Mercados Españoles and representatives of sector associations. Its role will be to discuss the groundwork needed for the reform and advise the CNMV accordingly. To aid it in this task, it will receive technical input from two working groups formed by experts and industry representatives. A preliminary paper on the proposed reforms was sent out for public consultation on 12 February 2010.

This discussion will proceed in a spirit of maximum transparency, with all stakeholders invited to have their say, and the results submitted to public consultation. Plans are to have a development blueprint for the reform drawn up by the end of 2010.

3.2 Fixed-income markets

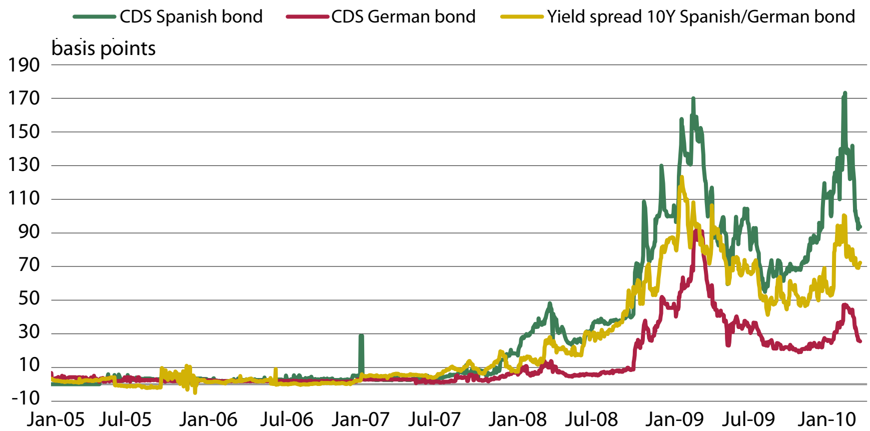
Short-term rates continue at lows in with ECB policy, ...

Short-term rates in public and private debt markets continued at lows, in line with ECB monetary policy. On the public side, the (average) March[14] interest rates of Letras del Tesoro were 0.5% for the three and six month tenors and 0.7% for twelve-month bills. The equivalent rates of private fixed-income instruments on the same date stood at 0.8%, 1.1% and 1.4% respectively.

....while long-term government yields have been straining higher year to date.

In contrast, long-term sovereign yields pulled out of the downtrend initiated in the second half of 2009 and experienced a sharp first-quarter run-up which has begun to lose momentum in recent weeks. The spread between the Spanish and German benchmark stretched to 100 bp on 8 February and is currently hovering around the 72 bp mark compared to the 60 bp approximately of year-end 2009. This profile is rather more accentuated in the case of the Spanish CDS (see figure 17), which climbed from the 113 bp of end-2009 as far as a historic high of 173 bp on 8 February before sinking back to its current level below 95 bp.

Risk premium of Spanish government debt[1] FIGURE 17



Source: Thomson Datastream.

1 Data to 15 March.

Long-term corporate bond yields are holding relatively stable...

Long-term corporate bond yields have held more or less flat since year-end 2009. The average rate on three-year bonds dropped from 3.19% to 2.95% in March 2010, against the 8 bp and 3 bp increases in five- and ten-year maturities as far as 4.11% and 4.99% respectively (see table 11).

14 To 15 March.

Interest rates on corporate debt[1]

TABLE 11

%	Dec 06	Dec 07	Dec 08	Dec 09	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10
Short term: commercial paper[2]									
3 months	3.78	4.97	3.45	0.89	1.70	1.28	0.95	0.89	0.83
6 months	3.91	4.91	3.54	1.17	1.86	1.52	1.22	1.17	1.13
12 months	4.00	4.85	3.68	1.43	2.10	1.80	1.45	1.43	1.41
Medium and long-term[3]									
3 years	4.04	4.59	3.79	3.19	3.24	3.40	3.22	3.19	2.95
5 years	4.14	4.65	4.17	4.19	4.00	4.46	4.31	4.19	4.11
10 years	4.26	4.94	4.73	5.02	4.76	5.24	5.14	5.02	4.99

Source: AIAF.

1 Average daily data. Data for March correspond to the average level from 1/3 to 15/3.

2 Traded on private fixed-income market AIAF.

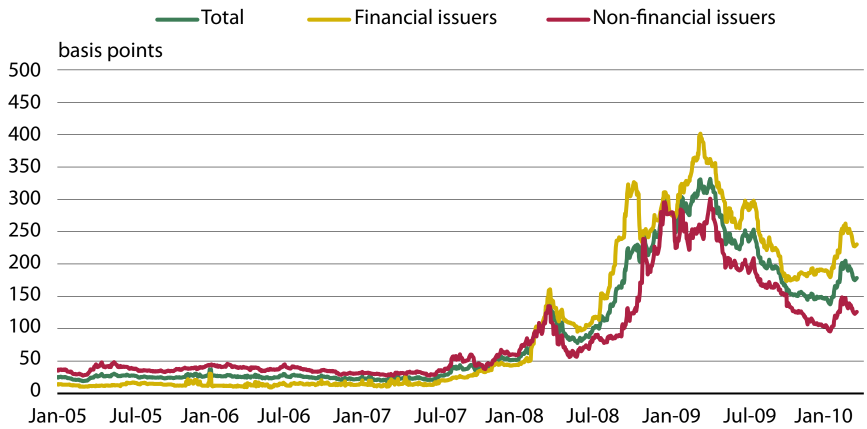
3 Bond and debenture trades to maturity on AIAF.

...while the rising CDS of Spanish corporate issuers are more about the contagion effect of heightened sovereign risk.

In contrast, the CDS spreads of Spanish corporate issuers have gained 30 bp since the start of the year, although with some levelling-off since the middle of February. Specifically, average spreads widened from the 148 bp of year-end 2009 as far as an 8 February peak above 200 bp then headed downwards to the 178 bp of mid-March. One reading is that the varied pressures felt by Spanish sovereign debt are being relayed to the general body of corporate borrowers regardless of their sector (see figure 18 and exhibit 5).

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

FIGURE 18



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

1 Simple average.

Falling issue volumes in 2009 were accompanied by a shift in the mix in favour of non convertible bonds, mortgage bonds and preference shares.

The volume of fixed-income issues registered with the CNMV fell by 19% in 2009 compared to the 27% slide of the previous year. This rather better outcome was accompanied by sizeable changes in the mix. Gaining ground were non convertible bonds and debentures (up from 2.2% of total issuance in 2008 to 16.1% in 2009), mortgage bonds (3% to 9.2%) and, to a lesser extent, preference shares (0.3% to 3.3%), in contrast to the fading share of commercial paper (65.5% to 49.4%) and asset-backed securities (28.4% to 21.1%). This six-fold rise in non convertible bonds and debentures owed to the popularity of government-backed financing, which accounted for 77% of total issue volumes, while the 149% increase in mortgage bonds was presumably driven in part by the ECB purchase programme launched in June 2009.

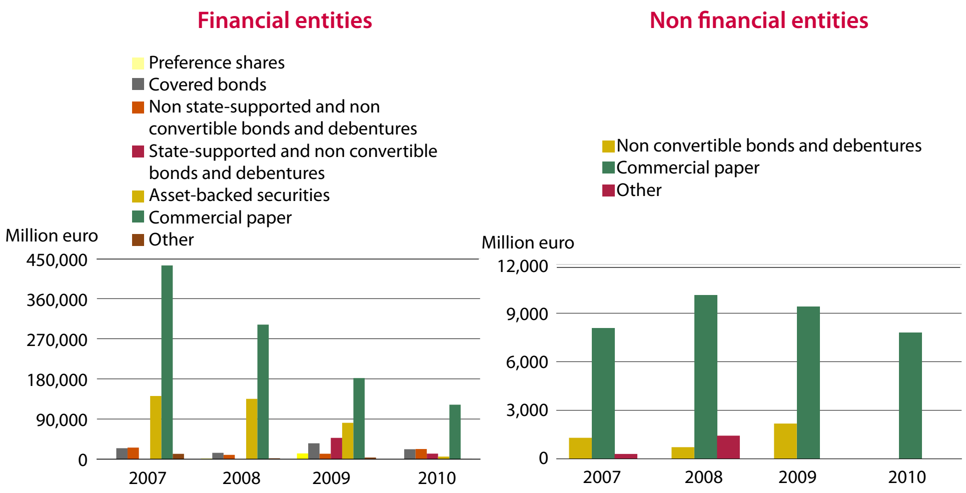
This year to date,[15] total issuance has reached 39.8 billion euros, well short of the 95.5 billion of the same period in 2009. Indeed the year 2010 has got off to a particularly slow start due to the virtual shutdown of securitisation markets. Whereas in recent years this segment has summed around 20% of total volumes, a mere six issues have been registered this year, representing a lowly 3% of issuance. Preferred share issues have ground to a halt after a busy 2009, when they were particularly favoured by financial entities for their role in strengthening regulatory capital. Factors at work could be market preferences for the use of more traditional instruments to evaluate capital adequacy and the weakness of corporate earnings exerting a dissuasory effect on potential investors. What would appear to be a strong surge in commercial paper issuance (67% of the year-to-date total against 49% in 2009) is simply a product of the above declines, and in fact sales of this instrument are just half what they were in the same months of 2009. Issuance of non convertible bonds and mortgage bonds is proceeding along the same lines as last year. In the first case, entities are turning less to government-backed financing (35% of issues to date bear a state guarantee), possibly denoting easier access to capital markets. Mortgage bonds, meantime have benefitted from the fading popularity of asset-backed securities.

Some markets are still struggling in 2010 – securitisation markets being the most obvious case. On the plus side, issuers seem more confident of issuing bonds without government guarantee.

Foreign debt financing partly offset the downturn in domestic issuance during 2009, with commercial paper as the instrument of choice (see figure 19). Borrowers also evinced a notable preference for short rather than long-term paper (41% and 18%, respectively).

Spanish issuers are raising more funds abroad.

Gross debt issuance by type of entity and instrument[1] FIGURE 19



Source: CNMV.

1 Data to 15 March. 2010 data are annualised for the purpose of comparison.

15 To 15 March.

Gross fixed-income issues filed[1] with the CNMV

TABLE 12

	2006	2007	2008	2009	2009 3Q09	2009 4Q09	2010 1Q10[2]
NUMBER OF ISSUES	**335**	**334**	**337**	**512**	**103**	**118**	**57**
Mortgage bonds	37	32	47	75	13	20	10
Territorial bonds	6	8	8	1	0	0	1
Non convertible bonds and debentures	115	79	76	244	51	56	33
Convertible/exchangeable bonds and debentures	1	0	1	6	3	2	0
Asset-backed securities	82	101	108	76	16	13	2
Commercial paper facilities	83	106	88	73	11	26	11
Securitised	3	3	2	2	0	1	0
Other commercial paper	80	103	86	71	11	25	11
Other fixed-income issues	0	3	0	0	0	0	0
Preference shares	11	5	9	37	9	1	0
FACE VALUE (million euros)	**523,131**	**648,757**	**476,276**	**387,476**	**66,722**	**74,199**	**39,842**
Mortgage bonds	44,250	24,696	14,300	35,574	3,870	11,055	4,600
Territorial bonds	5,150	5,060	1,820	500	0	0	125
Non convertible bonds and debentures	46,688	27,416	10,490	62,249	6,138	12,370	7,230
Convertible/exchangeable bonds and debentures	68	0	1,429	3,200	2,200	700	0
Asset-backed securities	91,608	141,627	135,253	81,651	12,956	10,301	1,185
Domestic tranche	30,886	94,049	132,730	77,289	11,751	9,696	1,185
International tranche	60,722	47,578	2,522	4,362	1,206	605	0
Commercial paper[3]	334,457	442,433	311,738	191,342	40,340	39,753	26,703
Securitised	1,993	465	2,843	4,758	953	1,245	870
Other commercial paper	332,464	441,969	308,895	186,583	39,388	38,508	25,833
Other fixed-income issues	0	7,300	0	0	0	0	0
Preference shares	911	225	1,246	12,960	1,217	20	0
Pro memoria:							
Subordinated issues	27,361	47,158	12,950	20,989	4,679	2,254	3,100
Covered issues	92,213	86,161	9,170	4,794	1,450	785	0

Source: CNMV.

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

2 Available data to 15 March 2010.

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

Exhibit 4: Recent trends in international debt markets

The financial crisis had taken a heavy toll on international debt markets. In a first phase lasting until end-2008, it provoked a substantial decline in debt issuance volumes and pushed financing costs to record highs, as evidenced by a generalised leap in credit spreads (see figure 3). The resumption of more normal conditions in 2009 permitted a timid upswing in issuance on certain markets and an easing back of risk premiums.

In this exhibit, we analyse some of the recent trends in primary debt markets in order to explain changes in issue volumes over 2008 and 2009 and the various shifts observable in the issuance mix between instruments, regions and types of borrowers.

1) **Issuance by instrument.** As we can see from the top panel of figure E4, net issuance of fixed-income instruments in international markets amounted to 6.3 trillion dollars in 2009, an increase of 3.3 trillion dollars versus 2008 and 1.6 trillion versus 2007. Among the first casualties of the crisis was net issuance of asset-backed securities, which was practically wiped out in 2008 after peaking at 2.5 trillion dollars in 2006, and managed only a timid increase in 2009. The volume recovery of 2009 relied on the surge in sovereign debt issuance (from 3.3 billion dollars in 2008 to 5.5 billion in 2009) and a step-up in the issuance of investment grade bonds.

2) **Issuance by region.** As we can see from the middle panel of figure E4, the issuance shrinkage of 2008 was concentrated mainly in the United States (64% of the total), while the 2009 upswing was spread more evenly across world regions (46% in the United States and 31% in Europe).

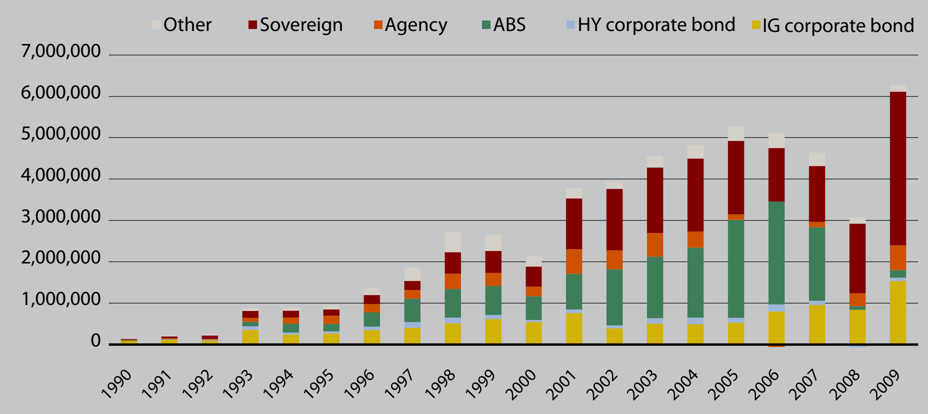
3) **Issuance by type of borrower.** While the decline of 2008 was all about the reduced issuance of financial institutions (due mainly to the collapse of securitisation), the 2009 recovery was basically led by public sector borrowings (84%) and, to a lesser extent, those of non financial corporations (16%) (see lower panel of figure E4). In all, net financial institution issuance closed the year slightly down on 2008 levels, even allowing for the increase in state-backed financing. Indeed this last trend reflects the deleveraging underway across the financial sector. Among non-financial issuers, the year's salient development was the redistribution of finance sources as firms switched increasingly to debt instruments in place of bank loans in response to the latter's tougher access conditions (see figure E4).

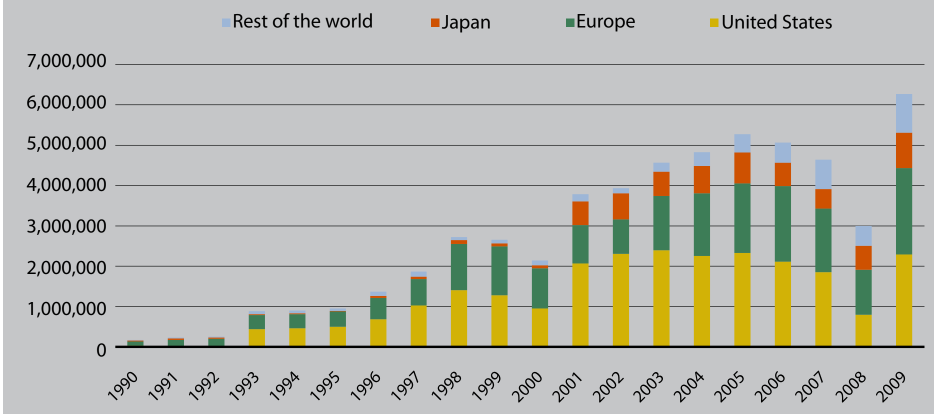
Figures for the first two months of 2010 reveal a renewed increase in annual debt issuance worldwide with the public sector again to the fore.[1]

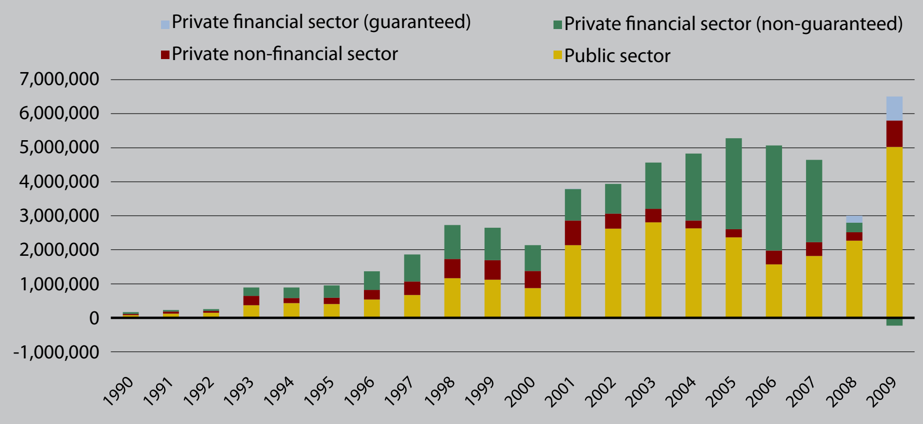
Net international debt issuance (million dollars)

FIGURE E4

By type of instrument, region and type of issuer







Source: Dealogic.

1 In the first two months of the year, gross debt issuance totalled 2.1 trillion dollars, of which 52% corresponded to sovereign issues and 16% to agencies.

Exhibit 5: Recent developments in credit risk valuation

Amid the turmoil unleashed by evidence of the fragile state of Greece's public finances, one phenomenon has stood out in these past weeks: the divergent performance of the CDS and underlying bond spreads of certain European sovereign issuers. This decoupling, which has arisen on different occasions during the crisis in several European countries (see figure), has sown some confusion as well as a degree of controversy over the role of CDS and, particularly, their potentially destabilising role in public debt markets. This exhibit aims to shed some light on the supposedly anomalous conduct of CDS markets, before going on to suggest some courses of action for the relevant economic authorities.

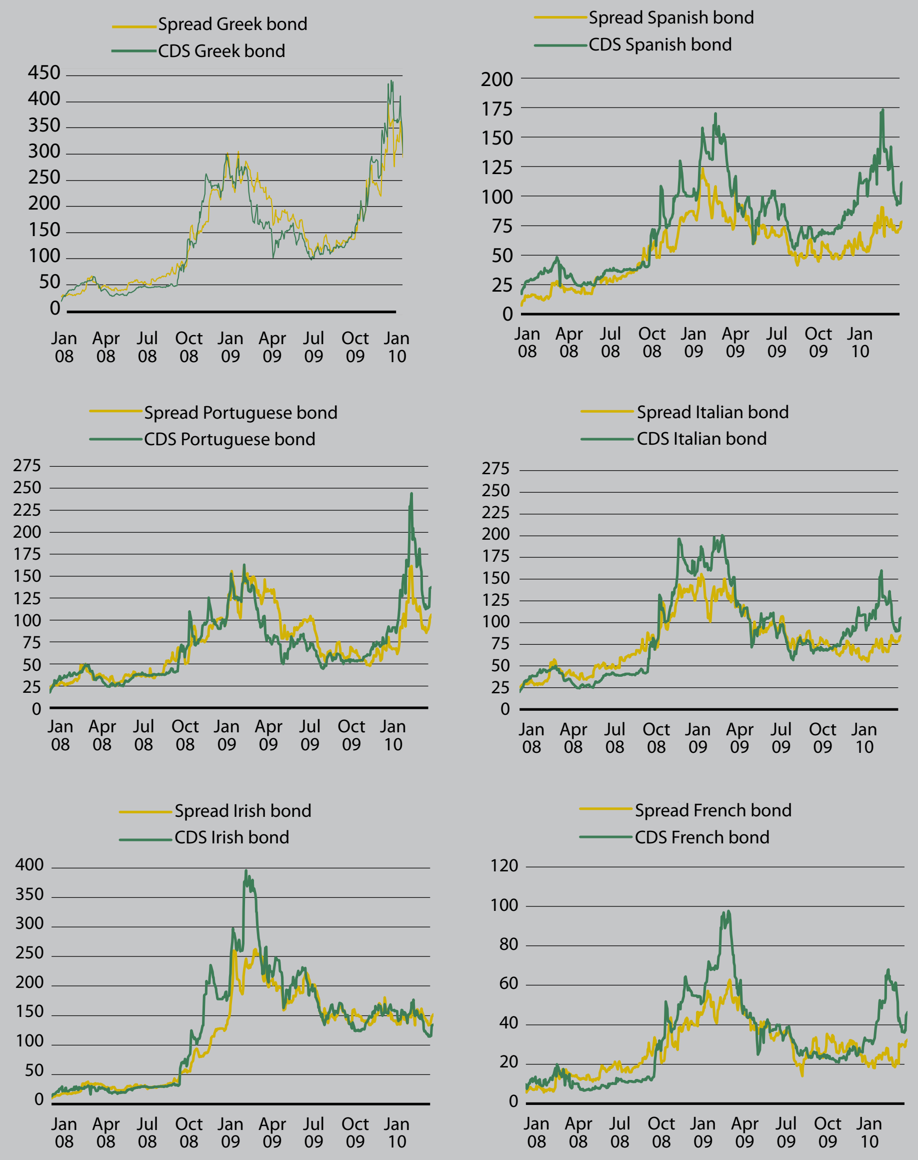
1) The relationship between the sovereign bond and CDS market. According to the theory, bond and CDS spreads should trade more or less in tandem in the absence of major frictions. This near correspondence, based on the non existence of arbitrage opportunities, has been shown to stand up successfully for long time horizons.[1] In the short run, however, gaps can open, as we have seen in recent weeks, when CDS premiums pulled substantially ahead of bond spreads.

This decoupling can have different causes, some to do with CDS demand and others with supply. What does seem clear is that it tends to accentuate at times of mounting debt market tensions.

On the one hand, it is reasonable to assume that part of the demand for sovereign CDS at times of multiple uncertainties is geared to hedging non sovereign, but positively correlated risks for which there is no safe or sufficiently efficient market. In such circumstances, overall demand for CDS will turn more sensitive to changes in the perceived risk of sovereign debt.

On the other, any sudden surge in the popularity of CDS, be it to hedge against sovereign debt credit events or other macroeconomic risks or out of purely speculative motives,[2] can have a magnified effect on product prices if the supply is not there in time. In this respect, the fact that a relatively small number of institutions[3] hold a large percentage of global sovereign CDS could place possible constraints on their availability, thus multiplying short-term price tensions. Also, it could be that the copious public monies transferred to the financial sector have indirectly triggered temporary shortages in CDS supply, by conjuring the spectre of a twin fiscal and banking crisis. Finally, the recent disappearance of some of the most active liquidity providers in CDS markets, like Lehman Brothers and, less so, Bear Sterns, has made further inroads into the global supply capacity of these products.

Credit risk premiums (basis points) FIGURE E5



Source: Thomson Datastream. Bond spreads are referenced to the German bund.

We can see, then, that there are objective factors that at least partly explain the recent deviations between CDS premiums and the credit spreads of European sovereign bonds. As to whether CDS market frictions can impair the valuation of the corresponding bond, this seems unlikely in practical terms given the insignificance of CDS volumes compared to circulating public debt (working out at around 4% for Portugal, 3% for Ireland, 2% for Greece and Spain and 1% for Italy).

Possible courses of action. The debate around these products has indirectly brought to light one of the failures of the CDS market; namely the absence of post-trade transparency, such that transaction prices and volumes are not disclosed to remaining participants. This may muddy the picture for market agents, and even supervisors, to add to the uncertainty that logically follows crisis situations like the present. Also, for most European supervisors (except in Spain, the United

Kingdom and Ireland), these are "invisible" trades that do not form part of the obligatory list for daily transaction reporting. Indeed, it would seem advisable to extend the requirement to provide reliable daily information on the agents and entities offering this kind of hedge against sovereign risk and the conditions of the corresponding contracts (volume, price, type of counterparty, collateral required, etc.). In Europe, consideration should go to including such reporting requirements in the MiFID, taking advantage of its current review.

Supervisors need to have complete, up-to-date information in order to detect abusive or manipulate practices in a timely manner. In Europe, the obvious way to enforce this requirement with regard to CDS markets is to amend the Market Abuse Directive (also under review by the European Commission)[4] in the light of recent experiences.

Finally, another market failure that bears consideration here has to do with the counterparty risk of hedging operations instrumented through CDS. One option would be to strengthen clearing and settlement mechanisms for the CDS contracts most amenable to standardisation by setting up central counterparties.

1 See for instance Haibin Zhu (2004), *An empirical comparison of credit spreads between the bond market and the credit default swap market*, BIS Working Papers N. 160, and Blanco, R., Brennan, S. and Marsh, I.W. "An Empirical Analysis of the Dynamic Relation between Investment-Grade Bonds and Credit Default Swaps", *Journal of Finance*, 60 (2005), pp. 2255–2281.

2 Note however that a recent study by Germany's BaFin (press release of 8 March 2010) rules out speculative motives as the main reason for the spike in Greek CDS spreads, pointing instead to genuine demand for the instrument as a hedge against default risk.

3 According to April 2009 data from the Depository Trust and Clearing Corporation (DTCC), as much as 49% of world supply of CDS was in the hands of the five top suppliers, while the top ten together accounted for 72%.

4 The situation in Spain does not call for significant changes in market abuse regulations or transaction reporting requirements. Participants are already obliged to notify the CNMV of all CDS contracts written whose underlier is a security traded on European markets, while Spanish market abuse provisions already apply to CDS.

4 Market agents

4.1 Investment vehicles

Financial collective investment schemes[16]

Investment funds assets return to growth in the second half of 2009 with falling redemptions...

After two tough years, the investment fund industry has apparently entered some kind of recovery phase, translating as a small increase in assets and unitholder numbers over the second half of 2009 (see table 13). Assets under management edged up 2% from 167 billion euros in mid-2009 to 170.5 billion in the month of December on the back of portfolio appreciation, especially in the third quarter, and a large downturn in unitholder redemptions. More specifically, net outflows, which were running at over 18 billion euros per quarter at some points in 2008, headed steadily lower over 2009. Most encouragingly of all, the industry scraped a positive inflow in the closing quarter (of 220 million euros), when it registered net subscriptions across all categories except guaranteed funds, possibly due to their expiry calendar.

... and higher returns, thanks to the price rally in equities

In full year terms, assets under management in investment funds dropped by just over 5.30 billion euros (-3%), a sizeable improvement on the two preceding years (with falls of 79 billion euros in 2008 and 15 billion in 2007). The decline in assets was exclusively due to unitholder redemptions, which exceeded 12.90 billion euros. In contrast, fund portfolios marked up substantial gains on the strength of recovering equity prices, which restored overall returns to positive territory (5.7% in 2009 against -4.2% in 2008).

Balanced fixed-income and international equity funds are the strongest performers.

Analysis by category is hindered by a regulatory change in fund classification by investment objective[17] enacted in the second quarter of 2009, which led to numerous funds switching categories.[18] But we can safely say that the asset drain was steepest in the fixed-income and guaranteed equity categories, with redemption volumes to blame in both cases. Conversely, balanced fixed-income and international equity funds performed better in the year, thanks to both net investment inflows and portfolio appreciation.

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16 Although this classification includes hedge funds and funds of hedge funds, we make no separate reference to them here, since they are the subject of their own sub-section further ahead.

17 CNMV Circular 1/2009 of 4 February on collective investment scheme categories as a function of investment objective.

18 These reclassifications particularly affected global funds and the newly created category of absolute return funds.

Main investment fund variables

TABLE 13

	2007	2008	2009				2009
Number				**1Q**	**2Q**	**3Q**	**4Q**
Total investment funds	**2,926**	**2,912**	**2,536**	**2,830**	**2,735**	**2,628**	**2,536**
Fixed income[1]	600	629	582	631	612	598	582
Balanced fixed income[2]	204	195	169	193	190	171	169
Balanced equity[3]	207	202	165	191	181	174	165
Euro equity[4]	247	237	182	235	193	185	182
International equity[5]	357	330	242	304	271	252	242
Fixed income guaranteed	251	260	233	249	253	241	233
Equity guaranteed[6]	590	590	561	586	610	593	561
Global funds	470	469	187	441	208	193	187
Passively managed[7]			69		69	69	69
Absolute return[7]			146		148	152	146
Assets (million euros)							
Total investment funds	**255,040.9**	**175,865.3**	**170,547.7**	**168,829.3**	**167,161.0**	**169,458.4**	**170,547.7**
Fixed income[1]	113,234.1	92,813.1	84,657.2	91,473.0	86,711.3	85,913.9	84,657.2
Balanced fixed income[2]	13,011.9	5,803.0	8,695.5	5,282.6	5,421.8	6,322.4	8,695.5
Balanced equity[3]	8,848.0	3,958.8	3,879.6	3,301.7	3,480.1	3,812.4	3,879.6
Euro equity[4]	16,589.7	5,938.9	6,321.6	4,7781	4,946.0	6,094.1	6,321.6
International equity[5]	13,948.1	4,254.7	5,902.4	3,808.8	4,108.3	5,020.9	5,902.4
Fixed income guaranteed	17,674.4	21,150.3	21,033.4	20,952.0	21,664.1	21,322.7	21,033.4
Equity guaranteed[6]	42,042.1	30,873.7	25,665.8	29,433.3	29,120.6	27,857.4	25,665.8
Global funds	29,692.6	11,072.8	3,872.5	9,799.9	3,350.7	3,400.4	3,872.5
Passively managed[7]			3,216.6		2,714.5	3,066.3	3,216.6
Absolute return[7]			7,303.0		5,643.6	6,647.7	7,303.0
Unitholders							
Total investment funds	**8,053,049**	**5,923,346**	**5,475,403**	**5,626,786**	**5,498,325**	**5,461,473**	**5,475,403**
Fixed income[1]	2,763,442	2,204,652	2,041,487	2,145,607	2,067,091	2,042,556	2,041,487
Balanced fixed income[2]	493,786	277,629	290,151	247,833	241,097	254,599	290,151
Balanced equity[3]	331,214	209,782	182,542	194,064	187,244	184,985	182,542
Euro equity[4]	577,522	377,545	299,353	339,285	270,079	277,093	299,353
International equity[5]	800,556	467,691	458,097	431,575	419,928	434,299	458,097
Fixed income guaranteed	549,108	538,799	570,963	525,387	540,428	550,041	570,963
Equity guaranteed[6]	1,715,144	1,402,948	1,188,304	1,339,367	1,339,321	1,272,792	1,188,304
Global funds	822,277	444,300	88,337	403,668	96,581	79,288	88,337
Passively managed[7]			85,403		91,738	97,399	85,403
Absolute return[7]			270,766		244,818	268,421	270,766
Return[8] (%)							
Total investment funds	**2.63**	**-4.21**	**5.73**	**-0.32**	**2.43**	**2.80**	**0.73**
Fixed income[1]	2.68	2.06	1.91	0.23	0.55	0.88	0.24
Balanced fixed income[2]	2.01	-7.14	6.85	-1.51	3.48	4.18	0.63
Balanced equity[3]	2.79	-22.21	16.47	-5.66	9.86	10.18	1.99
Euro equity[4]	6.05	-39.78	32.41	-13.02	23.34	19.76	3.06
International equity[5]	1.31	-41.71	37.28	-6.60	20.08	15.15	6.30
Fixed income guaranteed	2.80	3.29	3.81	1.14	0.94	1.31	0.37
Equity guaranteed[6]	2.46	-2.61	3.56	1.11	0.85	1.40	0.16
Global funds	1.58	-8.64	10.90	-1.33	4.90	5.18	1.87
Passively managed[7]			-		16.50	12.09	4.61
Absolute return[7]			-		1.54	1.90	0.70

Source: CNMV.

As a result of the reclassifying of investment fund objectives, in force from 1 April 2009, some changes have taken place in the variables of this table:

1 To 1Q09: Short and long fixed income, international fixed income and money market funds. From 2Q09: Euro and international fixed income and money market funds.

2 To 1Q09: Balanced fixed income and balanced international fixed income. From 2T09: Balanced euro fixed income and balanced international fixed income.

3 To 1Q09: Balanced equity and balanced international equity. From 2Q09: Balanced euro equity and balanced international equity.

4 To 1Q09: Spanish equity and euro equity. From 2Q09: Euro equity (including Spanish equity).

5 To 1Q09: International equity Europe, Japan, United States, emerging markets and others. From 2Q09: International equity.

6 To 1Q09: Guaranteed equity. From 2Q09: Guaranteed and partially guaranteed equity.

7 New categories as of 2Q09. All absolute return funds were previously classed as global funds.

8 Annual return for 2007, 2008 and 2009, and non annualised quarterly return for each quarter of 2009.

Unitholder numbers drop by 450,000 in 2009, but the trend inverts in the closing quarter.

The number of unitholders fell by 450,000 to a year-end figure of just under 5.5 million. Not only was the decrease less than in previous years (2008, for instance, when over two million investors opted to withdraw) but the fourth quarter actually brought in 14,000 new subscribers.

Inter-fund mergers reduce overall numbers.

The number of funds held up reasonably well at around 2,900 in the quarters following the crisis onset, then declined to 2,536 at end-2009 after a wave of mergers (448) affecting fixed-income categories especially. In effect, managers used the occasion of the regulatory reclassification by investment objective to reorganise and rationalise their fund offerings, in order to coax out management efficiencies and thereby gain in competitiveness.

Less-liquid assets hold more or less flat at around 8.7% of the total.

Recent analyses of the liquidity conditions of investment fund fixed-income portfolios reveal that the volume of less-liquid assets rose from 14.39 billion euros in September 2009 to 14.87 billion in December (an increase of 483 million), lifting their share of total investment fund assets from 8.5% to 8.7% respectively (see table 14). Exposure to these less-liquid assets varied to differing extents depending on the instrument in question. Specifically, much of the increase owed to less-liquid fixed-income assets (up by more than one billion euros between the third and fourth quarter of 2009), while volumes of less-liquid asset-backed securities decreased by almost 600 million euros. Although the proportion of less-liquid holdings to total fund assets has stayed more or less flat in recent quarters, they are less of a source of anxiety thanks to the improved liquidity conditions prevailing on secondary bond markets through 2009. Also, a significant percentage are in mortgage bonds and covered bond issues, which should be more easily disposed of in the event of a forced sale.

Estimated liquidity of investment fund assets TABLE 14

Type of asset	Less-liquid investments					
	Million euros			% total portfolio		
	Jun 09	Sep 09	Dec 09	Jun 09	Sep 09	Dec 09
Financial fixed income rated AAA/AA	3,504.4	4,008.9	4,637	19.0	19.9	20.7
Financial fixed income rated below AA	4,504.1	4,181.1	4,619	37.4	32.0	31.4
Non financial fixed income	260.7	179.2	190	5.4	2.8	3.9
Securitisations	6,314.4	6,017.4	5,423	78.6	75.1	73.4
AAA-rated securitisations	4,491.1	3,711.0	3,179	76.3	72.3	81.7
Other securitisations	1,823.3	2,306.4	2,244	84.9	80.1	64.1
TOTAL	**14,583.6**	**14,386.5**	**14,870**	**33.6**	**30.2**	**30.1**
% of investment fund assets	**8.7**	**8.5**	**8.7**			

Source: CNMV.

Industry prospects are brighter than before, but some clouds remain.

An increase in assets under management, the rollout of measures to boost management efficiency and an unchanged weight of less-liquid assets in fund portfolios configure a rosier scenario for the investment fund industry, though one that is by no means free of risk. In particular, the recent uneven course of financial markets and a renewed 2010 upswing in unitholder redemptions mean the future is hedged in by numerous uncertainties. In the industry's favour is the increase in household savings, up from around 10% of disposable income at end-2007 to over 18% in the third quarter of 2009, and what seems to be a growing disposition to invest in funds rather than bank deposits (see figure 10). Whether this last trend consolidates will depend on the commercial strategies deployed by management companies and financial institutions, especially those finding it hardest to raise funds on wholesale markets.

Real estate investment funds

The severity of the correction in Spanish real estate and a gathering stream of redemption orders have continued to complicate life for real estate investment funds. The sector first hit difficulties in late 2008, which were prolonged through the opening months of 2009. The surge in unitholder redemption orders and the adverse circumstances of the real estate market meant some entities had problems fulfilling their redemption commitments.

Real estate funds continue to suffer the effects of the property market downturn and mounting redemption orders...

The solution in some cases was the early disposal or reappraisal of assets, while two managers approached the CNMV for permission to suspend redemptions in several funds for a period of two years.[19] This would give them the leeway required to draw up an orderly disposal plan to meet their accumulated redemption orders.

...triggering early asset sales, property reappraisals and, in some cases, the reduction or suspension of redemptions.

In all, assets under management in real estate funds fell by 12.7% to 6.46 billion euros, and unitholder numbers by 14.2% to 83,583 (see table 15). The year closed with eight funds in operation, one less than at end-2008. Of this number, one was being wound up at the 2009 close and three had suspended or deferred their repayments. Aggregate fund returns sank to -8.3% in what was a new low for this type of scheme, in line with the continuing correction in Spanish real estate.

Assets and unitholder numbers declined further in 2009, along with fund returns.

The upshot was that of total fund assets at the 2009 close (6.47 billion euros), 4.69 billion (72.6% if the total) corresponded to funds either in liquidation or with redemptions suspended or deferred. Of the remaining amount (1.77 billion euros), corresponding to fully operational concerns, 586.2 million (33.1%) were in the hands of the fund manager's parent group, in accordance with significant shareholding disclosures. It follows that the assets held by real estate funds not in liquidation, without redemptions suspended or deferred, and held by investors other than the fund manager's parent group came to just 1.19 billion in December 2009 or 18.33% of total real estate fund assets.

Assets held by real estate funds not in liquidation, without redemptions suspended or deferred and held by investors other than the manager's parent group summed just 18% of the total at end-2009.

Real estate investment companies had a similarly rough year, with assets down by 17% to 309 million, shareholder numbers down slightly from 937 to 928 and eight schemes operating at the end of the year, one less than at end-2008.

Real estate companies too endured a full-year decline in assets and shareholder numbers.

It seems safe to say then that real estate schemes are the worst placed in the Spanish collective investment industry with little hope of improvement until the real estate market gets back on its feet. Management measures (as described above), the easing of unitholder outflows in 2009 and the support forthcoming from owner financial groups should improve liquidity conditions in coming quarters or at least stop them deteriorating further.

The sector is unlikely to see any solid improvement until the Spanish real estate market gets back on its feet.

On the regulatory front, the Directorate-General of the Treasury and Financial Policy has put forward a series of amendments to CIS Regulations, now out for consultation. Among their proposals is to repeal the provision whereby the corresponding fund manager can enter all property rights and assets in the Property Registry in favour of unitholders once two years have elapsed from the liquidation agreement. This would avoid situations where unitholders find themselves members of an owners' association without administrative leadership, by keeping the manager on board, with full responsibilities, until all properties have been sold off.

A proposed change in CIS regulations will affect the real estate fund liquidation process, with the aim of keeping managers on board until properties have been fully disposed of.

19 At end 2009, two real estate funds had suspended redemptions (Santander Banif Inmobiliario and Segurfondo Inversión), while another had deferred redemption orders to November 2010 (BBVA Propiedad).

Main real estate fund variables TABLE 15

					2009			
	2006	2007	2008	2009	1Q	2Q	3Q	4Q
FUNDS								
Number	9	9	9	8	9	8	8	8
Unitholders	150,304	145,510	97,390	83,583	95,284	89,461	87,903	83,583
Assets (million euros)	8,595.9	8,608.5	7,406.9	6,465.1	6,758.1	6,547.2	6,494.3	6,465.1
Return (%)	6.12	1.27	0.69	-8.32	-4.50	-1.23	-1.37	-1.45
COMPANIES								
Number	8	9	9	8	9	9	8	8
Unitholders	749	843	937	928	938	937	929	928
Assets (million euros)	456.1	512.9	371.9	308.6	369.1	360.7	313.0	308.6

Source: CNMV.

Hedge funds

The hedge fund industry has begun a mild recovery, with hedge funds per se the first to emerge.

Hedge funds and funds of hedge funds appear to be mounting a tentative recovery, like traditional funds before them, after several quarters in decline. The upturn was earlier and more intense among hedge funds per se, while funds of hedge funds have had to fight harder to cope with the fallout from the crisis – particularly problems of liquidity and asset valuation due to restrictions imposed by foreign investees. They also faced added difficulties with the redemption wave that swept through most sectors of the fund industry, because some of their underlying funds were concurrently imposing restrictions or suspensions.

Funds of hedge funds lost assets and unitholders in 2009, which closed with half their number in liquidation.

Funds of hedge funds finally closed the year 2009[20] with 830 million euros in assets against the 1.02 billion of one year before, while unitholder numbers dropped from 8,151 to 5,411. The number of schemes closed at 41, one more than in 2008, though by then more than half had either formally entered liquidation or signalled their intention to do so to the CNMV. That said, assets and investor numbers appear to have recovered slightly since mid-2009, though the quarterly data are inconclusive.

Conversely, hedge funds enjoyed a certain expansion in all these variables, as well as achieving robust returns in the year's middle months.

Hedge funds, meantime, closed with 611 million in assets, almost 72 million ahead of the 2008 figure (see table 16), after growth in every quarter but the first. Unitholder numbers climbed from 1,589 to 1,839, broadly in line with assets under management, while the 28 schemes in operation at the 2009 close represented four more than in 2008. By the middle of the year, funds were earning a healthy return in aggregate terms (8.1% in the second quarter and 5.2% in the third) which turned only slightly negative in the closing stretch (-0.13%).

The outlook for hedge funds is far from clear, but there is a good chance they could return to growth in a less volatile market setting.

As we write, the prospects for the hedge fund industry are subject to numerous uncertainties. On the one hand, it seems to have resumed growth in assets, unitholders and even returns. And yet the large number of schemes being wound up will mean a large asset outflow in coming months. On balance, it seems reasonable to expect a return to expansion in 2010 on the strength of the ongoing normalisation of international markets and assuming redemption orders continue to abate, as they have done in other fund categories.

20 October data at the closing date for this report.

Main hedge fund variables TABLE 16

	2006	2007	2008	2008 4Q	2009 1Q	2Q	3Q	4Q[1]
FUNDS OF HEDGE FUNDS								
Number	2	31	40	40	40	40	40	41
Unitholders	2	3,950	8,151	8,151	5,646	5,577	5,303	5,411
Assets (million euros)	0.6	1,000.6	1,021.3	1,021.3	775.2	709.5	846.8	830.3
Hedge funds								
Number	5	21	24	24	26	26	27	28
Unitholders	21	1,127	1,589	1,589	1,551	1,768	1,778	1,839
Assets (million euros)	24.4	445.8	539.4	539.4	451.4	536.9	602.6	611.2
Return (%)	n.s.	0.84	-4.82	-3.59	-0.40	8.12	5.21	-0.13

Source: CNMV.

1 Latest data available: October 2009. Monthly return restated on a quarterly basis.

The European Commission's draft directive to regulate alternative investment fund managers, presented in April 2009...

We cannot end this section without reference to developments following the European Commission's presentation of a draft directive in April 2009 to regulate alternative investment fund managers. This name applies to a range of investment modalities (hedge funds, private equity, commodity funds, real estate funds, etc.), whose vehicle is a company or asset pool owned by a more or less large body of investors and entrusted, in most cases, to professional managers. Where they differ from traditional collective investment schemes is in the fact of being unregulated in certain jurisdictions and being marketed above all to institutional and professional investors. Some of these vehicles, like hedge funds or private equity funds, had attracted the gaze of regulators prior to the financial crisis for their potential impact on systemic risk, primarily via the use of leverage.

...is now being debated by the Council and the European Parliament.

Taking its cue from G20 recommendations, the European Commission's draft directive seeks to give alternative fund investment managers their own set of regulations. Its scope would extend in principle to all managers administering large pools of assets above a minimum threshold of 100 million euros, rising to 500 million when the scheme is not leveraged and imposes a five-year lock-up period (the case, for instance, of some venture capital vehicles, on the grounds that the potential systemic risk diminishes under such conditions). According to Commission estimates, these thresholds would cover 30% of managers and 90% of net assets under management in hedge funds domiciled in the European Union. The regulation envisaged in the Commission proposal would make managers subject to authorisation procedures and bring them within the scope of transparency rules and standards of conduct. The proposal is now being debated in the Council and the European Parliament.

4.2 Investment firms

Investment firms continued to weather their particular storm. Revenues fell anew in 2009, albeit less steeply than in 2008.

Investment firm activity has continued to buckle under the effects of the crisis. All main business lines generated lower inflows in 2009, although the decline in fee income was significantly less, especially among the broker contingent after a particularly adverse 2008. The number of investment firms in losses reduced slightly from 28 in 2008 to 26 in 2009. The sector's solvency levels have held up reasonably well, despite the more exacting capital requirements introduced in the previous year.[21] There follows a detailed description of the business, earnings and capital adequacy of the different categories of investment firm over the year 2009.

21 Circular 12/2008 on the solvency of investment firms.

The aggregate pre-tax profits of broker-dealers fell by 29% in 2009, with fee income down by 17%.

