Financial regulation: 2006 Q3

Introduction

In 2006 Q3, a relatively large number of new financial provisions were enacted.

First, the rules on the determination and control of the minimum capital of financial institutions have been amended to update their content and incorporate certain changes arising from the application of International Accounting Standards (IAS). In addition, the rules have adapted the additional supervision requirements applicable to financial conglomerates.

In relation to public debt, the procedures for the Treasury to enter into credit facilities and other short-term financing transactions and to take out medium and long-term loans provided for in the General Budget Law have been regulated.

The information that residents who hold accounts abroad are required to send to the Banco de España has been updated, as has that which foreign collective investment institutions (IIC) registered with the CNMV (Spanish National Securities Market Commission) must send to the CNMV. The latter information may now be sent telematically to speed up processing.

In relation to the prevention of money laundering, certain obligations have been placed on subject persons who engage in currency exchange or cross-border transfer management, given the growing commercial attractiveness of these transactions, associated with the increase in numbers of foreign residents in Spain.

In the field of insurance, a new law has been published on private insurance and reinsurance mediation in order to adapt Spanish law to the Community framework and to improve customer protection.

Finally, at the level of the Community, a directive has been published that establishes, inter alia, the organisational requirements and operating conditions for investment firms, and a regulation that does the same in relation to transaction reporting, market transparency and the admission to trading of the financial instruments of such firms.

Amendment of the law on the determination and control of minimum capital

Law 5/2005 of 22 April 2005 on the supervision of financial conglomerates, which amends other financial sector laws, had two basic aims: the establishment of a supplementary supervision regime for financial conglomerates, and the revision of sectoral laws (on banking, securities and insurance) to make them consistent with one another and to bring them into line with the new regime for financial conglomerates.

Law 5/2005 partially incorporated into Spanish internal law Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate. This partial transposition was completed by RD 1332/2005 of 11 November 2005, which implemented Law 5/2005.

Both Law 5/2005 and RD 1332/2005 established various supplementary supervision requirements applicable to financial conglomerates. Also, they made groups comprising banks or securities firms and insurance companies (which the Circular calls “mixed groups), that fail to fulfil the requirement of significant sectoral diversification to be considered a financial conglomerate, subject to a specific obligation to report information to the supervisor.

Within the framework of these obligations, and exercising its powers as co-ordinator of various financial conglomerates and supervisor of the parent institution of most mixed groups, the Banco de España has published *Circular (CBE) 2/2006 of 30 June 2006* [Official State Gazette (BOE) of 8 July 2006], amending Circular 5/1993 of 26 March 1993 on the determination and control of minimum capital, in order to incorporate and adapt the changes made by the legislation mentioned above.

First, the Circular introduces significant changes in relation to the eligibility and deductibility of certain elements of capital. Thus, in the section on reserves certain gains arising from the application of IAS are eligible, as are positive valuation adjustments to provisions for net investments in foreign business. In the reserves for regularising, updating or revaluing assets, certain percentages are added to the gross amounts of gains (net of losses) that are recorded as valuation adjustments on available-for-sale financial assets within equity. Likewise, included in the calculation of capital is the book value of the general provision for credit losses, i.e. that linked to inherent losses or losses not specifically assigned for impairment of credit risk, in an amount up to 1.25% of risk-weighted assets that formed the basis for calculating the provisions. On the other hand, the regime for non-voting shares and callable shares, and other similar instruments, has been clarified, the part that is actually paid up being eligible. In the same way, it is explicitly recognised that the Banco de España has the power to verify whether non-voting, callable and preference shares are capital, in order to qualify their eligibility as capital and their assignment to the relevant elements thereof.

Reflecting the provisions of Royal Decree 1332/2005, new deductions from capital are made, inter alia, for holdings in insurance and reinsurance companies or in entities whose main objects consist of taking holdings in insurance companies, when the holding is more than 20% of the capital of the investee.

