A guide to listing on the STOCK MARKET
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Introduction
Functions of the stock market

The stock market is essentially a meeting point between two hugely important figures within an economy: companies and investors.

Companies are the driving force behind every economy. However, they often need more money than they generate in order to undertake their projects and achieve their objectives. In other words, they need funding. One of the most efficient solutions is to use the stock market to increase capital by issuing shares or borrowing money by issuing fixed income products. This initial issuance of securities is known as the “primary market.” Thereafter, the shares can be bought and sold on the stock exchange, giving rise to the “secondary market”.

Meanwhile, investors (both institutional and individuals) are looking to obtain a return on their capital and among the many investment options that exist, they may decide to purchase the products issued by those listed companies.

The stock market therefore serves an essential function in the growth of any economy by channelling savings towards productive investment undertaken by companies. It is effectively a financing instrument for companies and an investment opportunity for savers.

It also allows business owners to optimise their wealth and their business interests. The market offers liquidity through the open access and exit of investors, that is, the law of supply and demand. This enables the free formation of market prices and, therefore, the objective valuation of the shares and, ultimately, of the company itself.

While this is certainly the traditional function of the stock market and the definition you are likely to read in a book, experience has shown us that the market has evolved into what we might call a broad service centre. The stock market now offers a wide range of solutions to the different needs that can arise over the life of a company.

The stock market fulfils these essential functions in an environment of information transparency and legal certainty for all participants. It provides efficient access and seeks to enhance the liquidity of all the products traded. While this ensures an accurate and reliable valuation of the financial assets through the free matching of supply and demand.

Accessing the capital market is a strategic business decision that can offer companies a continuous flow of financing.

It is effectively a financing instrument for companies and an investment opportunity for savers.
Benefits of becoming a listed company

The stock market offers companies a wealth of benefits and opportunities. Notably:

- Financing the company’s growth
- Access to the entire investment community
- Liquidity for shareholders
- Support of internationalisation
- Objective valuation of the company
- Professionalisation of business management
- Prestige and brand image
- Incentive for workers

Financing a company’s growth

The stock market provides companies with a variety of options for securing funding. A capital increase, coinciding with a public share offering or taking place after it, is the perfect way of obtaining funds with which to sustain the company’s expansion.

In an ever more competitive business climate, continuous growth has become one of the basic objectives for companies. An effective management team should aim not only to obtain the funding required, but also to maintain a balance between equity and debt.

Generating finance through equity is therefore essential in ensuring that the company’s growth is solid and flexible, while also helping to reduce financing risk.

The most efficient way to achieve this type of financing is through the stock market, either through an IPO or subsequent capital increases.

Generating finance through equity is therefore essential in ensuring that the company’s growth is solid and flexible, while also helping to reduce financing risk.

Liquidity for shareholders

The stock market enables business owners to rapidly convert their shares into liquidity. The original shareholders – often the company’s founders – use the stock market to reap the rewards of their business endeavours when the time is right. Meanwhile, the stock market provides an easy and convenient means of overcoming typical problems associated with family-owned businesses. And also, as we will see later, it allows the owners to do so at a target price: the price set by the market.

The total or partial exit of some or even all company shareholders often coincides with a key transformation or change in the life of the company. This type of transformation often arises at what we might call third-generation family businesses, which sometimes need to let one or more shareholders to sell at an objective price. A similar situation can arise when a minority owner does not agree with the company’s future strategy or loses interest in the business.

Family business and publicly traded company are not mutually exclusive concepts. Selling some of the company’s shares on the market does not mean relinquishing control of the company. Quite the opposite, for a large number of companies admitted to trading on the market remain under the control of family groups, and in some cases their flotation has helped ensure the company’s survival.

Stock market liquidity therefore means the option of converting company assets into money in a short period of time and at a fair price. Several Spanish securities rank among the most traded in the Eurostoxx 50 index, which features the fifty most relevant companies listed in the eurozone. (See table).

<table>
<thead>
<tr>
<th>RK</th>
<th>Company</th>
<th>Cash volume traded - 2017 (€ billion)</th>
<th>Weighting on the Eurostoxx 50 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Daily average</td>
</tr>
<tr>
<td>1</td>
<td>Gran Herradura</td>
<td>154.26</td>
<td>0.60</td>
</tr>
<tr>
<td>2</td>
<td>DIA</td>
<td>106.79</td>
<td>0.42</td>
</tr>
<tr>
<td>3</td>
<td>TOTAL</td>
<td>102.19</td>
<td>0.40</td>
</tr>
<tr>
<td>4</td>
<td>BBVA</td>
<td>88.49</td>
<td>0.35</td>
</tr>
<tr>
<td>5</td>
<td>Inditex</td>
<td>82.55</td>
<td>0.32</td>
</tr>
<tr>
<td>6</td>
<td>INDITEX</td>
<td>60.54</td>
<td>0.24</td>
</tr>
<tr>
<td>7</td>
<td>Grupagal</td>
<td>52.16</td>
<td>0.20</td>
</tr>
</tbody>
</table>


Family business and publicly traded company are not mutually exclusive concepts. Selling some of the company’s shares on the market does not mean relinquishing control of the company.
Objective valuation

The shares of a publicly traded company have an objective market value, meaning the stock market value or capitalisation of the company obtained by multiplying the share price by the total number of shares.

