Annex II

The Spanish financial system

II

The Spanish financial system

Spain has a modern diversified financial system which is competitive and fully integrated with the international financial markets.

In Spain, as well as in the European Union, the deregulation of capital movements is complete, which enables the Spanish companies to obtain financing from abroad, as well as it makes investment much easier for foreign companies in Spain.

The Spanish markets are endowed with great transparency, liquidity and efficacy.

Since 2007, the economic and financial slowdown had a great impact on Spanish stock markets, as well as in other economies. Currently, volatility on the stock markets has moderated, associated to the growth in advanced economies. Likewise, the policies undertaken to promote the competitiveness of the Spanish economy have represented big investment opportunities. Even if 2013 was a challenging year, at the end of the year 2014 the stabilization of the economy could be observed, helped by an increasing foreign investment, the increase of exports and the recovery of the equity markets. This tendency has continued and been reinforced throughout 2014, 2015 and 2016. At the 2016 year end, the recovery of the Spanish economy is on a sound footing and the imbalances present have been reduced. This trend is expected to continue in 2017, driven by positive figures for private consumption, foreign investment and tourism, with the International Monetary Fund forecasting overall growth of 2.3% in the Spanish economy.

As for the money market, this has become increasingly important as a result of the deregulation and greater flexibility of the Spanish financial system as a whole in the past few years, with a substantial volume of trading in money market instruments.

Lastly, more general and stronger protection for financial services customers has been provided. A stronger protection of the financial systems has also been provided through the regulation of obligations and procedures to prevent the use of said systems for money laundering and terrorist financing.

All these and other aspects of interest, such as the tax regime applicable to the main financial products available on the Spanish market are discussed in this chapter.

II

1. Introduction

From an institutional standpoint, a financial system can be defined as the group of institutions which generate, muster, administer and manage savings and investment in a political and economic system.

Spain has a diversified, modern, and competitive financial system, which is fully integrated within international financial markets.

2. Financial institutions

The main operators in the Spanish financial system can be classified as follows:

Table 1

Financial system operators	
Central bank	Bank of Spain
Credit institutions	Spanish and foreign banks
	Official Credit Institute *(Instituto de Crédito Oficial, ICO)*
	Savings Banks. Spanish Confederation of Savings Banks *(Confederación Española de Cajas de Ahorro, CECA)*
	Credit Cooperatives
Financial auxiliaries	Credit Financial Establishments
	Payment Institutions
	Electronic Money Institutions
	Mutual Guarantee and Counter-guarantee Societies
	Valuation Companies
Collective investment Schemes	Investment Funds • Financial • Non-financial
	Investment Companies • Financial • Non-financial
	Management Companies of Collective Investment Schemes

Table 1 (Continuation)

Financial system operators	
Investment Firms	Broker-Dealers
	Brokers
	Portfolio Management Companies
	Financial Advisory Firms
Closed-ended type Collective Investment Entities	Venture Capital Entities, including SME Venture Capital Entities
	Closed-ended type collective investment entities
	European venture capital funds
	European social entrepreneurship funds
	Management companies of Closed-ended type Collective Investment Entities
Insurance and reinsurance companies and insurance intermediaries	Insurance and Reinsurance Companies
	Insurance Intermediaries • Insurance Agents • Insurance Brokers • Reinsurance Brokers
Pension Plans and Funds	Pension Plans
	Pension Funds
	Management Companies of Pension Funds
Securitization vehicles	Securitization Funds[1]
	Securitization Fund Management Companies

1 Until the promulgation of Law 5/2015 of April 27, 2015 on the Promotion of Business Financing ("Law 5/2015"), which has brought changes to the regime governing securitization funds in Spain, a distinction was drawn between mortgage securitization funds and asset securitization funds. This distinction has been eliminated in the new Law, which now refers to securitization funds as a single concept (without prejudice to those mortgage securitization funds and asset securitization funds created prior to Law 5/2015 and which remain in existence).

The key features of the financial system operators are described below.

2.1. Central bank

The Spanish Central bank is the Bank of Spain. It is the national central bank, entrusted with supervising the Spanish banking system, and its activities are regulated by the Law on the Autonomy of the Bank of Spain.

Following the creation of the European System of Central Banks (ESCB) and the European Central Bank (ECB), the Bank of Spain's functions have been redefined as follows:

Table 2

Functions of the bank of Spain	
Participation in the functions of the European System of Central Banks (ESCB)	Defining and implementing monetary policy in the euro zone with the aim of maintaining price stability in the euro zone.
	Conducting foreign currency exchange transactions and holding and managing the Spanish State's official foreign exchange reserves.
	Promoting the sound working of the euro zone payment system.
	Issuing legal tender banknotes.
Functions established in the Law on the Autonomy of the Bank of Spain	Supervising the solvency and behavior of credit institutions and the financial markets.
	Promoting the sound working and stability of the financial system and of Spain's payment systems.
	Preparing and publishing statistics on its functions.
	Providing treasury services and acting as a financial agent for government debt.
	Advising the Government and preparing the appropriate reports and studies.
	Holding and managing currency and precious metal reserves not transferred to the ECB.
	Placing coins in circulation and performing, on behalf of the State, all other functions entrusted to it in this connection.

The inclusion of the Bank of Spain in the Single Supervisory Mechanism

Council Regulation (EU) 1024/2013 of October 15, 2013, has created a Single Supervisory Mechanism (SSM), which introduces a new financial supervision system made up of the European Central Bank (ECB) and the Competent National Authorities (CNA) of the participating EU member states, which include the Bank of Spain. The ECB's Regulation (EU) No 468/2014 of 16 April 2014 establishes the framework for cooperation within the SSM between the ECB and CNA and with national designated authorities.

Its main objectives are to ensure the safety and soundness of the European banking system and to enhance financial integration and stability in Europe. In addition, the SSM plays a crucial role in ensuring a coherent and effective implementation of the Union's policy relating to the prudential supervision of credit institutions.

Under additional provision sixteen of Law 10/2014, of June 26, 2014, on regulation, supervision and solvency of credit institutions, the Bank of Spain was included in the SSM in its capacity as a competent national authority, whereby the Bank of Spain will exercise its regulatory and supervisory powers, notwithstanding the functions entrusted to the ECB in the context of the SSM and in conjunction with this institution.

2.2. Credit institutions

The main credit institutions, i.e. banks, savings banks and credit cooperatives, play a particularly important role in the financial industry in Spain, because of the volume of their business and their presence in all segments of the economy. Credit institutions are authorized to engage in what is referred to as "universal banking",

i.e. not to confine themselves to traditional banking activities consisting merely of attracting funds and financing by granting loans and credit facilities, but also to provide para-banking, securities market, private banking and investment banking services.

However, with the aim of removing imbalances in the Spanish financial industry to permit its restructuring, significant changes have been made in the industry, mainly affecting groups of national banks and savings banks. Accordingly, the restructuring process is being carried out through concentrations of savings banks, banks and credit cooperatives, the conversion of savings banks into banks and recapitalization processes at certain institutions. The trend in the Spanish credit institutions sector is therefore towards a reduction in the number of institutions registered with the Bank of Spain.

As of December 31, 2016, there are officially registered at the Bank of Spain the Official Credit Institute 60 banks, 2 savings banks, 63 credit cooperatives, 39 representative offices in Spain of foreign credit institutions, 77 branches of non-Spanish EU credit institutions, 5 branches of non-EU credit institutions, 579 non-Spanish EU credit institutions operating in Spain without an establishment, 4 financial institutions which are subsidiaries of a non-Spanish EU credit institution, operating in Spain without an establishment, and 4 non-EU credit institutions operating in Spain without an establishment[2].

2.2.1. Banks

Banks are corporations *(sociedades anónimas)* legally authorized to perform the functions reserved to credit institutions.

Their key features are summarized below:

Table 3

Basic regulations	• Law 10/2014, of June 26, 2014, on regulation, supervision and solvency of credit institutions. • Royal Decree 84/2015 of February 13 2015, implementing Law 10/2014 of June 26, 2014 on the regulation, supervision and solvency of credit institutions. • Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.
Corporate purpose	• Restricted to the pursuit of typical banking activities and of the reserved activity for credit institutions, consisting of the attracting of repayable funds from the public —whatever the use to which they are to be put— in the form of deposits, loans, temporary assignments of financial assets or similar.
Minimum capital	• A sum of €18 million, which must be fully subscribed and paid in.
Managing body	• The Board of Directors must have no fewer than five members. • The members of the Board of Directors, individuals representing directors who are legal entities, and general managers or persons in similar positions, those in charge of the internal control functions, and those holding other positions which play a key part in the day-to-day pursuit of the activities of the credit institution or its parent Company, must be persons of good repute in business and professional terms, have the knowledge and experience required for the performance of their functions and be committed to the good governance of the entity. The meeting of these requirements is to be assessed in accordance with the provisions of the pertinent legislation. • Registration of the managers, directors and similar executives on the Register of Senior Officers.
Shares	• Shares must be registered.
Formation of banks	• It is up to the Bank of Spain to submit to the European Central Bank an authorization proposal for the formation of a bank. • Must be registered on the Register of credit institutions of the Bank of Spain.

2 http://www.bde.es/f/webbde/SGE/regis/ficheros/es/LIBRO_31122016.pdf

2.2.2. Official Credit Institute (ICO)

It is a State-owned credit institution, attached to the Ministry of Economy, Industry and Competitiveness through the Office of the Secretary of Economy and Business Support.

It acts as the State's finance agency, providing financing pursuant to express instructions from the Government to those affected by serious economic crises or natural disasters. It also manages official export and development financing instruments.

2.2.3. Savings banks

Savings banks are credit institutions with the same freedoms as and full operational equality with the other members of the Spanish financial system. They have the legal form of private foundations and a community-welfare purpose and operate in the open market, although they reinvest a considerable portion of their earnings in community outreach projects[3].

These long-standing institutions with deep roots in Spain have traditionally attracted a substantial portion of private savings, with their lending business characteristically focused on the private sector (through mortgage loans, etc.). They have also been very active in financing major public works and private-sector projects by subscribing and purchasing fixed-income securities.

Currently, as a result of the savings bank restructuring process, a number of savings banks have emerged which, while retaining their status as credit institutions, have stopped engaging directly in their traditional financial activity, as their financial business has been transferred to banks formed for that purpose and owned by the savings banks via the creation of Institutional Protection Schemes (IPSs).

Of a total of 45 Savings Banks (at the beginning of 2010), 43 —which in terms of volume of total average assets represent 99.9% of the sector— have taken part or are currently taking part in some kind of consolidation process. As a result, the sector has gone from having a total of 45 entities with an average size of €29,440 million (December 2009) to being made up of 11 entities or groups of entities, with an average volume of assets of €89,550 million (March 2015)[4].

The Spanish savings banks are members of the Spanish Confederation of Savings Banks (CECA), a credit institution formed in 1928 to act as the national association and financial institution of the Spanish savings banks. The "special foundations", the central institutions of the IPSs, the instrumental banks through which the savings banks engage in their financial activity and the institutions whose financial business derives from a savings bank all form part of the CECA. The CECA aims to strengthen the position of the savings banks, it acts as a forum for strategic reflection for all savings banks and other member entities, it advises them and it provides them with competitive products and services.

2.2.4. Credit cooperatives

Credit cooperatives are credit institutions that combine the corporate form of a cooperative and the activity and status of a fully operational credit institution.

Their uniqueness and importance lies in the fact that they function as a nonprofit organization, since their members combine their funds to make loans to each other, with any excess revenues being returned to the members in the form of dividends.

Their key features are described below:

3 As a result of the credit institution restructuring process, almost all the savings banks have agreed to separate their financial activities from their community welfare activities, so that today the community welfare activities are carried out by foundations and the financial activities by credit institutions (typically banks) owned by the savings banks.

4 Source: CECA.

Table 4

Basic regulations	• State: Law 10/2014, of June 26, 2014, on regulation, supervision and solvency of credit institutions, Law 13/1989 on Credit Cooperatives, Royal Decree 84/1993 approving the Implementing Regulations for Law 13/1989 of May 26, 1989 on Credit Cooperatives, and Royal Decree 84/2015 of February 13, 2015 expanding upon Law 10/2014. Law 27/1999 on cooperatives applicable secondarily. • Autonomous communities: Corporate / cooperative regulations.
Corporate purpose	They may perform all types of lending and deposit-taking operations and provide all the services permitted to banks and savings banks, provided they give **priority to the financial needs of their members.**
Minimum capital	Each member must have a holding of at least €60.01 in the capital. No legal entity may hold more than 20% of the capital, unless it is a cooperative, in which case the holding cannot exceed 50% of the capital. No individual may hold more than 2.5% of the capital of a credit cooperative.
Governing bodies	• General Assembly: each member is to have one vote, regardless of the member's shares in the capital stock. However, if the bylaws so provide, the vote of the members may be in proportion to their contribution to the capital, to the activity pursued, or to the number of members of associated cooperatives; in this case, the bylaws must clearly indicate the criteria for such proportional voting. • Governing Board comprising at least five members, two of whom may be non-members. • General Manager, without governing functions, subordinated to the Governing Board. • All members of the Governing Board must be persons of good repute in business and professional terms, have the knowledge and experience required to perform their functions, and be committed to the good governance of the entity. • The requirements with respect to good repute, knowledge and experience also apply to general managers or persons holding similar positions, to those in charge of the internal control functions and to those holding other positions which play a key part in the day-to-day pursuit of the entity's activities. • Registration of managers, directors or similar executives on the Register of Senior Officers.
Contributions	• They are for an indefinite term. • Their remuneration is conditional on the existence of net income or sufficient unrestricted reserves to cover the remuneration. • Their redemption is subject to compliance with the solvency ratio.
Formation of credit cooperatives	• It is up to the Bank of Spain to submit to the European Central Bank an authorization proposal for the formation of a credit cooperative. • Must be registered on the Special Register of the Bank of Spain.