Second, the Circular recalls and details the obligations of groups of financial institutions to have risk management and internal control procedures, and the supervision of their intragroup operations, already established in higher-ranking provisions. As regards the risk management procedures and internal control mechanisms, they shall be based on policies clearly defined by the governing bodies and implemented by means of an appropriate, integrated, transparent and coherent organisational structure with well defined lines of responsibility, taking into consideration all the risks of the activity performed. The processes of decision taking and risk identification, assumption, measurement, management, monitoring and control shall be approved by competent bodies at the appropriate level and based on objective criteria, and shall include the appropriate separation of functions, the establishment of operational limits, the frequency of the analysis and revision of both the risks and processes, the periodic preparation of rigorous stress tests, the necessary emergency plans, the adjustment to the policies defined by senior management and the quality, quantity and periodicity of reporting to the governing bodies. The management bodies of the institutions shall have adequate resources to allow them at all times to carry out a comprehensive assessment of the risks that have been incurred or may be incurred and to adopt the strategies of maintenance of the necessary capital levels in each case, anticipating the potential impact on solvency, profitability, liquidity and the risk profile of the institution of, among other factors, their commercial strategies, the development of competition and developments in the economic environment.

Third, some minor changes have been introduced into the definition of consolidable groups, especially when they are controlled by a financial institution situated in a third country. In this respect, in the case of co-ordination groups of Spanish credit institutions controlled by a foreign financial institution with registered office outside the European Union, the Banco de Es-

paña shall check, after hearing the institutions concerned, that they are not subject to supervision on a consolidated basis by the competent authority of a third country, which is equivalent to that provided for in Spanish law, in which case the consolidated supervision regime provided for in this Circular shall be applicable to such group.

In the section on the definition of large exposures and limits on concentration, the conditions are established to ensure that, in the aggregation and calculation of the risks subject to these limits, the gains recorded as valuation adjustments of available-for-sale financial assets within net worth are not taken into account.

Finally, section eight of Circular 5/1993 (previously devoted to prudential monitoring of mixed groups) has been revised to also include the information that must be submitted by financial conglomerates in relation to which Spain performs the function of co-ordinator, in accordance with the provisions of Law 5/2005 of 22 April 2005.

Supplementary Treasury financing

General Budget Law 47/2003 of 26 November 2003 regulated Treasury operations, empowering the Minister of Economy and Finance to authorise transactions relating to public debt and to establish the formal procedures to be followed when such debt is incurred. The Minister could also delegate these powers in an ordinary manner to the Treasury.

In relation to credit transactions, the Law provided that the arrangement of credit facilities or loan transactions in national currency or foreign currency should be in accordance with procedures established by regulations, which would guarantee the principles of objectivity, transparency and publicity appropriate for the type of transaction concerned and enable these transactions to be carried out in an orderly and predictable way. In addition, the Law provided for the possibility of selling outright or under repos newly issued securities, expanded existing issues or any securities the Treasury might have in its securities account; it was also appropriate to clarify the procedure for arranging this type of operation[1].

Order EHA/2393/2006 of 14 July 2006 (BOE of 25 July 2006) has now been published in order to enable both these aims to be achieved. It regulates the procedures for the arrangement of credit facilities and other short-term financing transactions and medium-and long-term loans by the Directorate General for Treasury and Financial Policy.

The purpose of the Order is to establish the foundations of the procedures through which the Treasury may enter into such transactions. These procedures should be understood as supplementing those for regular issues of State debt, insofar as the basic objective of the transactions regulated is to cover temporary cash requirements. Also, they must guarantee respect for the principles of objectivity, transparency and publicity established by Law 47/2003, notwithstanding that cases may arise in which, in order to apply an appropriate default-risk management policy, or because of the need to avoid speculative movements in the market prior to the performance of the transaction, it is appropriate to restrict the competition to financial institutions that are public debt market makers. The reason for this restriction is the need for the Treasury to rigorously control its counterparty risk. As these short-term financing instruments will frequently be used on dates on which a considerable amount of State debt securities are

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1. Up until now, existing financing transactions have been covered by the following provisions: the annual ministerial orders, which provide for the creation of State debt; the Order of 9 May 1995, which authorises interest rate swap transactions in relation to issues of State debt in pesetas and credit facilities in pesetas that may be drawn down using Treasury bills, and the Order of 19 June 1997, which regulates the stripping of principal and coupon payments from State debt securities and the reconstitution of such securities, and authorises the Treasury to enter into special loans with financial institutions.

redeemed, failure to deliver the cash agreed could make it difficult for the Treasury to service State debt. Accordingly, for reasons of safety, it is best if these transactions are only carried out with the most creditworthy institutions.

The Order establishes that the Treasury may arrange such credit facilities as it may consider necessary to ensure the short-term financing of its temporary cash requirements.