The quoted price of the share is a product of the free matching of supply and demand. It incorporates growth and profit expectations as well as other variables beyond the company’s control.

The price that the shares of a listed company reach becomes a reference for other investors, whether or not shareholders of the company. In fact, increasing the share price is often a specific objective of the company’s management team.

This company valuation system also offers a number of additional advantages. First of all, it makes the company’s shares a highly liquid payment instrument that can be offered within the context of a financial operation, pledged as collateral in exchange for loans, or perhaps offered as remuneration for employees. Meanwhile, companies can choose to reinvest their profits as an alternative to paying dividends, without harming those shareholders who need immediate liquidity.

Prestige and brand image

Being listed on the stock market is widely viewed by the market as a guarantee of transparency and good standing. The stock market provides added visibility that enhances the company’s good name and brand image.

Admission to the stock market also showcases a company’s solvency, because to be listed it must demonstrate its ability to generate profits in recent periods. Investors willing to contribute funds will value every effort made to improve the company’s management. This generates a constant incentive to make the company more competitive.

A company that is getting ready to list on the stock market will have already attained a high level of self-organisation and control. This prestige is appreciated not only by investors, but also by the company’s clients, suppliers and financial partners.

Because investors and professional analysts are interested in the information published by listed companies, their media presence is typically much greater than that of other companies, especially in the financial press, both national and international.

This media attention, which forms part of the company’s external relations, synergises extremely well with conventional marketing and advertising. The stock market is in the news every day.
Access to the entire investment community

The stock market gives companies access to a broad community of investors. National and international investors alike, both institutional and retail, allow diversified, flexible and well-planned capital placements.

The stock market opens the door to different types of investor, giving companies considerable freedom when shaping the composition of their shareholders and, above all else, offering them enormous stability. The ability to control this composition is hugely important when launching an initial public offering or subsequent rights issue, as the company can define precisely who it is aimed at (for instance, there may be a tranche for employees, another tranche for retail investors and a further tranche for institutional investors).

Nearly 25% of the shares of listed Spanish companies are held by households, while more than 40% is held by foreign investors.

Internationalisation

For many companies, the internationalisation of their business is no longer an option, but an imperative if they are to survive, let alone succeed. One of the common traits shared by the most internationalised Spanish companies is that they are listed on the stock market. More than 60% of the revenue of companies featured on the Spanish Ibex indices comes from the foreign market.

Listed companies rely on their reporting transparency, visibility and share price to secure funding from international investors. This whole process also facilitates their international expansion.

Professionalisation of business management

The transparency and reporting standards required by the stock market encourage greater professionalisation across the organisation.

Investors seek listed companies that are managed by highly qualified and professional teams, capable of efficiently managing the company, creating value and conveying that commitment to all investors.

Open and fluid communication with investors, analysts and the press provides the management team with valuable information on how best to manage the company. The market offers continuous information with which to improve business systems and procedures. Meanwhile, the stock market provides listed companies with services and products that make processes more efficient and help the company achieve the business objectives it has set itself.

Incentive for workers

One of the best incentive policies for employees is allowing them to share in the company’s profits. Aside from being a remuneration system, this type of policy can be actively integrated into the company’s new plans and future ventures in order to get employees more invested in the company’s growth and management.

If the company’s shares are also admitted for trading, this can even more appealing for employees for the following reasons: the continuous availability of target prices and the ease of selling their shares on the market whenever they like. If a company is listed on the stock market, stock options become an even more attractive proposition for employees.

Being listed also makes this type of incentive a viable option for other stakeholders with whom the company wishes to strengthen ties or whom it wishes to reward for one reason or another. These might be the company’s most loyal clients, or perhaps its trusted distributors.

Source: International positioning of Spanish listed companies. BME Report – 2015
Raising finance through the Spanish stock market

The stock market plays a key role in raising funds for businesses. The Spanish market is a particularly attractive option and enjoys a prominent position on the international stage.

Market-based financing

According to figures released by The World Federation of Exchanges (WFE), BME ranks third in Europe and eighth in the world by volume of new investment flows and financing through shares, with a total of 40 billion euros.

Capital increases are widely used by companies as a valuable way of raising funds.

It is the leading stock exchange within the euro area and the fourth largest in terms of funds raised through IPOs, according to the Global IPO Trends study released by consultancy firm EY.

The capitalisation of the shares admitted to trading on the markets managed by BME totalled 1.14 trillion euros.

Figures at year-end 2017

The Spanish stock market ranks eighth in the world when it comes to the volume of new investment flows and market-based financing.

Structural changes in business financing

Figures for recent years have shown a clear trend among non-financial companies listed on the IBEX 35 of implementing the following financial restructuring strategies recommended by the majority of international financial organisations: more capital and greater diversification in their financing options.