Broker-dealers obtained aggregate pre-tax profits of 359 million, 29% less than in 2008 (see table 17) on the heels of the 33% slide of 2007. Companies' fee income dropped back 17% to 781 million euros, with the biggest caption, order processing and execution fees, down by 15% to 549 million euros (-17% in 2008). Fee income from CIS marketing also fell, by 31% (-43% in 2008) to 63 million euros. However investment advising brought in 57 million, an additional 9%, taking up some of the slack from other traditionally significant income lines like issue placement and underwriting in primary debt or equity markets.

Operating expenses declined slower than revenues, while impairment losses moved up substantially.

Gross income, the sum of net fee income and fees from other, non-core business lines, closed at 758 million euros, 21% less than in 2008. The relative stickiness of operating expenses (down 15% to 378 million euros), allied with falling gross income and rising impairment losses, eroded net operating income by a deeper 37%. Finally, higher extraordinary income left pre-tax profits at the -29% stated earlier.

Brokers' aggregate pre-tax profits were 54% less than in 2008. Fee income fell by 16%...

Broker pre-tax profits look worse on paper, in the shape of a 54% decline to 10.5 million euros (see table 17), though this was actually some improvement on the 79% slide of 2008. The fee income of brokerage firms moved down 16% to 144 million euros (-37% in 2008), breaking down -13% from order processing and execution (-51% in 2008), -23% from CIS marketing (-57% in 2008) and -7% from portfolio management (-24% in 2008).

...but operating expenses failed to adjust in the same measure (-13%).

At 130.7 billion, the gross income of the broker group was 19% down versus 2008. Although main revenue items receded less than in 2008, operating expenses failed to adjust in the same measure (-13%), causing further inroads into net operating income and pre-tax profits.

Aggregate income statement (2009) TABLE 17

Thousand euros	Broker-dealers			Brokers			Portfolio managers		
	Dec 08	Dec 09	% var.	Dec 08	Dec 09	% var.	Dec 08	Dec 09	% var.
1. Net interest income	117,783	163,202	38.6	7,977	2,652	-66,8	1,482	341	-77.0
2. Net fee income	674,542	529,792	-21.5	149,874	127,410	-15,0	12,044	10,820	-10.2
2.1. Fee income	943,619	781,555	-17.2	172,344	144,373	-16,2	23,877	21,835	-8.6
2.1.1. Order processing and execution	648,036	548,951	-15.3	62,345	53,988	-13,4	0	0	-
2.1.2. Distribution and underwriting	42,502	25,726	-39.5	4,847	2,989	-38,3	0	0	-
2.1.3. Securities custody and administration	21,198	16,183	-23.7	676	509	-24,7	0	0	-
2.1.4. Portfolio management	17,306	11,543	-33.3	21,137	19,633	-7,1	20,683	18,549	-10.3
2.1.5. Design and advising	52,276	56,966	9.0	4,130	2,571	-37,7	2,484	2,698	8.6
2.1.6. Search and placement	12	10	-16.7	0	0	-	0	0	-
2.1.7. Margin trading	19	14	-26.3	10	28	180,0	0	0	-
2.1.8. Fund subscriptions and redemptions	91,167	63,296	-30.6	31,287	23,966	-23,4	66	18	-73.0
2.1.9. Others	71,103	58,865	-17.2	47,913	40,688	-15,1	644	571	-11.4
2.2. Fee expense	269,077	251,763	-6.4	22,470	16,963	-24,5	11,833	11,016	-6.9
3. Result of financial investments	792,084	43,855	-94.5	-925	1,709	-	-108	92	-
4. Net exchange income	-643,539	22,437	-	20	-265	-	13	5	-58.4
5. Other operating income and expense	17,712	-854	-	3,741	-845	-	-432	-389	9.9
GROSS INCOME	958,584	758,431	-20.9	160,686	130,661	-18,7	13,000	10,869	-16.4
6. Operating expenses	446,356	378,100	-15.3	136,818	118,988	-13,0	11,330	9,142	-19.3
7. Depreciation and other charges	8,572	7,729	-9.8	3,130	2,522	-19,4	512	198	-61.4
8. Impairment losses	69,055	96,855	40.3	415	60	-85,6	0	135	-
NET OPERATING INCOME	434,601	275,747	-36.6	20,323	9,090	-55,3	1,157	1,395	20.5
9. Other profit and loss	68,167	83,343	22.3	2,506	1,438	-42,6	-8	-15	-105.1
PROFITS BEFORE TAXES	502,768	359,090	-28.6	22,829	10,529	-53,9	1,150	1,379	19.9
10. Corporate income tax	137,481	98,631	-28.3	8,423	5,666	-32,7	385	419	8.9
PROFITS FROM ONGOING ACTIVITIES	365,286	260,458	-28.7	14,406	4,862	-66,2	765	961	25.5
11. Profits from discontinued activities	2,292	0	-100.0	0	0	-	0	0	-
NET PROFIT FOR THE YEAR	367,578	260,458	-29.1	14,406	4,862	-66,2	765	961	25.5

Finally, **portfolio management companies**, whose investment service field is narrower than that of their sector peers, obtained aggregate pre-tax profits of 1.4 million, almost 20% more than in 2008. The slide in fee income (-9%) was rather less intense than at brokers or broker-dealers, but what really explained this trend-bucking performance was their successful containment of operating expenses (down by over 19%) and the reduction of depreciation and other charges.

The aggregate pre-tax profits of portfolio management companies climbed by 20% to 1.4 million euros.

Earnings erosion made further inroads into the return on equity (ROE) of the investment firm sector, though here too the decline was more moderate than in 2008 (see figure 20). The ROE of broker-dealers fell from 32.5% in 2008 to 20.5% in 2009 and that of the broker contingent from 17.9% to 10.7%. A look at change factors for ROE in 2008 and 2009 allows some interesting conclusions. As we can see from figure 20 (right-hand panel), the 2008 slide in investment firm profitability was mainly about lesser efficiency and asset productivity compounded by negative extraordinaries.[22] In 2009, however, two other factors were at work (see figure 20, right-hand panel): a decline in leverage and slightly lower efficiency, owing to the year's higher impairment losses. On this occasion, both extraordinaries and asset productivity contributed positively to some extent.

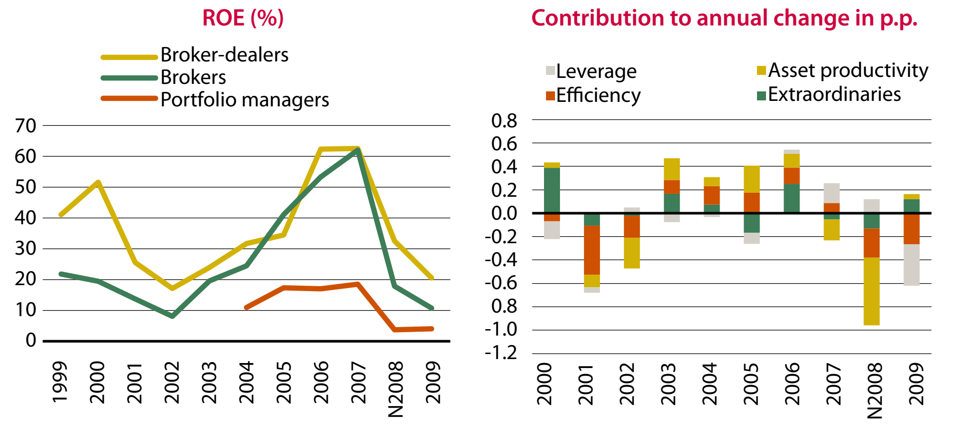
Investment firm returns on equity fell from 32.5% to 20.5% among broker-dealers and from 17.9% to 10.7% among the broker group.

22 The following equation allows us to isolate the effects of changes in each factor contributing to investment firm ROE:

$$ROE = \frac{PBT}{Equity} = \frac{PBT}{Net\ operating\ inc.}(1) \times \frac{Net\ operating\ inc.}{Gross\ income}(2) \times \frac{Gross\ income}{Assets}(3) \times \frac{Assets}{Equity}(4)$$

in which the numbered elements serve as indicators of: (1) extraordinary items in the income statement, (2) efficiency, (3) asset productivity and (4) leverage. For a fuller description of how to interpret the elements in this equation, see the exhibit "ROE breakdown" in *Securities markets and their agents: situation and outlook* in the CNMV Bulletin for first quarter 2008.

Investment firm ROE before taxes FIGURE 20

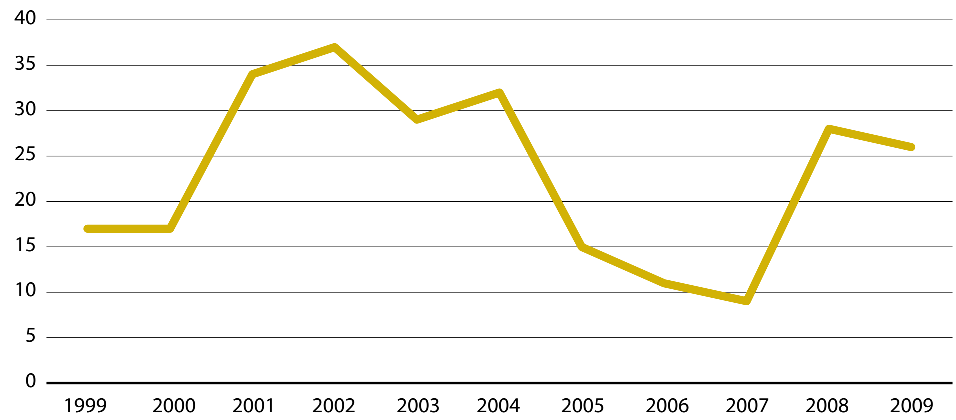


Source: CNMV.

The number of firms in losses fell from 28 in 2008 to 26 in 2009.Four of this number also had a capital deficit at the end of the year.

As we can see from figure 21, the number of firms reporting (pre tax) losses tended to stabilise in 2009 after two fraught years. Of the 26 firms in losses at the end of the year (out of a total of 109 vs. 111 in 2008), 14 were brokers, 10 broker-dealers and two portfolio management companies. The aggregate losses of this group amounted to 25.8 million euros or around 7% of investment firm pre-tax earnings, while four of their number also closed the year with a capital deficit.

Number of investment firms in losses FIGURE 21



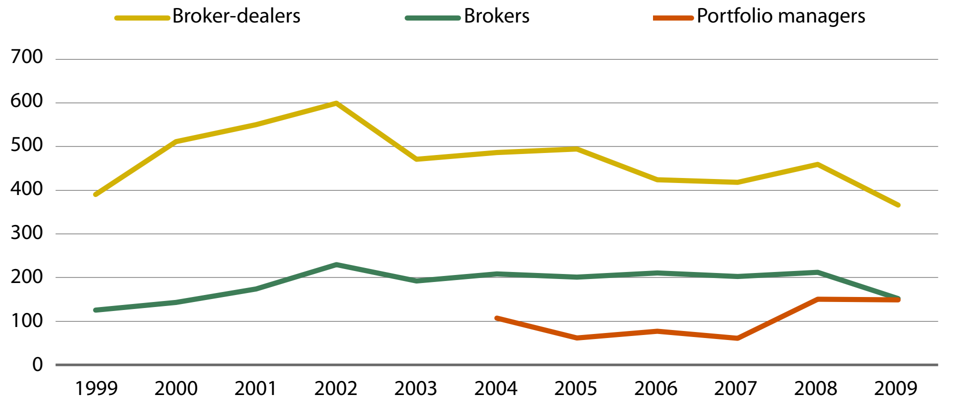
Source: CNMV.

Capital adequacy has held up well despite a small solvency margin downturn; ascribable in part to new rules for its calculation. Six firms reported a capital deficit at the 2009 close.

Investment firms as a rule are comfortably compliant with capital adequacy requirements. The small downturn in aggregate margin in 2009 traces partly to the new rules on investment firm solvency introduced by CNMV Circular 12/2008; particularly the requirement to allocate more funds for operational risk. At end 2009, the equity of brokerage firms was 3.7 times surplus to the mandatory requirement (4.6 times in 2008), while that of broker-dealers stood 1.5 times higher (2.1 times in 2008) and portfolio management companies repeated the prior-year level of 1.5 times the minimum (see figure 22). Six firms ended the year with an own fund deficit (five brokers and one broker-dealer), and the CNMV will follow up their progress in designing the viability plans that the law now demands in this situation.

Finally, one broker[23] posted a significant event notice on 5 March informing that it had started voluntary insolvency proceedings and seeking intervention. The CNMV agreed to this request and to the suspension of the firm's activity, in order to safeguard investors' interests.[24] Bankruptcy proceedings were eventually declared on 23 March last.

Investment firm capital adequacy (surplus of qualifying equity to the minimum requirement, %) FIGURE 22



Source: CNMV.

The general outlook for investment firms is rather more encouraging in view of the gathering normalisation of financial markets evident in these past few months, together with the moderate upswing in collective investment. Confirmation of a revival in stock market turnover and a mild recovery in the investment fund industry should set sector fee income on a more even keel and even allow some timid expansion in certain business lines. Operators could also benefit from what seems to be a renewed preference for debt in the corporate financing mix (see figure 4). That said, the sensation remains one of excess capacity and a degree of restructuring cannot be ruled out.

4.3 Collective investment scheme management companies

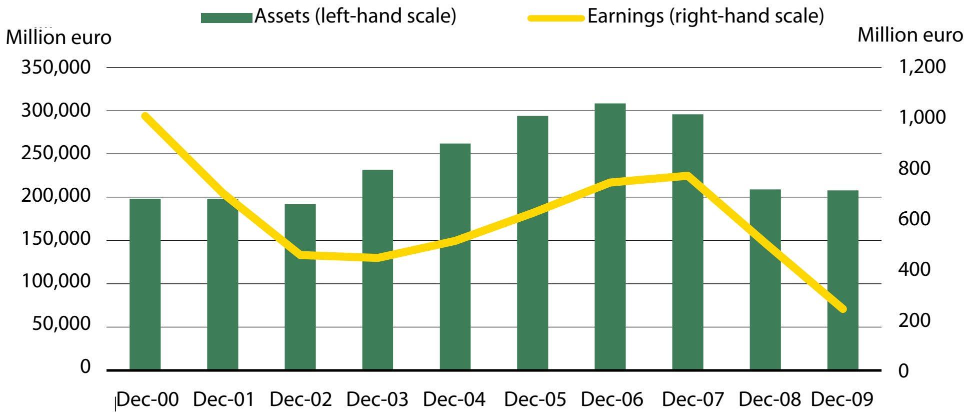
Assets under management contract slightly in 2009…

Aggregate full-year figures for CIS management companies put their assets under management at 208 billion euros, one billion less than at end-2008, but improving on the 87 billion fall of the preceding year (see figure 23). This latest result takes managed assets back to the start-out level of the decade.

23 Sebroker Bolsa AV.

24 See CNMV notice of 5 March 2010.

CIS management companies: assets under management and pre-tax profits FIGURE 23



Source: CNMV. Data to December 2009.

... while the sector's aggregate profits drop by half with fee income as the main culprit.

This mild contraction was accompanied, however, by a sharp slide in companies' pre-tax profits – a combined 243 million euros in the full-year period, less than half the figure for 2008 (see figure 23). Part of this decline owes to the fall in entities' management fees to an average 0.82% of assets compared to 1.1% in 2008 (see table 19).

Aggregate ROE moved down from 35% in 2008 to 17% in 2009, while the number of loss-making entities fell from 34to 31.

Aggregate return on equity dropped from 34% in 2008 to 16.6% in 2009 in tune with the above earnings contraction. The hope now is that the more settled state of the investment fund industry will allow a similar stabilisation in management company income statements and the number of entities in losses. On the last score, loss-making managers numbered 31 at the annual close against 34 one year before, evidencing the sector's efforts to redimension its offering in line with medium-term demand prospects. And sector restructuring could shortly gather pace on perceptions of a certain excess capacity, the re-drawing of the credit institution map and growing use of the Community passport for the fund management activities of foreign groups operating in Spain.

CIS management companies: pre-tax profits and ROE TABLE 18

Million euros

	Profit before taxes	ROE before taxes (%)
2001	701.7	72.9
2002	457.1	50.1
2003	445.4	50.1
2004	512.2	57.3
2005	622.8	66.2
2006	744.0	68.9
2007	771.1	60.5
2008	503.5	34.0
2009	243.1	16.6

Source: CNMV.

CIS management companies: assets under management, management fees and fee ratio				TABLE 19

Million euros

	Assets under management	CIS management fee income	Average CIS management fee (%)	Fee ratio (%)[1]
2000	198,280	2,869	1.45	63.5
2001	198,115	2,465	1.24	65.8
2002	192,099	2,259	1.18	72.7
2003	231,458	2,304	1.00	73.8
2004	262,132	2,670	1.02	73.6
2005	293,973	2,976	1.01	72.2
2006	308,476	3,281	1.06	71.5
2007	295,922	3,194	1.08	70.5
2008	209,020	2,302	1.10	70.8
2009	207,999	1,703	0.82	68.6

Source: CNMV.

1 Ratio of fee expenses for fund marketing to fee income from CIS management.

4.4 Other intermediaries: venture capital

The CNMV's register of venture capital entities (VCEs) recorded 19 new entrants in 2009 against 13 retirals. Of the first number, nine were venture capital companies, seven were venture capital funds and three were venture capital management companies. Compare this to 208, when as many as 55 entities entered the fray (25 companies, 21 funds and nine management companies).

The register of venture capital entities welcomed 19 entrants in 2009 against 13 retirals.

Movements in the VCE register in 2009 — TABLE 20

	Situation at 31/12/2008	Entries	Retirals	Situation at 31/12/2009
Entities	**322**	**19**	**13**	**328**
Venture capital funds	95	7	1	101
Venture capital companies	154	9	10	153
Venture capital fund managers	73	3	2	74

Source: CNMV.

According to 2009 data furnished by the Spanish industry association (ASCRI), investment by venture capital companies sank to 1.62 billion euros, 46.6% less than in the previous year. This was an even worse performance than in 2008 (down 31.6%) and left investment languishing around 2004 levels. Even so, projections based on international data[25] suggest other countries fared a lot worse, with worldwide investment contracting 74% and European investment 67%.

ASCRI data point to a slump in investment by Spanish venture capital companies (-47%).

Company transactions fell by 5.2% on the heels of the 4% decline of 2008. Divestments summed 860 million euros, 20.9% more than in 2008 (when they fell 55.6% vs. 2007), with transactions down by 8.1% to 316 (-11.3% in 2008).

This group also recorded 5% fewer transactions and a 21% increase divestment volumes.

Problems of access to bank finance have increasingly ruled out large leveraged buyouts, and indeed the year's lower investment is mainly a consequence of the drying-up of this kind of operation. Low-volume divestments, meantime, reflect companies'

Borrowing constraints continue to hamper venture capital activity. Sector analysts ...

25 Data for Europe are drawn from *Quarterly Activity Indicator Trends in Q3 2009,* by the European Private Equity & Venture Capital Association (EVCA), November 2009. For world sector performance, the source is *Private Equity 2009* from International Financial Services London (IFSL), August 2009. In both cases data have been annualised in stating year-on-year changes in European and world investment.

... expect recovery to build from the end of this year, though much will depend on the availability of finance.

reluctance to sell off investees at a time of falling valuations, preferring to wait instead for better times. In fact, recognition of capital losses, in many cases due to refinancing difficulties, accounted for 46% of the year's total divestment volumes. The consensus among sector analysts is that activity will pick up at the end of this year in Spain and the rest of Europe, though they warn that it will be a slow road back without a parallel improvement in the availability of finance. That said, 2010 investment is projected to stand at over 2 billion euros, while scheduled securities market placements will offer new opportunities for divestment.

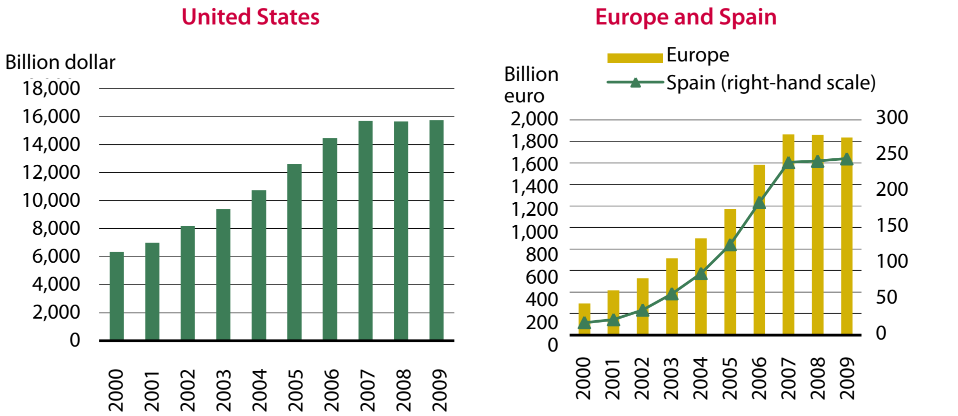
5 Securitisation markets: proposals for reactivation

5.1 Introduction

Mass securitisation is among the most visible products of the intense financial innovation of the last decade.

The mass securitisation of assets is among the most visible products of the financial innovation wave of the last decade. In advanced economies, this financial practice mobilised huge amounts of private credit in the years before the current crisis, by allowing the original owners of credit rights to amplify their traditional range of financing channels. In the years 2000 to 2007, the volume of asset-backed securities rose by 148% in the United States, 534% in Europe and almost 1300% in Spain, as we can see from figure 24 below. Such is the importance of securitisation for the Spanish market, of mortgage loans especially, that Spain is the second country in Europe by volume of asset-backed securities in circulation, surpassed only by the United Kingdom, with an estimated value (including securitised mortgage bonds) equivalent to 24.7% of last year's GDP.

Asset-backed securities outstanding FIGURE 24

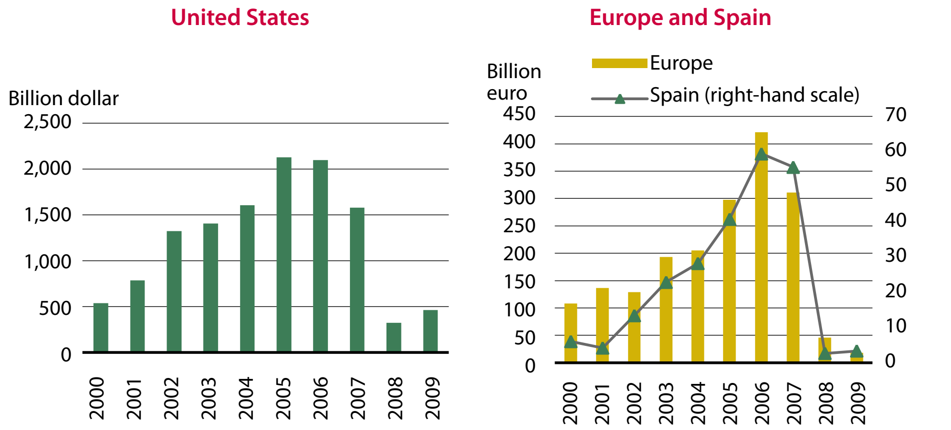


Source: Dealogic.

Defaults in U.S. subprime mortgages eroded investor confidence in structured products triggering a worldwide slump in demand.

However a wave of defaults in the U.S. subprime mortgage sector starting in the first half of 2007 marked a turning point in what until then had seemed to be the unstoppable growth of the country's mortgage loan securitisation. Although the actual amount of subprime defaults was not that large compared to the size of the U.S. mortgage market, the fact that so many of these loans (around 75%) had been securitised caused a slump in investor confidence in this kind of structured product. Within a matter of months, this distrust had spread to practically all types of asset-backed securities, causing demand to simply cave in. As a direct result of this abrupt withdrawal of investor confidence, new securitisation issues have begun to dry up all over the world (see figure 25).

Gross securitisation issues FIGURE 25



Source: Dealogic.

The result has been to fuel doubts about the future of securitisation. Whether it can prosper once more will depend on the ability of regulators and the industry to come up with a simpler, more transparent development framework.

In this context, it is not hard to understand what doubts have been sown about the whole future of securitisation. On the one hand, asset securitisation holds unquestioned potential as an enhancement tool for credit institution financing and risk management. On the other, the grave problems that the financial crisis has brought to light in the orbit of this practice dictate that any opportunity for its reactivation will depend on the ability of regulators and the industry itself to learn from the lessons of the past and lay the groundwork for a new securitisation framework that is simpler, more reliable and more transparent for the end investor.

The aim of this chapter is, firstly, to identify the vulnerabilities surfacing in securitisation during its years of greatest triumph and, secondly, to describe some of the ideas recently put forward to reactivate the market. It is accordingly divided into four main sections: the problem of incentives in securitisation structures (section 2), the central role of rating agencies in valuing structured products (section 3), the need to progress in the transparency, simplification and standardisation of asset-backed securities (section 4) and ways to improve the functioning of secondary markets (section 5). Finally, section 6 offers some closing reflections.

5.2 Compatibility of incentives in the securitisation chain

The length and complexity of the securitisation chain makes it an easy prey to conflicts of interest.

The length and complexity of the chain of contracts in any securitisation process ensures that structured products are fertile ground for conflicts of interest between the parties. Two of these potential conflicts merit deeper discussion. The first is the possible existence of opposing interests within rating agencies, in their dual role as calibrators of risk and providers of investment advice, which we will leave until the next section. The second has to do with the lack of incentives for the originator of the securitised loan to act with sufficient care and diligence in assessing the credit quality of the securitised assets.

This problem of moral hazard, which arises in a wide variety of financial contracts and products, becomes especially relevant in the case of securitisations, because of the intrinsic difficulty investors face in deciding the quality of the product. In particular, the vast number of individual loans that may end up in a securitisation pool, and the complexity of the structuring techniques used in product design, stand as a major barrier to external validation of the real quality of the underlying assets. And this, together with burgeoning demand for high-quality assets during the last expansion phase, may have done much to exacerbate the problem of credit institution incentives.

One way to align the interests of originators and end investors would be for the former to retain a certain proportion of securitised exposures.

One recent suggestion to align the originator's interests more closely with those of the end investor is to require all orginators to retain a certain minimum proportion of the risk being transferred to investors. Variations on this idea have already received the blessing of the G20, the United States Government and the European Union.

This idea has received the backing of the G20, ...

In the case of the G20, point 12 of the leaders statement issued after the Pittsburgh summit of September 2009[26] calls for securitisation sponsors or originators to retain part of the risk of the underlying assets, though its does not specify how much.

...the European Union, which amended its Capital Requirements Directive accordingly in May 2009, and ...

In Europe, an amendment to the Capital Requirements Directive (article 122a) approved in May 2009 bars EU credit institutions from investing in securitisation issues in which the originator retains a net economic interest of less than 5% of the securitised exposures. The Directive also stipulates that this net economic interest must be retained on an ongoing basis without resorting to any form or mechanisms of credit risk mitigation. The new norm is scheduled to come into force in 2011.

...the Government of the United States.

Meantime, the United States Government came up with a similar proposal[27] last year in the frame of its financial regulatory reform plan, likewise targeting a minimum retention of 5%. However, the U.S. document contains two points of difference with respect to the European text. The first is that the obligation falls on the originator but not the purchaser. The second is the flexibility allowed in applying the minimum retention threshold, which is greater in the American case, since supervisors would be empowered to adjust it, upwards or downwards, in certain circumstances.

To be effective, its implementation must be balanced and flexible enough to align retention requirements with the real risk of each type of securitisation.

In any event, the imposing of minimum retention thresholds is undoubtedly an attempt, in spirit at least, to reconcile the interests of securitisation chain participants. Its implementation, however, will have to be balanced and flexible enough to ensure that retention requirements square with the real risk profile of each type of securitisation. In Europe, moreover, it is important to apply minimum retention thresholds similar to those envisaged in article 122a of the Capital Requirements Directive to the originators of securitised exposures on the balance sheets of entities other than credit institutions. Otherwise, we risk giving rise to regulatory arbitrage opportunities that favour the build-up of asset-backed securities in the portfolios of institutions exempt from capital requirements.

26 G-20 (2009): *Pittsburgh Summit Leaders Statement*, 24-25 September 2009. Available from http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf.

27 United States Treasury Department (2009): *Financial Regulatory Reform. A New Foundation: Rebuilding Financial Supervision and Regulation*. Available from http://www.financialstability.gov/docs/regs/FinalReport_web.pdf

5.3 The role of rating agencies

The complexity and, at times, opacity of securitisation transactions ensured rating agencies a key role in their valuation. But the slump in the value of asset-backed securities at the onset of the crisis has called into question the quality of their rating practices.

The complexity of securitisation transactions has put demands on rating agencies that they have been unable to fulfill.

Among the problems faced are the possible conflicts of interest deriving from agencies' dual role as providers of advisory or consultancy services to securitisation issuers, and as valuers of the resulting securities; the risk of strategic selection by issuers (rating shopping) to secure the best possible grade; agencies' limited experience in rating securitisations, especially complex issues for which there are no reliable performance records; and a lack of clarity regarding key factors like the valuation methodology used, the meaning of ratings or the depth and quality of the risk analyses run on underlying assets.

Among the problems detected are possible conflicts of interest arising from their dual role as advisors and valuers.

Regulators and supervisors have come across some of these problems before, and in fact had previously sponsored diverse initiatives based on self-regulation – the case of the IOSCO code of conduct for credit rating agencies (2008)[28]. However, deeper reflection in the wake of the crisis has persuaded them of the need to regulate rating agency activities. In Europe, this need is addressed in the recently published Regulation 1060/2009, which, for the first time, brings rating agencies under an authorisation and supervision system.

After due reflection, the authorities have opted to bring rating agency activities within the regulatory fold. This is the purpose of EU regulation 1060/2009.

Its principal measures with regard to structured financing are summarised below:

- It is prohibited to make proposals or recommendations on the design of structured finance instruments on which the agency is expected to issue a credit rating, i.e. they may not simultaneously provide advisory and rating services.
- Reporting of all assessments undertaken. In order to discourage the practice of rating shopping, agencies shall disclose, on an ongoing basis, information about all structured finance products submitted to them for preliminary rating, whether or not issuers contract with the agency for a final rating.
- Requirements regarding the rating of assets previously rated by another agency. Under the new regulation, agencies may not decline to rate a securitisation issue on the grounds that some of the assets have previously been rated by another agency.
- Organisational requirements. Most of the board members of rating agencies should have sufficient expertise in financial services, while at least two should be independent directors. When the agency issues credit ratings of structured finance instruments, at least one independent member and one other member of the board shall have in-depth knowledge and experience at a senior level of securitisation markets.
- Disclosure requirements. The new regulation specifies as follows: i) agencies shall provide full information about loss and cashflow analyses performed or relied upon and an indication of any expected change in the credit rating, ii) agencies should explain the models and methodologies used, incorporating simulations of stress scenarios undertaken when establishing the rating, iii)

28 International Organization of Securities Commissions (IOSCO), 2008: *Code of Conduct Fundamentals for Credit Rating Agencies*. Available from http://www.iosco.org/library/pubdocs/pdf/IOSCOPD271.pdf.

agencies should clearly differentiate between the ratings of structured products and those of more traditional instruments by displaying an additional symbol that distinguishes the former, iv) agencies should indicate the depth of their analysis of underlying assets, stating whether they have assessed them directly or relied on a third-party assessment, and v) when the lack of reliable data or the complexity of the structure of a securitisation raises serious questions about the reliability of any risk assessment, the agency should refrain from issuing a credit rating or withdraw an existing rating.

The new Regulation seeks to mitigate conflicts of interest while imposing stricter disclosure requirements.

In sum, this new regulatory initiative tackles conflicts of interest within agencies, while imposing considerably stricter disclosure requirements. These two factors –incentives and disclosure– are essential if rating agencies are to fulfil their core function of mitigating information asymmetry between originators and investors. The challenge now is to ensure that they are rapidly and efficiently deployed.

For the moment, the Regulation assigns the oversight of rating agencies to supervisors designated by Member States, though there is agreement that these powers should later be transferred to the European supervisory authority emerging from the transformation of the CESR.

5.4 Measures for the simplification, standardisation and transparency of securitisation

Simplification, standardisation and increased transparency are the keys to winning back investor confidence.

As we stress at the start of this chapter, the global implosion of securitisation markets can only be explained by a sudden collapse in investor confidence. And this collapse was largely due to the complexity and opacity that tend to surround securitised products. Restoring confidence therefore calls for a greater degree of transparency, simplification and standardisation, and this is precisely the aim of the initiatives described below.

IOSCO has published an exhaustive list of disclosure principles for asset-backed securities.

IOSCO recently issued a report[29] with an exhaustive list of disclosure principles for asset-backed securities, focusing on those aspects where transparency is most clearly lacking: the identity, legal situation, functions and responsibilities of each participant in the securitisation chain, and the possible links between them; the securitisation experience of the originator and sponsor; the composition and characteristics of the assets making up the fund and details of individual performance by type (for instance, by cohort of mortgage loans entering the pool); concentration of exposure in a small number of receivables; transaction structure, including the flow of funds, fees and expenses, allocation of excess cashflow, contract termination or trigger clauses, etc.; credit enhancement; the use of derivative products to alter the payment characteristics of cashflows; the nature of risk factors material to the offering; the kind of markets on which the securities are to be traded and relevant tax information.

The Basel Committee on Banking Supervision has reviewed weighting requirements for re-securitisations.

The issue of simplification was tackled by the Basel Committee on Banking Supervision (BCBS) in its recent review of weighting requirements for re-securitisation exposures in the Basel II framework.[30] On the evidence that re-securitisations are among the most complex types of structured products, and also among the most

29 International Organization of Securities Commissions (IOSCO), 2010: *Disclosure Principles for Public Offerings and Listing of Asset-Backed Securities*.The consultation paper is available from http://www.iosco.org/library/pubdocs/pdf/IOSCOPD296.pdf.

30 Basel Committee on Banking Supervision (BCBS), 2009: *Enhancements to the Basel II Framework*. Available from http://www.bis.org/publ/bcbs157.htm.

deteriorated on account of the crisis, the BCBS has sizeably raised the corresponding risk weightings. Basel II will thus incorporate a separate weighting scale for these products, specifying increases at times of over one hundred percent, for application starting in the year 2011.

The European Central Bank has sent a proposal out to consultation on keeping detailed records of the loans entering securitisation pools.

A few months ago, the European Central Bank launched a public consultation paper with proposals on a structure for the gathering and upkeep of detailed intelligence on the loans entering securitisation pools, as part of the Eurosystem collateral framework. Its goals are, firstly, to provide rating agencies and investors operating in Europe with access to itemised information on this kind of product and, secondly, to work towards the establishment of a standard data gathering and reporting procedure in respect of euro area securitisations.

The CNMV has taken a lead in Spain by imposing new disclosure requirements on securitisation funds.

Nationally, the CNMV has introduced pioneering new roles to strengthen the periodic reporting requirements of securitisation funds. Further to its Circular 2/2009 of 25 March on account standards, annual accounts, public financial statements, and reserved statistical statements of securitisation funds, all funds operating in Spain are obliged to file public and reserved statements with the Spanish regulator starting in early 2010.

And the industry itself has launched a number of initiatives to boost the transparency and standardisation of key securitisation practices.

Finally, the industry itself is leading a number of initiatives to boost the transparency and standardisation of key securitisation practices. One example is the set of ten initiatives drawn up by the Global Joint Initiative (2008), along with guidance on their implementation, tackling aspects like a standard definition for credit enhancement, the establishment of industry-wide due diligence standards, improvement in third-party valuation and audit practices, or training programmes specifically targeting directors and senior managers whose monitoring duties extend to securitisation products. But the most ambitious industry-led initiative to date is surely the RESTART project (Residential Securitization Transparency and Reporting) launched by the American Securitization Forum (ASF) in 2008 with a view to restoring investor confidence in mortgage-backed securities. This project is split into six phases. In July 2009, the Forum published the final blueprint for the first two, to be implemented in 2010, the aim in both cases being to increase and strengthen disclosure requirements. The first comprises a disclosure package whose purpose is, firstly, to provide substantially more critical data than has hereto be available to investors, rating agencies and other market participants and, secondly, to standardise the presentation of all data to allow investors to easily compare loans and transactions across all issuers. The second deliverable, known as the reporting package, comprises the enhanced and standardised monthly updating of critical pool and loan-level information.

5.5 Proposals for secondary markets in asset-backed securities

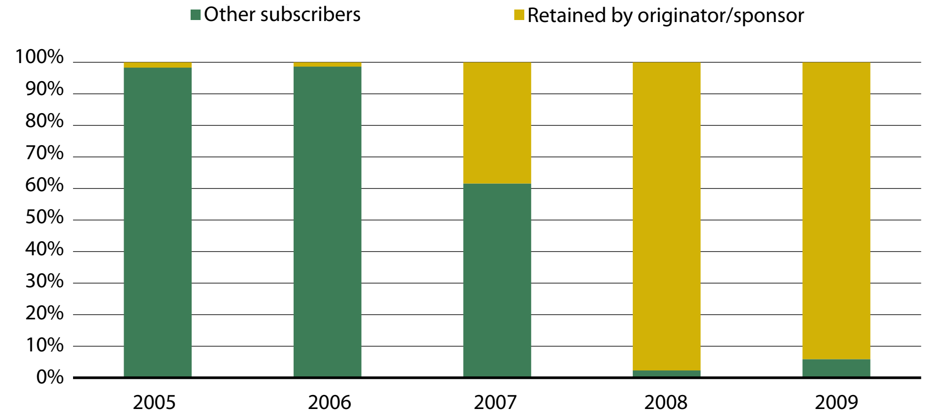
Structured product trading volumes fell substantially during the crisis, causing liquidity tensions in secondary markets...

The strong liquidity enjoyed by structured product markets evaporated when the crisis hit. According to IOSCO, for example, trading in residential mortgage-backed securities fell by 45% in the months following its onset. In Spain's case, although issuance of asset-backed securities held up reasonably strongly, most of the volumes issued since end- 2008 have been retained by originators and used as collateral for Eurosystem loans (see figure 26). Something similar has occurred in the rest of Europe and in the United States, whose Government launched a one-off initiative to revitalise the market at end-2008 specifying that asset-backed securities would be accepted as collateral in Federal Reserve refinancing operations.[31]

31 Ashcraft, A.B., and T. Schuermann, 2008: "Understanding the Securitization of Subprime Mortgage Credit,"

Nominal value of asset-backed securities in Spain by type of subscriber[1]

FIGURE 26



Source: CNMV.

1 According to prospectuses filed with the CNMV.

...which had more to do with agent distrust than with possible failures in market operation.

It must be said however, that the liquidity crunch in asset-backed securities markets, which in the midst of crisis left numerous investors without a counterparty for their trades, had more to do with concern over the quality of underlying assets than any failure of market functioning. Further, the climate of distrust brought on by the crisis was compounded by the narrowness of primary market spreads, denoting a miscalculation of risk at the point of issuance. And this has led to a situation where any increase in asking spreads would of necessity drive secondary market prices well below par.

A series of international initiatives are focusing on ways to boost secondary market liquidity and efficiency.

Hence the search underway for mechanisms to boost the liquidity and efficiency of these markets, led by organisations like CESR and IOSCO. Their interest, for the moment, has focused on post-transparency regimes, i.e., the a posteriori disclosure of trading volumes and prices.

CESR underscores the importance of market transparency, but warns that care should b e taken not to create renewed pressures on liquidity.

A recent CESR report[32] on the transparency of structured finance and credit derivative markets concluded that the lack of post-transparency was not to blame for current liquidity shortages in securitisation markets, while insisting on its important role in market operation as an aid to valuation. That said, it warns that pro transparency measures must be introduced with care to avoid unwanted pressures on liquidity. The best option, it concludes, would be the phased implementation of a harmonised pan-European regime for asset-backed securities of a comparable nature.

IOSCO arrives at similar conclusions.

An IOSCO report drew similar conclusions regarding the relative importance of post-transparency.[33] While admitting that deficient information on past transactions is not a prime cause of illiquidity, it contends that liquidity problems in part reflect a lack of reliable inputs for the valuation of structured products. The organization has also sounded the views of market participants on the pros and cons of a mandatory post-transparency regime. Among the pros, respondents cited the mitigation of information asymmetry between market participants, more efficient pricing, and its usefulness to investors in valuing their portfolios. The main drawback, as they saw

Federal Reserve Bank of New York, Staff Report nº 318.

32 Committee of European Securities Regulators (2009): "Transparency of corporate bond, structured finance product and credit derivatives markets". Available from http://www.cesr-eu.org/popup2.php?id=5798.

33 International Organization of Securities Commissions (IOSCO), 2009: *Transparency of Structured Finance Products*. Available from http://www.iosco.org/library/pubdocs/pdf/IOSCOPD306.pdf.

it, was that the complex, non standard, illiquid nature of many asset-backed securities would in any case impair price comparability. Also, as in many other cases, the disclosure of more post-trade information could prove a negative incentive for market participants, by forcing them to reveal data that could give away their strategies.

On balance e, enhanced post-transparency requirements would seem to be a step in the right direction.

On balance, however, it seems clear that some kind of enhanced post-transparency regime would be a step in the right direction, especially at times like these of heightened uncertainty. Any such move must of course bear in mind the idiosyncrasies of secondary securitisation markets, of which the following in particular spring to mind: the degree of liquidity or turnover of each kind of instrument, the original issue volume, whether placement was public or private, the size of the investor base, the extent of securities standardisation, the rollout cost of a post-transparency system, and the wisdom of introducing flexibility in disclosure requirements (for instance, delays in disclosure, reporting of data on an aggregate vs. transaction basis, making minimum trading volumes exempt from disclosure to preserve the anonymity of the trader, etc.)

The next logical move would be to look at ways to increase standardisation in structured product trading rules.

The next logical step after a reform of post-trade transparency in structured product markets would be to broach the possibility of standardising their trading rules, with thought to a common (or broadly similar) regime for at least the main regulated markets.

5.6 Closing remarks

Regulators and industry continue working to the goal of revitalising securitisation markets.

Both regulators and the industry itself are pursuing ways to revitalise struggling securitisation markets. A return to pre-crisis practices can be ruled out, given the greater caution investors will presumably exercise in future, and nor is it especially desirable given the numerous failures that the crisis has brought to light. In this article, we have considered some of the main problems the industry confronts and some recent initiatives to overcome them. Among the former, we have singled out conflicts of interest among securitisation participants, insufficiently robust valuations and incentive problems in rating agencies, the need for more transparent, simplified and standardised products and the lack of post-trade transparency in secondary markets.

The success of these efforts will require a balanced combination of new regulatory elements and new industry practices.

The goals of the industry's pursuit are clear enough: to achieve a sustainable recovery in securitisation markets, on the grounds that, despite the excesses of the recent past, there remains much to be gained from this financial technology, with its enormous potential as an instrument of bank financing and for the pooling of risk. To be successful, however, initiatives must rest on a balanced combination of new regulatory elements and more responsible practices on the part of the industry.

II Reports and Analyses

Spanish investment funds: recent developments and the impact of the financial crisis

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1 Introduction

The aim of this article is to describe the development of the Spanish investment fund (IF) industry over the last decade, highlighting the main consequences of the financial crisis for these institutions and the companies that manage them. The main action taken by the CNMV prompted by the impact of the crisis on the sector is also emphasized and analyzed from different perspectives.

The investment funds industry plays a very important role within the financial system, as it provides the possibility of channeling the savings of different types of investors of very different sizes and levels of sophistication, towards financial instruments in a wide variety of markets, of accessing professional management and of obtaining the advantages that come with diversification. The substantial volume of assets handled by the industry (currently representing 16% of the GDP) and its importance with regards to small savings means it is necessary to value the impact the financial crisis has had on the main variables which define the size of the sector, as well as to analyze the consequences it has had on some types of funds which have been particularly affected by it. With this in mind, this article highlights the action taken by the CNMV, with regards to the problems which have affected investment funds during the crisis, to help protect investors and promote transparency and equality among shareholders.

The article itself is organized in the following way: section 2 summarizes the main tendencies in the development of Spanish investment funds from 2000 to the beginning of the financial crisis in mid-2007. Section 3 analyses the impact of the crisis on this sector, especially highlighting the decrease in profitability, liquidity problems in some fund portfolios, and the marked increase in redemptions, as well as the impact on the revenues and profits/losses of the management companies. Section 4 describes the different steps taken by the CNMV in the sector as a result of the crisis, while section 5 analyses the prospects for the sector. Finally, section 6 presents the conclusions reached.

2 The development of investment funds and their management companies up until the start of the financial crisis

Over the past decade three phases of development in the Spanish investment fund industry have generally been observed. The first two, analyzed in this section, belong to the period before the crisis, whilst the third, analyzed in the following section, corresponds to the development of the industry during the crisis.

The two stages from the pre-crisis period are very different if we regard them in terms of the main variables that characterise the development of collective investment. The first of these stages, which takes us up to the end of 2002, is characterized by a high level of distrust on behalf of investors. This is linked to the bursting of the technological bubble and several accounting scandals that arose at this time in the U.S. and in Europe. During this time there was a significant withdrawal in the industry with regards to wealth and shareholders (within a framework of negative profitability and considerable redemptions) that was far greater than the subscriptions.

In contrast to the first stage, the second sub-stage of the pre-crisis period (2003 – June 2007) was associated with a strong expansion of the industry on a worldwide scale and characterized by a significant fall in the aversion to risk and in drastically reduced interest rates, which led to a search for alternative investments (including collective investment) with greater profitability than that provided by bank deposits and other reduced risk activities.