Additional considerations regarding credit institutions:

A) The regime governing significant holdings and changes of control at credit institutions

Any individual or legal entity that, acting alone or in concert with others, intends to acquire, directly or indirectly, a significant holding[5] in a Spanish credit institution or to increase, directly or indirectly, the holding in that institution so that either the percentage of voting rights or capital held is equal to or greater than 20, 30 or 50 percent, or that, by virtue of the acquisition could control the credit institution, must give prior notice to the Bank of Spain in order to secure a statement of non-opposition to the proposed acquisition, indicating the amount of the expected holding and including all the information required by law. Likewise, any individual or legal entity that has taken a decision to dispose, directly or indirectly, of a significant holding in a credit institution, must first notify the Bank of Spain of such circumstance.

It is the task of the Bank of Spain to assess proposed acquisitions of significant holdings and submit a decision proposal to the European Central Bank so that it can decide whether or not to oppose the acquisition.

Furthermore, any individuals or legal entities that, acting alone or in concert with others, have acquired, directly or indirectly, a holding in a credit institution, so that the percentage of voting rights or of capital that they hold is equal to or greater than 5%, must give immediate written notice of such circumstance to the Bank of Spain and the credit institution in question.

5 "Significant holding" means a holding in a Spanish credit institution that amounts, directly or indirectly, to at least 10 percent of the capital or voting rights of the institution. Where a holding makes it possible to exert a notable influence at the institution, it will also be considered a significant holding even if it does not amount to 10 percent.

Similarly, any individual or legal entity that decides to cease to hold, directly or indirectly, a significant holding in a credit institution, must notify the Bank of Spain of such decision beforehand, indicating the shareholding percentage it intends to hold. It must also notify the Bank of Spain if it intends to reduce its significant shareholding in such a way that the percentage of voting rights or capital held by it falls to below 20, 30 or 50 percent, or results in the loss of control over the credit institution.

B) Cross-border activities of credit institutions

With regard to the cross-border activities of credit institutions, the following may be noted:

- A Spanish credit institution may operate abroad by opening a branch or under the freedom to provide services.

- Credit institutions authorized in another EU Member State may engage in Spain, either by opening a branch or under the freedom to provide services, in activities that benefit from mutual recognition within the European Community.

- Likewise, credit institutions not authorized in an EU Member State may provide services through a branch or under the freedom to provide services, but they will require prior authorization.

In all cases, the credit institutions must fulfill a number of statutory requirements.

Furthermore, credit institutions may operate in Spain through representative offices. However, representative offices may not perform credit operations, collect deposits, or engage in financial intermediation, nor may they provide any other kind of banking services. They are confined to engaging in merely information-related or commercial activities regarding banking, financial or economic matters. However, they may promote the channeling of third-party funds, through credit institutions operating in Spain, to their credit institutions in their countries of origin, and serve as a medium to provide services without a permanent establishment (that is, under the freedom to provide services).

2.3. Financial auxiliaries

2.3.1. Credit financial establishments

Credit financial establishments *(establecimientos financieros de crédito)* are institutions specialized in certain activities (e.g. financial leasing, financing, mortgage loans, etc.) which cannot raise deposits from the general public.

Their key features are summarized below:

Table 5

Basic regulations	• Law 5/2015 of April 27, 2015 on the promotion of business financing. • Law 3/1994, of April 14, 1994, adapting Spanish legislation on credit institutions to the Second Council Directive on Banking Coordination and introducing other modifications relating to the financial system, in the area of credit financial establishments. • Royal Decree 692/1996, of April 26, 1996, establishing the legal regime for credit financial establishments.
Corporate purpose	Their scope of operations is the pursuit of banking and para-banking activities: • Financial leasing with certain complementary activities. • Lending and the provision of credit facilities, including consumer credit, mortgage loans, and the financing of commercial transactions. • Factoring with or without recourse. • Issuing guarantees and similar commitments. • The granting of reverse mortgages.

Table 5 (Continuation)

	They may perform any **accessory activities** necessary for the better pursuit of their principal activity. Credit financial establishments may carry out, in addition to the aforementioned activities, the provision of payment services and the issuing of electronic money[6], by obtaining one specific authorization. This being the case, credit financial establishments shall be deemed as hybrid payment institutions or hybrid electronic money institutions and would be subject to the provisions applicable to such institutions. They are **prohibited** from raising funds from the general public and are therefore not required to form part of a Deposits Guarantee Fund. They can nevertheless take repayable funds through the issue of securities, in accordance with the provisions of Legislative Royal Decree 4/2015, of October 23 2015, approving the revised Securities Market Law (LMV) and its enabling regulations, subject to the requirements and limitations imposed specifically in respect of EFCs. EFCs are able to securitize their assets, in accordance with the provisions of the legislation on securitization funds.
Minimum capital	• Minimum capital stock of €5 million. Must be fully subscribed and paid in.
Managing body	• The Board of Directors must have no fewer than three members. • All members of the entity's Board of Directors, and those of the Board of Directors of its parent company where there is one, must be persons of good repute in business and professional terms, have the knowledge and experience necessary for the performance of their functions, and be committed to the good governance of the entity. • The requirements with respect to good repute and knowledge and experience also apply to general managers or persons holding similar positions, to those in charge of the internal control functions, and to those holding other positions which play a key part in the day-to-day pursuit of the activities of the entity and of its parent company • Registration of managers, directors or similar executives on the Register of Senior Officers.
Shares	• Shares must be registered. • Divided into number and class. • Possible restrictions on their transferability.
Formation of credit financial establishments	• It is up to the Ministry of Economy and Competitiveness to authorize the formation of credit financial establishments. • Must be registered on the Special Register of the Bank of Spain. • Must take the form of a corporation incorporated under the simultaneous foundation procedure for an indefinite term.

6 In the terms described in sections 2.3.2 and 2.3.3. of this Annex.

Royal Decree-Law 14/2013, of November 29, 2013, on urgent measures to adapt Spanish law to the EU legislation on supervision and solvency of financial institutions (hereinafter, "Royal Decree-Law 14/2013") modified the legal regime for Credit Financial Establishments which, from January 1, 2014, and until a new regime is approved for them (envisaged in the Bill on Promoting Business Finance), lose their status as credit institutions.

This regime has been approved by Law 5/2015 of April 27, 2015 on the promotion of business financing, according to which credit financial establishments cannot be classed as credit institutions. This law nevertheless envisages the supplementary application of the legislation on credit institutions in all areas not specifically addressed by the legislation on credit financial establishments. In particular, the rules established for credit institutions which are applicable to credit financial establishments include the following: those on significant holdings, suitability and incompatibility of persons in senior management positions, corporate governance, solvency, transparency, the mortgage market, the regime on insolvency and prevention of money laundering and financing of terrorism.

As of December 31, 2016, 35 Credit Financial Institutions had registered on the Bank of Spain's Administrative Register.

2.3.2. Payment Institutions

Introduced by Payment Services Law 16/2009, payment institutions[7] are those legal entities, other than credit institutions and electronic money institutions, which have been granted authorization to lend and execute payment services, that is, services that permit effective deposits in a payment account, and those enabling cash withdrawals, the execution of payment transactions, and the issuance and acquisition of payment instruments and money remittances. Payment institutions are not authorized to collect deposits from the general public or to issue electronic money. In this regard, it should be noted Ministerial Order EHA 1608/2010, of June 14, 2010, on transparency of conditions and reporting requirements applicable to payment services, and Royal Decree 712/2010, of May 28, 2010, on the legal regime for payment services and payment institutions, which supplement the above-mentioned Law 16/2009.

As of December 31, 2016, there are officially registered at the Bank of Spain 41 payment institutions, 16 branches of non-Spanish EU payment institutions, 579 non-Spanish EU payment institutions operating in Spain without an establishment and 3 networks of agents of EU payment institutions.

2.3.3. Electronic Money Institutions

Electronic money institutions (introduced by Law 44/2002 on Measures for the Reform of the Financial System or Financial Law) are credit institutions specialized in issuing electronic money, that is, monetary value represented by a claim on its issuer: a) stored on an electronic device; b) issued on receipt of funds of an amount not less in value than the monetary value issued; and c) accepted as a means of payment by undertakings other than the issuer. As a consequence of the development of the sector, which made it advisable to amend the regulatory framework of the electronic money institutions and of the issuance of electronic money, the Electronic Money Law 21/2011, of July 26, 2011 has been approved and implemented by Royal Decree 778/2012, of May 4, 2012, on the legal regime for electronic money institutions. The aim of this law is threefold: (i) to make regulation of the issuance of electronic money more specific, clarifying the definition of electronic money and the scope of application of the law; (ii) to remove certain requirements that are deemed inappropriate for electronic money institutions; and (iii) to guarantee consistency between the new legal regime for payment institutions, described above, and electronic money institutions. In this regard, electronic money institutions are also authorized to provide all the payment services typical of payment institutions. As in the case of payment institutions, these entities cannot take deposits or other repayable funds from the public.

As of December 31, 2016, there are 4 electronic money institutions officially registered at the Bank of Spain, 2 branches of non-Spanish EU electronic money institutions and 1 network of agents of EU electronic money institutions.

2.3.4. Mutual Guarantee and Counter-Guarantee Societies

Mutual guarantee societies were first introduced in 1978 and since then have operated in the area of medium- and long-term financing of small and medium-sized enterprises, to which they provide guarantees, mainly, through endorsements. The legal regime by which they are regulated is established in Law 1/1994 of March 11, 1994 on the Legal Regime governing Mutual Guarantee Societies and the corresponding enabling regulations.

As of December 31, 2016, there were a total 21 mutual guarantee societies registered at the Bank of Spain.

Their corporate purpose is as follows:

- To provide their members with access to credit and to credit-related services.
- To improve the financial conditions of their members.
- To provide personal guarantees in any lawful form, other than in the form of an insurance surety.
- To provide financial advice and assistance to their members.

7 Payment institutions have their origin in currency-exchange bureaux.

- To take holdings in companies and associations whose sole purpose is to engage in activities for small and medium-sized companies. To this end, they must have the required reserves and obligatory provisions.

Members of mutual guarantee societies can be of two types: (i) participating members and (ii) protector members.

Counter-guarantee societies, which are classed as financial institutions for the purposes of Law 1/1994, with the legal form of corporations, and which necessarily have an ownership interest held by the State, coexist with these mutual guarantee societies. Their purpose is to provide sufficient coverage and assurance for the risks assumed by the mutual guarantee societies, also furnishing the cost of the guarantee for the members. The legal regime applicable to them is supplemented by Royal Decree 2345/1996 of November 8, 1996 setting out the rules on the administrative authorization of and solvency requirements applicable to counter-guarantee societies, and Royal Decree 1644/1997 of October 31, 1997 setting out the rules on the administrative authorization of and solvency requirements applicable to counter-guarantee societies.

2.3.5. Valuation companies

These companies are authorized to perform appraisals of real estate for certain types of financial institutions, in particular those related to the mortgage market.

Officially approved valuation companies are registered and supervised by the Bank of Spain. Their administrative rules, which aim to enhance the quality and transparency of appraisals, are established in Royal Decree 775/1997 of May 30, 1997 and Law 2/1981 regulating the mortgage market.

As of December 31, 2016, there are 37 valuation companies officially registered at the Bank of Spain.

2.4. Collective Investment Schemes

2.4.1. Features

Collective investment schemes (*instituciones de inversión colectiva,* or *IICs*) are vehicles designed to raise funds, assets or rights from the general public to manage them and invest them in assets, rights, securities or other instruments, financial or otherwise, provided that the investor's return is established according to the collective results.

The favorable tax treatment enjoyed by collective investment schemes in Spain has led to a considerable increase both in the number of these vehicles and the volume of their investments.

According to data published by INVERCO, (the Spanish Association of Collective Investment Schemes and Pension Funds), financial saving (financial assets) by Spanish households at the end of September 2016 amounted to Euros 1.99 billion, allowing for the almost full recovery of the adjustment seen in the first quarter of 2016. In 2016 overall, net acquisitions of financial assets by households have remained at above 4% of disposable income, based to a great extent on Investment Funds which, as has been the case for four years now, continue to attract the interest of Spanish investor-savers, with net inflows amounting to over Euros 12,000 million as at September 2016[8].

In these four years, Spanish households have doubled their investments in Investment Funds, which are the financial instrument whose balance has recorded the highest increase over this period. At the end of 2016, the total volume of IICs (Investment Funds and Companies) in Spanish household investment portfolios amounts to Euros 264,000 million, accounting for over 13% of total household financial savings[9].