Alternatively or in addition, the Treasury may arrange another type of short-term financing operation to cover its temporary cash requirements, such as a loan or a repurchase agreement in respect of State debt securities or other securities, whether they be newly issued, expansions of existing issues or any securities the Treasury might have in its securities account. It may also enter into medium and long-term loans, to supplement the financing instruments usually used, in order to minimise the cost of the medium and long-term funds raised and to adapt their terms to the State's financial requirements.

Specific obligations for the prevention of money laundering

Law 19/2003 of 4 July 2003 on cross-border capital movements and financial transactions and measures to prevent money laundering, introduced a number of amendments to Law 19/1993, which entailed a notable updating of the Spanish legal regime for the prevention of money laundering in the light of the provisions of Directive 2001/97/EC of the European Parliament and the Council of 4 December 2001. Subsequently, Regulation 925/1995 was adjusted to the provisions of that law by means of Royal Decree 54/2005 of 21 January 2005.

Recently, there has been a progressive increase in the number of subject persons engaged in the activity of money exchange or cross-border transfer management, the traditional establishments having been joined by other entities. It is necessary to establish equal treatment under the rules on the prevention of money laundering to avoid unjustified distortions or advantages, whether direct or indirect, unless their own characteristics make such specifications desirable.

For this purpose, *Order EHA/2619/2006 of 28 July 2006* (BOE of 10 August 2006), which implements certain obligations relating to the prevention of money laundering on subject persons engaging in currency exchange or cross-border transfer management activities, has been published to ensure that the needs of the prevention of money laundering are reasonably harmonised.

The Order applies to all persons subject to obligations in relation to the prevention of money laundering who engage in currency exchange or cross-border transfer management activities, with respect to transactions that are not subject to a debit or credit in the account of the customer at the entity.

The Order establishes the application of measures additional to those provided for generally in relation to identification for those currency exchange or cross-border management transfer transactions without any debit or credit in the customer's account, the amount of which, either on its own, or else accumulated over each calendar quarter, exceeds €3,000 in the case of cross-border transfers or €6,000 in the case of currency exchange. Also, the execution of cross-border transfers ordered by customers who are not physically present by telephone or electronically or on-line, is regulated and must fulfil certain requirements specified in the Order.

At the same time, the retention of documents is regulated, with specific criteria established in relation to the different types of documentation required by law. In any event, subject persons shall retain transaction documentation for at least six years.

Finally, the Order gives subject persons precise instructions regarding the establishment of appropriate internal control and communication procedures and bodies to detect, foresee and prevent the performance of money laundering-related transactions. Two techniques are used: first, the content and minimum scope of the internal control measures are established, adapting them to the internal organisation of the subject person, and second, the way in which such procedures shall be considered appropriate in relation to the results that the internal control measures must obtain is specified.

Residents holding accounts abroad

In conformity with the Order of 27 December 1991, implemented by Royal Decree 1816/1991 of 20 December 1991 on cross-border financial transactions, CBE 24/1992 of 18 December 1992 regulated the information that must be sent to the Banco de España by residents with accounts at branches of banks or credit institutions operating abroad or accounts at other non-resident entities that are neither banks nor credit institutions, in which receipts, payments and foreign transfers are effected and mutual credits and debits set off against each other.

The large volume of declarations received, the need to submit statistical data within a short space of time and the intention of facilitating compliance with such requirements make it necessary to update the limits above which receipts, payments and transfers can be grouped, and to authorise the possibility of using telematic procedures for presenting declarations, since CBE 24/1992 only envisaged the sending of information by hard copy. Accordingly, *CBE 3/2006 of 28 July 2006* (BOE of 11 August 2006) on resident holders of accounts abroad, which repeals CBE 24/1992, has now been published.

The most significant changes are the following.

First, with respect to receipts, payments and transfers effected by means of credits and debits in accounts, the threshold below which movements in a single account may be aggregated, indicating the total receipts and payments corresponding to such transactions, without netting the receipts against payments, is raised from €6,000 to €12,500. Likewise, the movements in an account of over €12,500 (previously €6,000), which are credited or debited in the account on dates that come within a single notification period, shall be aggregated, without netting the receipts against payments, when their currency, the counterpart country and all the data relating to the reason for the receipt or payment specified in the Circular's procedural instructions coincide.