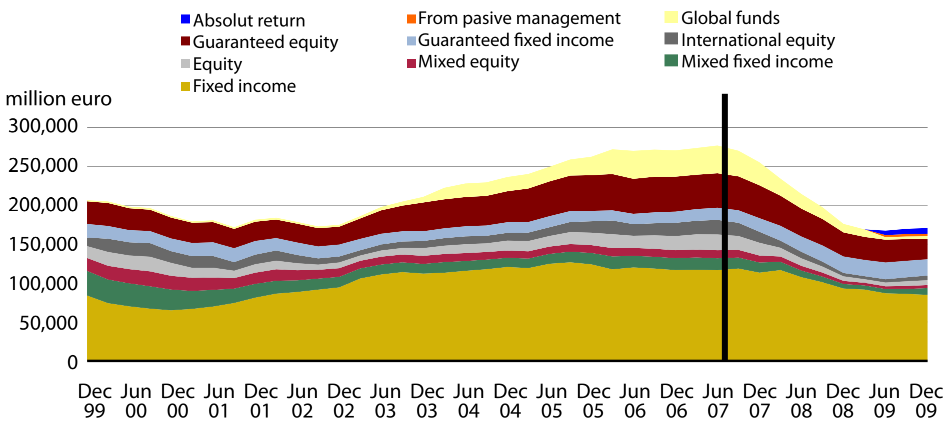
The rest of this section examines the development of IF net worth during the two stages prior to the crisis, at the same time analyzing the behaviour of the two components which determine the variation: the net flow of subscriptions and the revaluation of the portfolio. The development of the investment funds on offer is also examined, with regards to both the amount of funds offered and their composition, as well as the number of shareholders. Lastly, this section will deal with the development of the revenues and profit/losses of the management companies.

2.1 Net worth

As previously shown, the 2000 – 2002 period was particularly difficult for the collective investment industry as a consequence of the high level of uncertainty that followed a significant correction in the main stock markets of the world at the beginning of this century. The net worth of the financial investment funds, in particular, fell from 206 thousand million euro at the end of 1999 to 174 thousand million euro at the end of 2002 (see figure 1), which meant a total drop of 15%. The categories carrying less risk (fixed income funds and guaranteed fixed income and equity funds) increased their relative importance with regards to the total IF net worth from 63% to 76%, clearly showing the increase in the reluctance of investors to take risks, even when they were already markedly conservative.[1]

1 The equity of the fixed income funds increased, in absolute terms, from 83.8 thousand million euro in December 1999 to 94.3 thousand million euro in December 2002.

Investment fund net worth FIGURE 1



Source: CNMV. Data up to December 2009.

Between 2003 and June 2007, the improvement in the economic and financial environment resulted in a strong increase in IF net worth, with it rising by more than 100 thousand million euro (equivalent to a variation rate of 58%), setting a historic high of 276.6 thousand million euro in June 2007. The variation of the net worth in the different fund categories showed a significant increase in investors preferring risk.

Fixed income funds and guaranteed equity funds increased their net worth by 46 thousand million euro, whilst global funds increased by 33 thousand million euro.[2]

The net worth of foreign investment funds registered with the CNMV grew throughout the whole period, although much more rapidly in the later years. From December 1999 to December 2002 net worth went up by 175 million euro to reach 895 million, whilst between 2003 and June 2007 it increased by 13,316 million euro to reach 14,211 million. The strong expansion of this type of fund led to a progressive increase in the relative weight of these institutions within the investment funds as a whole. The increase was from 0.3% at the end of 1999 to 4.9% in mid-2007.

It should be pointed out that in the last phase of the second stage (between June 2006 and June 2007), a certain change in the tendency of the net worth of the investment funds (which stabilized around 207 thousand million euro) was noted as a result of the transfer of resources to bank deposits due to the increase in interest rates, the changes made to tax on savings[3] and the change in strategy by the credit entities who were needing more and more resources to face mortgage demands. This last factor significantly affected the commercial strategies of the entities, favoring a substantial increase in the volume of deposits and a parallel increase in IF redemptions. In spite of all this, the stabilisation of the net worth of the investment funds throughout this period is mainly attributed to the revaluation of the portfolio.

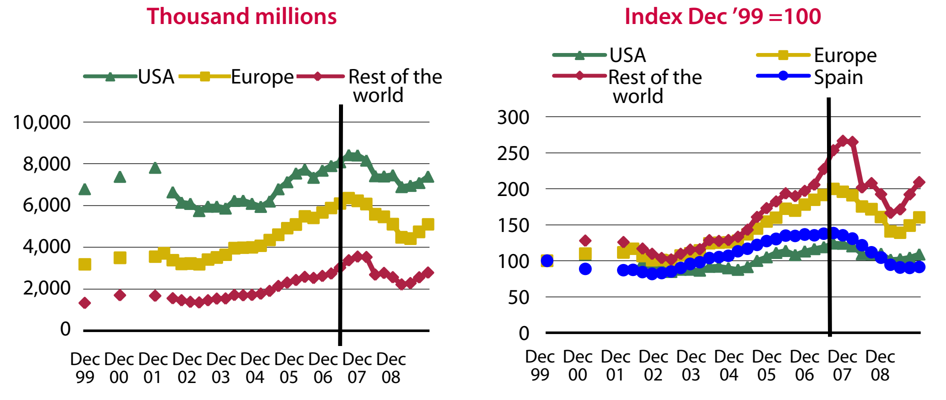
As can be seen in figure 2, the development of the net worth of the Spanish investment funds between 2000 and June 2007 generally corresponded to the behaviour

2 The relative importance of the net worth of these funds increased from 1% in the first few years of the decade to 14% in June 2007.

3 The change in tax on funds was due to the change in the tax on income from savings, which was changed to a single rate of 18% whatever the time period involved, and to the change in the percentage of tax reductions applied to the profit gained, which increased from 15% to 18%.

pattern of the fund industry in other countries, even if the increase was notably more pronounced in Europe and in the “rest of the world” (excluding the USA and Europe) than in Spain and the USA. Between December 1999 and June 2007, altogether the net worth of the investment funds increased 153% in the “rest of the world”, 100% in Europe, 39% in Spain and 24% in the USA.

Net worth of the investment funds by geographical area FIGURE 2



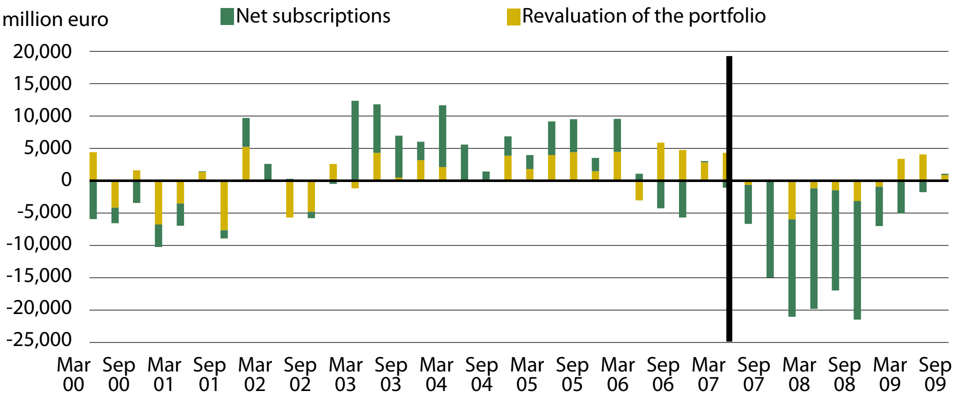
Source: EFAMA. Data up to September 2009. Dots are used due to the lack of three-monthly data at the beginning of the series.

2.2 Sources of net worth variation: subscriptions and redemptions and revaluations of the portfolio

Variations in the net worth of the investment funds result from two components, the movements of which do not necessarily have to coincide as they are subject to different determiners. We are referring to the inflow and outflow of funds carried out by the shareholders (subscriptions and redemptions), and of the changes in the value of the portfolio caused by fluctuations in its share prices.

Between 2000 and 2002, the development of the subscriptions and redemptions in the Spanish investment funds was characterized by a predominance of the second type, with a net withdrawal of almost 14,000 million euro in funds (see figure 3), even though the behavior is markedly heterogeneous in the fund categories (some categories did, in fact, receive funds). Subscriptions predominated between 2003 and the first half of 2006 and the industry gained almost 70 thousand million euro net. Of this amount, 38.5 thousand million euro went to more conservative categories and 27.2 thousand million to global funds. Lastly, as previously mentioned, in the year before the crisis the increase in competition with bank deposits meant a net outflow of funds from the industry of over 11 thousand million euro.

Breakdown of the three-monthly variation of the net worth of the investment funds FIGURE 3



Source: CNMV. Data up to December 2009.

Regarding the value of the aggregate portfolio of funds, the variations in it mainly correspond to the development of equity prices. As can be seen in figure 3, in the first three years of the decade the fall in the net worth of the funds originated as much in the depreciation of the portfolio as in the fall in equity prices. Specifically, at this stage, the net redemptions accounted for 44% of the decrease in net worth whilst the fall in value of the portfolio accounted for 56% of the decrease. Since 2003 until the summer of 2007, the change in tone of the stock markets allowed for a substantial increase in the value of the portfolio which reached its maximum in 2006.[4] During this period, the revaluation of the portfolio meant a 43% increase in net worth, and the net inflow of funds made up the remaining 57%. It is important to point out that in the three trimesters prior to the start of the crisis, the limited increase in the net worth of the funds was due to the marked increase in redemptions, which negatively compensated a substantial part (almost 70%) of the revaluation of the portfolio of these institutions.

With regards to the profitability of the different fund categories, the following behavioural patterns are shown between 2000 and 2007:

1) The fixed income funds showed profits which oscillated between 1.5% and 3.7% in this period, depending on the development of the interest rates underlying the investments made (see table 1).
2) On the other hand, the pure equity funds showed variations in their profitability which were much more pronounced, between -30% and 30%,[5] in line with the movements of the reference stock markets.
3) The guaranteed funds, on the other hand, showed profitability limited by their own composition: between 0.8% and 4.5% for fixed income funds and between -1.2% and 4.7% for equity funds.

4 The net worth of the investment funds as a percentage of the GDP reached a maximum of 29.3% in the first trimester of 2006.

5 The European equity funds acheived a profitability of 27.3% in the 2006 financial year.

Profitability of investment funds (%) TABLE 1

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
TOTAL	**-1.9**	**-1.6**	**-3.6**	**4.2**	**3.4**	**5.0**	**5.6**	**2.7**	**-4.2**	**5,7**
Fixed income[1]	3.3	3.7	2.7	1.8	1.7	1.5	2.0	2.7	2.1	1.9
Mixed fixed income[2]	-0.1	-1.0	-3.6	3.7	3.8	5.0	4.2	1.9	-7.1	6.9
Mixed equity[3]	-6.9	-7.3	-17.0	10.1	6.2	11.9	10.3	2.7	-22.2	16.5
European equity[4]	-11.0	-13.8	-30.1	23.8	15.3	21.4	27.3	6.1	-39.8	32.4
International equity[5]	-15.8	-20.6	-33.2	12.8	7.0	25.6	13.4	1.5	-41.7	37.3
Guaranteed fixed income	3.8	4.4	4.5	2.4	2.6	1.7	0.8	2.8	3.3	3.8
Guaranteed equity[6]	-1.2	0.1	1.1	3.3	4.1	4.0	4.7	2.4	-2.6	3.6
Global funds	-6.1	-11.8	-12.7	4.8	2.2	6.2	4.1	1.5	-8.6	10.9
Passive management[7]										-
Absolute return[7]										-

Source: CNMV.

1 Included until Q109: short term fixed income, long term fixed income, international fixed income, monetary funds and MMAIF (Monetary Market Active Investment Funds) (the latter until 2006). Included after Q209: European fixed income, international fixed income and monetary funds.

2 Included until Q109: mixed fixed income and international mixed fixed income. Included after Q209: European mixed fixed income and international mixed fixed income.

3 Included until Q109: mixed equity and international mixed equity. Included after Q209: European mixed equity and international mixed fixed equity.

4 Included until Q109: national equity and European equity. Included after Q209: European equity (which already includes national equity).

5 Included until Q109: International Equity (IE) Europe, IE Japan, IE USA, IE Emerging countries and IE Others. After Q209: IE.

6 Until Q109: Guaranteed Equity. After Q209: Guaranteed Equity and Partially Guaranteed Equity.

7 New categories from Q209. All the absolute return funds were previously covered by the global fund category. The annual profitability data for 2009 is not given because the information corresponding to the four trimesters of the financial year is not available.

2.3 The number of funds and the number of shareholders

The number of investment funds remained relatively stable at around 2,500 between 2000 and 2002 (see table 2). The relative importance of the fixed income, guaranteed and equity categories with regards to the total number of funds was quite similar, around 25% for each of them. The mixed categories carried slightly less weight (around 22%). Between 2003 and 2007 the number of IF increased substantially to over 2,900. In total, the number of registered funds grew by over 400, with the increase mainly seen in the areas of global funds and guaranteed equity funds.

Number of investment funds (units) TABLE 2

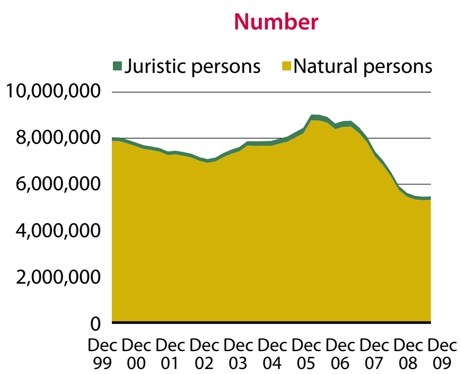
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
TOTAL	**2,455**	**2,557**	**2,508**	**2,523**	**2,594**	**2,705**	**2,824**	**2,926**	**2,912**	**2,536**
Fixed income[1]	629	596	597	638	627	624	606	600	629	582
Mixed fixed income[2]	303	277	254	251	231	217	212	204	195	169
Mixed equity[3]	269	315	308	265	232	222	222	207	202	165
European equity[4]	211	225	225	218	217	222	232	247	237	182
International equity[5]	323	391	390	332	336	348	353	357	330	242
Guaranteed fixed income	229	243	214	191	191	211	220	251	260	233
Guaranteed equity[6]	377	396	388	433	474	514	561	590	590	561
Global funds	114	114	132	195	286	347	418	470	469	187
Passive management[7]										69
Absolute return[7]										146

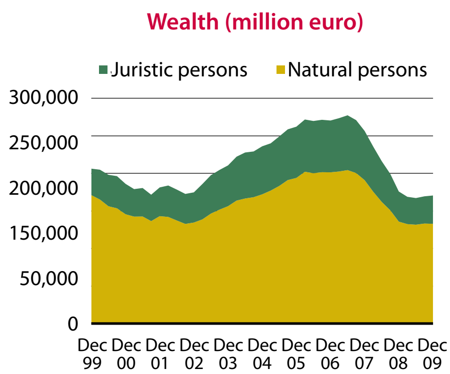
Source: CNMV. Data from end of period. See notes at foot of table 1.

The number of IF shareholders showed a similar pattern to that of the net worth throughout the years prior to the crisis. Between 2000 and 2002, the investment funds lost almost a million shareholders (from 8 million to 7.1 million). The most significant losses were noted in the fixed income categories, whilst the number of shareholders in international equity funds rose markedly. Between 2003 and June 2007, the number of investment fund shareholders increased by 1.7 million, to 8.8 million, due to the rise in global fund categories (935,000) and guaranteed equity categories (637,000).

Physical persons made up the majority of shareholders throughout the period of study, oscillating between 97% and 98% of the total number. The proportion of the wealth owned by the physical persons oscillated over these years between 73% and 83% of the total wealth, which shows they invested smaller amounts than the institutional investors. The average participation per type of investor changed to show several different profiles throughout the period studied. The average participation of physical persons in the investment funds at the beginning of the decade was around 22 million euro per shareholder, falling to 18 million euro at the end of 2002 and later recovering to surpass 24 million euro at in mid-2007. The average participation per institutional investor was more erratic in its tendencies, increasing between 2000 and September 2004 (from 220 thousand euro per shareholder to 310 thousand euro per shareholder), and then falling to 283 thousand euro per shareholder in mid-2007 (see figure 4).

Investment fund shareholders FIGURE 4





Source: CNMV. Data up to December 2009.

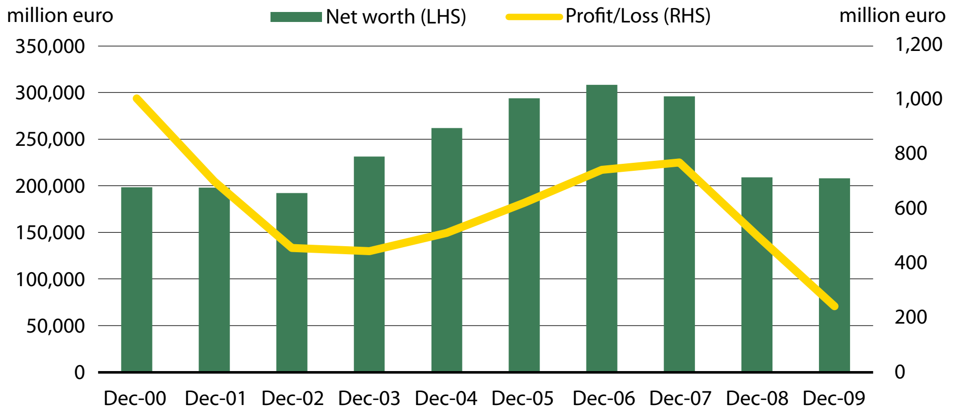
2.4 UCITS management companies

The UCITS management companies registered with the CNMV make up a markedly heterogeneous group of entities as regards their size. In this group entities which belong to banks or building societies predominate with independent entities comprising only a minor group. Over the first few years of the decade, the drop in the wealth managed by these institutions, and its restructuring in categories with less risk (that generally generate less income for the management companies), led to a significant moderation of the aggregate profit/loss of the management companies which went from gaining total profits of over 1,000 million euro in 2000 to almost 450 million euro in financial years 2002 and 2003[6] (see figure 5).

6 Profit / loss before tax.

UCITS management companies: wealth managed and profit / loss before tax

FIGURE 5



Source: CNMV. Data up to December 2009.

This decrease in profits resulted from the fall in the most significant source of income for this type of entity, the commission for the management of the UCITS. The average management commission fell from 1.45% of the average daily wealth in 2000 to 1.00% in 2003 as a consequence of the redistribution, at this time, of the IF wealth in more conservative categories which are generally associated with lover rates of commission. This decrease led to a drop in the income from UCITS management of around 600 million euro during the first few years of the decade (see table 3). In spite of the difficulties experienced at this time, the number of entities increased from 120 to 125 over these few years, even though those companies showing losses (before tax) increased from 17 to 31.

UCITS management companies: wealth managed, income from UCITS management and average stockbroking commission

TABLE 3

Amounts in million euro

	Wealth managed	Income from UCITS management commission	Average UCITS management commission (%)	Commission ratio (%)[1]
2000	198,280	2,869	1.45	63.5
2001	198,115	2,465	1.24	65.8
2002	192,099	2,259	1.18	72.7
2003	231,458	2,304	1.00	73.8
2004	262,132	2,670	1.02	73.6
2005	293,973	2,976	1.01	72.2
2006	308,476	3,281	1.06	71.5
2007	295,922	3,194	1.08	70.5
2008	209,020	2,302	1.10	70.8
2009	207,999	1,703	0.82	68.6

Source: CNMV.

1 Relationship between expenditure from commission on the marketing of funds and income from UCITS management commission.

From 2003 onwards, thanks to the increase in the wealth managed, the downward tendency was inverted, leading to a substantial recuperation of profits which reached a maximum in 2007 of over 770 million euro (see figure 5). In this boom period, however, the management companies' figures did not reach the highs of 1999 or 2000 in spite of having much more wealth to manage. This was partly due to the increase in competition between these entities, which meant slightly lower (but relatively stable) average management commissions than those at the beginning of the decade, as well as to the increase in the cost of marketing funds through other entities. These marketing expenses (which were equivalent to 63% of the income from management commission in 2000) rose to more than 70% over these years (see table 3). The number of entities fell to 112 (an all-time low) in the first semester of 2006, and then increased to 116 in mid-2007. The entities recording losses fell gradually to 12 in December 2006 (19 in 2007).

3 The main consequences of the financial crisis on investment funds and their management companies

3.1 Investment funds of a financial nature

As previously mentioned, the investment funds reached their all-time high of net worth in mid-2007, that is to say, just when the mortgage and international financial crisis began. Since then, and until December 2009, the net worth of the investment funds fell to 170.5 million euro,[7] in other words, it fell 38% in little over two financial years. 95% of the fall corresponded to a substantial increase in shareholders' net redemptions, with 5% corresponding to the drop in value of the portfolio (see figure 3). The increase in shareholders' aversion to risk throughout this period translated into a redistribution of the net worth of the funds in favour of categories carrying less risk[8] (see figure1). In comparison with other countries, the drop in the net worth of investment funds from the beginning of the crisis was greater in Spain: 20% in Europe and 12% in the USA (see figure 2).

In this period the industry lost more than three million shareholders, 28.5% of which corresponded to the global funds category, 26.5% to the pure equity categories and 25.6% to the fixed income funds. The number of investment funds remained relatively stable at around 2,900 over several trimesters. However, in 2009 there was a significant reduction in the number of funds caused by mergers, some of them related to the changes in the commitments of the investment funds.

As previously mentioned, the net outflow of industry resources accounted for the majority of the negative variation in the net worth during this period. The net outflow (which had started several months before the beginning of the crisis) was accentuated by the increase in the growing uncertainty among shareholders. The volume of net redemptions increased progressively until it reached all-time highs that oscillated between 15,000 and 18,000 million euro per trimester in the second half of 2008, coinciding with a period of great turbulence in the financial markets. Throughout 2009 a significant moderation of this tendency was observed. In the third trimester of the year, some IF categories became net receivers of funds again, and in the fourth trimester the aggregate net subscriptions for the investment funds as a whole were positive.

7 The fact that the data from Q209 shows the first signs of growth in the aggregate net worth of the investment funds from the start of the crisis stands out.

8 The relative importance of the fixed income funds and guaranteed funds increased from 64% of the total net worth in June 2007 to 77% in December 2009 (reaching a maximum of 84% in March 2009), in detriment to those carrying greater risk.

Regarding **portfolio valuation** of the investment funds, it is important to mention two types of effect: that related to fund investment in shares directly involved in the crisis (direct), and that related to the development and tension observed in the financial markets (indirect). As can be seen below, the exposure of the Spanish investment funds to the first of these was minimal:

1) **The start of the crisis in the U.S. subprime mortgage sector.** Only 14 collective investment products (nine investment funds and five SICAV) had shares affected by the subprime mortgage crisis in their portfolio.[9] As regards their weight in the Spanish funds industry, the total value of these shares represented only 0.0162% of the total net worth of the Collective Investment Institutions (UCITS). Specifically, the most affected funds had investments in three French institutions in which redemptions were suspended temporarily in the summer of 2007 as they had bonds backed by high-risk mortgages in their portfolio. Only one of the Spanish UCITS had to give partial redemptions according to the terms and conditions established in article 48.7 of the UCITS Regulations, as it had more than 5% of its wealth invested in a foreign UCITS which suspended subscriptions and redemptions. In cases where the investment was less than 5%, the CNMV demanded the UCITS management companies notify the regulatory disclosure,[10] thereby guaranteeing maximum transparency for shareholders.
2) **The bankruptcy of the Lehman Brothers.** The degree to which the UCITS were directly exposed to the counterparty risk of the U.S. Lehman Brothers bank is estimated by the CNMV (through both cash and derivatives investments) at 0.13% of the global wealth of the UCITS (300.2 million euro[11]). Of this amount, 242.7 million corresponded to IF investments (in 129 IF) and 57.5 million to SICAV (in 330). Half of the funds affected were guaranteed or short term fixed income funds.
3) **The Madoff fraud.** A final unexpected event took place in December 2008, the **Madoff** investment fraud. This fraud had equally limited repercussions on the Spanish Collective Investment Institutions[12]. The volume of shares affected reached a total of 106.9 million euro (0.05% of the total wealth of the UCITS), 56.5 million euro of which corresponded to investment funds and the rest to SICAV. 224 UCITS were affected (39 Investment Funds and 175 SICAV).

Regarding the indirect effects of the crisis, it is important to mention the significant loss of value in portfolios for IFs that have a higher equity[13], caused by the fall of prices of these instruments and the difficulties related to investments in certain types of financial instruments whose liquidity was reduced. Particularly,

1) **The international decline of stock markets**, which commenced at the end of 2007 and continued until March 2009, resulting in substantial losses in IF portfolio value. Profitability of pure equity funds in 2008 was about -40% and for mixed equity funds was -22% (see table 1). Only profitability for fixed income funds (including the guaranteed ones) was positive. Globally, IF profitability was of -4.2% 2008. The financial markets' recovery since March 2009 has re-

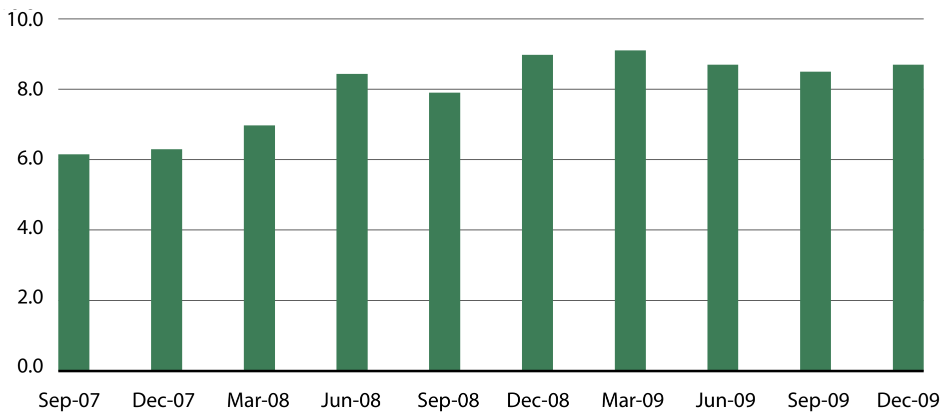
9 CNMV press release of the 23rd August, 2007.
10 In accordance with articles 19 of the ICI Law and 28.1 of the RICI.
11 Press release of the 17th September, 2008.
12 Press release of the 16th December, 2008.
13 At least up to 1Q09.

sulted in a change in trends and brought about increases in the value of the portfolio during the central months of the year, something that had not happened since the start of the crisis (see figure 3).

2) **In view of worsening liquidity** that occurred in certain segments of the financial markets, the CNMV (Spanish Security Exchange Commission) implemented an assessment & follow-up continuous process for liquidity conditions of the instruments maintained in the IF portfolio. This task was based in three types of actions: Quantification of the less liquid instruments in the IF portfolio, verification of the adequacy of the information that the management companies used to offer to their participants and verification of the subjacent structures in the guaranteed funds were adapted to the existing conditions in financial markets. The two last actions shall be analyzed in more detail in a chapter below.

   Measuring the concept of a financial instrument's liquidity is not an easy job, as there are no unequivocal indicators of the ease with which a certain asset can be transferred in the market. The CNMV has considered different criteria to assess the less liquid part of the IF portfolio, using the different types of prices offered by the most significant information providers. The results of this analysis reveal that the percentage of IF assets with low liquidity is relatively modest and that it has not changed significantly during the respective timeframe. In fact, since June 2008, the percentage varies from 8% to 9% of total investment fund assets (see figure 6).

Estimation of IF's low liquidity portfolio (% assets of IF) FIGURE 6



Source: CNMV.

Finally, it should be noted that some IFs with investments in fixed income instruments, whose value has deteriorated significantly during the crisis, ended up with a negative profitability and a volatility higher than expected. In order to facilitate an easier analysis of products per sector based on their profitability/risk expectation, the CNMV introduced, among the objectives of its Circular 1/2009, modifying the fund's investment vocations, the need of providing the investor with clear and concise information about the investment policy of the CIU (Collective Investment Undertakings) and also the need of clarifying some vocation definitions in order to adapt them to the real situation of the collective Spanish investment sector (see chapter 4).

3.2 Real estate investment funds

The real estate investment funds, which have a low weight in the industry,[14] have been one of the fund segments most affected by the financial crisis. The coincidence of such crisis with a deep adjustment in the domestic real estate sector, together with a high volume of refunds due to the negative perception of the sector by the investors, have reduced the volume of assets and the liquidity of such funds, which were already lower than the liquidity of financial funds. Their evolution during the years of the crisis is detailed below.

Just before the start of the crisis, about halfway through 2007, the real estate investment funds industry had nine funds, 153,630 participants and assets valued at 8,900 million euro. During the first months of the crisis, these funds were less affected than financial funds. The evolution shown by these institutions was in line with the adjustment process experienced by the Spanish real estate sector. Thus, in 2007, their assets only increased by 0.15%, up to 8,600 million euro (see table 4), where it had been 48% in 2005 and 33% in 2006. The low profitability of IF in this exercise (1.27% compared to 6% in 2006) was practically offset by the negative net subscriptions.

Main figures of real estate UCITS TABLE 4

					2009			
	2006	2007	2008	2009	I	II	III	IV
FUNDS								
Quantity	9	9	9	8	9	8	8	8
Participants	150,304	145,510	97,390	83,583	95,284	89,461	87,903	83,583
Assets (million euro)	8,595.9	8,608,5	7,406.9	6,465.1	6,758.1	6,547.2	6,494.3	6,465.1
Profitability (%)	6.12	1.27	0.69	-8.31	-4.50	-1.23	-1.37	-1.45
COMPANIES								
Quantity	8	9	9	8	9	9	8	8
Shareholders	749	843	937	928	938	937	929	928
Assets (million euro)	456.1	512.9	371.9	308.6	369.1	360.7	313.0	308.6

In 2008, the real estate investment funds kept showing the national real estate adjustment in a frame characterized by the strong increase of refunds to investors, a situation which exerted some pressure on the liquidity of these UCITS. This situation caused a decrease in real estate funds' assets by more than 1,200 million euro during the year, ending at 7,407 million euro. The decrease in the number of participants was also significant (more than 48,000 during 2008), leaving the total figure below 100,000 by the end of the year. The real estate funds obtained a positive annual return in 2008 (0.69%), but in the last quarter of the year, it became negative.

The most significant difficulties for these institutions occurred at the end of 2008 and the beginning of 2009, when some real estate investment funds had problems processing the refunds within the liquidity windows provided, due to the adverse evolution of the real estate market and the increase of refund applications. Some real estate funds applied for an authorisation to the CNMV, since according to the rules,[15] before performing certain transactions such as the anticipated sale of real estate assets and the reduction of the refund frequency (from one a year, at least, to one every two years). Likewise, two management companies modified their fund brochures with the objective of performing additional valuation of the properties, in

14 Only 3.8% of the assets of the financial investment funds as of December 2009.

15 Articles 56.5 and 63.3 of the IIC Regulation (RD 1309/2005, of 4 November).

order to adapt the fund's net asset value to the evolution of the real estate market. In addition, during the first months of 2009, due to the lack of liquidity for processing refunds requests received by the management companies, the CNMV authorized, at their request, the suspension of refunds of two real estate investment funds[16] for a period of two years. This measure is permitting the management companies to apply an organized plan for selling the fund's assets in order to obtain the liquidity required to deal with the requested refunds.

In this framework, the assets and the quantity of real estate funds continued to decrease throughout 2009. At the end of such time, the number of real estate funds was eight, one less than in December 2008. Among these, one is currently under liquidation and two have suspended processing refunds for two years. Regarding real estate funds' assets, these decreased during 2009 to 6,465.1 million euro, 941.8 million euro less than at the end of the previous year, and the number of participants had decreased to 83,583 (13,807 less than in 2008).

Regarding the profitability of real estate funds during 2009, it was negative (-8.31%), representing a change in the history of these funds.

As a whole, from the start of the crisis, the fall of real estate investment funds' profitability, together with the high volume of returns, caused assets to decrease by 2,435 million euro to a level of 6.465 million euro of outstanding balance, i.e., the same levels of 2005.

However, regarding this last piece of information, it is worth mentioning the fact that of the total assets of the real estate investment funds at the end of 2009 (6,465.1 million euro), 4,693.9 million (72.6% of total amount) belonged to funds under liquidation or funds having certain refunds suspended or delayed. Of the remaining assets (1,771.2 million euro), which correspond to operative funds, 586.2 million euro (33.1%) was in the hands of the fund's management company group, according to the information provided. Therefore, the total assets of non liquidated, suspended or with delayed refund real estate investment funds, which is actually in the hands of investors not belonging to the fund management company's financial group, increased in December 2009 to 1,184.9 million euro, which represents 18.33% of the real estate funds' total assets.

As an innovation related to the real estate CIU, it is worth mentioning the law that was passed on October 28, 2009 which governs quoted corporations investing in real estate (SOCIMI). This Law introduces in our legal system a new regime[17] similar to that of the foreign REIT (Real Estate Investment Trusts). In addition, this regulation also dictates that Spanish real estate collective investment institutions may transform into SOCIMIs and vice versa and some management companies have already indicated their interest.

3.3 Hedge funds and funds of hedge funds

Regarding this kind of investment, firstly, it is necessary to point out that hedge funds represent a residual percentage of the total assets of financial UCITS (only

16 Santander Banif Inmobiliario and Segurfondo Inversión.

17 This new regime is aimed to encourage the renting market in our country and it is aimed to the small and medium shareholders by means of a very advantageous tax treatment. The legislator has used this Law to ease the legal and tax treatment of the real estate UCITS as well as their investment policy, removing a prior obligation that at least 50 percent of their assets be invested in houses, houses for students or the elderly.

0.73% in October 2009[18]), due to their relative newness in Spain (they were implemented in 2006) and the profile of investors maintaining this kind of asset, which are mainly institutions.[19] In addition, when it comes to Spain, the start of the financial crisis coincided with the first stages of life for these products, impeding their incipient expansion process and causing a step back to be taken in the amount of these assets.

Earlier, in 2007, the hedge fund industry enjoyed a period of significant expansion, during which the easing of refunds of these entities[20] played a key role. Within this context, significant growth in the amount of institutions and assets occurred. In December, 21 hedge funds and 31 funds of hedge funds were registered in the CNMV, which represented 16 and 29 entities, respectively, more than in 2006 (see table 5). Hedge funds' assets increased in 2007 from 24 million euro to 446 millions, while the assets of funds of hedge funds increased by 0.6 million euro to reach 1,000 millions. The higher relative expansion of the funds of hedge funds is due to the more flexible nature of these institutions, as it is a product open to retail investors. Despite their notable dynamism during the first stages of their introduction into our country, the start of the subprime crisis represented a significant reduction of the profitability that these funds had enjoyed in 2007 (0.84% for hedge funds and -0.43% for funds of hedge funds).

Main figures of hedge funds and funds of hedge funds TABLE 5

				2008	2009			
	2006	2007	2008	IV	I	II	III	IV[1]
HEDGE FUNDS								
Quantity	5	21	24	24	26	26	27	28
Participants	21	1.127	1.589	1.589	1.551	1.768	1.778	1.839
Assets (million euro)	24,4	445,8	539,4	539,4	451,4	536,9	602,6	611,2
Profitability (%)	n.s.	0,84	-4,82	-3,59	-0,40	8,12	5,21	-0,13
FUNDS OF HEDGE FUNDS								
Quantity	2	31	40	40	40	40	40	41
Participants	2	3.950	8.151	8.151	5.646	5.577	5.303	5.411
Assets (million euro)	0,6	1.000,6	1.021,3	1.021,3	775,2	709,5	846,8	830,3
Profitability (%)	n.s.	-0,43	-17,80	-9,84	1,34	2,59	2,88	0,64

1 Information available: October 2009. Quarterized monthly profitability.

In 2008, the industry continued its expansion process (assets increased by 8%, to 1,560 million euro), although during the third quarter there was a setback in asset and participant expansion as a consequence of market turbulence and, in general, of the increased complexity and uncertainty of the financial environment. Particularly, funds of hedge funds experienced problems regarding liquidity and the valuation derived from the restrictions of the foreign hedge funds in which they had invested their portfolios. Among these restrictions, we could point out the difficulties to obtain funding, which is essential for the development of some strategies, as well as the restrictions on short sales in some jurisdictions. A consequence of the negative profitability and the continuity of short-term negative expectances, refund applications started to spread on Spanish hedge funds; these refunds were more difficult

18 It includes SICAV's data.

19 The retail investor may not invest in hedge funds, whereas funds of hedge funds are open to this kind of investor. However, as of 31 October 2009, investors of funds of hedge funds having an investment volume lower than 60,000 euros represented only 9.5% of total assets.

20 Introduced by Royal Decree 362/2007 of 16 March, modifying the Regulation of the Law 35/2003 on CIUs.

to handle for the funds of hedge funds whose subjacent UCITS had suffered, also, restrictions or suspension regarding refunds. The complexity of this framework brought about the first deregistrations since the implementation of these institutions and slowed down the increase of registrations.

Within this context, it is worth mentioning that the financial crisis has had a bigger impact on the funds of hedge funds than on the hedge funds:

1) **Funds of hedge funds** reached their all time high both in terms of assets and participants in the third quarter of 2008 (1,427.5 million euro and 9,739 participants) but, since then, have decreases through the end of 2009. The last data available (October 2009) indicate that the assets and the number of participants were at 830.3 million euro and 5,411 participants. The decrease in assets is due to the high volume of refunds and the lowering of their profitability. On the other hand, the fourth quarter ended with one more institution than in December 2008 (41), however 21 were under dissolution process. Among these, eight institutions had not yet formally adopted a dissolution agreement, but had notified the CNMV of their intention (in practice, they are performing a divestment process in order to liquidate the UCITS shortly). It is also worth mentioning the difficulty for these funds to sell their assets, due to some foreign hedge funds in which they are invested also being in the liquidation process and others having created parallel sub-vehicles (side pockets[21]), in which they may accumulate assets subject to bigger liquidity or valuation problems).

2) **Hedge funds** have also taken a step backwards regarding their main figures after peaking during the second half of 2008 (597.7 million euro and 1,589 participants), but the recession phase was shorter in this case. In fact, since the second quarter of 2009, there have been increases in the assets and the number of participants in these institutions, accompanied by a positive profitability, though reduced, which then became negative during the fourth quarter (see table 5). At the end of the fourth quarter in 2009, the number of hedge funds was 28 (four more than at the end of 2008). Among these, three were under liquidation process.

3.4 UCITS management companies

The financial crisis caused a strong decrease in assets managed by these entities, resulting in a decrease in the income received by UCITS management and a moderation in the aggregated results of the management companies. The number of entities registering a negative balance increased notably and the aggregated profitability on the equity did fall significantly.

Specifically, the joint assets managed by the UCITS management companies decreased progressively from 308 billion euro at the end of 2006 to nearly 208 billion euro at the end of 2009, returning to levels near those at the beginning of the decade

21 *Side pockets* are a mechanism widely used in the hedge fund universe, consisting of segregating or separating from the UCITS portfolio the illiquid or hard-to-value assets. In this manner, with the illiquid assets of the original fund create a parallel investment sub-vehicle whose participants are those from the original fund, maintaining an identical participation percentage. Thus, the non affected part of the institution may continue with its ordinary operations, remaining fully opened to subscriptions and refunds, while the side pocket is closed for new investors until the resolution of the incident, refunding to investors as the segregated assets become liquid.

(see figure 5 and table 3). This fall, which saw a significant erosion in the income of these entities, meant a decrease in their aggregated income from 771 million euro in 2007 to 243 million euro at the end of 2009, as can be seen in table 6. At the same time, a significant increase in the number of companies with negative balances increased from 12 at the end of 2006 to 31 in December 2009.[22]

Finally, it should be mentioned that internal control conditions which must be met by these companies were introduced and established by the Circular 6/2009 of December 9th, which came into effect on the 22nd of December 2009 and sets a term of December 31, 2010 for these companies to be adapted to its systems. Thus, according to this new regulation, management companies should perform stress tests on the IFs they manage and calculate their response to an adverse market environment, so that appropriate management of liquidity is guaranteed.

UCITS management companies: results before taxes and ROE TABLE 6

Amounts in million euro

	Results before taxes	ROE before taxes (%)
2001	701.7	72.9
2002	457.1	50.1
2003	445.4	50.1
2004	512.2	57.3
2005	622.8	66.2
2006	744.0	68.9
2007	771.1	60.5
2008	503.5	34.0
2009	243.1	15.4

Source: CNMV.

4 Actions performed by the CNMV

The financial crisis has demanded an important supervisory effort in the field of IFs that have carried out different actions, which range from monitoring and evaluating the direct exposure of the IFs to especially problematic instruments, to the quantification and the control of the liquidity of these products, passing through a specific supervision and carrying over to some types of funds that have been particularly affected by the crisis. Described below are the most relevant proceedings that have been carried out by the CNMV in this area:

1) Evaluation of the direct exposure to products related to the crisis

In the first part of the crisis, the CNMV carried out specific monitoring of the Spanish UCITS that could have been affected by the suspension of the subscriptions and refunds of some foreign UCITS, as a result of the market situation created by the subprime mortgage crisis in the United Status. As already indicated, the result of this analysis states that only one fund found itself in the situation to process partial refunds based on the terms established by article 48.7 of the RIIC, upon investing more than 5% of the assets in a foreign UCITS that had stopped honouring subscriptions and refunds. In the cases where it was detected that the investment was less than 5% of the institution's assets, the UCITS management companies were

22 A part of the increase is explained by the registration of new entities, mainly entities specialized in hedge funds, a modality whose development in Spain coincided, as it has already been explained, with the eclosion of the international financial crisis.

demanded to notify a regulatory disclosure, guaranteeing maximum transparency to the participants, both actual and potential.

In the Lehman Brothers and Madoff cases, the CNMV supervised the management companies in order to guarantee the proper information and transparency to their investors and, as it has already been explained, it published two notices[23] in which the impact on the Spanish UCITS was quantified and the due valuation and transparency obligations were recalled. In the Lehman case, the CNMV was in close contact with entities in order to ensure an appropriate valuation of the affected assets and an adequate provision of information to the investors (especially by means of the introduction of detailed information in the periodic reports of the UCITS). In the Madoff case, a prudence criterion was adopted and it informed the management companies that the valuation of the investments affected by the fraud should be declared null and void, as long as more information was not available, and they were requested to adopt measures to ensure that the amounts that might be recovered in the fund were used to reduce the damage suffered by the affected participants and shareholders. Also, those management companies whose UCITS had investments in the assets affected by more than 1% were requested to disclose it.

2) Assessment and follow-up of investment liquidity of investment funds

The origin of the current financial crisis provoked a significant decrease in the liquidity of certain financial market segments, mainly the private fixed income ones, which made the CNMV perform several analyses regarding this issue. Below is a detailed summary of the tasks developed.

First of all, an analysis on the valuation applied by the management companies to the private fixed income investments during the second semester of 2007 was performed, in order to verify the reasonability of such valuations; also, the percentage of IF's assets corresponding to reduced liquidity products was quantified (the results have been commented on in a section above). A revision of all asset buy/sell transactions performed by the UCITS during the second half of 2007 was carried out, paying special attention to those performed between the associated entities, in order to confirm if the transactions were performed at market prices and in the interest of the institutions.

Likewise, suitability of the internal systems used by management companies to control market depth in those UCITS with bigger portfolio percentages invested in low and medium capitalisation securities was also analysed. In general, it was found that management companies had appropriate control systems to monitor the usual negotiation volumes of each security in which they invested and the volume invested by all, in order to allow an orderly liquidation which, in most of the cases, would not exceed a one day-term.

The CNMV issued a notice on the 17th March 2008 recommending management companies to have a portfolio global liquidity control policy for UCITS, in order to guarantee the UCITS' ability to execute refunds demanded by investors and to respect the equity between investors at all moments.

On the other hand, in November 2008, as a consequence of the numerous suspensions of net asset value calculation for foreign UCITS, the correct application of article 48.7 of the UCITS Regulation, regarding the execution of partial subscriptions

23 Both the press releases and the communications performed by the CNMV may be found in the CNMV's website, paragraph "CNMV latest", in "Journalists area" and "CNMV Communications", respectively.

and refunds, was supervised. Liquidity problems of some UCITS having invested high percentages of their assets in foreign hedge funds affected by liquidation processes, by the creation of side pockets, and by refund suspension, were also analysed. In these cases, investor protection was applied from the point of view of their equity.

The follow-up of liquidity of real estate investment funds was especially significant during 2008 and 2009 due to the important increase of refund volume which was affecting them, the forecasts on such refunds and the payment schedule faced by institutions because of commitments acquired regarding their real estate investments. For doing so, the CNMV has been in close contact with the UCITS management companies, collecting detailed information throughout the year on the above mentioned aspects. In addition, the CNMV requested in November 2008 that the entities carry out an action plan to face unfavourable scenarios for the funds.

Regarding the guaranteed funds, the CNMV has recently introduced certain guidelines for management companies in order to ensure the compliance of the subjacent structures in this kind of fund with the conditions that exist in certain segments of the private fixed income markets. Within this framework, some promoting entities have chosen to provide, apart from the guarantee provided by a third party, a collateral one under the form of a cash deposit or public debt securities. The possible disposal of such guarantee would occur in case the IF was required to sell certain assets and the realising value of such assets was lower than their valuation regarding the fund's net value asset. Thus, this mechanism constitutes an additional fully executable guarantee and helps reduce uncertainty about the conditions of the IF's refunds.

In addition, the CNMV has paid special attention to the adequacy of the information provided by the management companies to their participants regarding their exposure to the assets affected by the liquidity crisis, mainly through periodic reports.[24]

Finally, these actions have been complemented with a proposal to modify the UCITS Regulation, by the Dirección General del Tesoro y Política Financiera, which is currently in the process of being granted a public hearing and which, among other things, will allow creating side pockets and change the regime of dissolutions and liquidations, making certain valuation and liquidity problems easier to resolve for the UCITS. Likewise, the project proposes to eliminate the provision establishing that, after two years from the liquidation agreement, the corresponding management company shall register the assets and rights of the real estate properties in the Land Registry in favour of all the participants. In this way, the problem that might arise for the participants when they became members of an owners' community with no defined administrator would be avoided, as, contrary to what is provided by current regulation, implication and responsibility of the management company would be maintained until the property sale process has ended.

3) Actions regarding certain types of funds

- **Guaranteed funds**. After the Lehman bankruptcy, the existence of certain credit entities was detected; these entities were investment funds' guarantors and presented a credit rating lower than the one provided by the regulations at the moment of the creation of the guarantee, due to a revision performed later by the

24 Consistently with the entry into force of the new contents for the public periodic information of the UCITS corresponding to the first semester of 2009.

corresponding rating agency. Because of this situation, the CNMV published a communication on the 16th January 2009 which requires fund management companies to communicate, as soon as they are aware of this circumstance, a regulatory disclosure, which should be included in the following periodic public information made available to the CNMV for its diffusion among investors.

