

MARF Transforms Corporate Financing in Spain

Ten Achievements in Ten Years
2013 - 2023

November 2023



TABLE OF CONTENTS

1. Introduction	5
2. MARF: Evolution and Achievements	6
2.1. Launch of MARF and key legislative development	7
2.2. Admission of the first issue and MARF's key figures	8
2.3. MARF, also for infrastructure financing	11
2.4. Sectoral breadth in MARF	11
2.5. MARF, a market for all issuers: by exchange location, size, age and geographic location	13
2.6. Internationalization of MARF: arrival of foreign issuers	16
2.7. Outstanding balance in commercial papers reaches EUR 1 billion	18
2.8. The channeling of sustainability commitments into MARF	19
2.9. MARF, a powerful tool for public-private partnership	20
2.10. MARF's resilience to different interest rate environments	22
3. MARF challenges and proposals for the future	25



MARÍA JOSÉ PALACÍN SÁNCHEZ Y CARMEN PÉREZ LÓPEZ
PROFESSORS OF FINANCIAL ECONOMICS AT THE UNIVERSITY OF SEVILLE

On October 7, 2013, with the support of the Ministry of Economy, MARF, the fixed income market managed by BME and specifically designed to expand financing alternatives and facilitate access to smaller companies, began operations. In a country where more than 95% of the productive fabric is made up of SMEs, MARF's reception was immediate and its growth steady. Efficiency, agility and the ability to adapt to the needs of issuers and investors, as well as to market conditions, have allowed this market to satisfactorily achieve the objective for which it was created in only ten years. MARF has undoubtedly transformed corporate financing in Spain, providing companies of all sizes and sectors with a tool to obtain recurring financing through financial instruments that were previously available only to large multinationals.

This report, a follow-up to the June 2021 report entitled "MARF and its contribution to business growth," expands its scope and analyzes the evolution of the market since

its inception through its main achievements; achievements that led it to consolidate itself as a fully integrated alternative financing channel in the financial ecosystem formed by companies, investors and the advisors and law firms that accompany them in their passage through the market.

In just over two years since the last study, and despite the change in the interest rate cycle, the number of issuers has grown from 100 to 143, and the financing capacity of the market, measured in terms of available outstanding balance, has increased from six billion to almost eight billion today, with an even more diversified and sustainable portfolio of issued products.

In an increasingly global and challenging environment, MARF is committed to remaining open to all types of products and issuers and to continuing to foster the public-private partnership with which it was created, and which has only grown and strengthened over the years.

1. Introduction

The Alternative Fixed Income Market, MARF, celebrates its tenth anniversary. Since its launch in 2013, this BME market has gained great importance among the alternatives for diversifying the sources of corporate financing in Spain. In addition, financing through MARF has facilitated access to more flexible financing structures and time frames than traditional bank financing, with the benefits that this flexibility brings to the issuing companies. In recent years, it has also allowed many companies to access sustainable financing frameworks that catalyze their commitments related to environmental and social sustainability and link the funds raised to the achievement of specific objectives.

In its ten years of operation, MARF has been tested by adverse events: the consequences of the sovereign debt crisis in the European Union, a banking crisis with serious repercussions in Spain, the pandemic caused by COVID-19, and the uncertainty created by the invasion and escalation of the war in Ukraine. Over the past two years, the market has also had to respond to a very sharp and accelerating rise in interest rates, which has changed the outlook for both issuers and investors. Despite this, MARF has experienced steady growth since its inception. Currently, the outstanding balance as of September 2023 is close to eight billion euros, a figure that validates MARF as a fully consolidated market.

In 2020, this BME-managed market will become part of SIX Group, one of the leading European and global operators of financial market infrastructures with Swiss capital, which also manages the Swiss stock exchange. That year, following the takeover bid by SIX, the Spanish government approved the acquisition of 100% of BME's capital after verifying that the requirements set out in the regulations had been met, in particular the acquirer's financial solvency, its suitability, reputation and experience. The integration of BME into SIX Group gives MARF a more pronounced international dimension, as it becomes part of a group that operates and has a presence in several countries and jurisdictions.

MARF has received two important awards in recent years. In 2020, the European Central Bank recognized MARF as a monetary policy instrument for channeling aid to companies

and considered it an eligible multilateral trading system for its monetary policy. The market thus confirmed its position as a key tool for the corporate financing of Spanish companies and as an instrument for channeling the business support policies implemented during the pandemic.

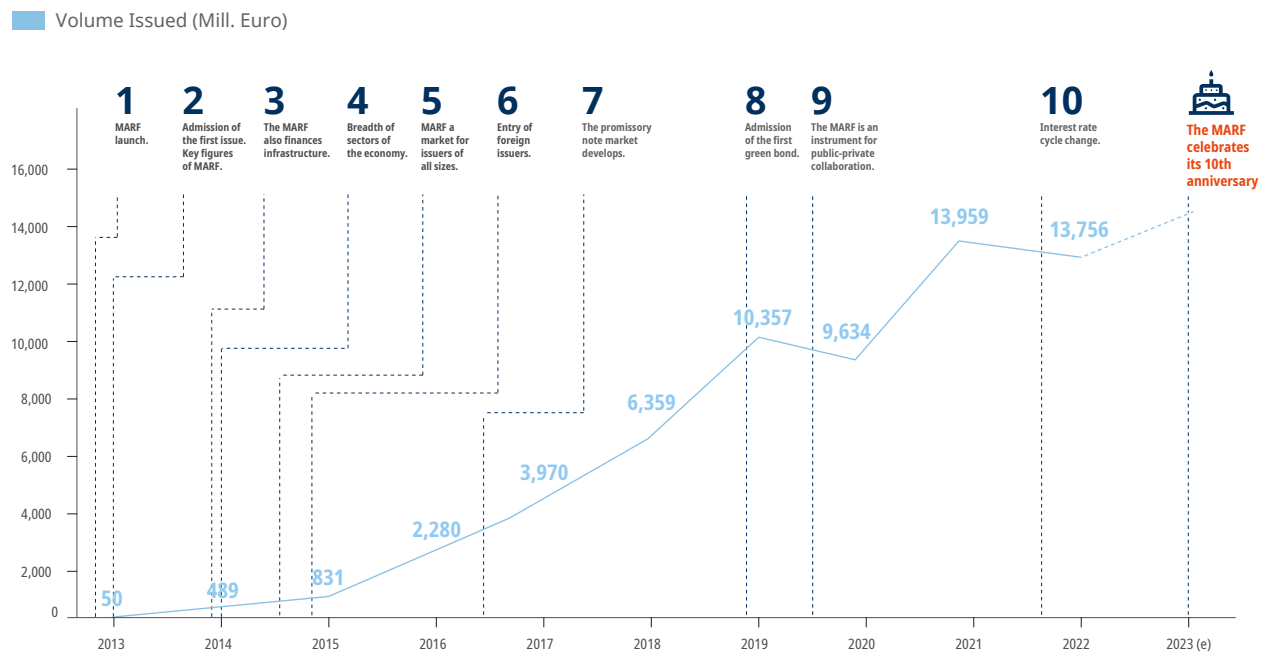
The second endorsement comes from the Financial Conduct Authority (FCA), the UK's financial services regulator, which is responsible for overseeing the conduct of retail and wholesale financial services firms. In June 2022, the FCA recognized MARF as a Recognised Overseas Investment Exchange (ROIE), allowing it to operate from the UK.

