Law 22/2015, of 20 July, on Auditing

FELIPE VI

To all those who may see and hear this Act.

Be it known: that Parliament has approved and I hereby grant My Royal Assent to the following Act:

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PREAMBLE

I

The main aim of this Act is to adapt Spain's internal legislation to the changes incorporated in Directive 2014/56/EU of the European Parliament and of the Council, of 16 April, amending Directive 2006/43/EC of the European Parliament and of the Council of 17 May, on statutory audits of annual accounts and consolidated accounts, to the extent that they are inconsistent. Together with this Directive, approval was also given to Regulation (EU) nº 537/2014 of the European Parliament and of the Council, of 16 April, on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

The said Directive repealed the Eighth Council Directive 84/253/EEC of 10 April, based on Article 54 (3) (g) of the Treaty on the approval of persons responsible for carrying out the statutory audits of accounting records, incorporated into our legal system in the Law 19/1988, of 12 July, on Auditing, regulating this audit activity for the first time in Spain. Due to its contribution to the transparency and reliability of the financial information on the audited companies and entities, this activity is an integral part of the market economy enshrined in article 38 of the Constitution. Thus, auditing uses certain review techniques with the aim of issuing a report on the reliability of the audited financial information. It is not restricted to simply checking that the balances shown in the accounting entries agree with those in the accounts being audited, as the review and verification techniques used allow the auditor to issue an independent technical opinion, with a high level of certainty, on the accounts as a whole and also on other circumstances which, though not covered in that process, affect the company.

The audit of accounts is of public importance since the service it provides to the audited company also affects and interests third parties who have or may have relationships with the company, as it permits both the company and third parties to know the quality of the audited financial information. With the aim of regulating and adequately ensuring that the annual accounts and any other financial information that has been verified by an independent third party can be confidently accepted by interested third parties, the Law 19/1988, of 12 July, on Auditing defined audit activities and, among other matters, established the requirements to be satisfied for registration in the Official Register of Auditors and to be able to practise the said profession, the regulations covering such practice, the minimum contents of the audit report on annual accounts, the regime for incompatibilities and responsibilities of auditors, the regime for breaches and sanctions and the attribution to the Accounting and Auditing Institute of powers to oversee these activities and to discipline auditors.

Over time, successive regulations were passed to complement this regime. The first was the Law 4/1990, of 29 June on the 1990 State Budget, which included a special type of registration in the Official Register of Auditors for people who lacked a university degree but had sufficient qualifications to attend university and had undergone 8 years of practical training, longer than that required in general. At the same time, certain specific rules were established for the proof of practical training undertaken prior to the entry into force of the Law 19/1988, of 12 July, on Auditing, one of the requirements for obtaining approval from the Accounting and Auditing Institute for registration in the Official Register of Auditors.

Subsequently, the Law 31/1991, of 30 December, on the 1992 State Budget amended the membership of the Consultative Committee of the Accounting and

Auditing Institute and the Law 13/1992, of 1 June, on Capital and Reserves and consolidated supervision of the Financial Entities amended the regime for breaches and sanctions. It also established the obligation for auditors of entities subject to the aforementioned Law 13/1992, of 1 June, to issue the audit report for the annual accounts immediately if they knew of and confirmed the existence of suspected irregularities or situations which might seriously affect the stability, solvency or continuity of the audited entity in question.

Law 3/1994, of 14 April, which adapted the Spanish legislation on banking institutions to the Second Banking Coordination Directive and introduced other amendments relating to the banking system, included the obligation to audit the accounting information which foreign banking institutions must publish annually on their branches in Spain, even if they do not have to present annual accounts for their activity in Spain.

The Law 2/1995, of 23 March, on Limited Liability Companies included the possibility of renewing the audit engagement annually after the end of the initial engagement.

Subsequently, the Law 37/1998, of 16 November, which amended Law 24/1988, of 28 July, on Securities Market, reworded the obligation for the auditors of entities subject to supervision by the Bank of Spain, the National Securities Market Commission and the Directorate General for Insurance to report promptly to these supervisory bodies any fact or decision regarding the audited entity which may come to their knowledge during their work and which might significantly affect its activity, continuity, stability or solvency, or if the opinion in their report were adverse, a disclaimer were issued, or they were prevented from issuing the audit report.

Besides, the Law 41/1999, of 12 November, on the Systems of Payments and Settlement of Securities, established the term of one year for the resolution and notification of the resolution of disciplinary proceedings arising from the commission of breaches covered in the Law 19/1988, of 12 July, on Auditing.

In addition to these important amendments, two substantial reforms should be highlighted. The first of these was carried out by the Law 44/2002, of 22 November, on Measures to reform the Financial System , in its articles 48 to 53, which made substantial changes to various aspects: the unified examination for registration in the Official Register of Auditors, the obligation for auditors to take continuing education courses, the creation of specific ways for civil servants belonging to certain government bodies whose training and functions were related to audit in the public sector to be registered in the Official Register of Auditors, the duty of independence and incompatibilities, the duty of certain entities to rotate their auditors, the legal liabilities of auditors, the duty of custody of audit working papers and access to the same, the regime for breaches and sanctions, the responsibilities of the Accounting and Auditing Institute with regard to the oversight of the audit activity and the creation of a fee for the Accounting and Auditing Institute for the issuance of audit reports.

Law 62/2003, of 30 December, on Fiscal, Administrative and Social Measures subsequently amended the membership and functions of the governing bodies of the Accounting and Auditing Institute.

The fifth additional provision of Law 16/2007, of 4 July, on the reform and adaptation of commercial legislation on the basis of European Union regulations to harmonize it with international law, as amended in turn by the fourth final provision of

Law 34/2007, of 15 November, on air quality and the protection of the atmosphere, amended the Law 19/1988, of 12 July, on Auditing with regard to the periods of engagement of auditors, to allow the engagement to be renewed for successive periods of up to three years following the end of the initial period.

The second substantial legal reform came with the entry into force of Law 12/2010, of 30 June, which amended the Law 19/1988, of 12 July, on Auditing, the Law 24/1988, of 28 July, on Securities Market and the Consolidated Text of the Limited Liability Companies Act, as approved by Royal Legislative Decree 1564/1989, of 22 December, to adapt them to European Union law.

The said Law transposed into our legal system Directive 2006/43/EC of the European Parliament and of the Council of 17 May, on statutory audits of annual accounts and consolidated accounts. This Directive amended Council Directives 78/660/EEC and 83/349/EEC and repealed Council Directive 84/253/EEC. The length of time which had passed since the entry into force of Directive 84/253/EEC, the changes that have occurred in the economic and financial scenario with increased globalization and internationalization, and the absence of a harmonized approach to audit in the European Union, particularly on questions of public oversight, made it essential to undertake a reform in this area, which culminated in Directive 2006/43/EC.

This Directive constituted an important step towards greater harmonization of the requirements for the practice of audit in the European Union and the principles governing the relevant public supervision system. Hence its adoption was a turning point in the regulation of the sector. The new regulations were based on the understanding that audit is a function of public interest, in the sense that a broad range of individuals and institutions rely on the work of auditors, the quality of which contributes to the correct functioning of markets by increasing the integrity and efficacy of financial statements as vehicles of information. While the Directive repealed contained basic norms on the authorization, independence and advertising of auditors, Directive 2006/43/EC broadened its scope while seeking to harmonize more aspects related to: the authorization and registration of auditors and audit firms, including those of other European Union states and third countries, rules on professional ethics, independence and objectivity, the execution of audits in accordance with international standards adopted by the European Union, the full responsibility of the auditor of consolidated financial statements, the quality control of auditors and audit firms, effective systems of investigation and sanction, specific provisions regarding public interest entities and the co-operation and mutual recognition between the relevant authorities of European Union Member States and those of third countries.

As well as incorporating Directive 2006/43/EC into Spanish legislation, Law 12/2010, of 30 June, amended certain aspects of Law 19/1988, of 12 July; this was necessary due to the changes which had occurred in commercial law and to include improvements of a technical nature arising from practical experience.

These included changes affecting: the minimum content of the audit report with the aim of facilitating comparisons internationally; the full responsibility that the auditor with primary responsibility should assume for the audit of annual accounts or consolidated financial statements; the system of legal sources to which audits must adhere, which consist of three groups of standards, those relating to audit, to ethics and to the internal quality control of auditors and audit firms, with auditing standards incorporating the international standards adopted by the European Union; authorization and registration in the Official Register of Auditors for those authorized in other

European Union Member States, or on a public register in third countries complying with the requirements of reciprocity and equivalence, the obligation to so register of those issuing audit reports on the annual or consolidated accounts of companies domiciled outside the European Union and whose shares are listed in Spain, and the possibility that audit firms authorized in European Union Member States may be partners in audit firms (which was previously not allowed); the restriction of auditors' responsibility to those damages attributable to them, as long as this does not impede the equitable compensation of the affected party; the extension of the duty of secrecy to all parties participating in the performance of the audit; the scope and purpose of the oversight of audit, differentiating between external quality control, which is regular and procedural, which can in general lead to the formulation of recommendations or requirements, and technical supervision, the aim of which is to detect and correct the insufficient execution of a specific audit task or aspect of the auditor's activity; and certain amendments regarding the regime for breaches and sanctions, almost all related to the new obligations created.

One aspect which was substantially amended was auditors' duty of independence, based in part on the statement of a general principle of independence obliging all auditors to refrain from acting when their objectivity with regard to the financial information in question may be compromised, and partly on a list containing a series of specific circumstances, situations and relationships in which, should they arise, auditors are deemed not to enjoy independence with regard to a given entity, in which case the only possible solution or safeguard is to refrain from carrying out the audit.

With regard to the duty of independence, an obligation was included to document and establish safeguard systems allowing the detection of and response to threats to auditors' independence. If these threats are important enough to compromise their independence, auditors should refrain from carrying out the audit. In any case, they should avoid any situation which might imply a possible holding in the audited entity or a relationship with it. Also amended were certain situations and services which generate incompatibilities for auditors and the time limit for situations of conflict was reduced from three years to two.

In addition, the concept of a network to which the auditor or audit firm belongs was included for the purpose of observing the duty of independence, delimited on the basis of the existence of unity of decision and of control relationships and significant influence, so that if any individuals or entities forming part of this network satisfy any of the legally defined cases of conflict this shall mean that the auditor or audit firm is similarly in a situation of conflict with regard to the entity in question, with certain particularities. The scope of subjective extensions was also amended to include certain relatives.

Meanwhile, when including the concept of public interest entities, obligations were introduced, such as requirements to publish an annual transparency report and the rotation of the auditor signing the audit report, as well as the obligation for certain entities to have an Audit Committee.

Lastly, bearing in mind the numerous amendments made, Royal Legislative Decree 1/2011, of 1 July, approved the Consolidated Text of the Law on Auditing, a text covering the regulations applicable to the audit of accounts which is systematic, harmonized and unified.

II

The developments which have occurred in the economic and financial environment since the entry into force of Directive 2006/43/EC of the European Parliament and of the Council, of 17 May, particularly the financial crisis of recent years, brought into question the adequacy of the European Union regulatory framework. Hence a debate began on how auditing could contribute to financial stability, culminating in the approval and publication of Directive 2014/56/EU of the European Parliament and of the Council, of 16 -April and Regulation (EU) nº 537/2014 of the European Parliament and of the Council, of 16 April, both of which had the ultimate aim of strengthening the confidence of users of financial information by improving the quality of financial audits in the European Union.

Unlike the previous framework, it was considered necessary to develop a separate regulatory instrument for public interest entities to achieve a high quality in the audits of these entities, thus contributing to a more efficient functioning of the internal market, while at the same time ensuring a high level of protection for consumers and investors at European Union level.

With this aim, the European Union's new regulations seek firstly to increase transparency in the performance of auditors by clarifying the function of audit and its scope and limitations, in order to reduce the so-called expectations gap between what the user of an audit expects and what it really is. Hence, a greater harmonization of European Union regulations was sought, together with a minimum level of convergence with regard to auditing standards, which are conceived to be used in the execution of audits of the annual accounts of entities of any kind, size and nature. To this end, it is worth highlighting the new requirements for the content of audit reports, which shall be greater in the case of public interest entities, improving the information to be provided to the audited entity, investors and other interested parties. Thus, those auditing these entities are obliged, on the one hand, to send an additional report to the Audit Committee of these entities with the results of the audit, enhancing the value added by the audit and contributing to the improvement in the quality of the financial information audited and, on the other hand, auditors must include certain financial information, specified in the Directive, in their annual transparency report. The new regulations also seek to strengthen the channels of communication between auditors and the supervisors of public interest entities.

Secondly, the regulations approved by the European Union seek to strengthen the independence and objectivity of auditors in their work, a fundamental pillar of the trust placed in audit reports. Hence, they include more restrictive requirements than those of Directive 2006/43/EC of 17 May, placing greater importance on the attitude of professional scepticism and the special attention to be paid to avoid conflicts of interest or the presence of certain interests, commercial or otherwise, also bearing in mind those cases in which auditors operate in a network environment.

With a view to strengthening the attitude of professional scepticism and objectivity, preventing conflicts of interest arising from the provision of non-audit services, and reducing the risk of possible conflicts of interest caused by the current system where "the audited selects and pays the auditor" and by the threat of the familiarity arising from prolonged relationships, Regulation (EU) nº 537/2014, of 16 April, includes a list of non-audit services that the auditors of public interest entities are prohibited from providing to those entities, their parent companies and their controlled undertakings. It also contains certain norms limiting the fees that can be charged for

permitted non-audit services or with regard to a given public interest entity, together with the obligation of external rotation and a maximum period of engagement.

Similarly, with the aim of helping to strengthen the independence of these auditors and the quality of the audits carried out in these entities, it strengthens the functions of their Audit Committees, especially those related to this duty, while strengthening their independence and technical capabilities.

Thirdly, given the problems found with regard to the structure of the market and the difficulties of expansion, certain measures are established to stimulate and open up the auditing market, including the so-called "European passport" to promote market integration, albeit with offsetting measures that may be taken by the host Member State where the auditor seeks to practise, and declaring null and void contractual clauses that limit or restrict the freedom to choose auditors.

The above measures are accompanied by those included in Regulation (EU) nº 537/2014, of 16 April, regarding incentives to carry out joint audits, the participation of smaller entities in regular public mandatory tendering processes, which it regulates to simplify the choice of auditor, and the obligation of external rotation.

With the aim of improving the business environment and company initiatives, the European Union regulations include three groups of measures aimed at reducing the transaction costs of doing business in the European Union for small and medium-sized enterprises: the application of regulations in proportion to the dimensions and complexity of the auditor's work or of the entity being audited, the possibility of Member States simplifying certain requirements for small audit firms and specific provisions for small and medium-sized audit firms.

Fourth, in order to avoid the fragmentation of the audit market in the European Union, the new regulations seek greater harmonization, not only in the regulations governing the sector, but also in those that supervise and discipline it and in European Union and international co-operation systems. Thus, the powers of the public supervisor are strengthened in order to improve compliance with those regulations, while the criterion of risk is introduced as the guiding principle in the reviews of quality control to be carried out by said authority and it is given the power to impose a minimal level of disciplinary measures. As established in Directive 2014/56/EU, of 16 April, this authority should be independent in order to ensure the integrity, autonomy and adequacy of the public system of supervision.

With regard to the auditors of public interest entities, systems are established to monitor market developments, especially regarding the risks arising from a high level of market concentration, particularly in certain sectors, and with regard to the functioning of Audit Committees. Systems are also set up to monitor risks that may arise in financial institutions classed as being of systemic importance, establishing an anonymous sectoral dialogue between the auditors of these entities and the European Systemic Risk Board.

Hence, Directive 2014/56/EU, of 16 April,, which the present Act transposes, addresses issues referring to the access of auditors and audit firms approved in Member States, objectivity and independence, the organization of auditors, regulations and the audit report, reports to the Audit Committee and engagement and termination. On the other hand, Regulation (EU) nº 537/2014, of 16 April, contains regulations on fees and independence, the audit report, the obligation to inform, conservation and custody, and limitations on the duration of engagements, external rotation and certain obligations of

Audit Committees, such as those addressing the selection of auditors. Both texts include systems designed to strengthen the public supervision system in order to ensure the effectiveness of the new regulatory framework.

In short, the European Union's new regulations introduce substantial changes in the existing regulations, arising from the need, revealed in the European Union, to recover the confidence of users in the financial information being audited, particularly that of public interest entities, and to increase the quality of audits by strengthening their independence.

III

The structure of the new Act is the result, on the one hand, with regard to auditors of public interest entities, of its integration with Regulation (EU) nº 537/2014, of 16 April,, and on the other of the need to transpose Directive 2014/56/EU, of 16 April,. Both the said Directive and the Regulation constitute the fundamental legal regime that should govern audit activity in the European Union.

The Act regulates general aspects of access to audit practice and the requirements to be followed in that practice, from objectivity and independence, to the organization of auditors and performance of their work, to the regime for oversight and sanctions established in order to ensure the efficacy of the regulations. Regulation (EU) nº 537/2014, of 16 April, and Directive 2014/56/EU/of 16 April, establish the requirements to be followed by the auditors of public interest entities, in addition to those established in general terms for auditors and notwithstanding the fact that the Act addresses those questions on which the said Regulation allows Member States to choose between various options. Given these dual regimes, this Act has a section on audit in general, and another on auditors of public interest entities.

Hence the Act is structured in a Preliminary title and five titles, containing eighty nine articles, ten additional provisions, three transitional provisions, one repeal provision and fourteen final provisions.

The Preliminary Title includes the general provisions of the legal regime governing the audit activity, covering its scope of application and the system of legal sources that make up its regulatory norms, which shall also be applicable to those auditing public interest entities. These auditors are also covered by the regime established in Regulation (EU) nº 537/2014, of 16 April, which reflects the public interest function exercised by the practice of the audit activity.

The Act maintains the international auditing standards which may be adopted by the Commission of the European Union. On this point, the Act establishes the possibility that the current technical regulations on auditing and those which may be issued in future may impose requirements additional to those contained in the international auditing standards which may be adopted by the European Union, in accordance with Directive 2014/56/EU of the European Parliament and of the Council, of 16 April.

Also, in accordance with the Directive herein transposed, definitions of the effects of this Act are included, among which are the definition of small and medium-sized enterprises, to the extent that these are mentioned specifically in terms of size, and following the parameters contained in Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings. It

should be noted that, for the purposes of this Act, these parameters do not coincide with those establishing that an audit is mandatory.

Title I, on the audit of accounts, regulates the essential aspects of this activity in accordance with the Directive transposed, though it should be noted that the audit regulated does not provide any guarantee with regard to the future viability of the audited entity nor of the efficiency or efficacy with which it has carried on its activity or may do so in the future. This title is divided into three chapters. Chapter I define the types of audit and the new content of the audit report, which includes certain additional content in accordance with the powers granted to Member States. It also broadens its scope with regard to the management report if this should be issued. It regulates the regime to be applied in the audit of consolidated accounts, which is amended to provide greater precision with regard to the group auditor's work of assessment and review.

Chapter II regulates the regime for entry to the practice of auditing, and also the Official Register of Auditors, the public content of which is amended to include the European mandate for public notice of sanctions. This regulation also includes the possibility of an audit firm approved in another Member State to practise in Spain, as long as the auditor signing the audit report is approved in Spain.

On the other hand, without prejudice to the European Union legislation, certain aspects of mandatory registration in the Official Register are amended for those auditors and audit firms issuing audit reports on the annual or consolidated accounts of certain companies domiciled outside the European Union whose securities are listed in Spain, subject to requirements equivalent to those demanded from the auditors of national accounts.

In any case, with regard to the approval regime, given that the public importance of this activity demands that auditors comply *ex ante* with a series of requirements and conditions, the mere presentation of affidavits or prior communication does not in itself allow them to initiate this activity. Similarly, a lack of reaction by the authorities to any request to practise audit cannot be understood as assent.

Chapter III, which regulates the various aspects governing the practice of auditing, contains five sections, divided into twenty articles. Section 1 includes *ex lege*, mandated by the European Union, the obligation to apply professional scepticism and to use professional judgement, which must govern all audit work from the planning phase to the issuance of the report.

Section 2 establishes the regime for independence to which all auditors and audit firms are subject, including those who audit public interest entities, in accordance with the referrals contained in Chapter IV and the issues addressed in Regulation (EU) nº 537/2014, of 16 April. The regime contained in the regulations now being repealed shall be maintained; it was a combined system, being based partly on a general principle of independence which obliged all auditors to refrain from acting when their objectivity with regard to the financial information being audited could be compromised, and partly on a list of circumstances, situations and specific relationships in which auditors would lack independence with regard to a certain entity, with the only possible solution being to refrain from carrying out the audit.

This regime is part of the regulations contained in Directive 2014/56/EU which, like the previous Directive, lays down, as general principles to be guaranteed by Member States, auditors' independence, non-participation in the decision-making process and assessment of threats to their independence, when necessary applying

safeguards to mitigate those (self-review, self-interest, advocacy, familiarity or trust or intimidation) which might compromise their independence and, if appropriate, refrain from carrying out the audit. It continues to oblige each Member State to ensure that an auditor does not carry out an audit on an entity when there are financial, commercial, employment or other relations of sufficient importance as to compromise the auditor's independence. The new European Union wording continues to oblige auditors to consider the networked environment in which they operate in order to maintain their independence.

However, the new Directive contains new and more restrictive requirements, such as the obligation for Member States to ensure that any person, not just the auditor, who may influence the result of the audit refrains from participating in the entity's decision-making; that the auditor or audit firm takes measures to avoid conflicts of interest and commercial or other relationships, direct or indirect, real or potential, which could compromise their independence; that the auditor or audit firm, its staff or persons providing services in the audit activity, and certain relatives, have no significant direct interest in nor carry out certain transactions with financial instruments of the audited entity; that said persons do not participate in the audit if they hold financial instruments of the audited entity or have any interest in or commercial or financial relation with it. Lastly, it includes certain requirements with regard to gifts, situations arising that affect the audited entity and subsequent prohibitions, and the minimum period during which the obligation of independence should be observed. In the light of the above considerations, and thus with the aim of strengthening independence, the regime laid down in the new Directive goes beyond a principle-based approach.

To the extent that the regime set out in the Consolidated Text of the Law on Auditing, hereby repealed, was reflected in the previous wording of the Directive, maintenance of the same combined system is amply justified, considering that independence is the fundamental pillar of the confidence placed in the audit report, and that the new Directive is more restrictive than its predecessor.

Hence, on the basis of said combined regime, the system of incompatibilities and prohibitions is strengthened by new requirements which Directive 2014/56/EU dated April 16th, 2014, considers to be the minimum. Certain issues are amended to avoid the regime applicable to auditors in general being more restrictive than required by Regulation (EU) nº 537/2014 dated April 16th, 2014. Hence certain adjustments are introduced regarding the calculation period for certain incompatibilities. This does not mean that the auditor's independence cannot be compromised by threats arising from interests or commercial, employment, family or other relationships existing prior to the calculation period established.

Thus, the Act includes the legal obligation to establish safeguard systems to address threats that may arise from conflicts of interest or commercial, employment, family or other relationships. In any case, it is necessary to avoid any situation or relationship which might give the appearance of a possible holding in the audited entity, or relationship with it or its management, defining what is meant by this, that could lead to the conclusion that the auditor's independence is compromised, as laid down in the Directive. As noted in the Commission Recommendation of 16 2002, on Statutory Auditors' Independence in the European Union: A Set of Fundamental Principles, the independence requirement has two substantial elements, real and apparent, meaning that auditors should be and appear to be independent. As this is a mental attitude that cannot be observed, international regulations and practice delimit the situations or services that are presumed *juris et de jure* to generate incompatibilities with audit.

Also amended are certain situations or services that generate incompatibilities with audit, by including those related to transactions in financial instruments, holdings of significant interests and the acceptance of gifts of significant value. Similarly, the calculation period for certain situations of incompatibility remains the previous financial year with regard to the audited financial statements, and is reduced to one year for the great majority, which coincides with the services that are prohibited for the auditors of public interest companies. In addition, it includes the actions that auditors should take in unforeseen situations in which they acquire a financial interest or the audited entity is affected by a business consolidation. It also introduces adjustments in incompatibilities arising from circumstances or situations involving relatives.

The Directive transposed here establishes that the duty of independence can be affected not only by relationships between the audited entity and the auditor or audit firm, but also by those between the former and the network to which the auditor or audit firm belongs. The regulations on extension distinguish between the audit network and the non-audit network, reflecting the need to establish more exceptions when incompatibilities arise in the non-audit network, given its theoretical remoteness. The reason for these regulations on extension is that, if the individuals or entities in the network satisfy any of the conditions for conflict considered in this Act and other legal measures, this shall mean that the auditor or audit firm shall be similarly conflicted with respect to the entity in question, though the particularities established in the Act should also be taken into account. This area of subjective extension also includes, among others, those linked by certain kinship relations, such as parents, offspring, siblings and their spouses, given that in these cases the same threats to independence exist or may exist as in the case of the auditor's spouse; these persons may be excluded from this extension and the family circle reduced in certain cases.

The Directive reduces to one year the period for the prohibitions imposed on auditors after the end of the audit work, in order to avoid the occurrence, during the engagement, of situations which may represent a risk or threat to their independence due to the existence, during the engagement, of commitments or future expectations which might compromise the auditor's objectivity in the audit. The two-year prohibition period remains only in the case of auditors of public interest entities.

The amendments included with regard to these situations or services do not in any way mean that, when the situations amended or removed or other situations or services provided during previous periods occur, they do not or may not constitute threats to independence. Thus the auditor should establish the appropriate system of safeguards in order to assess these and, if necessary, eliminate them. Similarly, it does not mean that auditors may carry out the audit work in question if these circumstances persist and are important enough to compromise their independence with regard to the audited entity. As has been the case until now, the same should be understood if situations arise that are different to those defined as incompatibilities and, by their nature and timing, may represent a threat to the auditor's independence, despite the safeguards established.

Section 3 regulates the legal liability of auditors in their work and the financial guarantee they must deposit, which have not been amended.

Section 4 includes, on the one hand, the principles and policies that the internal organization of the auditor and audit firm should observe. These should be aimed at preventing any threat to independence and must guarantee the quality, integrity and critical and rigorous nature of audit. On the other hand, this section regulates the minimum standards to be observed in the organization of the auditor's work.

Section 5 contains the duties of conservation and custody, and of maintaining confidentiality regarding the documentation of each audit and all other documentation generated and required by this Act, with certain exceptions with regard to given international authorities.

Chapter IV is divided into four sections and contains the stricter requirements imposed on auditors of public interest entities, in addition to those established in Title I to the extent that they are consistent with the contents of said Chapter, as established in Section 1 and in accordance with the generic referral to the Directive in section 1.2 of Regulation (EU) nº 537/2014, of 16 April. For reasons of legal certainty and uniformity of standards, the Act contains the references corresponding to the provisions of the Regulation and, where necessary, clarifies certain aspects not addressed therein or the options it considers in favour of Member States. Section 2 regulates the reports that these auditors have to issue in order to increase the confidence of users of the audited financial information and their responsibility with regard to their audit. Firstly, the content of the audit report to be issued is much broader than the standard report, with the European Union Regulation requiring information on independence and the capacity to detect irregularities, including those due to fraud. Secondly, these auditors must publish the annual transparency report which, according to the Regulation, now includes certain information on their income with a breakdown, the criterion for which is established in this Act, and those of the audit network. Moreover, they are required to publish the report on the network separately to provide greater transparency and avoid any confusion, without prejudice to the additional content that resolutions of the Accounting and Auditing Institute may require to be developed.

Section 3, on the independence regime, includes, firstly, in addition to the corresponding references to the content of Regulation (EU) nº 537/2014, of 16 April, referrals to the provisions of Title I, Chapter III, sections 1 and 2, given that article 6 of the Regulation establishes the obligation to comply with the provisions of article 22 *ter* of the Directive, a rule that is included in the said sections, which oblige auditors to comply with the provisions established with regard to the independence regime, among others, together with the obligation to assess the existence of threats that might compromise their independence and to apply the relevant preventive measures. In accordance with the options granted to Member States and the provisions of article 22 of the Directive, the calculation period for prohibitions is increased and close relatives are banned from providing specified services. Secondly, it includes the exercise of the options attributed to Member States regarding the maximum term of engagement of auditors and the rules on the limitation of fees due to concentration in a single public interest entity, included in Regulation (EU) nº 537/2014, of 16 April. With regard to the term, the Act does not opt to increase the maximum duration, given that excessively prolonged relations are understood to create a threat of familiarity such that the auditor's independence is understood to be compromised. With regard to the rules on the limitation of fees due to financial dependence, it is considered appropriate to impose the most restrictive requirement of prohibiting the auditor from undertaking the audit the following year, assuming that reaching a certain level of concentration represents a threat of self-interest or even of intimidation that cannot be mitigated. With regard to the various options exercised regarding the rules on fees, prohibited services and external rotation, the Act opts to exercise certain more restrictive options, with the additional benefit of greater legal certainty; these consist in identifying certain situations which prevent the audit being undertaken. With regard to the limitation of fees, it requires that auditors also take account of the network within which they operate to

avoid failing to comply because of this. Thus the Act seeks to ensure a consistent application of the independence rules, the fundamental pillar of the confidence placed in the audit report.

Lastly, section 4 includes specific details that are applicable to auditors with regard to the rules on internal organization, organization of work and the hand-over file; article 45 permits the determination through regulations of the requirements for those auditing public interest entities, which is justified by the need to ensure the adequate provision of means and capacities for the audit of entities whose information is abundant and complex and has an undoubted financial impact on the market.