- **Hedge funds**. During the last quarter of 2008 and the first quarter of 2009, numerous hedge funds and funds of hedge funds decided to liquidate and some management companies consulted on the appropriate procedure. In order to reduce the uncertainty around this procedure, the CNMV published a notice on April 2, 2009, in which it considers appropriate the possibility of making payments to the participants during the fund's liquidation process, against final liquidation, provided that the payment to creditors was ensured, among other conditions, and the equitable treatment to participants was guaranteed.

4) Revision of investment vocations provided by the regulation

Finally, the CNMV decided to review in 2009, by means of the Circular 1/2009 of February 4th,[25] the categories of IF's investment vocations in order to reduce the number of existing vocations, aiming to adapt them to the real situation of the collective Spanish investment sector and to provide clear and concise information on the UCITS' investment policy. The new categories came into effect on the 1st of April 2009.

The UCITS category is defined by the Circular as the union of the type and the investment vocation. Likewise, some criteria were established to determine in which investment vocation each UCITS would be classified, including, among others, the consideration of the cash portfolio and the derivative portfolio, as well as the policy defined in its explanatory prospectus (and not by the composition of its portfolio) and the calculation of the investment percentages based on the UCITS' assets. The Circular also provides the treatment of some cases which are difficult to classify. For example, it establishes that the UCITS should be classified under the highest risk vocation when, in accordance with their characteristics, it is found between two investment vocations, or inside the "global fund" category when it is found between three of them.

Additionally, the Circular establishes two new vocations of UCITS and some changes in the criteria to be applied to some of the already existing categories. The new created vocations are "passive management", including the UCITS which replicate an index, the quoted funds, and the UCITS with a non-guaranteed specific profitability objective, and "absolute return", basically applicable to the UCITS that try to achieve a certain level of periodic profitability/risk, regardless of the evolution of the markets.

Regarding the modifications of criteria to be applied to already existing vocations, these are based on some changes in definition, denomination, or the establishment of a different breakdown. One of the main innovations in this scope concerns the "monetary funds" category, which has traditionally commanded a high interest from investors due to its eminently conservative aspect (low risk level and high liquidity), to the point of being considered by some investors as a near substitute for bank deposits. The difficulties experienced by some United States' monetary funds during

25 Circular 1/2009, of 4 February, of the Spanish Securities Market Commission, on the categories of collective investment undertakings based on their investment vocation.

the crisis, the diversity in the definition of the category at an international scale, and its significant weight in the financial system, have provoked among regulators the need to review the criteria delimiting this investment vocation. In Spain's case, the Circular 1/2009 deals with this issue by establishing, amongst other category's conditions, a mean portfolio duration of shorter than six months, a minimum of 90% of the equity invested having a residual maturity shorter than two years, a lack of exposure to assets with a residual maturity longer than five years and a minimum short-term credit rating of A2 (S&P scale) or equivalent, allowing investment in assets with no rating, provided that the issuer has a short-term credit rating equal or higher than A2.

The remaining modifications are shown in the table below. Among them, we should mention those affecting the fixed income categories, which are euro fixed income and international fixed income; those affecting mixed vocations, which are four, based on their exposure percentage to variable income and the geographical region in which the variable income securities are invested (euro or not); those affecting the variable income vocations, which are broken down into two: euro variable income and international variable income; and finally, those modifications affecting the guaranteed UCITS.

Classification of fund's vocations

TABLE 7

Former categories	New categories[1]
Monetary	Monetary
Short-term fixed income Long-term fixed income	Euro fixed income
International fixed income	International fixed income
Mixed fixed income International mixed fixed income	Euro mixed fixed income International fixed mixed income
Mixed equity International mixed equity	Euro mixed equity International mixed equity
National equity	Euro equity
Euro equity International equity - Europe International equity - USA International equity - Japan International equity - Emerging International equity - Other	Euro Equity International Equity
Guaranteed Fixed income	Guaranteed fixed returns
Guaranteed on maturity	Guaranteed Variable returns
Partial guarantee	Partial guarantee
Global	Global Absolute Return Passive Management UCITS[2]

1 Circular 1/2007, of 11 July, of the CNMV, on statistical information required from UCITS in the European Union.

2 This vocation also includes funds which replicate or reproduce an index and ETFs. Before the Circular 1/2009, such funds were classified under their corresponding vocation according to their investment policy.

5 Industry prospects

The information corresponding to the second semester of 2009 seemed to indicate that some of the most important variables in the investment fund industry had already surpassed the minimum values from the beginning of the crisis. Thus, fund's assets showed a slight increase during this period as a result of the reduction in the volume of refunds performed by the participants and the revaluation of their portfolio. Net refunds, which topped over 18.000 million euro quarterly during the most intense phases of the crisis, decreased progressively throughout 2009. In fact, the industry shall again be a net receiver of resources during the last quarter of the year, with entries near 220 million euro for such period. The number of participants also increased slightly during the last months of 2009. On the contrary, the preliminary information corresponding to the first months of 2010 have shown a slight decrease in funds' assets, as a consequence of the stock market fall and the new increase in refunds performed by the participants.

The number of funds, which had maintained a relatively stable trend throughout the decade and even during the first quarters of the crisis, has shown a relatively sharp decrease since December 2008, from 3,000 registrations then to 2,536 registrations in December 2009. On the other hand, the management companies of these institutions are immersed in a rationalisation process for their offers in which, taking advantage of the new classification of vocations hereinabove explained, it is possible to increase the average fund size, merging those with similar vocations and taking profit from the reduction in costs which may cause a merger. In this manner, entities would be in better shape to offer more competitive products.

For the next quarters, prospects are generally favourable for the IF industry, even though the variability shown from the beginning of the year by the financial markets and the recent increase of refunds requested by participants have introduced an additional degree of uncertainty. Within this context, the recovery of the IF industry shall be deeply conditional on the evolution of the agent's confidence in the economic environment and, singularly, on the financial system. In the industry's favour, there has been a significant increase in the savings rate of households, which could be especially positive for the demand of more conservative products.

Under this scenario, the funds which might continue to show a more fragile evolution would be the real estate funds, whose track record will not improve as long as the difficulties of the national real estate market continue, an issue which is still presenting a high level of uncertainty.

So far, hedge fund industry prospects are a bit uncertain. On one hand, it is worthwhile to mention the good behaviour of these funds during the last year, which has resulted in positive profitability. On the other hand, considering the high number of institutions under liquidation, a significant decrease in their assets is to be expected during the remainder of 2009, especially within the scope of funds of hedge funds. Once this process finishes, refunds might slow down (as can already be observed in the hedge funds) which, together with a certain normalisation of the financial markets, might avoid a bigger step backwards for the sector in 2009 and even might allow some recovery in 2010.

In general, prospects for UCITS management companies are a bit better than a few months ago, as a result of a certain improvements mentioned above for the UCITS sector. If these prospects come to pass, a recovery of management companies' results and a reduction in the number of entities with negative balances could be expected. Even so, in 2010 these companies will have to continue the rationalisation process of their fund's offer. This last circumstance, together with the possible restructuring of the deposit entities sector, which would have an impact on the management companies depending on them and on the possible use of the community passport regarding the UCITS management by foreign groups present in Spain, make a restructuring process of the UCITS sector's management companies possible in the next few years.

6 Conclusions

This article has reviewed the evolution of the different types of IFs and their management companies throughout the last decade, insisting that the main consequences of the economic and financial crisis are over in the industry, as well as insisting on the actions recently developed by the CNMV regarding this issue.

The analysis of the sector's evolution has shown that, throughout the first years of the decade starting in 2000, the industry experienced a significant step backward, in line with an increase in uncertainty and of aversion to risk following the sudden fall of stock markets after the collapse of the technology bubble. The central years of the decade, on the contrary, experienced a strong expansion of this sector, in a framework characterized by an abundance of liquidity in the markets and reduced volatilities as well as reduced credit risk valuations. Within this context, the IF industry came to the anteroom of the current crisis with its most significant parameters in good health conditions, although not quite at the same dynamic degree noted at the beginning of the decade. Thus, the investment fund's assets, which represented near 35% of GDP at the beginning of the decade, decreased to 24% in 2002, and then increased to values near 30% of GDP in 2006.

Throughout the crisis, the main difficulties faced by the IF have not been directly related to their direct exposure to the entities or instruments which triggered it, but rather related to the effects of the crisis on the markets (problems of portfolio investment's liquidity) and the behaviour of potential investors and participants, strongly induced by the increase of the uncertainty and the subsequent increase in the net volume of refunds. The negative impact on the refunds was particularly significant for real estate investment funds, which required a special follow-up by the CNMV. The hedge fund industry has also been affected by the crisis which, coinciding with the first stages of life for this investment modality, deeply impacted its expansion.

CNMV's actions, motivated by the crisis, vary greatly in nature: from the quantification of the direct exposure of the funds to the crisis' products, to the continuous assessment and follow-up of the liquidity conditions of fund portfolios and the specific actions in certain segments of the industry, such as real estate funds, guaranteed funds or hedge funds. In all these actions, the CNMV has maintained close communication with the management companies and has tried to ensure, as a top priority, that the participants receive appropriate information on their part. Likewise, the supervising organism has recently introduced some novelties within its scope of regulation in order to adapt the characteristics of the products offered by the different IFs to fit the profiles of the participants in terms of profitability and risk.

The decrease in the volume of refunds requested by participants and the slight recovery of the investment funds' assets throughout the last months of 2009, invite the thought that the worst since the beginning of the crisis might be over for this industry and the sector might start growing again in the coming quarters. However, the preliminary information for the first months of 2010 and the recovery of the volatility recently shown by the financial markets have introduced a certain degree of uncertainty regarding these prospects. In spite of everything, the intensity and sustainability of the short-term investment fund industry is closely related to the doubts which still hang over the evolution of the economic and financial environment. These factors might give rise to a certain variable behaviour of the industry before securing any significant upward trend. The significant increase in households' savings rate plays in its favour, which might be especially positive for the most conservative products. At the same time, a certain recovery of IF assets in the next months would have a positive impact on management companies' accounts, in the context where this sector shall face different challenges and where a certain medium-term restructuring process may not be out of the question.

Transparency in markets for asset-backed securities: a theoretical approach

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1 Introduction

Securities markets play a very important role in an economy's financial systems. These markets allow lenders to invest in assets according to their risk profile and allow borrowers to obtain funds in relatively liquid markets. The prices determined in these markets have implications outside the securities markets themselves. These prices are usually used to determine the price of other assets, and in turn affect the savings decisions of households and the investment decisions of companies.

Due to their importance, it is preferable that secondary security markets work well. This means that they should be efficient and liquid. Efficient markets which incorporate all the available information into their prices are the best signal for savers and investors to participate in them. Liquid markets lead to low transaction costs for investors, meaning that companies which issue securities minimise their financing costs.

The recent financial crisis has affected primary and secondary securities markets, especially the asset-backed securities market. Consequently, certain international bodies have recommended adopting initiatives to promote their recovery within a framework of practices which are compatible with financial stability. In the report entitled *Enhancing market and institutional resilience*, published in April 2008, the Financial Stability Board recommended that securities regulators should study, together with the industry, the development of a post-trade transparency system in secondary markets for credit instruments and, in November of the same year, the G-20 declared itself in favour of strengthening the breakdown of complex financial products.

In principle, the debate about the need for transparency in secondary markets for securities covers various aspects. For example, it may refer to the characteristics of the specific assets which back an issue, the conditions of the issue or the trading activities in the secondary market. This article focuses on transparency in the secondary market for securities, specifically the so-called post-trade transparency or the information supplied about prices and volumes traded in the market. Nevertheless, the different levels of transparency that exist in other aspects will be taken into account when characterising the different securities markets. By way of example, there is a very different level of transparency between a simple corporate bond, where there is a high level of transparency regarding the traded assets, and that relating to an asset-backed security, where it is sometimes very difficult to know the specific characteristics of the assets which back it.

In the European Union, in accordance with the Directive on Markets in Financial Instruments (MiFID), only regulated equity markets are subject to specific transparency rules, which include both pre-trade transparency (information about bid and ask prices) and post-trade transparency. Bond markets, meanwhile, are generally OTC markets, and are not subject to these requirements.

In the area of international regulation forums, both the Committee of European Securities Regulators (CESR) and the International Organisation of Securities Commissions (IOSCO) agree in pointing out that the lack of post-trade transparency was not one of the main causes of the difficulties experienced in secondary markets for securities from the start of the financial crisis. However, there is a generalised opinion with regard to the positive effects of greater levels of post-trade transparency in the functioning of markets, and in particular, price formation.

Nevertheless, not all the participants in securities markets share this point of view. Some sectors of the financial industry, mainly market makers and financial institutions which trade on their own account, argue that an increase in post-trade transparency could drain liquidity from securities markets. Specifically, according to this argument, greater transparency would lead to an increase in competition for market makers, which in turn could lead to some of them abandoning the market. This would mean that the surviving agents would enjoy greater market power than in the current system of opacity. Thus, according to this vision, the final result would be a great average bid-ask spread and, in general, lower market liquidity.

Within the context of the debate outlined above, the objective of this article is to analyse how an increase in post-trade transparency in the different securities markets would affect their efficiency and liquidity. Accordingly, in the case of corporate bond markets, this article analyses the results of the existing empirical literature about the effect of an increase in transparency in these markets Given the lack of empirical evidence for asset-backed securities, this article analyses the increase in transparency by describing the results of a theoretical model prepared *ad hoc* for these types of markets.

The article is structured as follows: section 2 describes what transparency means in financial markets, section 3 focuses on transparency in the market for corporate bonds and asset-backed securities. Finally, section 4 presents the conclusions.

2 Transparency and asset markets

The level of transparency in an asset market indicates the level at which both the prices and quantities offered for purchase or sale (pre-trade transparency), and the prices and quantities which have effectively been traded (post-trade transparency) are public. Accordingly, a market's transparency is one of the key elements in its microstructure and modifying it decisively affects the market's liquidity. In particular, the economic literature which has analysed the effects of a change in the level of transparency identifies three mechanisms by which a market's liquidity is modified:

- Concentration of liquidity in certain assets.
- Information efficiency.
- Changes in competition among market makers.

Some of the basic aspects of the operation of these three mechanisms are described below.

Firstly, there is extensive evidence that investors in a market benefit from a liquidity externality when they concentrate their investments in more liquid assets (see, for example, Krishnamurthy [2002], Goldreich *et al.* [2005] and Barclay *et al.* [2006]).

This hypothesis predicts that an increase in trading in a market results in a migration of investors towards assets with more liquidity. This would reduce the liquidity in securities, which were already illiquid, if transparency increases market liquidity. The concentration of liquidity in assets which were already more liquid before the increase in market liquidity can be interpreted as fleeing towards quality.

On the other hand, several articles have studied the effect which a change in a market's transparency has on its information efficiency and on the return which it offers investors. In this regard, Pagano and Roell (1996) have shown that the costs of making an investment for uninformed investors is lower in a transparent market compared with those in an opaque market. This is because a transparent market increases the market's information efficiency, which in turn reduces the adverse selection costs for uninformed investors.[1]

Finally, a change in the level of transparency may alter a market's competitive environment. Thus, transparency allows investors to observe, at a low cost, the prices which other investors are paying or receiving, which reduces the ability of market makers to charge higher prices.

The theoretical literature on transparency has focused its attention more closely on studying share markets. The results obtained in this branch of the literature give an ambiguous response regarding the result which an increase in transparency has on liquidity in these types of markets (see Madhavan [1995], Pagano and Roell [1996], de Frutos and Manzano [2002] and Naik *et al*. [1999]). Specifically, these articles have shown how the introduction of more transparency may lead to an increase in information efficiency in share markets. The main argument suggests that the proportion of retail investors in these markets means that any increase in transparency may reduce adverse selection costs for these investors, thus encouraging their participation.

On the other hand, this literature also shows that transparency leads to an increase in competition among market makers in the secondary market for shares. This increase in competition could lead to some market makers leaving the market, which in turn would lead to higher transaction costs for investors who participate in the market. Another of the arguments in line with the idea that an increase in transparency may drain liquidity from the market is that some of the investors who had information advantages under opacity would now not participate as they would be unable to exploit those advantages.

The results obtained from studying transparency in equity markets should not be directly extended to bond markets. Equity markets are markets in which the level of transparency is high. Introducing greater transparency in these markets leads to the mixed results mentioned above about their effects on liquidity. Given that this market is already transparent, the marginal benefits of introducing greater transparency may be overshadowed by the costs associated with the measure. The most important of these would perhaps be the reduction in the market makers' profit, which would lead to some of them abandoning the market, thus withdrawing liquidity from the market.

Other noteworthy differences between equity markets and fixed-income markets which should be taken into account include the following:

1 Adverse selection is the action by which an informed investor trades a security based on information which only they have access to, and which hence, as a result of this trade, harms other investors.

- Equity is normally traded on multilateral and anonymous markets.[2]
- In secondary equity markets, there is usually only one traded security per issuer, whereas in fixed income markets there are often several securities per issuer.
- Equity markets are markets in which the participation of retail investors is significant. Some fixed-income markets (corporate bond and asset-backed security markets) are essentially wholesale markets. This difference means that the proportion of uninformed investors is greater in equity markets.

3 Transparency in bond markets

In general terms, bond markets can be classified into three major categories: public debt markets, corporate bond markets and asset-backed security markets. All of them are markets in which most trading is carried out bilaterally outside the regulated markets. These are essentially wholesale markets, although public debt markets and some corporate debt markets have a noteworthy retail segment.[3]

Although the three types of market share common elements in their microstructure, there are other elements which are unique to each market. One of the most important is the different level of transparency in each market. In public debt markets there is a high level of pre-trade transparency and post-trade transparency, whereas on the other extreme we can find asset-backed security markets.

During the financial crisis which began in August 2007, the different bond markets in Europe have behaved differently. While public debt markets have not suffered any type of anomaly, corporate debt markets and, above all, asset-backed security markets have undergone a very significant fall in trading volumes. This has given rise to concern among regulators and participants in the market. One of the reasons put forward for the fall in trading in these markets is the lack of transparency. Therefore, the following subsections aim to analyse how an increase in transparency would affect both corporate bond markets and asset-backed security markets, taking into account the particular features of each.

3.1 Transparency in the corporate bond market

The transparency existing on the wholesale level in corporate bond markets is at the midpoint between transparency in public debt markets and transparency in asset-backed security markets. Pre-trade transparency in this market is very heterogeneous. Some of the bonds have bid and ask prices which are easily observable through the conventional financial information platforms, such as Bloomberg or Reuters. In these markets, an issuer usually has several bonds in circulation,[4] with liquidity frequently being concentrated in one of them, which is used as a reference for the

2 However, the way of trading in equity markets has changed in Europe since the MiFID came into force. This directive not only allows trading through regulated markets, generally traditional stock markets, but also through multilateral trading facilities (MTF) and Systematic Internalisers. Systematic Internalisers are investment service companies which offer bilateral equity trading, subject to post-trade transparency but not to pre-trade transparency.

3 Examples of corporate bond markets with a significant retail segment are the markets in the United States and Italy.

4 For example, at the close of this article, BBVA had 16 different issued bonds, only 3 of which had registered a significant number of trades in the AIAF market.

others. Generally, these bonds enjoy the greatest level of pre-trade transparency, as they are bought and sold by several market makers. On the other hand, there are not usually public bid and ask quotes for the issuer's other bonds. These are traded on the market by a very limited number of market makers.

Post-trade transparency in this type of market is heterogeneous around the world, due to different regulatory approaches. There is a significant difference between Europe and the United States in this regard. In Europe, except in Italy, Poland and Sweden, there is limited post-trade transparency for trades carried out through regulated markets, while the United States and the three European countries mentioned above have opted for increasing post-trade transparency.

The most paradigmatic case of countries which have decided to increase post-trade transparency in corporate bond markets is that of the United States. In 2002, the National Association of Securities Dealers, under pressure from Congress and the SEC decided to launch the Trade Reporting and Compliance Engine (TRACE) programme. This is an information platform fed by market participants, which have to report the price and the volume of bilateral trades within 15 minutes from the close of the trade.[5]

The introduction of TRACE in the United States has enabled an empirical study of the effects of an increase in transparency in corporate bond markets. Accordingly, Edwards *et al.* (2007) find a reduction in transaction costs, mainly a reduction in bid-ask spreads, due to the increase in post-trade transparency. Similar results can be found in Bessembinder *et al.* (2006). Edwards and Nimalendran (2007) go one step further and analyse what factors most influence the reduction in transaction costs of trades in this market. Specifically, they analyse the following factors: concentration of liquidity in certain bonds, increase in information efficiency and increase in competition among market makers. Edwards and Nimalendran (2007) indicate that the causes for the fall in transaction costs in the wholesale market are the concentration of liquidity in certain bonds and the increase in competition among market makers. It is not surprising that information efficiency does not play a decisive role when transparency increases. As this is a wholesale segment, information differences among the participants relating to the characteristics of the issues or issuers are not usually significant.

The liquidity of the assets possesses a similar characteristic to that which economic literature calls "network externality". In this case, the more liquid a bond is, the more investors will be willing to buy it and to sell it as it will be easier, in turn, to find a buyer or seller for that bond. The increase in post-trade transparency makes it easier for investors to identify these liquid bonds, and as a result trading centres on those bonds.

5 According to the TRACE Fact Book (2007), the transactions to be reported to TRACE, for which there was previously no post-trade transparency, account for 99% of the total. The introduction of TRACE took place over several phases, starting with the most liquid securities, and incorporated less liquid securities in subsequent phases. When TRACE was launched on 1 July 2002, it incorporated investment-grade securities with a minimum issue of $1 billion, as well as 50 Non-Investment-Grade securities. The initial group amounted to a total of 520 securities. The second phase, launched in March 2003, included all investment-grade securities rated A3/A or higher of at least $100 million par value, in addition to a group of 120 Baa/BBB securities and 50 Non-Investment-Grade bonds. As a result of this second group, the number of securities with information in TRACE stood at approximately 4,650 bonds. Finally, the third stage, launched in October 2004 and February 2005, incorporated all the bonds included under the TRACE information system.

The increase in transparency through TRACE also led to greater competition among the market makers which operate in the United States' corporate bond market. On introducing post-trade transparency, investors may know the prices and quantities of trades made by other investors. Thanks to this information, market makers lose part of their bargaining power *vis-à-vis* investors, which is reflected in a reduction in the bid-ask spreads which investors pay when making a trade in this market.

The above-mentioned empirical evidence suggests a fall in transaction costs due to the increase in transparency in this market. However, it is important to remember that this evidence corresponds to the months immediately following the implementation of the TRACE platform. These are therefore results from the short-term impact of the transparency increase. Economic theory says that a fall in transaction costs and the concentration of liquidity in a limited number of bonds leads to a fall in the number of market-makers in this market. This lower number of market makers may favour, over the long term, the development of implicit or explicit collusive strategies with the consequent increase in transaction costs. As is indicated later on, the regulator should take this possibility into account and develop suitable interventions so that market makers do not recover significant market power.

3.2 Transparency in the asset-backed security market

Markets for asset-backed securities have their own characteristics and indeed show significant differences with respect to corporate bond markets. It is therefore not appropriate to directly extrapolate the increase in post-trade transparency in the US corporate bond market to these markets. Specifically, asset-backed security markets stand out for the following characteristics:

- In these markets, issuers only have one issue in the market. This is because the issuers in this market are special purpose vehicles (in most countries, non-profit making companies) created with the sole purpose of bringing together the assets which back the issue and, based on these, issuing securities.[6] There is a wide variety of assets which make up the special purpose vehicles: mortgages, consumer loans, bonds etc. This diversity means that the transparency about issuers in this type of market is lower than that in corporate bond markets.
- These markets have limited pre-trade transparency compared with corporate bond markets. In particular, there are only public bid and ask prices for a small portion of the securities in the standard information platforms, such as Bloomberg or Reuters. These prices are not normally binding for the market makers which publish them.
- Similarly, post-trade transparency in these types of markets is lower than in corporate debt markets. The only information of this type available is that from commercial information platforms and from the organised markets where these securities are traded, which is very limited. The information in commercial platforms does not usually include data about trades, and simply includes prices estimated mainly in the context of valuation exercises performed by investment banks.[7]

6 For a more detailed description of asset-backed security issuers, see Losada (2006).

7 There are several information platforms which provide post-trade transparency data in these types of markets, including Reuters and Bloomberg, although the most well-known one currently is Markit.

- The number of market-makers for each type of security in asset-backed security markets is small. Indeed, there are many asset-backed securities which are only traded by one market maker. In these markets, market makers enjoy greater market power than market-makers for other types of securities.

Asset-backed security markets trade securities which are very heterogeneous. For example, although the ratings from rating agencies help investors to classify securities by their credit risk, within one rating category, for example AAA, we can find securities with very different characteristics as they are backed by different assets. In this regard, it is not easy to compare an AAA asset-backed security backed by mortgages with a security backed by consumer loans. In the same way, it is not easy to compare an AAA security backed by mortgages which were granted in the years prior to the subprime crisis with another backed by mortgages granted during the crisis.

A work recently published by the CNMV, (Losada [2009b]), analyses the impact of an increase in transparency in markets for asset-backed securities, using a theoretical model of monopolistic competition among market makers. Despite its simplicity, the model captures the special characteristics of this type of security market, above all the heterogeneity of the securities and the market power enjoyed by market makers. In particular, this model is used to analyse the asset-backed security market considering both the hypotheses of opacity and that of transparency. With this objective, the model considers a simplified economy in which investors may choose between two types of asset: asset-backed securities, all with the same rating but different characteristics, and other securities which are not asset-backed securities but which have the same rating as the asset-backed securities.

In the asset-backed security market there are market-makers which buy securities from originators and sell them to investors. The markets have falling average costs and enjoy certain monopolistic power. This assumption seems appropriate to capture the fact that, in reality, investors are unable to substitute perfectly the different types of asset-backed securities available in the market.[8]

Each investor has the option of investing in one of the asset-backed securities or in one of the other type of securities. Investors will opt for one choice or the other depending on their preferences (for example, based on their level of risk aversion) and the prices of each asset.

Each market maker sells at least one of the asset-backed securities available in the secondary market and none of the securities is sold by two market makers. This last hypothesis is backed up by the fact mentioned above that normally each asset-backed security is only sold by one market maker, which gives market makers certain monopolistic power in the model.

The investors which sell securities to the market makers are considered as price accepting. The investors in this type of market usually follow a buy and hold strategy. In reality, in most cases investors only sell their securities when they face a liquidity restriction or when they decide to re-balance their portfolio.

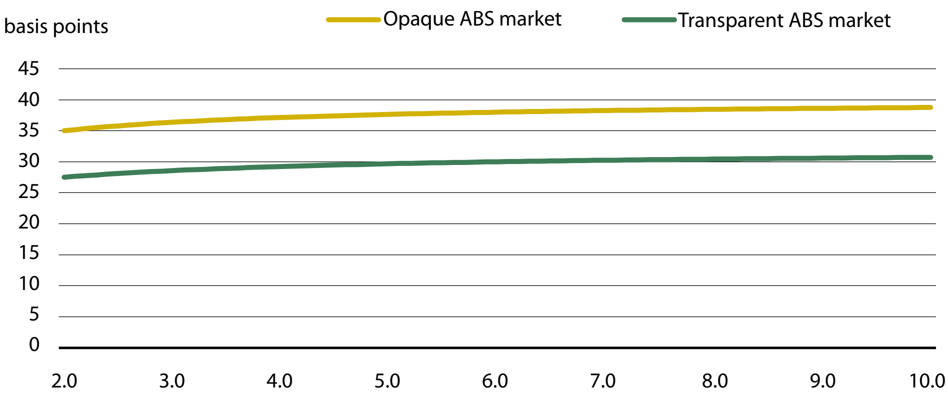
8 Monopolistic competition is a market structure in which many sellers offer goods which are close, but not perfect, substitutes. In this type of market, each company may influence the price of its products to a certain degree. Examples of industries where companies face monopolistic competition are the automotive industry, the washing powder industry or the breakfast cereal industry.

With these basic ingredients, an analysis is made of the effects of having greater or lesser transparency in the asset-backed security market. Accordingly, under the assumption of opacity, investors which want to buy an asset-backed security have to follow a costly search process to discover the characteristics of the securities and thus be able to assess them based on their own preferences and their market price. Investors must follow an iterative process with market makers until they know which of them offers the security with the best combination of price and adaptation to their preferences. In practical terms, the lack of transparency in this scenario means that each time an investor decides to make an enquiry to a new market maker, the investor incurs an additional information search cost.

In the alternative transparency scenario, the investor only pays one fixed initial search cost. This cost can be interpreted as a fixed cost which must be paid in order to be connected to the information platform, where the investor has information about the prices and quantities traded in the market. In this way, once the initial cost has been paid, the investor may obtain information about the characteristics and prices of as many securities as it wishes without incurring additional costs.

From the comparison of the two extreme versions of the model described above, we can deduce that transparency in these types of markets leads directly to an increase in liquidity. As we can see in figures 1 and 2, in a transparent market the bid-ask spread is lower, at the same time as trading increases. Both in the case of the spread and in the market trading, the results are robust to the extent of heterogeneity among the asset-backed securities. However, in the case of trading, the effects of introducing more transparency are reduced as the securities are more heterogeneous.

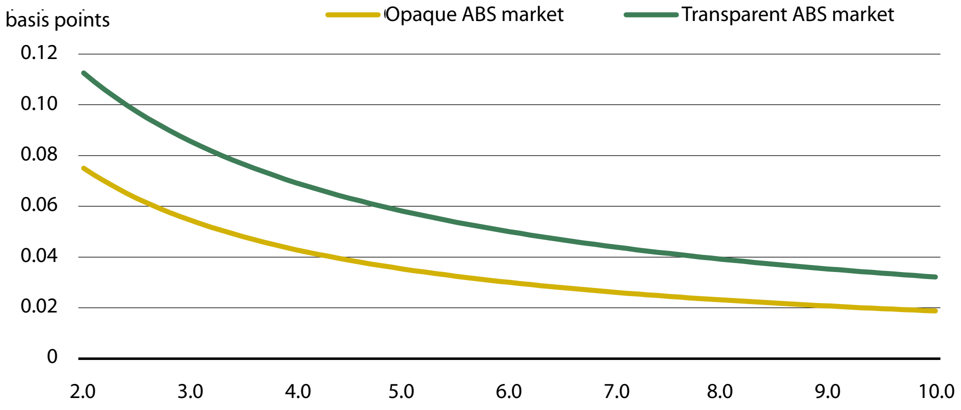
Bid-ask spread based on the level of heterogeneity among asset-backed securities[1] FIGURE 1



Source: Losada (2009b).

1 The level of heterogeneity quantitatively reflects the perception which investors have about the differences among the asset-backed securities which share the same rating.

Trading in the market for each security based on the level of heterogeneity among asset-backed securities[1] FIGURE 2



Source: Losada (2009b).

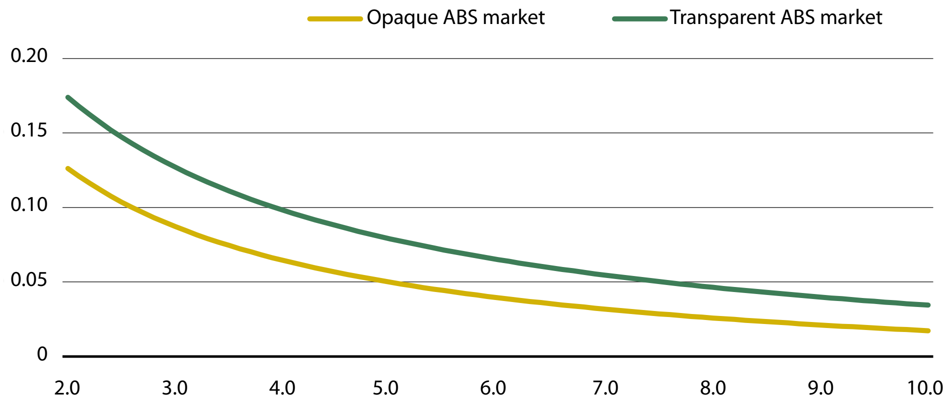
1 The level of heterogeneity quantitatively reflects the perception which investors have about the differences among the asset-backed securities which share the same rating.

The intuition behind these results is as follows: The direct effect of increasing transparency is to allow investors to compare more efficiently, that is, bearing lower costs, the utility which one asset-backed security provides them compared with another one. When the market is transparent, any price variation in asset-backed securities is immediately known by potential investors. On the other hand, in opaque markets, accurately knowing the scope of any variation in prices requires a potentially high cost. That is why market makers enjoy more market power in opaque asset-backed securities markets. This fact is reflected in higher brokerage margins and profits for these agents and lower trading in the market.

The original article –Losada (2009b)– also analyses how the introduction of transparency affects social welfare. In order to do this, social welfare is defined in the context of the asset-backed securities market as the sum of the surpluses of the investors plus the profits of the market makers. In figure 3, we can see that under the above-mentioned assumption of transparency, social welfare is always greater. In particular, the increase in welfare is proportional to the increase in trading arising from a greater level of transparency. As has been described above, an increase in transparency leads to a loss of market power for market creators, which in turn leads to lower prices and greater trading volume in the market. However, as the level of heterogeneity among the securities increases, and in turn the monopolistic power of the market makers increases, the positive effects on social welfare with a greater level of transparency are gradually reduced.

Social welfare based on the level of heterogeneity among asset-backed securities[1 and 2]

FIGURE 3



Source: Losada (2009b) ex.

1 Social welfare is the result of multiplying basis points by a percentage which represents value in a number. In this case, the number is the total number of investors which buy securities with a specific credit rating.

2 The level of heterogeneity quantitatively reflects the perception which investors have about the differences among the asset-backed securities which share the same rating.

Therefore, the functioning of the economic model described in this article suggests that increasing transparency in asset-backed security markets increases social welfare. According to this logic, it would be recommendable to make use of the provisions of article 46 of the MiFID and to introduce post-trade transparency in this market.

However, as has been indicated above, in the context of the review of the empirical work about the increase of transparency in the above-mentioned corporate bond markets, these results must be analysed carefully. The lower profits which, under transparency, market makers generate would lead to a lower number of market makers in the long-term. If the structure of the market resulting from this process was one in which market makers specialised by security type, they could, over time, recover part of the market power which they enjoyed under opaque markets. This possible increase in the market power of market-makers would partially offset the positive impact of the increase in transparency in terms of welfare. Losada (2009a) shows how a restructuring in which market makers sell the greatest possible variety of asset-backed securities would offset the above effect.

4 Conclusions

The empirical evidence available about the introduction of the TRACE system in the US corporate bond market recommends an increase in transparency in these markets in Europe. In the same way, the results obtained within the framework of a theoretical model which combines different levels of transparency and competition among market-makers, developed in Losada (2009b), recommend an increase in transparency in asset-backed security markets. In both cases, an increase in transparency leads to an increase in liquidity in the market. Greater transparency means that investors can more easily discover the prices and quantities available of the securities, which leads to an increase in competition among market-makers. This vision is in line with the proposals for the increase in transparency both from the CESR (2009) and the IOSCO (2009) in the case of secondary asset-backed security markets.

However, the practical application of greater levels of transparency needs to be carried out bearing in mind possible adverse secondary effects from its implementation. In this regard, it is important to bear in mind that there are two effects of an increase in transparency on competition among market makers. In the short term, it increases competition among market-makers. However, over the long term, the initial increase in competition will lead to a lower number of market-makers. In order to prevent this effect leading to lower levels of competition, it would be recommendable to supervise the market restructuring process resulting from the initial increase in competition. In particular, it would be recommendable for the surviving market makers to offer prices in the widest range of securities possible, instead of specialising in only one type. This would prevent the market implicitly or explicitly being divided based on the type of security sold.

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Spanish programme of State guarantees for funding transactions of credit institutions

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1 Background and early decisions

The early phases of the current crisis, before the financial sector's problems spilled over to all areas of the economy, had a particularly significant impact on the conditions in which financial institutions raised funds. The immediate outfall of the sudden loss of confidence in the quality of certain bank assets owned by institutions in several countries was a quick and intense deterioration in wholesale bank financing transactions. Thus, the turmoil unleashed in August 2007 by the fast rise in defaults on subprime mortgage loans in the United States triggered, in an inordinately short time span, a near paralysis in most of the markets that fund and provide liquidity for the global financial system, including a notable drop-off in activity on the interbank market and securitisation market and severe harshening of the terms of long-dated bank debt issues.

In this difficult environment, the events seen at the end of the summer of 2008 after the bankruptcy of Lehman Brothers and severe problems faced by the insurer AIG led the entire international financial system to the brink of collapse, with the ensuing immediate reaction by the authorities of the world's leading economies. In the specific case of Europe, the euro area governments undertook to carry out a coordinated implementation of several extraordinary measures in relation to the financial sector. The essence of this commitment was embodied in the Concerted European Action Plan of the Euro Area Countries. Thus, in the extraordinary meeting held on 12 October 2008, the Heads of State and of Government, together with the European Central Bank, agreed to make available government guarantees, insurance and similar arrangements for new medium-term bank debt issuance, for a limited period and in market conditions. The purpose of this measure was to help financial institutions obtain funding.

In Spain, the agreement reached at the European level was reflected in the decisions of the Council of Ministers, which at the extraordinary meeting of 13 October issued Royal Decree Law 7/2008 of 13 October 2008 on urgent financial measures (RDL 7/2008), authorising the issuance of State guarantees for funding operations carried out by credit institutions after the effective date of the said Royal Decree Law. On 20 October 2008, RDL 7/2008 was ratified by resolution of the Congress of Deputies. The core objective of this measure was to allow banks that operate in Spain[1] access to wholesale markets on reasonable terms. It has allowed the financial institutions that availed themselves of this facility to face their financial commitments in 2009 more comfortably.

This article is structured into four sections. Sections two and three describe the regulatory framework governing the guarantee programme in Spain and its basic characteristics. Section four explains the practical aspects of issuance and listing of the guaranteed securities under Spanish securities exchange law. Section five gives the main figures on guaranteed issues in 2009. And the last section sets out the conclusions.

1 The requirements imposed on eligible banks are discussed in detail further below.

2 Legal aspects of the configuration of the guarantee programme

RDL 7/2008 provides that the guarantees will be granted by the Minister of Economy and Finance in accordance with the requirements laid down in the General Budget Act. As stipulated by that law, the authorisation of the guarantees must set out, at minimum, the identity of the guaranteed issuer, the term for which the guarantees are granted and their maximum amount, on the following terms:

- As regards the identity of the guaranteed issuers, they must be credit institutions resident in Spain as from the effective date of RDL 7/2008. To be eligible, subsidiaries of foreign banks must carry on significant activity in Spain. Nevertheless, the RDL 7/2008 provides that to be eligible for the guarantees, the credit institutions must meet the conditions established by the Minister of Economy and Finance, which may include the special capital adequacy requirements proposed by the Bank of Spain.
- In relation to the term of the guarantees, RDL 7/2008 establishes that they will expire on 31 December 2009.
- Lastly, as for the maximum amount of the guarantees, RDL 7/2008 raises the budgetary ceiling for this programme that was established in article 54 of the Spanish 2008 General State Budgets Act 51/2007 of 26 December 2007 to 100 billion euros.[2]

In addition to these minimum content requirements laid down by the General Budget Act, the law authorising the grant of guarantees may contain other requirements to be taken into account when the Ministry of Economy and Finance grants the guarantee. Thus, RDL 7/2008 lays down other conditions, such as the characteristics of the operations to be guaranteed, their maturity and the requirement that the guarantees must accrue a fee that reflects the risk taken on by the State in each operation.

RDL 7/2008, in turn, was modified by RDL 3/2009 of 27 March 2009 on urgent measures on tax, finance and bankruptcy matters, prompted by the worsening economic situation, and aimed at allowing the rightful holders of the guaranteed securities to receive compensation in the event of enforcement of the guarantee until the sums owed are received. In particular, this last RDL 3/2009 established, as a precondition for being entitled to the said compensation as from the maturity date and until the debt was paid, the obligation to request enforcement of the guarantee within five calendar days following the maturity date of the secured obligation. Furthermore, given that the guarantees are granted by the Minister of Economy and Finance, subject to the requirements laid down in the General Budget Act, a description of the framework governing this programme is not complete until the rest of the provisions of the said Act have been examined. Thus, the General Budget Act gives the Minister discretion to implement the standard clauses seen in financial markets, such as waiver of the right of *excussio* (discussion). It also provides that, unless there is a provision to the contrary when the guarantees are granted, they will be issued

2 When the General State Budgets for 2009 was before the Spanish Parliament, a limit had to be established on the guarantees to allow application of the measures provided in RDL 7/2008. That upper limit was eventually set at 64 billion euros, according to article 54.2-d) of the 2009 General State Budgets Act 2/2008 of 23 December 2008, in the wording given by Royal Decree Law 9/2009 of 26 June 2009 on bank restructuring and strengthening of capital of credit institutions.

on a subsidiary basis, and the Minister may establish mechanisms for limiting the risk of enforcement of the guarantees.

Lastly, as regards collecting the amounts to which the General State Administration is entitled for having granted the guarantee, and for its enforcement, the General Budget Act clarifies that it will be done through the relevant administrative proceedings and the Administration will enjoy the prerogatives laid down in the General Tax Act and General Regulations for Tax Collections.

3 Basic characteristics of the Spanish guarantee programme

Ministry of Economy and Finance Order EHA/3364/2008 of 21 November 2008, which implements article 1 of the RDL 7/2008, sets out the basic elements of the programme, including the characteristics of the guarantees to be granted, the operations that may be secured and the procedures to be followed for granting the guarantees. These elements, in turn, have been concretised in the guarantee approval orders of 2008 and 2009, to articulate an operative framework whose core aspects are characterised by the features described here.

It is provided that the only operations that can be guaranteed are those consisting of issues in Spain of notes, bonds and debentures that meet the following requirements:

- **Type of security.** The instruments must be unsubordinated debt securities not secured by any arrangement other than the guarantee provided by the General State Administration.
- **Maturity.** The securities must have a maturity of between three months and three years following the issue date in the case of the guarantee granted in 2008, and between three months and five years for the 2009 guarantee.
- **Yield.** Both fixed and variable interest rates are allowed (provided in the latter case that the benchmark rate is widely extended in the markets) and, in any event, the yields are required to lie within a range of market yields, referenced to a spread equal to the fee payable on debt securities of the Spanish State.
- **Structure of the operations.** The securities must have a single redemption and not incorporate options, derivatives or any other element that makes it difficult to assess the risk undertaken.
- **Amount.** The minimum amount of each issue will be 10 million euros.
- **Trading.** The securities must be admitted for trading on an official secondary market in Spain.
- **Paying agent.** The issuer must appoint a paying agent for each issue.

As for the financial institutions eligible to request the guarantee, three different sets of requirements are envisaged for credit institutions, consolidated groups of credit institutions and groupings of credit institutions:

- For credit institutions the following requirements are established: i) the applicant must be a credit institution with registered office in Spain; ii) it must have a minimum share of the loan and credit facilities market, in order to ensure the guarantees benefit entities of certain weight in the system so that the measure will be more effective; and iii) the credit institution must have already issued instruments similar to the ones for which the State guarantee is sought, with the aim of avoiding distortions in the normal behaviour of banks or situations in which decisions are made largely on the basis of the new measure.

- In the case of consolidated groups of credit institutions and groupings of credit institutions, Order EHA/3364/2008 of 21 November 2008 modulates the application of the above requirements to the applicants, further making it possible for a credit institution that does not meet the above requirements to pool its market share with another one that does, subject to the relevant arrangements. It also provides the possibility that, in certain conditions, a credit institution member of a consolidated group can apply for a guarantee separately.

Lastly, Order EHA/3364/2008 mandates that the guarantees will accrue the commissions payable to the State that are detailed in its Annex, which have been established according to the Eurosystem recommendations on State guarantees of bank debts.

In order to deal with a number of contingencies not expressly contemplated when Order EHA/3364/2008 was approved, it was amended on two occasions. The first, carried out through Order EHA/3748/2008 of 23 December 2008 (published 24 December 2008), was focused on three objectives. First, in order not to undermine the success of issues in foreign currencies, the guarantee was extended to cover exchange rate risk, while at the same time imposing the requirement for the guarantee approval order to establish security mechanisms that allow that risk to be minimised. Second, the requirement of previous issuance in Spain of securities similar to the ones to be guaranteed was amended to admit previous such issues made outside of Spain. Lastly, the time limit for carrying out issues guaranteed against the General State Budget of 2008, which was initially set at 1 July 2009, was extended until 15 December of that year.

Subsequently, with the aim of injecting greater flexibility into the system, another modification was introduced, via Order EHA/3319/2009 of 10 December 2009 (published in the Official State Gazette, *BOE*, on 12 December 2009) to allow a widening of the window for issuing guaranteed securities by means of a Resolution of the Director General for the Treasury and Finance Policy, provided that the European Commission allows the extension of the guarantee programme, keeping in mind, nevertheless, the temporary nature of this measure.

In the context described above, the Ministry of Economy and Finance granted guarantees on 29 December 2008, against the budget for that year, and on 30 September 2009, with a charge to the 2009 guarantees budget. The guarantees given by the different approval orders, are governed, in addition to the provisions of those orders, by the laws and regulations discussed above, the General Budget Act, Royal Decree-Law 7/2008 and Order EHA/3364/2008, and share a legal structure whereunder they may be classified as straight guarantees in which the State waives the benefit of excussio laid down in article 1830 of the Spanish Civil Code and maintains the right of priority and the time frame that are expressly established in the specific orders granting the guarantees.

Furthermore, in order for the guarantee to be effective, there must be fulfilled a series of conditions of both a material and formal-procedural nature. With respect to the material conditions, it is important to note that there exists an obligation to be secured, that is, that the security issue referred to by the guarantee has actually been carried out. This ties in which the causal conception of Spanish law, which posits consideration as an essential element of the contract. As for the formal requirements, most notable is the mandatory fulfilment of all of the requisites laid down in Section Seven of both grant orders. Those requisites include the various obligations to notify the Directorate General for the Treasury and Finance Policy (DGTPF), proof of payment of the commission fee and admission to trading.