These notes outline a very brief portrait of the recent history of the market, but when celebrating a tenth birthday, as in this case, it is worthwhile to appreciate and describe in detail what the honoree has become, highlighting the years that have been lived, assessing the circumstances that have arisen, the problems that have been solved, the achievements that have been made... And of course, it is also a good moment to reflect on the aspects that can continue to drive MARF forward, since the steps taken today will be the ones that will lead it to achieve new goals in the future.

This paper addresses this dual challenge. The following section presents the evolution of the market's most important data and reviews its most relevant milestones and achievements. The final section of the paper discusses the challenges that MARF faces in the future and the specific proposals it has made to address them.

2. MARF: Evolution and Achievements

Figure - ANNUAL VOLUME ISSUED AND MAJOR MARKET MILESTONES



7/10/2013 Launch of the MARF



27/10/2015 First issue of a Portuguese company: Sugal



20/12/2013 First bond issue by COPASA



31/5/2017 Outstanding balance in commercial papers reaches EUR 1 billion



25/11/2014 First issuance of project bonds by Viario A31



11/11/2019 First green bond issuance by Grenergy



31/12/2014 There were already 6 business sectors present in MARF



6/5/2020 Publication in the Spanish Official State Gazette (BOE) of the ICO Guarantee Framework



30/6/2015 First bond issue by a company listed on BME Growth: MásMóvil



21/7/2022 The ECB begins to raise interest rates

2.1. Launch of MARF and key legislative developments



7/10/13 Launch of the MARF

The launch of this market on October 7, 2013, was in response to the global financial crisis, which subsequently gave way to a severe sovereign debt crisis in Europe, and as part of the measures taken to combat it. Thus, the inception of the Alternative Fixed Income Market was one of the measures adopted to broaden the channels through which small and medium-sized companies could obtain resources to finance their productive activities and reduce their very high dependence on the banking sector, in anticipation of a more than likely, and subsequently confirmed, process of concentration of financial institutions that could affect the liquidity of companies.

This was in line with the Memorandum of Understanding (MOU) signed by the Spanish government with the European Commission in the summer of 2012, at the initiative of the Ministry of Economy and Competitiveness. Given the high dependence of the Spanish economy on bank financing, this document included a request to the Spanish authorities to prepare, by mid-November 2012, proposals to promote non-bank financial intermediation, including financing through capital markets and venture capital. This was seen as a cross-cutting measure to improve the Spanish financial system.

This market is configured as a multilateral trading system, created in accordance with the provisions of the Securities Market Law of July 28, 1988. Its main purpose is to improve the conditions for corporate financing through the capital markets by issuing fixed income securities to qualified investors, as defined in the Spanish securities regulations.

The basic premise followed in the design of the market was to take advantage, as far as possible, of the same operational scope and structure as the AIAF Fixed Income Market, managed by BME, but to adapt the procedures for the inclusion of securities to the specific characteristics of each type of issuer and to facilitate the availability and dissemination of appropriate information on them.

The general organization of MARF was established with the following structure:

1. The direction and management of the market are the responsibility of the Board of Directors, which is the same as the Board of Directors of Bolsas y Mercados Españoles Renta Fija, SAU, which establishes the general guidelines for the strategy and development of MARF, in accordance with the general rules for the structuring and development of the Spanish securities markets.

2. Likewise, a Coordination and Listing Committee has been created, formally reporting to the Board of Directors, but with a composition open to the participation of representatives of other institutions relevant to the development of MARF's operations. The Committee is responsible for channeling the market's relations with the issuing entities and with all those that carry out actions related to the securities listed on the market, as well as for analyzing the files for the listing of new securities on the market.

3. Finally, a Supervisory Committee has been established. This is the body in charge of inspecting and supervising the operation of the market, responsible for, among other things, verifying that trading on the market is conducted in accordance with the applicable rules, confirming that market members are making proper use of the technical means made available to them, establishing and directing the necessary procedures for the proper accreditation of the personnel appointed by market members and brokers to carry out their operations on the market.

With regard to the members of MARF, it has been established, in accordance with the provisions of the Securities Market Law, that they may be credit institutions and investment services companies authorized to execute orders on behalf of third parties or to trade on their own account in the markets; the General State Administration, through the General Secretariat of the Treasury and Fiscal Policy, the General Treasury of the Social Security and the Bank of Spain; and those entities that, at the time of the opening of the Market, the Board of Directors deems to meet the conditions set forth in paragraph (f) of Article 37.2 of Securities Market Law of 1988 and which perform specific functions relevant to the operation of the market.

The securities to be listed on MARF would be the fixed-income securities put into circulation by the issuers or such other securities and financial instruments as may be decided by the Board of Directors from time to time.

Similarly, after consultation with and approval by the CNMV, the Board of Directors approved the first set of market regulations, consisting of a regulation and a series of circulars that govern the basic aspects of MARF and its operations, such as registered advisors, market members, rules for the listing of securities, trading systems and dissemination of information, fees, etc.

This regulation has been amended at several points in MARF's history to adapt it to the new realities of the capital markets and the needs of participants at any given time, and to enable MARF to better fulfill its founding purpose.

The rules have also been affected by the set of regulations developed under the European capital markets union initiative. This initiative aims to create a genuine single capital market throughout the European Union so that investment and savings can flow across all member states for the benefit of citizens, companies and investors. Legislative measures adopted to date include rules on securitization, prospectuses and the standardization of European investor protection.

2.2. Admission of the first issue and MARF's key figures



20/12/13 First bond issue by COPASA

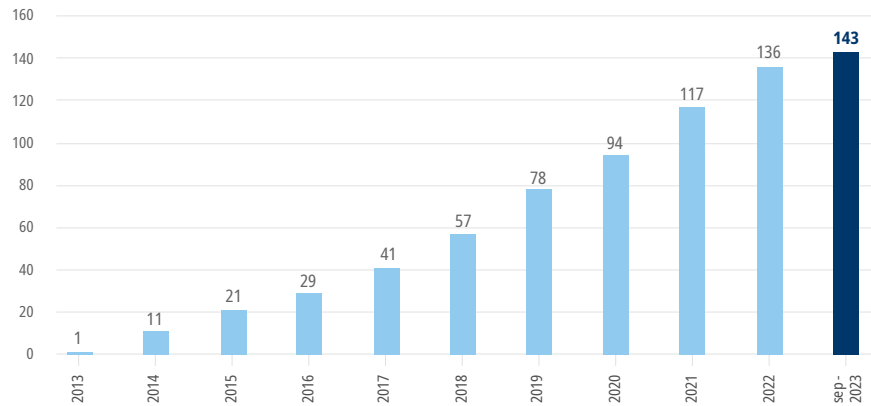
In December 2013, barely two months after its launch, the first issue was admitted to trading in this market. It was a bond issued by Compañía de Obras y Servicios, COPASA, which marked the beginning of activity in the market. Since then, a series of issues have been made until MARF has reached a level of importance, both in terms of the number of issuers and issues, which places it as a market that has already left the initial implementation phase to enter the growth and consolidation phase.