Title II regulates the system of public supervision and has four chapters. Chapter I sets out the scope of application of public supervision, for which full responsibility lies with the Accounting and Auditing Institute, the authority responsible for audit of accounts, and delimits this scope in terms of the functions involved and the parties covered. In addition to its current responsibilities, the new regulations include those relating to oversight of the development of the audit market. This meets the aims of the European Union regulation, which require a competent authority specializing in financial information in the regulatory framework covering audit and its oversight. It should also ensure the absence of incompatibilities. In other words, the sole goal of supervision is to improve the quality of audits and to ensure that there is no fragmentation of the regulation and supervision of audit. This is in line with existing practice in almost all Member States. The fact that the National Securities Market Commission is responsible for supervising the Audit Committees of public interest entities is understood not to interfere with the responsibilities attributed to the Accounting and Auditing Institute, as the single authority which is competent and ultimately responsible for the public supervision system, in accordance with the new article 32.4 *a)* of the Directive.

In accordance with European Union legislation, and with the aim of carrying out its functions adequately, efficaciously, effectively and with integrity, the Accounting and Auditing Institute should fulfil the following conditions: be independent, meaning that those who practise audit do not participate in its governing bodies or decision-making; be transparent with regard to work programmes and activity reports; have the capacity, appropriate and sufficient technical knowledge and resources and adequate secure funding, free of any undue influence from auditors and audit firms. In particular, the new European Union regulations require that the competent authority have the competences needed to carry out its tasks, including the capacity to adopt measures to ensure compliance with the new provisions, the capacity to access data, obtain information and carry out inspections or other controls that it deems opportune, for which purpose it may engage the services of professionals or be assisted by experts. Article 55 retains the existing ability to agree tasks with third parties, under certain conditions, related to inspections of auditors who are not of public interest, including the recognized professional associations representing auditors. The Accounting and Auditing Institute continues to be authorized to develop the criteria it should follow with regard to carrying out quality control. Chapter II is dedicated to the Accounting and Auditing Institute, the national supervisory authority with responsibility for audit, in accordance with European Union regulations.

Two aspects are worth highlighting. Firstly, the particular primacy and interest required by audit work in public interest entities, which justifies a higher level of specialization, attention and dedication by the supervisor, and requires of it the appropriate organization and efficient use of the resources available for its work.

Secondly, the particular obligation, which the Accounting and Auditing Institute already has, is to safeguard the duty of independence. As judicial precedent has recognized, this institution has been conferred the specific qualified function of ruling on the observance of this duty in the course of audit activity as an objective, neutral and well-informed third party with technical capacity, which should prevail against any criterion proposed by the audited entity or other bodies. The Audit Committees' functions in this regard constitute a form of preventive safeguard which does not exempt auditors from observing the duty of independence, nor does it constrain or exclude the powers of supervision of the Accounting and Auditing Institute in this regard.

The scope and aims of the oversight of audit are specified in greater detail, as are those of its two types, which are maintained but, following the terminology of European Union law which is the norm in international practice, are now denominated, on the one hand, inspections (formerly external quality control), a regular activity which can lead to the formulation of recommendations or requirements, based on the guiding principle of risk analysis and, on the other hand, investigations (which include the current technical control) aimed at detecting and correcting defects in the execution of a specific audit engagement or other work by an auditor. These oversight activities continue to share the characteristics of prior notification, as set out in article 69.2 of the Law 30/1992, of 26 November on the Legal Regime of the Public Administrations and the Common Administrative Procedure.

The sufficient oversight of audit also requires the establishment of appropriate systems for the exchange of information with other public bodies and institutions, especially the Bank of Spain, the National Securities Market Commission and the Directorate General for Insurance and Pension Funds.

Lastly, Chapters III and IV regulate the international aspects stemming from the new European Union legislation. The public supervision system should include systems allowing effective co-operation at the European level between the supervisory activities of the Member States as a factor contributing to ensure a uniformly high quality of auditing in the European Union. Such co-operation is based on the principle of regulation and supervision in the home Member State in which the auditor or audit firm is registered and where the audited entity has its registered office. In the case of cross-border services in the European Union, inspections shall correspond to the authority of the home Member State, in which the auditor or audit firm is registered, and the investigations to the authority of the Member State in which the audited entity has its registered office, as laid down in Chapter II. The duty of co-operation with the European Union Member States is extended to the European supervisory authorities.

In accordance with Regulation (EU) nº 537/2014, of 16 April, co-operation between the relevant authorities of Member States should be organized within the framework of the Committee of European Auditing Oversight Bodies, of which the Accounting and Auditing Institute forms part as the authority responsible for the public supervision of audit. Hence, its active participation is foreseen, as is the exchange of certain information.

The European co-operation systems consist of the possibility of transferring information to the European Central Bank, the European System of Central Banks and the European Systemic Risk Board, and of creating colleges of supervisors in which information can be exchanged, especially regarding the activities of auditors operating within a network.

The need for effective co-operation with the authorities of other countries is maintained, given the complexity of the audits of cross-border groups and the increasing internationalization of the economic environment. Clarification is included on certain requirements relating to the transferral to third parties of the information sent as a result of such co-operation.

With the aim of enhancing compliance with the obligations included in this Act as a result of the transposition of Directive 2014/56/EU and the application of Regulation (EU) nº 537/2014, of 16 April, certain amendments are made to the regime for breaches and sanctions, contained in Title III. These consist mainly of the inclusion of new types of breaches as a result of the new obligations imposed and to comply with the European mandate that sanctions should be effective and deterrent. Amendments have also been made to the classification of types of breaches. These are minor, but necessary to bring them into line with the principles noted above. The rules on the public notice of sanctions and complaints have also been amended to comply with the corresponding mandates in the Directive. With regard to complaints, without any binding effect with regard to the initiation of procedures for the imposition of sanctions, its processing is conditional, through the efficient and effective management and use of the available means, on the due regard for the powers of oversight of audit, legally attributed to the Accounting and Auditing Institute, in order to achieve the ultimate aim of overall improvement of the quality of audit work, projecting these actions over all those who are legally authorized to practise audit, especially those who audit public interest entities due to their greater importance to third parties.

Title IV is dedicated to the fees of the Accounting and Auditing Institute for the oversight and supervision of audit, the issuance of certificates or documents upon request by a party and for registrations and notes in the Official Register of Auditors. The taxable event of the fee for the oversight and supervision of audit is the provision by the Accounting and Auditing Institute of a service affecting auditors or audit firms and which is manifested by, among other things, administering the Official Register of Auditors, regulatory work, inspections and investigations and the disciplinary regime for auditors and audit firms. The cost of the oversight and supervision of audit is higher in audits of public interest entities, given the greater requirements that this Act demands from the auditors or audit firms performing them. Lastly, Title V contains the regulations on the protection of personal data.

In short, with the new regulations that have been included, the exercise of the oversight activities assigned to the Accounting and Auditing Institute should promote an overall improvement in the quality of audit work, so that users shall have a high level of confidence in the financial information and conflicts of interest in audit shall be avoided. The intention is to strengthen the guarantees sufficiently for the annual accounts or any other document that has been verified by a third party to be accepted with complete confidence by anyone seeking to obtain information from them, because they have been issued by someone who has the appropriate capacity and training and is independent.

IV

Lastly, the Act is accompanied by ten final provisions, some of which are carried over intact from the legislation being repealed, such as those on mandatory audit and auditors of the public sector. Other provisions are amended, as occurs and has been noted with the co-operation systems. Still others are new, such as those addressing the

monitoring of and developments in the market, audit firms, electronic communications and the maximum term of engagements.

A notable novelty in the third additional provision is the regulation of the requirement for Audit Committees in public interest entities, in accordance with the requisites, exceptions, dispensations, compositions and functions contained in the Consolidated Text of the Law on Capital Companies, approved by Royal Legislative Decree 1/2010, of 2 July.

The three transitional provisions carry forward those contained in Law 12/2010, 30 June, together with those referring to duties or requirements that are considered novelties in the Act for the purposes of establishing a transitional period to facilitate their application. This is the case of those referring to audit firms and incompatibilities.

The final provisions regulate certain regulatory modifications, mainly to adjust them to the European Union regulations; of particular note is that referring to audit committees. These provisions include certain authorizations, notably the amendment abolishing the definition of public interest entities on the basis of size, contained in the Regulation developing the Consolidated Text of the Audit of Accounts Act, approved by Royal Decree 1517/2011, of 31 October.

PRELIMINARY TITLE

Scope of application, purpose, legal regime and definitions

Article 1. *Scope of application and purpose*

1. This Act has the aim of regulating both mandatory and voluntary audit activities by establishing the conditions and requirements that must be observed in practising it, together with the regulation of the public supervision system and the international co-operation systems relating to the sector.

2. Audit of accounts is understood to consist of revising and verifying annual accounts, together with other financial statements and accounting records prepared in accordance with the applicable regulatory framework for financial reporting, as long as such auditing has the aim of issuing a report on the reliability of such records that may have effects vis-à-vis third parties

3. Audit of accounts must necessarily be carried out by an auditor or audit firm, with the issuance of the corresponding report and in accordance with the requirements and formalities established in this Act.

4. The provisions of the Act are not applicable to the audits carried out by bodies in the state, regional or local public sector in the exercise of their powers, which audits shall be governed by their specific legislation in accordance with the provisions contained in the second additional provision.

Article 2. *Rules governing the audit of accounts.*

1. The audit of accounts shall be carried out in accordance with this Act, the Regulations developing the same, and all auditing, ethics and independence standards, as well as internal quality control standards applicable to auditors and audit firms.

Audits of public interest entities shall be subject to the provisions of Regulation (EU) nº 537/2014, of the European Parliament and of the Council, of 16 April, on specific requirements regarding statutory audit of public-interest entities, and those established in Title I, Chapter IV of this Act.

2. The auditing standards constitute the principles and requirements that auditors should observe when carrying out their audit work and on which they should base the actions needed to express a technical opinion which is responsible and independent. Auditing standards are those contained in this Act, the Regulations developing the same, international auditing standards adopted by the European Union and the technical auditing standards.

For these purposes, international auditing standards are understood as the international auditing standards, international quality control standards and other international standards issued by the International Federation of Accountants through the International Auditing and Assurance Standards Board, whenever they are relevant to the audit activity regulated in the Act.

Technical auditing standards shall be aimed at regulating those aspects not covered by the international auditing standards adopted by the European Union.

3. The ethical rules include at least the principles of professional competence, due diligence, integrity and objectivity, without prejudice to the provisions of Title I, Chapter III, sections 1 and 2.

4. The technical auditing standards, the ethical rules and those on the internal quality control of auditors and audit firms shall be prepared, adapted or revised in accordance with the general principles and commonly accepted practice in the Member States of the European Union, together with the international auditing standards adopted by the European Union, the recognized professional associations representing those engaging in audit activities, subject to public consultation during a period of two months and shall be valid on publication, through a resolution of the Accounting and Auditing Institute, in its "Official Gazette".

If the professional associations mentioned above, following requirement by the Accounting and Auditing Institute, fail to prepare, adapt or revise any of the technical auditing standards, the ethical rules and those on internal quality control, in the manner previously established, the Institute shall proceed to prepare, adapt or revise them, informing the said associations of this fact and also complying with the requirement for public consultation during two months.

5. Requirements or procedures additional to those established in the international auditing standards adopted by the European Union may only be imposed when these requirements or procedures arise from requirements demanded by national law referring to the scope of application of audits or are necessary to enhance the credibility and quality of the audited financial statements.

These additional requirements shall be communicated by the Accounting and Auditing Institute to the European Commission, at least three months before their entry into force or, in the case of requirements already existing at the time of adoption of an international auditing standard, in a period of not more than three months from the adoption of the international auditing standard.

These additional requirements should be established by an Accounting and Auditing Institute resolution declaring that the corresponding sections of the auditing standards existing prior to the adoption by the European Union of the international auditing standards on the same matter are in force, or by the publication of new auditing standards limited to the said additional requirements. The Resolution should be published in its Official Gazette, subject to public consultation during a period of two months.

Article 3. *Definitions.*

For the purposes of the provisions of this Act, the following definitions shall be applicable.

1. Regulatory framework for financial reporting: the set of standards, principles and criteria established in:

a) European Union regulations on consolidated accounts, in the cases in which these are to be applied.

b) The Commercial Code and other commercial legislation.

c) The General Accounting Plan and its sectoral adaptations.

d) Mandatory regulations approved by the Accounting and Auditing Institute to develop the General Accounting Plan and its complementary regulations.

e) Any other Spanish accounting regulations that may be applicable.

2. Mandatory audit: an audit of annual or consolidated accounts which is required by European Union law or national legislation.

3. Auditor: an individual authorized to carry out audits of accounts by the Accounting and Auditing Institute, in accordance with the provisions of article 8.1, or by the competent authorities of a European Union Member State or of a third country.

4. Audit firm: legal entity, whatever its corporate form, authorized by the Accounting and Auditing Institute to carry out audits of accounts, in accordance with the provisions of article 8.1, or by the competent authorities of a European Union Member State or of a third country.

5. The following shall be considered public interest entities:

a) Entities issuing securities listed on the official secondary security markets, banking institutions and insurance companies subject to the oversight and supervision of the Bank of Spain, the National Securities Market Commission and the Directorate General for Insurance and Pension Funds, and regional government bodies with powers of organization and supervision of insurance companies, together with entities issuing securities listed on the alternative stock market belonging to the growth companies segment.

b) Entities designated by regulations because of their public importance due to the nature of their activity, size or number of employees.

c) Groups of companies in which the parent company falls into the categories designated in paragraphs a) and b) above.

6. Key audit partner:

a) The auditor signing the audit report in his personal capacity or in the name of an audit firm.

b) In the case of audit firms, the auditor or auditors who may be designated by the firm as the senior auditors responsible for carrying out the audit work in the firm's name.

c) In the case of auditors of consolidated accounts or other financial statements or other consolidated accounts, the auditor or auditors who may be designated by the firm as the key audit partner responsible for carrying out the audit work in the entities which are significant in the consolidated group.

7. Home Member State: the European Union Member State which has authorized the auditor or audit firm to carry on audit activity within its borders in accordance with the provisions of its national legislation transposed from Section 1, article 3 of Directive 2006/43/EC of the European Parliament and of the Council of 17 May , on statutory audits of annual accounts and consolidated accounts, as amended by Directive 2014/56/EU of the European Parliament and of the Council of 16 April.

8. Host Member State: the European Union Member State, other than the home Member State, in which an auditor or audit firm authorized by its home Member State to carry on audit activity receives the corresponding authorization to carry on the activity in that state, in accordance with the provisions of its national legislation as a consequence of the transposition of articles 3 a) and 14, respectively, of Directive 2006/43/EC.

9. Small entities: entities which during two consecutive financial years, at year end fulfil at least two of the following conditions:

a) Their total assets do not exceed four million euros.

b) Their total annual turnover does not exceed eight million euros.

c) Their average number of employees during the year does not exceed fifty.

Small entities shall cease to be considered as such if during two consecutive financial years, at year end, they cease to fulfil at least two of the conditions referred to above.

In the first financial year after their foundation, transformation or merger, the entities shall be considered small entities if, at the end of that year, they fulfil at least two of the three conditions laid down in this section.

10. Medium-sized entities: entities that, while not small entities, during two consecutive financial years, at year end, fulfil at least two of the following conditions:

a) Their total assets do not exceed twenty million euros.

b) Their total annual turnover does not exceed forty million euros.

c) Their average number of employees during the year does not exceed two hundred and fifty.

Medium-sized entities shall cease to be considered as such if during two consecutive financial years, at year end, they cease to fulfil at least two of the conditions referred to above.

In the first financial year after their foundation, transformation or merger, the entities shall be considered medium-sized entities if, at the end of that year, they fulfil at least two of the three conditions laid down in this section.

11. Engagement team: staff of the auditor or audit firm who take part in the work on a specific audit, including those, whether partners or not, whose services are at the disposal of, or under the oversight of, the auditor or audit firm.

12. Relatives of the key audit partner: the spouses of the auditors or spousal equivalents, and those of whom the auditor is a first-degree blood relative or has second-degree collateral kinship, together with the spouses of the former.

13. Close family relatives of the individual affected by the conflict of interest: the spouses of the auditors or spousal equivalents, and those of whom the auditor is a first-degree descending blood relative and those of whom, whatever the degree, the auditor is a blood relative and who have lived in the same household for at least one year.

14. Network: structure to which an auditor or audit firm belongs for the purpose of co-operation, with the clear aim of sharing profits and costs, or which shares ownership, common oversight or management, common policies and quality control procedures, common business strategy, use of a common business name, or a significant part of their professional resources.

In any case, it is understood that entities related to the auditor or audit firm in the terms referred to in the following section form part of the same network.

15. Entities related to the audited entity: entities related directly or indirectly by a control relationship in the terms discussed in the following section, when there is a single decision-taking body because the audited entity and the other entities are controlled, by any means, by one or more individuals or legal entities acting together or under a single management due to agreements between partners or clauses in the Articles of Association, or because of a significant influence, in the terms laid down in article 47 of the Commercial Code.

16. Entities with a control relationship with the audited entity: entities related directly or indirectly to the audited entity by one of the control relationships considered in article 42 of the Commercial Code.

TITLE I

On the audit of accounts

Chapter I

On the types of audit of accounts

Article 4. *Audit of annual accounts and other financial statements or accounting records*

The two types of audit of accounts included in the scope of application of this Act are:

1. The audit of annual accounts, which consists in verifying these accounts in order to issue an opinion as to whether they represent a true and fair view of the equity, financial situation and results of the audited entity, in accordance with the applicable regulatory framework for financial reporting.

It also includes verifying the management report which may accompany the annual accounts, in order to issue an opinion on its consistency with the accounts and whether its content is in accordance with the relevant regulations.

2. The audit of other financial statements or accounting records, which consists in verifying and issuing an opinion as to whether they represent a true and fair view and have been prepared in accordance with the regulatory framework for financial reporting expressly established for that purpose. The provisions of this Act on audit work and reports on annual accounts shall, with the corresponding adaptation, be applicable to the audit work and reports on other financial statements or accounting records.

Article 5. *Audit report on annual accounts.*

1. The audit report on annual accounts is a commercial document that shall include at least the following content:

a) Identification of the audited entity, of the annual accounts to be audited, the regulatory framework applied in preparing it, the individuals or legal entities which commissioned the work and, if relevant, the individuals who are to receive it. It should also indicate that the annual accounts have been drawn up by the governing body of the audited entity.

b) A general description of the scope of the audit, referring to the auditing standards subject to which it was carried out and, where appropriate, of any procedures laid down in the standards which it was not possible to apply due to some limitation arising during the course of the audit. It shall also report on the responsibility of the auditor or audit firm to express an opinion on the accounts in question as a whole.

c) An explanation that the audit was planned and executed with the aim of obtaining reasonable certainty that the annual accounts are free of material misstatements, including those due to fraud.

It shall also describe the risks of material misstatements considered most significant, including those due to fraud, a summary of the auditor's responses to these risks and, if appropriate, of the key observations arising from these risks.

d) A declaration that no services other than those of the audit of annual accounts was provided and that no situations or circumstances arose that affected the necessary independence of the auditor or audit firm, in accordance with the regime regulated by sections 1 and 2 of Title I, Chapter III.

e) A technical opinion which shall state clearly and precisely whether the annual accounts provide a true and fair view of the equity, financial situation and results of the audited entity, in accordance with the relevant regulatory framework for financial reporting and, in particular, with the accounting principles and criteria contained therein.

There are four types of opinion: unqualified, qualified, adverse and disclaimer of opinion.

When there are no qualifications, the opinion shall be favourable.

If there are qualifications, they should all be included in the report and the technical opinion shall be qualified, adverse or a disclaimer of opinion.

Also noted shall be any possible significant or material uncertainties related to facts or conditions that may cause significant doubts about the audited entity's ability to continue as a going concern.

Reference shall also be made to issues that, while they do not constitute a qualification, the auditor should highlight, or considers it necessary to do so.

f) An opinion on whether or not the management report is consistent with the accounts corresponding to the same year, in the event that the aforementioned management report accompanies the annual accounts. Likewise, an opinion will be included as to whether the content and presentation of said management report is in accordance with the requirements of the applicable regulations, and any material errors detected in this regard will be indicated, where appropriate.

However, the provisions of the previous paragraph will not apply in the following cases:

1. In the case of audits of consolidated accounts of companies referred to in article 49.5 of the Commercial Code and of individual annual accounts of companies referred to in article 262.5 of the consolidated text of the Law on Capital Companies in relation to the non-financial information statement mentioned in the aforementioned articles, or, where appropriate, with the separate report corresponding to the same year referred to in the management report, which includes the information required for said statement in the article 49.6 of the Commercial Code, in accordance with the provisions of section 7 of the same article.

In both cases, the auditor must only verify that the aforementioned non- financial information statement is included in the management report or, where appropriate, the reference corresponding to the separate report has been incorporated into it in the

manner provided for in the articles mentioned in the previous paragraph. If this is not the case, it will be indicated in the audit report.

2. In the case of audits of accounts of entities issuing securities admitted to trading in regulated markets, in relation to the information contained in article 540.4. letter a), 3rd, letter c), 2nd and 4th to 6th, and letters d), e), f) and g), of the consolidated text of the Law on Capital Companies; and, for listed companies defined in article 495 of said consolidated text, in addition to the previous information, the annual directors' remuneration report, contained in article 541 of the same consolidated text.

In both cases, the auditor must only verify that the information mentioned in the previous paragraph, for entities issuing securities and for listed companies, has been provided in the corresponding reports and these have been incorporated into the management report. If this is not the case, it will be indicated in the audit report.

g) A statement of whether the audited entity was required to present, in the year prior to the audited year, the report relating to corporate tax or taxes of an identical or analogous nature to that referred to in the eleventh additional provision of this law. In case the entity was required, a declaration that the entity published the report in the Commercial Registry and on the corresponding website, in accordance with the provisions of the aforementioned provision.

h) Date and signature of the person or persons who prepared the report. The date of the audit report shall be that on which the auditor or audit firm completed the audit processes required to form an opinion on the annual accounts.

2. The audit report should be issued by the auditor or audit firm, in order that it may fulfil the purpose for which the audit was commissioned. The auditor or audit firm may only refrain from issuing the audit report or from continuing with the audit engagement if there is due cause. In any case, due cause shall be considered to exist in any of the following circumstances:

a) The presence of threats that compromise the independence or objectivity of the auditor or audit firm, in accordance with Title I, Chapter III, sections 1 and 2 and, if applicable, Title I, Chapter IV, section 3.

b) Absolute impossibility of carrying out the work commissioned due to circumstances beyond the control of the auditor or audit firm.

In the above cases, where the audits are mandatory, the reasons for refraining from issuing the audit report or from continuing with the audit engagement should be reported both to the Commercial Registry corresponding to the audited entity’s registered office and to the Accounting and Auditing Institute, in the time and manner provided for in the regulations.

3. The audit report on the annual accounts shall be issued on the responsibility of the person or persons who carried it out, and should be signed by them.

4. The audit report on the annual accounts should be accompanied by all the documents making up the audited accounts and, where applicable, the management report. The publication of these documents, together with the audit report, shall be governed by the provisions of the applicable regulatory framework.

5. In no case may the audit report on the annual accounts be published in part or in the form of an extract, or separately from the annual accounts audited.

When the report has been made public, its existence may be mentioned, but always with reference to the type of opinion issued.

6. The report shall be written clearly and unambiguously. In no case may the name of any public body or institution with powers of inspection or supervision be used in ways that might indicate or suggest that said authority supports or approves the audit report.

Article 6. *Duty to request and provide information.*

The audited entities shall be obliged to provide whatever information is necessary for the audit work to be carried out; similarly, those carrying out the work shall be obliged to request whatever information they need to issue the audit report.

Article 7. *Audit of consolidated accounts*

1. This Act shall be applicable to the audit of consolidated annual accounts, of other consolidated financial statements or accounting records.

2. The auditor who carries out the audit of consolidated annual accounts, or of other consolidated financial statements or accounting records, assumes full responsibility for the audit report issued, even when the annual accounts of controlled undertakings have been audited by others.

3. Those issuing the opinion on consolidated annual accounts, or other consolidated financial statements or accounting records, shall be obliged to collect the necessary information, where applicable, from those who have audited the annual accounts of the companies forming part of the consolidated group, who shall be obliged to furnish any and all information that may be requested of them.

4. The auditor of the consolidated annual accounts, or of other consolidated financial statements or accounting records, shall assess and review the work of other auditors or audit firms, including those from the European Union and third countries, in relation with the audits of entities forming part of the consolidated group.

The assessment should be documented in the working papers of the auditor of the consolidated annual accounts, including the nature, timetable and scope of the work carried out by the other auditors or audit firms, together, if applicable, with the review carried out by the auditor of the consolidated annual accounts of the relevant parts of the audit documentation of the other auditors prepared for the audit of the consolidated annual accounts.

Likewise, the auditor of the consolidated annual accounts, or of other consolidated financial statements or accounting records, shall also review the audit work carried out by the other auditors for the audit of the consolidated annual accounts, and must document this review.

For these purposes, and so that the auditor of the consolidated annual accounts may build on the work of the other auditors or audit firms, it shall be necessary to sign a prior agreement with them for the transfer of all the documentation needed to carry out the audit of the consolidated annual accounts.

The documentation corresponding to the audit work on the consolidated accounts, which the auditor or audit firm must retain, should allow the Accounting and Auditing Institute to review and oversee the work adequately.

5. If the auditor of the consolidated accounts is unable to review the audit work of other auditors or audit firms, including those from the European Union and third

countries, in relation with the accounts of entities included in the consolidated accounts, he/she shall adopt the appropriate measures and inform the Accounting and Auditing Institute of this circumstance and its causes in the time and manner provided for in the regulations. The measures adopted should include carrying out the audit procedures necessary for auditing the consolidated accounts, directly or in co-operation with other auditors, as appropriate, on the accounts of said entities.

6. If the auditor of consolidated accounts is subject to an inspection or investigation by the Accounting and Auditing Institute in relation to an audit of consolidated accounts, he/she shall, if requested, place at the disposal of those carrying out the inspection or investigation all the information in his/her possession relating to the work carried out by other auditors or audit firms, including those of the European Union or third countries, for the purposes of auditing the consolidated accounts, including the working papers corresponding to said work.

7. If an entity forming part of the consolidated group is audited by auditors or audit firms from third countries with which there is no agreement for the reciprocal exchange of information, the auditor of the consolidated annual accounts, or of other consolidated financial statements or accounting records, shall be responsible for applying the procedures laid down in the regulations to provide the Accounting and Auditing Institute with access to the audit work documentation of said auditors or audit firms from the third country, including the working papers relating to the audit of the group. For these purposes, he/she may keep a copy of this documentation or agree in writing with these auditors or audit firms an adequate and unlimited access to it so that the auditor of the group may send it to the Accounting and Auditing Institute when so required. Should there be impediments, legal or otherwise, to the transfer of the audit working papers from a third country to the group auditor, the documentation retained by this auditor shall include evidence that he/she applied the appropriate procedures to obtain access to the documentation relating to the audit and, in the event of obstacles other than legal impediments arising out of national legislation, evidence demonstrating the existence of such obstacles.

8. The provisions of this article shall also be applicable to the audit firm auditing the consolidated annual accounts, or other consolidated financial statements or accounting records, and to the auditors who carry out the audit in the name of that firm.

9. The provisions of this article shall not be applicable to the audits carried out by public bodies responsible for supervising the financial management of the annual accounts or other consolidated financial statements of groups in which the controlling company is a public business entity or other public law entity and the controlled undertakings may be commercial companies. This type of audit is governed by the specific legislation on the public sector.

Chapter II

Requirements for practising the audit of accounts

Article 8. *Official Register of Auditors*

1. Accounts may be audited by individuals or legal entities that comply with the conditions contained in articles 9 to 11 and are registered in the Official Register of Auditors of the Accounting and Auditing Institute, and provide the financial guarantee referred to in article 27.

2. The Official Register of Auditors shall be public and the information in it shall be available via electronic means.

3. For auditors, that information shall be as follows:

a) Name, address, registration number and registration status.

b) If the auditor is registered as a practitioner, it shall include the business address, website address and registration number of the audit firm or firms with which they are associated.

c) All other registrations as an auditor with the competent authorities of other Member States or as a third country auditor, indicating the competent authorities with which they are registered and, if applicable, the registration numbers.

d) Any sanctions imposed as a consequence of the practice of audit, in accordance with the provisions of article 82.

4. For audit firms, that information shall be as follows:

a) Name, company address, legal form, addresses of each of its operating offices, registration number and website address.

b) Full name, address and registration number of each of the partners, stating the person or persons who carry out the duties of administration or management.

c) Full name, address and registration number of the auditors who work for the auditing firm, identifying those expressly designated to carry out audits and sign audit reports on behalf of the firm and the term of validity of such designation.

d) If the firm is related to the entities referred to in articles 19 or 20, it should provide information of the names and addresses of said entities, or indicate where this information can be publicly obtained.

e) All other registrations as an audit firm with the competent authorities of other Member States and other countries, indicating the competent authorities with which they are registered and, if applicable, the registration number.

f) If the audit firm is registered by virtue of the provisions of article 11.4, indicate the home Member state in which it is authorized.

g) Any sanctions imposed as a consequence of the practice of audit, in accordance with the provisions of article 82.

5. Auditors, audit firms and other audit entities from third countries should be listed separately; those referred to in article 10.3 and article 11.5 of this Act respectively should at all times be identified as such, making reference to the fact that they are not approved to perform audits in Spain.

6. Inclusion on the Official Register of Auditors shall not provide authority to carry out activities other than those provided for in article 1, which shall require the qualification and professional association conditions set forth in the applicable legislation on each case.

7. Auditors registered in the Official Register of Auditors, except those referred to in article 10.3 of this Act, must take courses and complete continuing education programmes, which may be given, according to the method and conditions provided for in regulations, by the recognized professional associations representing auditors, authorized teaching entities or other entities.

Article 9. *Authorization and registration in the Official Register of Auditors*

1. In order to be registered in the Official Register of Auditors one must:

a) Be of legal age.

b) Have Spanish nationality or the nationality of one of the Member States of the European Union, without prejudice to the regulations on the right of establishment.

c) Not have any police record for offences with criminal or fraudulent intent.

d) Have obtained the corresponding approval from the Accounting and Auditing Institute.