Funding through own equity has risen because companies are using not only their retained profits but also the stock market to carry out capital increases. The combined cash volume of such rights issues for the entire stock market remained at around 40 billion euros between 2012 and 2017.

EQUITY

Equity of non-financial companies listed on the IBEX 35 (2010-2016): Millions of euros at the end of 2010 and 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>142,707</td>
<td>176,849</td>
</tr>
</tbody>
</table>

TOTAL BANK FINANCING

Debt with credit institutions arranged by non-financial companies listed on the IBEX 35 (2010-2016): Millions of euros at the end of 2010 and 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>113,518</td>
<td>113,518</td>
</tr>
</tbody>
</table>

Source: BME Research. Calculated for a uniform group of 20 IBEX 35 companies in 2010 and 2016 from which data have been obtained and broken down.
A guide to listing on the stock market

02

The listing process
A stock market listing is an important decision for any company. To access the stock market, a company must meet a number of preliminary requirements and then choose the procedure best suited to its needs and objectives.

This procedure may be relatively simple or considerably more complex, depending on the size of the company and the complexity of the IPO. We will describe a more complex situation involving a larger number of entities, to provide a fuller picture of what can unfold.

**Entities involved in the process**

To access the stock market, a company must meet a number of preliminary requirements and then choose the procedure best suited to its needs and objectives.

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**Step 1: Company**

- **Key decision maker.**
- **Legal advisor:** They draw up all the legal documentation required by the stock exchange and the CNMV, in close collaboration with the company’s own legal team.
- **Auditors:** They audit the company and, at the request of the coordinating entities, issue an opinion on the auditable information contained in the prospectus. This opinion is known as a “Comfort Letter”.
- **Communication agency/consulting firm:** They offer advice on communication strategy and the messages to convey and on when the company should disclose information to its target audience.
- **Global coordinator:** Appointed by the company to design the operation, coordinate participants, prepare the placement, etc.
- **Agent:** Manages share subscription or purchase applications, settles transactions and often acts as custodian for the securities and payment manager.
- **Placement entities and underwriters:** Their job is to promote the sale of shares among investors. If they assume a firm commitment to buy or subscribe any shares that are not placed in the offering, they are known as underwriters.

**Step 2: CNMV**

- The CNMV is responsible for supervising and inspecting the Spanish stock markets. It makes sure that companies comply with all listing requirements. It also monitors advertising activity relating to the operation, approves the prospectus and insists on the disclosure of periodic financial information and the filing of significant corporate events.

**Step 3: BME**

- **The Spanish Stock Exchange (BME):** Tasked with the admission and listing of securities within the stock market trading system.

**Step 4: Stock Market Listing**

- **Central Securities Depository - Iberclear (BME):** Includes the security in the book entry system and manages settlements.
Eligibility requirements

To access the stock market, a series of preliminary requirements must be met and subsequently the best procedure for the company’s needs and objectives must be chosen. Royal Decree 1310/2005 of November 4 and Stock Exchange Circular 2/2016 set out the minimum requirements for admission to trading, which are essentially as follows:

Issuer eligibility

Securities issued by Spanish and foreign public limited companies may be admitted to trading on the stock market, provided that their capital is fully paid up and they are not subject to any legal or bylaw restrictions prohibiting the trading or transfer of their shares.

Spanish listed companies that request admission to trading of their shares on the stock market must have a minimum share capital of 1,202,025 euros. The portion of share capital pertaining to shareholders that directly or indirectly hold a stake of 25% or more in the company will not be counted when calculating this minimum threshold.

Eligibility of the securities

The total value of the shares whose admission to trading is being sought must be 6,000,000 euros or more. When a company requests the admission to trading of its shares on a stock market, there must be a sufficient dissemination of those shares, by no later than the effective admission to trading date, across one or more Member States of the European Union or across non-EU member states if the shares are listed there.

According to Art. 9.7 of Royal Decree 1310/2005, a sufficient distribution will be deemed to exist if at least 25% of the minimum number of shares for which admission is requested are distributed among the public, or if the market can operate properly with a smaller percentage due to there being a large number of shares of the same class distributed in the public. Marketable securities whose admission is requested must be represented as book entries, which is, in an electronic book-entry register managed by Iberclear.

Preliminary steps

Before a company requests the admission to trading of its shares, it will need to take a number of preliminary steps while complying with the relevant legal requirements.

First of all, a due diligence process must be carried out, involving close scrutiny of its financial, legal and business affairs. This process will provide in-depth knowledge of the company and allow it to correct any problem or issue before offering its shares or securities. It must also draw up and publish a prospectus. Therefore, the due diligence process will end shortly before the planned operation is carried out and will be continuously updated with new information.