The following diagrams show the evolution of its key figures. The number of companies financed through MARF since its inception (Figure 1) has grown year by year, reaching 143 at the end of September 2023.

➔ **MARF has reached a level of importance, both in terms of the number of issuers and issues, which places it as a market that has already left the initial implementation phase to enter the growth and consolidation phase.**

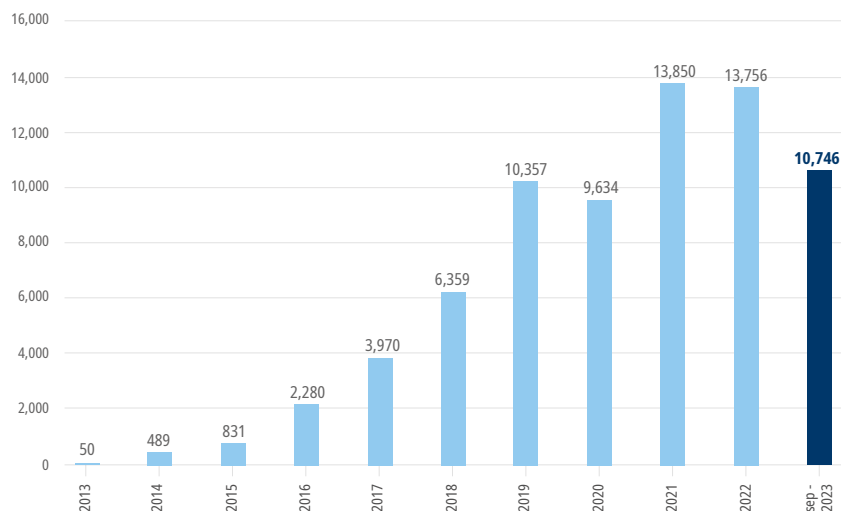
Figure 1 - NUMBER OF COMPANIES FUNDED ON MARF SINCE ITS INCEPTION

Cumulative data from 2013 to the end of September 2023



Source: MARF

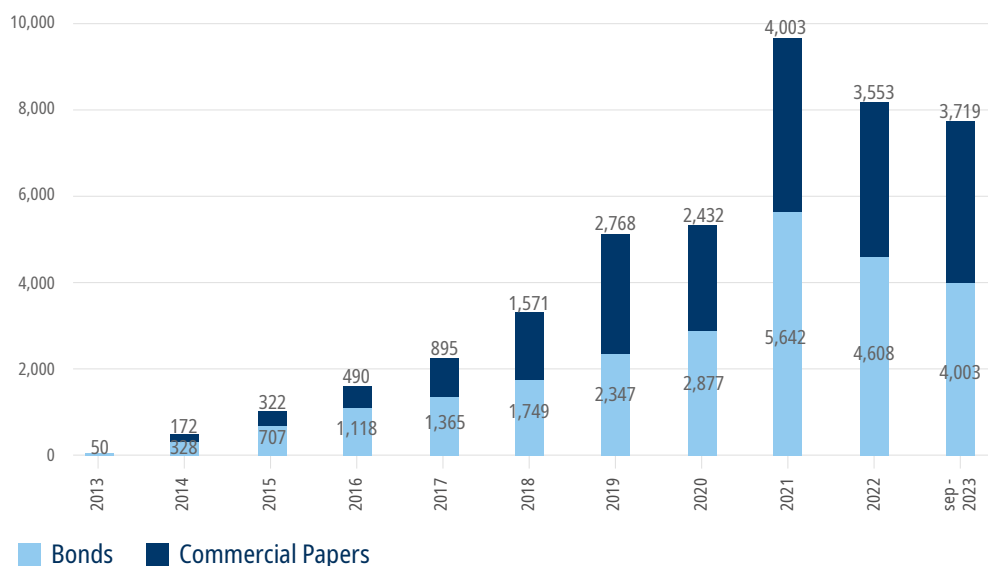
With regard to the volume issued and listed each year (Figure 2), a remarkable continuous growth can be observed, with the exception of the decrease that occurred in 2020 as a result of the COVID-19 pandemic. However, the market rebounded in 2021 and 2022, with issuance approaching EUR 14 billion in both years. So far in 2023, it has continued to grow. From January to September, issues of EUR 10,746 million have been registered, exceeding the EUR 10,122 million registered in the same period of 2022 by 6.2%, albeit with a lower proportion of medium and long-term issues.

Figure 2 - VOLUME ISSUED AND ADMITTED TO TRADING ON MARF SINCE ITS INCEPTION
Yearly issues from 2013. For 2023 Jan. to Sept. Figures in EUR million

Source: MARF

Figure 3 - OUTSTANDING BALANCE OF MARF SINCE INCEPTION

From 2013 to the end of September 2023. Figures in EUR million



Source: MARF

In terms of outstanding balance (Figure 3), it is worth noting that in 2021, MARF was boosted thanks to the cooperation with Instituto de Crédito Oficial. As we will analyze below, this cooperation included MARF's promissory note issues within its COVID-19 guarantee lines.

Over the years, MARF has also been strengthened by the participation of a growing number of financial institutions committed to its operation. Currently, 30 entities act as registered advisors, assisting issuers in the initial stages and throughout the life of the issues. MARF also has 5 intermediary entities and 18 member entities, of which 11 are banks and 7 are securities brokerage firms and agencies.

30

Entities exercising the function of Registered Advisor

5

Intermediary entities

18

**member institutions:
11 of them banks and
7 securities firms and agencies**

2.3. MARF, also for infrastructure financing



25/11/14 First issuance of project bonds by Viario A31

Barely a year after its inception, on November 25, 2014, the first project bond issue was listed on MARF, issued by Viario A-31 to finance the construction of the section of the A-31 highway between Bonete and Alicante. This milestone is a true reflection of the flexibility and innovative capacity that MARF has shown since its inception to offer new issuance options to companies.

Project bonds have helped companies that need financing for the startup or development of a specific project, especially those related to the construction of infrastructure such as highways or renewable energy generation facilities such as solar or wind power plants.

In these ten years, nine project bond issues have been admitted to trading on MARF, raising a total of EUR 607.4 million. Some of these operations were pioneering in the Spanish market, such as Ekondakin, the first issue of fully greenfield project bonds, for the construction of a waste management and co-generation plant in Zubieta, Guipúzcoa (2016). Among the recent transactions, we can highlight the one carried out by BlackRock's Irish subsidiary, Traianus DAC, which in 2022 registered a bond program for infrastructure financing, having placed a total of EUR 105.4 million at the end of September 2023.