Second, the monthly periodicity is maintained for information on receipts, payments and transfers carried out through debits and credits in the accounts, and such information shall be sent to the Banco de España no later than on the 20th day of the month following that reported on. Holders of accounts abroad remain exempt from making such monthly declarations when the sum of neither credits nor debits, in one month, reaches the amount of €3,000,000, or the equivalent value in other currencies.

Finally, with respect to the sending of the information, the possibility is introduced of sending it telematically as well as by hard copy, in accordance with the procedures specified in the annex to the Circular.

Information on foreign collective investment institutions

CNMV Circular (CCNMV) 3/2003 of 9 December 2003 on information on foreign CIIs entered in CNMV registers imposed on such CIIs the obligation to send the CNMV any amendments to the registered documentation, except financial reports, as well as information of a statistical nature and reporting obligations in respect of shareholders.

Since then, there has been considerable growth in the number of foreign CIIs whose shares are sold in Spain, and consequently, in the number of notifications processed by the CNMV to update the registers of such institutions.

In order to speed up the processing of these notifications, to ensure that the information is made available to the public more promptly and to better guarantee the quality of such information, *CCNMV 2/2006 of 27 June 2006* (BOE of 25 July 2006) on information on CIIs entered in CNMV registers has been published. This Circular repeals CCNMV 3/2003, regulates the sending of such documentation telematically, clarifies the procedure applicable to essential amendments in the offering of shares in unharmonised foreign CIIs, specifies the documentation that must be sent to the CNMV in the case of changes in the registered information and enables investors to consult and receive information telematically.

New Law on private insurance and reinsurance mediation

Law 9/1992 of 30 April 1992 on private insurance and reinsurance mediation has hitherto been the basic regulatory framework for this activity in the Spanish insurance market. Relative to the previous legislation this Law increased the requirements to act as an insurance intermediary, in order to improve the quality of service and protect insurance and reinsurance policyholders.

Subsequently, Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation laid the foundations for harmonising the activity of insurance mediation in the European Union. This Directive was a response to the need to establish a Community legal framework to enable insurance intermediaries to operate freely throughout the Community[2], in order to contribute to the proper functioning of the single market in insurance. Another objective of the Directive referred to customer protection, both in relation to the information prior to taking out insurance, and to the need to establish out-of-court mechanisms for settling disputes between insurance intermediaries and their customers.

Law 26/2006 of 17 July 2006 (BOE of 18 July 2006) on private insurance and reinsurance mediation has now been published In order to transpose this Directive into Spanish law. This Law repeals Law 9/1992, as the significant changes introduced mean that it is better to have a single new law to regulate the activity of insurance intermediation and to adapt the new legislation to the actual market situation.

This new regulation is based on three basic principles:

a) The regulation of new forms of mediation, with the definition of insurance agents linked to more than one insurance company and reinsurance brokers.

b) The principle of equality of treatment of the various types of intermediary, for which purpose equivalent professional requirements are envisaged for all, according to their special nature.

c) The principle of transparency, which properly guarantees the protection of consumers in this area.

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2. This is the "Community passport" based on the principle of registration by the competent authority of the home Member State of all persons taking up and pursuing the activity of insurance and reinsurance mediation, provided they meet certain minimum professional requirements in relation to their professional competence, good repute, professional indemnity cover and financial capacity.

NEW FORMS OF MEDIATION

In relation to the first principle, the Law establishes, in accordance with the Directive, certain minimum professional requirements for the various intermediaries and is intended to be applied to each type of intermediary.

The Law regulates insurance agents linked to more than one insurance company, defined as those intermediaries who, under the previous legislation, did not fully meet the definition of either insurance brokers, since they lack the necessary independence, or insurance agents, since links with more than one insurance company were not permitted by that legislation. Linked insurance agents must meet a number of requirements, including, inter alia, being persons of good commercial and professional repute; having passed a training course or aptitude test on finance and private insurance; having a certain financial capacity, subject to certain exceptions relating to the operations agreed with the insurance companies; and having professional indemnity cover, unless the insurance companies in question assume any professional liability that may arise from their actions as agent.

Notwithstanding the foregoing, the Law also envisages the existence of exclusive insurance agents for one insurance company, which were already regulated in the previous legislation. These agents were linked to only one insurance company or, with the consent of the latter, to one or more other companies, provided that they had authorisation relating to businesses, categories or contracts outside the scope of activity of the authorising companies. The new Law, which broadly maintains the previous regime, establishes that they can be linked to a maximum of two insurance companies, provided they have the authorisation of the first, and their activities with the second relate to businesses, risks or contracts outside the scope of activity of the authorising company.

