

## BANKING &amp; FINANCE ANNUAL REPORT



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Juan Barona, Partner at Linklaters, observes that there is a trend for companies to go to the bond market because it is cheaper than bank lending. He adds: “There is a feeling that there is a sea of liquidity – funds is a huge universe, some are focused on short term investment, some funds are interested in equity and some are looking at long term investment.” Barona also says that pension funds are playing a key role in investment in construction companies and that they often prefer pension funds because the leverage is higher and they are not as aggressive.

Araoz & Rueda Partner Guillermo Yuste thinks the funds will be here for the long term. He says: “Who would know a few years ago that companies would borrow money from funds? But we were forced to accept the new players in the market, and now that borrowers are getting used to them, they provide an alternative which is likely to stay.”

#### Unfair reputation

With regard to legal fees, funds have a different perception than banks, says one Madrid-based partner. “The legal fees we charge are peanuts to them [funds] whereas banks are cutting costs – the distressed debt guys are better payers,” he says. Another banking partner argues that many of the new funds entering the market are receiving bad publicity, sometimes unfairly. “There is a wide spectrum of funds – they are not all opportunistic institutions, there is another type of player that is here to create value – they are concerned about more than money and have concerns about legal and reputational risk.” But the view of Javier Menchén, a Partner in Ramón y Cajal Abogados, is that funds are investing in Spain to make quick profits.

“Funds are taking an important place in today’s market – they know the situation in the Spanish market and are trying to get significant profits fast.”

Francisco José Bauzá, Head of Baker & McKenzie’s Madrid banking and finance practice, says the fact traditional bank lending continues to be constrained by tighter regulations, increased capital requirements and a more conservative approach to risk has opened up “significant business opportunities for alternative sources of credit”. Bauzá says Spanish banks, whose

loan defaults forced Spain to negotiate a European bailout in 2012, have since been able to sell assets and reduce their level of exposure to the troubled real estate loans by 75 percent. He adds: “Many foreign investment funds, especially from the US, are actively participating in several sales involving Spanish real estate assets – including residential portfolios, non-performing loans, real estate

loans, social housing, asset management divisions of Spanish banks, and office portfolios in sale and leaseback transactions.” José Bauzá says that, in addition, sovereign wealth funds from the Middle East, Norway, Singapore and China are also investing in Spain, especially in Spanish companies that have a strong presence in Latin America.

The establishment of the Alternative Fixed Income Market (known as MARF) has also created optimism. Xavier Fox, Partner at Roca Junyent, says MARF has raised expectations and is anticipated to be a success because investors that are “reluctant to invest in SME equity may be keener to invest in fixed income securities of medium-sized companies to diversify their portfolios”. However, Fox does add a caveat when he points out that, although it has been operating since last October, there has been one issuance on MARF.

Meanwhile, Úrsula García Giménez, Senior Manager at Deloitte Abogados, says the regulation implementing the Alternative Investment Fund Managers Directive (AIFMD) in Spain will create new private equity vehicles aimed at providing financing to SMEs.

With regard to infrastructure finance, Fox highlights the use in Spain of the Europe 2020 Project Bond Initiative developed by the European Investment Bank and the European Commission. The first project to benefit was the €1.7bn Castor underground gas storage plant off Spain’s Mediterranean coast.

“This initiative relies on public funds to improve the access of constructors to credit for the financing of large scale projects,” Fox says.

In addition, the development of several platforms for finance intermediation via internet platforms is notable, according to Fox. “Besides those operating under the common schemes of crowdfunding or crowdlending, Spain has witnessed the appearance of operators that compete with financial entities in other traditional banking fields such as FX trading (Kantox) or discount of promissory notes or receivables