Continuing with the innovations that MARF has been able to develop to offer new options in long-term issues, also asset-backed securities are worth mentioning. The asset-backed securities route was particularly interesting and offered great potential for smaller companies wishing to raise funds in this market through this formula, allowing them to use it for smaller amounts than those required for other issues made directly and individually by the issuing company. During these ten years, the amount of EUR 4,569.9 million was placed through the issuance of asset-backed securities. In many cases, these issues are used to introduce new financing procedures and formulas that,

among other things, allow the funds raised in MARF to reach smaller companies, even micro-companies and the self-employed, who have obvious difficulties in accessing the capital markets.

Finally, among the long-term products in MARF, issues of mortgage-backed securities and contingent convertible bonds (CoCos) used by various financial institutions have also been listed since 2019, the year in which the first issue took place. Over the past ten years, mortgage-backed securities issues have been placed for a total of EUR 550 million, while those of contingent convertible bonds have been placed for a total of EUR 129 million.

2.4. Sectoral breadth in MARF

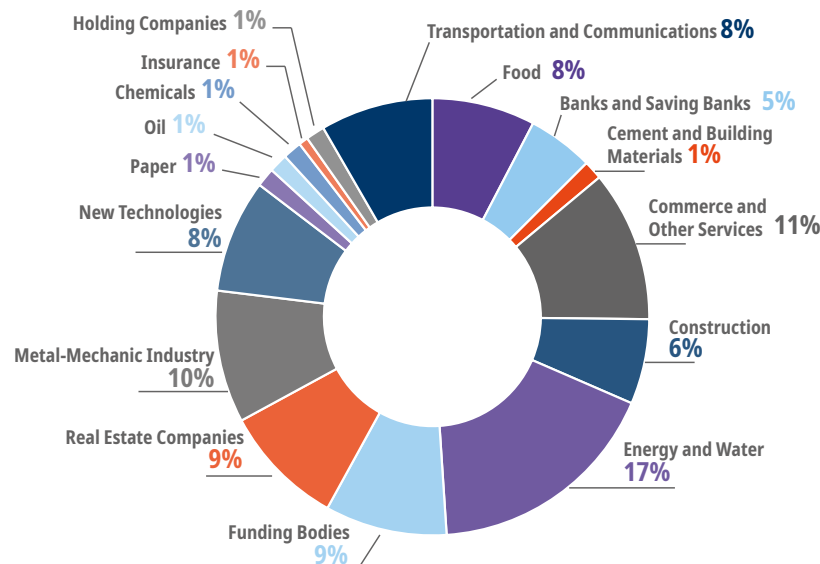


31/12/14 There were already 6 business sectors present in MARF

From its inception, MARF was designed to be a market that could accommodate a wide range of companies from a variety of industries. At the end of 2014, after only one year of operation, MARF already had issues from ten companies in sectors as diverse as construction, new technologies, commerce, energy and water, or funding bodies.

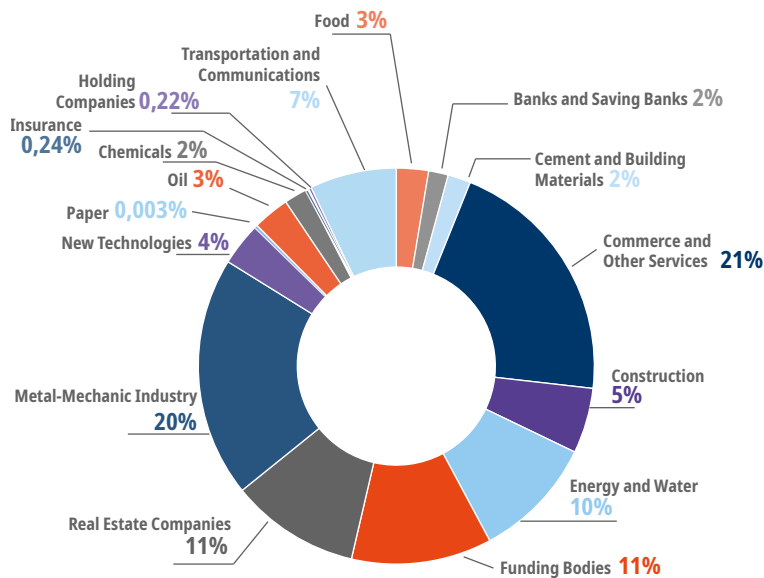
This process of sector diversification in MARF has grown and consolidated in these ten years of its lifetime. Companies from virtually every sector have issued in this market. Looking at the details of the sectors, both by number of issuers (Figure 4) and by volume placed (Figure 5), the most prominent sectors are energy and water, trade and other services, metal and mechanic industry and new technologies. What is most remarkable, however, is the diversity of economic activities represented in this market. In this way, MARF helps to solve the problem with access to external financing through markets for a wide range of companies, regardless of their sector of activity. In doing so, it promotes the development and growth of the country's business fabric and, consequently, its economy. Finally, this diversity of sectors is also particularly effective in attracting investors, allowing them to diversify their portfolios and broaden the range of companies available to them.

Figure 4 - MARF ISSUER SECTORS
By number of companies



Source: Own compilation based on MARF data

Figure 5 - ISSUER SECTORS IN MARF
By volume placed



Source: Own compilation based on MARF data

2.5. MARF, a market for all issuers: by exchange location, size, age and geographic location



30/6/15 First bond issue by a company listed on BME Growth: MásMóvil

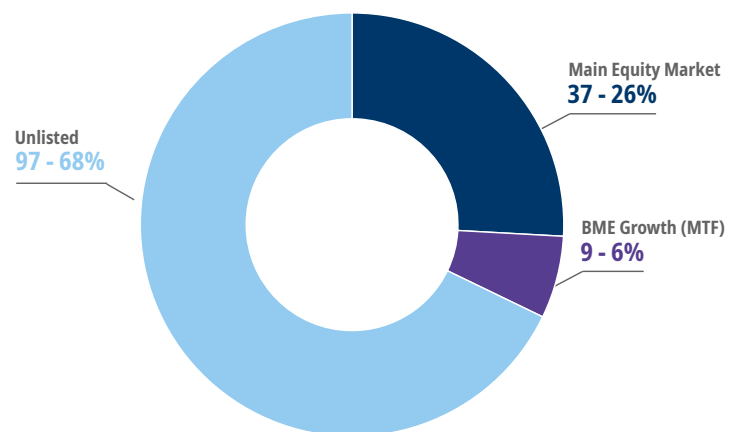
On June 30, 2015, the first bond issue was issued by MásMóvil, a company that at the time was listed on the alternative stock market (MAB), now called BME Growth, a market especially designed for smaller companies with expansion plans. This milestone shows the path taken by MARF since its foundation to become a financing alternative via markets for all companies in Spain, regardless of their stock market status, size, age and geographic location. After ten years of operation, MARF has managed to become a market for all, as shown by the great heterogeneity of the issuing companies present in it. From the point of view of institutional investors, this diversity of issuers offers them

the opportunity to broaden their portfolios by investing in companies to which they had no access because they are 100% private, thus enriching their portfolio diversification strategy.