Secondly, the company will need to draw up the necessary shareholder agreements and amend the issuer’s articles of association to reflect its new status as a listed company. The following agreements are particularly notable:

- Relating to admission to trading. Those relating specifically to an offer to sell the company’s shares and a request for admission to trading of those shares.
- Corporate website. An agreement must be drawn up to create a corporate website and duly filed with the Companies House or notified to all shareholders.
- Corporate governance. The company will need to make certain amendments to its articles of association to regulate the functioning of the general meeting, the board of directors and the various committees that must be set up for that purpose, as well as other modifications to bring the company in line with applicable regulations and recommendations on corporate governance.

Meanwhile, the internal rules and regulations of the general shareholders meeting and the board of directors and the internal code of conduct of the issuer must all be approved (or amended accordingly if they already exist) to bring them in line with the company’s new status as a listed company.

- Representation of the shares as book entries and their free transfer. The articles of association of the issuer must be amended to show that its shares are represented in book entry form, naming Iberclear as the entity responsible for keeping the book-entry register, and to remove any restrictions on their free transfer.

The resolution to convert the company must be formalised in public instrument and filed at the Companies Registry. The public instrument must also be submitted to the CNMV and to Iberclear for registration and filing. After that, an announcement must be published in the official gazette of the Spanish business register and in one of the most widely circulated newspapers for the area in which the company has its registered office, stating the timeline and agreed procedure for transforming the system through which the shares are represented.

Preliminary requirements

- Being a public limited company (sociedad anónima) with all capital fully paid up and no restrictions on the transfer of the company’s shares.
- These shares must be represented by book entries.
- Minimum capital of 1,202,025 euros, not counting stakes of ≥ 25%.
- Minimum market value of 6,000,000 euros.
- Sufficient dissemination among the public.

Preliminary steps

- A detailed financial and legal economic study must be drawn up (due diligence).
- The articles of association must be amended to reflect its new status as a listed company; corporate governance, shareholder rights to information and voting, creation of a corporate website, etc.
Disclosure requirements

Admission to trading of securities on a Spanish regulated secondary market will be conditional on the company’s prior compliance with the following reporting requirements:

* Submission and filing at the CNMV of documents evidencing the legal system to which the issuer and the securities are subject, in accordance with the ministerial order developed by article 27.4 of Law 24/1988 of 28 July.
* Submission and filing at the CNMV of the issuer’s annual financial statements.

The statements must cover at least the last three financial years in the case of participating securities, and the last two years in all other cases. The CNMV may accept annual accounts of the issuer that cover a period shorter than that just indicated when it decides that doing so would be in the interests of the issuer or investors, and provided the CNMV is confident that investors have all the information they need to form a well-founded judgment on the issuer and on the securities whose admission to trading is being sought.
* Submission, approval and filing of a prospectus at the CNMV, as well as its publication.

Prospectus

The main thing to do when requesting the admission to trading of shares on the stock market is to present the Spanish stock market supervisor (CNMV) and the Stock Exchange with all pertinent legal and financial documents so that they can confirm that the company is in order from a legal and financial standpoint. The prospectus is one of the most important documents here.

The format and content of the prospectus must conform to the template set out in Commission Delegated Regulation (EU) No 486/2012 of 30 March 2012, taking into account the type of issuer and the fact that we are dealing with the shares of a public limited company.

This Regulation amends Regulation No 809/2004 as regards the format and the content of the prospectus, the base prospectus, the summary and the final terms and as regards the disclosure requirements.

The prospectus may be drawn up as a single document or in separate documents. In the following sections we describe the different parts of a prospectus (registration document, securities note and summary), along with the approval and publication process.

Registration document

The registration document will contain information relating to the issuer. It will describe the issuer’s business activities, assets and liabilities, financial position and corporate governance, among other aspects.

Securities note

The securities note will contain information on the securities that are the object of the request for admission to trading and on the terms and conditions of the offer to sell or subscribe shares.

Summary

The prospectus must contain a summary with the following main features:

* It must be drawn up using a standardised format.
* It must be drafted in a concise manner and use plain language to make it easier to read and understand for investors. It should also contain key information to help investors determine whether or not to invest in the securities, when read in conjunction with the rest of the prospectus. It should include details of the issuer and explain the essential features of the securities and of the risks associated with both the issuer and the securities.

Any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor.
Supplements

Any new significant factor, inaccuracy or error that is considered material in respect of the information included in the prospectus and that may affect the decision on whether to acquire the securities and that arises or is spotted between the time the prospectus is approved and commencement of trading of the securities must be recorded in a supplement. The supplement will be approved in the same way as the original prospectus within a maximum of five business days from the time the new material significant factor, inaccuracy or error comes to light. The supplement will be published through at least the same means used to publish the prospectus. The summary and any translation thereof will be amended, where necessary, to reflect the new information included in the supplement.

Prospectus language

The prospectus may be drafted in Spanish, or in a language commonly used in the financial realm (usually English) or in any other language accepted by the CNMV.

Approval

The prospectus must be approved by the CNMV before it can be published. The approval of the prospectus is an express and positive act by the CNMV, whereby it concludes that it is complete, understandable and contains reliable information. The CNMV will ensure that the information contained in the prospectus meets the minimum requirements so as to ensure that an investor is able to make an informed decision about the securities. However, under no circumstances will this approval imply any judgment as to the quality of the issuer requesting the admission to trading of its securities or as to the quality of those securities.