2. The approval referred to above shall be granted to those who meet the following conditions:

a) Hold an official university degree valid throughout Spain.

This requirement shall not apply to anyone who meets the rest of the requirements established in this section and has completed the studies or obtained the qualifications entitling them to pursue university studies and has acquired the practical training indicated in paragraph b) of this section over a minimum period of at least eight years, working in the financial and accounting sector, particularly in relation to the oversight of annual accounts, consolidated annual accounts and similar financial statements, at least five of which must have been spent working with an auditor or audit firm, practising the audit activity in any European Union Member State.

To calculate the amount of practical experience acquired prior to the passage of the Law 19/1988, of 12 July, on Auditing , such practical experience must be certified by those who, at the time, were practising members of the Spanish Institute of Chartered Accountants, the Registry of Economist-Auditors belonging to the General Council of Spanish Associations of Economists and the Official Register of Auditors pertaining to the Higher Council of Business Accountants.

b) Have attended theoretical educational programmes and acquired practical experience.

Theoretical educational programmes should cover the subjects referred to in paragraph c) of this section.

Practical training should be for a minimum period of three years working in the financial and accounting sector, and shall relate specifically to annual accounts, consolidated accounts or similar financial statements. At least two years of said practical training must be performed with an auditor or an audit firm practising audit activities in any Member State of the European Union.

c) Pass a professional competence examination organized and endorsed by the State.

The professional competence examination, which is intended to check rigorously the candidate’s ability to carry out audits, must cover the following subjects: the regulatory framework for financial reporting; financial analysis; analytical cost accounting and management accounting; risk management and internal monitoring; auditing and rules of access to the profession; regulations applicable to the oversight of auditing, auditors and audit firms; international auditing standards; and standards on ethics and independence. The aforementioned examination must also cover, to the extent required to carry out audits, the following subjects: law on companies, other

entities and governance; insolvency, tax, civil and commercial law; social security and employment law; information technology and computer systems; business, general and financial economics; mathematics and statistics; and basic principles of the financial management of companies.

Persons who have an official university qualification that is valid throughout Spain, i.e. one of those regulated in the Fundamental Law 6/2001, of 21 December, on Universities, shall be excused from the professional competence examination in the subjects they have passed in the courses required to obtain said qualifications.

3. A single annual call shall be made for the competence examination, held at the joint proposal of the authorized professional associations representing auditors and audit firms and secondarily by the Accounting and Auditing Institute, subject to the latter's approval of the announcement, which shall be published by the Ministry of Economy and Competitiveness.

The regulations shall establish rules for the approval of the content of the programmes, the frequency, membership of the tribunal, which must include at least one member of each of the recognized professional associations representing auditors, and the period of practical training.

4. Registration in the Official Register of Auditors shall be open to civil servants whose training and functions are related to public sector audits or examining and evaluating the financial and equity situations and performance of financial institutions or insurance companies, and have been selected as civil servants based on a competitive examination or other examination process which makes it possible to verify the theoretical training and skills needed to perform such functions, as long as they meet all the other registration requirements established in this article.

The requirement relative to theoretical training programmes and the professional competence examination established in Section 2, paragraphs b) and c) shall be understood to have been met when the candidate has passed the competitive examinations and selection process for access to public sector employment referred to in the preceding paragraph.

Furthermore, the practical training requirements established in Section 2, paragraph b), of this article shall be understood to have been met when the candidate can certify that he/she has been auditing the annual accounts, consolidated annual accounts or similar financial statements of financial institutions or insurance companies from the public sector for at least three years.

5. The presentation of a statement of compliance or prior communication shall not provide approval to carry out audits. A request to be registered in the Official Register of Auditors shall not be understood as accepted as a result of administrative silence and, therefore, as approval to perform audits.

Article 10. *Auditors approved in other Member States of the European Union and third countries.*

1. Auditors approved to practise the audit activity in other Member States of the European Union can be registered in the Official Register of Auditors under the terms set forth in the regulations.

In order to be approved by the Accounting and Auditing Institute, auditors have to pass a competence test on Spanish regulations applicable to audits, if the knowledge of

this has not previously been accredited in the Member State where the auditor is approved.

2. Pursuant to the principle of reciprocity, auditors approved to practise the audit activity in third countries and meeting requirements equivalent to those established in article 9.2, paragraphs a), b) and c), as well as the obligation to receive the continuing education referred to in article 8.7, shall be eligible for registration on the Official Register of Auditors.

In order to obtain approval from the Accounting and Auditing Institute, they must prove, at least, compliance with the requirements set forth in article 9.1, paragraphs a) and c), pass a competence test equivalent to that referred to in the previous paragraph, under the terms set forth in the regulations, and have an address or permanent establishment in Spain or designate a representative with an address in Spain.

3. Without prejudice to the provisions of European Union regulations, third country auditors who issue audit reports on the annual accounts or consolidated accounts of an entity incorporated outside the European Union and whose securities are listed in Spain must be registered in the Official Register of Auditors, except when the audited entity only issues debentures, bonds and other negotiable debt securities which fulfil one or other of the following conditions:

a) They have been listed on an official secondary market in Spain before December 31st, 2010, with a nominal value per unit of at least 50,000 euros at the date of issuance.

b) They were listed on an official secondary market in Spain after 31 December 2010, with a nominal value per unit of at least 100,000 euros at the date of issuance.

This exception shall not apply when the entity issues securities that are equivalent to company shares or which, if they are converted or if the conferred rights are exercised, grant entitlement to acquire shares or securities equivalent to shares.

Auditors referred to in this section must meet the following requirements:

1st. Fulfil the requirements equivalent to those set forth in section 9.1, paragraphs a) and c) and section 9.2, paragraphs a) and b),

2nd. Designate a representative with an address in Spain.

3rd. Draft the audit reports referred to in this subsection in accordance with the international auditing standards adopted by the European Union and with the provisions of Title I, Chapter III, sections 1 and 2 or, if applicable, in accordance with such regulations and requirements declared equivalent by the European Union.

4th. Have published on their website the annual transparency report referred to in article 37, or a report meeting similar reporting requirements.

Registration of these auditors in the Official Register of Auditors does not authorize them to carry out audits in relation to entities domiciled in Spain.

Without prejudice to the provisions of European Union regulations, audit reports issued by third country auditors who are not registered in the Official Register of Auditors shall have no legal effect in Spain.

Article 11. *Audit firms*

1. Audit firms that meet the following requirements can be registered in the Official Register of Auditors:

a) When the individuals who perform the work and sign the audit reports on the company's behalf are authorized to practise as auditors in Spain.

b) When the majority of voting rights belong to auditors or audit firms authorized to practise the audit activity in any Member State of the European Union.

c) When the majority of members of the governing body are audit partners or audit firms authorized to practise the audit activity in any Member State of the European Union.

If the governing body has only two members, at least one of the members must meet the conditions established in this clause.

2. The terms of article 9.5 shall apply to audit firms. The Law 2/2007, of 15 March, on Professional Companies shall also be applicable to audit firms as long as it does not contravene this Act.

3. The direction and signature of the audits carried out by an audit firm shall correspond in any case to one or more auditors authorized to practise as such in Spain and who have been appointed by the audit firm to conduct the audit and sign the audit report in its name.

4. Audit firms approved in other Member States of the European Union that seek to practise the audit activity in Spain, may be registered in the Official Register of Auditors as long as the key audit partner or partners for the audit are registered the said Register as practitioners. Proof of approval in another Member State may be required in the form of a certificate issued by the corresponding competent authority in the three months prior to the request.

The registration of these firms shall be communicated to the competent authorities in the home Member State. The withdrawal of approval of firms registered in the Official Register of Auditors, if they are also registered in another Member State, shall be communicated to the host Member State, indicating the reason.

5. In any case, the third country audit firms and other audit entities authorized to practise the audit activity and to issue audit reports on the annual accounts referred to in article 10.3 of this Act must be registered in the Official Register of Auditors. In such cases, the person signing the report on behalf of the firm must meet the requirements established in that article.

In order to be registered in the Official Register of Auditors, these audit firms and other audit entities must meet the following requirements:

a) The auditor signing the audit report on the firm's behalf and a majority of the members of its governing body must meet requirements equivalent to those set out in article 9.1, paragraphs a) and c), and article 9.2, paragraphs a) and b).

b) The audit reports referred to herein must be drafted in accordance with the international auditing standards adopted by the European Union and the terms of Title I, Chapter III, Sections 1 and 2 or, if applicable, in accordance with such regulation and requirements declared equivalent by the European Union.

c) The company must designate a representative with an address in Spain.

d) The company must publish on its website the annual transparency report referred to in article 37 or a report meeting similar reporting requirements.

Without prejudice to the provisions in European Union regulations, audit reports issued by audit firms and other audit entities referred to herein which are not registered shall have no legal effect in Spain, Registration of these audit firms and other audit entities on the Official Register of Auditors does not authorize them to conduct audits in relation to entities domiciled in Spain.

The audit firms and other audit entities referred to herein shall be removed from the Official Register of Auditors if they fail to comply with any of the requirements established in this section, voluntarily or as a result of a sanction.

Article 12. *Removal from the Official Register of Auditors*

1. Auditors shall be removed temporarily or permanently from the Official Register of Auditors under the following circumstances:

a) Due to a breach of any of the requirements established in articles 9 and 10. The auditor must report said breach to the Accounting and Auditing Institute.

b) Voluntary withdrawal.

c) As a result of a sanction.

2. In addition to the circumstances mentioned above, audit firms shall be temporarily or permanently removed from the Official Register of Auditors when they breach any of the requirements established in article 11.1, or fail to maintain the financial guarantee mentioned in article 27.

Audit firms must notify the Accounting and Auditing Institute of any breach of the requirements set forth in article 11.1 so that this may be registered in the Official Register of Auditors.

Such breach lasting more than three months shall result in removal from the Register. In exceptional circumstances, the Accounting and Auditing Institute may, at the request of the audit firm, extend the period specified above for up to a further three months if this is justified by sufficient proven circumstances.

The foregoing notwithstanding, before the three-month extension has elapsed, the Accounting and Auditing Institute may request that the requirements of this article be met within a certain period of time, after which, if this is not the case, the audit firm may be removed from the Register.

Chapter III

Performing the audit activity

Section 1. Professional scepticism and judgement

Article 13. *Professional scepticism and judgement.*

1. When carrying out any audit, auditors must act with scepticism and use their professional judgement in the terms described in this section and the rest of the legislation regulating the audit activity.

2. Professional scepticism means an attitude which implies always maintaining a questioning mind and being alert to any circumstance that may indicate a possible misstatement in the annual accounts being audited, due to error or fraud, and a critical assessment of the audit conclusions.

This attitude means recognizing the possibility of material misstatements in the annual accounts being audited, including fraud or errors, whatever the auditor’s

previous experience of the honesty and integrity of those charged with governance and management of the entity being audited.

In particular, the auditor or audit firm shall maintain an attitude of professional scepticism:

a) When they review entity´s management estimates relating to fair value, impairment of assets, provisions and future cash flows relevant to the entity's ability to continue as a going concern.

b) When they carry out the critical assessment of the audit evidence, which implies querying contradictory audit evidence and the reliability and integrity of documents, responses and other information provided by the audited entity.

3. Professional judgement means the competent, adequate application, congruent with the circumstances arising, of the auditor's practical training, knowledge and expertise in accordance with the auditing and ethics standards and the regulatory financial reporting framework applicable to decision-making in carrying out an audit.

The application of professional judgement should be adequately documented. It shall not be admissible merely to refer to professional judgement to justify decisions which are not otherwise supported by facts or circumstances arising in the engagement, by the audit evidence obtained, or that do not conform to the regulations cited in the previous paragraph.

Section 2. Independence

Article 14. *General principle of independence.*

1. Auditors and audit firms must, when carrying out their work, be independent of the entities audited, and must refrain from acting when their independence in relation to the review and verification of annual accounts, financial statements or other accounting records may be compromised.

2. Auditors and audit firms, and any person in a position to influence the result of the audit, whether directly or indirectly, must refrain from participating in any way in the management or decision-taking of the audited entity. Participation in the management or decision-taking of the audited entity is not considered to include communications made during the course of the audit which are necessary to comply with the legislation regulating the audit activity or those arising from actions required by other legal provisions.

3. In any case, auditors and audit firms must refrain from auditing an entity if they are affected by any of the causes of incompatibility contained in articles 16 to 20 or any of the situations described in articles 23, 25, 39 and 41.

4. In particular, individuals are prohibited from participating in or influencing in any way the audit work of an entity if they have an employment, commercial or other relationship with the audited entity that could generate an incompatibility or in general may be perceived as a cause of conflict of interest

5. The Accounting and Auditing Institute is the body responsible for ensuring adequate compliance with the duty of independence, and for determining any possible lack of independence of auditors and audit firms in each specific audit.

Article 15. *Identification of threats and adoption of safeguards.*

1. For the purposes of this section, auditors and audit firms should establish the necessary procedures to detect and identify threats to their independence, evaluate them and, if these are significant, take the appropriate preventive measures to eliminate them or to mitigate them to an acceptably low level so that they do not compromise their independence.

2. Threats to independence can stem from factors such as self-review, self-interest, advocacy, familiarity or trust, or intimidation, arising from the existence of conflicts of interest or some commercial, financial, employment, family or other type of relationship, whether direct or indirect, actual or potential.

If the importance of these factors with regard to the safeguards implemented is such that it compromises their independence, the auditors or audit firms involved shall refrain from carrying out the audit.

3. The procedures for detecting and identifying threats and safeguards shall be appropriate to the size of the business of the auditor or audit firm; they shall be reviewed regularly and applied individually, when appropriate, to each audit engagement and documented in the corresponding working papers of each audit.

4. The situations and threats described in the foregoing paragraphs may also arise with regard to the persons and entities referred to in articles 18, 19 and 20.

Article 16. *Incompatibilities.*

1. In any event, an auditor or an audit firm shall be deemed not to enjoy sufficient independence in the exercise of their duties from a company or entity, in addition to the incompatibility situations provided for in other laws, when the auditor signing the audit report is affected by any of the following circumstances:

a) Situations arising from personal circumstances:

1st. Holding a board or management position, or having a job, in the audited entity, or having been granted general powers of attorney by the audited entity. This shall also apply to the head of the financial area and those carrying out internal supervision in the audited entity, whatever their relationship with the entity.

2nd. Having a direct or indirect interest in the audited entity arising from a contract or ownership of an asset or right. In any case, such an interest shall be understood to exist in the case of possession of financial instruments issued by the audited entity or a related entity if, in the latter case, this is significant for any of the parties.

In this context, exceptions shall be made for interests held indirectly through diversified undertakings for collective investment.

3rd. Carrying out any kind of transaction related to financial instruments issued, guaranteed or endorsed in any way by the audited entity.

In this context, exceptions shall be made for financial instruments held indirectly through diversified undertakings for collective investment.

4th. Requesting or accepting gifts or favours from the audited entity, unless their value is insignificant.

b) Situations arising from services provided:

1st. The record-keeping or preparation of the audited entity's financial statements or other accounting records.

2nd. The provision of valuation services to the audited entity, unless they meet the following requirements:

i. These services should have no direct effect or an effect of scant materiality, separately or in aggregate, on the audited financial statements;

ii. The estimation of the effect on the audited financial statements should be exhaustively documented in the audit working papers.

3rd. The provision of internal audit services to the audited entity, unless the management body of the audited entity or company is responsible for the overall internal control system, the determination of the scope, risk and frequency of internal audit procedures, the assessment and implementation of the results and recommendations provided by the internal audit

4th. The provision of legal services to the audited entity, simultaneously, unless said services are provided by different legal persons with different boards of directors, and without being related to the resolution of disputes on issues that may have a significant impact, measured in terms of materiality, on the financial statements for the period audited or financial year.

5th. The provision of services for the design and implementation of internal control or risk management procedures related to the preparation or oversight of financial reporting to an audit client, or the design and application of financial reporting technology systems, used to generate data included in the financial statements of said client, unless the client assumes responsibility for the overall internal control system or the service is provided in accordance with the specifications established by the client, who must also assume responsibility for the system's design, implementation, evaluation and operation.

2. For the purposes of this article, any reference to financial statements shall be understood to refer to the rest of the documents mentioned in article 1.2, when these form part of the audit.

Article 17. *Subjective extensions to entities related to or with a control relationship with the audited entity.*

1. Auditors or audit firms shall not be considered sufficiently independent in the exercise of their functions when the circumstances of incompatibilities described in article 16.1.a) are present in relation to entities related to the audited entity.

2. The provision of the services described in article 16.1.b) shall only determine that the auditor or audit firm has an incompatibility when they are provided to other entities with which the audited entity has a control relationship.

Article 18. *Incompatibilities arising from situations involving relatives of the key audit partners.*

1. The auditor or audit firm shall be deemed not to enjoy sufficient independence in the exercise of their duties from an audited entity, in the event of the circumstances described in article 16 applying to the relatives of the auditor or auditors primarily responsible for the audit, referred to in article 3.6, letters a) and b).

This provision shall also apply when circumstances of conflict arising from personal situations or services provided are observed with regard to entities related to or controlled by the audited entity referred to in the previous article.

2. For the purposes of the previous section, the circumstances of incompatibility shall be appreciated taking the following considerations into account:

a) With regard to the status or position held according to article 16.1.a).1st:

1st. In any case, if the relative is a member of the Board of Directors of the audited entity, its parent entity or an entity over which the audited entity exercises significant control or influence.

2nd. If they have a job assigned, then the performance of this job has to affect the preparation of significant information, measured in terms of materiality, contained in the audited entity's financial statements or other accounting records.

3rd. In the other cases, incompatibility shall exist when they occur in the audited entity, its parent entity or an entity over which the audited entity exercises control or influence and which is significant, in terms of materiality, for the audited entity.

b) With regard to those resulting from holding financial instruments as described in article 16.1.a).2nd:

1st. When close relatives of the key audit partner or partners hold financial instruments in the audited entity. If the instruments are those of a related entity, these must be significant.

2nd. When other relatives hold financial instruments which are significant for the audited entity, its parent entity or an entity over which the audited entity exercises control or influence and this holding is significant, in terms of materiality, for the audited entity.

If the spouses of these relatives hold financial instruments in a related entity of those included in the previous paragraph, there shall be incompatibility, in accordance with the regulatory provisions, when these are very significant.

c) With regard to transactions related to financial instruments described in article 16.1.a).3rd:

1st. When close relatives of the key audit partner carry out transactions in the financial instruments issued, guaranteed or endorsed in any way by the audited entity, its parent entity or an entity over which the audited entity exercises significant control or influence and this holding is significant, in terms of materiality, for the audited entity.

2nd. When other relatives carry out transactions in the financial instruments issued, guaranteed or endorsed in any way by the audited entity, and the size of the transactions is significant or, in the case of the spouses of these relatives, very significant.

d) With regard to circumstances of conflict relating to the provision of services described in article 16.1.b), incompatibility shall be understood to exist if it occurs in the audited entity, its parent entity or an entity over which the audited entity exercises significant control or influence and this holding is significant, in terms of materiality, for the audited entity.

Article 19. *Incompatibilities arising from situations involving persons or entities directly related to the auditor or the audit firm.*

1. An auditor or an audit firm shall be deemed not to enjoy sufficient independence in the exercise of their duties from an audited entity when the circumstances set forth in article 16 or other laws occur with the following persons and entities:

a) Persons, other than the auditors primarily responsible for the audit, whether they are auditors or not and whether they belong or not to the organization of the auditor or audit firm, who take part in or have the capacity to influence the final result of the audit, or responsibility for oversight or management of the audit engagement and may directly influence the assessment and final result.

b) Persons, other than those mentioned in the previous paragraph, who belong to the engagement team, whether as employees or providing services at the disposal of the auditor or audit firm.

c) The partners of the audit firm and the auditors or audit firms with which they have a direct or indirect relationship, not included in the preceding paragraphs. For the purposes of determining the existence of a direct or indirect relationship with auditors or audit firms, the criteria contained in article 3.15 regarding entities related to the audited entity shall apply, as shall the existence of common partners.

d) Persons, other than those mentioned in the previous paragraph, who are employees or whose services are at the disposal or under the control of the auditor or audit firm and who participate directly in the audit.

This provision shall also apply when the persons or entities covered by this section have any of the incompatibilities as a result of their personal situations or the provision of services with regard to entities related to or controlled by the audited entity as referred to in article 17.

2. For the purposes of the previous section, the circumstances of incompatibility shall be appreciated taking the following considerations into account:

a) With regard to those arising from the status or position held in accordance with the provisions of article 16.1.a).1st:

1st. When they are present in the individuals referred to in section 1, letter d), there shall be incompatibilities if it affects the audited entity, its parent entity or an entity over which the audited entity exercises significant control or influence and this is significant, in terms of materiality, for the audited entity. In any case, there shall be conflict when they are members of the governing body.

2nd. In the case of close relatives of the individuals referred to in section 1, there shall only be incompatibilities if they are administrators or heads of the financial area of the audited entity, its parent entity or an entity over which the audited entity exercises significant control or influence and this situation is significant, in terms of materiality, for the audited entity.

Nevertheless, in the case of close relatives of the individuals referred to in section 1, letters c) and d), there shall only be incompatibilities when, due to the structure and size of the audit firm, there may be a relationship with possible effects or influence on the outcome of the audit.

b) With regard to those resulting from holding financial instruments as described in article 16.1.a).2nd:

1st. When the individuals referred to in section 1, letters c) and d), and their close relatives hold significant financial instruments in the audited entity, its parent entity or an entity over which the audited entity exercises significant control or influence and this holding is significant, in terms of materiality, for the audited entity.

2nd. When these situations are present in close relatives of the individuals referred to in section 1, letters a) and b).

c) With regard to carrying out transactions as described in article 16.1.a).3rd:

1st. When the individuals referred to in section 1, letters a) and b), and their close relatives carry out transactions with financial instruments issued, guaranteed or endorsed in any way by the audited entity, its parent entity or an entity over which the audited entity exercises significant control or influence and these are significant, in terms of materiality, for the audited entity.

2nd. When the individuals referred to in section 1, letters c) and d), and their close relatives carry out transactions with financial instruments issued, guaranteed or endorsed in any way by the audited entity, and the amount of the transactions is significant.

d) With regard to those resulting from the requesting or accepting of gifts or favours from the audited entity, as described in article 16.1.a).4th, by the individuals referred to in section 1, letters a) and b).

e) With regard to the circumstances of conflict relating to the provision of services described in article 16.1.b):

1st. When these are present in the persons referred to in section 1, letter d), there shall be incompatibilities if these occur in the audited entity, its parent entity or an entity over which the audited entity exercises significant control or influence and these are significant, in terms of materiality, for the audited entity.

2nd. When close relatives of the persons referred to in section 1 provide services of accounting or preparation of accounting entries or financial statements for the audited entity or an entity over which the audited entity exercises significant control or influence and these are significant, in terms of materiality, for the audited entity.

Nevertheless, in the case of relatives of the individuals referred to in section 1, letters c) and d), there shall only be conflict when, due to the structure and size of the audit firm, there may be a relationship with possible effects or influence on the outcome of the audit.

Article 20. *Incompatibilities arising from situations involving other persons or entities in the auditor's or audit firm's network.*

1. An auditor or an audit firm shall be deemed not to enjoy sufficient independence in the exercise of their duties from an audited entity when, in addition to the circumstances provided for in other laws, the circumstances set forth in article 16 occur with the following persons and entities, excluding the persons or entities referred to in the previous article, when the key audit partners referred to in article 3.6, letters a) and b), or the audit firm on whose behalf the audit is being carried out, form part of the same network.

For the purposes of this section, the persons in the network of the auditor or audit firm who may cause a situation of incompatibility shall, in general, be restricted to those who are partners, administrators, secretary to the governing body or legal representatives with general power of attorney in an entity belonging to the said network.

This provision shall also apply in the case of incompatibilities arising from personal situations or services provided with regard to entities related to or controlled by the audited entity, referred to in article 17, whenever the audited entity exercises significant control or influence and this is significant, in terms of materiality, for the audited entity.

2. For the purposes of the previous section, the following circumstances of conflict shall be taken into account:

a) With regard to the status or position held according to article 16.1.a).1st:

1st. If the persons or entities referred to in section 1 exercise direct responsibility or perform jobs which affect the preparation of significant information, measured in terms of materiality, contained in the audited entity's financial statements or other accounting records.

2nd. If close relatives of the individuals are administrators or heads of the financial area, when, due to the structure and size of the audit firm, there may be a relationship with possible effects or influence on the outcome of the audit.

b) With regard to those arising from the holding of financial instruments as described in article 16.1.a).2nd, there shall be incompatibility when the persons or entities referred to in section 1 hold significant financial instruments of the audited entity, its parent entity or an entity over which the audited entity exercises significant control or influence, always supposing that, due to the structure and joint size of the audit firm and the entities belonging to the network, there may be a relationship with possible effects or influence on the outcome of the audit.

c) The cause of incompatibility relating to the request for or acceptance of gifts described in article 16.1.a).4th shall not be applicable.

d) With regard to the services provided as described in article 16.1.b), there shall be an incompatibility if the close relatives of the persons referred to in section 1 provide services of accounting or preparation of accounting entries or financial statements for the audited entity whenever, due to the structure and size of the audit firm, there may be a relationship with possible effects or influence on the outcome of the audit.

Article 21. *Duration of the period of incompatibilities.*

1. There shall be a situation of incompatibility arising from the provision of services when the said services are provided in the period beginning at the start of the financial year to which the annual accounts, financial statements or other accounting records audited refer and ending on the date when the auditor or audit firm finishes the audit.

Incompatibilities arising from personal situations shall be understood to exist during the period beginning at the start of the first year prior to the financial year to which the annual accounts, financial statements or other accounting records audited refer and ending on the date when the auditor or audit firm finishes the audit.

Notwithstanding the above, in the case of incompatibilities arising from article 16.1.a).2nd, these should be resolved before accepting the appointment as auditor.

2. Should the possession of the financial instruments referred to in article 16.1.a).2nd occur unexpectedly after the acceptance of the engagement, the auditors or audit firm should proceed to liquidate, undo or eliminate such financial interest in the period of one month after learning of this circumstance. If the said interest cannot be resolved in that period due to circumstances beyond the auditors' control, the period may be extended, though in any case the interest should be resolved before the audit report is issued. If they do not follow this course of action, they must refrain from carrying out the audit and make the communications described in article 5.2.

If the audited entity is acquired, merged or acquires another entity after an engagement has been accepted, the auditors or audit firm must review their interests, relations and situations with regard to the entity, in order to determine if their independence might be compromised. As soon as possible, and in any case within three months, the auditors shall adopt the measures necessary to eliminate any relations or interests that might compromise their independence or reduce them to an acceptably low level to avoid being compromised.

3. The period referred to in this article shall be applicable in the cases described in articles 17, 18, 19 and 20, with the specific features detailed therein.

Article 22. *Engagement.*

1. Auditors and audit firms shall be engaged initially for a given period of time. This period shall be neither less than three nor more than nine years, counting from the first day of the first financial year to be audited. They may be engaged for successive periods of up to three years once the initial period has ended.

If, once the initial period or extension thereof has ended, neither the auditor or audit firm nor the audited entity have manifested their intention to the contrary before the approval of the audited annual accounts corresponding to the last period of the engagement or extension, the contract shall be understood to have been extended for three more years.

2. During the initial period, or period of extension of the initial engagement, the contract may not be rescinded without due cause. Differences of opinion regarding accounting treatments or audit procedures do not constitute due cause. In any case, the auditors and the entity audited must inform the Accounting and Auditing Institute of the termination of the audit engagement.

Shareholders representing more than five per cent of the issued share capital or of the voting rights of the audited entity or the governing body of said entity may request the court of first instance corresponding to the entity's registered office to revoke the appointment of the auditor designated by the general meeting and to name another, in cases of due cause.

3. If audits are not compulsory, the time limits on engagement laid down in section 1 of this article shall not be applicable.

4. Contractual or statutory clauses restricting or limiting the selection, designation and engagement of any auditor or audit firm registered in the Official Register of Auditors by the competent bodies of the audited entity shall be null and void.

Article 23. *Prohibitions once the audit engagement has concluded.*

1. The prohibitions contained in other laws notwithstanding, for one year after the end of the corresponding audit engagement, the key audit partner and the audit firms on whose behalf the audit is being carried out may not form part of the administrative or managing body of the audited entity, or of the entities controlled by the audited entity, or hold a job, or have a direct or indirect financial interest in said entities if, in any of this cases, this is significant for any of the parties.

2. The prohibition referred to in the previous paragraph applies to the following persons:

a) The auditors whether or not they are partners, other than the key audit partner for the audit, of the audit firm who are responsible for supervising or managing the audit work and may have a direct influence over its evaluation and final outcome.

b) Those forming part of the audit team who are auditors, only with regard to the audited entity.

c) The partners of the audit firm and the auditors appointed to carry out audits on their behalf who have not been involved or been able to influence the audit engagement, unless they cease to have any link or interest with the audit firm before forming part of the aforementioned bodies, having a job in the audited entity or holding a financial interest and provided that their objectivity cannot be compromised by the existence of possible reciprocal influences between the said partners and the signing auditor or audit firm.

3. The breach of the prohibition shall carry with it the disqualification of the auditors and audit firms referred to in this article to carry out the audit work of the audited entity or the companies forming part of the group under the terms of article 42 of the Commercial Code, as of the moment in which said prohibition is breached and for the two subsequent years.

4. The provisions of this article shall not apply when the financial interest stems from causes happening unexpectedly afterwards that are not attributable to the auditor, or is acquired under normal market conditions by the auditor, the partner of the audit firm or the auditor appointed to carry out audits on its behalf, provided that in these situations they no longer have any link or type of interest with the audit firm.

Article 24. *Fees and transparency in the remuneration of auditors and audit firms.*

1. The fees for audit services shall be established before the auditor or audit firm begins its work and shall cover the entire period during which the services are to be performed. These fees may not be influenced or determined by any additional services provided to the audited company, and cannot be based on any type of contingency or condition other than a change in the original circumstances which served as the basis for establishing the fees. Auditors or audit firms may not receive any other remuneration or benefit for the performance of their functions.