A) Highly heterogeneous stock market status of issuers.

Looking at the stock market status of issuers over the last ten years (Figure 6), we can see that the largest group of issuers in MARF are unlisted companies, accounting for 68% of the total. On the other hand, 32% of the issuing companies are listed. Of the listed companies, 37 are listed on the main equity market and another nine are listed on the BME Growth equity market, a multilateral trading facility (MTF). In short, these figures show that in these ten years MARF has become a financing option for both listed and unlisted companies, and especially for the latter it has opened up a range of financing instruments that were previously unknown and inaccessible to them.

Figure 6 - DIVERSITY OF ISSUERS IN MARF ACCORDING TO THEIR STOCK MARKET STATUS
In number and percentage



Source: Own compilation based on MARF data

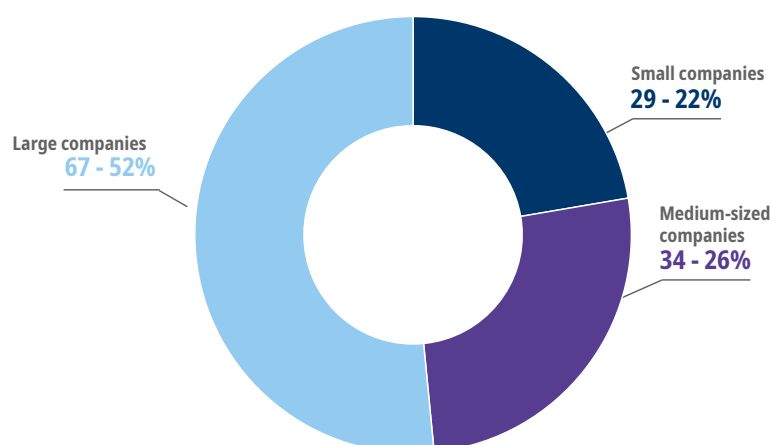


B) Highly heterogeneous issuers by size.

We can see that companies of different sizes have been present in this market during these ten years, among the 130 Spanish issuers. While 52% of the companies or business groups that access MARF are large, 26% are medium-sized and 22% are small companies¹ (Figure 7). Therefore, MARF has managed to incorporate not only large companies that had no previous experience in the fixed-income markets, but also medium-sized and small companies that, due to their smaller size, would have additional difficulties in accessing external financing through the fixed income markets in Spain.

Figure 7 - DIVERSITY OF ISSUERS IN MARF ACCORDING TO SIZE

In number and percentage



Source: Own compilation based on data supplied by MARF and SABI

C) Highly heterogeneous issuers by age.

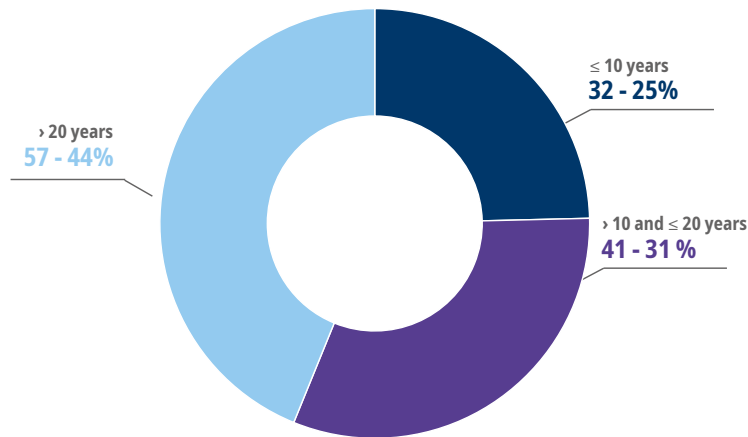
In terms of age² (Figure 8), among Spanish issuers listed on MARF, companies under 20 years of age have made the most use of the market (56% of issuers), while mature companies account for the remaining 44%. Among issuers less than 20 years old, 41 are middle-aged (between 10 and 20 years old) and 32 are young companies under 10 years old. Therefore, in these ten years, MARF has succeeded in

becoming a financing alternative for companies at different stages of their life cycle, from youth to maturity. It should be noted that MARF has allowed younger companies that have been operating in Spain and have traditionally had limitations and problems in accessing the fixed income markets to issue debt.

¹ In our study, company size is defined according to the number of employees and following the European Commission Recommendation 2003/361/EC of May 6, 2003, concerning the definition of small and medium-sized enterprises (SMEs): (a) small company: less than 50 employees, (b) medium-sized company: number of employees greater than or equal to 50 and less than 250, and (c) large company: number of employees greater than or equal to 250. The data on the number of employees is taken from the SABI database of Bureau Van Dijk (Iberian Balance Sheet Analysis System). Finally, the number of employees is taken in the year in which the issuer makes its first issue and, for those companies that have registered a promissory note program and have not yet issued, the year in which the program was registered or, if it was not, the most recent year available, is used as a reference.

² For the definition of age, the same guidelines are followed as those given for the number of employees in footnote 1.

Figure 8 - DIVERSITY OF ISSUERS IN MARF ACCORDING TO AGE
in number and percentage



Source: Own compilation based on data supplied by MARF and SABI

D) Highly heterogeneous issuers by Autonomous Communities.

One challenge for the various forms of financing, whether banking or alternative, is to reach companies in all areas of a country. There are studies that link the ease or difficulty of access to financing for companies with the economic growth of different regions, so one of the concerns of European and Spanish policymakers is to work towards reducing and eliminating the regional disparities that can arise in terms of financing, innovation, training, etc. It was therefore important that MARF, as a new funding body, would be able to reach all the Autonomous Communities in Spain. In fact, MARF has made great efforts in holding seminars and conferences in different regions to raise awareness of this market among companies and investors.

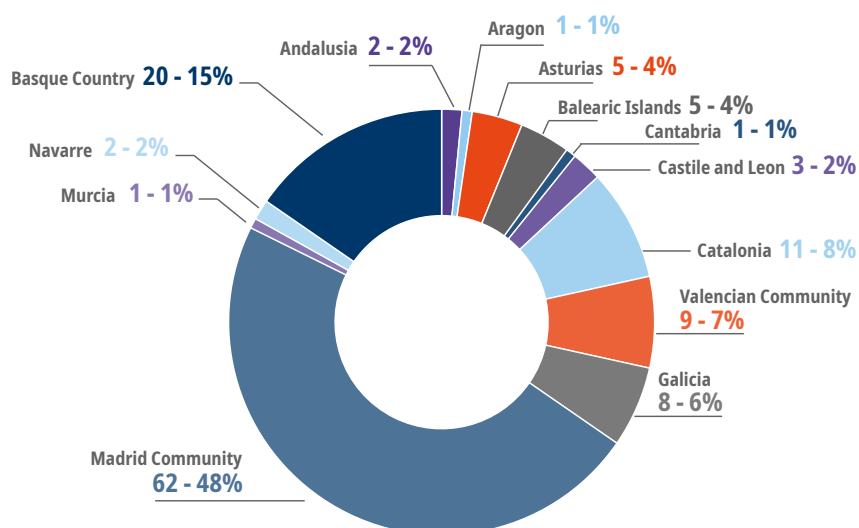
In these ten years, MARF has ensured that almost all the communities are represented among the 130 Spanish issuers (Figure 9). Madrid is the region with the largest number of issuing companies (48% of the total), followed by the Basque Country (15% of the total) and Catalonia (8% of the total). These results show that MARF has gradually established itself throughout Spain as a financing instrument for companies, regardless of their geographical location.