The Law also addresses mediation through the distribution networks of credit institutions, under the name of bancassurance operators, seeking to regulate an established reality in the Spanish market and to make this form of distribution more transparent. Credit institutions and, where applicable, commercial companies controlled by credit institutions or in which the latter have a holding, shall when they pursue the activity of insurance agent adopt the name of exclusive bancassurance operator or, where applicable, that of linked bancassurance operator, which shall be reserved for them.

The Law regulates insurance brokers, maintaining the previous regime in which the fact of their independence from insurance companies is notable, and reinsurance brokers, who were not regulated by the previous legislation, which the new Law adapts to the requirements of the Directive. Reinsurance brokers pursue the activity of reinsurance mediation and are subject to the same requirements as insurance brokers, except that they are not required to demonstrate their infrastructure or have financial capacity, since they advise insurance companies, who do not require any special protection.

As regards the activities under the freedom of establishment and freedom to provide services in the European Union, the procedure for notification prior to their commencement is regulated, both for intermediaries resident or with their address in Spain, who seek to operate in other EU Member States, and for those from other Member States who seek to operate in Spain.

INFORMATION AND CUSTOMER PROTECTION

The Law establishes a number of requirements that aim to guarantee information transparency and customer protection. The obligation to establish a single point of information containing the data in the State register and any regional registers that may exist, is an essential mechanism for consumer protection, since only intermediaries who have evidenced the required professional requirements may be entered in such register, which shall be kept up to date and readily accessible to the public.

Another aspect highlighted by the Law is the information that must be provided by the insurance intermediary to its customers prior to execution of the insurance contract so that the latter may be aware of the type of intermediary advising them of its connections with or independence from insurance companies competing in the market. Also, to ensure that customers can obtain sufficient information for taking their insurance decisions, intermediaries are required to specify their reasons for proposing a particular insurance contract.

The Law also affects customer protection by requiring procedures to be established for dealing with and settling any complaints or claims that intermediaries' customers may present pursuant to the provisions of this law and of those relating to the protection of financial services customers and those for the protection of consumers and users. For such purposes, all insurance intermediaries operating in Spain are required by the Law to have a customer attention department or service or an ombudsman for the insured, to supplement those existing in insurance companies.

Finally, the specific infringements and administrative sanctions applicable to the activity of insurance intermediation are set out and new infringements are established in accordance with the Directive and with the requirements established in this Law.

Directive on investment firms

Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments established the general framework for a regulatory regime for financial markets in the European Union. In particular, it laid down, among other aspects, the operating conditions for the provision of investment services and ancillary services by investment firms, and the organisational requirements applicable to investment firms that perform these services and activities.

Commission Directive 2006/73/EC of 10 August 2006 (OJEU of 2/9/2006) implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms has recently been published.

This Directive establishes the general organisational requirements that Member States shall require investment firms to comply with, which include the following: a) the establishment of decision-making procedures that pay special attention to the verification of compliance with the law and internal procedures, to management of risks and conflicts of interest, to complaints handling and the outsourcing of operations; b) the establishment of an organisational structure which clearly and in documented manner specifies reporting lines and allocates functions and responsibilities, as well as procedures for their proper discharge; c) necessary expertise on the part of their personnel to discharge the responsibilities allocated to them, and d) the keeping of adequate and orderly records of their business and internal organisation. Also, for these purposes, investment firms will take into account the nature, scale and complexity of their business, and the nature and range of the investment services and activities undertaken in the course of that business.

As regards risk management, the Directive establishes that Member States shall require that investment firms adopt risk management procedures and policies which identify the risks relating to the activities, processes and systems of the firm, and where appropriate, set the level of risk tolerated thereby.

Likewise, and where appropriate in view of the scale and complexity of their business, investment firms shall establish and maintain an internal audit function which is separate and independent from their other functions and activities, which shall have certain responsibilities, including to es-

tablish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the investment firm's systems, internal control mechanisms and arrangements.

At the same time, the Directive regulates the outsourcing of important operational functions of investment activities (those in the performance of which a defect or failure would materially affect the ability of the firm to continue to comply with its obligations). In this process, investment firms will continue to be responsible for discharging all of their obligations under Directive 2004/39/EC; in particular, the outsourcing shall not give rise to the delegation of responsibility by senior management, nor shall it alter the relationship or obligations of the investment firm towards its clients.