For these purposes, contingent fees in an audit engagement shall be understood as those in which the remuneration is calculated according to a predefined formula based on the results of a transaction or of the audit engagement itself. Fees established by a court order or by the corresponding authorities shall not be considered contingent.

2. Auditors and audit firms must notify the Accounting and Auditing Institute each year of the hours worked and fees charged to each audited entity, distinguishing

between audit work and other services rendered, along with any other information required by the Accounting and Auditing Institute to perform its functions.

Article 25. *Causes for withdrawing due to fees collected.*

1. When the fees accrued from the provision of audit and non-audit services to the audited entity by the auditor or audit firm in the last three consecutive years represent more than 30% of the total annual income of the auditor or audit firm, they should refrain from carrying out the audit for the following financial year.

2. They shall also be obliged to refrain from carrying out the audit for the following financial year when the fees accrued in the last three consecutive years from the provision of audit and non-audit services to the audited entity and its related entities by the auditor or audit firm and those forming part of the network represent more than 30% of the total annual income of the auditor or audit firm.

3. Regulations shall determine the criteria to be observed by auditors or audit firms who are beginning their activity, and by small auditors and audit firms. The regulations shall similarly determine the total income to be taken into account in calculating compliance with this limit.

Section 3. Liability and financial guarantee.

Article 26. *Liability.*

1. Auditors and audit firms shall be liable for damages arising from failure to fulfil their obligations according to the general rules of the Civil Code, with the specific provisions contained in this article.

2. The liabilities of auditors and audit firms shall be directly proportional to the financial damage caused by their professional actions to both the audited entity and other parties.

To this end, a third party means any natural or legal person, whether public or private, who can prove they acted or desisted from acting based on an audit report, with this being an essential and appropriate element for forming their agreement, motivating their action or making their decision.

Auditors shall be personally and individually liable, excluding the damages caused by the audited company itself or by third parties.

3. When an audit is conducted by an auditor on behalf of an audit firm, both the auditor who signs the report and the firm shall be jointly and severally liable, up to the limits set out in the previous section.

4. The contractual liability of the auditor and the audit firm becomes time-barred four years after the date of the audit report.

Article 27. *Financial guarantee.*

1. Notwithstanding the liability regulated in the preceding article, auditors and audit firms shall provide financial guarantees to cover the damages caused by their professional conduct.

2. The financial guarantee may be provided in the form of cash, public debt securities, bank bonds or liability insurance in the amount and in the manner determined by the Ministry of Economy and Competitiveness. The amount shall be proportionate, in any case, to the volume of business.

3. In addition to setting the amount of the financial guarantee for the first year of activity, the regulations shall determine the aspects necessary to ensure that it is sufficient and valid for fulfilling its purpose.

Section 4. Internal organization and organization of the work of auditors and audit firms

Article 28. *Internal organization.*

1. Auditors and audit firms shall have sound administrative and accounting procedures, effective risk assessment procedures, operational systems which allow them to ensure the oversight and protection of their IT systems, and internal quality control systems, which ensure compliance with the decisions and procedures in the auditor's functional structure and at all levels of the audit firm.

2. Auditors and audit firms shall implement an internal quality control system which ensures the quality of audits in accordance with the regulations on internal quality control referred to in article 2.

Ultimate responsibility for the internal quality control system shall lie with an auditor registered in the Official Register of Auditors and able to carry out the audit in accordance with the requirements of article 8.1.

The internal quality control system must include, among other aspects, the following:

a) Effective organizational and administrative measures to prevent, detect, assess, report, mitigate and, when appropriate, eliminate any threat to the independence of auditors and audit firms, in accordance with the provisions of Title I, Chapter III, Section 2.

Among other things, these measures should include policies and procedures ensuring that the owners, shareholders and members of the management and supervisory bodies of the audit firms, or of the related companies referred to in articles 19 and 20, are unable to intervene in the execution of an audit in any way which jeopardises the independence and objectivity of the auditor signing the audit report.

In the case of auditors, the policies and procedures mentioned in the preceding paragraph shall refer to the persons and entities related to the auditor in the terms established in articles 19 and 20.

b) Appropriate policies and procedures for carrying out audits, relating to ethics and independence, the acceptance and continuity of the work, human resources, including the training of staff and the execution of engagements, including the oversight and review of audit work, together with their supervision.

Among other things, these policies and procedures shall include the following:

1st. Ensuring that the staff of auditors and audit firms and any other person directly involved in audit activities possess the knowledge and experience required to carry out the functions assigned to them.

2nd. Remuneration policies, including profit sharing, providing sufficient incentives for performance to ensure the quality of the audit. In particular, the income that the auditor or audit firm receives for providing the audited entity with non-audit services shall not form part of the performance appraisal or remuneration of any individual participating in the execution of the audit engagement or who may influence it.

3rd. Policies and procedures related to the organization of the audit file referred to in article 29.

4th. Policies and procedures ensuring that the outsourcing of audit functions or activities does not impair the internal quality control of the auditors or audit firms or the oversight activities referred to in article 49. Such outsourcing shall not affect the responsibility of the auditor or audit firms with regard to the audited entity.

5th. Policies and procedures to verify and analyse the suitability and efficacy of its internal organization and oversight systems, together with the measures to be adopted to correct any possible deficiency.

Among other things, these procedures shall include the provision of means enabling the staff of the auditor or audit firms to report internally events which may constitute breaches of the legislation regulating audit activities.

In any case, auditors and audit firms must carry out an annual assessment of their internal quality control systems. Auditors and audit firms shall keep records of the conclusions of this assessment and the measures proposed, if any, to modify the system assessed.

3. Auditors and audit firms shall equip themselves with the systems, resources and procedures necessary to ensure the continuity and regularity of their audit activities. For this purpose, they shall establish appropriate organizational and administrative measures to prevent, detect and record any incidents which may have serious consequences for the integrity of their audit activities.

Regulations shall define the simplified requirements referred to in the preceding sections for those that only audit small entities.

4. Auditors and audit firms must document the systems, policies, procedures, mechanisms and measures mentioned in the preceding sections and communicate them to their staff, as well as to the persons and entities referred to in articles 19 and 20 who intervene or may intervene in the execution of audit work.

5. Auditors and audit firms must be able to prove to the public oversight system that the policies and procedures they have established to achieve effective compliance with the provisions of the preceding sections are adequate. They must be proportionate to the size and complexity of their business, which shall depend on the size of the entities they audit.

Article 29. *Organization of the work.*

1. Auditors and audit firms shall designate, in accordance at least with criteria of quality, independence and competence, a key audit partner for the execution of the audit work. The key audit partner or partners shall play an active part in the execution of the audit engagement. They shall dedicate sufficient time to the audit work assigned and shall have adequate resources, together with staff with the competence and capacity required to carry out their functions appropriately.

2. Auditors and audit firms shall prepare an audit file for each audit, which shall include at least the analysis and assessment carried out prior to the acceptance or continuity of the audit engagement, including those aspects related to the auditor’s duty of independence required in Title I, Chapter III, Sections 1 and 2. It shall also include other documentation on each engagement, including the working papers constituting the

tests carried out and evidence supporting the conclusions of each audit, including those appearing in the report.

The audit file shall be closed within 60 days counting from the date of the audit report.

3. Auditors and audit firms must create and document the following records relating to their audit activity:

a) Register of serious or very serious breaches of the legislation regulating audit activity, together with any consequences and the measures taken to remedy the breaches and modify the internal quality control system. An annual report shall be prepared, containing a general summary of the measures taken, which shall be distributed internally at the appropriate level.

b) Register of enquiries, containing the requests made and the advice received from experts.

c) Register of entities audited, with the following data on each audited entity:

1st. Name of the entity, its Tax ID number, address and registered office.

2nd. Identification of the key audit partner or partners and, where relevant, of the engagement quality reviewer.

3rd. Fees accrued in each financial year in respect of audit and other services provided to the audited entity, broken down between the two types of service and by entity.

d) Register of complaints, containing those received in writing related to the execution of audits.

Section 5. Duties of custody and secrecy

Article 30. *Duty of conservation and custody.*

Auditors and audit firms shall keep on file all documentation for each audit conducted for five years following the date of the audit report, including the auditor's working papers, which constitute the evidence and supporting documentation for the conclusions reached in the report, and other documentation, information, files and records referred to in articles 28, 29, 42 and 43.

Article 31. *Duty of secrecy.*

The auditor who signs the report, the audit firm and its partners, the auditors designated to conduct audits in the audit firm's name and anyone else who participates in the performance of an audit shall be obliged to preserve the secrecy of any information to which they may have access in the performance of their duties, refraining from using the information for purposes other than the audit, notwithstanding the disclosure obligations referred to in article 262 of the Criminal Procedure Act.

The reference to the duty of secrecy regulated in this section shall not impede the application of the provisions of this Act and of Regulation (EU) nº 537/2014 dated April 16th.

Article 32. *Access to documentation.*

Notwithstanding the provisions of the preceding article, the documentation on each audit may be accessed by the following parties, who shall be bound by the duty of secrecy:

a) The Accounting and Auditing Institute, both in the performance of its supervisory functions referred to in Title II, Chapter I and for the purpose of the international co-operation referred to in Title II, Chapter IV.

b) Those designated by a court order.

c) The Bank of Spain, the National Securities Market Commission, the Directorate General for Insurance and Pension Funds and the competent regional authorities with responsibility for supervising the insurance sector, for the sole purpose of exercising their authority relative to the entities subject to their supervision and control, in especially serious cases, as provided for in article 38 and only when they are unable to obtain the specific documentation they require from the said entities.

In addition, the National Securities Market Commission may request from the auditors corresponding to the entities issuing securities listed on official secondary securities markets any and all information and documents required for the exercise of its responsibilities.

d) The bodies legally entrusted with the internal and external control of the economic-financial management of the public sector in relation to the audits of the public entities falling under the scope of their jurisdiction.

These bodies may request from auditors or audit firms any information in their power on a particular matter in relation to the audit of the entity's accounts and clarification, if necessary, of the contents of the working papers.

e) The recognized professional associations representing auditors, for the sole purpose of verifying that the auditors have observed internal practices and procedures in the performance of their audit activities.

f) Auditors and audit firms, not only under the circumstances referred to in article 7 but also in the event of the substitution of an auditor or audit firm. In the event of a substitution, the predecessor auditor or audit firm shall provide the successor auditor or audit firm with all of the information related to the audited entity and the documentation of the most recent audit.

g) The competent authorities in member states of the European Union and third countries in the terms referred to in Title II, Chapter IV.

h) Those parties authorized by law.

CHAPTER IV

On the audit of public interest entities´ accounts

Section 1. Common provisions

Article 33. *Scope of application.*

This title is applicable to auditors and audit firms conducting audit engagements on the annual accounts or financial statements or accounting records corresponding to public interest entities, in accordance with the terms established in article 1.2, as well as to public interest entities with regard to the designation and contracting of auditors.

Article 34. *Legal regime.*

The terms established in Regulation (EU) nº 537/2014, dated April 16th, shall be applicable to auditors and audit firms conducting audit engagements on the annual

accounts or financial statements or accounting records corresponding to public interest entities as shall the provisions established in this Act in accordance with the peculiarities established in this Title.

Section 2. Regarding reports

Article 35. *Audit report on annual accounts.*

The audit report on the annual accounts of a public interest entity shall be drawn up and submitted in accordance with the provisions established in this Act and in article 10 of Regulation (EU) nº 537/2014, dated April 16th.

Article 36. *Additional report for the Audit Committee of public interest entities.*

1. Auditors or audit firms of public interest entities shall draw up and submit an additional audit report on the annual accounts in accordance with the provisions contained in article 11 of Regulation (EU) nº 537/2014 of 16 April. In the case of audits of consolidated annual accounts, the group auditor must draw up this additional report for delivery to the parent company.

2. Whenever so requested, the additional report for the Audit Committee shall be furnished without delay to the national supervisory authorities for public interest entities by auditors or audit firms.

Article 37. *Annual transparency report.*

1. Auditors or audit firms of public interest entities conducting audits of public interest entities must publish and individually submit a transparency report in accordance with the minimum content established in article 13 of Regulation (EU) nº 537/2014, of 16 April, and in accordance with the following criteria:

a) The information about the total turnover of statutory auditors practising individually and audit firms forming part of the network of the auditor or the audit firm, as referred to in article 13.2.b).iv) of Regulation (EU) nº 537/2014, of 16 April, shall comprise that corresponding to the audit services for annual and consolidated financial statements, as well as any non-audit services, rendered to public interest entities and their related entities referred to in article 17.

b) The information about the auditor or the audit firm's total turnover, as referred to in article 13.2.k), sub-sections i) and iii), of Regulation (EU) nº 537/2014, of 16 April, shall be itemized for each of the audited public interest entities.

2. In accordance with the provisions contained in article 13.1 of Regulation (EU) nº 537/2014, of 16 April, auditors and audit firms must inform the Accounting and Auditing Institute of the publication on the web site of the transparency report or any update to the same where appropriate, in the manner and within the deadline determined in the regulations.

3. In exceptional cases where, in accordance with the provisions contained in the last paragraph of article 13.2.k) of Regulation (EU) nº 537/2014, of 16 April, the auditor or audit firm decides not to publish the information indicated in article 13.2.f) of the said Regulation regarding public interest entities audited during the preceding financial year with a view to preventing a serious, material threat to the personal safety of any individual, the auditor or the audit firm, the reasons justifying the existence of such a threat must be notified to the Accounting and Auditing Institute in the manner and within the deadline determined in the regulations.

4. The contents of the transparency report referred to in sub-section 1 may be developed by means of a resolution adopted by the Accounting and Auditing Institute. The said resolution must conform to the procedure for its preparation regulated in article 24.1 of the Government Law 50/1997, of 27 November.

Article 38. *Report to national supervisory bodies for public interest entities.*

Auditors and audit firms conducting audit engagements on annual accounts or other financial statements of public interest entities subject to the supervisory and oversight regime attributed to the Bank of Spain, the National Securities Market Commission and the Directorate General for Insurance and Pension Funds, or to the bodies of the regional administrations competent for the organization and oversight of insurance entities, shall be obliged to notify the said bodies or public institutions as appropriate, promptly and in writing, of all information relating to the audited entity or institution for which they may have become aware, in the course of the exercise of their functions, in the scenarios contemplated in article 12.1 of Regulation (EU) nº 537/2014, of 16 April.

Section 3. Independence

Article 39. *Incompatibilities and prohibited services.*

Auditors and audit firms of public interest entities shall be subject to:

1. The regime established in Regulation (EU) nº 537/2014, of 16 April, particularly articles 5.1, 5.4 and 5.5. Nonetheless, the services referred to in article 5.3 of the said Regulation may be rendered provided that the requirements foreseen in the same are met.

In addition, the prohibition on rendering non-audit services referred to in article 5.1 of the Regulation shall extend to the immediate relatives of the key audit partners, with the peculiarities referred to in article 18.2 d) of this Act, as well as to the persons referred to in article 19 with the peculiarities contemplated in the said article.

2. The regime established in sections 1 and 2 of chapter III in Title I of this Act, with the following peculiarities:

a) Of the circumstances foreseen in article 16.1 only those scenarios in letter a) shall be applicable, with the provisions contained in article 21 also being applicable with regard to the said circumstances and scenarios.

b) The norms contemplated in articles 17 to 20 shall be applicable with regard to the circumstances and scenarios referred to in letter a) above.

c) The prohibitions following termination of the audit engagement established in article 23 shall be applicable during the two years following the termination of the audit engagement.

Article 40. *Contracting, rotation and designation of auditors or audit firms.*

1. In connection with the duration of auditing contracts, the provisions contained in article 17 of Regulation (EU) nº 537/2014, of 16 April, shall apply, particularly the provisions contained in sub-sections 3, 5, 6 and 8. Furthermore, the minimum duration of the initial contracting period for auditors of public interest entities may not be less than three years; the total contracting period, including any extensions, may not exceed the maximum duration of ten years established in article 17 of the said Regulation. However, once the total maximum contracting period of ten years of an auditor or audit firm has ended, said period may be additionally extended up to a maximum of fourteen

years, provided that the same auditor or audit firm has been hired simultaneously, together with one or more other auditors or audit firms to act jointly in this additional period, or up to ten years if a public call for tenders for the statutory audit is made in accordance with the provisions of Article 16, paragraphs 2 to 5 of the Regulation of EU number 537/2014, of April 16.

During the initial period, or the extension period of the initial contract, the contract cannot be terminated without just cause, and divergences of opinions on accounting treatments or audit procedures cannot be considered as such. In any case, the account auditors and the audited entity must notify the Accounting and Audit Institute of the termination of the audit contract.

2. With regard to the rotation of auditors and audit firms, the provisions contained in article 17.7 of Regulation (EU) nº 537/2014, of 16 April, shall be applicable, particularly those established in paragraphs three and four. Furthermore, after five years have elapsed from the initial contract, the rotation of the key audit partners for the audit engagement shall be compulsory and, in all cases, the term of three years must elapse before the said individuals shall be eligible to participate once more in the audit of that entity, in accordance with the provisions contained in article 17.7, paragraph one, of Regulation (EU) nº 537/2014, of 16 April.

3. The designation of auditors or audit firms in public interest entities shall be subject to the provisions contained in sections 2, 3, 4, 5 and 6 of article 16 of Regulation (EU) nº 537/2014, of 16 April.

4. Shareholders holding more than five per cent of the share capital or of the voting rights in the audited entity or its management body may apply to the Judge at the Court of First Instance corresponding to the entity's registered office for the revocation of the auditor designated by the General Meeting and the appointment of a different auditor when there is good cause. In addition, such requests may be lodged by the Accounting and Auditing Institute.

In the event of the dismissal or revocation of the auditor, the auditor and the audited entity must in all cases notify this circumstance to the national supervisory authority corresponding to the public interest entity, indicating the reasons for such dismissal or revocation.

Article 41. *Fees and transparency.*

1. With regard to fee caps, the provisions contained in Regulation (EU) nº 537/2014, of 16 April, shall be applied, particularly articles 4.1 and 4.2.

2. Whenever the fees accrued from the provision, by the auditor or audit firm, of audit and non-audit services to the audited entity in each of the last three consecutive financial years represent more than 15 per cent of the total annual revenue of the auditor or audit firm, then the said auditor or audit firm must refrain from conducting the audit corresponding to the next financial year.

Furthermore, the obligation to refrain foreseen in the preceding paragraph shall be enforceable when the fees accruing from the provision, by the auditor or audit firm and those forming part of its network, of audit and non-audit services to the audited entity and its related entities in each of the last three consecutive financial years represent more than 15 per cent of the total annual revenue of the auditor or audit firm and the said network. The total revenue to be calculated for the purposes of complying with this limit shall be determined in Regulations.

Nonetheless, on such terms as may be determined in Regulations, when the audit firm is small or medium-sized, the Audit Committee or an equivalent body may, on the basis of the examination of any threats to independence and the measures adopted to mitigate these, exceptionally authorize it to perform the audit of the financial year immediately thereafter. Such an exception may only be granted once and must be adequately justified and explained.

3. The annual notification by auditors and audit firms of their fees to the Accounting and Auditing Institute, as referred to in article 24.2 of this Act, shall be effected giving an itemized indication of the audited entities that are considered to be public interest entities, in which case a distinction shall be drawn between the fees for audit and non-audit services as well as whether or not these services are required under European Union law or by a national statutory provision.

Section 4. Internal structure and organization of the engagement in connection with audits of public interest entities

Article 42. *Internal organization.*

Without prejudice to the policies and procedures that must be included in the quality review system, as referred to in article 28.2.b) of this Act, auditors and audit firms must establish policies and procedures for the performance of an audit engagement quality assurance review in audit engagements for public interest entities in accordance with article 8 of Regulation (EU) nº 537/2014, of 16 April, prior to issuing the audit report.

Article 43. *Organization of the work.*

1. Without prejudice to the provisions established in connection with the audit archive that auditors and audit firms must prepare for each audit engagement, in accordance with article 29.2 of this Act, the audit archive shall document the aspects listed, in addition and where appropriate, in articles 6 to 8 of Regulation (EU) nº 537/2014, of 16 April, as well as the working papers of the auditor and the audit firm constituting the supporting evidence for the conclusions set out in the reports referred to in articles 10, 11 and 12 of the said Regulation.

2. With regard to the obligation to prepare a register of audited entities, referred to in article 29.3.c) of this Act, the details to be included on the said register must include the revenue referred to in article 14 of Regulation (EU) nº 537/2014, of 16 April, as well as the breakdown referred to in article 37.1 of this Act.

Article 44. *Hand-over file.*

In those cases where the auditor or audit firm for public interest entities is replaced, without prejudice to the provisions contained in article 32 of this Act, the terms established in article 18 of Regulation (EU) nº 537/2014, of 16 April, shall be applicable.

Article 45. *Organization.*

By means of regulations, it shall be possible to determine the requirements relating to the organizational structure and the dimension that must be attained by auditors or audit firms performing audits on public interest entities. These requirements shall include those referring to the number of auditors, the number of employees, the existence of technical resources specializing in the processing and analysis of complex issues and the verified quality of the internal control systems. In all cases, the

requirements shall be proportional and shall be modulated in the light of the complexity of the audit tasks and the magnitude of the audited entity.

TITLE II

Public Oversight

CHAPTER I

Supervisory Function

Article 46. *Scope of public oversight.*

1. In the exercise of the activities referred to in article 1, all auditors and audit firms and other persons, entities or bodies whose actions are included within the applicable scope of Regulation (EU) nº 537/2014, of 16 April, are subject to the objective and independent system of public oversight established in this Act.

2. The Accounting and Auditing Institute is the authority responsible for the public oversight system and, in particular, for:

a) The authorization of auditors and audit firms and their inclusion on the Official Register of Auditors.

b) The adoption of standards with regard to ethics, internal quality assurance standards for audit activities and technical auditing standards on the terms foreseen in this Act, as well as the supervision of their proper fulfilment.

c) Continuing education for auditors.

d) The inspection and investigation system.

e) The regular monitoring of the variation in the audit services market in the case of public interest entities.

f) The disciplinary system.

3. In addition to the functions legally attributed to it, the Accounting and Auditing Institute is responsible for participating within the scope of audit activities in the international co-operation mechanisms contemplated in this Act, as well as in Regulation (EU) nº 537/2014, of 16 April.

4. The Accounting and Auditing Institute shall be responsible for the Official Register of Auditors.

Article 47. *Appeals.*

It shall be possible to lodge appeals for review against the resolutions handed down by the Accounting and Auditing Institute in the exercise of the powers attributed to it by this Act before the Minister for the Economy and Competitiveness, whose resolution shall bring an end to the administrative channel.

Exceptionally, regulatory resolutions handed down by the Accounting and Auditing Institute shall be subject to direct appeal before the courts of the administrative dispute jurisdiction.

Article 48. *Parties subject to supervision.*

1. The Accounting and Auditing Institute shall be able to obtain from the following persons and entities any and all information it may deem necessary for the proper fulfilment of the supervisory competencies entrusted to it:

a) Auditors and audit firms, and the entities referred to in articles 19 and 20.

b) Third parties to whom the auditors or audit firms may have outsourced certain functions or activities.

c) Persons who participate or have participated in the activities of auditors and audit firms, or who have a connection or relation with the same.

d) The entities being audited and their related entities, as referred to in article 17.

2. The private individuals and bodies corporate contemplated in the preceding sub-section are obliged to make available to the Accounting and Auditing Institute any and all books, records and documents as it may require, regardless of the original medium, and also in such other medium as the Accounting and Auditing Institute may request, including software and magnetic, optical or other kinds of archive.

In addition, auditors and audit firms shall be obliged to appear before the Accounting and Auditing Institute at the Institute's request.

3. In the exercise of its powers, the Accounting and Auditing Institute shall be able to send auditors and audit firms electronic notifications and requests regarding the information and actions carried out in the fulfilment of the provisions contained in this Act.

Article 49. *Oversight powers.*

1. In the exercise of its supervisory function, the Accounting and Auditing Institute shall be able to effect such actions as it may deem necessary for the purposes of verification, inspection, investigation and discipline in connection with the persons and entities referred to in the preceding article. In particular, it may:

a) Access any and all data, records or information related to audit activities in the possession of auditors and audit firms, and receive or obtain copies of the same related to audit activities.

b) Conduct investigations and inspections, as well as any verification actions it may consider necessary.

c) Access any and all data, records or information in the possession of the subjects mentioned in the preceding article and other than those listed in sub-section a) of this section, provided that this is necessary for the proper fulfilment of the functions attributed to this Institute.

d) Require that any and all practices contrary to the regulation governing audit activities be brought to an end.

Such decisions may be adopted as an interim measure in the course of proceedings for the imposition of a penalty or as a measure falling outside the exercise of its powers to impose sanctions, provided that they are necessary for the effective protection of third parties or the correct operation of markets, and they shall be maintained for as long as the cause giving rise to the same remains in place.

e) Impose such penalties and administrative measures as may correspond in each case in accordance with the provisions contained in this title.

2. The powers referred to in the preceding section may be exercised directly, in collaboration with other authorities, or at the request of the competent judicial authorities.

3. The Accounting and Auditing Institute shall be able to refer any facts or circumstances that might represent evidence of a crime to the appropriate jurisdictional bodies.

Article 50. *Venue for verification, investigation and inspection activities.*

1. At the discretion of the Accounting and Auditing Institute, all verification, investigation and inspection actions may be carried out:

a) In any office, room or premises of the auditor or audit firm, or of the entities referred to in articles 19 and 20 or of the other persons or entities contemplated in article 48.1.

b) At the premises of the Accounting and Auditing Institute.

2. Whenever the actions are carried out in the places indicated in letter a) of sub-section 1 above, the working hours of those venues shall be observed, without prejudice to the possibility of any other agreement being reached for actions on other days or at other times.

Article 51. *Co-operation with public authorities.*

1. On the terms foreseen in article 4 of the Law 30/1992, of 26 November , on the Legal Regime of the Public Administrations and the Common Administrative Procedure, the bodies and institutions of any public administration, without prejudice to the duty of secrecy imposed pursuant to current legislation, are subject to the duty to collaborate with the Accounting and Auditing Institute and they are obliged to provide, at the latter's request, any and all data and information they may have available and that may be necessary for it to exercise its supervisory function.

2. They must also notify the Accounting and Auditing Institute of any and all facts they may become aware of and that might constitute a breach of the regulations governing audit activities.

3. In particular, the Accounting and Auditing Institute may request of the national supervisory authorities for public interest entities that they provide any and all information it may deem pertinent for the exercise of its functions and in connection with the powers referred to in article 46.

Furthermore, the Accounting and Auditing Institute shall be able to request the collaboration of the State Tax Administration Agency in connection with the data and information of auditors and audit firms that may be necessary for the exercise of its powers.

Article 52. *Monitoring of audit activities: investigations and inspections.*

The monitoring of audit activities, which shall be effected *ex officio* and in accordance with the human and material resources available to the Accounting and Auditing Institute, shall be conducted in accordance with the following actions:

a) Investigations of the actions of auditors and audit firms

b) Inspections of auditors and audit firms.

Article 53. *Investigations.*

1. Investigations into certain audit engagements or aspects of audit activities shall be aimed at determining the facts or circumstances that may imply the existence of evidence of possible breaches of the regulations governing the audit activities.

2. Investigation actions shall consist in the examination of the audit engagement archives or other documentation in the possession of the auditor and audit firms and of the persons and entities referred to in articles 19 and 20, as well as in the conduct of enquiries and the collection and evaluation of any other relevant information or documentation.

Article 54. *Inspections.*

1. Inspections shall consist in the regular review of auditors and audit firms in order to evaluate their internal quality control systems through the verification of the procedures applied and the review of the archives for selected audit engagements, including the evaluation of compliance with the regulations governing audit activities and with a view to verifying and concluding on the efficacy of the said systems.

With regard to auditors and audit firms conducting audits on public interest entities, regard shall be had for the provisions contained in articles 26.6 and 26.7 of Regulation (EU) nº 537/2014, of 16 April.

2. Inspections shall be conducted on the basis of a risk analysis. In the case of auditors and audit firms performing audits required under European Union law, the minimum frequency shall be once every six years, without prejudice to the provisions contained in article 26.2 of Regulation (EU) nº 537/2014, of 16 April, with respect to auditors and audit firms performing audits on public interest entities.

3. Inspections shall be adequate and proportional to the magnitude and complexity of the activities performed by the auditors and audit firms subject to inspection. For these purposes, in the verification of the archives for audit engagements on small and medium-sized entities, regard shall be had for the specific considerations established in the auditing standards for small-scale entities.

When audit firms that are substantially identical have stated that they apply the same internal control procedures and policies, the actions and criteria to be followed in their inspection shall be determined by means of regulations. For these purposes, audit firms shall be deemed to be substantially identical when they share partners or auditors making up the majority of their share capital or their management body.

4. The results of inspections shall be documented in a report setting out the main conclusions regarding quality assurance with any improvement requirements indicated being implemented obligatorily by the auditor or audit firm within the deadline set for the purpose.

In inspections conducted on auditors and audit firms performing audits on public interest entities, regard shall be had for the provisions established in articles 26.8 and 26.9 of Regulation (EU) nº 537/2014, of 16 April.

5. The report referred to in the preceding section shall be published on the web site of the Accounting and Auditing Institute in those cases where the report refers to auditors and audit firms of public interest entities.

The said publication shall not contain any details identifying the entities audited by the auditors or audit firms inspected and shall remain on the web site until the Accounting and Auditing Institute issues a further report containing the results of a subsequent inspection.

The publication referred to in this article shall take place without prejudice to the actions for the monitoring of the requirements formulated, if any, any investigative actions that might be undertaken or any disciplinary proceedings that may be taken in those cases where there are signs of a breach.

Article 55. *Assistance through experts and professional services.*

1. The inspection, investigation or verification functions corresponding to the Accounting and Auditing Institute shall be carried out by the civil service personnel working for the same.