In addition to the abundant sectorial legislation, the basic rules for IICs are contained in Collective Investment Scheme Law 35/2003, of November 4, and its implementing regulation, approved by Royal Decree 1082/2012, of July 13, 2012. This legislation transposes the latest version of Directive 2009/65/EC[10] of the European Parliament and of the Council of July 13, 2009 on the coordination of laws, regulations and administrative provisions relating to Undertakings for Collective Investment in Transferable Securities (UCITS).

Spanish collective investment schemes may be of two types:

- Financial: Their primary activity is to invest in or manage transferable securities. These include investment companies and securities funds, money market funds and other institutions whose corporate purpose is to invest in or manage financial assets.

- Non-financial: They deal mainly in real asset assets for operation purposes and include real estate investment companies and funds. Of note in this regard is the creation of Listed Corporations for Investment in the Real Estate Market *(Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario, SOCIMIs)* whose main activity is to acquire and develop urban real estate for lease activities.

As for the legal form that the various schemes may take, the legislation envisages two alternatives:

- Investment Companies: These are collective investment schemes that take the form of a corporation (and therefore

8 http://www.inverco.es/archivosdb/1609-ahorro-financiero-de-las-familias-espanolas.pdf

9 http://www.inverco.es/archivosdb/ahorro-financiero-de-las-familias-iics-y-fp-2016.pdf

10 Modified by Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions.

have legal personality) and whose corporate purpose is to raise funds, assets or rights from the general public to manage them and invest them in assets, rights, securities or other instruments, financial or otherwise, provided that the investor's return is established according to the collective results. The management of an Investment Company is entrusted to its board of directors, although the general meeting —or the board of directors by delegation— has the authority to resolve upon the appointment of an SGIIC as the party responsible for guaranteeing compliance with the provisions of Royal Decree 1082/2012 of July 13, 2012 approving the enabling Regulations for Law 35/2003 of November 4, 2003 on collective investment institutions (the IIC Regulation). If the Investment Company does not appoint a SGIIC, the company itself shall be subject to the regime for SGIICs established in Royal Decree 1082/2012. The SGIIC appointed, or the Investment Company if a SGIIC has not been appointed, may in turn delegate the management of investments to another financial institution or institutions in the manner and subject to the requirements set out in the IIC Regulation. The number of shareholders may not be less than 100. In the case of multiple compartment SICAVs, the number of shareholders may not be less than 20, and the total number of shareholders of the SICAV may not be less than 100 under any circumstances.

Financial Investment Companies will be formed as open-ended investment companies (*sociedades de inversión de capital variable,* or SICAV) with variable capital, that is, capital that may be increased or reduced within the maximum or minimum capital limits set in their bylaws, by means of the sale or acquisition by the company of its own shares. Shares will be issued and bought back by the company at the request of any interested party according to the corresponding net asset value on the date of the request. The acquisition of own shares by the SICAV, in an amount between the initial capital and the limit per the bylaws, will not be subject to the restrictions established for the derivative acquisition of own shares in the Capital Companies Law. Since they are listed companies, SICAV shares must be represented by book entries (the unofficial market habitually used for trading the shares of SICAVs is the Alternative Stock Market *(Mercado Alternativo Bursátil, MAB)*). Non-financial Investment Companies will be closed-end companies, i.e. they will have a fixed capital structure.

It is obligatory for SICAVs to have a depositary.

- Investment Funds: These are pools of assets with no legal personality divided into a number of transferable units (with no par value) with identical properties belonging to a group of investors ("unit-holders") who may not be fewer than 100. In the case of multiple compartment investment funds, the number of unit-holders in each of the compartments may not be less than 20 and the total number of unit-holders of the investment fund may not be less than 100 under any circumstances. The subscription or redemption of the units depends on their supply or demand, so their value ("net asset value") is calculated by dividing the value of the assets of the fund by the number of units outstanding. Payment on redemption will be made by the depositary within a maximum of three business days from the date of the net asset value applicable to the company.

  A fund is managed by Management Company of Collective Investment Schemes that has the power to dispose of the assets, although it is not the owner of the assets. A Depositary is the company responsible for the liquidity of the securities and, as the case may be, for their safe-keeping. Both companies are remunerated for their services through fees.

  Listed investment funds are those whose units are admitted to trading on a stock exchange, for which purpose they must meet a number of requirements.

  A distinction may also be drawn between collective investment schemes according to whether they are subject to Spanish or European legislation:

  — Spanish Collective Investment Scheme (IIC) legislation:

    Spanish IICs are investment companies with registered office in Spain and investment funds formed in Spain. They are subject to Spanish IIC legislation, which reserves the corresponding activity and name for them.

    Foreign IICs are any IICs other than those mentioned in the preceding paragraph. If they wish to be traded in Spain, they must meet certain requirements established in the applicable legislation.

  — European Collective Investment Scheme (IIC) legislation:

    Harmonized IICs are IICs authorized in an EU Member State in accordance with the UCITS legislation.

    Non-harmonized IICs are IICs domiciled in an EU Member State that do not meet the requirements established in the UCITS legislation and IICs domiciled in non-EU Member States. In addition, Collective Investment Schemes of Free Investment, commonly known in the market as *Hedge Funds*[11], are in any

11 Directive 2011/61/EU of the European Parliament and of the Council of June 8, 2011, on alternative investment fund managers, lays down the rules applicable to the ongoing operation and transparency of the managers of alternative investment funds which manage and/or market alternative investment funds throughout the EU. Royal Decree 1082/2012, of July 13, 2012, approving the implementing regulations of Law 35/2003, introduced some of the new requirements set forth under Directive 2011/61/EU. In addition, on November 13, 2014, the Official State Gazette published Law 22/2014, of November 12, 2014, regulating venture capital entities, other closed-ended type collective investment entities and the management companies of closed-ended type collective investment entities, and amending Law 35/2003, of November 4, 2003 on collective investment schemes the main purpose of which is to transpose Directive 2011/61/EU, on Alternative Investment Fund Managers into Spanish law.

case considered as non-harmonized IICs. Collective Investment Schemes of Free Investment may invest in financial assets and instruments and in derivatives, regardless of the nature of the underlying assets. Such investments must respect the general principles of liquidity, risk diversification and transparency, but are not subject to the rest of the investment rules established for IICs.

The Spanish National Securities Market Commission (CNMV) is the body in charge of supervising IICs. In this respect, both investment companies and investment funds require prior authorization from the CNMV for their formation. After their formation and registration at the Commercial Registry (the registration requirement is not obligatory for investment funds), the CNMV registers the IIC and its prospectus on its register.

The asset and capital requirements of the main types of IICs include the following:

- Financial investment funds will have minimum assets of €3,000,000. In the case of multiple compartment funds, each compartment must have at least €600,000 in assets and the total minimum capital paid in may not be less than 3,000,000 under any circumstances.

- The minimum capital of Open-End Investment Companies (SICAVs) will be €2,400,000, which must be fully subscribed and paid in. In the case of multiple compartment SICAVs, each compartment must have minimum capital of €480,000 and the total minimum capital paid in may not be less than 2,400,000 under any circumstances.

- The minimum capital stock of real estate investment companies will be €9,000,000. In the case of multiple compartment companies, each compartment must have capital of at least €2,400,000 and the total capital of the company may not be less than 9,000,000 under any circumstances.

A brief comment should also be made regarding the trading[12] of foreign IICs in Spain which, subject to fulfillment of the formalities and requirements established in the legislation, requires that a distinction be drawn between:

- Harmonized IICs, which may trade in Spain unrestricted once the competent authority in the home Member State informs them that it has sent the CNMV a notification with the relevant information.

- Non-harmonized IICs and IICs authorized in a non-EU Member State, which require express authorization from the CNMV and registration on its registers.

2.4.2. Management Companies of Collective Investment Schemes

The key features of Management Companies of Collective Investment Vehicles (SGIICs) are as follows:

- They are corporations which have as their corporate purpose the management of investments, the control and management of risks, administration, representation and the management of subscriptions and redemptions of investment funds and companies. They may also market the participation units or shares of IICs.

- Moreover, SGIICs may be authorized to engage in the following activities:

  (a) Discretionary and individualized investment portfolio management.

  (b) Administration, representation, management and marketing of venture capital entities, closed-ended collective investment entities, European venture capital funds (EVCF) and European social entrepreneurship funds (ESEF).

  (c) Investment advice.

  (d) Safe-keeping and management of units of investment funds and, as the case may be, of shares of investment companies, EVCFs and ESEFs.

  (e) Receipt and transfer of customer orders relating to one or more financial instruments.

- It falls on the CNMV to grant prior authorization for the formation of an SGIIC. Once formed, in order to commence its operations, the SGIIC must be registered at the Commercial Registry and on the appropriate CNMV register.

- SGIICs must, at all times, have equity[13] that may not be less than the larger of the following amounts:

  (a) Minimum capital stock of €125,000 fully paid in and increased by certain proportions established in the IIC regulations according to certain circumstances.

  (b) 25% of the overheads charged in the income statement for the prior year. Overheads will comprise personnel expenses, general expenses, levies and taxes, amortization/depreciation charges and other operating charges.

12 Subject to the requirements laid down in Directive 2011/61/EU.

13 SGIICs may be exempt from compliance with some of the obligations of the Law, as provided for in the regulations, where they meet the following requirements: they only manage investment firms and the managed assets are less than a) €100 million, including assets acquired by using leverage; or b) €500 million where the investment firms they manage are not leveraged and have no right of reimbursement that may be exercised during a period of five years after the date of initial investment.

- The current legislation introduces the necessary provisions to ensure the correct functioning of the cross-border fund management company passport, enabling Spanish SGIICs to manage funds domiciled in other EU Member States and SGIICs from other Member States to manage Spanish funds.

- In addition, regarding cross-border activities of SGIICs, the following may be noted:

  (a) SGIICs authorized in Spain may engage in the activity to which the foreign authorization refers, either through a branch or under the freedom to provide services, after fulfilling all formalities and requirements established by law.

  (b) Foreign SGIICs may engage in their activities in Spain either by opening a branch or under the freedom to provide services, provided that they satisfy the relevant statutory formalities and requirements.

- Any individual or legal entity that, alone or acting in concert with others, intends to, directly or indirectly, acquire a significant holding[14] in a Spanish SGIIC or to, directly or indirectly, increase their holding in that SGIIC so that either the percentage of voting rights or of capital they hold is equal to or greater than 20, 30 or 50 percent, or by virtue of the acquisition they could come to control the SGIIC, they must first notify the CNMV in order to secure a statement of non-opposition to the proposed acquisition, indicating the amount of the expected holding and including all the information required by law. Acquiring or increasing significant holdings in breach of the law constitutes a very serious infringement. In addition, any individual or legal entity that, directly or indirectly, intends to dispose of a significant holding in an SGIIC, to reduce their holding so that it falls below the thresholds of 20, 30 or 50 percent, or that, as a result of the proposed disposal, may lose control of the credit institution, must give prior notice to the CNMV.

Likewise, any individual or legal entity that, alone or acting in concert with others, has acquired, directly or indirectly, a holding in a management company, so that the percentage of voting rights or of capital that they hold is equal to or greater than 5 percent, must give immediate written notice to the CNMV and the SGIIC in question, indicating the amount of the resulting holding.

2.5. Investment Firms

2.5.1. Features

Investment Firms are companies whose main activity is to provide professional investment services to third parties on financial instruments subject to securities market legislation.

Under Spanish law, investment firms provide the following investment and ancillary services:

Table 6

Investment and ancillary services	
Basic regulation	a) Reception and transmission of client orders relating to one or more financial instruments.
	b) Execution of those orders on behalf of clients.
	c) Dealing on own account.
	d) Discretionary and individualized investment portfolio management in accordance with client mandates.
	e) Placement of financial instruments, whether on or not on a firm commitment basis.
	f) Underwriting of an issue or a placement of financial instruments.
	g) Provision of investment advice.
	h) Management of multilateral trading systems.
Corporate purpose	a) Safekeeping and administration of financial instruments for the account of clients.
	b) Granting credits or loans to investors to allow them to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction.
	c) Advising companies on capital structure, industrial strategy and related matters, and providing advice and services relating to mergers and acquisitions.
	d) Services related to operations for the underwriting of issues or placing of financial instruments.
	e) Preparation of investment and financial analysis reports or other forms of general recommendations relating to transactions in financial instruments.
	f) Foreign exchange services where these are related to the provision of investment services.
	g) Investment services and ancillary services related to the non-financial underlying of certain financial derivatives when these are related to the provision of investment services or to ancillary services.

No person or entity may professionally provide the investment services or ancillary services listed in letters a), b), d) f), and g) above in relation to financial instruments unless they have been granted the mandatory authorization and are registered on the appropriate administrative registers. In addition, only the institutions authorized for that purpose may market investment services or solicit clients professionally, either directly or through regulated agents.

14 Where "significant holding" means a holding in a SGIIC that amounts, directly or indirectly, to at least 10 percent of the capital or voting rights of the institution. Where a holding makes it possible to exert a notable influence at the institution, it will also be considered a significant holding even if it does not amount to 10 percent.

The legal regime for Investment Firms is contained in the Securities Market Law and in Royal Decree 217/2008. These pieces of legislation transpose into Spanish law the EU MiFID legislation[15].