An important section of the Directive refers to the protection of the clients of investment firms. With regard to the complaints received from clients or potential clients, investment firms shall be required to establish effective and transparent procedures for handling them reasonably and promptly, and to keep a record of each complaint and the measures taken for its resolution.

As for the information provided to retail clients and potential clients, the Directive establishes that it must be fair, clear, readily understandable and not misleading. Also, it shall be accurate and in particular shall not emphasise any potential benefits of an investment service or financial instrument without also giving a fair and prominent indication of any relevant risks. Where the information refers to a particular tax treatment, it shall prominently state that the tax treatment depends on the individual circumstances of each client and may be subject to change in the future. The Directive also regulates the information that the firm must supply to retail clients in relation to itself and the services it provides, and on their categorisation.

It also specifies the information that investment firms must provide to their clients in relation to both the execution of orders other than for portfolio management and the provision of portfolio management services. This section sets out the best execution criteria for client orders, and the general principles for handling such orders.

As regards the information on financial instruments, the Directive requires investment firms to provide clients or potential clients with a general description of the nature and risks of financial instruments, taking into account in particular the client's categorisation as either a retail client or a professional client. That description must explain the nature of the specific type of instrument concerned, as well as the risks particular to that specific type of instrument in sufficient detail to enable the client to take investment decisions on an informed basis.

The Directive also addresses the safeguarding of client financial instruments and funds, for which purpose it provides that Member States shall place certain restrictions on the transactions they may carry out with them and require compliance with a number of requirements, including keeping such records and accounts as are necessary to enable them at any time and without delay to distinguish assets held for one client from assets held for any other client, and from their own assets, and regularly reconciling their internal accounts and records with those of any third parties by whom those assets are held. In addition, they shall identify the conflicts of interest that may arise in the course of providing investment and ancillary services, taking into account for the purpose both the interests of the firms themselves and those of the persons connected to them.

Finally, Member States shall adopt and publish, by 31 January 2007 at the latest, the laws, regulations and administrative provisions necessary to comply with this Directive, which shall apply from 1 November 2007.

Community regulation relating to the obligations of investment firms

The general framework established by aforementioned Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 for Community financial markets contained, in particular, investment firms' reporting obligations in relation to transactions in financial instruments, market transparency requirements and the admission of financial instruments to trading.

Recently *Commission Regulation 1287/2006 of 10 August 2006* (OJEU of 2 September 2006) has been published, which implements Directive 2004/39/EC of the European Parliament and of the Council as regards record-keeping obligations for investment firms, transaction reporting, market transparency and admission of financial instruments to trading, in order to ensure a harmonised regime in all Member States.

First, as regards the recording of client transactions and orders, investment firms shall collect a single data set (the designation of the client or any relevant person acting on behalf of the client, the nature and type of the order, the date and exact time of the transaction, etc.) in order to harmonise the reporting requirements across Member States and to minimise the differences in the reporting obligations in cross-border transactions.

With regard to transaction reporting, the Regulation establishes that the reports of transactions in financial instruments shall be made in an electronic form, except under exceptional circumstances. The conditions that the methods by which those reports are made shall satisfy are specified. The Regulation also specifies the way in which transactions in financial instruments must be reported to the competent authorities, as well as the exchange of information with the competent authorities of other Member States.

The Regulation also regulates the transparency requirements in respect of transactions in shares admitted to trading on a regulated market to ensure that investors are adequately informed as to the true level of actual and potential transactions in such shares, whether those transactions take place on regulated markets, multilateral trading facilities (MTFs), systematic internalisers[3], or outside those trading venues.

A specific section of the Regulation regulates the conditions for the admission to trading of transferable securities, establishing the criteria to assess such securities so that they can be traded in a fair, orderly and efficient manner, as well as the requirements for admission to trading on a regulated market of units issued by undertakings for collective investment in transferable securities. Finally, the conditions are established that must be satisfied by derivative financial instruments.

The Regulation shall apply from 1 November 2007, except for certain provisions which shall apply from 1 June 2007.

9.10.2006.

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3. The Regulation considers that an investment firm trades or executes client orders by means of systematic internalisers if they fulfil certain criteria that indicate that it performs this activity in an organised, frequent and systematic fashion.