In practice, preliminary calendars are typically agreed upon with the CNMV so that the company has some idea of when it can expect the CNMV to ratify the prospectus.

Although they do not have force of law, the following documents show the rules of construction and interpretation often followed by regulators:

- CNMV guidelines on how to verify equity operations.
- The question and answer guide drawn up by the European Securities and Markets Authority (ESMA), clarifying doubts related to the information to be included in the prospectus.

Registration

Once the prospectus has been approved, it must be filed with the corresponding administrative registry and made available to the public free of charge. The content and format of the published prospectus must be identical to the content and format approved by the CNMV.

Publication

The prospectus may be published through the following channels:

- In one or more newspapers circulated in the Member States in which admission to trading is being requested, or in one or more newspapers that are widely circulated in that Member State.
- In a printed format that must be made available to the public at no cost at the offices of the stock exchange or at the registered office of the issuer, and at the offices of any financial intermediaries tasked with placing the securities, including payment agents.
- In electronic format on the website of the issuer or, as the case may be, of the financial placement intermediaries, including payment agents, at least for as long as the prospectus remains in effect.
- In electronic format on the website of the stock exchange in which admission to trading is being requested, at least for as long as the prospectus remains in effect.
- In electronic format on the website of the CNMV, where the CNMV offers that service for the prospectuses it approves.

If the prospectus is made available to the public by publication in electronic format, a printed copy must be delivered free of charge to any investor who so requests.

Validity period

Prospectuses will be valid for twelve months from approval by the CNMV for the purpose of making public offerings or admissions to trading on an official Spanish secondary market or regulated market domiciled in the European Union, provided the prospectus is updated accordingly with any supplements that may be required.

It also explains how the information should be structured when presented as a summary.

Delegated Regulation 486/2012 explains the information that must be included in the prospectus and the information that can be provided in the final terms.
Placement of the offering

During this phase, the advice and active involvement of at least one investment bank, one securities house and, depending on the size and profile of the investor, various financial institutions with large branch networks, will all be essential.

Aside from the legal requirements described above, the company and its advisors will need to pay close attention to the following aspects if they are to attract new shareholders:

• The company must be attractive and show growth potential. It will need to prepare an equity story, meaning a presentation of the company and what it has to offer for potential investors (see chapter 3).
• The cash value placed among retail investors should make the security more liquid.
• The price may include a discount when compared with the securities of peer companies in order to make the placement more attractive.
• The transparency and accuracy of the information contained in the prospectus must be guaranteed.
• The management team must convey confidence and make investors trust in the company.

The placement of existing or already issued shares is the best option for companies with shareholders who are looking to sell all or part of their stake. If the aim is to inject equity into the company via a capital increase, the best option will be to place new shares, with existing shareholders waiving their pre-emptive subscription rights. Companies often choose to combine both options.

If the purpose is to raise funds and diversify the existing shareholding structure, the placement should target both institutional and retail investors. In the event of over-demand for the securities, this diversification objective can be reinforced by pro-rating rules to favour the entry of additional minority shareholders.

What should the placement price be?

The share placement price is a key aspect affecting the success of the listing.

For placements of shares, most companies establish a generally indicative range of maximum and minimum prices. Once the demand prospecting period has ended, the final placement price of the shares will be fixed.

For share placements most companies establish a generally indicative price range.

A company can also set different prices, depending on the different types of investors the company would like to attract as shareholders. The company might therefore set one price for institutional investors, another for retail investors and a different price entirely for active and retired employees who want to share in the company’s profits.

A roadshow is often staged ahead of the placement process, at which the company, accompanied by representatives of its placement agents, meets with individual investors or groups of investors who may be interested in buying its shares. These events typically last between eight and twelve days and the roadshow will visit the main financial hubs where there may be investor interest in the company.

OPV and OPS

As we touched upon in the previous section, we should be familiar with the two most common types of operation when placing securities for the first time. OPV and/or OPS are what is called an IPO when the shares are sold to the public for the first time.

An OPV (known in Spanish as an Oferta Pública de Venta) takes place when the owner or owners of a company want to sell a significant part of it or a very large number of shares. If the shares on offer are newly issued, we are talking instead about an OPS (known in Spanish as an Oferta Pública de Suscripción).

People often confuse the concept of OPV and OPS. The difference is that under an OPV existing shares are put up for sale, whereas under an OPS investors are buying shares that have been expressly issued as part of a capital increase to be sold.

These operations can also include what is known as a greenshoe option, or underwriting agreement, in which the placement entity is entitled to sell more shares to investors than the number originally envisioned by the issuer. It is usually carried out if the issuance is oversubscribed (where demand exceeds the level of supply initially envisaged).

These options are important because they have the effect of stabilising the price of the new share when it hits the market.
Communicating the operation and publicity guidelines

Communication of the operation is an important aspect that begins as early as the preparation phase. The company will need to identify its target investors for the IPO. The most common stakeholders are banks, analysts, regulators, investors, suppliers, journalists, employees and public opinion in general. The aim is to convey the same key messages but tailoring the language and format to the needs and characteristics of each investor profile.