There are four types of Investment Firms:

- Broker-dealers *(sociedades de valores):* These are investment firms that can operate both for their own and for the account of others, and that provide the full range of investment and ancillary services. Their capital stock must be at least €730,000.

  As of December 31, 2015, there were 39 broker-dealers registered on the CNMV's Administrative Register.

- Brokers *(agencias de valores):* Investment firms that can only operate professionally for the account of others, with or without representation, and that provide the full range of investment services except for those described in letters c) and f) above, and the full range of ancillary services except for those mentioned in letter b).

  Their capital stock will depend on the activities they pursue. As a general rule, their share capital cannot be less than €125,000. However, brokers which are not authorized to take deposits of funds or transferable securities from their clients are able to have a share capital of €50,000.

  As of December 31, 2016, there were 46 brokers registered on the CNMV's Administrative Register.

- Portfolio management companies *(sociedades gestoras de carteras):* These investment firms can only provide the investment services described in letters d) and g) and the ancillary services described in letters c) and e). They are required to have (i) an initial capital of €50,000; or (ii) a professional indemnity insurance, surety or some other comparable guarantee against liability arising from professional negligence, covering the whole territory of the European Union and providing coverage of at least €1,000,000 applying to each claim and in aggregate €1,500,000 per year for all claims; or (iii) a combination of initial capital and professional indemnity insurance in a form resulting in a level of coverage equivalent to that referred to in points (i) and (ii) above.

  As of December 31, 2016, there were 2 portfolio management companies registered on the CNMV's Administrative Register.

- Financial advisory firms *(empresas de asesoramiento financiero):* These are individuals or legal entities that can only provide the investment services listed in letter g) and the ancillary services indicated in letters c) and e). In the case of legal entities, they must have (i) initial capital of €50,000, or (ii) a civil liability insurance policy that covers the entire territory of the European Union, a guarantee or other comparable guarantee, with a minimum coverage of €1,000,000 for claims for damages, and a total of €1,500,000 per year for all claims, or (iii) a combination of initial capital and a professional civil liability insurance policy that gives rise to coverage equivalent to that described in points (i) and (ii) above.

  As of December 31, 2016, there were 158 financial advisory firms registered on the CNMV's Administrative Register.

In addition, credit institutions may provide on a regular basis the full range of investment and ancillary services where their legal regime, their bylaws and their specific authorization enables them to do so. Likewise, collective investment scheme management companies (SGIICs) may provide certain investment and ancillary services provided that they are authorized to do so.

The conditions for taking up business can be summarized as follows:

- Internal organization: The Securities Market Law and Royal Decree 217/2008 are very exhaustive on the internal organization requirements that investment firms must meet.

- Authorization and registration: It falls to the CNMV to authorize investment firms.

In order to secure authorization as an investment firm, the following broad requirements must be met:

- Its sole corporate purpose must be to engage in the specific activities of investment firms.

- It must take the form of a corporation, incorporated for an indefinite term, and the shares comprising its capital stock must be registered shares.

- The minimum capital stock must be fully paid in in cash.

- It must have a board of directors made up of no fewer than three members.

- The chairmen, deputy chairmen, directors or administrators, general managers and persons holding equivalent positions are required to be of good repute and to have the knowledge and experience necessary for the performance of their functions, and be committed to the good governance of the investment firm. In the case of the parent companies of investment firms, the honorability requirement also applies to the chairmen, deputy chairmen, directors or administrators, general managers and persons holding equivalent positions and a majority of the members of the board of directors are required to have the knowledge and experience required for the performance of their functions.

  The requirements with respect to good repute, knowledge and experience also apply to the persons in charge of

15 It should be noted that in 2014, Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II), which repeals Directive 2004/39/EC of the European Parliament and of the Council, of 21 April 2004, on markets in financial instruments (MiFID I) and a new Implementing Regulation (MiFIR), which replaces the former legislation 648/2012, were approved. However, to date, MiFID II has not yet been transposed into Spanish legislation.

the internal control functions and to those holding other positions which play a key part in the day-to-day pursuit of the activities of an investment firm and its parent company.

- It must have an internal code of conduct.
- It must join the Investment Guarantee Fund where so required.
- It must have presented a business plan reasonably evidencing that the investment firm's project is viable in the future.
- It must have submitted appropriate documentation on the conditions and the services, functions or activities to be subcontracted or outsourced, to permit verification that this fact does not invalidate the requested authorization.

2.5.2. The regime governing significant holdings and changes of control at investment firms

Pursuant to the regime governing significant holdings for investment firms, they must notify the CNMV, for its preliminary assessment, of any acquisitions amounting to more than 10% of capital or of voting rights, and of any significant holding that is increased so that the percentage of capital or voting rights becomes equal to or greater than 20%, 30% or 50%, or control of the firm is acquired. In addition, any individual or legal entity that has decided to dispose, directly or indirectly, of a significant holding in an investment firm, must first notify the CNMV of such circumstance.

Also, any individual or legal entity that, alone or acting in concert with others, has acquired, directly or indirectly, a holding in a Spanish investment firm, so that the percentage of voting rights or of capital that they hold is equal to or greater than 5%, must give immediate written notice to the CNMV and to the investment firm in question, indicating the amount of the resulting holding.

2.5.3. Cross-border activities of investment firms

- Spanish investment firms may provide, in other EU Member States, the investment services and ancillary services for which they are authorized, either through a branch or under the freedom to provide services, subject to the fulfillment of the established legal formalities.
- Investment firms authorized in another EU Member State may provide investment and ancillary services in Spain, either by opening a branch or under the freedom to provide services, subject to the statutory notification procedure.
- Non-EU investment firms intending to open a branch in Spain or to operate under the freedom to provide services are subject to the authorization procedure.

2.6. Closed-ended type Collective Investment Entities

2.6.1. Features

Law 22/2014, of November 12, 2014, regulating venture capital entities, other closed-ended type collective investment entities and the management companies of closed-ended type collective investment entities, and amending Law 35/2003, of November 4, 2003 on collective investment schemes ("Law 22/2014") amends the law on venture capital entities in Spain, by repealing Law 25/2005, of November 24, 2005, on venture capital entities and their management companies.

The term "closed-ended type investment" is defined as that performed by venture capital entities and other collective investment entities at which, in accordance with their divestment policies, (i) all divestments by their members or unit-holders must take place at the same time and (ii) the sums received in respect of divestment must be received according to the amount due to each member or unit-holder by reference to the rights they hold under the terms established in the bylaws or regulations.

Closed-ended type collective investment must be carried out in Spain by two types of entities:

(a) "Venture capital entities" or **"ECR"** (*Entidades de Capital Riesgo* with a similar definition to that provided in Law 25/2005), which can take the form of funds (**"FCR"** – *Fondos de Capital Riesgo*) or companies (**"SCR"** – *Sociedades de Capital Riesgo*); and

(b) Other types of entities which the Law 22/2014 calls "closed-ended type collective investment entities" (**"EICC"**- *Entidades de Inversión Colectiva de Tipo Cerrado*), a new vehicle created by the Law 22/2014 which are defined as collective investment entities which, without having any commercial or industrial purpose, obtain capital from a number of investors, through marketing activities, to invest it in all types of assets, financial or otherwise, subject to a predefined investment policy. Closed-ended type investment entities can be either funds **("FICC")** or companies **("SICC")**. This new type of entity will include any companies that might have been operating in Spain by investing in non-listed securities but failed to meet the requirements under the regime for investments and diversification of venture capital.

Both types of entities must be managed by an authorized management company in accordance with the Law 22/2014[16]. The basic difference between venture capital entities (ECRs) and closed-ended type collective investment entities (EICCs) is that venture capital entities have a smaller investment scope than closed-ended type collective investment entities. Mirroring the requirement in the now repealed Law 25/2005, venture capital entities have to

16 In the case of the SCR and the SICC, the company itself can act as management company, if its managing body decides not to designate an external manager. These "self-managed" SCRs and SICCs are subject to the regime set out in Law 22/2014 for SGEICs, on which further information is provided in point 2.6.2 below.

restrict their investment activities to acquiring temporary interests in the capital of enterprises other than real estate or financial enterprises which, when the interest is acquired are not listed on a primary stock market or on any other equivalent regulated market in the European Union or of the in any other OECD member participants, whereas, as mentioned above, closed-ended type collective investment entities can invest in "all types of assets, financial or otherwise".

At December 31, 2016, there were 5 SICCs and 1 FICC entered on the CNMV's Administrative Register.

Law 22/2014 also regulates three new types of entities:

(a) European venture capital funds **("EVCF"),** subject to the rules in Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013, on European venture funds. They must be registered in the register set up for them at the CNMV; and

(b) European social entrepreneurship funds **("ESEF"),** subject to the rules contained in Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds. They must be entered in the register set up for them at the CNMV.

(c) It creates a special type of SME venture capital entity, an **"ECR-Pyme",** taking the form of either SME venture capital companies (SCR-Pyme) and SME venture capital funds (FCR-Pyme) (art. 20 Law 22/2014). These must hold, at least, 75% of their computable assets in certain financial instruments providing funding to small and medium-sized enterprises meeting a number of requirements at the time of the investment.

Therefore, Law 22/2014 regulates the legal regime of such entities as well as marketing regime of their shares or units in Spain and abroad.

2.6.2. Management companies of Closed-ended type Collective Investment Entities

Collective investment entity management companies are Spanish corporations *(sociedades anónimas)* whose corporate purpose is to manage the investments of one or more venture capital entities and/or closed-ended type collective investment entities, and monitor and manage their risks. Each venture capital entity and closed-ended type collective investment entity will have only one manager which must be a collective investment entity management company. Venture capital companies and closed-ended type collective investment companies can act as their own management company ("self-managed companies").

A description has been provided of the activities that can be carried on by collective investment entity management companies (there are some specific provisions in relation to self-managed companies and certain restrictions have been imposed), and a distinction is drawn between:

(a) Primary activity: Investment portfolio management and risk monitoring and management with respect to the entities they manage (venture capital entity, closed-ended type collective investment entities, European venture capital funds or European social entrepreneurship funds).

(b) Additional activities: Administrative and marketing tasks and activities related to the entity's assets.

(c) Ancillary services: Discretionary investment portfolio management, advisory services on investment, safe-keeping and administration of the units and shares of venture capital entities and closed-ended type collective investment entities (and, if applicable, European venture capital funds and European social entrepreneurship funds) and receipt and transmission of orders of customers in relation to one or more financial instruments.

A strict regime for obtaining the CNMV's authorization is established. Additionally, the CMNV must be notified of any significant change to the circumstances in which the original authorization was granted.

2.7. Insurance and reinsurance companies and insurance intermediaries

In light of the security it provides to individuals and traders and the positive role it plays in encouraging and channeling savings into productive investments, the insurance industry is subject to comprehensive legal regulations and tight administrative control. In this regard, insurers are required to invest part of the premiums they receive in assets that ensure security, profitability and liquidity.

The industry is supervised by the Directorate-General of Insurance and Pension Funds (DGS), attached to the Ministry of Economy and Competiveness, and the basic legal regime for insurance in Spain is as follows:

- Insurance firms:

  (a) The legislation on insurance firms is contained in Law 20/2015 of July 14, 2015 on the Regulation, Supervision and Solvency of insurance and reinsurance entities, and Royal Decree 1060/2015 of November 20, 2015 on the regulation, supervision and solvency of insurance and reinsurance entities, which contain, in revised form, the provisions of the previous legislation which remain in force, the new solvency system introduced by the so-called Solvency II Directive (Directive 2009/138/EC of the European Parliament and of the Council of November 25, 2009) and other rules intended to bring the legislation into line with the sector's development.

  (b) The legislation on insurance intermediaries is contained in Private Insurance and Reinsurance Intermediation Law 26/2006, of July 17, 2006.

- The legislation on insurance contracts is contained in the Insurance Contract Law 50/1980, of October 8, 1980.

- An *insurer* is a company that engages in the business of performing direct insurance transactions and which may also accept reinsurance transactions in the lines for which it is authorized to do direct insurance business. This is an exclusive and excluding business, that is, insurance contracts can only be formalized by insurers that are duly authorized by the Ministry of Economy and Competitiveness and registered on the register of the DGS, and insurers cannot perform transactions other than those defined in the above-mentioned insurance legislation. In this respect, the applicable legislation has established a specific authorization procedure for entities wishing to engage in these activities.

Insurance entities are permitted to adopt the form of a corporation *(sociedad anónima),* a European public limited liability company *(sociedad anónima europea),* a mutual insurance company *(mutua de seguros),* a cooperative society *(sociedad cooperativa),* a European cooperative society *(sociedad cooperativa europea),* or a welfare mutual insurance company *(mutualidad de prevision social).* Prior administrative authorization is required to operate in each line of insurance, which authorization implies registration on the register of insurance entities of the DGS. Foreign insurers are permitted to operate in Spain through a branch or under the freedom to provide services, if they are domiciled in other countries of the European Economic Area, and through a branch if they are domiciled in third countries.

The Spanish insurance industry continues to be characterized by the co-existence of a certain degree of concentration of the business volume in highly-competitive lines and types of insurance (life, health, motor, multi-risk insurance) which require considerable size in terms of assets and administration, with the dispersion of a minimum part of that business volume among a large number of entities operating in other types of insurance which do not require such size.