According to the characteristics of the Spanish guarantee programme described here, it should be emphasised that the guarantees secure, on an irrevocable and unconditional basis (upon fulfilment of the provisions of the order approving the grant), performance of the economic obligations arising from issues of notes, bonds and debentures with a maturity of between three months and three years (or five years for the programme charged to the 2009 budget) carried out by the secured financial institutions through 30 June 2010 (date of the last extension authorised by the European Union for the Spanish guarantee programme). In addition, the maximum amount of the guarantee granted to each institution is understood to refer to the principal of the operations, with the guarantee also covering ordinary interest, and is enforceable on the maturity date of the secured obligation. No modifications are permitted to the characteristics of the funding operations covered by the guarantees, except for prepayment, which will nonetheless require the prior written consent of the guarantor.

In view of all of the above, the secured issues meet the requirements to qualify as collateral assets for the monetary policy operations of the ECB and enjoy, according to the current rules that apply in the standardised approach, a weighing of 0% for purposes of the capital requirements for credit risk. The zero weighting extends, on the terms provided in the regulation, to exposure to securitisation bonds whose underlying is wholly composed of debt instruments guaranteed by the State.

4 Singular features of the issuance and admission to trading of the State-guaranteed securities

An important point to keep in mind about the process whereby the State-guaranteed securities are issued and admitted for trading, is that regulations governing listing of securities in official secondary markets and on public offerings provide that instruments unconditionally and irrevocably guaranteed by the Spanish State are exempted from the obligation to register a prospectus for the public offering and from the obligation to publish a prospectus at the admission to trading. They are subject, however to the rest of the disclosure requirements and conditions on the suitability of the issuer and securities. Nevertheless, if an issuer is to avail itself of these exemptions, it must formally execute the issue in a public deed, deposit it with the Companies Registry and submit that deed when registering the securities in he official register of book-entry securities referred to by article 92.c) of the Spanish Securities Exchange Act.

On the other hand, the crossborder regime (requirement to have a European passport in order to use a prospectus in public offerings and admissions to trading of securities in regulated markets in the entire European Union) only applies to prospectuses approved by a competent authority of the European Union (the home Member State), which implies that issues done without a prospectus do not meet the crossborder disclosure requirements. Now, given the optional nature of the exemption, issuers have the choice of taking the exemption or preparing a prospectus, with its subsequent approval and registration by the CNMV, in order to formalise the securities' representation through the book-entry system and have them included in the aforesaid official register, instead of executing a public deed of the issue.

In the case of issuers that have been granted the guarantee of the General State Administration, all of the guaranteed issues have been done with a prospectus, which notably streamlines the processing of the operations and saves costs for the companies.

Furthermore, according to securities exchange laws, before the guaranteed operations are carried out, the guarantor must provide the same disclosures as if it were the issuer of the securities to be covered by the guarantee. Thus, on 20 January 2009 there was registered in the CNMV the registration document of the Kingdom of Spain with information on the Spanish State as guarantor, which was renewed on 22 September 2009 and is referred to by all prospectuses on the guaranteed issues.

In their issuance and placement of guaranteed securities, all of the issuing credit institutions have targeted qualified investors. None of the securities offerings targeted at qualified investors or whose unit face value is €50,000 or more are considered public offerings and, therefore, the prospectus is obligatory for their admission to trading only, and not for their issuance or placement. This freedom of action, unconstrained by the need to register a prospectus before placing the securities, allows issuers to sound out the market and investor interest. In this case, registration in the book-entry system is done by means of a private document,[3] once the institution has obtained the prior authorisation of the Directorate General for the Treasury and Finance Policy, in accordance with annex I to the orders approving the grant.

As for trading, the securities guaranteed by the General State Administration are listed on the AIAF official secondary market for private fixed-income securities, where they are classified as bonds in a new sector called "Spain Guaranteed Debt" (Deuda Aval España, abbreviated as BS AE). Trading in AIAF is characterised by a predominance in volume terms of repos and sell/buyback transactions, as opposed to straight or at-maturity contracts, and by proprietary dealing, that is, between market members, as opposed to non-proprietary trading done for the account of third parties. The presence of retail investors is minimal. This was also the rule for AIAF trading in guaranteed issues during 2009.

The secured issues have also affected the percentage of outstanding balance of bonds and debentures, which increased notably in 2009. Of the nearly 152 billion euros of bonds and obligations at December 2009, the outstanding balance accounted for by guaranteed issues traded on AIAF was 47.464 billion euros, which, in turn, represented 5.4% of the total outstanding balance of fixed-income securities admitted to trading on AIAF, which totalled 871 billion euros at year-end 2009.

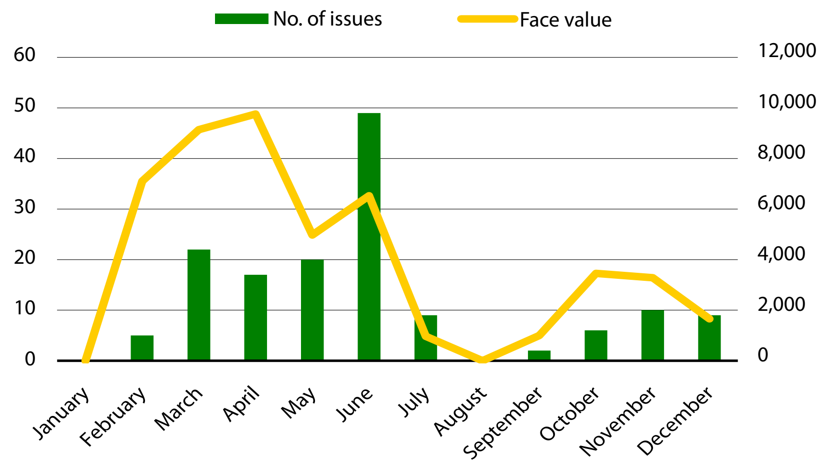
3 This document sets out the data on the proposed issue and, in practice, its content is similar to that of final conditions or securities note for the offer.

5 Key figures of the guaranteed issues programme

The Spanish guarantee programme has been implemented through a system of quota allotments amongst financial institutions, based on their share of total lending by all of the institutions that meet the stipulated conditions. Specifically, the system fixes the maximum amount of debt guaranteed per institution as equal to the result of multiplying its market share by the total guarantees available. This means there will be unallocated remainders equal to the sum of the market shares of the institutions that qualify to request the guarantee and those that voluntarily choose not to use the guarantee facility. Those remainders are distributed amongst the institutions that participate in the programme. Through this quota allotment mechanism, of the 100 billion euros budgeted for 2008, authorisations were granted for secured issues worth 89.794 billion euros to a total of 53 institutions, 41 of which were the quasi-public savings banks known as *cajas de ahorros*. For the 2009 programme, these figures were 64 billion euros and 56.927 billion euros, respectively, to 49 issuers (38 savings banks). In other words, over both years, the guarantee applications that were granted stood at around 90% of the maximum total volume budgeted by the government of Spain.

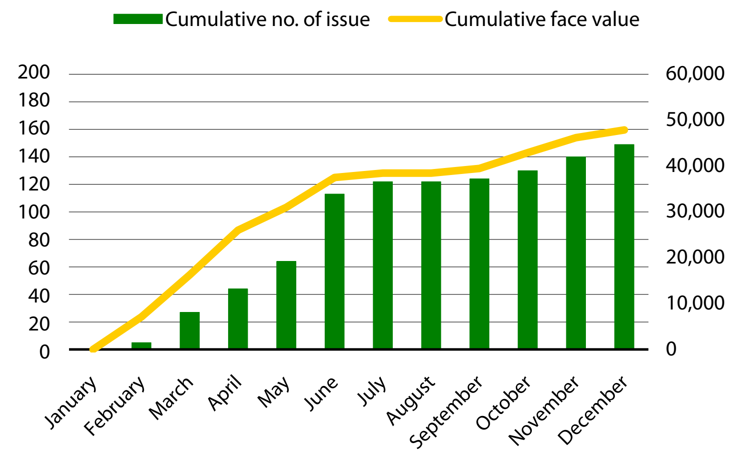
The opening round of Spanish guaranteed issues came in February 2009, with a 3-year guaranteed bond issue worth 2 billion euros. As can be seen in figures 1 and 2, guaranteed issues were registered in every month of 2009, except for August, although it can be seen that a large percentage of the total volume total was concentrated in the months of February, March and April. A second though smaller spike was seen in October and November, coinciding with the launch of a new guarantee programme against the 2009 budget, which extended the maximum maturity to five years for all issues eligible for guarantees. In terms of number of issues, there was a significant increase in issuance in June, much of which was accounted for by a multi-contributor issue carried out jointly by 18 banks (17 savings banks and one financial credit entity [EFC]).

Distribution by issue date of the number of issues and face value issued FIGURE 1



Source: DGTPF and CNMV.

Cumulative figures on the number of issues and issued face value by month issued FIGURE 2

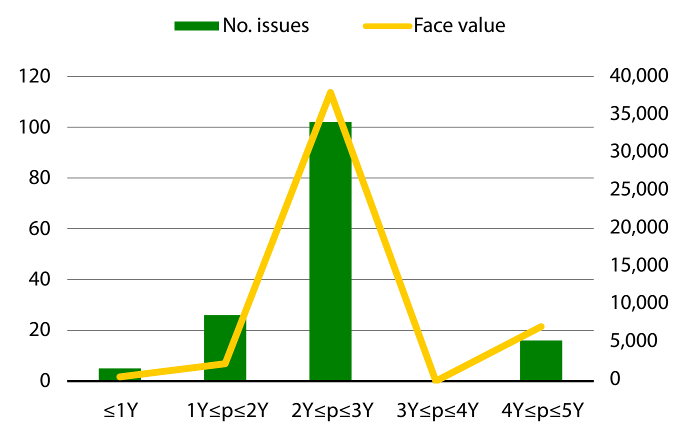


Source: DGTPF and CNMV.

All in all, the issues carried out during 2009 involved 33% use of the guarantee programme with respect to the guarantee granted, with a highly asymmetric distribution between the two programmes (45% for the 2008 programme and 13% for the 2009 one), which is consistent with the different length of time each programme has been operative and with the improvement seen in market conditions over the course of 2009. It is also seen that nearly 90% of the issues, which represent 85% of the face value issued, have been carried out with a charge to the 2008 guarantee. Through 31 December 2009 the fee revenue from the commissions charged for the two programmes totalled 1.457 billion euros.

With respect to maturities, given the still short life span of the 2009 programme, the bulk of the secured issues is concentrated in three year maturities, accounting for more than 75% of the amounts issued and over 55% of the total issues carried out (see figure 3A). Subsequent to the issue window being widened this past mid-December, the percentage share of 5-year issues will presumably increase significantly.

Distribution of the number of issues and issued face value by issue maturity FIGURE 3



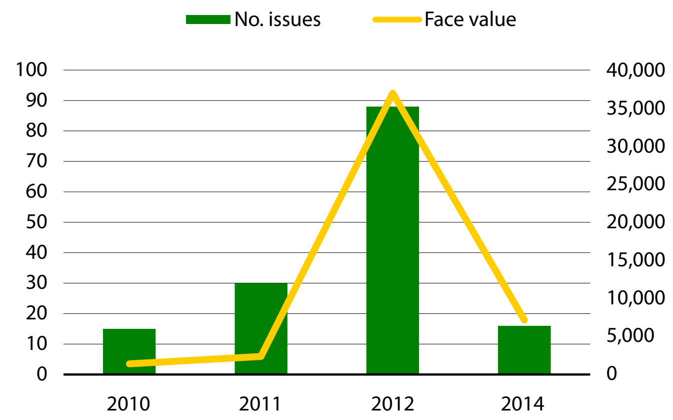
Source: DGTPF and CNMV.

As regards the base rate for the coupons, nearly 75% of the issues were made at a fixed rate. Taken as a percentage of the total face value issued, the percentage of fixed rate issues rises to 92%.

From the standpoint of the guarantor, given that not all of the issuers were carried out at the same time or for the same maturity, the time profile of the redemptions should be analysed to evaluate the time distribution of the associated risk. As can be seen in figure 4, the largest number of issues are scheduled to fall due during 2012. As for the volumes to be redeemed, 2012 also represents the year with the greatest latent risk, concentrating 77% of the face value of all maturities.

Distribution of the number of issues by year of maturity

FIGURE 4



Source: DGTPF and CNMV.

Through 31 December 2009, more than 40 different issues had employed the guarantee programmes, with a clear predominance of *caja de ahorro* type savings banks over banks, both in the number of issues and in the sums issued, although the average value per issue is greater for the bank operations. Some 39 of the 53 financial institutions to which guarantees were granted made issues against the 2008 budget. And 11 issuers (all savings banks) of the 49 grantees carried out their issues against the 2009 budget.

Face values issued by type of issuer

TABLE 1

Type of issuer		No. of issues	Amount
Savings banks	34	136	39,002,600,000.00
Banks and efc	7	13	8,855,327,753.11
Total	**41**	**149**	**47,857,927,753.11**

Source: DGTPF and CNMV.

The first issues were characterised, in general, by the large sums issued (more than €1 billion), and were placed in both the domestic and foreign markets. The distribution effort is notable, so many issuers have opted for "private" (or custom) placements, that is, through arrangements with a very small number of investors, mainly Spanish. These issues normally involve smaller amounts, less than 500 million euros.

Lastly, analysing the results of the placement in the primary market according to the type and nationality of the investors, we find that more than 40% of the issued volume has been subscribed by foreign investors and that the main investors in State-guaranteed debt securities issued by credit institutions based in Spain were domestic credit institutions (39% of the total) and foreign financial institutions (35%). In all, over 90% has been subscribed by credit institutions, investment companies (investment firms or collective investment schemes) and by insurers.

6 Conclusions

In response to the global financial crisis, in the last quarter of 2008 the governments of the Euro area implemented diverse coordinated measures in support of the financial sector. Within the framework of this concerted European-wide action, Spain approved the programme of guarantees for debt financing operations carried out by credit institutions. The core objective of this measure was to make it easier for financial institutions of certain systemic importance to obtain funding in the wholesale markets. As would later be borne out, grant of the State guarantees succeeded in lowering the overall systemic risk, and the successive secured issues allowed the issuers to face 2009 more comfortably.

The issues guaranteed as at 31 December 2009 represented 33% of the total amount allocated through that date. There are institutions that have either not drawn on the guarantee or have yet to reach the maximum amount allotted to them. Although the time limit for these issues does not end until 30 June 2010, the final percentage use of the programmes can be expected to fall substantially short of the budgeted maximum. This is primarily due to the improvement seen in the markets with respect to the situation that prevailed when these initiatives were implemented.

III Regulatory Novelties

Impact on Investment Services Firms of the CNMV Accounting Circular, 7/2008, and Solvency Circular, 12/2008

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1 Introduction

Listed undertakings obliged to file consolidated annual accounts have had to do since 1 January 2005 in accordance with international accounting standards (IAS) and international financial reporting standards (IFRS), pursuant to the provisions of Community legislation.[1] The legislation does not, however, extend this obligation to either individual financial statements of listed undertakings nor to the accounts of unlisted undertakings. In these cases Spain has opted to modify national accounting standards, and to this end the Council of Ministers on 16 November 2007 promulgated Royal Decree 1514/2007 approving the Spanish General Accounting Scheme (Plan General de Contabilidad), which came into force on 1 January 2008.

The new accounting Circular, 7/2008,[2] which replaces Circular 5/1990, arose as a response to acknowledgement in the new General Accounting Scheme of the existence of special accounting rules inherent in the financial sector and in particular in order to adapt to the particular legal and operating features of investment services firms (ISF), UCITS management companies ("SGIIC") and venture capital firm management companies ("SGECR").

Furthermore, developments in the international financial system in recent years led the Basel Committee to present a New Capital Accord (known as Basel II), the principal objective of which was to achieve a measure of regulatory capital more sensitive to risk, complemented with adequate market discipline and supervisory processes. Its adaptation to the European Union came about through Community Directives 2006/49/EC and 2006/48/EC.[3] For its part, the CNMV published Circular 12/2008,[4] which came into force on 30 June 2009 in order to adapt prudential regulation of ISF and their consolidation groups to the regulatory solvency framework of financial entities provided in the said directives.

Circular 12/2008 will soon be modified, however, to take account of the new provisions of the European Parliament and Council reflected in Directives 2006/48/EC, 2006/49/EC and 2007/64/EC, which came about to tackle some of the defects highlighted by the current financial crisis. The principal modifications affect certain elements of own funds, major risks, supervisory regime and crisis management.

This article is structured in five sections. Section 2 focuses on analysis of those new accounting features of Circular 7/2008 which have a significant impact on the

1 European Community Regulation 1606/2002 of the European Parliament and Council, of 19 July 2002, relating to the application of international accounting standards.

2 Circular 7/2008, of 26 November, of the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) on accounting standards, annual financial statements and reserved information statements of investment services firms, collective investment undertaking management companies and risk capital entity management companies.

3 Community Directives 2006/49/EC of the European Parliament and Council, of 14 June 2006, on the capital adequacy of investment firms and credit institutions, and 2006/48/EC of the European Parliament and Council, of 14 June 2006, relating to the taking up and pursuit of the business of credit institutions.

4 **Circular 12/2008**, of 30 December, of the Spanish Securities Market Commission on solvency of investment services firms and their consolidation groups (amended by Circular 5/2009, of 25 November).

financial statements of ISF. Section 3 is divided into three parts, the first relates to quantification of the impact on net worth in the opening balance sheet of ISF at 1 January 2008 of adjustments deriving from first application of the new principles set out in Circular 7/2008; parts 2 and 3 contain a comparative analysis of the structure of the balance sheet and profit and loss account in relation to the previous accounting standards. Section 4 examines the impact on the computable and required own funds of ISF of publication of Circular 12/2008. Furthermore, and as a result of publication of this Circular, the section on supervisory review and market transparency includes the new responsibilities which ISF must comply with and the new scope of supervision by the CNMV is summarised. Finally, conclusions are provided in Section 5.

2 Principal aspects of Circular 7/2008

2.1 Quantitative changes

The process of adaptation to the new accounting circular constitutes a significant change in the overall management of ISF, in which accounting rules are compatible with best risk management practices.[5] From a perspective of financial and net worth solvency the principal quantitative changes identified in ISF and their consolidation groups and which involve variations in the determination of several basic ratios, are as follows:

- The reversion of certain items considered as assets under Circular 5/1990, such as expenses of start-up and capital increases.
- Variation in net worth as a result of reclassification of own shares and, with a residual impact, classification of certain asset instruments, such as preference shares, as liabilities.
- Distribution, based on their nature, of financial assets and liabilities within the different categories based on management and valuation criteria, including details by type of instrument and with very strict criteria for reclassification between portfolios. On the asset side, financial instruments are classified into those recorded at fair value with changes to profit and loss, portfolio of investments to maturity, credit investment portfolio and portfolio of financial assets available for sale. On the liability side, such instruments are distributed between portfolios of financial liabilities at fair value with changes to profit and loss, and that of financial liabilities at written down cost.[6] In this context, it should be recalled that Circular 5/1990 distinguished between portfolio shares and holdings of a permanent nature[7] and trading portfolio.

5 Financial advisory firms ("EAFI") do not fall within the scope of application of Circular 7/2008, and therefore are not considered in the analysis.

6 There is a further additional category of liabilities at fair value with changes to net worth which mainly covers liabilities associated with securitisation operations.

7 The permanent portfolio contained holdings in subsidiary companies whatever the nature of their activity, and in companies in which there was a significant holding or presence on their board of directors, even if they were listed securities, provided that they had not been acquired with the intention of trading them.

- The recording of derivative financial instruments in the trading portfolio. This treatment obliges ISF to show all their positions in these instruments on their balance sheet along with the risks which they imply for their profit and loss and net worth. Circular 5/1990 in general recorded transactions in derivatives at the time of contracting them in the corresponding risk and commitment accounts, whilst quotation differences were recorded in the profit and loss account, based on different criteria depending on whether they were hedging or investment operations, such that in the former they could be considered latent gains.
- The use of fair value to determine asset and liability elements on the balance sheet[8] when their estimation is sufficiently reliable, for example in the case of liquid asset markets.[9] For its part, Circular 5/1990 provided that financial instruments in the trading portfolio be recorded at their acquisition cost, with subsequent adjustment by crediting the specific funds and asset compensation account if their market value was less than purchase price. In turn, latent gains in the listed trading portfolio were recognised in the risk and commitment accounts under the heading "Unmaterialised portfolio gains". The permanent portfolio was recorded at its cost price.
- Calculation of hedging of deterioration of financial assets, which must now be provided by the existence of objective evidence, although the importance is emphasised of the judgment of managers. On this point Circular 5/1990 considered that an asset was of doubtful collection and therefore was subject to provision when its repayment was problematical or if 90 days had passed from its total or partial maturity.
- Valuation at fair value of remuneration based on capital instruments, classified as "other capital instruments" under net worth. Circular 5/1990 considered these items under liabilities as "remuneration pending payment".
- The tax effects as a result of permanent or temporary differences as a result of various adjustments deriving from adaptation to Circular 7/2008.[10]

With respect to the scope of consolidation the following can be highlighted as new features with relevant effects:

- Elimination of the need to file consolidated statements in the event of ISF consolidation subgroups.
- The obligation to consolidate pursuant to the unity of decision principle of so-called "horizontal groups".[11]
- Modification of the principle of existence of significant influence in treatment of entities as associated. The previous accounting framework in general terms classified an entity as associated if it was held in a percentage exceeding 20%, in the case of unlisted entities, or 3% if listed.

8 The trading portfolio of financial assets and liabilities, other financial assets and liabilities at fair value with changes to profit and loss, and financial assets available for sale are recorded at fair value.

9 When trading is not active, there is no market or the only available information regarding the financial instrument is that of the entity itself, the estimate of fair value becomes difficult and account must be taken of other indicators such as prices of similar assets, the possible existence of non-forced specific transactions or changes in risk conditions.

10 Differences which do not revert in subsequent periods are not recorded but must be reported in the Notes to the Accounts, indicating their amount and nature.

11 This obligation was already contained in Circular 5/1990, but it is a relevant difference with respect to the principles of the Commercial Code and New General Accounting Scheme.

- Elimination of depreciation of goodwill exceeding losses from deterioration identified in accordance with deterioration tests. Circular 5/1990 depreciated goodwill on a straight line basis over a maximum period of 5 years, or shorter period if deterioration indications existed.
- Recognition in profit and loss of negative consolidation difference. In this respect, Circular 5/1990 recorded the creditor difference resulting from set-off between investment and own funds under liabilities in the consolidated balance sheet and it could only be recorded in the profit and loss account on reasonable unfavourable forecasts or when a gain was realised.
- Reclassification of minority interests and their treatment as net worth. Circular 5/1990 reflected the proportional part of own funds corresponding to third parties outside the group under liabilities in the consolidated balance sheet under the heading "Interests of external members".

2.2 Qualitative changes

Circular 7/2008 considers that financial statements must be useful for financial decision-making and therefore must adequately report the risks to which ISF are exposed. In this respect, the manner of presenting financial statements is modified in accordance with the following scheme: the balance sheet and profit and loss account now move to a vertical cascade format and new accounting statements are incorporated, including statement of changes in net worth and statement of cash flows.

Another qualitative aspect which involves a break with the "traditional" accounting framework is that relating to the primacy of true picture as opposed to the principle of prudence. Financial statements under Circular 5/1990 could to some extent be distorted with respect to economic reality by a valuation which could be classified as "excessively conservative".[12]

Furthermore, qualitative changes also include the predominance of economic fund over legal form in the accounting recording of economic transactions[13] and the greater discretion of a more flexible focus based on principles and which directly requires greater responsibility on the part of directors of ISF in establishing the accounting policies to be adopted.

Finally, the obligation can be highlighted imposed by the new circular according to which ISF must prepare annual notes to the financial statements. This report constitutes an essential qualitative instrument for understanding preparation of the figures contained in the financial statements, the risks to which they are exposed and the measures established for their correct management.

12 An illustrative example of the change referred to can be found in current legislation regarding timing differences, which are considered as deductible (deferred tax assets) or taxable (deferred tax liabilities) based on whether they generate lesser or greater tax payable in the future.

13 Illustrative examples would be financial leasing or securitisation operations.

3 Assessment of the impact of Circular 7/2008

3.1 Net worth

In its transitional provisions Circular 7/2008 includes an obligation for ISF to include an explanation in the notes to the annual financial statements at 31 December 2008 of the principal differences between the accounting principles applied in the previous year and the current principles, although it does not require that reconciliation statements be prepared in respect of balance sheet and profit and loss account. The assessment presented here focuses on analysis of the impact which the different principles of recognition and valuation set out in Circular 7/2008 have had on the net worth of individual public statements corresponding to 1 January 2008, for a sample of 27 ISF which was considered representative of the sector (taking in over 90% of assets in the sector) and with a size at 31 December 2007 as shown in Table 1.

Sample of ISF selected at 31/12/2007 TABLE 1

Thousands of euros

ISF	Assets sector	Total 27 ISF analysed	
		Assets	% of sector
Brokers and broker-dealers	21,444,949	19,420,678	90.56
Portfolio management companies	44,776	43,292	96.69
Total assets at 31-12-07	**21,489,725**	**19,463,970**	**90.57**
	Sector net worth	**Total 27 ISF analysed**	
		Net worth	**% of sector**
Brokers and broker-dealers	1,923,992	1,243,373	64.62
Portfolio management companies	37,323	36,060	96.62
Total net worth at 31-12-07	**1,961,315**	**1,279,433**	**65.23**

Source: CNMV.

If we focus on the quantitative analysis, Table 2 shows that at 1 January 2008 the impact of introduction of the new Circular, measured in terms of variation in net worth, resulted in a gross increase thereof of 30.7%. This increase is reduced to 21.5% when recording deferred tax assets and liabilities which arise from the corresponding adjustment to the different items of assets and liabilities on the balance sheets of ISF at 1 January 2008.

ISF. Reconciliation of net worth at 1 January 2008

TABLE 2

	Total 27 ISF analysed		Total 17 Sec. Brok. Deal. analysed		Total 10 Pf. Mgmt. Cos. analysed	
	Thousand euro		Thousand euro		Thousand euro	
Own funds	853,630		821,621		32,009	
Profit and loss for year	425,803		421,752		4,051	
Net worth at 31 December 2007 in accordance with CNMV Circular 5/1990	**1,279,433**		**1,243,373**		**36,060**	
Adjustments from transition to Circular 7/2008	**Thousands euros**	**% of net worth**	**Thousands euros**	**% of NW Sec. Brok. Deal.**	**Thousands euros**	**% of NW Pf.Mgmt Cos.**
Portfolio of financial assets available for sale	299,994.43	23.45	298,980.14	24.05	1,014.29	2.81
Fair value adjustments trading portfolio	88,757.41	6.94	88,755.00	7.14	2.41	0.01
Release of provisions financial assets available for sale	3,805.57	0.30	3,780.57	0.30	25	0.07
Insurance contracts linked to pensions	62	0.01	62	0.01	0	0.00
Assets for deferred taxes not recorded	12	0.00	12	0.00	0	0.00
Cancellation of advance tax	-412	-0.03	-407	-0.03	-5	-0.01
Set-up and capital increase expenses	-816	-0.06	-811	-0.07	-5	-0.01
Income from previous years	-5	0.00	-5	0.00	0	0.00
Remuneration to employees capital instruments	1,600	0.13	1,600	0.13	0	0.00
Others	-671	-0.05	-678	-0.06	7	0.02
Total adjustments	**392,327.41**	**30.66**	**391,288.71**	**31.47**	**1,038.70**	**2.88**
TAX EFFECT Valuation adjustments	*-93,119.46*	-7.28	*-92,813.07*	-7.47	-306.39	-0.85
TAX EFFECT Rest	*-24,357.94*	-1.90	*-24,355.84*	-1.96	-2.1	-0.01
TAX EFFECT (30%)	***-117,477.40***	**-9.18**	***-117,168.91***	**-9.42**	**-308.49**	**-0.86**
Effect on net worth at 31 December 2007	**274,850.01**	**21.48**	**274,119,80**	**22.05**	**730.21**	**2.02**
Net worth at 1 January 2008 in accordance with CNMV Circular 7/08	**1,554,283**		**1,517,493**		**36,790**	

Source: ISF Notes to Accounts 31/12/08, CNMV.

The principal reasons which explain the increase in net worth of ISF, adjustments to which are also detailed in Table 2, are as follows:

- 23.5% of the impact is basically due to the differences in value with respect to acquisition costs of the assets reclassified in the category of portfolio of financial assets available for sale. These adjustments, which meant increasing reserves by approximately 300 million euros, are principally identified with revaluations of holdings in the capital of the company Bolsas y Mercados Españoles, and to a lesser extent valuation of holdings in CIUs. The corresponding adjustments are also included for exchange rate differences in non-monetary assets classified in the portfolio of assets available for sale, even though its impact is not significant. The tax effect arising from valuation adjustments increased up to an approximate total of 93 million euros.

- 6.9% of the impact on net worth arises as a result of adjustments to fair value of trading portfolio, which correspond to recognition of existing gains in debt instruments, but basically holdings in capital instruments, including trading derivatives at 31 December 2007, which meant a net revaluation of the portfolio by an amount of approximately 89 million euros.

- Other adjustments which also represent increases in net worth, although to a lesser extent (0.44%), relate to release of provisions for capital losses, recorded in the portfolio pursuant to Circular 5/1990, because they do not comply with the requirements for treatment as losses in value from deterioration. Adjustments are also included from recognising valuation differences in benefit plans and provisions recorded in respect of remuneration to employees with capital instruments.

The principal adjustments which have led to reducing net worth particularly include:

- Elimination of start-up expenses in relation to capital increase expenses and elimination of the net balance of income from previous years recognised in the 2008 financial year. However, as shown in Table 2, the net negative impact (-0.14%) on net worth was very small.
- Cancellation of taxes recorded in advance generated in transactions recorded under the previous legislation.[14]

Finally, other adjustments of minor significance were made in the series of ISF analysed which do not involve modifications to net worth, such as adjustments from the elimination of expenses to be spread over several years deriving from the capitalisation of financial expenses of leasing contracts.

Although ISF consolidation groups are not the subject of analysis in this article, it can be indicated that the conclusions obtained from the study of the impact of Circular 7/2008 on the net worth of these groups are of a similar nature to those set out for individual entities.[15] Furthermore, there are other adjustments which derive directly from consolidation rules, the contribution of which to increase in net worth of groups is below 2%, and of which the following can be identified:

- Cancellation of negative differences between book value of the holding of the parent company in the capital of subsidiary companies and value of the proportional part of own funds attributable to these companies on the date of first consolidation, which Circular 7/2008 treats directly as income.
- Incorporation of entities into the consolidation perimeter classified as associates.
- Adjustments to minority interests corresponding to reclassification of holdings as associated entities.

It must further be indicated that elimination of the obligation to consolidate a total of 13 ISF subgroups meant an approximate reduction of 29% in the net worth of consolidation groups in the sector.

3.2 Balance sheet

From the analysis in section 3.1 relating to adjustments made by the selected ISF, it emerges that a majority of them opted, in accordance with Transitional Provision One of Circular 7/2008, to value elements of assets and liabilities in the opening balance sheet in accordance with Circular 5/1990, except for financial instruments which are valued at their fair value. Consequently, and taking into account that the criteria for preparing balance sheets are different and that the data is not comparable, this section solely includes a comparative analysis of the structure of public balance sheets of ISF at 31 December 2007 and 2008.

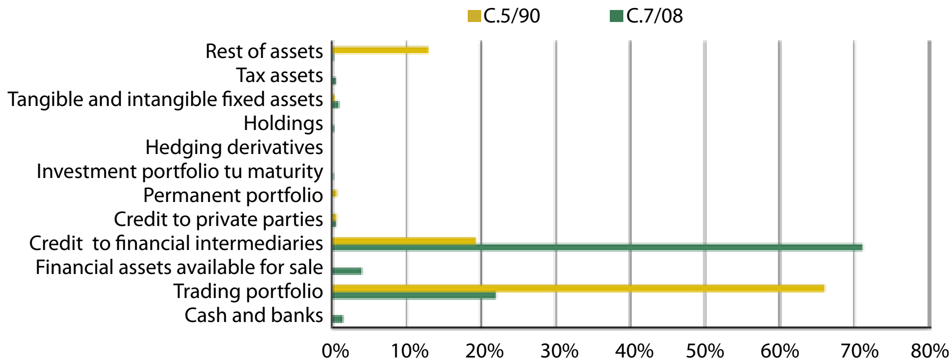
14 An illustrative example of these operations would be blockage of profits as a result of undertakings to deliver own shares.

15 From analysis of 11 consolidation groups, whose assets represent 81.6% of the sector, it emerges that the impact of introduction of the new Circular, measured in terms of variation in net worth, leads to a net increase of 43.4%.

3.2.1 Assets

On the assets side, as shown in Figure 1, the principal change under Circular 7/2008 is due to reclassification of financial assets between the different portfolios. Notwithstanding the effect deriving from use of fair value, a reduction can be seen in the trading portfolio related to reclassification of temporary acquisitions of assets to the credit investment portfolio (credit to financial intermediaries and private parties), which is to a certain extent set off by inclusion of certain derivative instruments which under the previous legislation were recorded in contra accounts.

ISF. Percentage asset structure FIGURE 1



Source: ISF public balance sheet, CNMV.

The increase in the credit investment portfolio relating to credit to financial intermediaries is justified, as well as by the reclassification of temporary acquisitions indicated in the previous paragraph, by valuation at written down cost of the interest accrued on the financial investments which is included as an increase in value of the asset.

The portfolio of financial assets available for sale is increased as a result of the reclassification and valuation at fair value of financial instruments classified in the permanent portfolio, which now disappears, or of debt or capital interests which under Circular 5/1990 were included in the trading portfolio and do not fit into other portfolios.

For its part, the new investment to maturity portfolio has not undergone significant changes despite its valuation advantages. On this point the fact can be emphasised that in some cases it is difficult to simultaneously comply with the conditions required by Circular 7/2008 with respect to the intention to hold until maturity and capacity to do so.

The heading of hedging derivatives is also particularly relevant and principally includes financial swaps to hedge the fair value risk as a result of variations in interest rates in the market for debt instrument classified as assets available for sale.

The portfolio of holdings also has a relatively minor weight and sets out, at cost, holdings in the capital of group, multigroup and associated entities.

The significant reduction under the heading "Rest of assets" is basically due to the following factors:

- The disappearance of timing adjustments which, under Circular 5/1990, included interest accrued on investments and which the current legislation is shown as an increase in their value.

- Reclassification of interim dividends with reduction in net worth.
- Increase in tax assets due to the recognition of deferred tax assets and their recording under a separate heading.

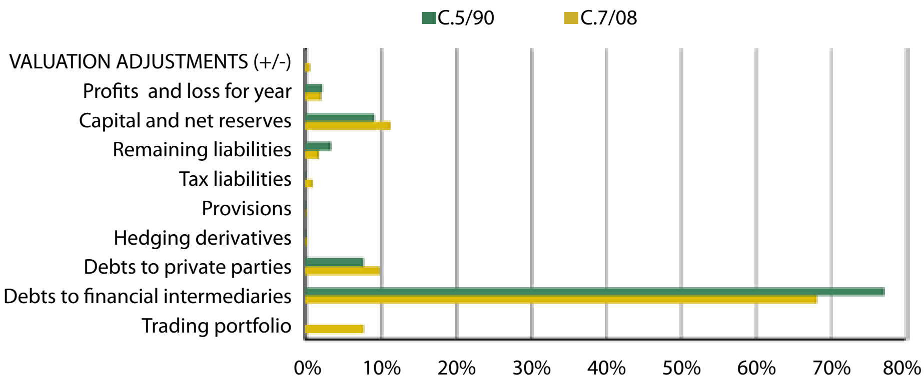
In particular, the relative weight of tangible assets has remained invariable, from which it derives that ISF have not made use of the revaluation permitted in the first application of Circular 7/2008. The weighting of cash and banks and intangible assets has also not undergone significant variation.

3.2.2 Liabilities and net worth

Under Circular 7/2008 the new balance sheet makes an express separation between liabilities and net worth.

With respect to the structure of liabilities, Figure 2 shows the appearance, under Circular 7/2008, of the trading portfolio valued at fair value. This portfolio basically includes positions and margins in derivatives, pending settlement and, as the case may be, short positions in securities. It also includes liabilities deriving from the firm sale of financial instruments received on loan, classified as other liabilities at fair value with changes to profit and loss.

Brokers and broker-dealers. Percentage structure of net worth and liabilities FIGURE 2



Source: ISF Reserved Statements

The significant reduction under the heading of remaining liabilities is, apart from a slight increase in provisions for pension funds and other provisions, basically due to the following factors:

- The disappearance of timing adjustments on the same terms as indicated for assets.
- Tax liabilities in their twin aspects: their recording under a separate heading and acknowledgement of deferred tax liabilities.

The increase in relative weight of debts to private parties net of deterioration, which mainly includes temporary balances from securities transactions and temporary transfers of assets to residents, is due to valuation adjustments from interest accrued and other debits as a result of adjustment of provisions for extraordinary remuneration payable in the year.

The appearance of hedging derivatives is of a residual nature and its concept is identical to that shown under assets.

The increase in relative weight of net worth, without considering profit and loss for the year, results from the adjustments to reserves deriving from valuation changes and application of the new criteria for acknowledgement and removal of assets and liabilities with respect to the previous accounting standards.

Of valuation adjustments, the most relevant are those arising from valuation of the portfolio of securities representing debt and capital instruments classified in the portfolio of financial assets available for sale, which basically correspond to revaluation of holdings in the capital of Sociedad de Bolsas y Mercados. Valuation adjustments deriving from exchange rate differences are of minor importance.

3.3 Profit and loss account

Table 3 shows the public profit and loss accounts of the ISF sector at the end of the 2007 and 2008 financial years.[16] It can be deduced from it that the impact of application of the new accounting Circular on the profit and loss account is limited, although the use of fair value can mean a greater fluctuation in profit and loss. Nevertheless, data on profit and loss accounts is not comparable at the same date because it was prepared applying different principles and therefore it is necessary to specify that the reduction of 38% in net profit in 2008 of ISF is the basic consequence of the financial crisis, which has affected the principal lines of business of ISF with a reduction in their net income from provision of investment services (-29%).

Taking the foregoing into account, various considerations can be made regarding the profit and loss account deriving from application of Circular 7/2008, which are listed below:

- Presentation of the profit and loss account in cascade, distinguishing the different margins which arise during the operating cycle of ISF, contributes to increasing transparency and efficacy in terms of analysis of the information provided.
- In determining interest margin financial products are included obtained from applying the effective interest rate method, basically on acquisitions and temporary transfers of assets or on deposits. Returns on capital are not included, which for the most part relate to dividends and remuneration corresponding to profits generated by entities held.
- Profit and loss from financial activities may be modified by other items, such as certain commissions on financing operations which, as a result of the very nature of ISF, are not applicable to them, or as a result of the returns deriving from preference shares which in accounting terms are considered financial liabilities and whose impact is very small.
- Preparation of income and expenses from provision of services deriving from ordinary activities is not significantly affected despite the fact that changes have been made in allocation of profit and loss based on various criteria depending on the nature of the service provided.

16 Account has been taken in the analysis given below of the effect of additions and removals of entities during the year.

- In profit and loss on financial operations for own account the effects must be considered deriving from value adjustments, except for those corresponding to interest accrued by application of effective interest rate and those attributed as a result of value corrections from deterioration. These results do not set out the results of sale and purchase operations in respect of holdings in group, multi-group and associated undertakings.

ISF. Reconciliation of net worth at 1 January 2008

TABLE 3

PROFIT AND LOSS ACCOUNT 31/12/07		PROFIT AND LOSS ACCOUNT 31/12/08	
DEBIT	**C.5/90**		**C.7/08**
Interest on liabilities	**460,097**	Interest and similar returns	519,747
Losses in trading portfolio and derivative products	7,528,834	Interest and similar charges (-)	-504,449
From sales and redemptions	396,761	**INTEREST MARGIN (+/-)**	**15,298**
Provisions for losses	783,633	Return on capital instruments	101,720
In transactions in financial futures and options	6,325,573	Commissions received	1,112,264
Others	22,867	Commissions paid (-)	-300,863
Brokerage and commissions paid	**373,256**	Profit and loss on financial operations (net) (+/-)	798,686
Operating expenses	**641,289**	Trading portfolio (+/-)	774,050
Personnel	394,878	Other financial instruments at fair value with changes to profit and loss (+/-)	7,182
General, contributions and taxes and depreciation of fixed assets	246,411	Financial instruments not valued at fair value with changes to profit and loss (+/-)	-6,716
Other losses	231,948	Others (+/-)	24,170
Profits tax	262,210	Exchange rate differences (net) (+/-)	-643,451
Creditor balance or net profit	**628,066**	Other operating products	32,470
TOTAL DEBIT	10,125,700	Other operating charges (-)	-12,389
Interest and dividends from investments	**444,408**	**GROSS MARGIN (+/-)**	**1,103,735**
Profits on trading portfolio and derivative products	**7,305,289**	Personnel expenses (-)	-362,379
From sales and redemptions	572,318	General expenses (-)	-201,945
Recovery and application of provisions	797,355	Depreciation (-)	-14,729
On transactions in financial futures and options	5,928,274	Provisions (net) (+/-)	3,566
Others	7,342	Losses from deterioration of financial assets (net) (+/-)	-68,833
Commissions received	**1,509,570**	Credit investments (+/-)	-64,007
Processing and execution of orders	903,294	Other financial instruments not valued at fair value with change to profit and loss (+/-)	-4,827
Underwriting and placement of issues	64,622	**PROFIT AND LOSS ON OPERATING ACTIVITIES (+/-)**	**459,415**
Portfolio management	79,404	Losses from deterioration of other assets (net) (+/-)	4,986
Others	462,250	Tangible assets (+/-)	-63
Other profits	855,875	Intangible assets (+/-)	
Debtor balance or net loss	**10,558**	Rest (+/-)	5,049
TOTAL CREDIT	10,125,700	Profit/(Loss) on removal of assets not classified as non-current on sale (+/-)	63,587
		Negative difference on combinations of businesses	
		Profit/(Loss) from non-current assets on sale not classified as interrupted operations (+/-)	1,039
		PRE-TAX PROFIT AND LOSS (+/-)	**529,027**
		Profits Tax (+/-)	-145,907
		PROFIT AND LOSS FOR YEAR FROM ONGOING OPERATIONS	**383,120**
		Profit and loss from interrupted operations (net) (+/-)	2,292
		PROFIT AND LOSS FOR YEAR (+/-)	**385,412**

Source: CNMV.

- Profit and loss from exchange rate differences,[17] identified individually, are not affected by the new legislation, since under Circular 5/1990 positive differences were already recorded directly in profit and loss.

- Determination of gross margin includes, as well as net commissions from the provision of services, net profit and loss on financial activities and profit and loss on activities for own account and from exchange rate differences as well as products and operating charges associated with remuneration for services provided or received in respect of financial operations. Operating expenses includes charges for membership of markets and contribution to the Investment Guarantee Fund.

- Overheads and losses from deterioration in financial assets are included below gross margin and before operating profit and loss. Value corrections for deterioration basically relate to the amount of deterioration under the heading of credit to private parties. Losses from deterioration are recognised when there are losses in value incurred, classified individually, for which there is objective evidence of deterioration. When it is not possible to identify them, it is provided that they be estimated collectively. Losses expected as a result of future events are only recognised when the associated events occur.

- In determining current profit and loss the effects of provisions and contingencies and profit and loss on other assets and financial operations are not particularly significant. Furthermore, there has been separation and individual identification of the headings "Other profits" and "Other losses" which under Circular 5/1990 basically included exchange rate differences and provisions for insolvency. Furthermore, income and expenses from previous years were included which under the new Circular are treated as errors and taken into account within net worth.

- Finally, the separation between profit and loss on ongoing operations and interrupted operations has a minor effect.

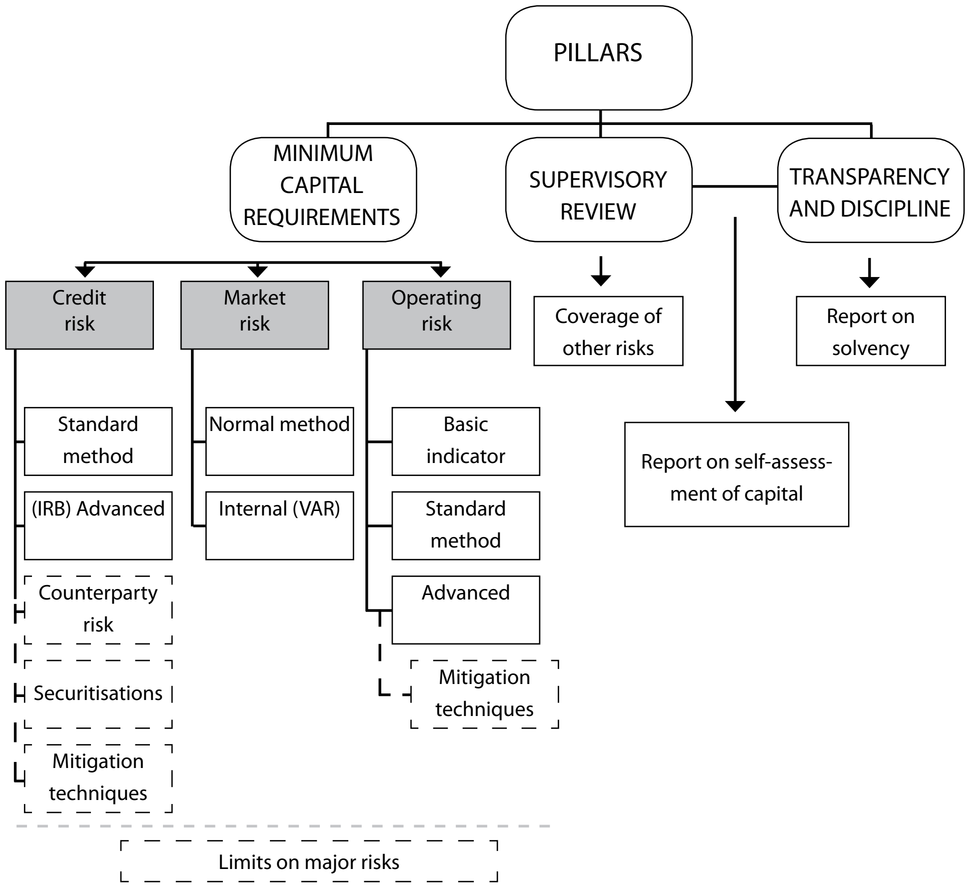
4 Assessment of the impact of Circular 12/2008

4.1 Introduction

The purpose of publishing Circular 12/2008, in line with other legislation on solvency, is that ISF and their groups have own funds which are adequate for their risk profile and place more emphasis on risk management and assessment. This objective, in line with that expressed by the Basel Committee, is translated into supervisory practice and market discipline by improving the dissemination of information relating to risk.