Nonetheless, whenever the needs of the service so require and the resources available are shown to be insufficient, it shall be possible, in the scenarios indicated in the following sections, to resort to the contracting of third parties for the performance of merely instrumental tasks within the said functions.

Such contracting shall be carried out in the form of a hired-service contract within the terms of the legislation on public sector procurement.

2. In the execution of inspections relating to auditors or audit firms not auditing public interest entities, and solely for the performance of merely instrumental tasks, it shall be possible to contract either with recognized professional associations representing auditors, or with third parties.

In all cases, those performing the said tasks on behalf of the recognized professional associations or third parties so contracted must always comply with the following requirements:

a) They must be auditors not engaged in professional practice and must not belong to any audit firm.

b) They must be independent of the auditors subjected to inspection and must be free of any possible influence or incompatibility with regard to the same.

For these purposes, the persons contracted on the above terms must sign a declaration that they have no incompatibility with the auditor or audit firm under inspection.

In all cases, those persons who, in at least the three years prior to the start of the inspection, have been partners or employees of, have rendered professional services for or have been associated with the auditor or audit firm under inspection shall not be eligible to participate in such procurement arrangements.

c) They must have appropriate professional training and adequate experience in auditing and financial reporting, as well as specific training on quality assurance controls.

d) In the execution of inspections, the Accounting and Auditing Institute shall also be able to contract experts with specific knowledge of any of the specialized matters or sectors related to any area of interest for the exercise of inspection powers. Such experts must comply with the requirements stipulated in letters b) and c) of this sub-section 2.

e) The stipulations contained in this sub-section 2 shall be understood to be without prejudice to the provisions of article 26.5 of Regulation (EU) nº 537/2014, of 16 April, for auditors and audit firms conducting audits on public interest entities.

3. In addition, for the execution of investigations and other verifications, apart from those referred to in the preceding sub-section, conducted by the personnel of the Accounting and Auditing Institute, it shall be possible to request the assistance of experts with an understanding of or expertise in certain specialized matters or sectors relating to any area of interest in the exercise of the powers of the said Institute. Such experts shall comply with requirements analogous to those contemplated in sub-section 2, letters b) and c).

Such assistance shall be contracted on the terms set out in the preceding sections.

4. Those taking part in merely instrumental tasks in procedures for the execution of inspections or in the furtherance of specific functions in inspections, investigations or other verifications shall be able to access any and all documentation that may be necessary with regard to the auditors or audit firms, provided that this is expressly determined by the civil servant inspectors of the Accounting and Auditing Institute in charge of the corresponding action, always subject to the duty of secrecy established in article 60. They shall act at all times on the instructions of the civil servants rendering their services at the Accounting and Auditing Institute.

5. Whenever so required for the performance of verifications or specific functions, the Accounting and Auditing Institute may obtain the assistance of professional services and experts, who shall be contracted on the terms set out in the above sections. These verifications or specific functions shall not in any case imply any activity other than a mere instrumental task.

6. In all the scenarios of inspection, investigation, verification or other actions referred to in this article, the supervision and direction of the same shall correspond to the civil servant inspectors of the Accounting and Auditing Institute, who shall establish which tasks are merely instrumental and are to be performed in each case by the third parties contracted to assist in their actions.

7. The service contracts referred to in this article shall have the duration strictly necessary for the provision of the service foreseen therein.

CHAPTER II

Accounting and Auditing Institute

Article 56. *The Accounting and Auditing Institute.*

1. The Accounting and Auditing Institute, an autonomous body reporting to the Ministry of Economy and Competitiveness, shall govern all its actions in accordance with the general legislation and provisions applicable thereto and, especially by the provisions contained in this Law and in the Law 6/41997, of 14 April, on the Organization and Operation of the General State Administration .

2. The governing bodies of the Accounting and Auditing Institute are: its President, its Audit Committee and the Corporate Information Council.

Article 57. *The President.*

The President of the Accounting and Auditing Institute, with the category of a Director General, shall be appointed by the Government at the proposal of the Minister

for the Economy and Competitiveness and shall hold the legal power to represent the Institute and exercise the powers assigned to him or her in this Act and as determined in regulations.

The post of President may not be held by anyone who, during the previous three years:

a) Has performed audit engagements.

b) Has been the registered holder of voting rights in an audit firm.

c) Has been a member of the governing body, management, or supervisory board of an audit firm.

d) Has been a partner in or has held an employment or contractual relationship of another kind with an audit firm.

Without prejudice to other disqualification scenarios contemplated in other statutes, the President shall not be able to accept any position involving any of the circumstances referred to in letters a) to d) above during the two years following the conclusion of the exercise of his or her functions.

Article 58. *The Audit Committee.*

1. The Audit Committee is the body to which the President must obligatorily submit the matters relating to the following topics for consideration:

a) Determination of the standards that must be followed in the professional aptitude examinations required to access the Official Register of Auditors, as well as the notices convening these examinations duly approved and published in a Ministerial Order;

b) Publication of the audit standards, ethical standards and the internal quality assurance standards that may be drawn up, adapted or reviewed by the recognized professional associations representing those performing audit activities or, in any case, by the Accounting and Auditing Institute;

c) Drafts of amendments to legislation or regulations to be submitted to the Minister for Economy and Competitiveness in connection with the regulations governing audit activities;

d) Determination of the continuing education standards referred to in article 8.7.

e) Resolution of queries posed to the Accounting and Auditing Institute by auditors as a consequence of the exercise of this activity whenever these are considered to be of general interest;

f) Any other matters considered appropriate by the President of the Institute, excluding those related to the exercise of the power to impose sanctions.

2. The Audit Committee shall be chaired by the President of the Accounting and Auditing Institute and shall comprise a maximum of thirteen members designated by the Minister for the Economy and Competitiveness, with the following distribution:

a) A representative of the Ministry of Economy and Competitiveness, through the Directorate-General for Insurance and Pension Funds;

b) A representative of the Ministry of Finance and Public Administrations, through the Office of the General Comptroller of the State Administration;

c) A representative of the Account Review Tribunal;

d) Four representatives of the recognized professional associations representing auditors;

e) A representative from the Bank of Spain;

f) A representative of the National Securities Market Commission;

g) A State Solicitor;

h) A member of the judiciary or a professional prosecutor or a commercial' registrar;

i) A university professor;

j) And a renowned expert in accounting and audit matters.

Membership of the Audit Committee shall not be available to persons who, during the three previous years:

1st. Have engaged in audits.

2nd. Have been the registered holders of voting rights in an audit firm.

3rd. Have been members of the governing body, management or supervisory board of an audit firm.

4th. Have been a partner in or have held an employment or contractual relationship of another kind with an audit firm.

Without prejudice to other disqualification scenarios contemplated in other statutes, the members of the Audit Committee shall not be able to accept any position involving any of the circumstances referred to in paragraphs 1st to 4th above during the two years following the conclusion of their mandates.

3. The composition, organization and functions of the Audit Committee shall be stipulated by means of regulations.

4. All assistance rendered to the Audit Committee shall be entitled to the corresponding compensation.

Article 59. *The Corporate Information Council.*

1. The Corporate Information Council is the competent body, once the Accounting Advisory Committee has been heard, to assess the suitability and adequacy of any regulatory proposal or interpretation of general interest in accounting matters with the Conceptual Framework of Accounting regulated in the Commercial Code.

Likewise, it is the competent body, once the Sustainability Advisory Committee has been heard, to assess the suitability and adequacy of any regulatory or interpretation proposal of general interest regarding corporate information on sustainability.

For these purposes, it will inform the competent bodies and agencies before the approval of the accounting standards or corporate reporting standards on sustainability and their interpretations, issuing the corresponding non-binding report.

2. The Corporate Information Council will be chaired by the President of the Institute, who will have the casting vote, and will be formed, together with him, by a representative of each of the remaining centers, organizations or institutions that have been assigned regulatory powers in accounting matters. and, where appropriate, corporate information on the sustainability of the financial system: Bank of Spain,

National Securities Market Commission and General Directorate of Insurance and Pension Funds.

An official of the Accounting and Auditing Institute will attend with voice, but without vote, as Secretary of the Council.

Likewise, a representative of the Ministry of Finance and Public Function designated by the head of the Department will be part of the Corporate Information Council with voice but without vote.

3. The Accounting Advisory Committee is the advisory body of the Corporate Information Council on accounting matters. Said Committee will be made up of accounting experts of recognized prestige in relation to economic-financial information, representing both public administrations and the different sectors involved in the preparation, use and dissemination of said information. In any case, the Ministries of Justice must be represented; of Economic Affairs and Digital Transformation, through the Accounting and Auditing Institute, of the General Directorate of Insurance and Pension Funds, of the National Institute of Statistics; of Finance and Public Function, through the General Intervention of the State Administration and the General Directorate of Taxes; the Bank of Spain; the National Securities Market Commission; the General Council of Economists of Spain;

Likewise, it will be made up of a representative of the associations or organizations representing the issuers of economic information of the companies and another of the users of accounting information; a representative of the associations issuing accounting principles and criteria; an audit professional proposed by the Institute of Certified Public Accountants and another from the University.

The person holding the Presidency of the Accounting and Auditing Institute may appoint up to five people of recognized prestige in accounting matters. Additionally, when the complexity of the subject requires it, an expert in said subject may be invited to the meetings.

Any project or regulatory or interpretative proposal on accounting matters will be submitted to the deliberation of the Accounting Advisory Committee.

4. The Sustainability Advisory Committee is the advisory body of the Corporate Information Council on corporate information on sustainability. Said Committee will be made up of experts of recognized prestige in relation to corporate information on sustainability, representing both public administrations and the different sectors involved in the preparation, use, dissemination and verification of said information. In any case, the Ministries of Justice must be represented; of Economic Affairs and Digital Transformation, through the Accounting and Auditing Institute; of Finance and Public Function; of Ecological Transition and Demographic Challenge; The Ministries of Labor and Social Economy, Social Rights and Agenda 2030 and Equality must jointly appoint two representatives; The National Securities Market Commission must be represented; the Bank of Spain; the General Directorate of Insurance and Pension Funds and the General Council of Economists of Spain.

Likewise, it will be made up of two representatives of the associations or organizations representing the issuers of corporate information on sustainability, one of them being a representative of small and medium-sized companies; a representative of the users of sustainability information and a professional for verification of sustainability information at the proposal of the Institute of Certified Public Accountants.

The person holding the Presidency of the Accounting and Auditing Institute will appoint a representative of said Institute, a representative of the University, a representative of the associations that issue accounting principles and criteria and may appoint up to four people of recognized prestige in the field. of sustainability. Additionally, when the complexity of the subject requires it, an expert in said subject may be invited to the meetings.

Any project or regulatory or interpretative proposal regarding corporate information on sustainability will be submitted to the deliberation of the Sustainability Advisory Committee.

5. The powers of proposal to the Accounting Advisory Committee and the Sustainability Advisory Committee correspond, in the form and conditions that are established by regulation, in general to the Accounting and Auditing Institute, without prejudice to those referred to the financial sector that will correspond in each case to the Bank of Spain, the National Securities Market Commission and the General Directorate of Insurance and Pension Funds, in accordance with their respective powers, and without prejudice to making joint proposals.

The composition and method of designation of its members and the manner of action of both Committees will be those determined by regulation.

6. Attendance at the Accounting Advisory Committee and the Sustainability Advisory Committee will give the right to the corresponding compensation.

Article 60. *Confidentiality and the duty of secrecy.*

1. All information or data obtained by the Accounting and Auditing Institute in the exercise of its public supervisory and oversight functions with regard to audit activities foreseen in this Act shall be confidential in nature and may not be disclosed or furnished to any other person or body.

2. All persons performing or having performed any activity for the Accounting and Auditing Institute and who have become aware of any confidential information are obliged to preserve the secrecy thereof. Any failure to comply with this obligation shall determine the criminal, civil, and administrative penalties foreseen in the legislation.

Such persons shall not be able to give testimony or evidence, nor publish, communicate or exhibit any confidential data or documents, even after they have ceased to render their services unless express permission for such disclosure is granted by the Accounting and Auditing Institute. Should such permission not be granted, the person affected shall maintain the aforesaid duty of secrecy and shall be exonerated from any liability arising therefrom.

3. The duty of secrecy regulated in this article shall be lifted in the following cases:

a) When the party concerned expressly consents to the dissemination, publication or notification of the data.

b) For publication of aggregate data for statistical purposes, or communications in summary or aggregate formats in such a way that the auditors and audit firms cannot be identified in accordance with the fifth additional provision.

c) Information required by the competent judicial authorities or by the Office of the Public Prosecutor in criminal proceedings or in a civil case.

d) Information that, in the context of the administrative or jurisdictional appeals against administrative resolutions handed down in the exercise of the power to impose penalties as referred to in article 68, may be required by the competent administrative or judicial authorities.

e) Information that the Accounting and Auditing Institute has published in accordance with the provisions contained in articles 8, 61 and 82.

f) The results of the quality assurance actions undertaken at an individual level with auditors and audit firms, without these including any identification of the entities audited. The manner and content of such publication shall be determined by means of regulations.

4. Notwithstanding the provisions contained in the preceding sections, all confidential information may be supplied by the Accounting and Auditing Institute to the following persons and entities in order to facilitate their fulfilment of their respective functions, and they shall in turn be obliged to preserve the duty of secrecy regulated in this article:

a) Those designated in a judicial resolution.

b) Those duly authorized by statute.

c) The Bank of Spain, the National Securities Market Commission and the Directorate-General for Insurance and Pension Funds, as well as the regional government bodies with powers over the organization and oversight of insurance entities.

d) The authorities responsible for the fight against Money-Laundering and the Financing of Terrorism, as well as any communications effected by virtue of the provisions contained in section 3 of chapter I in Title III of the Law 58/2003, of 17 December, on General Tax .

e) Persons and entities whom the Accounting and Auditing Institute has commissioned for the execution of tasks or activities on the terms established in the third additional provision.

f) The competent authorities of the European Union Member States and third countries on the terms referred to, respectively, in articles 63 and 67, as well as the colleges of audit supervisors in accordance with the provisions contained in article 66.

g) The Committee of European Auditing Oversight Bodies, the European Securities and Markets Authority, the European Banking Authority, the European Insurance and Occupational Pensions Authority, the Commission, the European Central Bank System, the European Central Bank and the European Board for Systemic Risks on the terms established in chapter IV of this Title.

h) Audit Committees of public interest entities may receive the inspection reports in the part corresponding to the audit engagements relating to the respective public interest entity, and for the purposes of complying with their powers, as foreseen in Regulation (EU) nº 537/2014, of 16 April, and in article 529 *quaterdecies* of the consolidated text of the Law on Capital Companies, approved by Royal Legislative Decree 1/2010, of 2 July.

Article 61. *Transparency and public notice.*

The Accounting and Auditing Institute must annually publish a report setting out at least the programmes or action plans conducted by the Institute, an Annual Report of Activities and the general results and conclusions reached with respect to the quality assurance system.

With regard to the auditors and auditing firms engaging in the audit of public interest entities, the obligation of transparency and public notice shall be subject to the provisions contained in article 28 of Regulation (EU) nº 537/2014, of 16 April. Furthermore, the Accounting and Auditing Institute shall publish the results and conclusions of the quality assurance reports referred to in article 26 of the said Regulation. Such public notice shall not include data identifying the entities audited whose audit engagements have been subjected to inspection.

CHAPTER III

Supervisory regime applicable to auditors and auditing firms as well as other auditing entities authorized in European Union Member States and in third countries

Article 62. *Auditors, audit firms and other audit entities authorized in European Union Member States and in third countries.*

The following parties shall be subject to the oversight powers and disciplinary regime attributed to the Accounting and Auditing Institute in this Title:

a) Auditors and auditing firms originally authorized to perform audit activities in a European Union Member State and registered in the Official Register of Auditors, with respect to the audit engagements undertaken on the accounts of entities domiciled in Spain, without prejudice to the provisions contained in regulatory agreements that may be entered into with the European Union Member States.

b) Auditors originally authorized to perform audit activities in third countries and authorized, followingt he registration in the Official Register of Auditors, to exercise audit activities in Spain.

c) Auditors, as well as audit firms and other audit entities authorized to perform audit activities in third countries issuing audit reports on the annual accounts or consolidated annual accounts of an entity among those referred to in articles 10.3 and 11.5, in accordance with the dispensations to be defined by means of regulations, pursuant to the declaration and assessment of equivalence conducted by the Commission of the European Union.

CHAPTER IV

International co-operation

Article 63. *Duty to collaborate with European Union Member States and the European supervisory authorities.*

1. The Accounting and Auditing Institute shall collaborate with the European Securities and Markets Authority, the European Banking Authority, the European Insurance and Occupational Pensions Authority and with the authorities of the European Union Member States that have been attributed powers over matters relating to the authorization, registration, quality assurance, investigation and disciplinary regime for

audit activities, with the power, for these purposes, to exchange any and all information that may be required and both conduct an investigation at the request of a European Union Member State and allow the latter's personnel to accompany the personnel of the Accounting and Auditing Institute in the course of the investigation, as well as to request the performance of an investigation by another Member State on the same terms and conditions.

Without prejudice to the provisions contained in article 11.4, in those scenarios where an auditor or audit firm ceases to be registered in the Official Register of Auditors, the Accounting and Auditing Institute shall notify this to the authorities of the Member States referred to in the preceding paragraph wherever the auditor or the audit firm were authorized for the exercise of audit activities, together with the reasons justifying this decision.

2. The exchange of information foreseen in the preceding section shall be carried out with all due promptness and diligence. Should it not be possible to provide the information on the conditions indicated, the reasons for this must be notified to the requesting authority.

The European supervisory bodies mentioned in the preceding section, the competent authorities of the Member States mentioned, and the Accounting and Auditing Institute must all observe the duty of secrecy referred to in article 60 regarding any information they may have had access to under the preceding section. Such information may only be used in the exercise of the functions contemplated in this Act, within the context of administrative proceedings related with the said functions, and in judicial proceedings. It may not be revealed except in those scenarios foreseen in article 60 or when required under national statute or under the law of the European Union.

3. Without prejudice to the provisions contained in the preceding sections, the Accounting and Auditing Institute may refuse to furnish information to the competent authorities of other Member States, to conduct an investigation requested by the said authorities, or to have its personnel accompanied by the personnel of the said authorities, whenever the supply of such information or the conduct of such an investigation might be detrimental to the sovereignty, public safety or law and order, or if judicial proceedings are under way before Spanish authorities or if a definitive judgment has been handed down by the said authorities in proceedings relating to the same facts against the same auditors and audit firms.

4. When the Accounting and Auditing Institute comes to the conclusion that activities are being or have been carried out in the territory of another Member State contrary to the national provisions of the said Member State transposing Directive 2006/43/EC of the European Parliament and of the Council, of 17 May, in connection with the statutory audit of annual accounts and consolidated annual accounts, this circumstance shall be notified to the competent authority of the said Member State.

5. With regard to auditors or audit firms auditing public interest entities, the Accounting and Auditing Institute may collaborate with the competent authorities of another Member State in accordance with article 31 of Regulation (EU) nº 537/2014, of 16 April.

Article 64. Committee of *European Auditing Oversight Bodies.*

The Accounting and Auditing Institute, in its capacity as the supervisory body on auditing, shall co-operate with the Committee of European Auditing Oversight Bodies

in accordance with the provisions contained in Regulation (EU) nº 537/2014, of 16 April.

In particular, the Accounting and Auditing Institute shall exchange information in accordance with the provisions contained in Regulation (EU) nº 537/2014, of 16 April.

In addition, the Accounting and Auditing Institute shall provide the Committee of European Auditing Oversight Bodies with the following information, at least:

a) Annually, aggregate information on the administrative measures adopted and sanctions imposed in the exercise of its supervisory powers.

b) On each occasion and as promptly as possible, information about the definitive sanctions within the administrative jurisdiction that have been imposed on audit firms and auditors, where these sanctions imply the withdrawal of approval or definitive removal from the Official Register of Auditors, as well as any temporary suspension of authorization or temporary removal for up to five years from the Official Register of Auditors.

c) On each occasion and as promptly as possible, information about the definitive sanctions within the administrative jurisdiction that have been imposed on the members of a governing body or management board of a public interest entity due to failure to comply with the duties imposed by this Act, where these sanctions imply a suspension for up to three years.

Furthermore, the Accounting and Auditing Institute shall co-operate with the Committee of European Auditing Oversight Bodies and the competent authorities of the Member States in order to converge towards the application of the training requirements demanded in order to practise auditing and to permit access to auditors authorized in other Member States.

Article 65. *Transmission of information to the European Central Bank, the European Central Banks System and to the European Systemic Risk Board.*

The Accounting and Auditing Institute may transmit information necessary for the exercise of their respective functions to the European Central Banks System, the European Central Bank, and the European Systemic Risk Board.

Article 66. *Colleges of supervisory authorities with audit responsibilities.*

The Accounting and Auditing Institute shall participate in colleges of competent authorities with a view to facilitating the performance of the actions set out in articles 46 and 63 of this Act and in article 31 of Regulation (EU) nº 537/2014, of 16 April.

Article 67. *Co-ordination with competent authorities in third countries.*

1. The Accounting and Auditing Institute, having regard for the principle of reciprocity, shall be able to enter into information exchange agreements with the authorities of third countries that have been declared adequate by the Commission of the European Union and are competent with regard to authorization, registration, quality assurance, investigation and disciplinary regime as regulated in this Act. Such information exchange agreements shall ensure that the competent authorities in third countries justify each request, that the persons employed by or previously employed by the said competent authorities and receiving the information are subject to obligations of professional secrecy, that the said competent authorities in third countries are able to use the said information solely for the exercise of their functions of public oversight,

quality assurance and investigations or penalties equivalent to those functions established in this Act, and that the said agreement does not impair the protection of the commercial interests of the audited entity, including any industrial and/or intellectual property.

The Accounting and Auditing Institute shall notify the Committee of European Auditing Oversight Bodies and the European Commission of these information exchange agreements.

In particular, and on the terms agreed with the competent authorities in third countries, the Accounting and Auditing Institute shall be able, following justification of the request by the competent authority in a third country, to allow the said competent authority to be sent the working papers or other documents in the possession of auditors, audit firms and other audit entities that are auditing the accounts of companies domiciled in Spain that have issued securities in that third country or of companies forming part of a group that publishes consolidated annual accounts in the said third country, as well as the inspection or investigation reports relating to the audit of the said accounts.

2. Without prejudice to the provisions contained in the preceding section, the Accounting and Auditing Institute may refuse to furnish information to the competent authorities in third countries whenever the supply of such information might be detrimental to the sovereignty, public safety or law and order, or if judicial proceedings have already been initiated by Spanish authorities or if a definitive judgment has been handed down by the said authorities in proceedings relating to the same facts against the same auditors and audit firms or if the Accounting and Auditing Institute has adopted definitive resolutions in connection with the same facts against the same auditors and audit firms.

3. In exceptional cases, the Accounting and Auditing Institute may allow information to be sent by auditors and audit firms registered in the Official Register of Auditors directly to the competent authorities of a third country, provided that information exchange agreements have been entered into with the said authorities, the said authorities have initiated an investigation in the said country and each request has previously been reported to the Accounting and Auditing Institute with the reasons therefor, and provided that the sending of the information does not harm the supervisory actions of the Accounting and Auditing Institute to which the auditors and audit firms are subject.

4. All information supplied under this article shall be subject to the duty of secrecy referred to in article 60. Without prejudice to the provisions contained in European Union statutes, the said information may only be used in the exercise of the supervisory functions regulated in this Act, as well as any equivalent functions attributed to the authorities referred to in section 1 of this article.

5. The Accounting and Auditing Institute shall be able to disclose confidential information received from the competent authority of a third country in accordance with the provisions contained in article 37 of Regulation (EU) nº 537/2014, of 16 April.

6. The Accounting and Auditing Institute shall require all confidential information notified to a competent authority in a third country to be disclosed solely in accordance with the provisions contained in article 38 of Regulation (EU) nº 537/2014, of 16 April.

The Accounting and Auditing Institute shall collaborate with the competent authorities in third countries in accordance with the provisions contained in article 36 of Regulation (EU) nº 537/2014, of 16 April.

TITLE III

Regime for breaches and sanctions

Article 68. *Power to impose administrative sanctions.*

The Accounting and Auditing Institute shall be responsible for exercising the power to impose sanctions for the commission of breaches classified in this Act with respect to the subjects responsible referred to in article 70.1.

Article 69. *Special features regarding procedures.*

1. The power to impose sanctions referred to in the preceding article shall be exercised in accordance with the provisions contained in Title IX of the Law 30/1992, of 26 November, on the Legal Regime of the Public Administrations and the Common Administrative Procedure, in this Act and in the Regulations developing the same.

2. All parties identified as allegedly responsible in the resolution to initiate a sanctioning procedure for the imposition of penalties shall be deemed to be interested parties in the proceedings brought under this Title.

3. The party denouncing facts as potentially constituting a breach classified as such in this Act shall not be deemed to be an interested party in the proceedings initiated, if any, and the writ of complaint shall not form any part of the case file. The whistle-blowing party shall not be entitled to lodge any appeals or complaints in connection with the results of previous actions that may have been carried out, if any, prior to the start of the proceedings for the imposition of penalties, nor in connection with the resolution bringing the said proceedings to an end.

4. The deadline for resolving the proceedings for the imposition of penalties and notifying the resolution as a consequence of the commission of breaches foreseen in this Act shall be one year, which term may be extended in accordance with the provisions contained in articles 42.6 and 49 of the Law 30/1992, of 26 November, on the Legal Regime of the Public Administrations and the Common Administrative Procedure.

5. On the terms foreseen in the regulations, it may be possible to order abridged proceedings for the imposition of penalties when all of the elements enabling the motion for a resolution to be drawn up are in the possession of the Accounting and Auditing Institute at the time the case file for the imposition of penalties is opened. In such cases, the motion for a resolution shall be included along with the resolution to initiate a sanctioning procedure, and shall be notified to the interested party/ies with an indication that the case file is available for viewing and that a term of fifteen days has been granted for the said interested party/ies to submit any and all arguments they consider pertinent and to submit such documents, vouchers and evidence as may be deemed appropriate.

6. Civil and/or criminal liability, if any, that may lie with the subjects responsible for the breaches classified in this Act shall be pursued in the manner foreseen in article 26 of this Act and in the other legislation regulating such liabilities.

7. In the resolution to initiate a sanctioning procedure or at any subsequent moment, it shall be possible to adopt, as an interim measure having regard for the

particular circumstances of the alleged breach, a formal request addressed to the auditor or the audit firm to cease and desist in their action and to refrain from repeating it.

Should the proceedings finally conclude with a resolution imposing a penalty with regard to the facts taken into consideration in order to draw up the said formal requirement, the said formal requirement shall be recorded in the dispositive part of the resolution, without prejudice to the additional imposition of any sanctions foreseen.

Article 70. *Administrative responsibility.*

1. In all cases, the following shall be considered to be the subjects responsible for the breaches classified in this Act:

a) The auditors and the audit firms and other auditing entities.

b) In the case of breaches committed by audit firms in connection with a particular audit engagement, both the firms and the auditors, whether partners or not, who have signed the audit report on the firms' behalf.

c) The persons and entities referred to in articles 18, 19 and 20.

d) Non-auditor subjects affected by the prohibitions established in articles 23 and 31, and other persons or entities referred to in the actions contemplated in article 46.1.

2. A failure to apply auditing standards that derives from a reasonably justified legal or technical discrepancy in their interpretation or application shall not be considered subject to penalty. For these purposes, and in order to enable the verification of the reasonableness of the interpretation of the auditing technical standards made by the auditor or audit firm, the auditor and audit firm must document the reasonableness of the interpretation used.

3. The commission of any of the breaches indicated in this Act inferred from a single fact may only give rise to the imposition of a single penalty on the auditor signing the audit report on behalf of an audit firm and a single penalty on the audit firm on whose behalf the report was signed.

Article 71. *Breaches.*

The breaches committed by the subjects referred to in article 70.1 shall be classified as very serious, serious and minor.

Article 72. *Very serious breaches.*

The following breaches shall be considered as very serious:

a) The issuing of audit reports in which the opinion is not in accordance with the evidence obtained by the auditor in the course of the engagement, provided that there has been criminal or fraudulent intent or particularly serious and inexcusable negligence.

b) The failure to comply with the provisions contained in articles 4.1, 4.2 and 5.1 of Regulation (EU) nº 537/2014, of 16 April, or in articles 14 to 20, 25 and 39 with regard to the duty of independence, provided that there has been criminal or fraudulent intent or particularly serious negligence; with the obligation regarding the maximum duration of contracts required under article 40.1; or with the fees caps contemplated in article 41, sub-sections 1 and 2.

c) A refusal or resistance on the part of auditors or audit firms to the exercise of the monitoring or disciplinary powers of the Accounting and Auditing Institute or the failure to send the said body any and all information or documents as may be required in the exercise of the legally attributed functions for monitoring and maintaining discipline in the exercise of audit activities, pursuant to the provisions contained in chapter I of Title II of this Act.

d) The failure to comply with the duty of secrecy established in article 31.

e) The use of information obtained in the exercise of their functions for personal gain or for the benefit of any third party.

f) The failure to comply with the prohibition imposed pursuant to articles 77, paragraph two, and article 78.1.

g) The failure to comply with the duty to ensure conservation and safekeeping established in article 30, unless there are circumstances of *force majeure* not attributable to the auditor or the audit firm.

h) The non-issuance of an audit report for a public interest entity for reasons attributable to the auditor or the audit firm, including those cases where the circumstances required in article 5.2 for a failure to issue the audit report or the withdrawal from the audit engagement are not present; furthermore, the issuance of an audit report that, because of the date on which it is issued, is unable to fulfil the purpose for which the corresponding audit engagement was commissioned due to causes attributable to the auditor or audit firm.

i) The failure to issue or deliver on time the additional report for the Audit Committee of public interest entities, or its delivery with a substantially incorrect or incomplete content, provided that a request for the same had been received from the Audit Committee.

j) The execution of audit engagements without being registered as a practising auditor on the Official Register of Auditors or without having provided a sufficient financial guarantee.

k) The signing of an audit report on behalf of an audit firm by an auditor not expressly designated by the said firm to do so.

