

# **2015 IN REVIEW**

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## HIGHLIGHTS

**1. Up until yesterday, the IBEX 35 has declined 6%, accompanied by a rise in volatility.** From the lows of 2012 in the midst of the European sovereign debt crisis, the index has gained 70%.

**2. Our main activities: trading, capital raising and shareholder remuneration have reached important levels. Market cap remains above one trillion euros** for the third year running. The Spanish stock market remains one of the **largest in the world.**

**3. Turnover continues to improve. This year it will reach one trillion euros for the first time since 2010, while the average cash amount per trade was 15,540 euros, the highest for the past three years.** The transaction cost has declined sharply thanks to improved liquidity.

**4. Spanish companies are one again among the most liquid in Europe.** Santander leads the Euro Stoxx ranking, while Telefónica, BBVA, Inditex and Iberdrola are also among the best. According to data for the first six months of the year, **foreign investors now own 44.1% of the total value of the shares on the Spanish stock market, a record high.**

**5. To November, listed companies have paid out 24.5 billion euros in dividends,** the average for recent years. **The dividend yield of companies on the Spanish exchange is over 4.7%,** making this the most attractive in the world.

**6. Total investment flows channelled into the exchange to November amounted to 39.8 billion euros,** which is 23% higher than the 2014 figure. The value of **new shares issued through IPOs amounted to 8.5 billion euros, the second highest figure for 18 years.**

**7. This year seven new companies came to the main market, with a further 16 joining the MAB, eight of these were REITs.** This is a record. The potential for IPOs in Spain is high.

**8. To November, the MAB has captured 106 million euros for growth companies.** Since **it began two years ago, the value of issues on MARF has surpassed 1.2 billion euros,** through various Fixed Income programmes and terms. Non-resident companies for the first time have issued debt in this alternative Fixed Income segment.

**9. At the end of the second quarter the value of financial assets of Spanish households was 2.06 trillion euros, up 2.6% on the previous year.**

**10. BME has created new products to meet investors' demands, and has continued incorporating technological advances and services in line with EU regulatory changes** to improve transparency and security in its markets.

Good afternoon. Welcome, and thank you very much for attending.

Once again we are gathered here at the Madrid Stock Exchange to enjoy this traditional Christmas lunch, which gives us the opportunity to share the personal and professional experiences of the past year.

After two years of positive returns the Spanish exchange is set to end the year flat. Trading and financing have risen, as has market cap. We are an international benchmark and, more importantly, we have increased our ability to recover in harsh situations.

In 2015, tension rose in the international financial markets, resulting in greater volatility in share prices and Corporate Public Debt.

Factors such as the rising disparity between monetary policies of the main central banks; the weakness in certain world economies, particularly emerging markets; falling commodity prices; Greece's talks with the euro area; or cases of geopolitical tension all helped generate uncertainty in the global financial market. However, the system remained highly liquid and showed it had faith in the central banks' powers and monetary policies to be able to get the economies back on track.

# **The securities markets in 2015**

Year to date, the IBEX 35, Spain's stock market benchmark, has declined a moderate 6%, accompanied by a spike in volatility. From the lows of 2012 in the midst of the European sovereign debt crisis, the index has gained 70%.

At the same time, global indices closed November virtually the same as they had begun the year, with returns of between +2% and -2%.

The key areas of activity: capitalisation, trading, channelled financing and shareholder remuneration, have reached important levels.

## **Capitalisation over one trillion**

At the same time, capitalisation remained over one trillion euros for the third year running, something not seen since before the crisis. This puts the Spanish market in the group of bourses with the highest capitalisation of its listed companies. From the lows of 2012 and excluding companies domiciled abroad, Spanish listed companies have seen their value increase by 375 billion euros.

## **Turnover continues to improve**

Trading levels have risen, with 894.5 billion euros to November, 11.4% higher. This will put the 2015 figure close to one trillion for the first time since 2010. In addition, the average cash amount per trade was 15,540 euros, the highest for the past three years. The number of trades remains close to record highs, having risen over 57 million.

## **Higher volume with greater liquidity**

Higher trading impacts the quality traded. Average Liquidity based on the trading spreads (the difference between the lowest purchase price and the highest selling price) of the IBEX 35 constituents was 5.8 basis points to November, 5.5 points less than in 2012. As a result the implicit cost of the transaction was reduced for investors of Spanish securities, which concentrates more than 80% of its operations on the Spanish stock market trading platform despite the increased competitiveness between trading venues.

ETFs and Warrants stand out again. Trading in exchange-traded funds reached a new high of over 11.6 billion, up 31%. The Warrants and Certificates market was also very strong. To November, 1 billion euros were channelled, 39% higher than the same period in 2014.

## **More Fixed Income issues**

Very low interest rates and market uncertainty caused volatility in global Public and Corporate Debt markets to spike. Bond prices in the global corporate Fixed Income markets also declined, triggering spikes in yields which, unlike Public Debt, have barely recovered at the end of the year.