Circular 12/2008 incorporates the new capital requirements on the three pillars defined in Basel II: i) supervisory review, ii) minimum capital requirements, and iii) market discipline and transparency.

17 Basically positive and negative differences which arise when converting balances denominated in foreign currency to the functional currency, which correspond to hedging of exchange rate risk of the foreign trading portfolio.



The substantial modifications incorporated by Circular 12/2008 relate to the measurement of credit risk[18] and the explicit treatment of operational risk. The aim by means thereof is to motivate the implementation, subject to authorisation, of own models for measuring financial risks in entities. Nevertheless, at the date of this analysis it can be concluded that ISF do not make use of the internal models for measuring their risks and, except for those which belong to banking groups, it seems unlikely that in the future they will request authorisation from the CNMV to apply them. The ISF sector is to a large extent composed of small entities which do not have sufficient incentives to apply more sophisticated models which require major investment in personnel and adequate infrastructures for information processing.

It should be highlighted in any event that the modifications of the solvency rules not only relate to the development of models to adapt capital consumption to the requirements of Circular 12/2008, but ISF must implement certain qualitative aspects in order to adapt to the requirements laid down in the field of pillars II and III previously indicated; in particular, the definition of new procedures for control of risk management and for preparation of information for market dissemination and that required by the CNMV.

The following sections 2 to 5 relate to analysis of the impact of the new minimum own funds requirements established by Circular 12/2008 on a total of 106 ISF (97 brokers and broker-dealers and 9 Portfolio Management Companies) registered at 30 June 2009. The data relates to 30 June 2009, the date of entry into force of the Circular, and to 31 May 2009.

18 Some matters connected with credit risk, the principles of which are important for credit institutions, are regulated by direct reference to Bank of Spain Circular 3/2008.

4.2 Computable own funds

Computable own funds at 30 June 2009 amounted to 1,932 million euros, which in accordance with Table 4 comprise basic own funds in the amount of 1,890 million euros and second category own funds of 42 million euros, which meant an increase of 1.19% in computable own funds in the ISF sector deriving from the changes made by Circular 12/2008.

Although the impact was not large, it is important to indicate the effect which valuation adjustments can have on computable funds. If adjustments as a result of changes in value of assets recorded at fair value against net worth are positive, they are partially computed as second category own funds and if, on the other hand, they are negative, they are deductible from basic own funds. Taking into account the existing relationship between basic own funds and those of second category,[19] negative adjustments can condition and limit the computability of the latter.[20] Table 4 reflects the increase in second category own funds in the series of ISF with application of the new Circular, the weighting of which with respect to total computable own funds of the sector is less than 2.5%.

Computable owns funds of ISF TABLE 4

Millions of euros	Circular 6/92	Circular 12/08
Basic own funds	1,902	1,890
Second category/auxiliary own funds	6	42
Total computable own funds	**1,909**	**1,932**

Source: CNMV, reserved solvency statements.

4.3 Own funds required

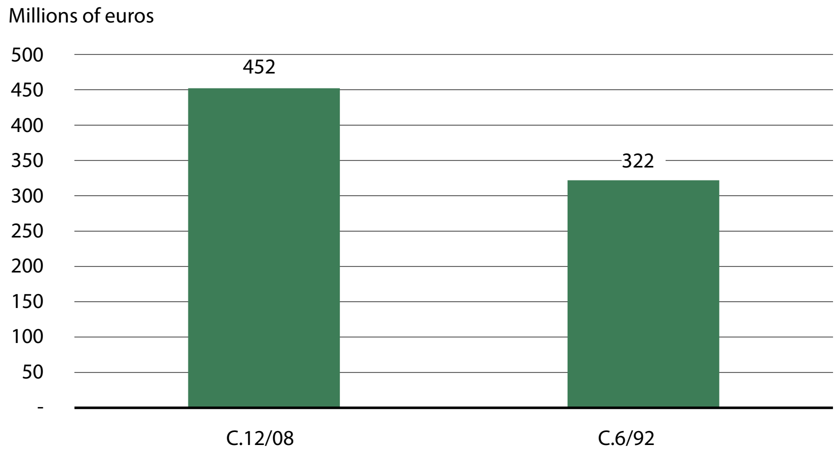
As shown in Figure 3, application of the principles set out in Circular 12/2008 has had a significant effect on own funds required of the ISF sector, which have undergone a net increase of 130 million euros (41% with respect to the previous legislation), 99.8% of which corresponds to brokers and broker-dealers.

19 Section 6 of Circular 12/2008: Limits in the computation of own funds.

20 Second category own funds basically relate to the amount of valuation adjustments as a result of changes in value of assets recorded at their fair value against net worth, which at 30 June amounted to 45 million euros, compared with some negative adjustments of 47 million euros deducted from basic funds.

Own funds required of ISF

FIGURE 3



Source: CNMV, reserved solvency statement.

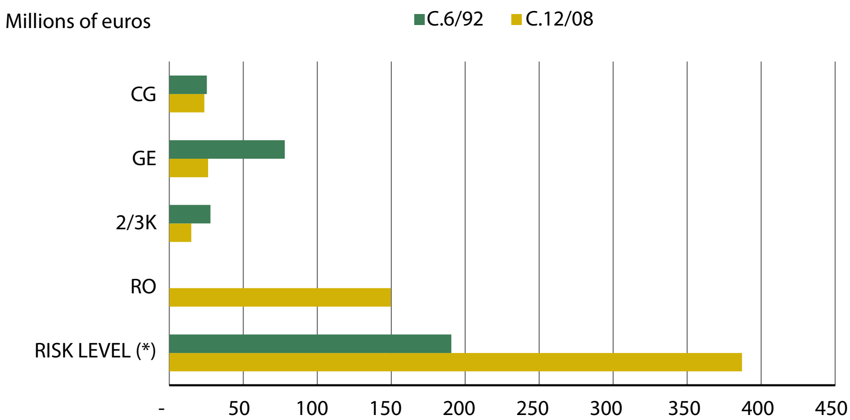
Circular 12/2008[21] specifically provides that all ISF must maintain own funds equal to or exceeding the highest of the following:

- sum of requirements as a result of risk level (credit, market and operational),
- one fourth of overheads,
- two thirds of minimum capital,
- 5 per thousand of the volume of portfolios managed.

The express recognition of operational risk explains why recognised risk levels of ISF have increased and, as shown in Figure 4, this has led to additional fund requirements of 150 million euros.

Composition of own funds required

FIGURE 4



Source: CNMV, reserved solvency statements.
* Including operational risk.

As a result of this recognition, under Circular 12/2008 86% of own funds required of the sector at 30 June 2009 comprised the sum of requirements as a result of the

21 Circular 6/92 does not differ in the method of calculating own funds required, except for the inclusion of operational risk.

level of risks of activities of ISF compared with 59% under the previous legislation. Those ISF which calculate their requirements by sum of risks are brokers and broker-dealers, although some securities brokers have also been affected. In this respect, the Circular, on prior authorisation by the CNMV and conditional on compliance with certain requirements, introduced the possibility of excepting brokers and portfolio management companies from computation of operational risk. 19% of the remaining increase is determined by the own funds requirements of ISF with "limited" activities, for which the base requirements, and to a lesser extent 2/3 of capital or 5 per thousand of volume of portfolios managed, continue to define their capital requirements.

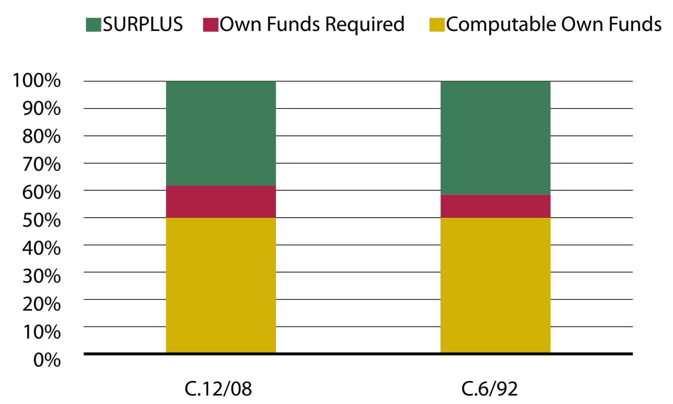
Moreover, the recognition of operational risk has meant an increase in requirements in the level of risks of all ISF. Consequently, 41 ISF (39% of the total) have seen the nature of their required own funds modified, since with the new Circular their own funds required have become calculated as the sum of requirements for covering all risks (market, credit and operational) in substitution for the base requirements, of 2/3 capital or 5 per thousand of volume of portfolios managed. These circumstances have led to a net increase in their funds requirements in the amount of 60 million euros.

Furthermore, a net increase has occurred of 70 million euros at the level of risk requirements of ISF which, under Circular 6/1992, already calculated their own funds requirements as the sum of requirements for covering their risks.

If an individual analysis of ISF is carried out it can be seen than 58% of them are affected by an increase in their required own funds, in a cumulative amount of 134 million euros, compared with 18% who have seen their requirements reduced by 4 million euros, and the requirements of the remaining 24% have remained unchanged.

The greater requirements for capital funds under Circular 7/2008 have meant a fall in the solvency margin of ISF, from 4.94 to 3.27. Despite this reduction, ISF in general have sufficient own funds to meet the new solvency requirements, as shown in Figure 5.

Solvency of ISF FIGURE 5



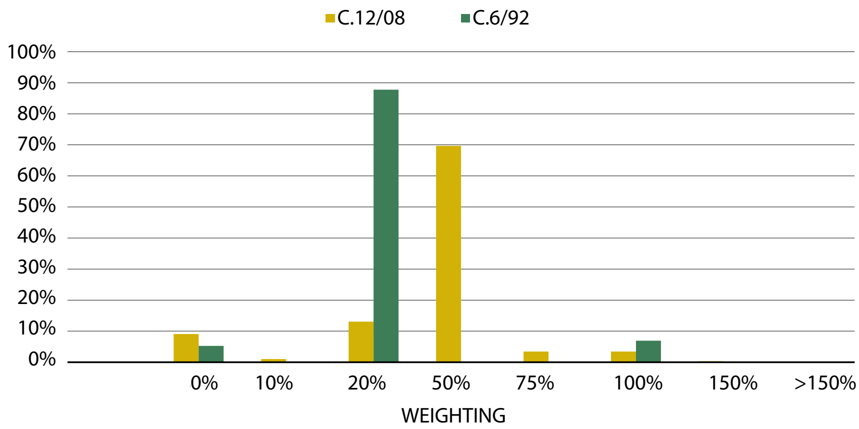
Source: CNMV, reserved solvency statements.

4.4 Credit risk

With respect to analysis of credit risk it can be seen that ISF use the standard method for determining the requirements associated with this risk. The method set out in Circular 12/2008 is conceptually the same as that set out in Circular 6/1992 in that credit exposure has not varied and a risk weighting is assigned to each of the off-balance sheet assets and operations of the entity in order to obtain total assets weighted by risk.

However, the method set out in Circular 12/2008 is more sensitive to risk and the effect of the modifications included by this Circular on capital requirements as a result of credit risk is basically due to the fact that under the previous legislation individual weightings were established based on the nature of the borrower (sovereign risk, banks, firms and private individuals) and, with Circular 12/2008, risk weightings are profiled taking into account the classification provided by rating agencies which comply with strict standards for their recognition as "eligible" by the CNMV. As can be seen in Figure 6, under Circular 6/1992 most of the exposures subject to credit risk was weighted at 20% as positions with financial intermediaries. Circular 12/2008 meant that part of this exposure is now classified as "positions with unclassified institutions" which receive a risk weighting of 50%.

Original exposure. Distribution by risk weighting FIGURE 6



Source: CNMV, reserved solvency statements.

4.5 Operational risk

Finally, as indicated in previous paragraphs, the impact of express recognition of operational risk in determining own fund requirements of ISF has been significant and has meant additional requirements as a result of risk level of 150 million euros. These capital requirements associated with operational risk result from use by all ISF of the basic indicator method. If we take into account the qualitative requirements for applying the standard method in relation to the scant impact on reduction in own funds requirements, it can be expected that few ISF will opt to use it to replace the basic. Neither is it foreseeable that ISF, except for those who belong to banking groups, will use the advanced methods which establish very rigorous qualitative and quantitative requirements.

The basic indicator method used by ISF is not characterised by being sensitive to risk, since it determines capital requirements in a simplified form, such as 15% of annual average net income for the last three complete financial years. In this respect, it could be concluded that this method does not take into account the risk management policies implemented and that its use penalises entities which have high income.[22]

4.6 Supervisory review and market transparency

Pillar II involves a change in the supervisory model which is aimed at ISF having better techniques for risk measurement and management and that solvency objectives are laid down which are proportional to their size and complexity of the investment services they provide. In this context, ISF will have to carry out a self-assessment exercise of all risks to which their activities are exposed, including all those not taken into account in the calculation of minimum own funds requirements, and in particular the interest rate risk outside the trading portfolio.

Under the new scheme the establishment of a dialogue with entities is also provided which will enable the CNMV to assess whether ISF and their consolidation groups adequately quantify their capital requirements based on all significant risks to which they are exposed, taking into account the solidity of their risk management and internal control procedures implemented. As a result of this assessment, the CNMV may require entities to reduce their risks, maintain capital above the regulatory requirement, modify their procedures or adopt a combination of these measures.

In this framework of self-assessment of capital, consolidation groups of ISF or ISF not integrated in these groups will have to send the Capital Self-Assessment Report to the CNMV which must detail aspects relating to scope of corporate governance, risk management policies and internal capital estimates.

Finally, in the sphere of Pillar III, relating to information transparency and market discipline, Circular 12/2008 regulates the contents of the Solvency Report which ISF must disseminate annually. The Circular has developed various requirements for disseminating relevant information connected with capital and risk exposure which seeks a balance between the need to transmit important information and protection of own and confidential information of the ISF.

5 Conclusions

From the analysis carried out in this article it can in general terms be deduced that with the CNMV Accounting Circular, 7/2008, and Solvency Circular, 12/2008, there is a greater parallel between the new regulation of own funds and accounting standards with respect to definition of basic concepts, market information, and above all manager responsibility requirements. Despite this greater level of consistency between accounting standards and solvency, the outcome of these circulars, efforts continue to be made to advance further in the desired objective of convergence.

22 It is foreseeable that by December 2009, and as a result of taking the last three financial years as reference for calculating operational risk (2007, 2008 and 2009), the amount of own funds associated with operational risk will diminish since the effect is eliminated deriving from the favourable profits which the entities obtained in the 2006 financial year.

Firstly, the analysis of Circular 7/2008 in general terms reveals clearly positive aspects with respect to the previous accounting standards. In particular, the new accounting standards permit greater international comparability of financial statements as well as contributing in a more direct manner to reflecting a true picture and providing useful and relevant information for decision-making. With respect to their effects on ISF and taking into account the logical limitations for establishing comparisons with the regime prior to the circular, it can be concluded that the impact of the circular on financial statements of undertakings in this sector is in general terms moderate.

Application of this new legislation in turn raises new challenges, however, for supervisors, including those deriving from the greater discretion involved in the possibility of using judgments and estimates in determination of some items, such as the valuation of financial assets, deferred tax assets, commitments to post-employment remuneration and the recoverability of doubtful balances. The intrinsically pro-cyclical nature of certain accounting standards must also be considered, such as application of the principles of market valuation of financial instruments and accounting treatment of provisions which can also condition the variability of ISF results in the future. Furthermore, the greater relative weight of valuation criteria based on fair value should motivate ISF to cover the financial risks deriving from the impact which changes in market conditions can have on their net worth and profit and loss.

For its part, one of the basic objectives sought by Circular 12/2008 is greater effort on the part of ISF to improve management practices and control their risks and the information which they provide to the market. To this objective can be added the role of the CNMV in improving supervisory procedures. In all, it is necessary for ISF to carry out an exercise in adaptation to the new regulatory environment in which risk management and measurement are fundamental aspects in planning their activities and in the creation of new business lines.

The impact in terms of capital requirements of Circular 12/2008 on the ISF sector is substantial, basically due to the express requirement of operational risk. However, the ISF sector, which shows an accumulation of reserves, is sufficiently capitalised and has adequate margins to meet the new requirements in the solvency field.

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Circular 6/2009, on internal control of collective investment undertaking management companies and investment companies

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1 Introduction

The general framework of legislation on collective investment undertakings (hereinafter CIUs) set out in the CIU Act and Regulations (hereinafter the CIU Act and CIU Regulations, respectively) lays down the general principles regarding the internal organisational requirements which investment companies and managers must comply with.[1] Specifically, Section 43 of the CIU Act provides that they must have a good administrative and accounting organisation, with internal control and risk management procedures and mechanisms, and security mechanisms in the IT field and for the prevention of money laundering. They must also have rules for connected transactions and an internal code of conduct, as well as being structured in such manner that the existence of conflicts of interest between the manager and its clients, between clients themselves, between one of their clients and a CIU or between two CIUs, is reduced to a minimum. This latter gives rise to managers operating on the principle of separation of functions.

In addition, Section 73 of the CIU Regulations requires that managers establish rules which regulate the personal transactions of their employees and those which they carry out for their own account, as well as adequate procedures permitting members of their management bodies to comply with their obligations and responsibilities.

These principles set out in the general framework of legislation applicable to CIUs must be developed and specified in more technical and detailed legislation of lower ranking, for which reason both Sections 43 of the CIU Act and 73 of the CIU Regulations provide for the corresponding authorisations to implement them, which has eventually materialised in promulgation of Circular 6/2009, on Internal Control (hereinafter the "Circular"),[2] which constitutes the central theme of this article.

Nevertheless, prior to promulgation of the Circular there was already a certain implementation of internal control obligations required of managers, albeit limited to operations in certain types of financial instruments, specifically in respect of financial derivatives and unlisted securities. These were implemented in Circulars 3/97 and 4/97, respectively, partially repealed by Circular 6/2009.[3]

1 Act 35/2003, of 4 November, on Collective Investment Undertakings and Royal Decree 1309/2005, of 4 November, promulgating the Regulations in implementation of Act 35/2003, of 4 November, on Collective Investment Undertakings, and respectively adapting the tax regime of collective investment undertakings.

2 In addition, Section 6 of Order EHA/35/2008, of 14 January, implementing rules relating to the accounting of CIUs, determination of net worth, computation of risk diversification coefficients and certain aspects of CIUs whose investment policy consists of reproducing, replicating or taking a stock exchange or fixed income index as reference, authorises the CNMV to issue the necessary provisions specifying the requirements which must be fulfilled by internal control and risk management systems of managers.

3 Respectively, Rule 6 and Annex 3 of CNMV Circular 3/97, of 20 July, regarding information obligations of members and participants in CIUs of a financial nature and certain developments of the Ministerial Order of 10 June 1997 on transactions by these undertakings in derivatives, and Rule 11 of CNMV Circular 4/97, of 26 November, on valuation principles and conditions for investment in unlisted securities.

Furthermore, Circular 1/2006[4] also implements the internal control and risk management requirements of managers of hedge funds or funds of hedge funds, known as "IIC de Inversión Libre" and "IIC de IIC de Inversión Libre", respectively, under Spanish law, taking into account the particular risks of this type of collective investment. In particular, the circular placed special emphasis on mechanisms for management and control of liquidity risk, adequate separation of functions, strengthening controls when administration functions are delegated, and specific experience required of managers as well as the additional own funds requirement in order to engage in this line of activity.

As a result of the interest in these measures in a sector, such as collective investment, with such impact on small investor savings and the national financial system as a whole, the purpose of this article is to provide information on the most important new features introduced by the CNMV circulars in the field of internal control of managers.[5]

With respect to organisation of the article, Section 2 deals with the objectives of the Circular, Section 3 the organisation of managers, including the role of the board and the basic functions of these undertakings, comprising internal control policies and procedures, the risk management function, that of legislative compliance and the function of internal auditing. Section 4 deals with the principal aspects and requirements laid down in the case of delegation of functions. A section on conclusions completes the article.

2 Objectives of the Circular

As previously outlined, the primary objective of the Circular is to implement the internal control obligations laid down by the CIU Act and CIU Regulations, which will affect all activities connected with the management, administration and control of CIUs and not only those relating to operating in financial derivatives and/or unlisted securities.

In addition, since managers which engage in discretionary portfolio management activities, or advisory or other investment services, must comply with the organisational requirements and conduct rules laid down in the Markets In Financial Instruments Directive (MiFID), the Circular has taken into account the principle adopted in transposing this Directive[6] and has established a similar regime for the management of collective investment undertakings, with a few differences associated with the specific nature of each type of activity. This thereby prevents managers engaging in simultaneous CIU and individual portfolio management duplicating their costs by having to adapt to two different sets of legislation and at the same time ensuring that the rules of play in each type of activity are the same for all undertakings (level playing field).

4 Circular 1/2006, of 3 May, of the Spanish Securities Market Commission *(Comisión Nacional del Mercado de Valores)* on Hedge Fund Undertakings.

5 For clarification, references made over the course of this article to "managers" must be taken to refer to collective investment undertaking management companies ("SGIIC") and investment companies which have not entrusted their management, administration and representation to an SGIIC.

6 Decree 217/2008, of 15 February, on the legal regime of investment service firms and other undertakings which provide investment services and partially amending the Regulations under Act 35/2003, of 4 November, on Collective Investment Undertakings, promulgated by Royal Decree 1309/2005, of 4 November.

On this point, the focus implemented by the Circular is in line with that adopted by the Committee of European Securities Regulators (CESR) in its technical advisory report to the European Commission regarding Community Level II rules on organisational requirements, rules of conduct and risk management which will be implemented by the UCITS IV Directive,[7] promulgated in 2009, in relation to the Community Passport for managers.[8] This advisory report also takes as its model the provisions of the MiFID legislation with the necessary adaptations to the specific features of CIUs. In this respect, it can be said that the Circular anticipates the changes which will be introduced at the time by the Level II legislation in relation to UCITS IV. It also contains the Level III principles (consistent application of Community rules and supervisory convergence) in the field of risk management approved by the CESR in February 2009.[9]

3 The manager's organisation

3.1 The manager's board of directors

In its second section the Circular sets out the responsibility of the board with respect to internal control policies, specifically emphasising its responsibility with respect to risks which could affect the CIUs managed and the manager itself in order that these risks are adequately identified, managed and mitigated. Furthermore, the board will be responsible for maintaining adequate technical and human resources for correctly implementing the obligations established by the Circular as well as ensuring adequate separation of functions within the organisational system of the manager.

The board is configured as having ultimate responsibility for supervising and evaluating the efficacy of risk management and legislative compliance procedures, a task which it can delegate to an audit committee, comprising a majority of non-executive directors, in order to thereby guarantee its independence. In this manner, the periodic and annual reports which the internal audit unit must produce will be addressed to the audit committee, if it exists. The opportunity provided by the new legislation for managers to create this committee has the purpose of providing them with a flexible tool such that the member or members of the board who are not in charge of operating units of the manager can specialise in supervision of its correct functioning.

3.2 The basic functions of the manager

The existence of a specific rule regarding the responsibility of the board with respect to internal control policies had already been set out in the circulars which imple-

7 Directive 2009/65/EC of the European Parliament and Council of 13 July 2009, coordinating legal, regulatory and administrative provisions regarding undertakings for collective investment in transferrable securities (UCITS).

8 See the document "CESR´s Technical advice to the European Commission on the level 2 measures related to the UCITS Management company passport", Ref. CESR/09-963, available on http://www.cesr-eu.org/data/document/09_963.pdf

9 See the document "Risk Management Principles for UCITS", Ref. CESR/09-178, available on http://www.cesr-eu.org/data/document/09_178.pdf

mented internal control requirements in order to operate with derivatives, unlisted securities and to manage hedge funds. Circular 6/2009 now extends this requirement to CIUs and their activities as a whole.

The three basic functions which define the activity of any CIU manager are those of management, administration and control, and they must all be carried out under the principle of independence such that an adequate separation of functions is guaranteed for the purpose of minimising the possible existence of conflicts of interest. As indicated, the Circular subject to analysis in this article focuses on the third function referred to: the control function.

The Circular thus defines the two functions which, as indicated in its preamble, will make up the internal control of a manager. These are the functions of risk control and legislative compliance. Furthermore, there must be an additional function, exercised by the internal audit unit, the existence of which was already provided for in Circular 3/97, under the name of Control Unit, responsible for reviewing internal control systems and procedures. Internal auditing will therefore appear in the organisational chart of the manager at a higher level to risk control and legislative compliance functions since it is responsible for their supervision, and at a level lower to the board or audit committee, if any, to which it must render account in the final instance.

The CIU Act and CIU Regulations already provided for the functions of risk management and legislative compliance,[10] although the Circular makes their task more specific along with the procedures which they must implement in order to carry out their work. Furthermore, over the course of its provisions, the Circular echoes the principle of proportionality such that the organisational structure and procedures of managers will have to be proportionate to the nature, volume and complexity of their activities and of the CIUs managed. A principle provided in Section 93 of the CIU Regulations is thus maintained, when providing that procedures and systems must be adapted to the type of CIU which is managed and which was already implicit in Circular 3/97, when stating that *not all managers will need to have the same number of controls and procedures nor implement them in the same degree of depth*. At European level, this principle is also set out in the MiFID legislation and in the CESR advice on the level II rules of the UCITS IV Directive.

Finally, when it is proportionate based on the nature, volume and complexity of their activities and of the CIUs managed, the manager may have a single unit which ensures that internal control functions are carried out, i.e. risk management and legislative compliance.

3.2.1 Internal control policies and procedures

The Circular sets out a non-exhaustive list of essential internal control policies and procedures in the activities of all managers and provides for the possibility of adding additional procedures which are considered necessary in order better to comply with internal control obligations in accordance with the nature, volume and complexity of the CIUs managed and their activities.

10 Specifically, Section 43.j) of the CIU Act and Section 64.1.b).4 of the CIU Regulations provide for an obligation to carry out adequate risk management and control of legislative compliance.

In the same text the Circular provides for regulation of both internal control policies and procedures deriving from the internal organisational requirements of managers established in the CIU Act and CIU Regulations, as well as the procedures developed by manager themselves, the outcome of supervisory practice. The policies and procedures which the Circular develops in a more detailed manner are highlighted below:

- **Determination of tolerance thresholds:** The rule provides that mechanisms must be established for identification and resolution in the least possible time of errors and breaches which have an impact on liquidating value. In order to make the procedure objective, the Circular permits managers to establish tolerance thresholds above which the existence is determined of an impact on liquidating value and those which lead to the need to report to and compensate holders.
- **The importance of automating certain procedures:** With respect to means, the importance is emphasised of IT systems, requiring that those which support administrative and accounting procedures guarantee a high degree of automation and minimise operating risk, such that they enable prices to be automatically captured and permit immediate adequate recording of each transaction. This requirement is maintained in line with Circular 3/97, which already referred to the degree of mechanisation of position valuation, and Circular 1/2006, which provided that prices must be captured automatically. A clearly novel aspect of the Circular is the requirement that IT systems which support risk measurement are integrated with accounting and investment management applications.
- **Back testing and stress testing:** Of risk management policies and procedures, special mention is merited by back testing, which has the purpose of calibrating the accuracy and quality of risk assessment systems, and stress testing, or tests of tolerance to limit situations and simulation of extreme cases. This second type of testing had already been carried out since 2006 by hedge fund managers in order to analyse effects on both their portfolio and liquidity management. With the new Circular these tests cover not only products such as hedge funds, traditionally considered as more risky, but also traditional CIUs.
- **The best execution principle:** This principle was already implicit in Section 46.2 of the CIU Act when establishing the duty of managers to act for the benefit of shareholders and participants. The Circular implements it in a manner similar to the provisions of the MiFID Directive however, providing that managers must have policies and procedures for selecting financial intermediaries for the purpose of obtaining the best possible result for their CIUs, and their selection process must cover price, costs, speed and probability in execution and settlement, the volume and nature of the transaction and any other element which the manager considers relevant for executing transactions.
- **The manager-depositary relationship:** Taking account of the operating risk which custodianship can involve, from human or IT errors to fraud, and the interest aroused in European forums,[11] the Circular brings together the procedures in this respect: firstly, managers must have procedures which guarantee

11 See the document "CESR's response to the European Commission's consultation on the UCITS depositary function", Ref. CESR/09-781. The document can be found on the CESR website, in the section "Expert Groups - Investment Management": http://www.cesr-eu.org/data/document/09_781.pdf

that the availability of CIU assets takes place with the consent and authorisation of the depositary, an aspect which was already provided in the CIU Regulations, as well as procedures permitting the detection of any anomaly in custodianship and administration functions. Reconciliations are further provided between the internal records of the two entities.

- **Preservation of documentary evidence:** The Circular provides that the documents underlying the controls carried out in the field of the procedures which must be implemented by managers must be preserved for a period of five years. A similar obligation is found in the legislation implementing the MiFID Directive and in hedge fund regulations.

It can further be emphasised that managers must have procedures relating to the system for employee remuneration and incentives, which must assist in preventing conflicts of interest and avoid taking risks inconsistent with the risk profile of the CIUs managed. Managers must furthermore have adequate administrative and accounting procedures and procedures for valuation and calculating liquidating values. They must also have procedures which permit the reconstruction of orders, their distribution and breakdown, which regulate the actions of personnel, internal and external communications procedures and connected transactions, marketing policies and procedures, money laundering, continuity plans and disaster recovery, information security and the exercise of voting rights.

In short, the new Circular has developed the internal control obligations and procedures which managers must have, aligning them as far as possible with existing developments at European level and the legislation established for providing certain investment services deriving from the MiFID Directive.

3.2.2 The risk management function

The Circular establishes an obligation, in accordance with the Level III CESR criteria regarding risk management, to maintain a specialist, permanent and independent unit which guarantees the risk management function and whose tasks begin with definition of a risk limit system for each CIU. In this case, the Circular requires that the global level of risk be approved by the board, and specific risk levels must, as appropriate, be approved by the investment committee.

It should be mentioned that Spanish regulation already contained precedents for this obligation in relation to operating with derivatives, since Circular 3/97 provided for the need to establish a risk limit and operating limit structure for each CIU, indicating limits for market and counterparty risks at product level.

The tasks which the risk management unit must carry out particularly include the following:

- **Identification, evaluation and quantification of significant risks of each CIU and verification of compliance with the risk limits established.** In the event that these limits are exceeded, the manager must have procedures to take the appropriate steps to ensure an efficient and orderly adjustment in the least possible time of the investment portfolio, always in the interests of holders and applying the provisions of the previous section regarding tolerance thresholds. In any event, risk measurement tools and techniques must be used which accord with the strategies implemented.

- **Implementation of a due diligence process in respect of investments**, for which the risk management unit must carry out an assessment, both prior to and while investments remain in portfolio of the characteristics of the assets, placing special emphasis on their risks, consistency with the CIU investment policy, their valuation and the availability of information. In this case, the principle of proportionality also applies since in order to make the investment decision-making process agile it will be possible for the manager to establish simplified verification procedures in the case of non-complex assets.

  The earliest background to the obligation to carry out a due diligence in respect of investments can be found in Circular 3/97, since it provided that the manager's procedure manual must include *a description of the information necessary to prepare an investment plan and the liquidity requirements for each CIU which permits investment decisions to be taken at all times in a consciously and solidly reasoned manner.*

  The provision which developed the due diligence in most detailed manner however is Circular 1/2006, on Hedge Funds, which regulated in detail each of the aspects to be analysed in evaluation of the underlying hedge funds in which funds of hedge funds wish to invest. In this case, the detailed regulation of the due diligence process was a response to the objective of requiring hedge fund fund managers to have adequate means and procedures to manage a product aimed at those retail investors who desire indirect access by these investment vehicles to the hedge fund world.

  Finally, the Level II advice of the CESR on the UCITS IV Directive also deals with the need to carry out a due diligence of investments, stressing checks in respect of the underlying CIUs in which they invest, particularly in relation to their corporate governance and verifying that custodianship takes place independently.

- **Verifying asset valuation procedures, particularly for non-liquid assets and those not traded on organised markets.** A similar obligation was provided in Circular 3/97, which required managers to have alternative valuation methods permitting daily valuation of positions in derivatives when there is no sufficiently liquid market.

  In addition, in the case of this type of instrument the depositary must verify that the parameters used in valuation of the manager's assets are adequate.[12]

- **Liquidity management.** The primary objective of adequate liquidity management is to preserve fairness, particularly in times of market crisis, between those investors who liquidate their holdings and those who remain in the fund, taking into account that inadequate liquidity management could lead to dilution of the value of holdings of some investors in favour of others.

  Consequently, it is the responsibility of the manager at all times to monitor the depth of markets in which it operates in order to be able to meet disinvestment requests by orderly liquidation of the positions of CIUs without having to resort to forced liquidation procedures, with the discounts which this could involve.

12 In accordance with the provisions of Section 2 of Order EHA/35/2008, of 5 March, regulating certain aspects of the legal regime of the CIU depositary, and specifying the content of position statements.

Liquidity management must be structured at two levels. Firstly, at the level of each CIU, this management must take place by studying the structure of holders and their degree of concentration, since, if any investor has significant holdings in a CIU, the latter could be exposed to the so-called "holder risk". In this case, if a relevant holding is reimbursed, the CIU would run the risk of having to undo large investment volumes in a short space of time at possibly disadvantageous prices, with the consequent prejudice to both investors who liquidate their holdings and those who remain in the fund.

Secondly, liquidity must be evaluated at the level of each financial instrument which makes up the CIU portfolio, taking into account for the purpose aspects such as trading frequency and volume, number of transactions, availability of market prices, quality of financial intermediaries and volume of investment of the CIU in relation to the volume in circulation. In short, the ease and time necessary to dispose of a significant amount of investment without provoking serious prejudice to holders must be assessed. It must be qualified, however, that the liquidity of a CIU will be measured at global level with the ultimate purpose of meeting normal redemption of shares or holdings.

The CIU Act provides that one of the governing principles of CIU investment policy is liquidity and Section 40 of the CIU Regulations provides than managers must have internal control systems to manage the liquidity of CIUs. Circular 3/97 to a certain extent implemented regulation in the field of liquidity management since it affected the need for managers to have a system for planning and control of liquidity requirements of CIUs managed, based on the rotation of holders and the liquidity risk of markets or securities in which they invested. Furthermore, the Level II Directive 2007/16/EC,[13] and the CESR recommendations of the same year regarding eligible assets[14] already indicated the need for adequate liquidity management by CIUs taking into account the two levels previously indicated.

- Finally, as indicated with reference to manager's procedures, the risk management function must **involve stress testing and back testing** of all CIUs, in order both to calibrate the effect on their investment portfolio and on liquidity management, as well as reviewing policies for selecting financial intermediaries for the purpose of determining the quality of execution and **verifying compliance with the principle of best execution**.

3.2.3 The legislative compliance function

The objective of this function is to detect and correct breaches in two respects: legal breaches and breaches of internal operating rules of the manager, set out in their internal conduct regulation. In order to comply with this objective the independence of the legislative compliance function is essential.

13 Directive 2007/16/EC of the Commission, of 19 March 2007, which established provisions in implementation of Directive 85/611/EEC of the Council, coordinating legal, regulatory and administrative provisions for undertakings for collective investment in transferrable securities UCITS) in relation to the clarification of certain functions.

14 See the document "Guidelines concerning eligible assets for investment by UCITS", Ref. CESR/07-044, available at http://www.cesr-eu.org/data/document/07_044.pdf

The legislative compliance unit must thus verify compliance with all requirements, coefficients and legal limits applicable to operations and investments of CIUs and the criteria established to calculate liquidating value. In this manner it will be responsible for reviewing compliance with the concentration limits laid down in legislation, i.e. it must verify that the investments of the CIU in assets issued or backed by a single issuer comply with Rule 5/10/40 in the UCITS Directive.[15] Furthermore, it must verify that exposure of each CIU in derivatives does not exceed its net worth value more than once. In addition, this unit will be responsible for verifying compliance with the mechanisms established to ensure fairness and non-discrimination between holders. The contents of this obligation can be considered horizontal since it involves almost all tasks or functions of the manager.

Finally, the legislative compliance function will be responsible for verifying compliance with rules for separation from the depositary and the connected transactions procedure, verifying that they have been carried out at market prices, unless both functions have been entrusted to an independent committee created within the board.

Risk management and legislative compliance function reports

One of the objectives of the Circular is to lay down and systematise the internal flows of information between the different units of the manager and its decision-making bodies. For this reason it defines the types of report which each unit must produce and for which it must be responsible, as well as their regularity and recipients.

With a regularity of at least quarterly, both the risk management unit and legislative compliance unit must send a report to all directors on the results of their activities and, in the case of the first, highlighting any exceeding of the global risk level and specific risk levels, and in the case of the second, breaches and risks associated with them. In both cases the efficacy of the measures adopted in the board in relation to them must be described.

Furthermore, both units must each year send to the board, within the first five months of the financial year, a report on the results of their activities in order that it can take note of them and adopt the appropriate measures to resolve the incidents highlighted. These reports must be made available to the CNMV.

It is important to highlight that in the case of the quarterly reports the Circular does not require that they be sent to the board as a collegiate body but, in order to give certain flexibility to the manager's internal communications mechanisms, this information may be sent to each of the directors individually.

Finally, in the event that there is a single unit guaranteeing the legislative compliance and risk management functions, a single report may be prepared with clear separation of the results of activities in the two functions.

3.2.4 The internal audit function

The primary objective of the internal audit unit is to supervise correct functioning of the internal control procedures and systems of the manager. To this end it must prepare and maintain an **audit plan** aimed at examining and evaluating the suitability

15 In general, the maximum limit of concentration in one issuer is 5% of net worth. This limit may be increased to 10% provided that the assets of the issuers in which 5% has been exceeded do not exceed 40% of net worth.

and efficacy of the internal systems and procedures, proposing improvements and verifying compliance with them in the event that deficiencies or areas susceptible to improvement are found in exercising its supervision.

The person responsible for internal auditing must report directly to the board of the manager or, if it exists, to the audit committee, a body created within the board comprising a majority of non-executive members, whose specific tasks consist of supervising risk management and legislative compliance systems and procedures.

As in the case of risk management and legislative compliance functions, the audit unit must prepare an annual report on the result; of its activities. In this case, however, it is obligatory to send it to the CNMV within the first four months of each year by the CIFRADOC system. Furthermore, in order that the board is regularly aware of its activities, it must report to it periodically on its work in progress. The annual report of the audit unit will replace the *Report on degree of compliance with internal control standards* which internal control unit; have been preparing in accordance with Circular 3/97.

4 Delegation of functions

As in other sectors, CIU managers can also delegate their functions provided that they are not converted into instrumental companies or companies void of content, as provided by Article 13.2 of the UCITS Directive and section 68 of the CIU Regulations. The latter lays down the general principles for delegation of functions.

With respect to the risk management function, the Circular provides that it be carried out within the manager, since it is a critical function bearing in mind its close link to the asset management function. Consequently, this function can only be delegated when this is proportionate to the nature, volume and complexity of the activities of the manager and of the CIUs managed.

With respect to the legislative compliance function, this may be delegated, except in relation to verification of rules for separation from the depositary and compliance with the procedure for connected transactions.

The Circular establishes certain restrictions on the entities to which functions can be delegated in order to minimise the possible existence of conflicts of interest. In fact, the risk management function and that of legislative compliance may not be delegated to the depositary or entity to which the latter has delegated its functions, or any other entity whose interests may conflict with those of the manager or holders. Furthermore, the risk management function may not be delegated to the entity to which internal auditing is delegated, as the case may be.

With respect to the internal auditing function, the Circular allows it to be carried out by an entity in the group, but in no case may it be delegated to the auditor of the manager or of the CIUs or to the entity which, as the case may be, assumes risk management functions as previously indicated. Neither may this function be assumed by the entity which audits the annual financial statements of the manager or those of its CIUs.

Consequently, the rule permits a situation in which control of risks and legislative compliance is delegated to the same entity, provided that adequate separation of functions is ensured. However, it is not permitted for risk management and internal auditing to exist in the same delegated entity, even if the latter belongs to the manager's group.

Delegation of functions by a manager requires a prior due diligence process in respect of the entity to which they are delegated in order to ensure that it has the necessary capacity and competence in order to reliably and professionally carry out the functions entrusted by the delegation. In order to prevent regulatory arbitrage in the delegation of functions it will be deemed that this requirement is fulfilled when the entity to which delegation takes place has technical and human resources and procedures equivalent to those laid down in the Circular.

Furthermore, the delegating manager must retain the necessary human and technical resources for ongoing supervision of the functions delegated. Taking into account the importance involved in the risks which could be involved in delegation, responsibility is entrusted to a high-level figure within the manager's organisation for controlling the activity delegated. The control can thus be carried out by an independent committee created within the board or by a senior executive or similar, who may not have executive functions, in order to thereby guarantee greater independence and objectivity in his tasks.

5 Conclusions

The Circular came into force on 22 December 2009, with managers having a period of around one year, until 31 December 2010, to adapt their internal control systems and procedures to its provisions.

In this respect, the first annual reports which, in accordance with the Circular, must result from risk management, legislative compliance and internal auditing functions will be those for the 2011 financial year, which must be sent to the board of the manager (and to the CNMV in the case of the audit report) in the first four months of 2012.

With respect to periodic reports, they must initially be prepared as from 31 December 2010.

Finally, in order to evaluate the degree of implementation of the Circular's requirements, the internal audit unit must prepare a report on the degree of adaptation of internal control systems and procedures, taking 31 December 2010 as reference, which must be sent to the CNMV in the first four months of 2011.

With the issue of Circular 6/2009, the internal control policies and procedures in which the internal organisational requirements of managers must materialise, as established in the CIU Act and CIU Regulations as well as those others which managers themselves have been developing pursuant to supervisory practice, are brought together under a single umbrella. This Circular requires that, within one year from its entry into force, managers give effect to all obligations referred to which are pending detailing in writing in specific procedures.

This Circular clarifies the corporate governance of managers since it regulates and systematises their organisational structure, defining and specifying the functions which will make up internal control.

The Circular further aims to systematise the flows of information within the manager, thereby regulating the reports which each unit must issue, their regularity and content, and their recipients.

The procedures detailed in more extensive manner in the Circular include a due diligence process in respect of all investments by CIUs; the establishment of tolerance thresholds to determine the impact of errors or non-compliance in liquidating values, and for compensating and informing holders; carrying out back testing and stress testing; incorporation of the best execution principle, and integration of their IT systems. The procedures for carrying out suitable liquidity management also merit particular mention.

The organisational structure and procedures of managers must be proportionate to the nature, volume and complexity of their activities and of the CIUs managed. The principle of proportionality, already present in the CIU Regulations and the MiFID, and in the most recent CESR developments, must govern the functioning of managers in order that their dimension, human and material resources and other requirements are consistent and proportionate to the difficulty and normal activities of each manager.

Finally, the Circular transposes the principles of risk management approved by the CESR in February 2009 and most of its advice on Level II of the UCITS IV Directive. In this respect, it can be concluded that the Circular is highly consistent with the recommendations issued by the CESR. The Circular thus to a large extent anticipates the provisions of the future UCITS IV Directive of the European Commission, promulgation of which is expected in June 2010.

IV Legislative Annex

New legislation promulgated since publication of the CNMV bulletin for the fourth quarter of 2009 was as follows, in chronological order:

- Circular 5/2009, of 25 November, of the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*), regulating the Annual Auditor's Report on protection of client assets.

  The Circular implements Royal Decree 217/2008, on the legal regime of investment services firms in relation to the annual auditor's report on protection of client assets which must be provided to the Spanish Securities Market Commission, which obliges external auditors to formulate an opinion on adequacy of the control systems and procedures which entities must have implemented. As well as being applicable to investment services firms the report is also applicable to credit institutions in relation to the financial instruments of clients, but not in relation to cash funds.

  The Circular defines the structure of the report, the methodology and areas which the external auditor must review in order to verify compliance with the requirements laid down by legislation. The auditor must summarise the tests carried out on client funds and instruments, and indicate significant weaknesses and exceptions identified, limitations in scope and the recommendations made by the auditor. The auditor must send the report directly to the Spanish Securities Market Commission.

- Commission Regulation (EC) no. 1136/2009, of 25 November 2009, amending Regulation (EC) no. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 1.

  This legislation incorporates into European Union Law a modification of International Financial Reporting Standards (IFRS), in particular in relation to the so-called restructured IFRS 1, on adoption for the first time of IFRS. Guidance for transition to IFRS which has become obsolete is eliminated and small changes made to the wording.

- Commission Regulation (EC) no. 1142/2009, of 26 November 2009, amending Regulation (EC) no. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation no. 17.

  This legislation incorporates into European Union Law Interpretation no. 17 of the International Financial Reporting Interpretations Committee. This interpretation clarifies and gives guidance on the accounting treatment of distributions of assets other than cash to owners of an entity.

- Commission Regulation (EC) no. 1164/2009, of 27 November 2009, amending Regulation (EC) no. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation no. 18.

  This legislation incorporates into European Union Law Interpretation no. 18 of the International Financial Reporting Interpretations Committee (IFRIC).

This interpretation clarifies and gives guidance on accounting for transfers of elements of tangible fixed assets from customers, or cash to acquire or construct an element of tangible fixed assets.