More and more companies have incorporated these instruments into their financial structure, no longer as an alternative, but as an option that complements the full range of financial resources which companies can access via the debt market.

Figure 9 - DIVERSITY OF ISSUERS IN MARF BY AUTONOMOUS COMMUNITIES

In number and percentage



Source: Own compilation based on data supplied by MARF and SABI

2.6 Internationalization of MARF: arrival of foreign issuers



27/10/15 First issue of a Portuguese company: Sugal

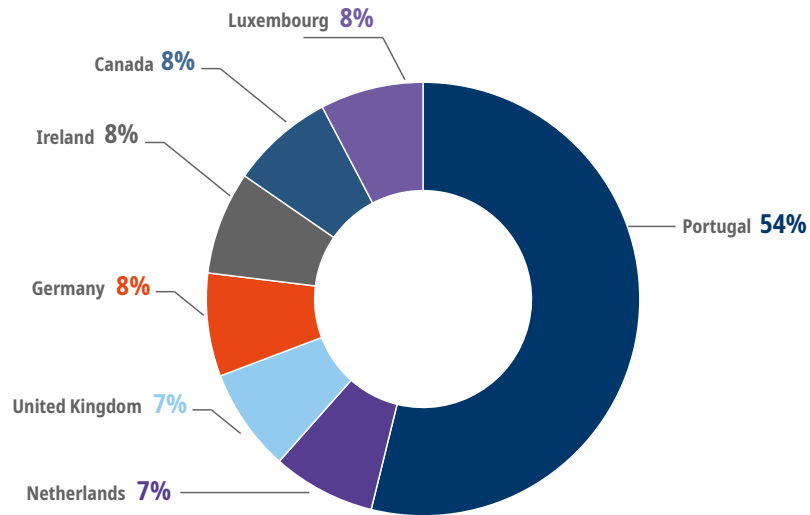
After two years of operation, on October 27, 2015, MARF admitted the first issue by a foreign company, namely the bond issue of the Portuguese company Sugal. Since then, MARF has continued on its path towards internationalization, first cautiously, with only three foreign issuers by 2018, and then more intensively, reaching the number of 13 international issuers by the end of September 2023. Although MARF was created in the wake of the financial crisis to fill a gap in Spain in terms of financing alternatives to bank financing, MARF, like any market, is designed to provide financing not only to Spanish companies, but also to international companies. The latter is not always easy for markets to achieve, which is why MARF has made great strides in its internationalization in these ten years.

With respect to the origin of the listed international issuers, it is worth noting how the range of nationalities present in MARF has been expanding: seven Portuguese entities, one Luxembourgian, one British, one Dutch and, more recently, one Canadian, one German and one Irish company (Figure

10). MARF allows these companies to issue debt, and to have access to new investors, both Spanish and foreign, thus widening their investment options. As might be expected, the geographical and cultural proximity to Portugal favors Portuguese companies as the majority, accounting for 54% of foreign issuers. Finally, it should be noted that the sectors of activity of foreign issuers are also very diverse, covering, among others, financial services, consumer goods and services, and energy sectors. All this, together with the integration of BME into the Swiss group SIX, a global financial market infrastructure manager, contributes to MARF's internationalization process.



Figure 10 - FOREIGN ISSUERS IN MARF BY COUNTRY OF ORIGIN



Source: Own compilation based on MARF data



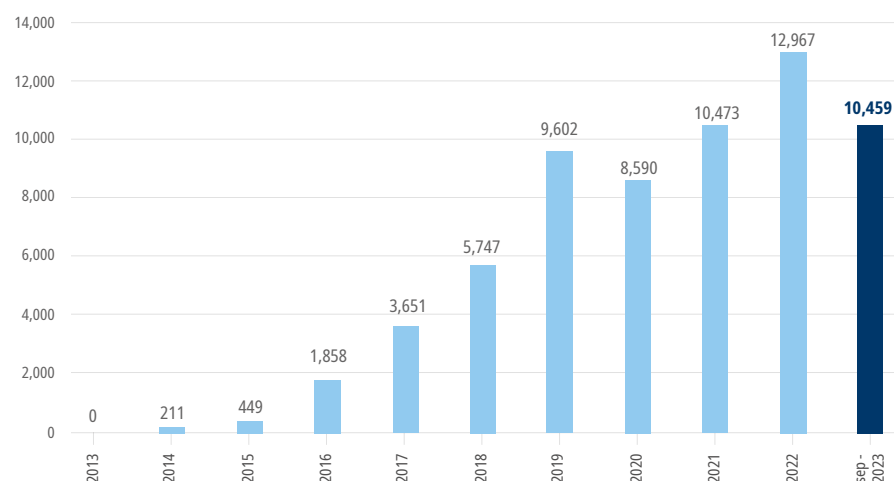


2.7 Outstanding balance in commercial papers reaches EUR 1 billion

 **31/5/17 Outstanding balance in commercial papers EUR 1 billion**

Another milestone in the development of MARF occurred when in May 2017 the outstanding balance in commercial papers (both ordinary and securitized) reached EUR 1 billion. The market was and remains very active in these short-term issues. The amounts issued annually since 2013 are detailed in Figure 11. Clearly, the growth has been remarkable. In total, since the beginning, it amounts to EUR 64,007.06 million through commercial papers issued in this market.

Figure 11 - VOLUME OF COMMERCIAL PAPERS ISSUED IN MARF SINCE ITS INCEPTION
From 2013 until the end of September 2023 Figures in EUR million



Source: Own compilation based on MARF data

Commercial papers are short-term fixed income assets with a minimum maturity of three days to 24 months, issued at a discount and carrying an implicit yield. In many cases, issues are made under a one-year program that sets a maximum issuance balance and allows for great flexibility in terms of maturity. The issuance procedure is by direct allocation, with the agreement between the issuer and the investors participating in issues. MARF currently has commercial papers programs from 88 issuers.

Experience over these years has shown that once a company decides to issue for the first time, it usually does so again, which clearly demonstrates the market's ability to provide financing to companies. The importance of this product also lies in the fact that it is usually the first approach to the markets. It is common for companies to first venture into a commercial papers program to get the pulse of the market and then make the leap to medium- or long-term issues.