In 2015, activity in the Spanish corporate Fixed Income market continued to adjust and the outstanding balance of issues declined to below 550 billion, 38% less than at the end of 2012. Trading totalled 488.7 billion euros in the first 11 months of the year, 52.8% less than the same period in 2014, mainly due to low interest rates and the above mentioned reduction in balance.

However, the primary bond market is returning to normal, with a 74% increase in new issues maturing in the medium and long term.

### **IBEX 35 Futures strong**

The total number of contracts traded to November in MEFF, the Spanish futures and options market, was down 18% but up 5% in terms of underlying nominal volume. The market's main product, the IBEX 35 future, was up for the fourth consecutive year while the volume of futures and options on individual shares declined.

### **The most liquid shares in Europe**

Spanish listed companies are not only a benchmark in terms of their business and valuations, they are also favoured for their liquidity. Santander is once again the most liquid stock on the Euro Stoxx and is accompanied by Telefónica, BBVA, Iberdrola and Inditex.

The weight of the Spanish securities as a percentage of the total traded on the Euro Stoxx 50 is nearly 19%, which is well above the weighting of the Spanish share indices (11%).

### **Companies pay 25 billion in dividends**

Another main attraction of the Spanish exchange is the dividends paid. This year has seen some companies once again paying dividends while some have confirmed they will be increasing dividends successively over the coming years.

To November, shareholder remuneration with dividends was 24.5 billion, lower than in 2014, which saw a record pay-out by Endesa of

15 billion. If we exclude that payment, the dividend for 2015 will be close to last year's and in line with previous years.

At 4.7%, the dividend yield of the Spanish bourse is the most attractive of the leading markets.

### **Record foreign participation**

The Spanish exchange is becoming increasingly attractive to foreign investors thanks to its many benefits. This helps make the system more stable.

At the end of 2014 foreign investors owned 43% of all listed Spanish equities and the provisional data for the first half of 2015 raised this holding to over 44.1%, a record high.

### **Greater confidence in equities and financial wealth of households**

Individual investors have also returned to the market. Households now own 26% of the listed shares, the highest level for 12 years and double that of the European Union as a whole.

According to Bank of Spain figures, at the end of the second quarter the value of financial assets of Spanish households was 2.06 trillion euros, up 2.6% on the previous year.

### **The Exchange channels more investment flows**

Foreign and individual investors have entrusted the Exchange to channel their savings and offer a return. Likewise, more and more companies are choosing the market as a means of financing and to

help grow. This year, total investment flows channelled into the Exchange exceeded 39.8 billion, up 23% on the 2014 figure. Of this amount, 27 billion are from 146 capital increases.

The Spanish market is once again one of the most attractive in Europe and the world.

The market has always offered a high financing pace, even in the midst of the crisis, helping companies secure finance. In five years companies have tapped over 215 billion through the Spanish exchange.

### **Record number of listings**

The number of new listings has remained constant throughout the year. We had seven new companies come to the market, with a further 16 joining the MAB, eight of these were REITs. And on Monday we had the latest one on the main market.

To 1 December, the funds raised by these companies through IPOs reached 8.4 billion euros, the second highest amount for the past 18 years, after the 2007 record of 10.5 billion.

The outlook for the primary market is bright with forecasts pointing to a peak in 2017 of nearly 300 billion dollars. Against this backdrop, Spain will be the second most active market with growth of over 200% between 2015 and 2018. This is without doubt a unique opportunity for the economy and job creation, as a number of studies have shown in the past.

## **SMEs in the limelight**

The mechanisms the Exchange is able to offer companies and investors are working at full capacity. Particularly at a time when a new, more secure efficient and transparent structure is being built up across Europe. Given their impact on economic growth, small and medium-sized enterprises are now the key players in this process. They are all working to create a new financing model where the bourses have much to offer.

## **Europe gears up for the Capital Markets Union**

The European Commission has announced a plan to expand the Economic and Monetary Union, which includes, among other goals, the Capital Markets Union, so as to offer greater financing diversification. The first measure, changes to the Prospectus Directive, was announced on 1 December.

## **Spain encourages corporate finance**

For its part, the Spanish government has approved the Business Finance Promotion Act to make financing for SMEs more accessible and flexible. It also intends to develop alternative formulas and as such will design a suitable regulatory framework to strengthen and guarantee these systems. This Act will result in many positive aspects for the market as well as companies and investors.

## **Record year for alternative markets**

More and more companies are seeking financing on the alternative markets. A clear indication that these systems are meeting their requirements.

The MAB had a record year and now has 33 companies. In 2015, capital raised in this trading segment came in at 106 million euros. This is indeed good news but still well off its potential.

### **Strong MARF**

Issues on the MARF topped 757 million euros in 2015, 81% more than in 2014. This brings the total to 1.2 billion euros after just two years, for this market where different products with different terms are traded, offering investors a wide range of options.