Law and regulations contain a series of restrictions on the promotional activities —understood in a very broad sense—that can be carried out in Spain within the context of an IPO. It is important to ensure that all participants involved in offering the securities and floating the company are aware of these restrictions. It is therefore strongly recommended that all team members be informed of the restrictions right from the start of the operation, including any person at each of the participants (whether executives, employees and external advisors, as well as public relations advisors and advertising agency) who will have contact with the press or analysts.

Promotional activities are not subject to approval by the CNMV. However, the CNMV is authorised to control and oversee the promotional activities of both the issuer and those offering the securities, along with any other entities involved in placing the securities. For these purposes, all promotional material must be retained and kept available for as long as the CNMV sees fit.

Because of the CNMV’s authority to control promotional activities, it is recommended that all promotional material and press releases to be used within the context of the offering—both before and after the prospectus has been approved—be submitted for review prior to its release so that the company can implement any changes that may be advised.

The CNMV may insist, at any time, on the rectification or removal of any promotional material that fails short of prevailing regulations and standards, although it must provide valid grounds for any such decision.

Procedures and admission to trading

Once the prospectus has been registered and the offering made, the shares will be effectively admitted to trading on the stock market. We will now discuss the requirements, documentation and steps to be taken with the stock exchange.

Characteristics of securities requested to be admitted to trading

The marketable securities for which admission to trading is sought must be represented by book entries.

Issuances of marketable securities must comply with legal requirements in respect of the minimum issuance amount and distribution of the securities.

Initial admissions to trading of marketable securities may include shares that have previously been the subject of a primary or secondary offering, public or otherwise. If so, the estimated value of the shares to be included in the offering may not be lower than two million euros.

If, conversely, the securities to be admitted to trading on the stock market have not been used in any previous offering, then the estimated combined value of the shares held by shareholders with stakes of less than 5% in the share capital must be at least 2,000,000 euros, without prejudice to the requirements set out in Royal Decree 1310/2005.

Documentation needed for the admission of shares

The issuer shall request the admission to trading of the securities through a letter addressed to the stock exchange and signed by a person with sufficient powers.

This written request should be accompanied by documents evidencing compliance with the listing requirements laid out in Stock Exchange Circular 2/2016, along with any remaining documents and information that may be required by the governing body of the stock exchange.

In its request for admission to trading, the issuer must reliably show that the securities have been issued in accordance with applicable law, and that they than can be traded in an orderly manner, cleared, settled and registered pursuant to the regulations of the stock exchange and implementing rules.

If the issuer of tradable securities on the stock exchange is applying for simultaneous listing on another Spanish stock exchange, it must adduce original application letters so that the recipient stock exchange can pass them on to each of the stock exchanges on which the issuer wishes to have the securities admitted to trading.
Relevant documentation

- Written application for admission to trading, addressed to the chairman of the board of the stock exchange management company and signed by a person with sufficient powers.
- Mandate letter granted by the issuer to its stock exchange representative or, as the case may be, to the stock exchange management company, authorising that person or company to act on its behalf in all stock market admission to trading procedures. Evidence of the corresponding acceptance of this mandate must also be provided.
- Certificate confirming the resolutions adopted at the general shareholders meeting and the board of directors relating to the admission to trading of the marketable securities issued by the company.
- Certificate showing any lawsuits that might have a significant impact on the financial position of the applicant company.
- Certificate confirming any court-ordered attachments on the marketable securities that the company is looking to have admitted to trading.
- Certificate confirming the validity of the articles of association of the company seeking admission to trading.
- Certified notarial copy of the public instruments evidencing the capital increase and resulting subscription and payment, or closure of the issuance.
- Information relating to the distribution of the marketable securities that the company is seeking to have admitted to trading.
- Copy of the prospectus, filed, where applicable, with the Comisión Nacional del Mercado de Valores (CNMV).
- For foreign issuers, all documentation must be duly legalised in the country of origin and submitted together with the corresponding certified translation.

Processing

Once received, the stock exchange shall scrutinise and coordinate the request and determine whether the securities the company is seeking to have listed meet all specified requirements. Once the CNMV has green-lighted the request, the stock exchange shall agree to admit the securities to trading. The decisions to list the marketable securities approved by the stock exchange management company will be published in the Stock Exchange’s daily bulletin reported to the CNMV and to the company that made the request.

Approximate timeframe

The flow chart below provides a rough idea of the timelines involved in each stage of the stock market admission process. Once the decision to go public has been reached, the issuer must define how best to structure the operation. The application procedure, including the process of having the prospectus filed at the CNMV and presenting all necessary documents, typically takes 2 to 4 months to complete. The processing phase and the subsequent selling or placement phase generally takes 1 to 3 weeks. Last but not least, the company is floated and a bell is rung on the stock exchange trading floor to mark the occasion, where the company invites its main shareholders and key investors, along with the press and all entities to have taken part in the process, among others.