On the other hand, *reinsurance entities* are entities that undertake to reimburse insurers for the obligations they may hold vis-à-vis third parties under arranged insurance contracts, and which are covered by reinsurance. Reinsurance business can be undertaken in Spain by Spanish reinsurance companies whose sole corporate purpose is to arrange reinsurance, insurance entities themselves with respect to classes of insurance for which they are authorized and, lastly, foreign reinsurance entities which are domiciled in another country from the Economic European Area (under the freedom to provide services or through branches in Spain) or in third countries, in this latter case, either through a branch established in Spain or from the country in which their registered office is located (but not from branches located outside Spain).

The following table shows the changes in the numbers of operating Spanish insurance and reinsurance entities. The figures are broken down between direct insurance entities and pure reinsurance entities and, within the former category, by the various legal forms they take. There are currently no insurance cooperatives on the register[17].

Table 7

SPANISH INSURANCE AND REINSURANCE ENTITIES

	2008	2009	2010	2011	2012	2013	2014	2015
DIRECT INSURANCE ENTITIES								
• Corporations	204	202	195	188	183	178	168	156
• Mutual insurance societies	35	34	35	34	32	32	31	31
• Welfare mutual insurance societies	55	56	55	55	53	52	53	50
TOTAL DIRECT INSURANCE ENTITIES	294	292	285	277	268	262	252	237
SPECIALIZED REINSURERS	2	2	2	2	2	2	3	3
TOTAL INSURANCE AND REINSURANCE ENTITIES	296	294	287	279	270	264	255	240

17 http://www.dgsfp.mineco.es/sector/documentos/Informes%202015/INFORME%20SECTOR%202015.pdf

Insurance intermediaries are individuals or legal entities that, being duly entered in the DGS's special administrative register of insurance intermediaries and brokers and their senior officers, pursue the mediation between insurance or reinsurance policyholders, on the one hand, and insurance or reinsurance entities, on the other. The following are mediation activities:

(a) Introducing, proposing or carrying out work preparatory to the conclusion of insurance or reinsurance contracts.

(b) Concluding insurance and reinsurance contracts.

(c) Assisting in the administration and performance of such contracts, in particular in the event of a claim.

Intermediaries are classified as follows:

- Insurance agents: individuals or legal entities that conclude an agency agreement with an insurance entity. Insurance agents may be:

  (a) Exclusive insurance agents: they carry on the activity of insurance mediation for one insurance entity on an exclusive basis, unless the insurance entity authorizes the agent to operate solely with a different insurance entity in certain lines of insurance in which the authorizing entity does not operate.

  (b) Tied insurance agents: they carry on the activity of insurance mediation for one or more insurance entities.

  (c) Bancassurance operators: these are credit institutions, credit financial establishments or companies owned or controlled by them that carry on the activity of insurance mediation through an insurance agency contract for one or more insurance entities using the distribution networks of the credit institutions or credit financial establishments (in the case of companies owned or controlled by credit institutions or credit financial establishments, such entities are required to have assigned their distribution networks to the investee or controlled company for insurance distribution purposes). The bancassurance operators may be exclusive or non-exclusive.

- Insurance brokers: individuals or legal entities that carry on the commercial activity of private insurance mediation without any contractual ties to insurance entities and that offer independent, professional and impartial advice to the client.

- Reinsurance brokers: individuals or legal entities that carry on the activity of mediation in relation to reinsurance transactions.

In the event of acquisition of holdings amounting to 5% of the share capital or the voting rights of a Spanish insurance or reinsurance entity, the DGS is required to be informed within a maximum of ten business days counted as from the acquisition date. In cases of acquisition of significant holdings (i.e. those amounting directly or indirectly to 10% of share capital or voting rights) or increases in holdings which bring them up to or over the limits of 20%, 30% or 50%, or when the acquisition may result in the control of a Spanish insurance entity, reinsurance entity or insurance brokerage being assumed, the transaction can only go ahead if the DGS has not objected to it. Where a holding makes it possible to exert a notable influence on the management of the insurance entity, reinsurance entity or insurance brokerage, it will also be considered a significant holding even if it does not amount to 10 percent.

2.8. Pension plans and funds

2.8.1. Features

The insufficiency of the Spanish social security system, and the threat of a potential crisis in the system, prompted the sentiment that social security benefits, especially retirement benefits, would have to be supplemented. Thus saving and funded pension plans emerged to ensure an adequate pension upon retirement. In 1987 the Pension Plan and Fund Law introduced in Spain a savings arrangement that has given rise to a solid long-term instrument through which investors can provide for the future. This Law resulted in the institutionalization of pension plans sponsored by employers, certain associations and financial institutions.

The savings are invested in a pension fund and are returned, capitalized, upon retirement, death, death of a spouse, orphanhood, permanent and absolute inability to work in the regular occupation or permanent and absolute inability to work, and complete disability or severe or complete dependency of the participant. This system is of great social import, since it ensures future income for the participant or beneficiary. Moreover, pension funds have high investment potential as they have to invest the funds they receive, which gives them great financial power.

The current legislation on pension plans and funds is contained in the Revised Pension Plan and Fund Law, approved by Legislative Royal Decree 1/2002, and in Royal Decree 304/2004 approving the Pension Plan and Fund Regulations.

A *pension plan* is a contract that regulates the obligations and rights of the parties to it (participants, sponsors and beneficiaries) with the aim of determining the benefits that the participant or the beneficiary is entitled to, the conditions of that entitlement and the manner in which the plan is financed. These plans are based on contributions of savings which, duly capitalized, ensure future pensions.

The various characteristics of pension plans include, most notably, their favorable tax treatment and the restrictions on being able to draw out any of the accumulated savings prior to the occurrence of the contingency covered, except in cases of long-term unemployment or serious illness. Furthermore, the individual and associated pension plan participants may

be able to draw out the savings related to contributions made at least 10 years ago. In the case of employment pension plan participants, employer contributions and appropriations made at least 10 years earlier can only be drawn on if this is permitted under the terms of the commitment and is envisaged in the plan specifications.

Pension plans, regardless of their type, must necessarily be included in a pension fund, which are asset pools without separate legal personality created for the sole purpose of complying with pension plans, and are the investment instrument for the savings. All financial contributions from the sponsors and from the plan participants must be immediately and necessarily included in the position account of the plan in the pension fund, out of which any benefits arising under the plan will be paid.

A *pension fund* has no legal personality and must be administered, necessarily, by a management company, which keeps its accounting records, selects its investments and orders the depositary to purchase and sell assets. The following may be management companies:

- Corporations formed for this sole purpose and which have obtained the prior administrative authorization required.
- Life insurance companies authorized to operate in Spain which have obtained the prior administrative authorization required in order to manage pension funds.

In order to set up a pension fund, prior authorization from the Ministry of Economy and Competitiveness and registration of the corresponding public deed at the appropriate Commercial Registry are required.

With regard to the investments made by pension funds, the regulations currently in force have aimed to lend greater legal certainty to the investment process, with measures to encourage transparency in investment and the supply of information to participants.

In this respect, the applicable legislation has established a specific authorization procedure for entities wishing to engage in these activities.

2.8.2. Developments

At the end of 2015, the number of pension plans appearing in the DGS Register totaled 2,857, compared with 2,914 the year before10, which represents a decrease of 1.96%.

Although there was a decrease in pension plans of all types, this decrease was more marked in individual pension plans (-3.45%). Furthermore, the number of participants fell slightly in 2015 compared with the previous year (3.3%, from 9,942,270 to 9,908,788). 78.48% of the total number of participants are individual plans participants, 20.48% are participants of employment plans, and 0.68% are participants of associated plans.

The latest figures, corresponding to December 2015, set the cumulative return in 2015 at a positive 2.48% which is nevertheless less down on the figure for 2014 (and 1.20% for individual system plans).

In 2015, the total volume of contributions made to employment system pension plans has fallen by 2.71%. It is to be borne in mind that these contributions fell by 14% from 2012 to 2103 due primarily to temporary suspensions of contributions by sponsors in some companies and of contributions to the pensions plans of public authorities. The temporary suspension of contributions to public authority pension plans has continued in 2015 whereas many companies have resumed their contributions. In the case of individual pension plans, contributions have fallen in relation to 2014, with a decrease of 5.41%. Contributions to associated plans have also fallen.

The assets managed by Pension Funds increased D thanks to the improvement in the situation of financial markets and of the economy in general. At December 31, 2015, assets managed by Pension Funds amounted to over 104,000 million euros.

The table below shows the changes in pension funds in Spain by number of registered pension funds and managed assets.

Table 8

SPANISH PENSION FUNDS AND MANAGED ASSETS

Year	Registered funds	Assets (€ million)
1988	94	153.26
1989	160	516.87
1990	296	3,214.21
1991	338	4,898.25
1992	349	6,384.95
1993	371	8,792.74
1994	386	10,517.48
1995	425	13,200.44
1996	445	17,530.61
1997	506	22,136.26
1998	558	27,487.25
1999	622	32,260.64
2000	711	38,979.45
2001	802	44,605.62
2002	917	49,609.91
2003	1,054	56,997.34
2004	1,163	63,786.80
2005	1,255	74,686.70
2006	1,340	82,660.50
2007	1,353	88,022.50
2008	1,374	79,753.20
2009	1,420	86,318.91
2010	1,504	85,852.31
2011	1,570	83,954
2012	1,684	87,122
2013	1,761	93,096
2014	1,777	100,579.12
2015	1,688	104,532.36

The number of management companies entered at December 31, 2014 in the DGS Administrative Register totaled 84 whereas the number of management companies registered at December 31, 2015 was 82.

2.9. Securitization vehicles

In general, securitization consists of the conversion of collection rights into standardized fixed-income securities for possible subsequent trading on regulated securities markets, where they can be purchased by investors.

Securitization is Spain is carried out through securitization funds ("Securitization Funds" or "SF"). The SF is a separate pool of assets that has no legal personality, with a net asset value of zero, whose assets are made up of present or future collection rights, grouped in the manner indicated in Law 5/2015, and whose liabilities are made up of the fixed-income securities which they issue and of credit facilities granted by any third party.

Securitization funds are regulated by Law 5/2015.

SFs can be set up as closed-end funds (in which neither the assets nor the liabilities of the fund change after it is formed) and open-end funds (in which their assets and/or liabilities may be modified after they are formed).

Asset securitization vehicles are managed by specialized management companies ("securitization fund managers") whose purpose is the formation, administration and legal representation of the fund and of banking asset funds in the terms envisaged in Law 9/2012 of November 14, 2012 on the Restructuring and Resolution of Credit Institutions. Management Companies can also set up, manage and represent funds and special purpose vehicles equivalent to securitization funds which are set up abroad in accordance with whatever legislation may be applicable.

3. Markets

3.1. Securities Market

The Spanish securities market continues to see major growth, primarily due to harmonization with the markets of neighboring countries through the adoption of common European rules, and the introduction of new rules designed to streamline requirements and procedures in relation to public offerings and the admission to trading of securities on regulated secondary markets. Also, present-day securities market technical, operating and organizational systems allow for greater investment volumes. These factors have been resulting in greater transparency, liquidity and efficiency in Spanish markets.

The global financial crisis prompted large-scale volatility in stock prices, both at national and international level, associated with incipient but weak growth in the developed economies.

Spain's basic securities market legislation is contained in Legislative Royal Decree 4/2015 of October 23, 2015 approving the revised Securities Market Law ("Securities Market Law").

The key features of the Spanish securities market are as follows:

3.1.1. Spanish National Securities Market Commission

The Spanish securities market regulations are based on the Anglo-Saxon model, focused on protecting small investors and the market itself. This was the aim behind the creation of the National Securities Market Commission (CNMV[18]), which is the body responsible for supervision and inspection of the Spanish securities markets and for the activities of all who operate in them, overseeing market transparency, investor protection, and proper price formation.

18 www.cnmv.es

The CNMV was created by Securities Market Law 24/1988, which has been adapted on an ongoing basis to the requirements of the European Union for the development of the Spanish securities markets in the European context.

Broadly speaking, its functions may be summarized as follows:

- Supervising and inspecting the Spanish securities market and the activity of all market players.
- Exercising sanctioning powers.
- Advising the Government on securities market-related matters.
- Legislative power (through circulars) for the proper functioning of the markets.

In the exercise of its powers, the CNMV receives a large amount of information, both from and about the market players, much of which is recorded in its official registers and is publicly accessible.

The CNMV's activities are aimed primarily at companies that issue or make public offerings of securities, the secondary securities markets, investment firms and collective investment schemes. Regarding the latter and also the secondary securities markets, the CNMV performs prudential supervision to ensure the security of their transactions and the solvency of the system.

The CNMV, through the National Numbering Agency, also assigns the internationally-valid ISIN and CFI codes to all issues of securities made in Spain.

3.1.2. Primary market

The primary market means the set of rules and procedures applied to offerings of new securities and to public offerings of existing securities (OPS —public offering for subscription and OPV— public offering for sale).