2.8. The channeling of sustainability commitments into MARF



11/11/19 First green bond issuance by Grenergy

On November 11, 2019, the first green bond issue of Grenergy was admitted to MARF, which thus joined one of the revolutions that society and the global and Spanish economy are experiencing, with the incorporation of sustainability criteria and objectives in financing. In this context, MARF and all financial markets play a key role in channeling and thus financing these sustainability commitments. According to the OFISO Annual Report on Sustainable Finance 2022, Spain is among the top ten countries in the world in terms of ESG issues.

Since the first green bond issue in 2019, the number of such issues in MARF has continued to grow. At the end of September 2023, 13 ESG bond issues had been issued for a total volume of EUR 707.5 million. Ten companies from sectors as diverse as energy, commerce and industry participated in these emissions. In addition, MARF has also succeeded in

incorporating green bond securitizations into the sustainable long-term issues, one in 2020 and another in 2021.

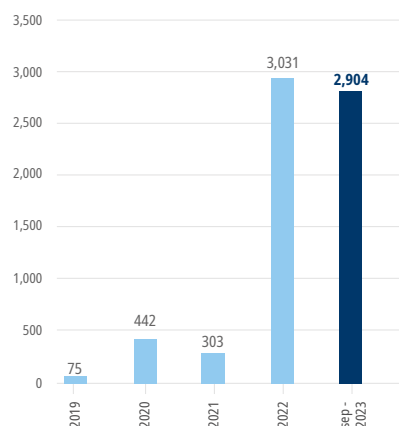
This process towards sustainability would not have been complete without the incorporation of short-term issues such as sustainable commercial papers programs. The first green promissory note program was registered in 2021, and the first sustainability-linked program was registered the same year. Since then, 25 sustainable commercial papers programs have been registered by 17 issuers, reaching the total issued nominal value of EUR 6,046.6 million. Thanks to these short-term issues, new issuers in sectors such as energy, trade, metal and mechanic industry, and food have joined the green and sustainable finance movement.

In short, in these ten years MARF has managed to bring sustainable debt issues to medium and small-sized companies, with spectacular growth in both long-term and short-term issues (Figure 12). This diversity of sustainable issues in MARF is also very positive for investors, as it allows them to diversify their portfolios by incorporating sustainability criteria, which are in great demand by both Spanish and foreign investors.

➔ **MARF and all financial markets play a key role in channeling and thus financing these sustainability commitments.**

Figure 12 - GREEN, SUSTAINABLE, SOCIAL AND SUSTAINABILITY-LINKED ISSUES IN MARF

From 2019 until the end of September 2023 Figures in EUR million



Note: For commercial papers, the maximum outstanding balance of the program is taken into account

Source: Own compilation based on MARF data

2.9 MARF, a powerful tool for public-private partnership



6/5/20 Publication in the Spanish Official State Gazette (BOE) of the ICO Guarantee Framework

The basic functioning of MARF as an intermediary between issuers and investors has been enriched by the emergence of schemes involving other entities interested in facilitating, diversifying and improving SME financing. All of them have fostered a fruitful public-private partnership that has strengthened MARF. In this regard, it is worth highlighting the novel collaboration that took place in 2020 with Instituto de Crédito Oficial (ICO), when on April 21, 2020, the Spanish government approved the inclusion of MARF's commercial

papers issues in its COVID-19 guarantee lines.

This was not the only collaboration with the public sector. For example, the involvement of Compañía Española de Seguros de Crédito a la Exportación (CESCE) through its new securitization fund is helping to expand the market. In other instances, support has come through the acquisition of a portion of the issue volume, as in the case of the ICO, providing funding directly to the company by investing in the promissory notes it issues. Another example is that of Compañía Española de Financiación del Desarrollo (COFIDES), which participates in bond issues with internationalization objectives. These are entities that used to finance companies directly and now do it in this innovative way, which allows them to leverage their support.

➔ **The year 2020 marked innovative collaboration with Instituto de Crédito Oficial (ICO), when on April 21, 2020, the Spanish government approved the inclusion of MARF's promissory note issues in its COVID-19 guarantee lines.**



2.10. MARF's resilience to different interest rate environments

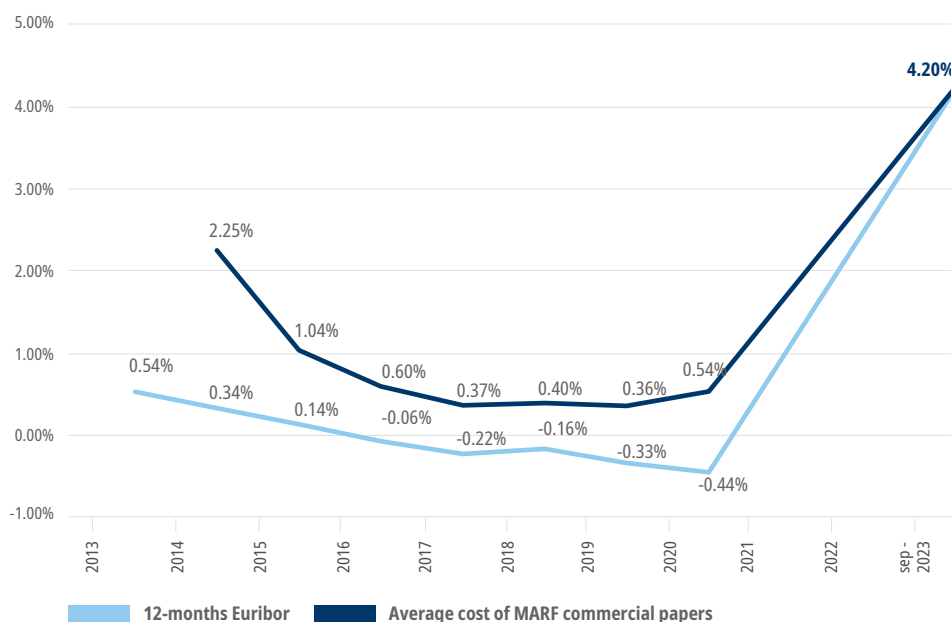


21/7/22 The ECB begins to raise interest rates

Financial markets are not isolated entities but must adapt to changing conditions in the environment and one of the key variables for fixed income instruments are interest rates. Interest rates were extremely low during the inception and first eight years of the market. As shown in Figure 13, the

12-month Euribor was at 0.54% when the market began operating in October 2013, but it continued to decline and was in negative territory three years later. The trend continued until March 2022, when it started a very steep climb: in one and a half years, the 12-month Euribor rose to 4.2%. This indicator, which closely follows the development of the official interest rates set by the European Central Bank, typically indicates the cost of variable-rate business financing, but also the fixed interest rate because it strongly influences this rate.

Figure13 - EVOLUTION OF THE EURIBOR AND THE AVERAGE RATE OF COMMERCIAL PAPERS ISSUES ON MARF
From 2013 to the end of September 2023



Source: Own compilation based on data supplied by the Bank of Spain and MARF

➔ Issuance volumes, which were very much affected in the last part of 2022 and suffered significant declines as a result of the sharp change in ECB monetary policy conditions, recovered markedly in the first nine months of 2023, and the first bond placements were also seen in the market.