Steps involved in an IPO

1. DECISION
   - Corporate resolutions
   - Due diligence
   - Designing the operation

2. APPLICATION
   - Prospectus filed at the CNMV
   - Documentation showing compliance with admission requirements

3. PROCESSING
   - Approval of the application by the CNMV and the stock exchange
   - Placement and listing
   - Agreement to float the company/admission of the securities

4. FLOTATION
   - 2 - 4 months
   - 1 - 3 weeks

Once the company has designed the operation and adopted the necessary resolutions, the flotation process will take a further four to six months on average.
Costs

The main costs of floating a company are as follows:

Management, underwriting and placement fee:
The amounts charged by the financial and legal intermediaries chosen by the company to carry out the placement process. These fees are normally 2% to 4% of the cash amount placed, although this can vary depending on the size of the offering.

Advertising costs:
These can vary, depending on the types of investor the company is looking to attract. This may be simply to comply with some legal obligation governing the publication of announcements in the BORME gazette, or a fully-fledged advertising campaign across different press and media outlets. On average, these costs can reach some 0.3% of the cash amount placed.

CNMV rates:
Scrupulously the necessary documentation to verify compliance with the requirements for admitting the securities to trading on regulated secondary markets: 0.01% of the cash amount of the admission, subject to a minimum of 25,000 euros and a maximum of 70,000 euros.

Stock exchange admission rates:
Rates charged by the stock exchange for getting the company admitted to trading.
- A fixed fee of 1,500 euros is charged for studying, examining and processing the application.
- As fees for the admission of national equity securities, 0.011% of the stock market capitalisation of the securities to be admitted to trading resulting from their initial market price. This fee is subject to a minimum of 6,000 euros, or 0.5% of the new stock market capitalisation admitted, whichever is lower, and subject to a cap of 500,000 euros.
- Subsequently, listed companies must pay an annual fee to remain listed on the stock market. In the case of national equity securities, this fee will be 0.05 per mille of their market capitalisation at the close of the last trading session the previous year.

Iberclear fees:
- Inclusion on the register
  As a general rule, all equity securities included in the register for any reason will be charged a fee of 0.40 basis points of the cash value of the securities included, subject to a minimum of 500 euros and a maximum of 50,000 euros per issue.
- Annual fee
  Every issuer to have entrusted IBERCLEAR with its book-entry record-keeping is charged an annual fee of 500 euros.

Disclosure and Transparency obligations of the listed company

Listed companies are required to report information on a regular basis. The spirit of this obligation is to ensure that the market has sufficient information at all times on which to form reliable prices and, therefore, to ensure there are no deficiencies due to a lack of information transparency.

The information to be provided by the company can be grouped into two main blocks:

1. Periodic (Financial):
- Annual and relating to the separate and consolidated financial statements of the company: annual accounts, directors' report and audit report for each closed financial year. This information must be released within the first six months following the end of the year in question.
- Half-yearly: the financial statements will be made public within sixty days of the end of each six-month period and will contain similar information to that included in the annual accounts.
- Quarterly: to report on earnings and other relevant information within forty-five days of the close of each quarter.

Given that both listed and unlisted companies have the obligation, since 1991, to present their annual accounts and directors' report, in many cases previously audited, the requirements here do not entail any significant increase on the information they already have to disclose.

2. Ad hoc:
- Companies have the obligation to publicly file, with the CNMV and the stock exchange, any significant financial or legal event in their life that may have a material impact on the share price, notably: payment of dividends; increasing or decreasing the face amount of the shares; admission to trading on foreign exchanges; announcements of general meetings; stakes in other companies, significant stakes exceeding 3%; changes in the composition of the board; any shares held by directors and administrators, regardless of the amount, transformation, merger, resolutions to dissolve, liquidate or split the company; suspensions of payments; or declarations of bankruptcy.
- The most recent regulation here can be found in Order EHA/1421/2009 of 1 June, on material information. This Order sets out the rules and criteria to be followed when identifying and assessing possible relevant corporate events to be disclosed.
- Prospectuses in the case of public offerings, to be filed with the CNMV. They must be published on occasion of any capital increase, issuance of fixed income securities, or primary and secondary offering.

Aside from the compulsory information, some listed companies voluntarily choose to include additional information, since good financial communication between all market participants is an effective means of gaining the trust of investors and earning credibility. This communication process is channelled through the investor relations and support departments and includes regular releases of pertinent information, periodic bulletins, presentations to analysts and managers, communication with the economic press and media, etc.
Cultural change at the listed company
The stock market listing of a company requires a cultural change within the company, since it will need to adapt to new rules and procedures that the market now demands of it. The most relevant of these relate to disclosure and transparency obligations, as explained previously, communication and relations with investors and corporate governance.

**Communication and Investor Relations**

Investor relations is becoming an increasingly important discipline for companies because it plays a critical role in enabling investors to form reliable expectations of the company's stock market value.