Article 73. Serious breaches.

The following breaches shall be considered as serious:

a) The failure to comply with the obligation to conduct an audit engagement definitively contracted or accepted, in the case of designation by a Court of Law or the Commercial Registry, due to reasons attributable to the auditor or the audit firm, including those cases where the circumstances required in article 5.2 for a failure to issue the audit report or the withdrawal from the audit engagement are not present; furthermore, the issuance of an audit report that, because of the date on which it is issued, is unable to fulfil the purpose for which the corresponding audit engagement was commissioned due to causes attributable to the auditor or audit firm.

b) The failure to comply with auditing standards where there is a material effect on the outcome of the work performed and, therefore, on the audit report.

c) The failure to comply with the provisions contained in articles 4.1, 4.2 and 5.1 of Regulation (EU) nº 537/2014, of 16 April, or in articles 14 to 20, 25 and 39, with regard to the duty of independence, provided that there has not been criminal or

fraudulent intent or particularly serious negligence, as well as articles 22 to 24, 40.2 and 40.3.

d) The failure to send the Accounting and Auditing Institute any and all periodic or circumstantial information required by statute or in regulations, when three months have elapsed after the end of the deadlines for its remission, or the sending of information that is substantially incorrect or incomplete.

e) The acceptance of audit engagements that exceed annual capacity measured in auditor hours, in accordance with the provisions contained in auditing standards.

f) The failure to comply with the provisions contained in additional provision seven; or the issuance of the report or notification referred to in the said provision with substantially incorrect or incomplete information; or the failure to comply with the obligation to report to the national authorities overseeing public interest entities as required in article 38 of this Act.

g) The issuance of a report, identifying oneself as an auditor, in an engagement other than those regulated in article 1, or different from those that, without being classified as audit engagements, are attributed by law to auditors, when the drafting or presentation may generate confusion with respect to the nature of the engagement as an audit engagement.

h) The failure to comply with the provisions contained in article 15, with regard to the identification of threats and the safeguard measures applied, when these safeguard measures are insufficient or have not been established.

i) The failure to comply in due time with the quality assurance requirements drawn up as referred to in article 54 or the substantial failure to comply with the said requirements in a timely manner.

j) The failure to comply with the obligation to publish the annual transparency report; with the obligation to notify and accredit the reasons for not including information about the identification of public interest entities; or when the report as published contains substantially incorrect or incomplete information, in accordance with the contents foreseen in article 37, provided that one month has elapsed after the end of the deadline for the same.

k) The refusal or resistance on the part of non-auditor subjects referred to in articles 19, 20 and 48.1 to the exercise of the monitoring or disciplinary powers of the Accounting and Auditing Institute or the failure to send the said body any and all information or documents as may be required in the exercise of such powers, pursuant to the provisions contained in chapter I of Title II.

l) The non-existence or substantial shortcomings in the application of internal quality assurance systems on the part of auditors or audit firms; the failure to comply with the obligation to keep the registers established in articles 28, 29, 42 and 43 with respect to the internal organization of the auditor or the substantially incomplete or incorrect keeping of the said registers; or the failure to carry out the quality assurance review referred to in article 8 of Regulation (EU) nº 537/2014, of 16 April, before issuing the audit report.

ll) A lack of notification regarding the failure to comply with any of the requirements demanded of auditors or audit firms for registration in the Official Register of Auditors as practising auditors or audit firms, when they have continued exercising this activity.

m) The failure to comply with the provisions contained in article 8.7 with regard to the observance of continuing education development.

n) The failure to comply with the obligation to allow access by the subsequent auditor or audit firm (in the event of the replacement of the auditor of the audited entity) or the group auditor or audit firm (in the event of an audit of consolidated financial statements) to the documentation related to the audited entity or the consolidated entities, respectively.

ñ) The failure to issue, or deliver to the Audit Committee on time, the additional report foreseen in article 36, or its delivery with a substantially incorrect or incomplete content.

Article 74. *Minor breaches.*

The following breaches shall be considered as minor:

a) Any actions and omissions implying a breach of auditing standards and not included in the preceding articles.

b) The failure to send the Accounting and Auditing Institute any and all periodic or circumstantial information required by statute or in regulations within the deadlines for its remission, provided that three months have not yet elapsed since the end of such deadlines.

Article 75. *Sanctions for breaches committed by individual auditors.*

Whenever breaches are committed by individual auditors, the following regime for sanctions shall be applied to the party at fault:

1. For the commission of very serious breaches, one of the following sanctions shall be imposed on the party at fault:

a) Revocation of authorization and definitive removal from the Official Register of Auditors.

b) Suspension of authorization and temporary removal from the Official Register of Auditors for a term from two years and one day to five years.

c) Fine in an amount from six to nine times the amount invoiced for the audit engagement in which the breach was committed, without this being, in any case, less than 18,001 euros nor more than 36,000 euros. This maximum shall not be applicable in those cases where the breach refers to an audit engagement for the accounts of a public interest entity. When the breach has not been committed in connection with a specific audit engagement, the sanction to be imposed on the auditor shall be a fine of a minimum amount of 18,001 euros and a maximum of 36,000 euros.

2. For the commission of serious breaches, one of the following sanctions shall be imposed on the party at fault:

a) Suspension of authorization and temporary removal from the Official Register of Auditors for a term of up to two years.

b) Fine in an amount from two to five times the amount invoiced for the audit engagement in which the breach was committed, without this being, in any case, neither less than 6,001 euros nor greater than 18,000 euros. This maximum shall not be applicable in those cases where the breach refers to an audit engagement for the accounts of a public interest entity. When the breach has not been committed in

connection with a specific audit engagement, the sanction to be imposed on the auditor shall be a fine of a minimum amount of 6,001 euros and a maximum of 18,000 euros.

For the commission of the serious breach contemplated in article 73.d), the auditor at an individual level shall in all cases suffer the withdrawal of authorization and removal from the Official Register of Auditors whenever an administratively definitive sanction has been imposed in the previous five years for the same kind of breach.

3. For the commission of minor breaches, one of the following sanctions shall be imposed on the party at fault:

a) Fine in an amount of up to 6,000 euros.

b) Private reprimand.

Article 76. *Sanctions for* breaches *committed by audit firms.*

In the case of breaches committed by audit firms, the following regime shall apply for sanctions:

1. For the commission of very serious breaches, one of the following sanctions shall be imposed on the audit firm:

a) Withdrawal of authorization and definitive removal from the Official Register of Auditors.

b) Fine in an amount between three and six per cent of the fees invoiced for audit activities in the last financial year declared to the Accounting and Auditing Institute prior to the imposition of the sanction, without the resulting sanction being less than 24,000 euros.

2. One of the following sanctions shall be imposed on the auditor designated for the purposes of signing the report on behalf of an audit firm and jointly responsible for a very serious breach committed by the said audit firm:

a) Withdrawal of authorization and definitive removal from the Official Register of Auditors.

b) Suspension of authorization and temporary removal from the Official Register of Auditors for a term from two years and a day to five years.

c) A fine for the minimum amount of 12,001 euros and up to a maximum of 24,000 euros.

3. For the commission of serious breaches, the sanction imposed on the audit firm shall be a fine in the amount of up to three per cent of the fees billed for audit activities in the last financial year as declared to the Accounting and Auditing Institute prior to the imposition of the sanction, without the resulting sanction being less than 12,000 euros.

For the commission of the serious breach contemplated in article 73.d), the sanction imposed on the audit firm shall in all cases entail the withdrawal of authorization and removal from the Official Register of Auditors whenever an administratively definitive sanction has been imposed in the previous five years for the same kind of breach.

For the commission of the serious breach contemplated in article 73.ll), the sanction imposed on the audit firm shall entail the suspension or withdrawal of authorization and removal from the Official Register of Auditors or a fine in the amount

of up to three per cent of the fees billed for audit activities in the last financial year closed prior to the imposition of the sanction.

4. One of the following sanctions shall be imposed on the auditor designated for the purposes of signing the report on behalf of an audit firm and jointly responsible for the serious breach committed by the said audit firm:

a) Suspension of authorization and temporary removal from the Official Register of Auditors for a term of up to two years.

b) A fine for the minimum amount of 3,000 euros and up to a maximum of 12,000 euros.

5. For the commission of minor breaches, the sanction imposed on the audit firm at fault shall be a fine for an amount of up to 6,000 euros.

6. The auditor designated for the purposes of signing the report on behalf of an audit firm and jointly responsible for a minor breach committed by the said audit firm shall be given a private reprimand.

Article 77. *Sanctions for breaches committed by auditors and audit firms in connection with public interest entities.*

When a fine is imposed as a consequence of an audit engagement of a public interest entity or the failure to comply with obligations imposed on the auditors of public interest entities, then the amount of the same that would be applied in general pursuant to articles 75 and 76 may be increased by up to 20%. The minimum and maximum amounts shall be increased in the same proportion.

In those cases where the sanctions to be imposed consist of fines, then the audit firm and the auditors responsible for the breach may additionally be suspended from conducting audits of public interest entities for a term of up to 2 years in the case of serious breaches and for up to 5 years in the case of very serious breaches. The said suspensions shall begin to be counted from the start of the financial year following that in which the sanction imposed becomes definitive in the administrative jurisdiction.

Article 78. *Additional sanctions.*

1. When the imposition of a sanction for a very serious or serious breach is a consequence of an audit engagement with a particular entity, then the sanction shall also entail a prohibition on the individual auditor or the audit firm and the main auditors responsible for the engagement from performing audits on the entity in question corresponding to the first three financial years starting after the date on which the sanction becomes definitive in the administrative jurisdiction.

2. In addition to the imposition, due to very serious or serious breaches, of sanctions consisting in withdrawals or suspensions of authorization and definitive or temporary removals from the Official Register of Auditors, those subjects declared at fault shall be disqualified from holding positions as directors at audit firms for the same period of time as the sanctions imposed.

3. Where a very serious or serious breach is committed in connection with the audit engagement conducted, including in all cases, the performance of the engagement by anyone not qualified to do so, then the resolution imposing the sanction shall contain, in its dispositive part, a declaration stating the failure to comply in the audit report issued with the requirements established in article 5 for audit reports.

Where the audit has been carried out on a public interest entity, an express reference shall be made to the failure to comply with the requirements established in article 10 of Regulation (EU) nº 537/2014, of 16 April, and in article 5.1.f).

Article 79. *Sanctions for* breaches *committed by non-audit parties.*

Where breaches have been committed by subjects who are not auditors, the following rules shall apply:

a) For the very serious breach foreseen in article 72.b), a fine of between a minimum of 26,000 euros and a maximum of 54,000 euros shall be imposed for any failure to comply with the prohibition established in article 39.2.d). In such cases, the audit firm shall not be considered responsible for the said failure to comply, without prejudice to its obligation not to perform the audit referred to in article 23.

b) For the very serious breach contemplated in article 72.d), a fine of between a minimum of 18,000 euros and a maximum of 36,000 euros shall be imposed for any failure to comply with the duty to preserve secrecy established in article 31.

c) For the very serious breach contemplated in article 72.j), a fine of between a minimum of 30,000 euros and a maximum of 60,000 euros shall be imposed for conducting audit engagements without being registered as a practising auditor on the Official Register of Auditors or without having provided a sufficient financial guarantee.

d) For the serious breach foreseen in article 73.c), a fine of between a minimum of 6,000 euros and a maximum of 48,000 euros shall be imposed for any failure to comply with the prohibition established in article 23. In such cases, the audit firm shall not be considered responsible for the said failure to comply, without prejudice to its obligation not to perform the audit referred to in the said article 23.

e) For the serious breach contemplated in article 73.k), a fine of between a minimum of 12,000 euros and a maximum of 18,000 euros shall be imposed for each refusal or resistance.

A fine of between a minimum of 12,000 euros and a maximum of 36,000 euros shall be imposed in those cases where the breaches foreseen in article 73.k) are committed by the audited entities or related parties.

In the case of public interest entities, the fine imposed shall be between a minimum of 36,000 euros and a maximum of 72,000 euros.

Article 80. *Determination of the sanction.*

1. The sanctions applicable in each case for the commission of breaches shall be determined by taking the following criteria into account:

a) The nature and importance of the breach.

b) The severity of the harm or damage caused or potentially caused.

c) The existence of intentionality.

d) The importance of the audited entity, measured in terms of the total asset section, its annual turnover or the number of its employees.

e) The unfavourable consequences for the national economy.

f) The previous behaviour of the parties at fault.

g) The ameliorating circumstance of having proceeded to perform, at their own initiative, actions aimed at remedying the breach or at mitigating its impact.

2. Except for the provisions with regard to the commission of the serious breach contemplated in article 73.d), the sanctions contemplated in articles 75 to 79 shall be imposed in their upper half when a sanction has been imposed for the same type of breach and has become definitive in the administrative jurisdiction in the previous five years.

Article 81. *Enforceability of resolutions.*

All resolutions imposing any of the sanctions listed in this title shall only be enforceable once they have become definitive in the administrative jurisdiction.

Article 82. *Public notice of sanctions.*

1. The dispositive part of resolutions imposing sanctions, once enforceable, shall be published in the Bulletin of the Accounting and Auditing Institute and shall be recorded on the Official Register of Auditors. Sanctions consisting in private reprimands are exempted.

Whenever appeals are lodged against sanctions in the administrative dispute jurisdiction, this circumstance shall be recorded on the Official Register of Auditors and, whenever possible, the status of the processing of the appeal and its outcome shall be indicated thereon.

2. It shall be possible to access the information described in the preceding section through the web site of the Accounting and Auditing Institute.

3. Sanctions for breaches committed in connection with audit engagements and audit reports on public interest entities shall be published in the Official State Gazette once they have become definitive in the administrative jurisdiction.

Sanctions involving separation and disqualification shall also be recorded on the Commercial Registry once they have become definitive in the administrative jurisdiction.

4. In the publication of sanctions, information shall be included on the type and nature of the breach and the identity of the private individual or body corporate the sanction is imposed on.

5. Sanctions that have become definitive in the administrative jurisdiction may exceptionally be entered on the Official Register of Auditors as confidential and without proceeding to their publication in those cases where, in addition to the provisions contained in applicable legislation, any of the following circumstances pertains:

a) Where the publication of the sanction might endanger the stability of the financial markets or a criminal investigation under way.

b) Where the publication of the sanction might cause disproportionate harm to the institutions or persons affected by the breach committed.

The exclusion of a sanction from publication may be ordered, with indication of the reasoning behind the decision, by the Minister for Economy and Competitiveness at the request of the parties concerned when resolving on the appeal lodged in due course.

Article 83. *Administrative liability of audit firms that have disappeared.*

1. Sanctions in the form of fines imposed for the commission of breaches classified in this Act on audit firms that have been wound up and liquidated with a statutory limit on the property liability of their partners, members or joint holders shall be transferred to the latter, who shall be jointly and severally liable up to the limit of the value of their respective share in the final liquidation.

Sanctions in the form of fines imposed for the commission of breaches classified in this Act on auditing firms that have been wound up and liquidated without a statutory limit on the property liability of their partners, members or joint holders shall be transferred in full to the latter and they shall be jointly and severally liable for their fulfilment.

Furthermore, sanctions ordering de-registration or disqualification imposed for the commission of breaches classified in this Act on firms that have been wound up and liquidated shall only be transferred onto firms or entities of which the former form part and where the partners or members are the same as those in the firms wound up or closed down.

2. In scenarios involving the dissolution or disappearance of audit firms without prior liquidation, sanctions consisting in fines imposed for the commission of breaches classified in this Act shall be passed on to the persons or entities that are the successor or beneficiaries of the corresponding operation.

Furthermore, sanctions ordering de-registration or disqualification imposed for breaches committed by audit firms that have been dissolved or closed down without prior liquidation shall only be transferred onto the said firms resulting from such operations in those cases where the latter firms have the same partners or members as in the firms wound up or closed down without liquidation.

The provisions contained in this section shall be applicable to any scenario of global assignment of the assets and liabilities of a trading company.

3. The provisions contained in the preceding sections shall be applicable in those cases where there is a disguised or merely apparent winding-up. In all cases, disguised or merely apparent winding-up of the body corporate shall be considered to exist when it continues with its economic activities and retains substantially the same clients, suppliers and employees, or the most relevant part of all of these. In such cases, the sanctions shall be transferred onto the private individual or body corporate retaining substantially the same clients, suppliers and employees as described above.

4. Where the corresponding proceedings to impose penalties have not been initiated for the declaration of administrative liability for the commission of breaches foreseen in this Act at the moment when the legal personality of the audit firm disappears, then any pertinent sanctions may be imposed on the successors referred to in this article and the proceedings may be undertaken with any of these. The same shall be deemed to occur when the liability has not yet been declared at the moment when the legal personality disappears.

Article 84. *Obligation to retain documentation.*

In cases involving a temporary or definitive removal from the Official Register of Auditors, the auditors and audit firms in question shall adopt the necessary measures for the safe keeping of the documentation relating to those audits performed and subject to legal proceedings for civil liability.

Article 85. *Prescription of* breaches.

1. Minor breaches shall be time-barred after one year, serious ones after two years and very serious breaches three years after they were committed.

2. The prescription or time-barring shall be interrupted through the opening, duly notified to the party concerned, of proceedings for the imposition of penalties and the time-bar term shall begin to count again if the proceedings remain suspended for more than six months for reasons not attributable to the auditor or audit firm subject to the said proceedings.

Article 86. *Prescription of sanctions.*

1. Sanctions imposed for minor breaches shall be time-barred after one year, those imposed for serious ones after two years and those imposed for very serious breaches after three years.

2. The prescription term shall begin to run from the day after the resolution imposing the sanction becomes definitive and the time-bar term shall begin to count again if the proceedings remain suspended for more than six months for reasons not attributable to the auditor or audit firm subject to the said proceedings.

TITLE IV

Charges of the Accounting and Auditing Institute

Article 87. *Charges levied by the Accounting and Auditing Institute for the monitoring and oversight of audit activities.*

1. The charge levied for monitoring and oversight of audit activities shall be governed by the present Act and by the other regulatory sources referred to in article 9 of the Law 8/1989, of 13 April, on the Public Prices and Charges, in order to cover the costs corresponding to the exercise of the powers conferred on the Accounting and Auditing Institute.

2. The taxable event for the purposes of levying this charge is the exercise of the powers for the monitoring of audit activities by the Accounting and Auditing Institute referred to in Chapter I of Title II with regard to the issue of audit reports.

3. The said charge shall accrue on the last day of each calendar quarter with respect to the audit reports issued in each quarter.

4. The subjects liable for payment of this charge shall be auditors and audit firms registered as practising auditors on the Official Register of Auditors of the Accounting and Auditing Institute and who have issued audit reports.

5. The amount of this charge shall consist in a fixed amount of 123.40 euros for each audit report issued on an entity that is not a public interest entity, and 246.90 euros in those cases where the fees invoiced for the audit report issued are in excess of 30,000 euros.

The amount of this charge shall consist in a fixed amount of 246.90 euros for each audit report issued on a public interest entity, and 493.80 euros in those cases where the fees invoiced for the audit report issued on an entity of this type are in excess of 30,000 euros.

6. The management and collection of this charge during the voluntary payment period shall correspond to the Accounting and Auditing Institute. Its collection by

executive means shall correspond to the State Tax Administration Agency, pursuant to current legislation.

7. Rules for the settlement and payment of the said charge shall be issued by means of regulations, with the possibility of establishing an obligation for the parties liable for the charge to submit a self-assessment form and deposit the corresponding amount.

8. The revenue derived from the charge referred to in this article shall be considered as budgeted revenue for the Accounting and Auditing Institute, and it shall be used to finance those headings corresponding to the expected expenditure for its oversight and disciplinary functions regarding audit activities.

9. The fixed amounts referred to for this charge in section 5 of this article may be amended in the General State Budget Act approved each year.

Article 88. *Charge by the Accounting and Auditing Institute for the issue of certificates or documents at the request of parties and for registration and annotations on the Official Register of Auditors.*

1. A charge is hereby created for the issue of certificates or documents at the request of parties, as well as for registration and annotations on the Official Register of Auditors. This charge shall be governed by this Act and by the other regulatory sources referred to in article 9 of the Law 8/1989, of 13 April, on the Public Prices and Charges, in order to cover the costs corresponding to the exercise of the powers relating to the organization and maintenance of the Official Register of Auditors referred to in article 8.

2. The taxable event for the purposes of levying this charge is the exercise of the powers of the Accounting and Auditing Institute referred to in article 6.2 of the Statute and organic structure of the Accounting and Auditing Institute, as approved by Royal Decree 302/1989, of 17 November, with regard to the issue of certificates or documents at the request of parties and the inclusion of registrations and annotations on the Official Register of Auditors.

3. This charge shall become payable on the same day a request is made by a party for the issue of certificates or documents and on the date of the notification by the party concerned of the act for inclusion on the Official Register of Auditors.

4. The parties required to pay this charge shall be those persons requesting the actions of the Accounting and Auditing Institute that make up the taxable event for the purposes of this charge.

5. The amount of this charge shall consist in a fixed sum for each certificate or document issued at the request of a party and for the inclusion of registrations and annotations on the said Register. The said amount shall be:

a) Inclusion of an auditor on the Official Register of Auditors: 75 euros.

b) Change of status: 75 euros.

c) Alteration of details of auditors recorded on the Official Register of Auditors: 75 euros.

d) Inclusion of an audit firm on the Official Register of Auditors: a fixed amount of 100 euros plus 48 euros for each director.

e) Alteration of details of audit firms recorded on the Official Register of Auditors: 75 euros.

f) Issue of certificates attesting inclusion on the Official Register of Auditors for both auditors and auditing firms: 24 euros.

6. The management and collection of this charge during the voluntary payment period shall correspond to the Accounting and Auditing Institute. Its collection by executive means shall correspond to the State Tax Administration Agency, pursuant to current legislation

7. Rules for the settlement and payment of the said charge shall be issued by means of regulations, with the possibility of establishing an obligation for the parties liable for the charge to submit a self-assessment form and deposit the corresponding amount.

8. The revenue derived from the charge referred to in this article shall be considered as budgeted revenue for the Accounting and Auditing Institute, and it shall be used to finance those headings corresponding to the expected expenditure for the exercise of its powers for the organization and maintenance of the Official Register of Auditors.

9. The amounts for this charge referred to in section 5 of this article may be amended in the General State Budget Act approved each year.

TITLE V

Personal Data Protection

Article 89. *Personal data protection.*

Access to information and data required by the Accounting and Auditing Institute in the exercise of its supervisory functions is in accordance with article 11.2.a) of the Fundamental Law 15/1999, of 13 December, on Personal Data Protection.

The Accounting and Auditing Institute shall apply the regulations in force on data protection to the processing of any personal details exchanged within the scope of co-operation with the EU and third countries.

The processing of personal data belonging to complainants shall be effected in accordance with the Fundamental Law 15/1999, of 13 December, on Personal Data Protection.

First additional provision. Mandatory *audit*.

1. Without prejudice to the provisions contained in other sections, all entities, regardless of their legal nature, must in all cases submit to the audit of their accounts foreseen in article 1.2 of this Act in the following circumstances:

a) When they issue securities listed on official secondary securities markets or multilateral trading systems.

b) When they issue bonds or obligations through public offerings.

c) When they habitually engage in financial intermediation and, in any case, all credit entities, investment services companies, the management companies governing official secondary securities markets, the entities governing multilateral trading systems, the “Sociedad de Sistemas”, central clearance entities, the “Sociedad de Bolsas”, the

companies governing investment guarantee funds and other financial entities, including undertakings for collective investment, securitization funds and their management bodies, duly entered on the corresponding Registers of the Bank of Spain and the National Securities Market Commission.

d) When their corporate purpose includes any activity subject to the Consolidated Text of the Law on Organization and Oversight of Private Insurance, approved by Royal Legislative Decree 6/2004, of 29 October, within the limits established pursuant to regulations, as well as pension funds and their management entities.

e) When they receive subsidies, financial assistance or engage in works for, render services to or supply goods to the State or other public bodies within the limits established pursuant to regulations by the Government through Royal Decree.

f) Any other entities that exceed the limits established pursuant to regulations by the Government through Royal Decree. Such limits shall refer, at least, to their turnover, the total amount of their assets as shown on their balance sheets and the average annual number of employees, and shall be applied, each and every one, in accordance with the possibilities enabled by the respective legal nature of each company or entity.

2. The provisions foreseen in this additional article shall not be applicable to entities forming part of the public sector owned by the state, regional governments or local authorities, without prejudice to the provisions contained in the regulations governing the said public-sector entities. In all cases, the provisions foreseen in this additional provision shall be applicable to the trading companies forming part of the public sector owned by the state, regional governments or local authorities.

3. The branches in Spain of foreign credit entities that do not have to submit annual accounts on their activities in Spain must submit to an audit of the financial and economic information that they must publish each year and also any information that must be reported in confidence to the Bank of Spain in accordance with the accounting regulatory framework that may be applicable.

Second additional provision. *Audit of public sector entities.*

1. This Act shall not be applicable to the review and verification activities of the annual accounts, financial statements or other accounting records, nor to the issue of the corresponding reports, conducted by the monitoring bodies of the Public Administrations in the exercise of their powers, which shall continue to be governed by their specific legislation.

2. Audit engagements on the annual accounts or other financial statements or accounting records of entities forming part of the public sector owned by the State, Regional Governments or local authorities are legally attributed to the public bodies overseeing the financial and economic activities of the public sector in the exercise of their powers, are governed by their specific rules and the provisions established in the regulations governing audit activities are not applicable thereto.

Any collaboration work that may be undertaken by auditors or audit firms registered in the Official Register of Auditors pursuant to contracts entered into by the public oversight bodies referred to in section 1 and for the execution of the annual audit plan of the said bodies shall be governed by their specific legislation and the provisions established in this Act are not applicable thereto.

The reports referred to in this section, which may be issued by auditors or audit firms on public entities, may not be identified as audits and their drafting or presentation shall not give rise to any confusion with respect to their nature as audit engagements.

3. The preceding section notwithstanding, in those cases where the contracts entered into between the public oversight bodies and auditors included on the Official Register of Auditors include, together with their collaboration on the performance of public audits, the issue of an audit report as foreseen in article 1 of this Act intended to meet certain requirements foreseen in sectoral standards or for other business or financial reasons, such as participation in international tenders or to obtain resources on financial markets, such audit reports shall be subject to the provisions contained in regulations governing audit activities.

Reports relating to accounts or statements drawn up in accordance with the accounting regulations for the public sector or audit engagements undertaken in accordance with the auditing standards applicable to the public sector are excepted from the provisions contained in this section.

4. Audit engagements performed by an auditor or audit firm registered in the Official Register of Auditors regarding the annual accounts or financial statements or other accounting records for entities making up the public sector owned by the State, Regional Governments or local authorities that, pursuant to their applicable regulations, are legally obliged to submit their annual accounts to an audit foreseen under article 1 of this Act are subject to the provisions contained in the regulations governing audit activities, provided that such accounts or statements are not drawn up in accordance with the accounting regulations of the public sector or the audit engagements are not performed in accordance with the auditing standards applicable to the public sector. In particular, audit engagements performed by an auditor or audit firm registered in the Official Register of Auditors on the annual accounts of trading companies belonging to the aforesaid public sector and subject to the obligation to have their annual accounts audited pursuant to business regulations shall be subject to the aforesaid regulations governing audit activities.

5. In scenarios involving consolidated annual accounts or other consolidated financial statements in which the parent company is a public entrepreneurial entity or other public law entity and their subordinate companies may be trading companies, whenever the audit of the said annual accounts is performed by the public bodies overseeing the economic and financial management of the public sector, the provisions contained in article 7 of this Act shall not be applicable in the performance of this function, which shall be governed by the specific regulations on the public sector.

Third additional provision. *Audit Committee of public interest entities.*

1. Public interest entities, even where their regulations do not require it, must have an Audit Committee with the composition and functions contemplated in article 529 *quaterdecies* of the Consolidated Text of the Law on Capital Companies, approved by Royal Legislative Decree 1/2010, of 2 July.

2. In the entities referred to in section 1 that have a body with functions equivalent to those of an Audit Committee, duly established and operating in accordance with their applicable regulations, the functions of the Audit Committee shall be assumed by the said body and these entities must publish the organ in charge of these functions and its composition on their web sites.

In Savings Banks, the functions of the Audit Committee may be assumed by the Oversight Commission.

3. Notwithstanding the provisions contained in section 1, the following public interest entities shall not be obliged to have an Audit Committee:

a) Those public interest entities whose sole activity consists in acting as the issuer of asset-backed securities, as defined in article 2, point 5, of Commission Regulation (EC) nº 809/2004.

b) Those public interest entities foreseen in article 3.5 b) of small or medium size, provided that these functions are assumed by the governing body.

c) Those public interest entities foreseen in article 3.5 b) that are exonerated from this requirement under EU legislation where this is so determined in accordance with regulations.

d) Public interest entities that are dependent, in accordance with the provisions of article 42 of the Commercial Code, of other public interest entities, provided that the Audit Committee of the dominant entity also assumes, in the field of dependent entities, referred to in this section, the functions of said commission and any others that may be attributed to it, and when any of the following requirements are met:

1. That the dependent entities are wholly owned by the dominant entity, or

2. That the application of this exception has been approved by the shareholders' meeting of the subsidiary company unanimously.

The public interest entities referred to in this section will make public on their website the reasons why they consider that it is not appropriate to have an Audit Committee or an administrative or supervisory body in charge of carrying out the functions of the Audit Committee.

e) Public interest entities that are public business entities, as provided for in article 103 of Law 40/2015, of October 1, on the legal regime of the public sector, provided that their functions are assumed by the administrative body.