- Commission Regulation (EC) no. 1165/2009, of 27 November 2009, amending Regulation (EC) no. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 4 and IFRS 7.

  This legislation incorporates into European Union Law a modification of the International Financial Reporting Standards (IFRS), in particular of IFRS 4 on insurance contracts, and IFRS 7, on information to be disclosed regarding financial instruments. The purpose of the modifications is to strengthen information obligations in relation to assessments of fair value and the liquidity risk associated with financial instruments.

- Royal Decree 1817/2009, of 27 November, amending Royal Decree 1245/1995, of 14 July, on the creation of banks, cross-border activity and other matters relating to the legal regime of credit institutions, and Royal Decree 692/1996, of 26 April, on the legal regime of financial credit establishments.

  This Royal Decree implements Act 5/2009, of 29 June, relating to the regime of major holdings in financial institutions, with respect to credit institutions. The regime of major holdings in financial institutions, as is well known, constitutes a prior administrative control in the case of credit institutions for which the Bank of Spain is responsible, which has the objective of evaluating for prudential purposes the identity, integrity and solvency of the most significant shareholders of institutions. In this respect, this rule, in parallel with other similar decrees promulgated for other types of financial entity, regulates how holdings must be computed in credit institutions in order to determine what is considered a major holding. The criteria are also listed in accordance with which the Bank of Spain will prepare and publish a list determining the content of the information which may be required in order to evaluate the acquisition of a major holding. This information will relate to the potential acquirer, the proposed acquisition and financing of the acquisition, as well as aspects relating to the commercial and professional integrity of directors and executives who will direct the activities of the credit institution as a result of the proposed acquisition. In those cases in which a change of control occurs, a business plan must be prepared detailing the impact of the acquisition on corporate governance, structure and available funds, internal control bodies and on procedures for the prevention of money laundering and the financing of terrorism.

  Furthermore, this legislation contains various specific additional provisions for credit institutions. Together with the powers and functions of the Bank of Spain referred to, the Royal Decree also provides that the Ministry of Economy and Finance may refuse creation of a bank or financial credit establishment when the suitability of the shareholders who will have a major holding in it is not considered adequate. Finally, it can be emphasised that in accordance with European Union regulation various powers of the Ministry of Economy and Finance have also been modified, which permitted refusal of authorisation to create a bank in the absence of reciprocity with third party countries, and the Ministry must in the future inform the European Commission and other supervisory authorities of the structure of the group in the case of control by shareholders from third countries.

- Royal Decree 1818/2009, of 27 November, amending the Regulations under the Collective Investment Undertakings Act, 35/2003, of 4 November, promulgated by Royal Decree 1309/2005, of 4 November.

  This Royal Decree, in relation to collective investment undertaking management companies ("SGIIC"), implements Act 5/2009, of 29 June, on the regime of major holdings in financial institutions. The regime of major holdings in financial institutions, as is well known, constitutes a prior administrative control in the case of SGIIC for which the Spanish Securities Market Commission is responsible, which has the purpose of evaluating for prudential purposes the identity, integrity and solvency of the most significant shareholders of undertakings.

  In parallel with other similar decrees promulgated for other types of financial entity, the legislation regulates how holdings must be computed in collective investment undertaking management companies in order to determine what is considered a major holding. The criteria are also listed in accordance with which the Spanish Securities Market Commission will prepare and publish a list determining the content of the information which may be required in order to evaluate the acquisition of a major holding. This information must relate to the potential acquirer, the proposed acquisition, financing of the acquisition and aspects relating to the commercial and professional integrity of the directors and executives who will direct the activities of the management company as a result of the proposed acquisition; in those cases in which a change of control takes place, a business plan must be drawn up detailing the impact of the acquisition on corporate governance, structure and available funds, internal control bodies and procedures for the prevention of money laundering and the financing of terrorism.

- Royal Decree 1819/2009, of 27 November, amending Royal Decree 948/2001, of 3 August, on investor compensation systems.

  This Royal Decree derives from the modification of amounts guaranteed by the Investment Guarantee Fund which took place by means of Royal Decree 1642/2008, of 10 October. In order to prevent the increase in coverage per investor up to the amount of 100,000 euros giving rise to an increase in the contribution which institutions must make for each client to the Investment Guarantee Fund, a new calculation system is now established since Royal Decree 948/2001, of 3 August, used a percentage of the amount guaranteed which was legally increased as calculation element when fixing these contributions.

- Royal Decree 1820/2009, of 27 November, amending Royal Decree 361/2007, of 16 March, in implementation of the Securities Market Act, 24/1988, of 28 July, in the field of participation in the capital of companies which manage secondary securities markets and companies which administer systems for registration, clearing and settlement of securities, and Royal Decree 217/2008, of 15 February, on the legal regime of investment services firms and other entities which provide investment services and partially amending the Regulations under Act 35/2003, of 4 November, on collective investment undertakings promulgated by Royal Decree 1309/2005, of 4 November.

This Royal Decree implements, in relation to investment services firms (ISF), Act 5/2009 of 29 June relating to the regime of major holdings in financial institutions. The regime of major holdings in financial institutions, as is well known, constitutes a prior administrative control, in the case of ISF for which the Spanish Securities Market Commission is responsible, which has the purpose of evaluating for prudential purposes the identity, integrity and solvency of the most significant shareholders in entities. In this respect, in parallel with other similar decrees promulgated for other types of financial entity, this legislation regulates how holdings must be computed in ISF in order to determine what is considered a major holding. The criteria are also listed in accordance with which the Spanish Securities Market Commission will prepare and publish a list determining the content of the information which may be required in order to evaluate the acquisition of a major holding. This information will relate to the potential acquirer, the proposed acquisition, financing of the acquisition and aspects relating to the commercial and professional integrity of directors and executives who will direct the activities of the ISF as a result of the proposed acquisition; in those cases in which there is a change of control, a business plan must be drawn up detailing the impact of the acquisition on corporate governance, structure and available funds, internal control bodies and procedures for the prevention of money laundering and the financing of terrorism.

Furthermore, this legislation contains various additional specific provisions for investment services firms. The capital required of agents which are legal entities is adapted and model reserved information statements established which entities which provide investment services must send to the CNMV in relation to their operations in the securities market.

Finally, the regime of major holdings in companies which manage secondary securities markets and companies which administer systems of registration, clearing and settlement of securities is modified in order to adapt it to the general regime of financial institutions, even though certain particular features are maintained such as the possibility for the CNMV to object to major holdings in these companies by acquirers whose country of origin does not guarantee reciprocity.

- Royal Decree 1821/2009, of 27 November, amending the Regulations on regulation and supervision of private insurance promulgated by Royal Decree 2486/1998, of 20 November, in the field of major holdings.

  This Royal Decree implements, in relation to investment services firms (ISF), Act 5/2009 of 29 June relating to the regime of major holdings in financial institutions. It is a regulation in parallel with that established for credit institutions in Royal Decree 1817/2009, of 27 November, to the summary of which we refer.

- Commission Regulation (EC) no. 1171/2009, of 30 November 2009, amending Regulation (EC) no. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation no. 9 and International Accounting Standard (IAS) 39.

  This legislation incorporates into European Union Law the modifications of Interpretation no. 9 of the International Financial Reporting Interpretations

Committee and of International Accounting Standard no. 39 (IAS 39). Both modifications relate to implicit financial derivatives and in particular the possibility of accounting for them separately from the principal contract of which they form part, excluding them from the category of assets accounted for at fair value.

- Circular 6/2009, of 9 December of the Spanish Securities Market Commission on internal control of collective investment undertaking management companies and investment companies.

  This legislation derives from Section 43 of Act 35/2003, of 4 November, on Collective Investment Undertakings (CIUs), which requires that their management companies ("SGIIC") have good administrative and accounting organisation with adequate technical and human resources and internal control procedures and mechanisms. The Circular, which is applicable to SGIIC and to self-managed variable capital investment companies ("SICAV") broadly develops the internal control obligations for all activities of these entities and establishes the need to adopt policies and procedures in relation to calculation of liquidating value, valuation of assets, selection of financial intermediaries, activities of members of their boards of directors, employees, representatives and authorised representatives, system of remuneration and fixing incentives, internal and external communications, connected transactions, risks associated with delegation of functions, use of CIU assets, custody and administration by depositaries, securities lending activities, customer care department, commercialisation of holdings and shares in CIUs, prevention of money laundering, risks deriving from unexpected interruption in essential functions, security of information and exercise of rights inherent in securities making up the portfolios of CIUs.

  The Circular provides that internal control of these entities includes the functions of risk management, legislative compliance and internal auditing and details the contents of these functions, which must be exercised maintaining a principle of separation from other activities of the entity. Furthermore, delegation of these functions is permitted subject to certain rules, and thus the function of risk management or that of legislative compliance may not be delegated to the depositary or the same entity to which the depositary has in turn delegated its functions, nor can the function of internal auditing be delegated to the external auditor or to the entity to which the function of risk management has been delegated.

  The Circular provides that the board of directors of these entities has an obligation effectively to organise its internal control policies. It also provides for an obligation for entities to have internal manuals detailing internal control policies which must be approved by the management body of the entity.

- Order EHA/3319/2009, of 10 December, amending Order EHA/3364/2008, of 21 November, in implementation of Section 1 of Royal Decree-Act 7/2008, of 13 October, on Urgent Measures in the Financial-Economic Field in relation to the Concerted Action Plan of Euro Zone Countries.

  In accordance with Royal Decree-Act 7/2008, of 21 November, and the Concerted Action Plan of Euro Zone Countries, credit institutions have been making issues of promissory notes, bonds and debentures backed by the State. Although this type of issue was provided for solely until 15 December 2009, the European Commission authorised extension of the system of Spanish guarantees. By means of this Order the Directorate General for Treasury and Financial Policy is consequently authorised to prolong the period during which credit institutions can issue financial instruments with State guarantee.

- Commission Regulation (EU) no. 1293/2009, of 23 December 2009, amending Regulation (EC) no. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 32.

  This legislation incorporates into European Union Law various modifications of International Accounting Standard no. 32 (IAS 32). These modifications relate to the concept of net worth and permit certain financial derivative instruments to be considered in this category even though they are denominated in a currency which is not the functional currency of the issuer.

- Order EHA/3515/2009, of 29 December, establishing contributions to the Savings Bank Deposit Guarantee Fund.

  Royal Decree 2606/1996, of 20 December, on Credit Institution Deposit Guarantee Funds, provides that credit institutions much each year contribute to guarantee funds two per thousand of the guaranteed deposits of each institution, although the Ministry of Economy and Finance is authorised to reduce these contributions when the Fund reaches a sufficient amount to comply with its purposes. This legislation makes use of this power in relation to the Savings Banks Guarantee Fund and reduces the contributions to one per thousand of guaranteed deposits.

- Act 29/2009, of 30 December, modifying the legal regime of unfair competition and advertising in order to improve the protection of consumers and users.

  This legislation transposes Directive 2005/29/EC of the European Parliament and of the Council, of 11 May 2005, concerning unfair business-to-consumer commercial practices in the internal market, and Directive 2006/114/EC of the European Parliament and of the Council, of 12 December 2006, concerning misleading and comparative advertising. Consequently, it also means amendment of Act 3/1991, of 10 January, on unfair competition, the revised text of the General Act on the Protection of Consumers and Users, Act 7/1996, of 15 January, on Regulation of Retail Commerce, and the General Advertising Act, 34/1988 of 11 November,

  With respect to the securities market, this Act expressly lays down the criterion that rules which regulate commercial practices in the field of distance marketing of financial services aimed at consumers and users, collective investment in transferrable securities, rules of conduct in the field of investment services and public offering or admission to listing of securities shall prevail in the event of a conflict with legislation of a general nature applicable to unfair commercial practices.

- Resolution of 16 February 2010, of the Chairman of the Spanish Securities Market Commission (Comisión Nacional del Mercado de Valores), creating the electronic headquarters of the Spanish Securities Market Commission.

  This resolution simply identifies the electronic headquarters of the CNMV. The electronic headquarters is "that electronic address available for citizens through telecommunications networks the ownership, management and administration of which is the responsibility of a Public Administration, administrative body or entity in exercise of its powers and functions". The electronic reference address of the headquarters is the following: https://sede.cnmv.gob.es

- Resolution of 9 March 2010, of the Directorate General for the Treasury and Financial Policy publishing the Resolution adopted by the Governing Board of the Fund for the Acquisition of Financial Assets, on 8 March 2010, on partial modification of Fund investment directives.

  This Resolution regulates various procedural aspects of the Fund for Acquisition of Financial Assets (*Fondo de Adquisición de Activos Financieros* – "FAAF"), which was created by the General State Administration in order that the public sector could purchase financial assets of credit institutions and securitization funds.

  In particular, this Resolution, taking into account that this Fund no longer makes investments since it is not possible to hold auctions after 31 December 2009, permits the FAAF to exceed the risk concentration limits with a single issuer as a result of disposals or redemptions of securities making up its portfolio.

V Statistics Annex

1 Markets

1.1 Equity

Share issues and public offerings[1]

TABLE 1.1

				2009				2010
	2007	2008	2009	I	II	III	IV	I[2]
CASH VALUE[3] (Million euro)	69,955.5	16,349.3	11,390.7	5,932.0	2,060.2	1,087.1	2,311.3	94.6
Capital increases	67,887.0	16,339.7	11,388.7	5,932.0	2,060.2	1,087.1	2,309.4	94.6
Of which, primary offerings	8,502.7	292.0	17.4	0.0	0.0	7.0	10.3	0.0
With Spanish tranche	4,821.3	292.0	17.4	0.0	0.0	7.0	10.3	0.0
With international tranche	3,681.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary offerings	2,068.5	9.5	1.9	0.0	0.0	0.0	1.9	0.0
With Spanish tranche	1,517.1	9.5	1.9	0.0	0.0	0.0	1.9	0.0
With international tranche	551.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NOMINAL VALUE (Million euro)	6,441.5	1,835.8	1,892.1	970.4	596.8	142.1	182.8	67.8
Capital increases	6,358.4	1,835.7	1,892.0	970.4	596.8	142.1	182.7	67.8
Of which, primary offerings	1,122.9	100.0	0.1	0.0	0.0	0.04	0.07	0.0
With Spanish tranche	676.0	100.0	0.1	0.0	0.0	0.04	0.07	0.0
With international tranche	446.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary offerings	83.2	0.1	0.0	0.0	0.0	0.0	0.01	0.0
With Spanish tranche	46.0	0.1	0.0	0.0	0.0	0.0	0.01	0.0
With international tranche	37.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NO. OF FILES[4]	100	54	53	9	14	11	19	6
Capital increases	91	53	53	9	14	11	19	6
Of which, primary offerings	8	2	2	0	0	1	1	0
Of which, bonus issues	19	18	11	1	3	4	3	1
Secondary offerings	12	2	1	0	0	0	1	0
NO. OF ISSUERS[4]	57	39	34	8	9	9	16	6
Capital increases	52	38	34	8	9	9	16	6
Of which, primary offerings	6	2	2	0	0	1	1	0
Secondary offerings	8	2	1	0	0	0	1	0

1 Includes registered offerings with issuance prospectuses and listings admitted to trading without register issuance prospectuses.
2 Available data: February 2010.
3 Does not include registered amounts that were not carried out.
4 Includes all registered offerings, including the issues that were not carried out.

Primary and secondary offerings. By type of subscriber

TABLE 1.2

				2009				2010
Million euro	2007	2008	2009	I	II	III	IV	I[1]
PRIMARY OFFERINGS	8,502.7	292.0	17.4	0.0	0.0	7.0	10.3	0.0
Spanish tranche	4,646.2	282.0	17.4	0.0	0.0	7.0	10.3	0.0
Private subscribers	2,841.0	191.5	0.0	0.0	0.0	0.0	0.0	0.0
Institutional subscribers	1,805.2	90.5	17.4	0.0	0.0	7.0	10.3	0.0
International tranche	3,681.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employees	175.2	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SECONDARY OFFERINGS	2,068.5	9.5	1.9	0.0	0.0	0.0	1.9	0.0
Spanish tranche	1,505.7	9.5	1.9	0.0	0.0	0.0	1.9	0.0
Private subscribers	393.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Institutional subscribers	1,111.8	9.5	1.9	0.0	0.0	0.0	1.9	0.0
International tranche	551.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employees	11.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: February 2010.

Companies listed[1]

TABLE 1.3

	2007	2008	2009	2009 I	II	III	IV	2010 I[2]
Total electronic market[3]	143	136	133	136	136	133	133	132
Of which, without Nuevo Mercado	142	136	133	136	136	133	133	132
Of which, Nuevo Mercado	1	0	0	0	0	0	0	0
Of which, foreign companies	5	5	5	5	5	5	5	5
Second Market	11	8	7	8	8	7	7	6
Madrid	2	2	2	2	2	2	2	2
Barcelona	9	6	5	6	6	5	5	4
Bilbao	0	0	0	0	0	0	0	0
Valencia	0	0	0	0	0	0	0	0
Open outcry ex SICAV	31	29	29	29	29	29	29	29
Madrid	13	13	13	13	13	13	13	13
Barcelona	20	19	19	19	19	19	19	19
Bilbao	9	8	8	8	8	8	8	8
Valencia	9	7	6	7	6	6	6	6
Open outcry SICAV	8	3	1	3	3	2	1	1
MAB[4]	3,287	3,347	3,251	3,322	3,296	3,277	3,251	3,221
Latibex	34	35	33	33	34	34	33	33

1 Data at the end of period.
2 Available data: February 2010.
3 Without ETF (Exchange Traded Funds).
4 Alternative Stock Market.

Capitalisation[1]

TABLE 1.4

Million euro	2007	2008	2009	2009 I	II	III	IV	2010 I[2]
Total electronic market[3]	892,053.8	531,194.2	639,087.1	435,027.6	534,519.3	623,810.3	639,087.1	561,167.0
Of which, without Nuevo Mercado	891,875.7	531,194.2	639,087.1	435,027.6	534,519.3	623,810.3	639,087.1	561,167.0
Of which, Nuevo Mercado	178.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies[4]	134,768.6	61,317.5	94,954.0	52,843.4	68,600.4	80,146.3	94,954.0	84,263.2
Ibex 35	524,651.0	322,806.6	404,997.3	276,053.0	334,760.9	401,655.7	404,997.3	358,113.1
Second Market	286.8	109.9	80.9	76.1	82.4	82.9	80.9	79.3
Madrid	27.8	22.8	24.9	21.4	23.0	24.9	24.9	24.1
Barcelona	259.0	87.1	56.0	54.7	59.4	58.0	56.0	55.2
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAV	7,444.9	5,340.7	4,226.5	4,438.8	4,142.7	4,278.8	4,226.5	4,162.1
Madrid	1,840.6	1,454.7	997.3	1,225.5	968.6	1,091.0	997.3	954.8
Barcelona	4,627.8	3,580.2	3,400.6	2,808.5	2,898.7	3,501.8	3,400.6	3,331.4
Bilbao	108.2	45.9	435.4	45.9	45.9	338.9	435.4	433.4
Valencia	1,206.5	760.4	559.2	792.1	467.4	526.9	559.2	559.2
Open outcry SICAV[5]	204.9	126.8	28.5	106.9	125.1	94.3	28.5	29.4
MAB[5,6]	31,202.5	24,718.6	26,490.7	24,020.8	24,896.2	26,318.9	26,490.7	25,865.8
Latibex	427,773.6	287,188.9	573,830.1	319,943.1	436,745.3	490,861.9	573,830.1	577,703.8

1 Data at the end of period.
2 Available data: February 2010.
3 Without ETF (Exchange Traded Funds).
4 Foreign companies capitalisation includes their entire shares, whether they are deposited in Spain or not.
5 It is only calculated with outstanding shares, but not with treasury shares, because they only report the capital stock at the end of the year.
6 Alternative Stock Market.

Trading

TABLE 1.5

				2009				2010
Million euro	2007	2008	2009	I	II	III	IV	I[1]
Total electronic market[2]	1,653,354.8	1,228,392.4	1,228,392.4	182,762.4	223,468.1	214,547.9	256,295.3	161,541.3
Of which, without Nuevo Mercado	1,627,369.5	1,228,380.9	1,228,380.9	182,762.4	223,468.1	214,547.9	256,295.3	161,541.3
Of which, Nuevo Mercado	25,985.3	11.4	11.4	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies	7,499.3	1,407.1	1,407.1	418.7	1,141.5	1,616.9	1,573.3	1,192.4
Second Market	192.9	31.7	31.7	1.2	1.4	0.2	0.4	0.2
Madrid	8.9	3.4	3.4	0.3	1.1	0.2	0.4	0.2
Barcelona	182.3	28.3	28.3	0.9	0.3	0.0	0.0	0.0
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAV	792.7	182.1	182.1	12.3	24.0	6.1	10.4	6.0
Madrid	236.1	73.9	73.9	5.1	8.3	1.8	1.3	0.8
Barcelona	402.8	103.6	103.6	6.9	10.3	3.2	9.0	5.2
Bilbao	0.1	0.1	0.1	0.0	0.0	1.1	0.0	0.0
Valencia	153.8	4.5	4.5	0.3	5.4	0.0	0.1	0.0
Open outcry SICAV	361.6	25.3	25.3	7.2	3.0	7.9	1.7	1.5
MAB[3]	6,985.2	7,060.3	7,060.3	1,177.5	1,109.4	1,248.8	1,544.4	723.6
Latibex	868.2	757.7	757.7	89.4	115.2	110.1	120.0	112.0

1 Available data: February 2010.
2 Without ETF (Exchange Traded Funds).
3 Alternative Stock Market.

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

TABLE 1.6

				2009				2010
Million euro	2007	2008	2009	I	II	III	IV	I[2]
Regular trading	1,577,249.5	1,180,835.9	833,854.9	178,078.6	207,873.9	204,427.1	243,475.3	156,560.4
Orders	985,087.6	774,718.1	499,182.8	117,321.9	130,334.7	122,153.3	129,372.8	94,942.0
Put-throughs	155,085.1	105,673.9	51,335.8	11,402.0	12,739.6	12,043.7	15,150.6	10,038.2
Block trades	437,076.8	300,443.9	283,336.3	49,354.7	64,799.6	70,230.1	98,952.0	51,580.2
Off-hours	18,301.5	10,175.2	5,996.6	79.9	284.1	1,379.4	4,253.2	3,165.1
Authorised trades	4,189.6	3,183.2	4,695.6	752.6	2,710.4	443.6	789.1	186.9
Art. 36.1 SML trades	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tender offers	26,284.3	17,461.2	7,188.9	0.0	7,085.4	100.0	3.6	0.0
Public offerings for sale	11,177.4	292.0	1,325.0	0.0	1,325.0	0.0	0.0	0.0
Declared trades	2,954.4	1,066.8	5,202.6	594.4	205.2	4,394.0	9.0	0.0
Options	10,240.4	9,661.9	11,443.2	1,695.1	2,731.1	1,953.7	5,063.3	309.8
Hedge transactions	2,957.8	5,716.3	7,366.7	1,561.8	1,253.0	1,850.1	2,701.8	1,319.1

1 Without ETF (Exchange Traded Funds).
2 Available data: February 2010.

Margin trading for sales and securities lending

TABLE 1.7

				2009				2010
Million euro	2007	2008	2009	I	II	III	IV	I[1]
TRADING								
Securities lending[2]	835,326.9	583,950.8	471,007.1	82,710.3	118,161.0	111,062.6	159,073.2	90,186.0
Margin trading for sales of securities[3]	555.4	624.9	704.3	168.0	202.7	180.6	153.0	105.9
Margin trading for securities purchases[3]	411.3	154.7	106.4	25.2	27.7	32.0	21.5	14.9
OUTSTANDING BALANCE								
Securities lending[2]	79,532.9	43,647.8	47,322.2	36,825.4	42,636.4	42,993.7	47,322.2	38,898.2
Margin trading for sales of securities[3]	112.4	20.7	21.1	24.7	38.3	63.1	21.1	14.4
Margin trading for securities purchases[3]	59.4	7.0	5.6	3.6	4.5	7.4	5.6	6.4

1 Available data: February 2010.
2 Regulated by Article 36.7 of the Securities Market Law and Order ECO/764/2004.
3 Transactions performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions.

1.2 Fixed-income

Gross issues registered[1] at the CNMV

TABLE 1.8

				2009				2010
	2007	2008	2009	I	II	III	IV	I[2]
NO. OF ISSUERS	173	179	168	62	88	58	69	25
Mortgage covered bonds	10	19	27	16	6	11	16	8
Territorial covered bonds	4	7	1	0	1	0	0	1
Non-convertible bonds and debentures	41	30	50	14	38	22	30	13
Convertible bonds and debentures	0	1	3	0	1	2	1	0
Backed securities	77	88	68	21	24	15	13	1
Commercial paper	80	77	69	20	16	11	26	6
Of which, asset-backed	3	2	2	0	1	0	1	0
Of which, non-asset-backed	77	75	67	20	15	11	25	6
Other fixed-income issues	2	0	0	0	0	0	0	0
Preference shares	5	8	23	6	15	8	1	0
NO. OF ISSUES	335	337	512	111	180	103	118	46
Mortgage covered bonds	32	47	75	31	11	13	20	9
Territorial covered bonds	8	8	1	0	1	0	0	1
Non-convertible bonds and debentures	79	76	244	31	106	51	56	29
Convertible bonds and debentures	0	1	6	0	1	3	2	0
Backed securities	101	108	76	21	26	16	13	1
Commercial paper	107	88	73	20	16	11	26	6
Of which, asset-backed	3	2	2	0	1	0	1	0
Of which, non-asset-backed	104	86	71	20	15	11	25	6
Other fixed-income issues	3	0	0	0	0	0	0	0
Preference shares	5	9	37	8	19	9	1	0
NOMINAL AMOUNT (Million euro)	648,757.0	476,275.7	387,475.8	116,426.5	130,128.7	66,721.8	74,198.8	34,686.0
Mortgage covered bonds	24,695.5	14,300.0	35,573.9	10,473.9	10,175.0	3,870.0	11,055.0	4,500.0
Territorial covered bonds	5,060.0	1,820.0	500.0	0.0	500.0	0.0	0.0	125.0
Non-convertible bonds and debentures	27,416.0	10,489.6	62,249.0	15,492.0	28,248.9	6,138.1	12,370.1	6,871.3
Convertible bonds and debentures	0.0	1,429.1	3,200.0	0.0	300.0	2,200.0	700.0	0.0
Backed securities	141,627.0	135,252.5	81,651.2	27,358.5	31,035.3	12,956.3	10,301.2	500.0
Spanish tranche	94,049.0	132,730.1	77,289.4	27,358.5	28,483.9	11,750.6	9,696.5	500.0
International tranche	47,578.0	2,522.4	4,361.9	0.0	2,551.5	1,205.7	604.7	0.0
Commercial paper[3]	442,433.5	311,738.5	191,341.7	61,552.2	49,696.5	40,340.4	39,752.6	22,689.7
Of which, asset-backed	464.8	2,843.1	4,758.4	1,333.9	1,226.7	952.8	1,245.0	480.0
Of which, non-asset-backed	441,968.7	308,895.4	186,583.3	60,218.3	48,469.8	39,387.6	38,507.6	22,209.7
Other fixed-income issues	7,300.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preference shares	225.0	1,246.0	12,960.0	1,550.0	10,173.0	1,217.0	20.0	0.0
Pro memoria:								
Subordinated issues	47,158.3	12,949.5	20,988.5	8,484.3	5,571.2	4,679.0	2,254.1	3,100.0
Underwritten issues	86,161.1	9,169.5	4,793.8	0.0	2,559.0	1,450.0	784.8	0.0

1 Includes issuance and trading prospectuses.
2 Available data: February 2010.
3 The figures for commercial paper refer to the amount placed in the year.

Issues admitted to trading on AIAF

TABLE 1.9

				2009				2010
Nominal amount in million euro	2007	2008	2009	I	II	III	IV	I[1]
Total	640,096.2	476,710.4	388,455.0	126,940.2	112,139.7	80,868.2	68,506.9	37,947.1
Commercial paper	439,787.3	314,417.4	191,427.7	63,663.5	49,459.9	41,194.3	37,110.1	24,231.6
Bonds and debentures	30,006.9	10,040.3	61,862.5	15,358.6	25,239.7	9,304.6	11,959.7	4,370.6
Mortgage covered bonds	27,195.5	14,150.0	35,568.9	10,623.9	7,925.0	5,820.0	11,200.0	4,575.0
Territorial covered bonds	7,450.0	1,930.0	500.0	0.0	500.0	0.0	0.0	0.0
Backed securities	135,149.5	135,926.6	85,542.9	35,794.3	26,211.9	16,041.6	7,495.2	4,670.0
Preference shares	507.0	246.0	13,552.9	1,500.0	2,803.2	8,507.7	742.0	100.0
Matador bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: February 2010.

AIAF. Issuers, issues and outstanding balance

TABLE 1.10

				2009				2010
	2007	2008	2009	I	II	III	IV	I[1]
NO. OF ISSUERS	492	556	614	582	597	610	614	616
Commercial paper	73	72	67	73	72	70	67	66
Bonds and debentures	92	93	91	92	90	91	91	91
Mortgage covered bonds	14	22	29	25	25	26	29	29
Territorial covered bonds	7	11	11	11	11	11	11	10
Backed securities	316	383	442	409	425	439	442	444
Preference shares	50	52	60	53	57	60	60	61
Matador bonds	15	12	12	12	12	12	12	12
NO. OF ISSUES	4,314	4,639	4,084	4,487	4,334	4,218	4,084	4,040
Commercial paper	2,493	2,489	1,507	2,206	1,926	1,696	1,507	1,449
Bonds and debentures	445	450	611	460	526	577	611	622
Mortgage covered bonds	111	146	202	175	181	192	202	209
Territorial covered bonds	19	26	25	26	25	25	25	22
Backed securities	1157	1436	1629	1,528	1,577	1,624	1,629	1,628
Preference shares	71	78	96	78	85	90	96	96
Matador bonds	18	14	14	14	14	14	14	14
OUTSTANDING BALANCE[2] (Million euro)	758,559.8	819,637.7	870,981.1	851,854.3	874,640.9	887,608.4	870,981.1	870,614.2
Commercial paper	98,467.6	71,762.2	41,647.0	68,065.3	57,337.7	54,560.4	41,647.0	42,626.2
Bonds and debentures	139,586.3	122,001.9	150,886.3	125,691.2	138,770.0	143,761.9	150,886.3	150,261.6
Mortgage covered bonds	150,905.5	162,465.5	185,343.8	171,439.4	178,166.9	183,686.9	185,343.8	188,368.8
Territorial covered bonds	16,375.0	17,030.0	16,030.0	17,030.0	16,030.0	16,030.0	16,030.0	15,600.0
Backed securities	328,924.6	422,010.7	442,831.5	444,611.0	456,646.7	454,922.0	442,831.5	439,415.2
Preference shares	23,062.6	23,308.6	33,183.8	23,958.6	26,630.7	33,588.4	33,183.8	33,283.8
Matador bonds	1,238.2	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8

1 Available data: February 2010.

2 Nominal amount.

AIAF. Trading

TABLE 1.11

				2009				2010
Nominal amount in million euro	2007	2008	2009	I	II	III	IV	I[1]
BY TYPE OF ASSET	1,127,477.7	2,521,040.1	4,658,633.2	1,198,410.3	1,505,457.8	946,141.6	1,008,622.5	411,862.6
Commercial paper	568,009.6	591,943.8	533,331.0	166,493.3	130,286.2	125,139.0	111,412.5	74,427.3
Bonds and debentures	87,035.7	80,573.8	321,743.0	35,260.3	94,118.5	83,499.1	108,864.2	106,500.0
Mortgage covered bonds	80,811.2	129,995.3	263,150.0	52,026.3	101,235.5	59,334.2	50,553.9	15,484.9
Territorial covered bonds	7,749.8	10,142.3	7,209.0	3,308.9	1,535.1	1,584.0	781.1	445.0
Backed securities	378,005.2	1,704,341.8	3,527,486.4	939,890.0	1,176,736.3	675,114.4	735,745.7	214,227.6
Preference shares	4,492.4	4,030.0	5,668.5	1,399.2	1,535.8	1,470.9	1,262.6	777.8
Matador bonds	1,373.8	13.2	45.2	32.3	10.4	0.0	2.5	0.0
BY TYPE OF TRANSACTION	1,127,477.7	2,521,040.1	4,658,633.2	1,198,410.3	1,505,457.8	946,141.6	1,008,622.5	411,862.6
Outright	416,477.9	387,897.1	378,348.4	107,411.4	120,106.9	64,565.1	86,264.0	60,677.5
Repos	441,362.7	381,505.0	362,068.7	98,632.7	85,740.8	94,429.8	83,265.5	57,076.6
Sell-buybacks/Buy-sellbacks	269,637.1	1,751,638.0	3,918,216.1	992,366.3	1,299,610.1	787,146.7	839,093.0	294,108.5

1 Available data: February 2010.

AIAF. Third-party trading. By purchaser sector

TABLE 1.12

Nominal amount in million euro	2007	2008	2009	2009 I	II	III	IV	2010 I[1]
Total	837,308.5	744,652.5	681,946.6	188,576.5	186,777.9	148,153.9	158,437.3	111,372.7
Non-financial companies	364,490.6	285,044.4	256,224.6	73,858.5	72,117.7	60,996.6	49,251.8	34,403.9
Financial institutions	282,816.9	334,851.6	298,909.1	85,276.1	77,035.9	63,803.2	72,792.9	46,167.4
Credit institutions	99,492.0	130,056.0	125,547.5	37,024.9	43,243.2	17,547.5	27,731.9	16,581.8
IIC[2], insurance and pension funds	152,429.2	154,709.8	115,865.3	31,537.2	23,311.1	31,404.8	29,611.2	20,385.7
Other financial institutions	30,895.6	50,085.8	57,496.3	16,714.0	10,481.7	14,850.9	15,449.8	9,199.9
General government	7,762.4	6,331.2	5,808.5	2,622.8	1,018.1	1,267.5	900.1	707.1
Households and NPISHs[3]	28,534.8	13,344.0	14,647.8	4,082.5	2,506.6	2,026.9	6,031.8	4,892.4
Rest of the world	153,703.8	105,081.2	106,356.6	22,736.6	34,099.6	20,059.7	29,460.8	25,201.9

1 Available data: February 2010.
2 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.
3 Non-profit institutions serving households.

Issues admitted to trading on equity markets [1]

TABLE 1.13

	2007	2008	2009	2009 I	II	III	IV	2010 I[2]
NOMINAL AMOUNTS (Million euro)	9,020.3	3,390.6	5,866.8	1,310.8	0.0	500.0	4,056.0	200.0
Non-convertible bonds and debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	200.0
Convertible bonds and debentures	0.0	0.0	4,510.8	1,310.8	0.0	500.0	2,700.0	0.0
Backed securities	2,020.3	3,390.6	1,356.0	0.0	0.0	0.0	1,356.0	0.0
Others	7,000.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NO. OF ISSUES	16	33	10	1	0	1	8	3
Non-convertible bonds and debentures	0	0	0	0	0	0	0	3
Convertible bonds and debentures	0	0	4	1	0	1	2	0
Backed securities	15	33	6	0	0	0	6	0
Others	1	0	0	0	0	0	0	0

1 Private issuers. Includes issuance and trading prospectuses.
2 Available data: February 2010.

Equity markets. Issuers, issues and outstanding balances

TABLE 1.14

	2007	2008	2009	2009 I	II	III	IV	2010 I[1]
NO. OF ISSUERS	53	58	62	59	58	58	62	62
Private issuers	40	45	48	46	45	45	48	48
Non-financial companies	6	5	6	7	7	6	6	5
Financial institutions	34	40	42	39	38	39	42	43
General government[3]	13	13	14	13	13	13	14	14
Regional governments	3	3	3	3	3	3	3	3
NO. OF ISSUES	249	271	269	273	265	263	269	267
Private issuers	133	157	155	155	150	149	155	155
Non-financial companies	12	9	10	11	11	10	10	8
Financial institutions	121	148	145	144	139	139	145	147
General government[3]	116	114	114	118	115	114	114	112
Regional governments	83	82	76	87	82	80	76	73
OUTSTANDING BALANCES[2] (Million euro)	25,654.7	29,142.6	36,299.5	30,804.3	31,829.4	31,571.0	36,299.5	36,516.3
Private issuers	14,958.1	17,237.9	21,600.9	18,299.1	17,908.5	17,914.3	21,600.9	21,272.1
Non-financial companies	452.5	381.0	1,783.7	1,691.7	1,691.7	1,691.7	1,783.7	1,778.2
Financial institutions	14,505.6	16,856.9	19,817.2	16,607.4	16,216.8	16,222.6	19,817.2	19,493.8
General government[3]	10,696.6	11,904.7	14,698.6	12,505.1	13,920.9	13,656.7	14,698.6	15,244.2
Regional governments	8,862.6	9,972.5	12,338.3	10,573.6	11,978.2	11,577.3	12,338.3	12,833.9

1 Available data: February 2010.
2 Nominal amount.
3 Without public book-entry debt.

Trading on equity markets

TABLE 1.15

Nominal amounts in million euro	2007	2008	2009	2009 I	II	III	IV	2010 I[1]
Electronic market	448.9	1,580.1	633.0	64.9	150.5	138.1	279.6	60.1
Open outcry	7,154.3	7,842.1	4,008.4	182.1	634.2	299.6	2,892.5	237.4
Madrid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Barcelona	7,040.1	7,674.9	3,821.1	146.9	601.4	273.5	2,799.3	27.8
Bilbao	7.5	6.1	4.6	2.6	0.7	0.6	0.8	0.7
Valencia	106.7	161.1	182.7	32.7	32.1	25.5	92.4	209.0
Public book-entry debt	33.6	46.2	49.1	14.3	14.0	11.2	9.6	6.8
Regional governments debt	83,967.7	71,045.0	70,065.8	18,666.5	19,367.6	16,815.4	15,216.3	14,192.0

1 Available data: February 2010.

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

TABLE 1.16

Nominal amounts in million euro	2007	2008	2009	2009 I	II	III	IV	2010 I[1]
Total	174,046.3	132,327.4	202,120.5	41,915.2	38,433.8	55,827.0	65,944.6	51,340.1
Outright	134,147.0	89,010.5	114,314.0	11,685.5	15,644.0	36,141.0	50,843.5	32,894.0
Sell-buybacks/Buy-sellbacks	39,899.3	43,316.9	86,806.5	30,229.7	22,789.8	19,211.0	14,576.1	18,345.1
Others	0.0	0.0	1,000.0	0.0	0.0	475.0	525.0	101.0

1 Available data: February 2010.

1.3 Derivatives and other products

1.3.1 Financial derivatives markets: MEFF

Trading on MEFF

TABLE 1.17

Number of contracts	2007	2008	2009	2009 I	II	III	IV	2010 I[1]
Debt products	13	12	18	6	4	4	4	0
Debt futures[2]	13	12	18	6	4	4	4	0
Ibex 35 products[3,4]	9,288,909	8,433,963	6,187,544	1,520,980	1,663,403	1,503,939	1,499,223	1,080,268
Ibex 35 plus futures	8,435,258	7,275,299	5,436,989	1,330,851	1,461,307	1,321,524	1,323,307	969,967
Ibex 35 mini futures	286,574	330,042	314,829	70,698	88,829	85,642	69,660	57,321
Call mini options	227,535	323,874	230,349	56,410	60,400	59,988	53,552	23,580
Put mini options	339,542	504,749	205,377	63,021	52,868	36,785	52,704	29,400
Stock products[5]	34,887,808	64,554,817	80,114,693	21,082,892	22,320,897	20,467,870	16,243,034	8,260,131
Futures	21,294,315	46,237,568	44,586,779	13,024,306	14,386,553	11,674,200	5,501,720	1,693,802
Call options	6,775,525	7,809,423	18,864,840	3,689,989	4,025,150	5,103,159	6,046,542	2,916,936
Put options	6,817,968	10,507,826	16,663,074	4,368,597	3,909,194	3,690,511	4,694,772	3,649,393
Pro-memoria: MEFF trading on Eurex								
Debt products[6]	1,059,113	869,105	558,848	157,746	171,829	90,935	138,338	85,527
Index products[7]	1,371,250	1,169,059	835,159	286,512	211,834	128,087	208,726	136,869

1 Available data: February 2010.
2 Contract size: 100 thousand euros.
3 The number of Ibex 35 mini futures (multiples of 1 euro) was standardised to the size of the Ibex 35 plus futures (multiples of 10 euro).
4 Contract size: Ibex 35, 10 euros.
5 Contract size: 100 Stocks.
6 Bund, Bobl and Schatz futures.
7 Dax 30, DJ EuroStoxx 50 and DJ Stoxx 50 futures.

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

Issues registered at the CNMV

TABLE 1.18

	2007	2008	2009	2009 I	II	III	IV	2010 I[1]
WARRANTS[2]								
Premium amount (Million euro)	8,920.3	12,234.4	5,165.1	1,950.5	522.9	1,439.7	1,252.0	890.3
On stocks	6,215.1	6,914.1	2,607.1	1,074.8	251.0	755.6	525.7	438.9
On indexes	2,311.2	4,542.8	2,000.1	628.4	198.0	559.3	614.4	345.3
Other underlyings[3]	394.0	777.5	558.0	247.3	73.9	124.9	111.9	106.2
Number of issues	7,005	9,790	7,342	2,516	1,111	2,099	1,616	1,467
Number of issuers	7	8	9	6	6	9	6	4
OPTION BUYING AND SELLING CONTRACTS								
Nominal amounts (Million euro)	151.0	77.0	35.0	0.0	0.0	0.0	35.0	0.0
On stocks	145.0	77.0	25.0	0.0	0.0	0.0	25.0	0.0
On indexes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other underlyings[3]	6.0	0.0	10.0	0.0	0.0	0.0	10.0	0.0
Number of issues	9	4	3	0	0	0	3	0
Number of issuers	3	1	1	0	0	0	1	0

1 Available data: February 2010.
2 Includes issuance and trading prospectuses.
3 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.

Equity markets. Warrants and ETF trading

TABLE 1.19

	2007	2008	2009	2009 I	II	III	IV	2010 I[1]
WARRANTS								
Trading (Million euro)	5,129.6	2,943.7	1,768.4	491.3	488.2	407.0	382.0	220.5
On Spanish stocks	3,200.7	1,581.9	809.9	222.7	213.2	203.3	170.7	90.5
On foreign stocks	474.2	145.7	97.6	22.3	21.4	28.3	25.6	8.0
On indexes	1,376.6	1,063.3	761.2	208.7	233.2	158.9	160.4	110.5
Other underlyings[2]	78.1	152.8	99.7	37.6	20.4	16.5	25.2	11.6
Number of issues[3]	7,837	9,770	8,038	3,655	3,451	3,086	3,038	2,589
Number of issuers[3]	9	10	10	9	9	10	10	9
CERTIFICATES								
Trading (Million euro)	49.8	16.8	39.2	7.6	8.5	13.4	9.7	3.2
Number of issues[3]	14	26	22	21	16	16	16	15
Number of issuers[3]	5	4	4	4	2	2	2	2
ETF								
Trading (Million euro)	4,664.5	6,938.1	3,470.6	604.3	916.6	856.9	1,092.8	1,294.0
Number of funds	21	30	32	30	31	32	32	32
Assets[4] (Million euro)	885.8	1,630.3	1,648.4	1,523.0	1,443.9	1,510.5	1,648.4	n.a.

1 Available data: February 2010.
2 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.
3 Issues or issuers which were traded in each period.
4 Assets from national collective investment schemes is only included because assets from foreign ones are not available.

n.a.: No available data.

1.3.3 Non-financial derivatives

Trading on MFAO1

TABLE 1.20

Number of contracts	2007	2008	2009	2009 I	II	III	IV	2010 I[2]
On olive oil								
Extra-virgin olive oil futures[3]	46,405	48,091	135,705	29,615	36,455	42,310	27,325	36,195

1 Olive oil futures market.
2 Available data: February 2010.
3 Nominal amount of the contract: 1,000 kg.

2 Investment services

Investment services. Spanish firms, branches and agents

TABLE 2.1

				2009				2010
	2007	2008	2009	I	II	III	IV	I[1]
BROKER-DEALERS								
Spanish firms	46	51	50	50	50	50	50	50
Branches	102	79	78	78	78	77	78	79
Agents	6,657	6,041	6,102	5,840	5,930	5,991	6,102	6,120
BROKERS								
Spanish firms	53	50	50	49	49	49	50	53
Branches	12	9	9	8	9	9	9	8
Agents	625	639	638	682	645	629	638	691
PORTFOLIO MANAGEMENT COMPANIES								
Spanish firms	11	10	9	10	9	9	9	9
Branches	4	4	5	5	5	5	5	5
Agents	6	6	5	6	5	5	5	5
FINANCIAL ADVISORY FIRMS[2]								
Spanish firms	-	-	16	-	3	6	16	22
CREDIT INSTITUTIONS[3]								
Spanish firms	201	195	193	196	196	194	193	194

1 Available data: February 2010.
2 New type of investment services company, created by Law 47/2008, of 19 December, which modifies Law 24/1988, of 28 July, on the Securities Market, and regulated by Circular CR CNMV 10/2008, of 30 December.
3 Source: Banco de España.