In a stock market in constant flux, companies will encounter dynamic and changing situations and must adapt their communication strategy accordingly in response to the demands of their investors or stakeholders, while ensuring compliance with the law. Identifying investors is a daily challenge within this framework of investor relations if a company is to use its resources as efficiently as possible. New regulations, new concepts and new tools are constantly emerging, such as the new concept of “sustainability” or the social networks. This impacts the work of investor relations departments by requiring listed companies to become more transparent and entrust the work to highly qualified professionals, while also introducing new and improved ways of communicating with stakeholders.

One of the main aims of this discipline is to enhance the company's reputation and understanding within the market, increase coverage of the company's share by analysts and make the company more aware of its existing shareholding structure and of potential investors.

The ultimate aim is to design and systematically implement an Investor Relations Programme for the communication of strategic, operational, organisational and financial action via any textual, face-to-face or digital channel or means. This programme will target institutional shareholders and investors, financial analysts, stock exchanges, regulatory authorities of the capital markets and rating agencies to help ensure a reliable formation of the share price and therefore create value for shareholders.

The programme should include an equity story or investment proposition, which should convey differential traits to make it an attractive investment option. It must be unique, clear, concrete, structured, realistic and systematically updated. It is not about the company's earnings or financial results, and nor is it to give an estimate of the company's underlying value. Although an equity story can come in different shapes and sizes, here is an example of a six-step story that runs for 12 minutes:

1. **Objective:** WHAT AM I?
   **Content:** Introduction to the company's business and objectives, including a brief history and current position.

2. **Objective:** WHAT HAVE I ACHIEVED?
   **Content:** Recent financial performance, organic growth rates, profitability and understanding.

3. **Objective:** HOW DO I ACHIEVE IT?
   **Content:** Business development and performance, markets, products, opportunities, competitive edges.

4. **Objective:** WHERE WILL I BE IN A FEW YEARS’ TIME?
   **Content:** Goals and objectives in mind.

5. **Objective:** WHAT WILL I BE DOING DOWN THE LINE?
   **Content:** Organic growth strategy and growth via mergers and acquisitions.

6. **Objective:** REASONS TO INVEST
   **Content:** Explain why it is a good investment opportunity.

A good relationship with investors helps the market form accurate and reliable expectations of the company.

Source: *The Strategic Value of Investor Relations (Introduction to IPOs course)*, Francisco Blanco Bermúdez, 2016.
The importance of corporate governance at the listed company

Corporate governance is a set of rules, principles and procedures governing the structure and operation of a company's governing bodies. More to the point, it establishes the relationships between the general meeting, the board of directors, shareholders and all other stakeholders, while stipulating the rules governing the decision-making process at the company for the generation of value.

In recent years, and more specifically following the onset of the financial crisis, the international community has realised just how important it is for listed companies to be managed properly and with full transparency. The good governance of companies underpins the proper functioning of the markets by making them more credible and stable places and helping to drive growth and the generation of wealth.

Corporate governance has three main layers, resulting from:

- **The law.** Corporate governance is important when complying with prevailing law and regulations. In particular, Title XIV of the Spanish Corporate Enterprises Act relates to listed public limited companies. The Act addresses various matters, including the classification of directors (executive and non-executive), the executive chairman (lead independent director) and the various board committees (Audit Committee and Appointments and Remuneration Committee).

- **National codes of good governance.** Good governance is important in stating the company's degree of adherence to the Recommendations set out in the Code of Good Governance at Listed Companies published by the CNMV in February 2015. The instrument used to monitor this compliance is the Annual Corporate Governance Report. The CNMV Code of Good Governance contains a set of recommended good practices, governed by the principle of "comply or explain".

- **Good international practices.** In 2017, foreign investors owned more than 40% of the shares issued by Spanish listed companies. Institutional investors are highly active in steering corporate decisions at their investees. In this context, knowing the capital structure of a company becomes an absolute necessity, as does gauging the expectations of the market through what are known as proxy advisors and their voting policies.

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**Applicable legislation**

- Restated text of the Securities Market Act (Ley del Mercado de Valores), enacted by Royal Legislative Decree 4/2015, of 23 October.


- Royal Legislative Decree 1/2010, of 2 July, enacting the restated text of the Corporate Enterprises Act (Ley de Sociedades de Capital).

- Commission Delegated Regulation (EU) No 486/2012 of 30 March 2012, amending Regulation (EC) No 809/2004 as regards the format and the content of the prospectus, the base prospectus, the summary and the final terms and as regards the disclosure requirements.

- Circular No 2/2016. Requirements and procedure applicable to the stock market admission of shares, interests in listed unit trusts and warrants.
BME 4Companies. The stock market and what it can offer companies

BME 4Companies is an end-to-end solution that supports companies at every step of the way, from the moment they decide to access the stock markets. BME provides a broad and competitive range of services and products to allow business owners to reap all the rewards of the securities markets.

BME provides a free information service on the stock market listing process. It also holds meetings with the company’s representatives to analyse the process, the parties involved, timeframes and costs.

BME 4Companies also includes a full suite of services and products so that the company can unlock its full potential. «

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