4. Entities meeting the requirements listed below shall be exempted from complying with the requirement of independence demanded of the Audit Committee under sections 1 and 2 of article 529 *quaterdecies* of the Consolidated Text of the Law on Capital Companies, approved by Royal Legislative Decree 1/2010, of 2 July:

a) It is one of the public interest entities foreseen in article 3.5.b) and is obliged to have an Audit Committee.

b) The members of the Audit Committee are also members of the governing body.

c) The pertinent specific regulations do not require the presence of independent directors on the governing body.

5. The public interest entities referred to in sections 2 to 4 above shall notify the circumstances reflected therein to the national supervisory authorities for the said entities. Such notifications shall be given within the term of one month counted from the adoption of the corresponding corporate resolution.

6. The provisions contained in the functions foreseen in letters d) to g) of article 529 *quaterdecies*, section 4, of the Consolidated Text of the Law on Capital Companies shall be understood to be without prejudice to the powers attributed to the

Accounting and Auditing Institute in the regulation governing auditing in connection with the observance of the duty of independence.

7. The supervision of compliance with the provisions contained in this additional provision corresponds to the National Securities Market Commission, pursuant to the provisions contained in Title VIII of the Law 24/1988, on Securities market, of 28 July. This power is understood without prejudice to that held by the Accounting and Auditing Institute for the supervision of auditing activities.

In each case and as promptly as possible, the National Securities Market Commission shall furnish the Accounting and Auditing Institute for remission to the European Group of Auditors' Oversight Bodies with information relating to the sanctions imposed, if any, that have become definitive in the administrative jurisdiction on the members of the Audit Committee referred to in this additional provision.

Fourth additional provision. *Collaboration by the National Commission for Markets and Competition in the execution of powers in connection with the audit market.*

1. For the exercise of the powers referred to in article 46.2.e) of this Act, the Accounting and Auditing Institute may request the collaboration of the National Commission for Markets and Competition, in particular, for the preparation of an annual report setting out at least:

a) The progression in the market for statutory audit services rendered to public interest entities and the operation of audit committees.

b) The main transactions taking place in the sector and potentially affecting the market's level of concentration, and the availability or provision of audit services at particular moments or to certain sectors.

c) The risks identified and, in particular, the identification of the risks derived from a high incidence of quality failings in a statutory auditor or audit firm and the measures to be taken to mitigate these.

2. The National Commission for Markets and Competition and the Accounting and Auditing Institute shall exchange any appropriate information for the purposes of carrying out their respective powers. In particular, the Accounting and Auditing Institute shall inform the National Commission for Markets and Competition of all facts, behaviour or practices whenever it suspects or infers from circumstantial evidence the existence of practices contrary to the competition rules established in Law 3/2013, of 4 June, setting up the National Commission for Markets and Competition.

3. The competent authorities and those persons working, or having worked, for the fulfilment of the contents of this provision must observe the duty of secrecy established in article 60, without prejudice to the legal exceptions foreseen, of Law 3/2013, of 4 June, setting up the National Commission for Markets and Competition.

Fifth additional provision. *Report on the progression of the market.*

Prior to June 17th, 2016, and at least every three years after that date, the Accounting and Auditing Institute and the European Competition Network shall draw up a report on the progression of the market for the provision of statutory audit services to public interest entities and shall submit the same to the Commission of European Auditing Supervisory Bodies, the European Securities and Markets Authority, the

European Banking Authority, the European Insurance and Occupational Pensions Authority, and to the Commission.

Sixth additional provision. *Audit firms.*

Audit firms must undertake the corresponding modifications to adapt to the requirements stipulated in article 11 within the term of one year from the date of publication of this Act in the "Official State Gazette".

Should the audit firms not have carried out the required modifications prior to the said date, the Accounting and Auditing Institute shall proceed to remove them, *ex officio,* from the Official Register of Auditors.

Seventh additional provision. *Co-ordination mechanisms with public bodies or institutions with monitoring or inspection powers.*

In addition to the provisions contained in article 38 of this Act, whenever oversight or inspection powers over entities subject to audit are attributed to public institutions or bodies by means of provisions with the rank of a law, the Government shall, by means of a Royal Decree, establish such systems, rules and procedures as may enable their proper co-ordination for the purposes of obtaining from auditors and audit firms any and all information that may be necessary for the exercise of the aforesaid powers.

The auditors of the annual accounts of entities other than public interest entities subject to the supervision and oversight regime attributed to the Bank of Spain, the National Securities Market Commission and the Directorate-General for Insurance and Pension Funds, as well as the Regional Government bodies with powers to organize and oversee insurance entities, shall be obliged to notify promptly the appropriate competent public institutions or bodies in writing of any fact or decision adopted regarding the entity or institution audited they may have become aware of in the exercise of their functions where this may:

a) Constitute a serious breach of the contents of the legal, regulatory or administrative provisions establishing the terms and conditions of their authorization or specifically regulating the exercise of their activity.

b) Be detrimental to the continuity of the operations, or seriously affect their stability or solvency.

c) Imply the issue of a qualified opinion, an adverse opinion or a disclaimer opinion, or prevent the issue of an audit report.

Without prejudice to the preceding obligation, the audited entity shall be obliged to send a copy of the audit report on its annual accounts to the competent supervisor authorities indicated above. Should the auditor not have received indisputable evidence of such remission within the term of one week from delivery of the said report, he or she must send a copy directly to the said authorities. Furthermore, the auditors of subordinate entities that are subject to the oversight regime, in addition to informing the competent supervisory authorities as established in the first paragraph, shall also inform the auditors of the parent entity.

The good faith notification of the aforementioned facts or decisions to the competent supervisory authorities shall not constitute a failure to comply with the duty of secrecy established in article 31 of this Act, nor of any duty that may be contractually required of the auditors, nor shall it imply any kind of liability for the same.

Eighth additional provision. *Electronic communications.*

Auditors and audit firms shall be obliged to allocate, within the time interval set for the purpose, the technical resources required by the Accounting and Auditing Institute for the efficacy of its electronic notification systems in accordance with the provisions contained in article 27.6 of the Law 11/2007, on the Electronic Access by Citizens to the Public Services, of 22 June.

Ninth additional provision. *Collaboration with the Directorate-General for Public Registries and Notaries.*

1. The Directorate-General for Public Registries and Notaries shall send the Accounting and Auditing Institute, in the months of September and March, a list of the companies and other entities included on the corresponding Commercial' Registries that have submitted their annual accounts accompanied by audit reports for deposit during the preceding six months, specifying the identification details of the auditor or audit firm, as well as the period of their appointment. For these purposes, commercial' registrars must send the aforesaid information corresponding to their registries to the Directorate-General for Public Registers and Notaries during the month prior to those indicated in the preceding paragraph.

2. Prior to the registration of the auditor's appointment on the Commercial Registry, the Registrar must confirm that the auditor or audit firm is registered in the Official Register of Auditors with the status of practising member and is not in any situation preventing the performance of the audit.

Tenth additional provision. *Information on payments made to the Public Administrations.*

One. Obligation to publish information on payments made to the Public Administrations.

1. Companies active in mining industries or in timber exploitation from primary forests and affected by the circumstances indicated in the following sections shall be obliged to draw up and publish an annual report on the payments made to the Public Administrations.

Companies active in mining industries shall be understood to be those engaging in any activity entailing the exploration, prospection, discovery, development and extraction of minerals, oil, deposits of natural gas or other materials in the field of the economic activities listed in section B, divisions 05 to 08, of Appendix I as well as those activities referred to in section A, division 02, group 02.2 of Appendix I to Regulation (EC) nº 1893/2006, of the European Parliament and of the Council, of 20 December, establishing the statistical nomenclature for economic activities (NACE in its Spanish acronym), each in the respective version in force at the respective time.

Primary forest is understood, for the purposes of the provisions contained in this section, to be naturally regenerated woodlands comprising native species with no evident signs of human activities and where their ecological processes have not been significantly altered.

For its part, a Public Administration shall be any national, regional or local authority of a State, including departments, agencies or companies subject to the control of such authorities, pursuant to the provisions contained in article 42 of the Spanish Business Code.

2. Nonetheless, the obligation referred to in the preceding section shall only apply to those companies meeting one or more of the following circumstances and not exempted pursuant to section four:

a) That it is a large company deemed to be for these exclusive purposes any company that, as of the date of the close of its balance sheet, exceeds the numerical limits for at least two of the three criteria listed below:

i. That the total of the items in the assets on the balance sheet exceeds twenty million euros.

ii. That the net amount of the annual turnover exceeds forty million euros.

iii. That the average number of employees during the financial year is greater than two hundred and fifty.

b) That it is a public interest entity, understood to be those meeting the conditions stipulated in article 3.5 of this Act.

Two. Contents of the report.

1. The report shall contain the following information referring to the corresponding financial year and to the activities mentioned in paragraph two of sub-section 1 in section one:

a) The total amount of the payments to each Public Administration, which payments shall comprise any sum paid, whether in money or in kind, for the activities indicated.

b) The total amount of the payments to each Public Administration broken down into the following types of payment:

I. Production fees.

II. Charges on revenue, production or profits of companies, excluding any taxes levied on consumption, such as value added tax, personal income tax, or sales taxes.

III. Levies.

IV. Dividends.

V. Premiums for initial prospection, discovery and production.

VI. Permits, rentals, access rights and other payments for licences and/or concessions; and

VII. Payments for improvements in infrastructures, excluding those effected in connection with the corporate social responsibility of companies.

c) When the payments have been attributed to a specific project, the total amount, broken down by type of payment, as well as the total amount of the payments in each project.

Nonetheless, payments made by the company in connection with the obligations imposed at entity level may be reflected at entity level instead of at project level.

Projects shall be understood to comprise operational activities governed by a single contract, licence, lease, concession or similar legal agreement and forming the basis for a payment commitment vis-à-vis a Public Administration. Nonetheless, should

several such agreements be substantially inter-connected, they shall be treated as a project.

2. It shall not be necessary to reflect in the report any payment, whether made as a single lump sum or as a series of related payments, amounting to less than 100,000 euros during the financial year.

3. Whenever payments are made in kind, these shall be recorded for their value and, where appropriate, for their volume, with explanatory notes included to clarify the way in which this value has been determined.

4. The reflection of the payments contemplated in the present section two shall reflect the purpose rather than the form of the payment or activity in question and payments or activities must not be artificially broken down or aggregated with the intention of avoiding application of this Act.

Three. Consolidated report.

1. Companies engaging in activities subject to the obligation stipulated in section one above must draw up and publish a consolidated report on payments to the Public Administrations in accordance with the terms and conditions foreseen in this Act if the parent company is subject to the obligation to draw up consolidated annual accounts and a consolidated management report pursuant to the provisions contained in article 42 of the Business Code.

Parent companies shall be deemed to have activities in the mining industry or in the timber exploitation of primary forests when any of their controlled undertakings engage in activities in the mining industry or in the timber exploitation of primary forests.

2. The consolidated report shall include only those payments resulting from or related to mining and/or timber exploitation operations.

Four. Exemptions.

1. Companies in the following circumstances shall not be obliged to draw up and publish the report stipulated in section one:

a) Companies whose parent company is subject to the Law of Spain or that of a European Union Member State provided its payments are included in the consolidated report referred to in section three above in accordance with the provisions of the State in question.

b) Companies preparing and publishing a report that meets the reporting requirements of a third country provided that such requirements have been declared equivalent to those established in this Act after application of the equivalence procedures referred to in article 46, sections 2 and 3 and article 47 of Directive 2013/34/EU of the European Parliament and of the Council dated June 26th, 2013, on the annual financial statements, consolidated financial statements and other related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC. Notwithstanding, the company in question must publish the report and deposit it at the Commercial Registry in accordance with the provisions contained in section five.

2. The following parent companies shall not be obliged to draw up the consolidated report referred to in section three:

a) Parent companies of small business groups, except in those cases where any of the controlled undertakings is a public interest entity. Small business groups shall be deemed, for these exclusive purposes, to be any company that, as of the date of the close of the parent company's balance sheet, does not exceed any two of the criteria listed below:

i. That the total of the items in the assets on the balance sheet does not exceed six million euros.

ii. That the net amount of the annual turnover does not exceed twelve million euros.

iii. That the average number of employees during the financial year is not greater than fifty.

b) Parent companies of a medium-sized group, except in those cases where any of the c is a public interest entity. Medium-sized business groups shall be deemed, for these exclusive purposes, to be any company not defined as small and that, as of the date of the close of the parent company's balance sheet, does not exceed at corporate level any two of the criteria listed below:

i. That the total of the items in the assets on the balance sheet does not exceed twenty million euros.

ii. That the net amount of the annual turnover does not exceed forty million euros.

iii. That the average number of employees during the financial year is not greater than two hundred and fifty.

c) Parent companies subject to the laws of Spain that are, at the same time, subsidiary companies whose own parent company is subject to the Law of a European Union Member State.

3. Those companies affected by at least one of the circumstances set out in the following sub-paragraphs shall not have to be included in a consolidated report:

a) Where severe and long-lasting circumstances have substantially hindered the exercise by the parent company of its rights over the property or management of the company in question.

b) Exceptionally, where the information necessary for the preparation of the consolidated report on payments made to Public Administrations referred to in the present Act cannot be obtained without disproportionate expense or without unjustified delay.

c) Where the holding of the shares or stock certificates in the said company are held solely and exclusively for subsequent transfer.

Nonetheless, the exemptions in this section shall be applied solely if they are also applied for the purposes of consolidated financial statements.

Five. Approval and public notice. The reports on payments to Public Administrations shall be approved and published within the first six months following the termination of each financial year and shall be retained for public inspection during at least ten years. Furthermore, they shall be deposited with the Commercial Registry together with the documents making up the annual accounts.

Six. Responsibility for drafting and publishing reports.

1. The directors of the company shall be responsible for ensuring, to the maximum extent of their knowledge and abilities, that the report on payments made to Public Administrations is drawn up, approved, deposited and published in accordance with the requirements demanded in this Act.

2. The failure of the governing body to comply with the obligation to draw up, approve, deposit and publish, within the deadlines established, the documents referred to in this Act and, without prejudice to other liabilities, shall give rise to the imposition of the corresponding penalty on the terms and conditions of the legislation applicable to the company in question.

Eleventh additional provision. Obligation to report corporate tax or taxes of an identical or analogous nature by certain companies and branches.

First. Companies and branches obliged to report.

1. The ultimate parent company of a group subject to Spanish law that prepares consolidated annual accounts and whose net amount of the consolidated annual turnover on the year-end date has exceeded, in each of the last two consecutive years, a total of 750,000,000 euros must prepare, publish, deposit and make accessible a report on corporate tax or taxes of an identical or analogous nature relating to the last of those two consecutive years.

For these purposes, the ultimate dominant company will be understood to be the company that prepares the consolidated financial statements of the largest group of companies in accordance with the provisions of article 42 of the Commercial Code.

The ultimate parent company will cease to have the obligation to prepare a consolidated report relating to corporate tax or taxes of an identical or analogous nature when the net amount of the consolidated annual turnover on the closing date of the balance sheet is less than 750,000,000 euros in each of the last two consecutive years according to its consolidated financial statements.

The company that is not part of a group and whose net annual turnover at the year-end date has exceeded a total of 750,000,000 euros in each of the last two consecutive years, according to its annual financial statements must prepare, publish, deposit and make accessible a report on corporate tax or taxes of an identical or analogous nature relating to the last of those two consecutive years.

This company will no longer be subject to the information obligation referred to in the previous paragraph when the net amount of the annual turnover on the year-end date is less than 750,000,000 euros in each of the last two consecutive years. according to its annual financial statements.

2. The provisions of the previous section will not apply to companies that are not part of a group or to the ultimate dominant companies and their subsidiaries when said companies, including their branches, are established or have their registered office or permanent business activity in the territory of a single Member State and in no other tax territory.

For these purposes, tax territory means a State, a country or a non-State territory that enjoys fiscal autonomy with respect to corporate tax.

3. The provisions of section 1 will also not be applicable to companies that are not part of a group or to the ultimate dominant companies in the event that they themselves or their subsidiaries publish a report in accordance with article 87 of Law 10/ 2014, of June 26, on the organization, supervision and solvency of credit institutions, which includes information about all their activities and, in the case of the ultimate dominant companies, all the activities of all the companies subsidiaries included in the consolidated financial statements.

4. Subsidiary companies subject to Spanish law that are controlled by an ultimate parent company not subject to the law of a Member State whose net amount of the consolidated annual turnover on the year-end date has exceeded in each of the two last consecutive years a total of 750,000,000 euros, according to their consolidated financial

statements, will be required to publish and make accessible a report on corporate tax or taxes of an identical or analogous nature at the consolidated level of said ultimate parent company relating to the most recent of the two consecutive years, as long as said subsidiary companies are not considered a small entity in accordance with the thresholds established in article 3 of this law.

When said information or report is not accessible, the subsidiary company will request its ultimate parent company to provide it with all the information required so that it can comply with the obligations established in section 1. If the ultimate parent company does not provide all the information required, the subsidiary company will prepare, publish, deposit and make accessible a corporate tax report containing all the information in its possession, obtained or acquired, and a declaration indicating that its parent company ultimately has not made the necessary information available.

The aforementioned subsidiary companies will no longer be subject to the reporting obligations of this section when the net amount of the consolidated annual turnover of the ultimate parent company on the year-end date is less than 750,000,000 euros in each of the last two consecutive years according to its consolidated financial statements.

5. Branches established in Spanish territory by companies that are not subject to the law of a Member State will be required to publish and make accessible a report on the consolidated corporate tax or taxes of an identical or analogous nature of the ultimate dominant company or the company that is not part of a group relating to the most recent of the last two consecutive years, when they meet the following criteria:

a) That the company that established the branch is either a subsidiary company of a group whose ultimate parent company is not subject to the law of a Member State and whose net amount of the consolidated annual turnover at the year-end date has been exceeded in each of the last two consecutive years a total of 750,000,000 euros, according to its consolidated financial statements, or a company that does not belong to a group whose net amount of the consolidated annual turnover on the closing date of the year has exceeded a total of 750,000,000 euros in each of the last two consecutive years according to its financial statements.

b) That the ultimate dominant company referred to in letter a) does not have a subsidiary company of those mentioned in section 4.

c) That are not considered a small entity in accordance with the thresholds established in article 3 of this law. When said information or report is not available, the person or persons designated to comply with the publicity formalities referred to in the third section will request the ultimate parent company or the company that is not part of a group to provide them with all the necessary information. to enable them to fulfil their obligations.

In the event that all the required information is not provided, the branch will prepare, publish, deposit and make accessible a report relating to corporate tax or taxes of an identical or analogous nature that contains all the information in its possession, that has been obtained or acquired, and a statement indicating that the ultimate parent company

or the company that is not part of a group has not made the necessary information available.

6. The provisions of sections 4 and 5, with respect to subsidiaries and branches respectively, will not apply if the report relating to corporate tax or taxes of an identical or analogous nature has already been prepared by an ultimate dominant company or a company that is not part of a group that is not subject to the law of a Member State, provided that said report has content compatible with that provided for in this provision so that it is compatible with the content of the report regulated in section second and also meets the following criteria:

a) Be made accessible to the public, free of charge and in a machine-readable electronic format:

i) On the website of the said ultimate dominant company or on that of the company that is not part of a group.

ii) In at least one of the official languages of the Union.

iii) Within a maximum period of six months from the closing date of the fiscal year on which the report is prepared, and

b) Indicate the name and registered office of a single subsidiary company, or the name and address of a single branch that is subject to the law of a Member State, which publishes the report in accordance with the provisions of the third paragraph.1 of this additional provision.

7. Subsidiary companies and branches not subject to the provisions of sections 4 and 5 must publish and make accessible a report relating to corporate tax or taxes of an identical or analogous nature if said subsidiary companies and branches have as their only purpose to avoid the information obligations established in this provision.

Second. Content of the report relating to corporate tax or taxes of an identical or analogous nature.

1. The report relating to corporate tax or taxes of an identical or analogous nature shall include information on all the activities of the company that are not part of a group or the ultimate parent company, including the activities of all subsidiary companies that appear in the consolidated financial statements corresponding to the year in question.

2. The information referred to in the previous section will consist of:

a) The name of the ultimate parent company or of the company that is not part of a group, the financial year in question, the currency used in the presentation of the report and, where applicable, a list of all subsidiary companies that appear in the consolidated financial statements of the ultimate parent company, corresponding to the financial year in question, that are established in the European Union or in tax territories included in

Annexes I and II of the Council Conclusions on the revised EU list from non-cooperative countries and territories for tax purposes.

b) A brief description of the nature of your activities.

c) The number of employees on a full-time equivalent basis.

d) Your income calculated as:

i) The sum of the net amount of the annual turnover, other income derived from operations, income from the return on social shares excluding dividends received from related companies, income from other investments and loans that form part of the non-current assets, other interest receivable and other income of a similar nature referred to in the profit and loss account of the General Accounting Plan, approved by Royal Decree 1514/2007, of November 16, and in its complementary regulations.

ii) Income as determined in the financial reporting framework under which the financial statements are prepared, excluding value adjustments and dividends from related companies.

For the purposes of this letter, income will include transactions with related parties.

e) The amount of profits or losses before applying corporate tax.

f) The amount of corporate tax or taxes of an identical or analogous nature accrued during the year in question, calculated as the current tax expenses recognized on the taxable profits or losses of the year by the companies and branches in the correspondent tax territory.

For the purposes of this letter, the current tax expense will reflect only the activities of the company during the financial year in question and will not include deferred taxes or provisions for uncertain tax obligations.

g) The amount of corporate tax or taxes of an identical or similar nature paid in cash, calculated as the amount of taxes paid during the year in question by the companies and branches in the tax territory in question.

For the purposes of this letter, the taxes paid will include withholdings paid by other companies with respect to payments made to companies and branches within a group.

h) The amount of reserves at the end of the financial year in question.

3. The information listed in the previous section may be communicated based on the instructions for the communication of information referred to in article 14 of the Corporate Tax Regulation, approved by Royal Decree 634/2015, of July 10, and its implementing regulations that regulate Order HFP/1978/2016, of December 28, which approves model 231 of the Country-by-Country Information Declaration.

4. The report shall present the information referred to in paragraphs 2 and 3 above separately for each Member State. Where a Member State comprises several tax territories, the information will be aggregated by Member State.

The information in paragraphs 2 and 3 shall also be presented separately for each tax territory which, as at 1 March of the financial year for which the report is to be prepared, is included in Annex I to the Council Conclusions on the revised list of non-cooperative countries and territories for tax purposes, and for each tax territory that, as of March 1 of the year for which the report is to be prepared and as of March 1 of the previous year, has appeared in Annex II of the Council Conclusions on the revised EU list of non-cooperative countries and territories for tax purposes.

The information in sections 2 and 3 will be presented in aggregate form for other tax territories.

The information will be attributed to the corresponding tax territory on the basis of the establishment, the existence of a registered office or a permanent business activity that, given the activities of the group or independent company, may be subject to corporation tax in that fiscal territory.

In the event that the activities of several subsidiary companies may be subject to corporation tax in a single tax territory, the information attributed to that tax territory shall represent the sum of the information relating to such activities of each subsidiary company and its branches in said tax territory.

Information on a specific activity will not be attributed simultaneously to more than one tax territory.

5. The information referred to in sections 2 and 3 will be presented using a common template and in electronic formats that are machine readable, which will be established by the European Commission through implementing acts.

6. Certain items of information that should be made public in accordance with paragraphs 2 or 3 may be temporarily omitted from the report when their disclosure could be seriously detrimental to the commercial position of the companies to which the report relates. Any omission must be clearly indicated in the report and accompanied by a duly reasoned justification.

Any information omitted pursuant to the preceding paragraph must be made public in a subsequent corporate tax report, no later than five years after its initial omission.

Information relating to the tax territories included in Annexes I and II of the Council Conclusions on the revised EU list of non-cooperated countries and territories for tax purposes, referred to in paragraph 4, may not be omitted.

7. The report relating to corporate tax or taxes of an identical or analogous nature may include, where applicable at group level, a general statement explaining any significant discrepancy between the amounts reported in accordance with letters f) and g) of section 2, taking into account, where appropriate, the corresponding amounts relating to previous years.

8. The currency used in the report relating to corporate tax or taxes of an identical or analogous nature will be that in which the consolidated financial statements of the ultimate parent company or the annual financial statements of the company that is not part of a group.

However, in the case of non-accessibility of the information or report of the subsidiary companies referred to in section 4 of the first section, the currency used in the report relating to corporate tax will be the currency in which the subsidiary company publish its annual financial statements.

9. The report relating to corporate tax or taxes of an identical or analogous nature must specify whether it has been prepared in accordance with paragraphs 2 or 3.

Third. Publication and accessibility.

1. The report relating to corporate tax or taxes of an identical or analogous nature and, where applicable, the declaration referred to in section 4 of the first section will be subject to approval and publication within a period of six months from the closing date of the fiscal year to which they refer. Likewise, they will be deposited in the Commercial Registry together with the documents that make up the annual accounts.

2. The report relating to corporate tax or taxes of an identical or analogous nature and the declaration published by companies in accordance with the previous section must be made accessible to the public free of charge in at least one of the official languages of the European Union, within a maximum period of six months from the closing date of the balance sheet of the financial year on which the report is prepared, on the website of:

a) The company, when the first section.1 is applicable.

b) The subsidiary company when the first section.4 is applicable.

c) The branch or the company that has established the branch, or a subsidiary company, when the first section.5 is applicable.

3. The report relating to corporate tax and, where applicable, the declaration mentioned in the first section, will remain accessible on the corresponding website for at least five consecutive years.

Fourth. Responsibility for the preparation, publication, deposit and accessibility of the report relating to corporate tax or taxes of an identical or analogous nature.

1. The members of the administrative bodies of the ultimate dominant companies or the company that is not part of a group referred to in section one.1 will be collectively responsible for ensuring that the report relating to corporate tax or taxes of a nature identical or analogous is prepared, published, deposited and made accessible in accordance with the provisions of this law.

2. The members of the administrative bodies of the subsidiary companies referred to in paragraph one.4 and the persons designated to carry out the advertising formalities in relation to the branches referred to in paragraph one.5 shall be collectively responsible for ensure, to the best of its knowledge and ability, that the corporate tax report is prepared in a manner that is compatible or in accordance, as applicable, with the first and second paragraphs, and is published and made accessible in accordance with the third section.

Fifth. Start date of the presentation of the report relating to corporate tax or taxes of an identical or analogous nature.

The obligations introduced by this additional provision will apply for financial years beginning on or after June 22, 2024.

First transitional provision. *University Honours or Ordinary Graduates, Engineers, Professors of Commerce or Architects.*

Those persons who, as of the date of entry into force of Law 12/1988, of 30 June, amending the Auditing Act (Law 19/2010, of 12 July), were in possession of the university qualifications corresponding to Honours or Ordinary Graduates, Engineers, Professors of Commerce or Architects shall retain the right to dispensation from the professional aptitude examination with regard to those subjects that were passed as part of the courses required to obtain the said qualifications, on the terms and conditions established by the Accounting and Auditing Institute by means of a resolution.

Second transitional provision. *Situations of incompatibility.*

Any situations of incompatibility arising out of the circumstances foreseen in article 16.1 a) 2nd, 3rd and 4th, as well as in article 39.2, that alter the regime in place prior to the entry into force of the present Act shall not lead to any lack of independence of the auditors and audit firms concerned provided that these have arisen and concluded prior to January 1st, 2016.

The prohibited services referred to in article 39.1 that alter the regime in place prior to the entry into force of the present Act shall not lead to any lack of independence of the auditors and audit firms with regard to audits begun prior to the said date and not yet completed with the issue of the mandatory audit report.

Third transitional provision. *Applicable financial year for the measures contained in the tenth additional provision.*

The obligations regulated in the tenth additional provision of this Act shall only be enforceable in connection with activities carried out in the financial years beginning on or after January 1st, 2016.

Sole repeal provision.

Any and all provisions of an equal or lower rank that oppose the provisions contained in this Act are hereby repealed, in particular the Consolidated Text of the Law on Auditing approved by Royal Legislative Decree 1/2011, of 1 July.

First final provision. *Amendment of the Business Code approved by Royal Decree dated August 22nd, 1885.*

The following amendments are made to the Business Code approved by Royal Decree dated August 22nd, 1885:

One. Section 1 of article 34 is amended to read as follows:

"1. At the balance sheet date, the business owner shall draw up the annual accounts for the company, comprising the balance sheet, the income statement, a statement reflecting the changes in equity, a statement of cash flows, and the Notes to the Annual Accounts. These documents shall form a single unit. The statement of changes in net equity and the statement of cash flows shall not be obligatory in those cases where this is so provided for in a legal provision."

Two. Section 1 of article 38 *bis* is amended to read as follows:

"1. Assets and liabilities may be valued at their fair value on the terms determined in Regulations and within the limits of European regulations.

In either case, an indication must be given as to whether the change in value originated in the assets or liabilities as a consequence of the application of this criterion must be attributed to the income statement or must be included directly on equity."

Three. Sections 3, 4 and 5 of article 38 *bis* are eliminated.

Four. Section 4 of article 39 is amended to read as follows:

"4. Intangible assets have a defined useful life. Whenever the useful life of these assets cannot be reliably estimated, they shall be amortized over a term of ten years, unless another legal or regulatory provision establishes a different term.

Goodwill may only be reflected on the asset side of the balance sheet when it has been acquired for a consideration. Without prejudice to any evidence to the contrary, goodwill shall be presumed to have a useful life of ten years.

The Notes to the Annual Accounts must include information about the term and method for amortizing intangible assets."

Five. Article 43 is amended to read as follows:

"Article 43.

1. The provisions contained in the preceding article notwithstanding, the companies mentioned therein shall not be obliged to consolidate in any of the following situations:

1st Whenever, at the balance sheet date of the company obliged to consolidate, all of its subsidiary companies as a whole do not exceed, in their most recent annual accounts, any two of the limits indicated in Royal Legislative Decree 1/2010, of 2 July, approving the Consolidated Text of the Law on Capital Companies, for the drafting of an abridged income statement, unless any of the group companies is considered to be a public interest entity pursuant to the definition established in article 3.5 of the Law 22/2015, of 20 July, on Auditing.