## **INCREASINGLY COMPETITIVE**

### **New products**

BME continues to offer all its participants new products. It has created three new sectorial indices, which act as underlyings for financial products. The first FX Multis issues were also admitted to trading in the Warrants and Certificates segment.

### **Reform of the Clearing and Settlement System**

The cash volume settled in Iberclear to November increased year-on-year by 24.3%, with an average of 5 billion euros settled daily. The nominal balances recorded at the end of November decreased by 9.4% in the securities listed on the AIAF and increased by 6.5% in the Public Debt market. Equities grew by 11.5%.

The Reform of the Clearing and Settlement System is scheduled to conclude in February 2016. This will help Spain connect to Target 2

Securities, the pan-European post-trade infrastructure. The first phase will only affect Equities, with Fixed Income following in 2017.

We are assisting companies in adapting to the new regulatory requirements. This new regulatory framework affords the Spanish exchange a business and service opportunity. It also involves a mammoth technological effort given its complexity. Once these processes have concluded we will take on others, already on track, such as a fund platform.

### **New segments for BME Clearing**

In November, BME Clearing, BME's central counterparty, began operating in a new OTC interest rate swaps (IRS) segment. It is also already prepared to offer equity clearing in February.

### **REGIS-TR to act as energy reporting mechanism**

For the past two years European entities have been reporting derivatives transactions to authorised trade repositories pursuant to EMIR. During this time activity on REGIS-TR has reached 1,000 clients and over 1,200 open accounts. Each day it receives around seven million new transactions and nearly 20 million messages.

This year, REGIS-TR received authorisation from the European supervisor to operate as a Registered Reporting Mechanism for the wholesale energy market.

### **Rise in clients requesting information**

In 2015, BME Market Data continued to introduce new content. The Spanish exchange currently provides 120,000 subscribers worldwide

at 300 large clients with real-time information on 45,600 Equity, Fixed Income, Derivatives instruments as well as 230 indices calculated by BME.

## **Preparing for MiFID II**

This year has been extremely intense with the implementation of legislation arising from the MiFID II Directive and we have been following the regulatory process very closely so we can offer new services to help clients comply with their regulatory obligations.

As a result we shall be requesting authorisation to operate an Approved Publication Arrangement (APA), a figure authorised under MiFID II as part of the EU's new regime of post-trade transparency whereby investment firms must publish trade reports on OTC trades in financial instruments in real time.

## **THE CHALLENGES OF THE COMING MONTHS**

### **Doubt about the economy**

The European Central Bank and the Federal Reserve have been key in exiting the crisis. They have introduced various stimulus programmes and constantly injected the financial system with liquidity. Today a new decision by the FED is expected.

The backdrop looks favourable. Spain will be one of the key players in Europe this year and the rating agencies have begun to improve solvency levels. It is also true that uncertainty around the economy remains but we must remember that the international stage is not stable.

## **Outlook for the Spanish market and future activity**

I believe, for many reasons, that the Spanish market is at an advantage. One of these is the position of its managers who have stated their intention to increase their weight in the markets. Another is the P/E ratio of listed companies, which stands at 15x and the price to book value which is 1.3x.

Another attractive feature is volatility, which stands at 27.2% compared to 45.8% in 2008. This is the lowest in Europe.

Added to this are interest rates which remain at record lows, companies' earnings which have improved and the fact that the IBEX 35 is one of the indices with the highest potential.

Another point in its favour is the structural change to the financing model which is already being felt, particularly in the markets.

## **CLOSING REMARKS**

This address is usually a summary of the developments that took place in the Spanish stock markets during the year.

But I also try to take some time briefly to analyse the situation and the context in which we operate.

Regarding Spain, the obvious problems need to be addressed by reforming our structures in a realistic and modern manner.

For several years now we have been pointing out, in a public way, precisely at this meeting, the tremendous value of a higher contribution of market-based financing to achieve a more balanced

structure of the balance sheets and the financial structure of companies.

The crisis, evidencing excessive debt and leverage globally, has turned this analysis in an almost necessary mantra: companies must rely on more balanced financial structures, less dependent on bank financing and more reliant on equity capital.

In my opinion the actions taken in this direction have just begun. But they represent a very positive choice for the development of the stock markets and let me remind you that - as I mentioned earlier - the prospects for the Spanish market are excellent in total and competitive terms.

I think the good starting point of ranking among the top markets in Europe and in the world by investment flows, should be followed - and we have to work on this - by the following types of actions:

- Find ways to increase the size of small and medium enterprises.
- Strengthen the development of younger markets such as MAB and MARF. Optimise the more powerful traditional markets, already oriented to bigger companies.
- Strengthen those services that improve the access to market-based financing.
- This, in my opinion, would be more effective if there were collaboration between the public and private sectors.

I wish you a Merry Christmas and a 2016 full of prosperity. Many thanks