Notwithstanding the freedom of issue, any issue or placement of securities requires among others, the registration of a prospectus that includes a summary of the operation, the content of which can vary depending on the type of operation[19]. The prospectus provides the investor with complete information on the issuer, its economic/financial position, the risks associated with the investment, and other details of interest to allow an informed investment decision to be made. The summary is a condensed version of the prospectus in terms more accessible to the unsophisticated investor.

One of the key primary market operations is the initial public offering (IPO), where one or more shareholders offer their shares to the public in general. There is no change in the capital stock, which simply changes owner (in whole or in part). In other words, no new shares are created in a secondary offering, but rather a certain number of existing shares are made available to the public in general.

3.1.3. Secondary markets

Secondary markets are markets where existing securities are transferred by their holders to other investors.

Official secondary markets operate in accordance with established rules on conditions of access, admission to trading, operational procedures, reporting and disclosure. These rules provide assurance for the investor and compliance is overseen by the governing company of each market (which lays down the rules) and by the CNMV.

These rules aim to guarantee market transparency and integrity, focusing on aspects such as the correct disclosure of market-sensitive information (transactions performed or events which may affect the stock price, among others), correct price formation, and the monitoring of irregular conduct by market participants, such as the use of inside information.

The Spanish secondary markets are mainly the equity markets (stock exchanges), the fixed-income markets (public and private) and the futures and options markets.

The issuers, whose securities (whether equity or fixed-income) are listed on Spanish secondary markets, are primarily corporations and Spanish credit institutions, as well as foreign subsidiaries of Spanish companies. There are also foreign companies (European, mainly) whose shares are traded on Spanish stock exchanges.

In relation to the functioning of the regulated markets, 2002 saw the formation of *Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.* (BME[20]). This was the response of the Spanish markets to a new international financial environment in which investors, intermediaries and companies demand a growing range of services and products within a secure, transparent, flexible and competitive framework. BME comprises the various companies responsible for directing and managing Spain's securities markets and financial systems, including within a single group for the purposes of actions, decision-making and coordination, the following members:

- The Madrid, Barcelona, Valencia and Bilbao Stock Exchanges[21].
- Sociedad de Bolsas, which is the company entrusted with the management and functioning of the Sistema de Interconexión Bursátil (SIBE), the electronic trading platform of the Spanish securities market[22].
- The AIAF, Fixed-Income market, which is the financial bond (or fixed-income) market where securities issued by industrial companies, financial institutions and regional public bodies to raise funds to finance their activities are listed and traded[23].
- Sociedad Rectora de Productos Derivados, S.A.U. (MEFF RV) and MEFF, Derivados de Renta Fija, S.A. (MEFF RF), responsible for the official Spanish futures and options market (equities and fixed-income securities, respectively)[24].
- SENAF, the Electronic System for the Trading of Financial Assets, which is an electronic platform where Spanish public debt securities are traded[25].
- Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR)[26], which is the Spanish central securities depository, responsible for registering in the accounts and for clearing and settling securities admitted to trading on the Spanish stock exchanges, the Public Debt Book-Entry Market, the AIAF Fixed Income Market, and the Latibex (the Latin American Securities Market denominated in Euros). IBERCLEAR uses two technical platforms: the Securities Clearance and Settlement System (SCLV) and the Bank of Spain's Public Debt Book-Entry Office (CADE). In the former, the securities traded on the stock market are settled, while in the latter, fixed income securities (public and private) are settled.

The BME Group is carrying out a reform of the system for clearing, settling and registering securities in Spain. The reform introduces three core changes which, in turn, generate numerous operating changes:

19 An exception is made to this obligation where the requirements of article 35.2 of the Securities Market Law are met.

20 www.bolsasymercados.es

21 www.bolsamadrid.es; www.borsabcn.es; www.bolsavalencia.es; www.bolsabilbao.es

22 www.sbolsas.com

23 www.aiaf.es

24 www.meff.com

25 www.senaf.net

26 www.iberclear.es

(i) transfer to a balance-based registration system; (ii) introduction of a Central Counterparty Clearing House ("CCP") (BME CLEARING), and (iii) integration of the current CADE and SCLV into a single platform. The establishment of this new system is expected to take place in two successive phases: first phase (April 7, 2016), establishment of the CCP and move of SCLV (variable income) to the new system, and second phase (September 18, 2017), move of CADE (fixed income) to the new system and connection to T2S.

The main secondary markets in Spain are as follows:

Table 9

MAIN SECONDARY MARKETS IN SPAIN

Type of market		Purpose	Supervision, clearing and settlement	Comments
Fixed Income	Public Debt Book-Entry Market	Trading of fixed-income securities represented by book entries issued both by national and supranational public bodies.	Bank of Spain; Iberclear	• Interest rates and bond markets subject to great pressure due to worsening of worldwide financial crisis. • Significant increase in public debt held by nonresidents.
	AIAF	Trading of all kinds of private fixed-income securities, except for instruments convertible into shares.	CNMV; Iberclear	• Expansion in recent years due to growth of Spanish fixed income market. • Members include Spain's main banks, broker-dealers and brokers.
Equity	Stock exchanges	Exclusively for trading of shares and securities which are convertible or which carry rights of acquisition or subscription.	CNMV; Iberclear.	• Trading system: trading floor and SIBE electronic trading platform. • Decrease in volume in recent years due to crisis. • Foreign investment has made a significant contribution to the growth of the Spanish securities market. • The IBEX-35, the benchmark index of the Spanish continuous market, operates in real time and reflects the capitalization of the 35 most liquid companies of the SIBE.
	Latibex	Trading of Latin American marketable securities with a price formation reference in European business hours.	CNMV; Iberclear.	• Uses the SIBE as its trading platform. • Not considered an official secondary market, although it operates in a very similar manner.
Futures and options market	Spanish financial futures market (MEFF)	Trading of financial futures and options.	CNMV and Ministry of Finance; MEFF is in charge of clearing and settlement.	• Internationally recognized. • Positive results in recent years due to growth in member numbers, new technological facilities and improvements and greater standardization in procedures.

A) Fixed Income

(i) Public Debt Book-Entry Market

The purpose of the Public Debt Book-Entry Market is to trade fixed-income securities represented by book entries issued both by national and supranational public bodies.

The Bank of Spain is responsible for supervision and management of the Public Debt Book-Entry Market through the Public Debt Book-Entry Office.

In contrast to the traditional telephone trading system, in 2001 and 2002 the creation of the Electronic System for the Trading of Financial Assets (SENAF) was authorized, and in 2002, that of the Organized System for the Trading of Fixed-Income Securities (MTS ESPAÑA SON) managed by Market for Treasury Securities Spain, S.A. (MTS ESPAÑA). Both are Organized Trading Systems supervised by the CNMV and the Bank of Spain.

The Public Debt Book-Entry Market is particularly important in Spain and attracts both resident and non-resident investors. The favorable tax treatment enjoyed by non-residents on investments in these securities makes it a particularly attractive market. There has been a sharp increase in debt held by non-residents since the introduction of the single currency. These investors hold mainly 10- or 15-year highly-liquid strippable bonds. They come chiefly from France, Germany and the United Kingdom; beyond the EU, the growing presence of Japanese and Chinese investors is particularly noteworthy.

Mention should also be made of the centralization of money market transactions through a book-entry system and the creation of the futures and options markets, linked to the book-entry system through which public debt securities are traded.

Iberclear is in charge of registering and settling transactions in securities admitted to trading on the Public Debt Book-Entry Market. Iberclear has links with the central securities depositories of Germany, France, Italy and the Netherlands, meaning that Spanish public debt securities can be traded in those countries. Meffclear, a central counterparty in Public Debt Book-Entry securities managed by MEFF RF, began its operations in 2004.

(ii) AIAF Fixed-Income Market

This is the market for trading of all kinds of private fixed-income securities (companies and private institutions), except for those instruments which are convertible into shares (which are only traded on stock exchanges), and public debt (traded through the Public Debt Book-Entry Market). It is an organized secondary market specialized in large-volume trading, meaning that it is geared towards wholesale investors (i.e. it caters primarily for qualified investors).

The AIAF market has grown rapidly in recent years owing to the expansion of fixed-income securities in Spain. It was formed in 1987, through an initiative of the Bank of Spain, aiming to put new mechanisms in place to encourage business innovations which could be carried out by raising funds through fixed-income assets. The regulatory and supervisory authorities have gradually provided it with the features required to be able to compete in its environment.

In recent years the AIAF market has grown in size and is now comparable with the fixed-income markets of other EU countries, with the special feature that it is one of the very few Official Organized Markets in Europe dedicated exclusively to private fixed-income securities.

Through the AIAF and in accordance with their fundraising strategies, issuers offer investors a variety of assets and products across the full range of maturities and financial structures.

Under the supervision of the CNMV, the AIAF market guarantees the transparency of transactions and foments the liquidity of assets admitted to trading.

The AIAF Fixed-Income Market currently has about 65 members, including the leading banks, broker-dealers and brokers in the Spanish financial system. Transactions are cleared and settled through Iberclear.

B) Equity

(i) Stock exchanges

The Spanish stock exchanges (Madrid, Bilbao, Barcelona and Valencia) are the official secondary markets engaged in the exclusive trading of shares and securities which are convertible or which carry rights of acquisition or subscription. In practice, equity issuers also use the stock exchanges as a primary market for initial public offering (IPO) or capital increases.

The manner in which each stock exchange functions and is organized depends on the related stock exchange governing company.

There are currently two trading systems:

1. The trading floor (i.e. the traditional system). Each of the four stock exchanges has its own trading floor. Under this system, the stock exchange members trade through an "electronic floor called a "pit" (which was the place in the stock exchange where securities were traditionally traded).

2. The SIBE electronic trading platform is managed by Sociedad de Bolsas which connects up the four Spanish stock exchanges. It is an order-driven market, which offers real-time information on all stock price fluctuations and permits the issue of orders through computer terminals to a central computer. In this way, a single Market Order Book is managed for each security.

Practically all the share trading in Spain is made through the SIBE. All securities admitted to trading on at least two stock exchanges

can, at the request of the issuer and subject to a favorable report by the Sociedad de Bolsas and the agreement of the CNMV, be traded through this system.

The value of shares admitted to trading on Spanish securities markets amounted to 626,700 million in 2015, up 2.8% on the total at the close of 2014.

Table 10

STOCK MARKET IN SPAIN

		Continuous Market				
	Total stock exchanges	Total	Domestic	Foreign	Trading Floor	Second Market
Listed on 12/31/14	155	129	121	8	20	6
Listed on 12/31/15	152	129	122	7	18	5
Listings in 2015	8	8	8	0	0	0
New listings	7	7	7	0	0	0
Listings due to mergers	1	1	1	0	0	0
Change of market	0	0	0	0	0	
Delistings in 2015	11	8	7	1	2	1
Delistings	10	7	6	1	2	1
Delistings due to mergers	1	1	1	0	0	0
Change of market	0	0	0	0	0	0
Net variation in 2015	-3	0	1	-1	-2	-1

Source: Annual report on securities markets and their activities for 2014. CNMV (https://www.cnmv.es/DocPortal/Publicaciones/Informes/IA2015_Web.pdf)

Stock market activity is measured in terms of performance indexes, based on share prices as the best indicator of market price. Thus the index shows price fluctuations and the market trend at different points in time.

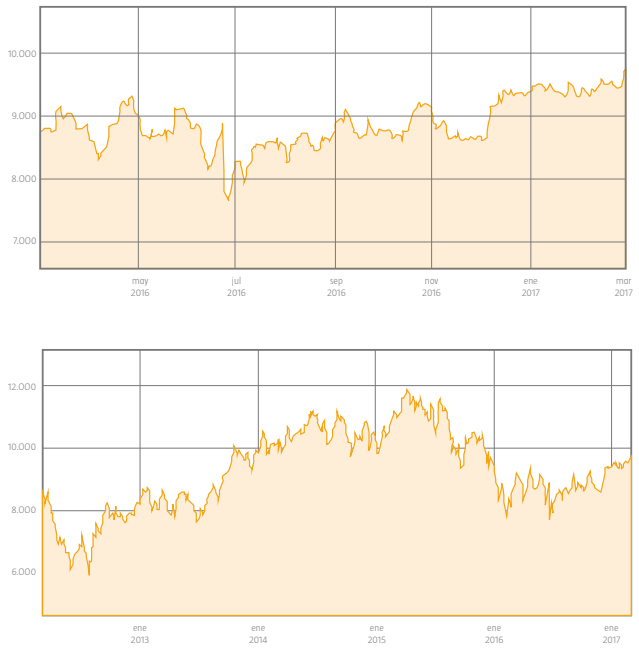
The IBEX-35 is the benchmark index of the Spanish continuous market. It operates in real time and reflects the capitalization of the 35 most liquid companies traded on the electronic stock market, making it an essential information tool for brokers and dealers. The index is not subject to any kind of manipulation and the securities forming part of it are reviewed twice annually.

To be included in the index, certain guidelines must be observed, such as:

- The company must be traded on the continuous market for at least six months (control period).
- Companies with a market capitalization of less than 0.3% of the average capitalization of the IBEX-35 cannot be included.
- The security must have been traded in at least one third of the sessions in the six-month control period. If this is not the case, the security could still be chosen if it were within the top 15 securities by capitalization.
- Rules on the weighting of companies according to their free float must be observed.

The following chart shows the variations in this index in the past year.