2nd Whenever the company obliged to consolidate and subject to Spanish legislation is at the same time a subsidiary of another governed by the same legislation or by that of another European Union Member State, provided this latter company holds 50 per cent or more of the stock certificates in the former and shareholders or partners owning at least 10 per cent have not requested the drafting of consolidated accounts 6 months prior to the balance sheet date. In all cases, it shall be necessary to meet the following requirements:

a) That the company excused from formalizing consolidation, as well as all the companies that are to be included in the consolidation process, are consolidated in the

accounts of a larger group, whose parent company is subject to the legislation of a European Union Member State.

b) That the company excused from formalizing consolidation indicates on its accounts a mention of this exemption from the obligation to establish consolidated accounts, the group it belongs to, the company name and the registered office of the parent company.

c) That the consolidated accounts of the parent company, as well as the management report and the auditors' report, are deposited with the Commercial Registry, duly translated into one of the official languages of the Region where the company excused has its registered office.

d) That the company excused from formalizing consolidation has not issued any securities admitted for trading on a regulated market of any European Union Member State.

3rd. Whenever the company obliged to consolidate holds stakes solely and exclusively in dependent companies that do not represent a significant interest, at individual or joint level, for the fair presentation of the equity, financial position and results of the group's companies.

4th. Whenever all the controlled undertakings can be excluded from consolidation on any of the following grounds:

a) In extremely rare cases where the information needed to draw up the consolidated financial statements cannot be obtained for duly justified reasons.

b) Where the holding of the shares or stock certificates in the said company are held solely and exclusively for subsequent transfer.

c) That severe and long-lasting restrictions hinder the exercise of control over that subsidiary by the parent company.

2. No company shall be included for consolidation whenever any of the circumstances indicated in paragraph 4th above is present."

Second final provision. *Amendment of the Law 24/1988, of 28 July, on Securities Market.*

A section b) is added to article 100 of the *Law 24/1988, of 28 July, on Securities Market*.

"b) The failure to produce or publish the annual corporate governance report or the annual report on directors' remuneration referred to, respectively, in articles 540 and 541 of the Consolidated Text of the Law on Capital Companies, approved by Royal Legislative Decree 1/2010, of 2 July, or the existence in the said reports of omissions or false or misleading data; the failure to comply with the obligations established in articles 512 to 517, 525.2, 526, 528, 529, 530, 531, 532, 533, 534, 538, 539, 540 and 541 of the said Act; absence, on the part of the entities issuing securities listed on official secondary markets, of an audit committee and a remunerations and appointments committee on the terms established in articles 529 *quaterdecies* and *quindecies* of the said Act; or a failure contemplated in the said article 529 *quaterdecies* to comply with the rules for the composition and attribution of functions to the said audit committees of the public interest entities contemplated in the said article 529 *quaterdecies*."

Third final provision. *Amendment of the Law 29/1998, of 13 July, on the Regulation of the Administrative Dispute Jurisdiction* .

A new section 6 is added to the fourth additional provision of the *Law 29/1998, of 13 July, on the Regulation of the Administrative Dispute Jurisdiction*, with the following text:

"6. The resolutions of the Minister for Economy and Competitiveness resolving on the appeals for review against acts handed down by the Accounting and Auditing Institute, as well as the regulatory resolutions handed down by the Accounting and Auditing Institute, directly in a sole instance before the Administrative Dispute Division of the National Court of Appeal."

Fourth final provision. *Amendment of the Consolidated Text of the Law on Capital Companies, approved by Royal Legislative Decree 1/2010, of 2 July.*

The following amendments are made to the Consolidated Text of the Law on Capital Companies, approved by Royal Legislative Decree 1/2010, of 2 July:

One. Paragraph d) of section 2 in article 107 is amended to read as follows:

"d) The price of the stock certificates, the form of payment and the other conditions for the transaction shall be as agreed and notified to the company by the partner wishing to transfer them. If the payment of the entire amount or of part of the price were deferred in the planned transfer for the acquisition of the stock certificates, then it shall be a prior requisite that a credit entity must guarantee payment of the deferred price.

In those cases where the planned transfer is for a consideration other than sale and purchase or if it is free of charge, then the acquisition price shall be set by agreement between the parties or, if this is not forthcoming, it shall be the fair value of the stock certificates on the date the company was notified of the intention to transfer them. Fair value shall be deemed to be that determined by an independent expert, other than the company's auditor, designated for the purpose by its directors.

In those cases where the stock certificates are contributed to a limited liability company or to a partnership limited by shares, the fair value of the stock certificates shall be deemed to be that resulting from the report drawn up by the independent expert appointed by the Commercial Registrar."

Two. Section 2 of article 124 is amended to read as follows:

"2. In this scenario, in order to reject the registration of the transfer on the register of nominative shares, the company must present to the successor a party willing to acquire the shares or offer to acquire them itself for their fair value at the moment when registration was requested, in accordance with the provisions contained in article 146 for the derivative acquisition of treasury stock.

Fair value shall be deemed to be that determined by an independent expert, other than the company's auditor, designated for the purpose by its directors at the request of any interested party."

Three. Section 3 of article 128 is amended to read as follows:

"3. Should the parties fail to reach agreement on the amount to be paid in the scenarios foreseen in the two preceding sections, then this amount shall be set, at the request of either of the parties and with the cost shared between both, by an independent

expert other than the company's auditor designated for the purpose by the Commercial' Registrar."

Four. Section 3 of article 257 is amended to read as follows:

"3. Whenever it is possible to draw up an abridged balance sheet, the statement of changes in equity and the statement of cash flows shall not be compulsory."

Five. Article 260 is amended to read as follows:

"Article 260. *Contents of the Notes to the Annual Accounts.*

The Notes to the Annual Accounts shall contain, in addition to the mentions specifically foreseen in the Business Code, this Act, and the corresponding regulations developing the same, at least the following indications:

One. The valuation criteria applied to the various captions in the annual accounts and the methods for calculating the value adjustments.

For items in the annual accounts expressed, now or originally, in a currency other than the euro, the procedure used to calculate the exchange rate shall be indicated.

Two. The full name, address of the company´s registered office and legal form of the companies in which the company is a general partner or in which it holds, directly or indirectly, a percentage of not less than twenty per cent of the capital, or in which it has a significant influence without reaching this percentage.

The stake held in the capital and the percentage of voting rights shall be indicated, as shall the amount of equity in the last financial year of those companies.

Three. When there are different types of stakes or stock certificates, the contents of each one and, when there are multiple share classes, the number and face value of those belonging to each one and the contents of the rights belonging to each class.

Four. The existence of dividend-right certificates, rights attached to founder bonds, convertible bonds and similar securities and rights, with an indication of their number and the extension of the rights they confer.

Five. The number and face value of the shares subscribed during the financial year within the limits of the authorized capital, as well as the amount of any acquisitions and disposals of own shares or own stock certificates, and of the shares or stock certificates in the parent company.

Six. The amount of the company's debts with a residual duration of more than five years, as well as the amount of all debts with *in rem* guarantees, with an indication of their form and nature.

These indications shall be given separately for each of the items relating to debts.

Seven.

a) The overall amount of the guarantees committed with third parties, without prejudice to their recognition within the liability on the balance sheet when the same are likely to give rise to the effective fulfilment of an obligation.

The commitments in place with regard to pensions and those relating to group companies must be mentioned with all due clarity and separation.

b) The nature and business purpose of the company's agreements not listed on the balance sheet as well as their financial impact, provided that this information is significant and necessary for the determination of the company's financial situation.

c) Material transactions between the company and related third parties, indicating the nature of the relationship, the amount and any other information about the transactions that may be necessary to determine the company's financial situation.

Eight.

a) Any difference that might arise between the calculation of the accounting result for the financial year and the result that would have been shown if the valuation of the captions had been made with tax criteria, as these may not coincide with the obligatorily applicable accounting principles. Whenever such valuations have a substantial influence on the future tax payment, indications must also be given in this regard.

b) The difference between the tax payment attributed to the current and preceding financial years, and the tax payment already done or that must be paid for those financial years, insofar as this difference implies a definite impact on the future tax payment.

Nine. The distribution of the net amount of the turnover corresponding to the company's ordinary activities, by activity category as well as by geographical markets, insofar as, from the perspective of the organization of the sale of products and the provision of services or other revenue streams corresponding to the company's ordinary activities, such categories and markets differ considerably from each other. Such mentions may be omitted in companies permitted to draw up an abridged income statement.

Ten. The average number of employees during the reporting period, by category, as well as the personnel expenses incurred in the financial year, with a breakdown of the amounts relating to wages and salaries and those referring to social charges, with a separate mention of those charges covering pensions when these are not reflected as such on the income statement.

The distribution of the company's personnel by gender at the balance sheet date, divided into a sufficient number of categories and levels, including those corresponding to senior executives and directors.

The average number of persons employed in the course of the financial year with a level of disability greater than or equal to thirty-three per cent, indicating the categories to which they belong.

Eleven. The amount of any salaries, *per diem* allowances and remuneration of any kind accrued in the course of the financial year by senior management personnel and the members of the governing body, regardless of their cause, as well as any obligations entered into with regard to pensions or the payment of life insurance premiums or third-party liability insurance premiums with respect to former and current members of the governing body and senior management personnel. When the members of the governing body are bodies corporate, the preceding requirements shall refer to the private individuals representing them.

The foregoing information may be given globally for each remuneration concept.

Where the company has paid, in full or in part, any third-party insurance premium for all the directors or for some of them in connection with harm caused by acts or

omissions in the exercise of their positions, this shall be expressly set out in the Notes to the Annual Accounts, with an indication of the amount of the premium.

Twelve. The amount of any advances and credits awarded to each of the members of the company's governing bodies or senior management personnel, with an indication of the interest rate, the essential characteristics of the same and the amounts repaid, if any, as well as the obligations assumed on their behalf by way of guarantees. When the members of the governing body are bodies corporate, the preceding requirements shall refer to the private individuals representing them.

The foregoing information may be given globally for each category.

Thirteen. The amount broken down by concepts for audit fees and other non-audit services rendered by the auditor, as well as those corresponding to persons or entities related to the auditor.

Fourteen. The movements in the various items of non-current assets.

Fifteen.

a) Whenever financial instruments have been valued at their fair value, an indication shall be given of: the main assumptions on which the models and valuation techniques are based; the variations in value recorded on the income statement for each category of financial instrument and, in the case of derivative financial instruments, their nature and the main conditions with respect to amounts, schedule and movements in the fair value reserve during the financial year.

b) Whenever the financial instruments have not been valued at their fair value, the fair value shall be indicated for each class on the terms and with the conditions foreseen in the General Accounting Plan.

Sixteen. The conclusion, amendment or early termination of any contract between a trading company and any of its partners or directors or any person acting on behalf of the same, when the transaction in question does not fall within the company's normal business or is not carried out under normal conditions.

Seventeen. The full name and address of registered office of the company drawing up the consolidated financial statements of the group to which the company belongs and the Commercial Registry at which its consolidated annual accounts have been deposited or, where appropriate, the circumstances exempting it from the obligation to consolidate.

Eighteen. When the company holds the largest assets in a set of companies domiciled in Spain, all subject to a single decision-taking body, either because they are controlled through any means by one or more private individuals or bodies corporate not obliged to consolidate and acting jointly, or else because they are under sole management through agreements or clauses established in the Articles of Association, a description of the said companies must be given, indicating the reason why they are under a single decision-taking body, and information must be provided on the aggregate amount of the assets, liabilities, net equity, turnover and result of the said companies taken together.

The company holding the largest assets is understood to be the one that, at the moment of its incorporation into the decision-taking body, presents the largest figure for the total assets on the template for the balance sheet.

The remaining companies subject to a decision-taking body shall indicate in the Notes to their Annual Accounts the decision-taking body to which they belong and the Commercial Registry where the company has deposited the annual accounts containing the information required in the first paragraph of this indication.

Nineteen. The amount and nature of the items for income or expenditure when their amounts or impacts are exceptional.

Twenty. The proposal for application of the result.

Twenty-one. The nature and financial consequences of any circumstances of relatively significant importance arising after the balance sheet date and not reflected on the income statement or on the balance sheet, and the financial impact of such circumstances."

Six. Article 261 is amended to read as follows:

"Article 261. *Abridged Notes to the Annual Accounts.*

Those companies allowed to draw up an abridged balance sheet may omit the indications determined in the Regulations from the Notes to their Annual Accounts.

In any case, they must supply the information required in indications one, five, six, ten with respect to the average number of persons employed in the course of the financial year, fourteen, fifteen, nineteen and twenty-one.

In addition, the Notes to the Annual Accounts shall set out in global terms the information referred to in indications seven and twelve of the said article, as well as the full name and the address of registered office of the company establishing the consolidated financial statements of the smaller group of companies included in the group the company belongs to."

Seven. Article 264 is amended to read as follows:

"1. The person who is to conduct the audit shall be appointed by the general meeting before the balance sheet date to be audited and for an initial term that may not be less than three years nor greater than nine years, counted from the date of the start of the first financial year to be audited, without prejudice to the provisions contained in the regulations governing audit activities with respect to the possibility of an extension and the duration of contracts with regard to companies classified as public interest entities.

2. The general meeting may designate one or more private individuals or bodies corporate to act jointly. Whenever those designated are private individuals, the general meeting must appoint as many deputy auditors as there are auditors.

3. The general meeting shall not be able to revoke the appointment of auditors prior to the end of the initial term for which they were appointed, nor prior to the end of each of the engagements for which they were contracted after the end of the initial period, unless there are good grounds so to do.

4. Any contractual clause limiting the appointment of certain categories or lists of statutory auditors or audit firms shall be null and void in law."

Eight. Article 265 is amended to read as follows:

"1. When the general meeting required to do so has not appointed an auditor before the balance sheet date to be audited or where the person designated has not accepted the appointment or is unable to fulfil the functions, the directors and any

partner may request the Commercial Registrar corresponding to the company's registered office to designate the person or persons to perform the audit.

In limited liability companies, this request may also be submitted by the commissioner for the syndicate of bondholders.

2. In companies that are not obliged to submit their annual accounts for verification by an auditor, partners representing at least five per cent of the equity capital may request that the Commercial Registrar corresponding to the company's registered office designate, at the company's expense, an auditor to conduct a review of the annual accounts for a particular financial year provided that three months have not yet elapsed from the balance sheet date in question.

3. Requests for appointment of auditors and their designation shall be carried out in accordance with the provisions contained in the Commercial Registry Regulations. Prior to accepting any appointment, auditors must evaluate the effective fulfilment of the engagement in accordance with the provisions contained in the regulations governing audit activities."

Nine. A final paragraph is added to article 266 with the following text:

"In addition, in the case of public interest companies, shareholders representing 5 per cent or more of the voting rights or the capital, the Audit Committee or the Accounting and Auditing Institute may apply to the judge for the revocation of the auditor or auditors or the audit firms or companies designated by the General Meeting or by the Commercial Registrar and the appointment of one or the other whenever there are good grounds."

Ten. A section 3 is added to article 267 with the following text:

"3. In those scenarios where the auditors are appointed by the Commercial Registrar, the latter shall, when effecting the appointment, set the remuneration to be received by the auditors for the whole period during which the post is to be held or, at least, the criteria for its calculation. The corresponding fees must be agreed prior to the acceptance of the engagement and the inclusion of the appointment on the Commercial Registry. Auditors may request an adequate bond or the provision of funds on account of their fees before starting to exercise their functions."

Eleven. Section 2 of article 270 is amended to read as follows:

"2. Should the directors, following the signing and delivery of the audit report on the initial accounts, be obliged to reformulate the annual accounts, then the auditor shall have to issue a new report on the reformulated annual accounts."

Twelve. Section 4 of article 273 is eliminated.

Thirteen. Section 1 of article 279 is amended to read as follows:

"1. Within the month following the approval of the annual accounts, the company's directors shall submit, for deposit on the Commercial Registry corresponding to the address of registered office, a certified copy of the resolutions adopted by the general meeting of partners approving the said accounts, duly signed, and on the distribution of profit/application of losses, as well as the consolidated accounts, if any, which resolutions shall be accompanied by copies of all such accounts. The directors shall also submit the management report, where this is compulsory, and the auditor's report where the company is obliged by any statutory provision to submit to an audit or where an audit is agreed to at the request of the minority or is voluntarily

requested and the appointment of an auditor has been entered on the Commercial Registry."

Fourteen. Letters a) and c) in section 2 of article 308 are amended to read as follows:

"a) That the directors draw up a report specifying the value of the company's stock certificates or shares and justify in detail the proposal and the consideration to be satisfied for the new stock certificates or the new shares, with the indication of the persons to whom they are to be attributed and, in limited liability companies, that an independent expert other than the company's auditor appointed for the purpose by the Commercial Registrar draws up another report, under his or her own responsibility, on the fair value of the company's shares, the theoretical value of the pre-emptive right whose exercise is proposed to be eliminated or limited and on the reasonableness of the data contained in the directors' report.

c) That the face value of the new stock certificates or the new shares plus, where applicable, the amount of any premium corresponds to the real value attributed to the stock certificates in the directors' report in the case of limited liability partnerships or with the value resulting from the report by the independent expert in the case of limited liability companies."

Fifteen. Section 1 of article 353 is amended to read as follows:

"1. In the absence of agreement between the company and the partner on the fair value of its stock certificates or shares, or on the person(s) to evaluate them and the procedure to be followed for their valuation, they shall be valued by an independent expert designated by the Commercial Registrar corresponding to the address company's registered office at the request of the company or of any of the partners registered as the holders of the stock certificates or shares to be valued."

Sixteen. Article 354 is amended to read as follows:

"Article 354. *Reports by independent experts.*

1. For the exercise of their functions, experts shall be able to obtain from the company any and all documents and information considered useful and may proceed with all verifications deemed necessary.

2. Experts shall issue their reports within the maximum term of two months counted from their appointment and shall immediately notify the company and the partners affected through notarial channels, attaching copies thereof, and shall deposit another copy of their reports with the Commercial Registry."

Seventeen. Article 355 is amended to read as follows:

"Article 355. *Remuneration of the independent expert.*

1. The remuneration of the expert shall be for the account of the company.

2. Nonetheless, in cases of separation of partner(s), the company may deduct from the amount to be reimbursed to the partner(s) excluded the sum applicable for the fees paid in the percentage the partner(s) held in the company's capital."

Eighteen. Letter b) in section 2 of article 417 is amended to read as follows:

"b) That the report by the independent expert contains a technical opinion on the reasonableness of the information contained in the directors' report and on the

suitability of the swap ratio and, where appropriate, the adjustment formulae, in order to compensate any eventual dilution of shareholders' economic stake."

Nineteen. Sections 1, 2 and 3 of article 505 are amended to read as follows:

"1. Notwithstanding the provisions contained in section two of the preceding article, the general meeting of shareholders in a listed company, once it has received the directors' report and the independent expert's report required under article 308, may resolve on the use of new shares at any price, provided that this is higher than the net equity value of the same resulting from the auditor's report, with the general meeting being able to limit itself to establishing the procedure for its determination.

2. For the general meeting to be able to adopt the resolution referred to in the preceding section, it shall be necessary for the directors' report and the independent expert's report to determine the net equity value of the shares.

3. The independent expert shall determine the net equity value on the basis of the company's most recent audited annual accounts or else, if later, on the basis of the company's most recent audited financial statements pursuant to article 254, duly drawn up by the directors, in either case, in accordance with the accounting principles reflected in the Business Code. The date of the close of these accounts or statements may not be more than six months earlier than the date on which the general meeting adopts its resolution on the capital increase, provided that no significant operations have been carried out. The determination of the value must take into account any qualifications the auditor may have included on the report on the annual accounts or financial statements."

Twenty. Article 529 *quaterdecies* is amended to read as follows:

"Article 529 *quaterdecies*. *Audit Committee.*

1. The Audit Committee shall be made up solely and exclusively by non-executive directors appointed by the Board of Directors, a majority of whom must be independent directors; one of them shall be designated taking into account his or her knowledge or and expertise in accounting, auditing or both.

Overall, the members of the audit committee shall have pertinent technical knowledge in connection with the business sector the entity belongs to.

2. The chair of the Audit Committee shall be designated from among the independent directors sitting on the same and must be replaced every four years, with the possibility of being re-elected after one year has elapsed after he or she has stepped down.

3. The company's Articles of Association or the Regulations governing its Board of Directors, in accordance with the provisions contained therein, shall establish the number of members and regulate the committee's operation, with the obligation to favour its independence in the exercise of its functions.

4. Without prejudice to the other functions attributed to it by the company's Articles of Association or, pursuant thereto, by the Regulations governing the Board of Directors, the Audit Committee shall exercise at least the following functions:

a) To report to the general meeting of shareholders on the issues posed in connection with those matters within the remit of the committee and, in particular, on the outcome of the audit, explaining how this has contributed to the completeness of the financial reporting and the function the committee has performed in this process.

b) To oversee the efficacy of the company's internal control, internal audit and risk management systems, as well as to discuss with auditors the material weaknesses in the internal control system detected in the course of the audit, all without any interference with their independence. For these purposes, and where appropriate, they may submit recommendations or proposals to the governing body and the corresponding term for following up on the same.

c) To supervise the process for preparing and presenting mandatory financial information and to submit recommendations or proposals to the governing body aimed at safeguarding its completeness.

d) To submit to the Board of Directors proposals for the selection, appointment, re-election and replacement of the auditor, assuming responsibility for the selection process, in accordance with the provisions contained in article 16, sections 2, 3 and 5, and article 17.5 of Regulation (EU) nº 537/2014, of 16 April, as well as the conditions for hiring the same and regularly to obtain from the auditor information about the audit plan and its execution, as well as to preserve the auditor's independence in the exercise of audit functions.

e) To establish an appropriate relationship with the external auditor to receive information about those issues potentially representing a threat to independence, for examination by the committee and any other issues related to the process for executing the audit and, when appropriate, the authorization of services other than those prohibited, in accordance with the terms contemplated in article 5, section 4, and article 6.2.b) of Regulation (EU) nº 537/2014, of 16 April, and in the provisions contained in section 3 of chapter IV in Title I of the Law 22/2015, of 20 July, on Auditing, on the independence regime, as well as those communications foreseen in the legislation on audit and in auditing standards. In all cases, they must receive each year from the external auditors the declaration of independence vis-à-vis the entity or any entities directly or indirectly related to the same, as well as detailed, individualized information on the additional services of any kind rendered and the corresponding fees received from the said entities by the external auditor or by persons or entities related to the same in accordance with the provisions contained in the regulations governing audit activities.

f) To issue each year, prior to the issue of the audit report, a report setting out its opinion on whether the independence of the auditors or audit firms has been compromised. This report must in all cases contain a well-reasoned assessment of each and every one of the additional services rendered and referred to in the preceding paragraph, considered both individually and as a whole, other than the statutory audit and in connection with the independence regime or the regulations governing audit activities.

g) To report, in advance, to the Board of Directors on all matters foreseen in the Act, the company's Articles of Association and in the Regulations governing the Board of Directors; in particular, it must report on:

1st. Financial information the company is obliged to publish on a regular basis,

2nd. The creation or acquisition of stakes in special purpose vehicles or entities domiciled in countries or territories classified as tax havens, and

3rd. Transactions with related parties.

The Audit Committee shall not exercise the functions foreseen in this letter when these are attributed in the Articles of Association to another committee made up solely of non-executive directors and at least two independent directors, one of whom shall be the chair.

5. The provisions contained in letters d), e) and f) of the preceding section shall be understood without prejudice to the regulations governing the audit of accounts."

Fifth final provision. *Amendment of the Law 27/2014, of 27 November, on Corporate Tax.*

With effect for tax periods beginning on or after January 1st, 2016, the following amendments are included in the Law 27/2014, of 27 November, on Corporate Income Tax:

One. Section 2 of article 12 is amended to read as follows:

"2. Intangible assets shall be amortized having regard for their useful life. When this cannot be reliably estimated, the amortization shall be deductible up to a maximum annual limit of one twentieth of its amount.

The amortization of goodwill shall be deductible up to a maximum annual limit of one twentieth of its amount."

Two. Section 3 of article 13 is repealed.

Three. The thirty-fifth transitional provision is amended to read as follows:

"Thirty-fifth transitional provision. *Tax regime applicable to intangible assets acquired prior to January 1st, 2015.*

The tax regime established in article 12.2 of this Act shall not be applicable to intangible assets, including goodwill, acquired in tax periods begun prior to January 1st, 2015, from entities forming part of the same business group as the company acquiring them in accordance with the criteria established in article 42 of the Business Code, regardless of their domicile and any obligation to draw up consolidated annual accounts."

Sixth final provision. *Powers for enactment.*

The present Act is issued pursuant to the provisions contained in article 149.1.6th of the Constitution, which grants the State exclusive powers over "business legislation".

The second final provision is not included within these powers and is covered by the powers granted in article 149.1, 11th and 13th, of the Constitution, which respectively grant the State powers over the "bases for the organization of credit, banking and insurance" and the "bases for and co-ordination of the general planning of economic activity". The third final provision is also not included in the above powers and is enacted pursuant to article 149.1.6th of the Constitution, which grants the State exclusive powers to enact "procedural legislation, without prejudice to the necessary special features arising in this regard from the particularities of the substantive law in each of the Regions".

Seventh final provision. *Incorporation of European Union Law.*

The present Act incorporates into Spanish Law Directive 2014/56/EU of the European Parliament and of the Council, of 16 April, amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

Eighth final provision. *Empowerment to regulate.*

The Government is hereby authorized to issue, at the proposal of the Minister for Economy and Competitiveness, any rules that may be necessary for the furtherance of the provisions contained in this Act.

Within the term of one year from the publication of this Act, the Government, at the proposal of the Minister for Economy and Competitiveness, shall determine the conditions that must be met by entities in order to be considered public interest entities in view of their significant public importance due to the nature of their activities, their size or the number of employees, as referred to in article 3.5 b) of this Act.

Ninth final provision. *Empowerment for the amendment of the bylaws of the Accounting and Auditing Institute.*

By means of a Royal Decree, the Government, at the initiative of the Minister for Economy and Competitiveness and at the proposal of the Minister for Finance and Public Administrations, shall proceed, where appropriate, to the corresponding adaptation of the Articles of Association of the Accounting and Auditing Institute.

Tenth final provision. *Authorization of the Accounting and Auditing Institute.*

The Accounting and Auditing Institute is authorized, by means of a resolution and in accordance with the development rules issued by the Government, to develop the criteria to be observed with regard to scope, execution and monitoring of the quality assurance system in accordance with the provisions contained in Directive 2014/56/EU of the European Parliament and of the Council, of 16 April, amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts and with the provisions contained in Regulation (EU) nº 537/2014, of 16 April , regarding the specific requirements for the statutory audits of public interest entities and repealing Decision 2005/909/EC of the Commission. Such a resolution must conform to the preparation procedure regulated in article 24.1 of the Law 50/1997, of 27 November, on the Government.

Eleventh final provision. *Functions entrusted to members of the Spanish Institute of Certified Public Accountants, prior to the entry into force of the Law 19/1988, of 12 July, on Auditing.*

The functions entrusted to members of the Spanish Institute of Certified Public Accountants in the legislation and other general provisions shall be understood to be attributed, from the entry into force of the *Law 19/1988, of 12 July, on Auditing*, to auditors and audit firms for the exercise of audit activities.

Twelfth final provision. *No increase in expenditure.*

The measures foreseen in this Act shall not imply any increase in remunerations, endowments or other personnel costs.

Thirteenth final provision. *Legal regime for the goodwill reserve in the financial years starting on or after January 1st, 2016.*

In the financial years starting on or after January 1st, 2016, the goodwill reserve shall be reclassified into the company's voluntary reserves and shall be available from that date on in the amount that exceeds the goodwill posted to the assets on the balance sheet.

Fourteenth final provision. *Entry into force.*

1. The present Act shall enter into force on June 17th, 2016.

The foregoing notwithstanding, the provisions contained in chapters I and III, and in sections 1 to 4 of chapter IV in Title I, dealing with the performance of audit engagements and the issuance of the corresponding reports, shall be applicable to the audit engagements on annual accounts corresponding to the financial years starting on or after that date, as well as to engagement for other financial statements or accounting records corresponding to such financial years.

2. In addition, the following provisions shall enter into force on the day following publication of this Act in the Official State Gazette:

a) Article 11, with regard to the requirements demanded of audit firms.

b) Article 69.5, with regard to the empowerment it contains regarding abridged proceedings for the imposition of penalties.

c) The fourth additional provision with regard to the collaboration of the National Commission for Markets and Competition.

3. Furthermore, the following provisions shall enter into force on January 1st, 2016:

a) Article 21.1, paragraph one, with regard to the period of currency for incompatibilities, and article 39.1, with regard to the period for the calculation of incompatibilities referred to in article 5.1 of Regulation (EU) nº 537/2014, of 16 April.

b) Article 58, relating to the Audit Committee of the Accounting and Auditing Institute.

c) Articles 87 and 88, with regard to charges of the Accounting and Auditing Institute.

d) Sections one to three, seven to eleven, and fourteen to nineteen in the fourth final provision amending the Consolidated Text of the Law on Capital Companies.

e) The twelfth final provision, relating to no increase in expenditure.

4. The contents of the tenth additional provision (information on payments made to Public Administrations), the fourth final provision (amendment of the Consolidated Text of the Law on Capital Companies) sections four to six, twelve and thirteen, the first final provision (amendment of the Business Code), the fifth final provision (amendment of the Law on Corporate Income Tax) and the thirteenth final provision (Legal regime for the Goodwill Reserve) shall be applicable to the financial statements corresponding to the financial years starting on or after January 1st, 2016.

I therefore order all Spaniards, whether private individuals or authorities, to observe this Act and enforce its observance by others.

Madrid, July 20th, 2015.

FELIPE VI

The Prime Minister,

Mariano RAJOY BREY