MARF has therefore had a very favorable interest rate environment for financing for most of its life. In that sense, last year was a test for the market to determine whether the good performance it had seen in extremely low interest rate environment could be sustained when the landscape changed so abruptly and completely.

With the successive radical increases in the price of money, issues in MARF have undergone two changes. The first, not surprisingly, has increased the average cost of issues. New issuers, and those that need to make new issues to repay maturing issues, are forced to pay higher rates. The prices of commercial papers and bonds are driven by both indicators, the increase in Euribor and the increase in the applied spread.

Figure 13 also shows how the average cost of commercial papers issues, a product that immediately reflects interest rate changes due to its very short maturity, moves in parallel with the 12-month Euribor. It was 2.25% at the start of the issue, but it continued to fall, hovering around 0.5% for five years until July 2022, when the European Central Bank began raising interest rates to curb inflation. In 2022, the average cost had already reached 1.24% and so far in 2023, it has risen to 4.22%.

The second change is that, given the uncertainty about how long interest rates will continue to rise and, importantly, how long they will remain at such elevated levels, issuers

have had to make complicated maturity decisions as they try to adapt to investor demand and expectations.

As a result, issuers have to decide on the most appropriate time frame for their new issues, leading to a change in maturity: long-term placements are slowing down. Issuers are betting on placing commercial papers for a few months, as opposed to the longer maturities that were common a year ago, even though issuing for shorter maturities entails a higher refinancing risk for issuers because it involves more frequent auctions. For its part, the MARF bond market has slowed down in anticipation of less uncertainty in the interest rate scenario. Only the most consolidated entities can afford to issue at longer maturities.

Despite all of the above, MARF has resisted the change in interest rates. Issuance volumes, which were very much affected in the last part of 2022 and suffered significant declines as a result of the sharp change in ECB monetary policy conditions, recovered markedly in the first nine months of 2023, and the first bond placements were also seen in the market. On the other hand, the context of high interest rates and the very possible end of the escalation is encouraging investors to enter into these issues, as they offer very attractive yields.

➡ **An efficient fixed income market is also beneficial to investors, as corporate debt securities can be valuable investment opportunities. They allow a diversified investment strategy and an optimization of the risk-return profile of a portfolio.**



3. MARF CHALLENGES AND PROPOSALS FOR THE FUTURE

Looking to the future, MARF faces significant challenges and opportunities for its development. One of the main challenges for MARF is to continue to grow and ensure that the issuance of debt securities becomes a significantly larger source of financing for European companies, and even more so for SMEs, which, despite being the backbone of the European economy, have still hardly dared to venture into the markets, especially the smaller ones. According to the ECB, only 3% of SMEs currently consider debt securities as a potential source of financing.

In this regard, Spanish public administrations should implement plans, as some European countries have done, to support SMEs with the costs associated with going public and also for investors to buy their bonds. Successful corporate fixed income markets are essential to promote investment financing and job creation.

The European Union is currently giving high priority to the promotion of market-based financing, defining it as one of the main objectives of the ambitious capital markets union project. It attaches great importance to the development of this business financing channel and is working intensively to implement measures to advance and harmonize its operation at the European level. Much remains to be done, as it is still a marginal source of financing in Europe, accounting for only 4.3% of total liabilities, compared to the US where corporate debt issues account for 11% of total liabilities.

To achieve this growth, MARF must continue to open the market to all types of issuers. In the last ten years, more and more companies have incorporated these instruments

into their financial structure, no longer as an alternative, but as an option that complements the full range of financial resources which companies can access via the debt market. Success has come from increased diversity, with the ability to accommodate a very wide range of issuers, both in terms of size and sector. In the future, the following must remain the way forward: continue to admit companies of all sizes, from small to larger ones, from those that have only been in existence for a few years to the most consolidated, and from all the sectors that make up the Spanish GDP; continue to open up the listing of issues by foreign companies and of companies from all the Autonomous Communities.

To achieve this, it will be essential for MARF to continue to focus on communication, with dissemination and training sessions for SMEs, so that the financial culture and the possibilities of this market are not alien to them.

Another success has been the diversification of the products issued by the market and adding mortgage-backed securities and contingent convertible bonds to the traditional bonds and commercial papers, as well as other operations aimed at strengthening the equity of their issuers. Similarly, the market has been able to introduce two important innovations. The first one is SME asset-backed securities, which offer significant potential for smaller companies wishing to raise funds in the market through this formula, while opening up the possibility of using it for smaller amounts than may be required for other single issues launched directly and individually. The second innovation is project bonds, which open up a new avenue for companies that approach the market for the launch or development of a specific project. In the future, MARF will

➔ **Successful Fixed Income Markets are essential to support investment financing and generate employment opportunities.**

have to continue to strive to offer products that are tailored to the specifics of issuers' financing problems.

In addition, beyond its basic function as an intermediary between issuers and investors, it must be further enriched by the emergence of schemes in which other entities participate in a complementary way. Entities that have traditionally supported Spanish SMEs have opted to carry out this mission through MARF, rather than limiting themselves to support through bank financing. This is the case of the collaboration with the ICO and CESCE, which have provided the collateral and underwritten issues, or the acquisition of part of the issues, as the ICO and COFIDES have done.

In this expansion, MARF must continue to be particularly sensitive to one of the most important recent movements in the global and Spanish economy: the trend towards sustainability. This sustainability needs to be financed, and this is where financial markets can play a very important role. According to the OFISO Annual Report on Sustainable Finance 2022, Spain is among the top ten countries worldwide in ESG bond issues, reaching EUR 21,777 million. MARF, like the rest of the BME markets, is committed to sustainability.

The challenge for the future is to continue the process already underway to become an instrument for channeling sustainable finance, that is, sustainable emissions in all their forms and maturities. This type of financing is increasingly attracting the interest and favor of investors and will be reinforced by the political and economic priorities defined at the global, European and Spanish levels, which require companies to make a greater commitment to sustainability. All of this will place greater environmental, social and governance requirements on them, which they will have to meet and finance.

Finally, it cannot be overstated that an efficient fixed income market is also beneficial to investors, as corporate debt securities can be valuable investment opportunities. They allow a diversified investment strategy and an optimization of the risk-return profile of a portfolio. They are an effective additional tool to mitigate some risks and offset some liabilities. In Europe, the largest investors in corporate bonds and commercial papers of non-financial companies are insurance companies, non-monetary funds and monetary funds of financial institutions. Developing an active effort to help these investors become more familiar with and choose to include products from this market in their portfolios is another of MARF's missions for the future.

The solid foundations that have been laid in these first ten years of activity will serve to build the edifice on which the capital markets of the future will develop in Spain.



Beyond MARF functioning as an intermediary between issuers and investors, it must be further enriched by the emergence of schemes in which other entities participate in a complementary way.



More information on our website



MARF celebrates 10 years of success!

Contact us on social media



BME

Bolsas y Mercados Españoles

Plaza de la Lealtad, 1

Palacio de la Bolsa

28014 Madrid

www.bolsasymercados.es