Chart 1



Source: Bolsa de Madrid (www.bolsamadrid.es)

(ii) Latibex Market

The Market for Latin American Securities in Euros ("Latibex") came into operation at the end of 1999. This market was formed to provide Latin American listed companies with a price formation reference in European business hours, supported by the key role played by the Spanish economy in Latin America. This market uses the SIBE as its trading platform.

Latibex is not classed as an official secondary market, although it operates in a very similar way to a stock market. It is a multilateral market, where the trades executed on the market are cleared by Iberclear in three days. There are currently 206 entities which have issued securities included in Latibex, all of which are listed on a Latin American stock exchange.

Table 11

Main characteristics
Market authorized by the Spanish government
• Platform for trading and settlement in Europe of securities of the main Latin American companies.
• Currency: euros.
• Trading: through the SIBE electronic trading platform.
• Connected to the home market by agreements between Iberclear and the Latin American central depositories or through a liaison institution.
• Intermediaries: all of the members of the Spanish stock market currently operate. Latin American market operators have also joined recently.
• Specialists: intermediaries who undertake to offer bid / ask prices at all times.
• Indexes: i) FTSE Latibex All Share, which includes all the companies listed on Latibex. ii) FTSE Latibex Top, which brings together the 15 most liquid securities in the region listed on Latibex. iii) FTSE Latibex Brazil, which brings together the most liquid Brazilian securities listed on Latibex. The three indexes are produced in conjunction with FTSE, the Financial Times Group firm that designs and prepares indexes.
• Transparency of information: the listed companies provide the market with the same information they supply to the regulators of the markets where their securities are traded.

Source: BME

C) Futures and Options Market

The Futures and Options Markets are derivatives markets, and their role is to allow the risks arising from adverse fluctuations, and in relation to a particular positioning of an economic agent, to be hedged.

Up until September 9, 2013, MEFF Sociedad Rectora de Productos Derivados S. A. (MEFF) acted as both official secondary market and central counterparty (CCP) in respect of instruments classed in the financial derivatives segment and for electricity derivatives (MEFF Power). In addition, MEFF acted as CCP for Public Debt repos (MEFFREPO). This activity has been assumed by the new entity BME Clearing.

In order to comply with the requirements of EMIR legislation ((European Market Infrastructure Regulation, Regulation (EU) 648/2012), it became necessary to separate the market activities from the CCP activities. It is for this reason that the market activity relating to financial derivatives and electricity derivatives is carried on through MEFF Sociedad Rectora del Mercado de Productos Derivados (MEFF Exchange for short) and the CCP activities are pursued through BME Clearing.

MEFF Exchange is the official secondary market for financial futures and options, where fixed-income and equity financial futures and options contracts are traded. It commenced operations in November 1989 and its main activity is the trading, clearing and settlement of futures and options contracts on government bonds and the IBEX-35, S&P Europe 350 indexes, and futures and options on shares. It is fully regulated, controlled and supervised by the relevant authorities (the CNMV and the Ministry of Economic Affairs and Competitiveness), and performs trading functions as well as clearing and settlement functions, which are perfectly integrated within the electronic market developed for that purpose.

As a result of the development of derivatives markets, 2010 saw the approval of Royal Decree 1282/2010, of October 15, 2010, regulating the official markets for futures, options and other derivative instruments. Royal Decree 1282/2010 regulates in particular the creation, organization and operation at national level of official secondary markets for futures and options, i.e. the necessary authorization of these markets, the registration of derivative instruments contracts, contracts for derivative financial instruments (general conditions, suspension of trading, exclusion of contracts), the governing companies and the market members, as well as the guarantees and non-compliance schemes.

Any individual or legal entity, whether Spanish or foreign, can be a client and trade on the MEFF Market, buying and/or selling futures and options.

The following chart reflects the trend, over the period 2012 to 2015, in contracts traded on MEFF Exchange.

Table 12

Contracts traded on MEFF Exchange[27]

Figures in thousand contracts

	2012	2013	2014	2015	% var. 15/14
Debt contracts	45,238	13,667	4,690	8,012	70.8
10-year bond futures[28]	45,238	13,667	4,690	8,012	70.8
Contracts on Ibex 35	5,410,311	6,298,106	7,228,959	8,007,732	10.8
Futures on Ibex 35[29]	4,989,706	5,780,863	7,252,898	7,735,524	6.7
Plus	4,745,067	5,578,607	6,924,068	7,384,896	6.7
Mini[28]	242,477	198,736	304,891	318,129	4.3
Dividend impact	2,162	3,520	23,939	32,499	35.8
Options on Ibex 35[29]	420,606	517,243	731,996	544,416	-25.6
Contracts on stocks	56,989,129	55,753,236	41,938,920	38,611,291	-7.3
Futures on stocks	27,578,789	21,220,876	14,927,659	12,740,105	-14.7
Futures on dividends		25,0000	66,650	236,151	254.3
Options on stocks	29,410,340	34,507,360	26,944,611	25,635,035	-4.9
Total	62,803,380	61,208,785	48,250,693	46,600,875	-3.4

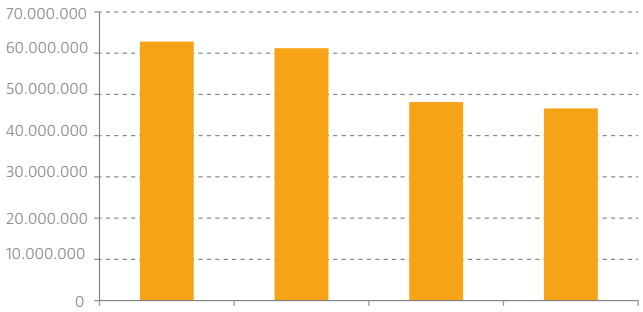
Source: Annual report on securities markets and their activities in 2015. CNMV.

27 Differences in the nominal value of individual products preclude comparisons between them based on the number of contracts traded; however, a follow-up of the temporal evolution of the contracting in each type of product can be carried out.

28 Until 2012 the negotiation corresponds to MEFF Renta Fija.

29 In the case of the future Mini and the options, the number of contracts traded is divided by ten to homogenize the individual size of the contract with that of the future Plus Ibex 35 (it is taken into account that the multiplier of the index used to calculate the nominal value of the contract is one euro in the two first and ten euros in the second).

Chart 2



Source: Annual report on securities markets and their activities in 2015. CNMV

3.1.4. Other securities market-related figures

A) Takeover Bid

"Takeover bid" means a public offer made to the holders of shares or other securities of a company to acquire all or some of those securities, whether mandatory or voluntary, which follows or has as its objective the acquisition of control of the target company.

The Spanish legislation on takeover bids is mainly contained in the Securities Market Law for modification of the regime on tender offers and the transparency of issuers, and in Royal Decree 1066/2007 of July 27, 2007, on Takeover Bids. The aim of this legislation is to protect minority shareholders of listed companies.

Under that Royal Decree (subject to the exceptions it specifies), a takeover bid must be made for all the securities and addressed to all the holders of the securities, for an equitable price where:

(i) Control of a listed company is attained:

A person is deemed to have attained control where:

(a) He/she attains, directly or indirectly, a percentage of voting rights equal to or greater than 30% of the capital stock of the target company;

(b) Having attained, directly or indirectly, a percentage of voting rights lower than 30%, he/she appoints, within two years after the date of the above acquisition, a number of directors who, when added as the case may be to those already appointed, represent more than half of the members of the board of directors.

Where a takeover bid is not mandatory because the control thresholds for these purposes have not been reached, or because control was acquired before the new legislation on tender offers entered into force, takeover bids may be made on a voluntary basis.

(ii) The shares of a listed company are delisted from the stock market.

(iii) The capital of a listed company is reduced through the purchase of its own shares.

B) Multilateral Trading Systems (MTSs) and Systematic Internalizers

MTSs mean any system operated by an investment firm or by the governing body of an official secondary market which bring together, within the system and in accordance with its non-discretionary rules, the buyers and sellers of financial instruments to give rise to contracts, in accordance with the provisions of the Securities Market Law[30].

It's noteworthy that the Spanish clearing, settlement and registry system is currently undergoing a reform process, to bring Spain's current post-trade processes into line with European standards and practices.

The most important MTSs authorized in Spain are the Alternative Stock Market (MAB) and the Alternative Fixed-Income Market (MARF).

The **Alternative Stock Market** (MAB) is a market for small-cap companies looking to expand, with a special set of regulations designed specifically for them with costs and processes tailored to their particular characteristics.

The ability to offer customized services is the hallmark of this alternative market. The aim is to adapt the system, as far as possible, to companies that are unique in terms of their size and phase of development and that have financing needs and wish to enhance the value of their business and improve their competitiveness with all of the tools that a securities market places at their disposal. The MAB offers an alternative way to finance their growth and expansion.

This flexibility involves adapting all of the existing procedures to enable these companies to be listed on a market without renouncing a suitable level of transparency. To achieve this, a new concept has been introduced, that of the "registered advisor", whose mission is to help companies comply with their reporting requirements.

In addition, companies will also have a "liquidity provider", or intermediary, which helps to find the counterparties required for efficient share price setting, and also provides liquidity. It should be noted, however, that companies that are listed on the MAB will, given their size, have certain liquidity and risk characteristics that are different from those of companies listed on the stock exchange[31].

30 This reflects one of the main changes introduced by Directive 2004/39/EC, which is the enhancement of competition among different ways of executing transactions on financial instruments, so that competition contributes to the completion of the common market of investment services. This way, investment firms and financial institutions providing investment services will be able to compete with stock exchanges and other official secondary markets in the trading of financial instruments.

31 Source: http://www.bolsasymercados.es/

Spanish or foreign corporations with fully paid-up capital stock represented by book entries and no share transfer restrictions may apply for listing on the MAB.

At March 2, 2017, there are 39 entities listed on the MAB in the growth companies segment, 31 listed corporations for investment in the real estate market *(SOCIMIs),* 3191 SICAVs, 1 private equity firm and 12 free investment companies.

The **Alternative Fixed-Income Market** (MARF) was approved in 2012, which is an initiative aimed at channeling financial resources to a large number of solvent companies that can obtain financing using this market on the issuance of fixed-income securities.

The MARF adopts the legal structure of the Multilateral Trading Facility (MTF), making it an alternative unofficial market, similar to those in some neighboring European countries and within BME, as with the case of the MAB.

Therefore, the access requirements to this market are more flexible than those for the official regulated markets and provide greater speed in processing the issues. In this way, the companies that use MARF are be able to benefit from the process simplification and lower costs.

As established in its Regulations, approved by the Spanish Securities Market Regulator (CNMV), MARF is operated by AIAF Mercado de Renta Fija, S.A.U.

MARF is aimed mainly at Spanish and foreign institutional investors that wish to diversify their portfolios with fixed-income securities from medium-sized companies that are usually not listed and with good business prospects.

One of the players are the registered advisors, whose function will be to provide advice to companies that use MARF in terms of the regulatory requirements and other aspects about the issuance when preparing it, and their advice must be provided throughout the issuance life.

Because of the importance of this market at present and in the future as a source of financing and business boost, the regulatory and supervisory authorities have been amending the necessary regulations so that this market works smoothly[32].

At March 2, 2017, 29 companies have issued bonds which are listed on MARF and have registered programs for the issue of promissory notes.

C) Market abuse regime

On April 16, 2014, Regulation (EU) 596/2014, of 16 April 16 2014, on market abuse ("Market Abuse Regulation") was approved to establish a common European legislative framework in relation to insider dealing, unlawful disclosure of inside information and market manipulation, and different measures to prevent market abuse and preserve the integrity of EU financial markets, improve investor protection and enhance investor confidence in those markets. The Market Abuse Regulation has had direct applicability in all Member States since July 3, 2016, and thus applies to any financial market of the Union.

One of the new aspects introduced by the Market Abuse Regulation is precisely the extension of its scope of application, as it also applies to financial instruments traded not only on regulated markets but also in any multilateral trading facilities, such as the MARF or the MAB in Spain, or in organized trading facilities.

Spanish legislation establishes a number of provisions applicable to issuers of securities in relation to:

(i) The obligation to draw up internal codes of conduct.

(ii) The prohibition on using inside information.

(iii) The obligation to publish and disclose relevant information.

The Regulation and the Securities Market Law contain a similar definition of "Inside information", as being any specific information that has not been made public and refers directly or indirectly to one or more issuers or to one or more financial instruments or their derivatives and which, if it were to become public, could have a considerable influence on the prices of those instruments or of the derived instruments related to them. The legislation establishes a general prohibition to use, establishing that no person may:

(i) Perform or attempt to perform transactions using Inside Information.

(ii) Recommend to another person that he perform transactions with Inside Information or induce him to do so.

(iii) Unlawfully disclose Inside Information.

The Securities Market Law establishes that issuers of securities, during the study or negotiation phase of any type of legal or financial transaction which may have a considerable influence on the market price of the securities or financial instruments concerned, among others, must:

(i) Restrict knowledge of the information strictly to the essential persons inside or outside the organization.

(ii) Keep a documentary record for each transaction of the names of the persons referred to in the previous paragraph and the date on which each of them learned of the information.

(iii) Expressly inform the persons included in the record of the nature of the information, the duty of confidentiality and the prohibition on its use.