Investment services. Foreign firms

TABLE 2.2

				2009				2010
	2007	2008	2009	I	II	III	IV	I[1]
Total	1,766	2,232	2,345	2,270	2,300	2,363	2,345	2,420
European Economic Area investment services firms	1,394	1,818	1,922	1,849	1,878	1,945	1,922	1,988
Branches	29	37	36	35	35	36	36	35
Free provision of services	1,365	1,781	1,886	1,814	1,843	1,909	1,886	1,953
Credit institutions[2]	372	414	423	421	422	418	423	432
From EU member states	363	405	413	411	412	408	413	422
Branches	52	56	53	54	54	54	53	54
Free provision of services	310	348	359	356	357	353	359	367
Subsidiaries of free provision of services institutions	1	1	1	1	1	1	1	1
From non-EU states	9	9	10	10	10	10	10	10
Branches	8	8	8	8	8	8	8	8
Free provision of services	1	1	2	2	2	2	2	2

1 Available data: February 2010.
2 Source: Banco de España and CNMV.

Intermediation of spot transactions[1]

TABLE 2.3

	IV 2008				IV 2009			
Million euro	Spanish organised markets	Other Spanish markets	Foreign markets	Total	Spanish organised markets	Other Spanish markets	Foreign markets	Total
FIXED-INCOME								
Total	17,678	2,008,262	175,997	2,201,937	143,760	2,623,372	293,587	3,060,719
Broker-dealers	16,333	369,111	47,439	432,883	123,596	47,846	47,566	219,008
Brokers	1,345	1,639,151	128,558	1,769,054	20,164	2,575,526	246,021	2,841,711
EQUITY								
Total	300,469	1,347	17,999	319,815	452,575	1,631	14,328	468,534
Broker-dealers	279,226	1,142	16,579	296,947	440,298	1,416	12,846	454,560
Brokers	21,243	205	1,420	22,868	12,277	215	1,482	13,974

1 Period accumulated data.

Intermediation of derivative transactions[1,2]

TABLE 2.4

Million euro	IV 2008 Spanish organised markets	Foreign organised markets	Non-organised markets	Total	IV 2009 Spanish organised markets	Foreign organised markets	Non-organised markets	Total
Total	121,370	1,821,900	571,685	2,514,955	866,465	2,080,429	540,795	3,487,689
Broker-dealers	109,050	1,512,074	4,165	1,625,289	851,625	1,882,779	28,906	2,763,310
Brokers	12,320	309,826	567,520	889,666	14,840	197,650	511,889	724,379

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

2 Period accumulated data.

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

TABLE 2.5

	IV 2008			IV 2009		
	Total	IIC[2]	Other[3]	Total	IIC[2]	Other[3]
NUMBER OF PORTFOLIOS						
Total	13,264	95	13,169	12,594	90	12,504
Broker-dealers	7,074	18	7,056	6,557	16	6,541
Brokers	3,298	45	3,253	3,460	45	3,415
Portfolio management companies	2,892	32	2,860	2,577	29	2,548
ASSETS UNDER MANAGEMENT (Thousand euro)						
Total	8,691,835	562,432	8,129,403	8,674,359	686,470	7,987,888
Broker-dealers	3,603,707	105,549	3,498,158	3,293,125	153,472	3,139,653
Brokers	2,208,684	278,878	1,929,806	2,405,275	346,156	2,059,120
Portfolio management companies	2,879,444	178,005	2,701,439	2,975,958	186,842	2,789,116

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

Aggregated income statement. Broker-dealers[1]

TABLE 2.6

				2009				2010
Thousand euro[2]	2007	2008	2009	I	II	III	IV	I[3]
I. Interest income	-29,968	109,682	163,202	54,459	98,211	132,653	163,202	2,808
II. Net commission	893,803	674,204	529,792	132,918	263,558	389,667	529,792	39,684
Commission revenues	1,181,772	943,619	781,555	187,315	393,081	578,824	781,555	61,051
Brokering	775,418	648,036	548,951	130,572	274,327	404,912	548,951	44,556
Placement and underwriting	62,145	42,502	25,726	12,301	21,567	23,616	25,726	1
Securities deposit and recording	25,351	21,198	16,183	4,224	7,911	11,993	16,183	1,442
Portfolio management	29,649	17,306	11,543	2,673	4,858	7,403	11,543	987
Design and advising	65,083	56,671	60,392	9,528	28,642	43,552	60,392	2,891
Stocks search and placement	9	12	10	6	6	6	10	7
Market credit transactions	23	19	14	4	10	11	14	1
IIC marketing[4]	138,481	91,167	63,296	13,970	27,509	44,368	63,296	7,334
Other	85,613	66,708	55,440	14,036	28,251	42,963	55,440	3,833
Commission expenses	287,969	269,415	251,763	54,397	129,523	189,157	251,763	21,367
III. Financial investment income[5]	-239,572	800,194	43,855	36,623	51,163	56,609	43,855	8,069
IV. Net exchange differences and other operating products and expenses	486,643	-626,527	21,582	-38,326	383	1,697	21,582	3,175
V. Gross income	1,110,906	957,553	758,431	185,674	413,315	580,626	758,431	53,735
VI. Operating income	587,354	434,209	275,747	79,440	185,957	210,563	275,747	21,624
VII. Earnings from continuous activities	540,390	365,374	260,458	88,475	173,295	264,988	260,458	19,440
VIII. Net earnings of the period	540,390	367,665	260,458	88,475	173,295	264,988	260,458	19,440

1 From IV quarter 2008 on data come from information sent to the CNMV by investment services companies (ESIs) according to the new accounting regulation CR CNMV 7/2008. With the aim of keeping the continuity of time series, some changes have been introduced in previous quarters.
2 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
3 Available data: January 2010.
4 Before IV quarter 2008 it refers to "IIC subscription and redemption".
5 Previously named "Net income from securities trading". Does not include provisions for losses in value of securities portfolio, nor their recovering and application. These items are included in "Operating income".

Results of proprietary trading. Broker-dealers[1]

TABLE 2.7

	Total		Interest income		Financial investment income[2]		Exchange differences and other items[3]	
Thousand euro[4]	IV 2008	IV 2009	IV 2008	IV 2009	IV 2008	IV 2009	IV 2008	IV 2009
Total	287,730	232,034	109,682	163,202	800,194	43,855	-622,146	24,977
Money market assets and public debt	11,092	7,078	9,079	944	2,013	6,134	-	-
Other fixed-income securities	95,061	-151,744	105,779	70,882	-10,718	-222,625	-	-
Domestic portfolio	84,510	-163,811	103,789	68,618	-19,280	-232,429	-	-
Foreign portfolio	10,552	12,067	1,990	2,264	8,562	9,803	-	-
Equities	-864,957	830,753	85,954	90,547	-950,911	740,206	-	-
Domestic portfolio	-123,462	301,567	48,072	64,677	-171,534	236,890	-	-
Foreign portfolio	-741,494	529,186	37,882	25,870	-779,377	503,316	-	-
Derivatives	1,777,948	-471,116	-	-	1,777,948	-471,116	-	-
Repurchase agreements	-38,740	-14,664	-38,740	-14,664	-	-	-	-
Market credit transactions	0	0	0	0	-	-	-	-
Deposits and other transactions with financial Intermediaries	-54,396	862	-54,396	862	-	-	-	-
Net exchange differences	-643,539	22,437	-	-	-	-	-643,539	22,437
Other operating products and expenses	17,012	-854	-	-	-	-	17,012	-854
Other transactions	-11,752	9,281	2,005	14,630	-18,138	-8,744	4,381	3,395

1 Data come from information sent to the CNMV by investment services companies (ESI) according to the new accounting regulation CR CNMV 7/2008.
2 Financial investment income does not include provisions for losses in value of securities portfolio, nor their recovering and application.
3 Former column "Other charges" has been replaced by a new column which includes, besides provisions for risks, net exchange results and other operating products and expenses.
4 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.

Aggregated income statement. Brokers[1]

TABLE 2.8

				2009				2010
Thousand euro[2]	2007	2008	2009	I	II	III	IV	I[3]
I. Interest income	14,395	7,980	2,652	1,060	1,679	2,301	2,652	109
II. Net commission	237,403	149,874	127,410	30,688	63,582	93,005	127,410	11,824
Commission revenues	310,892	172,344	144,373	34,647	72,250	105,442	144,373	13,241
Brokering	131,976	62,345	53,988	15,132	30,001	41,786	53,988	4,952
Placement and underwriting	2,501	4,847	2,989	307	1,081	1,148	2,989	90
Securities deposit and recording	1,680	676	509	73	166	343	509	30
Portfolio management	27,457	21,137	19,633	3,956	9,284	14,067	19,633	2,066
Design and advising	2,224	4,962	2,806	486	1,033	1,535	2,806	221
Stocks search and placement	0	0	0	0	0	0	0	0
Market credit transactions	0	10	28	0	3	10	28	0
IIC marketing[4]	74,918	31,287	23,966	5,004	9,943	15,993	23,966	2,294
Other	70,136	47,081	40,453	9,688	20,740	30,560	40,453	3,588
Commission expenses	73,489	22,470	16,963	3,959	8,668	12,437	16,963	1,417
III. Financial investment income[5]	2,212	-1,176	1,709	-364	26	265	1,709	-219
IV. Net exchange differences and other operating products and expenses	-407	3,526	-1,111	90	-289	-986	-1,111	-29
V. Gross income	253,603	160,204	130,661	31,474	64,998	94,585	130,661	11,684
VI. Operating income	85,423	20,377	9,090	-1,252	1,843	4,376	9,090	1,407
VII. Earnings from continuous activities	86,017	14,372	4,862	-1,775	125	3,725	4,862	1,252
VIII. Net earnings of the period	86,017	14,372	4,862	-1,775	125	3,725	4,862	1,252

1 From IV quarter 2008 on data come from information sent to the CNMV by investment services companies (ESI) according to the new accounting regulation CR CNMV 7/2008. With the aim of keeping the continuity of time series, some changes have been introduced in previous quarters.
2 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
3 Available data: January 2010.
4 Before IV quarter 2008 it refers to "IIC subscription and redemption".
5 Previously named "Net income from securities trading". Does not include provisions for losses in value of securities portfolio, nor their recovering and application. These items are included in "Operating income".

Aggregated income statement. Portfolio management companies[1]

TABLE 2.9

				2009				2010
Thousand euro[2]	2007	2008	2009	I	II	III	IV	I[3]
I. Interest income	1,442	1,482	341	163	247	305	341	18
II. Net commission	15,501	12,044	10,820	2,632	5,175	7,964	10,820	1,943
Commission revenues	27,340	23,877	21,835	5,416	10,653	16,237	21,835	3,112
Portfolio management	24,239	20,683	18,549	4,683	8,995	13,634	18,549	2,114
Design and advising	2,614	2,484	2,698	595	1,316	2,141	2,698	949
IIC marketing[4]	34	66	18	5	7	9	18	3
Other	453	644	571	134	335	453	571	46
Commission expenses	11,839	11,833	11,016	2,784	5,479	8,273	11,016	1,169
III. Financial investment income[5]	96	-108	92	-53	25	91	92	-7
IV. Net exchange differences and other operating products and expenses	-37	-418	-383	-119	-247	-308	-383	-30
V. Gross income	17,002	13,000	10,869	2,624	5,200	8,051	10,869	1,925
VI. Operating income	6,896	1,157	1,395	277	508	1,150	1,395	1,173
VII. Earnings from continuous activities	4,837	765	961	112	291	836	961	1,056
VIII. Net earnings of the period	4,837	765	961	112	291	836	961	1,056

1 From IV quarter 2008 on data come from information sent to the CNMV by investment services companies (ESIs) according to the new accounting regulation CR CNMV 7/2008. With the aim of keeping the continuity of time series, some changes have been introduced in previous quarters.
2 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
3 Available data: January 2010.
4 Before IV quarter 2008 it refers to "IIC subscription and redemption".
5 Previously named "Net income from securities trading". Does not include provisions for losses in value of securities portfolio, nor their recovering and application. These items are included in "Operating income".

Surplus equity over capital adequacy requirements[1,2]

TABLE 2.10

	Surplus		Number of companies according to its surplus percentage									
Thousand euro	Total amount	%[3]	< 50	<100	<150	<200	<300	<400	<500	<750	<1000	>1000
Total	1,456,878	335.27	17	16	14	12	15	5	4	15	5	6
Broker-dealers	1,367,343	364.42	2	5	5	3	12	4	4	7	3	5
Brokers	67,292	151.58	14	10	6	7	3	1	0	7	2	0
Portfolio management companies	22,243	148.92	1	1	3	2	0	0	0	1	0	1

1 Available data: December 2009
2 Data collected from information reported according to new Circular CR CNMV 12/2008 on investment services companies solvency.
3 Average percentage is weighted by the required equity of each company. It is an indicator of the number of times, in percentage terms, that the surplus contains the required equity in an average company.

Return on equity (ROE) before taxes[1]

TABLE 2.11

		Number of companies according to its annualized return								
	Average[2]	Losses	0-5%	6-15%	16-30%	31-45%	46-60%	61-75%	76-100%	>100%
Total	18.37	27	20	19	18	10	2	5	1	7
Broker-dealers	19.23	11	7	12	8	3	2	3	1	3
Brokers	9.64	14	12	5	8	5	0	2	0	4
Portfolio management companies	3.97	2	1	2	2	2	0	0	0	0

1 Available data: December 2009.
2 Average weighted by equity, %.

3 Collective investment schemes (IIC)[a,b,c,d,e]

Number, management companies and depositories of collective investment schemes

TABLE 3.1

				2009				2010
	2007	2008	2009	I	II	III	IV	I[1]
Total financial IIC	6,296	6,354	5,892	6,294	6,168	6,050	5,892	5,828
Mutual funds	2,954	2,943	2,593	2,898	2,808	2,705	2,593	2,541
Investment companies	3,290	3,347	3,232	3,330	3,294	3,278	3,232	3,218
Funds of hedge funds	31	40	38	40	40	40	38	37
Hedge funds	21	24	29	26	26	27	29	32
Total real estate IIC	18	18	16	18	17	16	16	16
Real estate investment funds	9	9	8	9	8	8	8	8
Real estate investment companies	9	9	8	9	9	8	8	8
Total foreign IIC marketed in Spain	440	563	582	566	555	577	582	599
Foreign funds marketed in Spain	225	312	324	313	309	327	324	338
Foreign companies marketed in Spain	215	251	258	253	246	250	258	261
Management companies	120	120	120	120	120	121	120	120
IIC depositories	126	125	124	125	125	124	124	124

1 Available data: February 2010.

Number of IIC investors and shareholders

TABLE 3.2

				2009				2010
	2007	2008	2009	I	II	III	IV	I[1]
Total financial IIC	8,487,205	6,358,730	5,894,907	6,053,408	5,921,511	5,878,213	5,894,907	5,907,059
Mutual funds	8,053,049	5,923,346	5,475,403	5,626,786	5,498,325	5,461,473	5,475,403	5,488,163
Investment companies	434,156	435,384	419,504	426,622	423,186	416,740	419,504	418,896
Total real estate IIC	146,353	98,327	84,511	96,222	90,398	88,832	84,511	84,594
Real estate investment funds	145,510	97,390	83,583	95,284	89,461	87,903	83,583	83,666
Real estate investment companies	843	937	928	938	937	929	928	927
Total foreign IIC marketed in Spain	850,931	592,994	n.a.	510,695	n.a.	n.a.	n.a.	n.a.
Foreign funds marketed in Spain	142,782	104,287	n.a.	75,486	n.a.	n.a.	n.a.	n.a.
Foreign companies marketed in Spain	708,149	488,707	n.a.	435,209	n.a.	n.a.	n.a.	n.a.

1 Available data: January 2010. Real estate investment companies and foreign IIC send this information quarterly.
n.a.: No available data.

IIC total net assets

TABLE 3.3

				2009				2010
Million euro	2007	2008	2009	I	II	III	IV	I[1]
Total financial IIC	286,522.40	200,522.20	196,472.5	192,776.1	191,952.4	195,352.4	196,472.5	194,973.8
Mutual funds[2]	255,040.9	175,865.3	170,547.7	168,829.4	167,160.9	169,458.4	170,547.7	169,329.4
Investment companies	31,481.5	24,656.9	25,924.8	23,946.7	24,791.5	25,894.0	25,924.8	25,644.4
Total real estate IIC	9,121.4	7,778.8	6,773.7	7,127.2	6,907.9	6,807.3	6,773.7	6,752.8
Real estate investment funds	8,608.5	7,406.9	6,465.1	6,758.1	6,547.2	6,494.3	6,465.1	6,444.3
Real estate investment companies	512.9	371.9	308.6	369.1	360.7	313.0	308.6	308.5
Total foreign IIC marketed in Spain	37,092.7	18,169.3	n.a.	14,639.3	n.a.	n.a.	n.a.	n.a.
Foreign funds marketed in Spain	7,010.3	2,463.8	n.a.	1,661.8	n.a.	n.a.	n.a.	n.a.
Foreign companies marketed in Spain	30,082.4	15,705.5	n.a.	12,977.6	n.a.	n.a.	n.a.	n.a.

1 Available data: January 2010. Real estate investment companies and foreign IIC send this information quarterly.
2 For January 2010, mutual funds investments in financial IIC reached 9 billion euro.
n.a.: No available data.

a IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.
b In this document, neither hedge funds nor funds of hedge funds are included in the figures referred to mutual funds.
c Due to the entry into force, on 31 December 2008, of CR CNMV 3/2008 and CR CNMV 7/2008, which modify accounting information to be reported to CNMV, data has been adapted to new regulation.
d From 2009-II Bulletin on, hedge funds and funds of hedge funds data is shown on table 3.12.
e From March 2009 on, foreign collective investments schemes shareholders and total net assets data do not include exchange traded funds (ETF).

Mutual funds asset allocation[1]

TABLE 3.4

Million euro	2007	2008	2009	2008 IV	2009 I	II	III	IV
Asset	255,040.9	175,865.5	170,547.7	175,865.5	168,829.4	167,161.0	169,458.4	170,547.7
Portfolio investment	239,266.6	166,384.7	163,165.5	166,384.7	161,288.0	159,013.4	161,747.5	163,165.5
Domestic securities	134,564.1	107,346.9	100,642.7	107,346.9	104,282.0	100,254.7	101,271.6	100,642.7
Debt securities	103,798.8	81,904.0	74,629.0	81,904.0	80,121.5	76,128.9	76,391.9	74,629.0
Shares	11,550.1	4,023.1	4,741.0	4,023.1	3,265.8	3,744.5	4,453.4	4,741.0
Investment collective schemes	18,662.1	10,134.3	9,041.5	10,134.3	9,037.4	8,300.3	8,122.9	9,041.5
Deposits in Credit institutions	-	10,657.5	11,552.2	10,657.5	11,228.8	11,436.7	11,681.3	11,552.2
Derivatives	553.2	627.9	679.0	627.9	628.4	644.4	622.2	679.0
Other	-	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Foreign securities	104,702.5	59,036.0	62,487.0	59,036.0	56,983.3	58,732.0	60,440.5	62,487.0
Debt securities	66,604.8	49,660.5	48,435.2	49,660.5	49,058.9	49,431.8	48,807.4	48,435.2
Shares	16,731.6	5,216.1	7,784.3	5,216.1	4,374.4	5,395.4	6,655.1	7,784.3
Investment collective schemes	16,924.4	3,524.5	5,665.4	3,524.5	3,153.8	3,582.0	4,444.6	5,665.4
Deposits in Credit institutions	-	17.5	82.4	17.5	0.8	4.3	27.4	82.4
Derivatives	4,441.7	599.5	518.7	599.5	383.9	317.8	505.1	518.7
Other	-	17.9	1.1	17.9	11.3	0.7	1.0	1.1
Doubtful assets and matured investment	-	1.7	35.8	1.7	22.8	26.6	35.3	35.8
Intangible assets	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fixed assets	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash	15,413.5	8,703.2	7,268.2	8,703.2	7,144.9	7,897.4	7,456.9	7,268.2
Net balance (Debtors - Creditors)	360.8	777.7	114.1	777.7	396.5	250.3	254.0	114.1

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

Investment companies asset allocation

TABLE 3.5

Million euro	2007	2008	2009	2008 IV	2009 I	II	III	IV
Asset	31,481.5	24,656.8	25,924.8	24,656.8	23,946.7	24,791.5	25,894.0	25,924.8
Portfolio investment	30,037.4	23,445.9	24,813.9	23,445.9	22,877.5	23,501.7	24,849.6	24,813.9
Domestic securities	17,075.3	16,175.1	13,514.7	16,175.1	15,289.2	14,766.2	14,457.6	13,514.7
Debt securities	9,516.5	10,434.1	7,400.4	10,434.1	10,057.8	9,248.2	8,237.0	7,400.4
Shares	6,174.4	3,214.9	3,376.3	3,214.9	2,585.8	2,871.8	3,363.8	3,376.3
Investment collective schemes	1,362.3	1,108.8	1,091.1	1,108.8	1,125.6	1,151.8	1,171.2	1,091.1
Deposits in Credit institutions	-	1,383.2	1,631.9	1,383.2	1,507.8	1,481.8	1,665.8	1,631.9
Derivatives	22.1	9.8	-6.6	9.8	-5.1	-4.5	-4.3	-6.6
Other	-	24.4	21.7	24.4	17.3	17.1	24.1	21.7
Foreign securities	12,962.2	7,267.9	11,294.2	7,267.9	7,584.1	8,730.3	10,386.2	11,294.2
Debt securities	2,189.9	2,609.7	4,606.5	2,609.7	3,425.7	3,904.1	4,502.7	4,606.5
Shares	5,120.0	2,014.6	3,559.4	2,014.6	1,794.6	2,314.7	3,099.6	3,559.4
Investment collective schemes	5,426.7	2,486.4	2,987.4	2,486.4	2,241.9	2,399.4	2,638.4	2,987.4
Deposits in Credit institutions	-	28.9	26.3	28.9	15.9	5.4	30.3	26.3
Derivatives	225.6	120.5	113.1	120.5	102.2	104.1	113.7	113.1
Other	-	7.8	1.6	7.8	3.8	2.5	1.6	1.6
Doubtful assets and matured investment	-	2.8	5.1	2.8	4.3	5.1	5.8	5.1
Intangible assets	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fixed assets	-	0.1	0.2	0.1	0.2	0.2	0.2	0.2
Cash	1,182.2	1,021.0	975.9	1,021.0	902.6	1,079.5	970.2	975.9
Net balance (Debtors - Creditors)	261.8	188.8	134.8	188.8	166.4	210.1	74.0	134.8

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

TABLE 3.6

				2009				2010
	2007	2008	2009	I	II	III	IV	I[2]
NO. OF FUNDS								
Total financial mutual funds	2,926	2,912	2,536	2,830	2,735	2,628	2,536	2,524
Fixed-income[3]	600	629	582	631	612	598	582	576
Mixed fixed-income[4]	204	195	169	193	190	171	169	169
Mixed equity[5]	207	202	165	191	181	174	165	164
Euro equity[6]	247	237	182	235	193	185	182	182
Foreign equity[7]	357	330	242	304	271	252	242	240
Guaranteed fixed-income	251	260	233	249	253	241	233	236
Guaranteed equity[8]	590	590	561	586	610	593	561	557
Global funds	470	469	187	441	208	193	187	184
Passive management[9]	-	-	69	-	69	69	69	69
Absolute return[9]	-	-	146	-	148	152	146	147
INVESTORS								
Total financial mutual funds	8,053,049	5,923,346	5,475,403	5,626,786	5,498,325	5,461,473	5,475,403	5,488,163
Fixed-income[3]	2,763,442	2,204,652	2,041,487	2,145,607	2,067,091	2,044,082	2,041,487	2,032,936
Mixed fixed-income[4]	493,786	277,629	290,151	247,833	241,097	254,599	290,151	295,163
Mixed equity[5]	331,214	209,782	182,542	194,064	187,244	184,985	182,542	182,822
Euro equity[6]	577,522	377,545	299,353	339,285	270,079	277,093	299,353	303,254
Foreign equity[7]	800,556	467,691	458,097	431,575	419,928	434,299	458,097	469,492
Guaranteed fixed-income	549,108	538,799	570,963	525,387	540,428	550,041	570,963	591,945
Guaranteed equity[8]	1,715,144	1,402,948	1,188,304	1,339,367	1,339,321	1,271,266	1,188,304	1,159,101
Global funds	822,277	444,300	88,337	403,668	96,581	79,288	88,337	88,937
Passive management[9]	-	-	85,403	-	91,738	97,399	85,403	86,803
Absolute return[9]	-	-	270,766	-	244,818	268,421	270,766	277,710
TOTAL NET ASSETS (Million euro)								
Total financial mutual funds	255,040.9	175,865.2	170,547.7	168,829.1	167,160.9	169,458.4	170,547.7	169,329.4
Fixed-income[3]	113,234.1	92,813.1	84,657.2	91,472.9	86,711.3	85,935.6	84,657.2	83,846.2
Mixed fixed-income[4]	13,011.9	5,803.0	8,695.5	5,282.6	5,421.8	6,322.4	8,695.5	8,856.0
Mixed equity[5]	8,848.0	3,958.8	3,879.6	3,301.7	3,480.1	3,812.4	3,879.6	3,819.7
Euro equity[6]	16,589.7	5,936.9	6,321.6	4,778.1	4,945.9	6,094.1	6,321.6	6,030.7
Foreign equity[7]	13,948.0	4,256.6	5,902.4	3,808.7	4,108.3	5,020.9	5,902.4	5,964.6
Guaranteed fixed-income	17,674.4	21,281.6	21,033.4	20,952.0	21,664.1	21,322.7	21,033.4	21,455.2
Guaranteed equity[8]	42,042.1	30,742.4	25,665.8	29,433.3	29,120.6	27,835.8	25,665.8	24,810.4
Global funds	29,692.6	11,072.8	3,872.5	9,799.8	3,350.7	3,400.4	3,872.5	3,902.3
Passive management[9]	-	-	3,216.6	-	2,714.5	3,066.3	3,216.6	3,135.7
Absolute return[9]	-	-	7,303.0	-	5,643.6	6,647.7	7,303.0	7,508.5

1 Mutual funds that have sent reports to the CNMV (therefore mutual funds in a process of dissolution or liquidation are not included).
2 Data available: January 2010.
3 Until I 2009 this category includes: Short-term fixed income, Long-term fixed income, Foreign fixed-income and Monetary market funds. From II 2009 on includes: Fixed income euro, Foreign fixed-income and Monetary market funds.
4 Until I 2009 this category includes: Mixed fixed-income and Foreign mixed fixed-income. From II 2009 on includes: Mixed euro fixed-income and Foreign mixed fixed-income.
5 Until I 2009 this category includes: Mixed equity and Foreign mixed equity. From II 2009 on includes: Mixed euro equity and Foreign mixed equity.
6 Until I 2009 this category includes: Spanish equity and Euro Equity. From II 2009 on includes: Euro equity (which includes domestic equity).
7 Until I 2009 this category includes: Foreign equity Europe, Foreign equity Japan, Foreign equity USA, Foreign equity emerging countries and Other foreign equity. From II 2009 on includes: Foreign equity.
8 Until I 2009 this category includes: Guaranteed equity. From II 2009 on includes: Guaranteed equity and partial guarantee.
9 New categories from II 2009 on. Before it, absolute return funds were classified as global Funds.

Financial mutual funds: Detail of investors and total net assets by type of investors[1]

TABLE 3.7

				2009				2010
	2007	2008	2009	I	II	III	IV	I[2]
INVESTORS	8,053,049	5,923,346	5,475,403	5,626,786	5,498,325	5,461,473	5,475,403	5,488,163
Individuals	7,814,633	5,754,043	5,322,190	5,465,873	5,343,778	5,309,003	5,322,214	5,334,302
Residents	7,721,427	5,677,116	5,236,839	5,391,902	5,271,331	5,238,302	5,252,126	5,264,398
Non-residents	93,206	76,927	85,351	73,971	72,447	70,701	70,088	69,904
Legal entities	238,416	169,303	153,213	160,913	154,547	152,470	153,189	153,861
Credit Institutions	2,235	1,713	698	705	689	673	674	662
Other resident Institutions	234,376	166,041	151,479	158,816	152,453	150,398	151,479	152,176
Non-resident Institutions	1,805	1,549	1,036	1,392	1,405	1,399	1,036	1,023
TOTAL NET ASSETS (Million euro)	255,041.0	175,865.5	170,547.7	168,829.4	167,160.9	169,458.4	170,547.7	169,329.4
Individuals	190,512.2	135,756.2	132,860.2	132,447.7	131,675.4	133,194.9	132,860.5	131,801.5
Residents	187,746.8	133,878.0	130,680.7	130,481.7	129,704.0	131,331.5	130,954.4	129,858.0
Non-residents	2,765.4	1,878.2	2,179.5	1,966.0	1,971.4	1,863.4	1,906.0	1,943.5
Legal entities	64,528.7	40,109.3	37,687.5	36,381.7	35,485.6	36,263.5	37,687.2	37,527.9
Credit Institutions	5,721.0	4,193.0	2,572.3	2,339.4	2,319.6	2,455.5	2,572.0	2,514.6
Other resident Institutions	56,974.4	34,738.0	34,065.1	33,151.7	32,275.4	32,833.8	34,065.1	33,984.3
Non-resident Institutions	1,833.3	1,178.4	1,050.1	890.5	890.6	974.1	1,050.1	1,029.0

1 Hedge funds and funds of hedge funds are not included.
2 Available data: January 2010.

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

TABLE 3.8

				2008	2009			
Million euro	2007	2008	2009[2]	IV	I	II	III	IV
SUBSCRIPTIONS								
Total financial mutual funds	180,943.10	135,461.70	109,915.20	31,077.6	23,902.8	24,085.5	28,762.7	33,164.2
Fixed-income	116,323.9	101,909.7	73,718.8	24,475.2	18,299.3	15,572.6	19,696.6	20,150.3
Mixed fixed-income	5,859.4	1,914.5	5,267.6	739.4	361.9	515.0	1,081.7	3,309.0
Mixed equity	2,749.8	1,350.2	1,135.4	192.9	71.0	156.3	541.5	366.6
Euro equity	9,625.7	2,858.0	2,183.8	576.2	362.1	489.3	589.2	743.2
Foreign equity	11,408.2	3,309.6	2,929.5	336.1	390.8	598.4	775.0	1,165.3
Guaranteed fixed-income	9,161.3	11,937.0	11,755.4	2,974.9	3,180.6	3,783.2	2,544.8	2,246.8
Guaranteed equity	8,070.6	6,544.7	5,589.1	785.4	636.5	1,369.3	1,683.7	1,899.6
Global funds	17,744.2	5,638.0	2,754.4	997.5	600.6	971.5	389.4	792.9
Passive management	-	-	535.5	-	-	62.1	204.4	269.0
Absolute return	-	-	4,045.7	-	-	567.8	1,256.4	2,221.5
REDEMPTIONS								
Total financial mutual funds	202,827.1	202,864.1	122,617.50	49,397.6	30,018.9	29,142.2	30,511.1	32,945.1
Fixed-income	122,178.3	124,242.9	81,197.6	32,332.9	19,963.9	19,433.2	20,090.1	21,710.4
Mixed fixed-income	7,809.6	8,136.6	2,724.4	1,946.2	806.2	549.3	576.6	792.3
Mixed equity	4,023.0	4,675.6	1,596.5	854.7	493.0	284.4	554.2	264.9
Euro equity	12,438.0	8,617.2	2,457.8	1,151.9	751.4	515.9	455.6	734.9
Foreign equity	14,358.4	8,657.3	2,165.3	965.6	506.3	592.0	457.5	609.5
Guaranteed fixed-income	6,430.6	9,499.1	15,004.5	3,760.4	3,587.1	3,300.3	4,046.6	4,070.5
Guaranteed equity	11,602.6	18,216.4	10,990.8	4,715.6	2,372.5	2,944.0	3,100.2	2,574.1
Global funds	23,986.6	20,819.0	2,548.6	3,670.3	1,538.5	588.0	141.6	280.5
Passive management	-	-	708.0	-	-	307.8	164.3	235.9
Absolute return	-	-	3,224.0	-	-	627.3	924.6	1,672.1

1 Estimated data.
2 For Passive Management and absolute return, data refers to the last three quarters of the year

Financial mutual funds asset change by category: Net subscriptions/redemptions and return on assets[1]

TABLE 3.9

				2008	2009			
Million euro	2007	2008	2009[2]	IV	I	II	III	IV
NET SUBSCRIPTIONS/REDEMPTIONS [3]								
Total financial mutual funds	-21,884.0	-67,402.4	-12,702.3	-18,320.0	-6,116.1	-5,056.7	-1,748.4	219.1
Fixed-income	-5,854.4	-22,333.2	-7,478.8	-7,857.7	-1,664.6	-3,860.6	-393.5	-1,560.1
Mixed fixed-income	-1,950.2	-6,222.1	2,543.2	-1,206.8	-444.3	-34.3	505.1	2,516.7
Mixed equity	-1,273.2	-3,325.4	-461.1	-661.8	-422.0	-128.1	-12.7	101.7
Euro equity	-2,812.3	-5,759.2	-274.0	-575.7	-389.3	-26.6	133.6	8.3
Foreign equity	-2,950.2	-5,347.7	764.2	-629.5	-115.5	6.4	317.5	555.8
Guaranteed fixed-income	2,730.7	2,437.9	-3,249.1	-785.5	-406.5	482.9	-1,501.8	-1,823.7
Guaranteed equity	-3,532.0	-11,671.7	-5,401.7	-3,930.2	-1,736.0	-1,574.7	-1,416.5	-674.5
Global funds	-6,242.4	-15,181.0	205.8	-2,672.8	-937.9	383.5	247.8	512.4
Passive management	-	-	-172.5	-	-	-245.7	40.1	33.1
Absolute return	-	-	821.7	-	-	-59.5	331.8	549.4
RETURN ON ASSETS								
Total financial mutual funds	6,675.6	-11,988.0	8,389.8	-2,945.0	-654.8	3,657.3	4,022.8	1,364.5
Fixed-income	3,082.8	1,927.7	1,535.3	227.3	193.4	491.6	657.9	192.4
Mixed fixed-income	287.0	-716.8	507.9	-219.4	-66.7	184.3	229.7	160.6
Mixed equity	266.1	-1,589.0	529.9	-506.2	-207.0	313.9	346.4	76.6
Euro equity	1,072.5	-5,172.6	1,477.1	-1,481.7	-764.6	1,065.0	981.7	195.0
Foreign equity	21.0	-4,092.4	1,309.0	-1,080.1	-304.2	652.6	606.0	354.6
Guaranteed fixed-income	441.5	597.6	830.5	264.5	311.6	225.4	206.0	87.5
Guaranteed equity	1,037.0	-1,310.4	1,024.0	345.1	335.9	263.9	381.2	43.0
Global funds	467.7	-1,632.1	272.2	-494.5	-153.2	205.4	152.7	67.3
Passive management	-	-	657.8	-	-	193.0	330.3	134.5
Absolute return	-	-	246.4	-	-	62.2	131.0	53.2

1 Mutual funds that have sent reports to the CNMV (therefore mutual funds in a process of dissolution or liquidation are not included).
2 The data refers to the last three quarters of the year for Passive Management and absolute return categories.
3 Estimated data.

Financial mutual funds return on assets. Detail by category

TABLE 3.10

% of daily average total net assets	2007	2008	2009 [1]	2008 IV	2009 I	II	III	IV
MANAGEMENT YIELDS								
Total financial mutual funds	3.45	-4.09	6.13	-0.71	-0.13	2.39	2.71	1.09
Fixed-income	3.32	2.53	2.69	0.57	0.39	0.74	0.99	0.44
Mixed fixed-income	2.98	-5.75	9.34	-1.91	-0.91	3.72	4.43	2.46
Mixed equity	4.25	-23.30	16.44	-9.30	-5.60	9.51	9.99	2.45
Euro equity	7.04	-47.02	31.02	-14.08	-14.44	20.00	18.78	3.73
Foreign equity	2.00	-49.55	33.16	-20.91	-9.83	16.86	14.22	7.23
Guaranteed fixed-income	3.25	3.39	4.10	1.48	1.64	1.23	0.99	0.57
Guaranteed equity	3.65	-1.88	5.08	1.65	1.48	1.23	1.74	0.49
Global funds	2.57	-7.36	10.82	-4.01	-1.16	4.67	5.17	2.16
Passive management	-	-	-	-	-	14.13	11.63	4.60
Absolute return	-	-	-	-	-	1.67	2.44	1.11
EXPENSES. MANAGEMENT FEE								
Total financial mutual funds	1.00	0.87	0.87	0.22	0.21	0.21	0.23	0.23
Fixed-income	0.61	0.58	0.63	0.17	0.15	0.15	0.16	0.17
Mixed fixed-income	1.13	1.14	1.14	0.29	0.29	0.29	0.31	0.31
Mixed equity	1.54	1.54	1.58	0.39	0.38	0.39	0.40	0.40
Euro equity	1.65	1.60	1.75	0.42	0.40	0.43	0.45	0.45
Foreign equity	1.79	1.69	1.79	0.42	0.39	0.44	0.45	0.47
Guaranteed fixed-income	0.62	0.49	0.65	0.14	0.13	0.14	0.15	0.16
Guaranteed equity	1.30	1.29	1.26	0.35	0.33	0.33	0.34	0.31
Global funds	1.16	1.04	1.08	0.28	0.27	0.28	0.31	0.27
Passive management	-	-	-	-	-	0.15	0.17	0.17
Absolute return	-	-	-	-	-	0.28	0.30	0.29
EXPENSES. DEPOSITORY FEE								
Total financial mutual funds	0.09	0.08	0.09	0.02	0.02	0.02	0.02	0.02
Fixed-income	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Mixed fixed-income	0.09	0.09	0.09	0.02	0.02	0.02	0.02	0.02
Mixed equity	0.10	0.11	0.10	0.03	0.03	0.03	0.03	0.03
Euro equity	0.10	0.10	0.10	0.03	0.03	0.02	0.02	0.03
Foreign equity	0.12	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Guaranteed fixed-income	0.08	0.07	0.08	0.02	0.02	0.02	0.02	0.02
Guaranteed equity	0.10	0.11	0.11	0.03	0.03	0.03	0.03	0.03
Global funds	0.10	0.09	0.08	0.02	0.02	0.02	0.02	0.02
Passive management	-	-	-	-	-	0.02	0.02	0.02
Absolute return	-	-	-	-	-	0.02	0.02	0.02

1 Passive management and absolute annual returns are not included because they are new categories from II 2009 on.

Mutual fund quarterly returns. Detail by category

TABLE 3.11

In %	2007	2008	2009 [1]	2008 IV	2009 I	II	III	IV
Total financial mutual funds	2.73	-4.21	5.73	-0.96	-0.32	2.43	2.80	0.73
Fixed-income	2.68	2.06	1.91	0.45	0.23	0.55	0.88	0.24
Mixed fixed-income	2.01	-7.14	6.85	-2.43	-1.51	3.48	4.18	0.63
Mixed equity	2.79	-22.21	16.47	-9.02	-5.66	9.86	10.18	1.99
Euro equity	6.05	-39.78	32.41	-17.45	-13.02	23.34	19.76	3.06
Foreign equity	1.31	-41.71	37.28	-20.82	-6.60	20.08	15.15	6.30
Guaranteed fixed-income	2.80	3.29	3.81	1.45	1.14	0.94	1.31	0.37
Guaranteed equity	2.46	-2.61	3.56	1.50	1.11	0.85	1.40	0.16
Global funds	1.58	-8.64	10.90	-3.88	-1.33	4.90	5.18	1.87
Passive management	-	-	-	-	-	16.50	12.09	4.61
Absolute return	-	-	-	-	-	1.54	1.90	0.70

1 Passive management and absolute annual returns are not included because they are new categories from II 2009 on.

Hedge funds and funds of hedge funds

TABLE 3.12

				2008	2009			
HEDGE FUNDS	**2006**	**2007**	**2008**	**IV**	**I**	**II**	**III**	**IV[1]**
Investors/shareholders	21	1,127	1,589	1,589	1,551	1,768	1,778	1,874
Total net assets (million euro)	24.4	445.8	539.4	539.4	451.4	536.9	602.6	627.7
Subscriptions (million euro)	24.4	378.2	390.4	21.6	23.5	71.6	66.5	41.5
Redemptions (million euro)	0.1	2.6	256.7	47.6	108.3	17.5	24.5	18.9
Net subscriptions/redemptions (million euro)	24.3	164.7	134.3	-26.0	-84.8	54.1	41.9	22.6
Return on assets (million euro)	0.1	0.2	-39.1	-30.9	2.7	25.7	25.9	2.5
Returns (%)	n.s.	0.84	-4.82	-3.59	-0.40	8.12	5.21	0.44
Management yields (%)[2]	n.s.	0.57	-2.51	-6.29	0.31	5.84	5.25	0.87
Management fee (%)[2]	n.s.	1.39	2.50	0.78	0.65	0,75	0.65	0.42
Financial expenses (%)[2]	n.s.	0.33	0.16	0.02	0.02	0.03	0.02	0.02
FUNDS OF HEDGE FUNDS								
Investors/shareholders	2	3,950	8,516	8,516	5,646	5,577	5,303	5,429
Total net assets (million euro)	0.6	1,000.6	1,021.3	1,021.3	775.2	709.5	846.9	834.3
Subscriptions (million euro)	0.6	1,071.2	967.3	161.5	35.5	9.2	170.1	-
Redemptions (million euro)	0.0	65.9	616.6	215.9	294.6	93.3	56.6	-
Net subscriptions/redemptions (million euro)	0.6	1,005.5	350.7	-54.4	-259.1	-84.1	113.5	-
Return on assets (million euro)	0.0	-9.6	-245.7	-244.9	13.1	32.0	28.3	-
Returns (%)	n.s.	-0.43	-17.80	-9.84	1.34	2.59	2.88	0.41
Management yields (%)[3]	n.s.	-1.36	-17.84	-18.14	1.91	2.86	3.29	-
Management fee (%)[3]	n.s.	1.15	1.63	0.45	0.35	0.37	0.41	-
Depository fee (%)[3]	n.s.	0.06	0.11	0.03	0.03	0.03	0.02	-

1 Available data: November 2009. Return refers to the period Sept-Nov 2009.
2 % of monthly average total net assets.
3 % of daily average total net assets.
n.s.: It is not significant.

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

TABLE 3.13

				2009				2010
	2007	**2008**	**2009**	**I**	**II**	**III**	**IV**	**I[3]**
NUMBER OF PORTFOLIOS								
Mutual funds	2,954	2,943	2,593	2,898	2,808	2,705	2,593	2,582
Investment companies	3,181	3,240	3,124	3,226	3,194	3,175	3,124	3,119
Funds of hedge funds	31	40	38	40	40	40	38	37
Hedge funds	21	24	28	25	25	26	28	29
Real estate investment fund	9	9	8	9	8	8	8	8
Real estate investment companies	9	9	8	9	9	8	8	8
ASSETS UNDER MANAGEMENT (Million euro)								
Mutual funds	255,040.9	175,850.2	170,547.7	168,829.6	167,161.0	169,458.4	170,547.7	169,329.4
Investment companies	30,300.0	24,038.8	24,953.0	23,132.7	23,941.7	24,966.5	24,953.0	24,682.8
Funds of hedge funds [2]	1,000.6	1,021.3	-	775.2	709.5	846.9	834.3	-
Hedge funds [2]	445.8	539.4	-	451.4	530.8	596.8	621.7	-
Real estate investment fund	8,608.5	7,406.9	6,465.1	6,758.1	6,547.2	6,494.3	6,465.1	6,444.3
Real estate investment companies	512.9	371.9	308.5	369.2	360.7	313.0	308.5	308.6

1 From II quarter 2009 on it is considered as "assets under management" all the assets of the investment companies which are co-managed by management companies and other different companies.
2 Available data: November 2009.
3 Available data: January 2010.

Foreign Collective Investment schemes marketed in Spain[1]

TABLE 3.14

	2007	2008	2009	2008 IV	2009 I	II	III	IV
INVESTMENT VOLUME[2] (Million euro)	37,092.7	18,169.3	n.a.	18,169.3	14,639.3	n.a.	n.a.	n.a.
Mutual funds	7,010.3	2,463.8	n.a.	2,463.8	1,661.8	n.a.	n.a.	n.a.
Investment companies	30,082.4	15,705.5	n.a.	15,705.5	12,977.6	n.a.	n.a.	n.a.
INVESTORS/SHAREHOLDERS	850,931	592,994	n.a.	592,994	510,695	n.a.	n.a.	n.a.
Mutual funds	142,782	104,287	n.a.	104,287	75,486	n.a.	n.a.	n.a.
Investment companies	708,149	488,707	n.a.	488,707	435,209	n.a.	n.a.	n.a.
NUMBER OF SCHEMES	440	563	n.a.	563	566	n.a.	n.a.	n.a.
Mutual funds	225	312	n.a.	312	313	n.a.	n.a.	n.a.
Investment companies	215	251	n.a.	251	253	n.a.	n.a.	n.a.
COUNTRY								
Luxembourg	229	274	n.a.	274	275	n.a.	n.a.	n.a.
France	122	161	n.a.	161	161	n.a.	n.a.	n.a.
Ireland	52	63	n.a.	63	64	n.a.	n.a.	n.a.
Germany	15	16	n.a.	16	17	n.a.	n.a.	n.a.
UK	12	14	n.a.	14	14	n.a.	n.a.	n.a.
The Netherlands	1	1	n.a.	1	1	n.a.	n.a.	n.a.
Austria	5	28	n.a.	28	28	n.a.	n.a.	n.a.
Belgium	3	5	n.a.	5	5	n.a.	n.a.	n.a.
Malta	1	1	n.a.	1	1	n.a.	n.a.	n.a.

1 From December 2008 on, foreign collective investments schemes shareholders and total net assets data do not include exchange traded funds (ETF).
2 Investment volume: participations or shares owned by the investors/shareholders at the end of the period valued at that moment of time.
n.a.: No available data.

Real estate investment schemes

TABLE 3.15

	2007	2008	2009	2009 I	II	III	IV	2010 I[1]
REAL ESTATE MUTUAL FUNDS								
Number	9	9	8	9	8	8	8	8
Investors	145,510	97,390	83,583	95,284	89,461	87,903	83,583	83,666
Asset (Million euro)	8,608.5	7,406.9	6,465.1	6,758.1	6,547.2	6,494.3	6,465.1	6,444.2
Return on assets (%)	1.27	0.69	-8.31	-4.50	-1.23	-1.37	-1.45	-0.43
REAL ESTATE INVESTMENT COMPANIES								
Number	9	9	8	9	9	8	8	8
Shareholders	843	937	928	938	937	929	928	927
Asset (Million euro)	512.9	371.9	308.6	369.1	360.7	313.0	308.6	308.5

1 Available data: January 20. In this case, return on assets is monthly.