(iv) Establish security measures for the purposes of safekeeping, filing, accessing, reproducing and distributing the information.

32 Source: www.bmerf.es

(v) Supervise the market performance of the securities issued by them and the news reported by professional economic broadcasters and the mass media and which may affect them.

(vi) In the event there is an abnormal change in the trading volumes or prices and there is reasonable evidence that such change is due to a premature, partial or distorted disclosure of the transaction, immediately publicize a relevant event which clearly and precisely informs of the status of the transaction in course or contains advance notice of the information to be provided.

"Relevant information" means any information of which knowledge may reasonably influence an investor to acquire or transfer securities or financial instruments and therefore may have a considerable effect on their price in a secondary market.

Issuers of securities must make public and disclose to the market all relevant information. In addition, they must send such information to the CNMV for inclusion on the official register of regulated information.

3.2. Lending market

The Spanish lending or banking market is structured around banks, savings banks and credit cooperatives, which channel most savings and use their funds to provide financing for the private sector. In this way, credit institutions take funds from savers and assume the obligation to return them, acting for their own account and at their own risk when it comes to granting loans and other types of financing to the end consumers of financial resources.

Credit institutions also operate as investors and subscribers in the stock market, and adjust their liquidity by means of interbank and money market transactions.

The deregulation of capital movements in the EU has also made it easier for Spanish companies to obtain financing abroad.

The idea of granting enhanced protection to the integrity of financial systems led to the adoption of Law 10/2010[33], of April 28, 2010, on the prevention of money laundering and terrorist financing. The purpose of this Law is to regulate the obligations and procedures to prevent the financial system and other economic systems being used for money laundering. This Law includes certain new provisions relating to: (i) the persons subject to the Law (increasing the number of persons covered, establishing common rules for all types of individuals); (ii) reporting obligations (notification in case of signs of illicit activity, record-keeping obligation increased from 6 to 10 years); (iii) internal control of the fulfillment of obligations (external expert examination for all non-individual subjects, greater employee training obligations); and (iv) introduction of the concept of beneficial owner and the need to identify such owner.

3.3. Money market

The money market in Spain is based fundamentally on the issuance of short-term securities by the Bank of Spain which are taken up by banks, finance institutions and money market operators which subsequently place a portion of them with individual investors and businesses.

In a broader sense, the money market is also deemed to encompass interbank deposits (whose interest rates are used as a reference rate for other transactions) and trading commercial paper.

The money market has become increasingly important as a result of the deregulation and move towards greater flexibility of the Spanish financial system overall in recent years, given that interest rates are ordinarily higher than the rate of inflation and given the substantial volume of trading in money market securities.

33 Implemented by Royal Decree 304/2014, of May 5, approving the regulations to Law 10/2010 on prevention of money laundering and terrorist financing.

4. Safeguards to protect financial services customers

4.1. Deposit guarantee fund and investment guarantee fund

4.1.1. Deposit Guarantee Fund

The Deposit Guarantee Funds fall within the mechanisms of control and special support that seek to prevent the occurrence of insolvency situations at credit institutions. They are entities with public legal personality which credit institutions must necessarily join, as must the branches of credit institutions authorized in a non-EU Member State where their deposits in Spain are not covered by a similar guarantee system in their home country. The assets of the funds basically consist of the annual contributions made by the credit institutions that are members of the fund.

As a result of the events that have affected the international financial economy since August 2007, Europe is in financial turmoil. With the aim to coordinate the acts of the various Member States and secure the stability of the financial system, the Economic and Financial Affairs Council of the European Union welcomed the European Commission's proposal to carry out urgently an appropriate initiative to promote convergence of deposit guarantee schemes and agreed to raise the minimum coverage level to €50,000. This decision was implemented in Spain in Royal Decree 1642/2008, of October 10, 2008 (now repealed by Royal Decree 628/2010, of May 14, 2010), in which it was decided to strengthen the Spanish deposit and investment guarantee system by raising the protection for existing deposits to one hundred thousand euros (€100,000) per holder and institution, for situations that could arise in the future.

The intention behind this measure is to maintain and increase the confidence of deposit holders and investors at Spanish credit institutions.

The aim of the Deposit Guarantee Fund legislation[34] is to reinforce the solvency and functioning of credit institutions, thereby supporting the essential principle established by the international financial authorities and by the Spanish government as the basis of public intervention in light of the financial crisis, i.e. that the financial sector itself assume the costs incurred in the restructuring and recapitalization of the sector, so that the reform package will imply no cost for the public purse and, in short, for the taxpayer.

4.1.2. Investment Guarantee Fund (FOGAIN)

The FOGAIN was set up as a requirement of Directive 97/9/EC of the European Parliament and of the Council of March 3, 1997 on investor-compensation schemes, and is regulated in article 198 of the Securities Market Law.

The purpose of the FOGAIN is to offer the clients of broker-dealers, brokers and portfolio management companies a compensation scheme in the event that any of these institutions enters into insolvency proceedings or is declared insolvent by the CNMV.

If one of these situations arises, and as a result of it, the institution is unable to repay or return to its clients the cash and securities they have entrusted to it, the FOGAIN will provide coverage and compensate those clients up to a maximum of €100,000 for clients of institutions that enter into one of these situations after October 11, 2008.

The FOGAIN also covers clients of SGIICs that have entrusted one of these institutions with securities and cash to manage portfolios, provided that the institution in question has entered into one of the above-mentioned insolvency situations.

4.2. Other safeguards to protect financial services customers

Some of the most important safeguards to protect financial services customers can be summarized as follows:

- The replacement of the Commissioner for the defense of banking services customers with the respective Claims Services of the three supervisory institutions (Bank of Spain, National Securities Market Commission and Directorate-General of Insurance and Pension Funds) pursuant to Sustainable Economy Law 2/2011.

  The Claims Service resolves any complaints and claims filed by users of the supervised institutions that are related to their legally recognized interests and rights and arise from alleged breaches by those institutions, from the legislation on transparency and customer protection or from best financial practice.

  It also addresses any customer queries about the applicable rules on transparency and customer protection, and about the existing legal channels for exercising their rights.

  The Claims Service operates under the one-stop shop principle (Claims Services of the Bank of Spain, of the CNMV and of the Directorate-General of Insurance and Pension Funds), with any claims being referred to the corresponding supervisory body. It is an independent service that operates in compliance with the principles of transparency, the right of reply, efficacy, legality, freedom and representation.

  Before filing a claim with the Claims Service, the interested party must have had the opportunity to solve it beforehand and therefore must evidence that he/she already filed the claim with the Customer Service Department or Ombudsman of the institution in question.

- With regard to the above point, an obligation is placed on credit institutions, investment firms and insurers to deal with and resolve their customers' complaints and claims relating to their interests and rights. For these purposes, they must have a customer care department consisting of an independent body or expert, whose decisions will be binding.

  The purpose of the customer care department or service is to handle and resolve complaints and claims filed by customers. This department or service must be separate from the organization's other operating services and must act in accordance with the principles of speed, security, effectiveness and coordination. It must also have the human, material, technical and organizational resources that ensure adequate knowledge of the legislation on transparency and the protection of financial services customers.

  The customer ombudsman is an optional body which may be external to the organization of financial institutions. Its purpose is to handle and resolve the claims which are submitted to it for a decision and to promote compliance with the legislation on transparency and customer protection, and with best financial practice. The customer ombudsman must act as an independent body and with full autonomy with respect to the criteria and guidelines to be applied in the performance of its duties.

34 The applicable rules are contained in Royal Decree Law 16/2011 of October 14, 2011 on the creation of the Deposit Guarantee Fund for Credit Institutions and Royal Decree 2606/1996 of December 20, 1996 on the Legal Regime governing Deposit Guarantee Funds. The latter was recently amended by Law 11/2015 of June 18, 2015 on the recovery and resolution of credit institutions and investment firms and by Royal Decree 1012/2015 of November 6, 2015 which lays down the enabling regulations for Law 11/2015 of June 18, 2015 on the recovery and resolution of credit institutions and investment firms and amends Royal Decree 2606/1996 of December 20, 1996 on deposit guarantee funds for credit institutions, through which Directive 2014/49/EU of April 16, 2014 for the harmonization of the functioning of deposit guarantee schemes throughout the European Union is transposed into Spanish legislation.

Both bodies were implemented by Ministerial Order ECO/734/2004 of March 11, 2004, which regulates the creation of customer care departments and services and the customer ombudsman for financial institutions.

- Financial institutions must prepare and approve a set of Customer Protection Rules to regulate the work done by the customer care department or service and by the customer ombudsman, where appropriate, and the relationship between the two. Lastly, the customer care department or service and the customer ombudsman, where appropriate, must issue an annual report or summary which must be included in the financial institutions' Annual Report.

- Law 22/2007 of July 11, 2007, on the distance marketing of consumer financial services was published in the Official State Gazette on July 12, 2007, thereby completing the implementation in Spanish legislation of Directive 2002/65/EC of the European Parliament and of the Council of September 23, 2002 concerning the distance marketing of consumer financial services.

  The aim of Law 22/2007 is to establish a specific regime for the protection of users of financial services which is applicable to contracts offered, traded and concluded at a distance. This Law applies both to contracts and the offers related to them, provided that they generate obligations on the part of the consumer, and their subject matter must be the provision to consumers of all kinds of financial services, within the framework of a system of sale or provision of services at a distance organized by the supplier, when such system employs exclusively distance communication techniques, even in the actual conclusion of the contract.

  The most noteworthy aspects of Law 22/2007 are the following:

  (a) It establishes the obligation for the financial service provider to notify the terms and conditions of the contracts and provide prior information to the consumer. Any breach by the provider of the disclosure obligations imposed by Law 22/2007 may result in the contract being rendered null and void.

  (b) It recognizes a right of withdrawal: this is the consumer's right to withdraw from a validly concluded contract without being required to state the reasons and without incurring any penalty. This is a kind of "right to repent". The period for exercising this right is generally 14 calendar days, although in the case of contracts relating to life insurance it is 30 calendar days.

  (c) It provides further guarantees in addition to the two basic consumer protection mechanisms described above (transparency and withdrawal). These guarantees serve two purposes:

    (i) They protect the consumer from fraudulent or incorrect charges when the financial services have been paid for by card: the cardholder may demand the immediate cancellation of the charge.

    (ii) They protect the consumer from harassment by suppliers in relation to unsolicited services and communications.

- Ministerial Order EHA/2899/2011 on transparency and protection for banking services customers was approved on October 28, 2011. The aim of this Ministerial Order is to concentrate the basic transparency regulations in one single text, bringing together the existing disperse regulations into one single document in such a manner so as to make them clearer and more accessible to the general public.

  It also aims to update the existing provisions relating to the protection of bank customers who are individuals, to rationalize, improve and enhance, where necessary, credit institutions' transparency and conduct obligations. Thus, the requirements in aspects such as information on interest rates and charges, customer communications, contractual information, related financial services, etc., have been enhanced. The Ministerial Order also includes express mention of advisory services, with a view to ensuring that this banking service is provided with the customers' best interests at all times, and that it includes an appropriate assessment of their position and of the services available on the market. It therefore draws a distinction between this service and direct marketing by institutions of their own products, an activity that is subject to the general transparency regime and requires the appropriate explanations. In addition, it definitively establishes that electronic means will be deemed equivalent, for all effects and purposes, to traditional paper documents, in the relationship between credit institutions and their customers. This Order is implemented by Bank of Spain Circular 5/2012.

  Lastly, the Ministerial Order implements the general principles of the Sustainable Economy Law concerning responsible lending, introducing the obligations needed to ensure that the Spanish financial industry raises its prudential standards in respect of lending, to the benefit of its customers and of market stability. For these purposes, a system has been designed based on an assessment of creditworthiness which aims to assess the risk of nonpayment of a possible loan. This system should not, in any case, represent an obstacle to access to credit by the general public, but rather a legal incentive for healthier and more prudent conduct on the part both of institutions and their customers.

- In addition, the rules of conduct that investment firms must observe are contained both in Securities Market Law and in Royal Decree 217/2008 on the legal regime for investment firms. In this connection, note should also be made of CNMV Circular 7/2011, of December 12, 2011, on fee schedules and standard contracts. With a view to encouraging transparency, the aim is for investors to have sufficient information to enable them to assess whether or not the fees charged are proportional to the quality of the service provided. It is an incentive for institutions to effectively

set their fee ceilings in keeping with those generally applied to retail customers.

It also establishes that fee schedules and standard contracts must be available to customers and potential customers in all customer branches, including external agencies, and that they must also be easily accessible on their websites.

Note should also be taken of the publication of two ministerial orders: Order EHA/1717/2010 and Order EHA/1718/2010[35], of June 11, on regulation and control of advertising of investment and banking products and services, respectively.

Finally, mention should be made of Order ECC/2316/2015 of November 4, 2015, establishing obligations in relation to the classification and provision of information on financial products, which aims to ensure that clients or potential clients of financial products receive adequate protection through the implementation of a standard information and classification system which informs them of the level of risk involved and enables them to choose the product best suited to their savings and investment needs and preferences.

35 Implemented by the Bank of Spain Circular 6/2012, of September 28, aimed at credit and payment institutions, on advertising of banking products and services.

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