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Fall 2026
Financial Markets

L1 — The Financial System
September 14th, 2026

What are we going to do today?

- The importance of information:
  - Efficient Market Hypothesis
  - Arbitrage
- The map:
  - The three parts: banks, insurance and markets
  - Direct and indirect finance
  - Who supervises what — the SEC and the CNMV
  - What a supervisor actually does
  - Where the perimeter blurs

Where We Left It

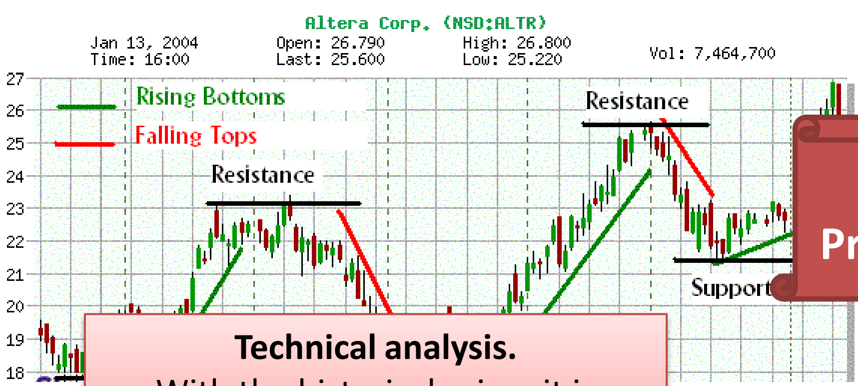
- The financial system connects savings with financing needs
- Some agents have a surplus, others need financing
- The rest is detail: how it is connected, and who watches
- Today we put names on the boxes

Information. Efficient-market

- **Efficient-market hypothesis (Fama, 1965).**
  - A market in which prices always **“fully reflect”** available information is called **“efficient”**.

Nobody can know the future price

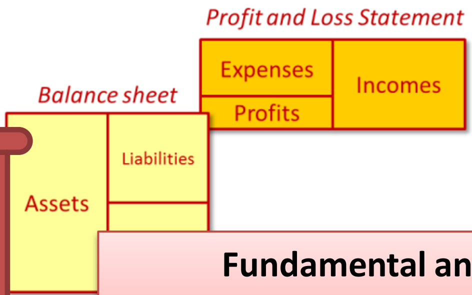
  - **Weak form:** market reflect all information regarding **historical prices**. **Technical analysis** doesn't work.
  - **Semi-strong form:** market reflect also all public information regarding the company. **Fundamental analysis** doesn't work.
  - **Strong form:** market reflect all information… **There are no insiders.**



Technical analysis.
With the historical prices it is possible to know the future

Now

Stock A
Price = 12,3€



Fundamental analysis
Compares real value (ej: books value) with market value.

Information. Arbitrage

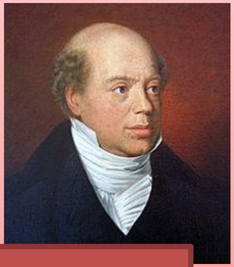
- **What is arbitrage?**
  - Stocks of the same company are traded in two different markets. ¿What if the stock have different prices in each market? An example of arbitrage is to take advantage of the situation and get a gain without risk.
- **Is there any relationship between arbitrage and efficient markets?**

Nathan Rothschild

Waterloo legend (18 June 1815)

After Waterloo battle a Rothschild agent fly to London (beating Wellington's envoy by **many hours**)

Nathan made the market believe that Waterloo was lost, and took advantage of his exclusive Information.



1815 – Many hours

Flash Boys

How long does an instant take?

Spread Networks (2010)

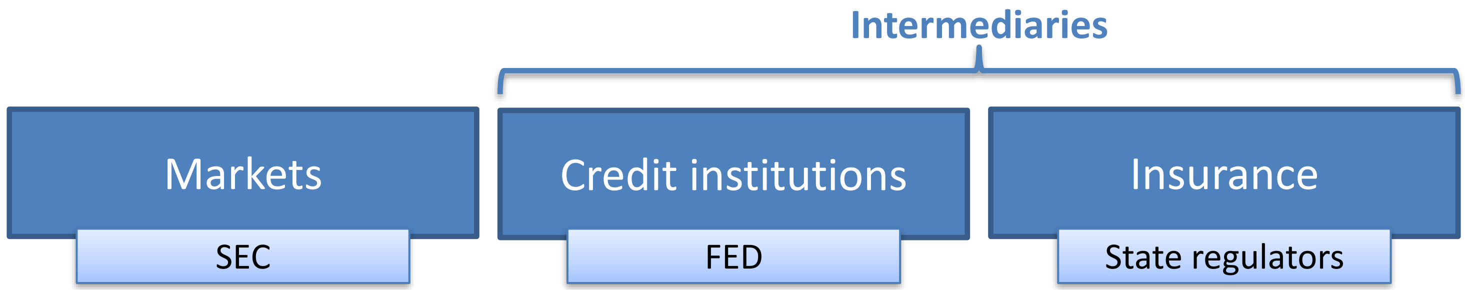
The construction of $300 million project, a 827-mile cable running as straight as possible, through mountains and under rivers, from Chicago to New Jersey, that would reduce the journey time for data from 17 to 13 milliseconds.

High-frequency trading

They connected the Chicago Mercantile Exchange (futures and options) to Carteret, New Jersey (home to the Nasdaq data center)

2010 – 4 milliseconds

Summary



Who supervises what?	Credit institutions	Markets	Insurance companies
FED	**Practically all their activity is supervised by the Federal Reserve (FED) except when…**	…the interbank market and the public debt market.	
SEC	…they operate as Investment Services Firms (ISFs)	**The SEC (Securities Exchange Comission) supervises all markets except…**	…except when they operate as Investment Services Firms (ISFs)
FDIC	……or sell insurance or pension funds.		**Insurance companies are supervised by the FDIC (Federal Deposit Insurance Corporation)…**

Direct and Indirect Finance

- Direct finance: your savings reach the borrower through a market
- Indirect finance: an intermediary stands in the middle
- You have a deposit; the bank has the loan and holds the risk

- The intermediary transforms maturity, size and risk

What Each Part Sells

- Banks — deposits and loans
- Insurance — a premium today against a contingency tomorrow
- Markets — stocks, bonds and derivatives

- Only banks and insurers intermediate. A market matches

Primary and Secondary, Regulated and OTC

- Primary market: the security is issued, the issuer gets the money
- Secondary market: investors trade it. The issuer gets nothing
- Regulated: a venue with rules, a supervisor and public prices
- OTC: bilateral, negotiated, no venue. Most bonds trade here

- Without a secondary market nobody buys in the primary one

Who Supervises What

	United States	Spain
Markets	SEC	CNMV
Banks	Federal Reserve	Banco de España, ECB
Insurance and pensions	State regulators	DGSFP

Three parts, three supervisors. The names change with the country; the structure does not.

What a Supervisor Actually Does

- Three things, and only three:
- If you want to operate, who gives you the licence?
- Who checks that things have been done properly?
- And if you behave badly, who punishes you?

- A supervisor is not the police. It keeps a market fit to trust
- And the Federal Reserve also runs monetary policy. The SEC does not

The CNMV and the Banco de España

- CNMV — the stock exchange, AIAF, MEFF, investment firms and funds
- Its purpose: transparency, price formation, investor protection
- Banco de España — banks, the interbank and public debt markets

- Spanish public debt is its business, not the CNMV's
- And since 2014 the big banks are supervised by the ECB, not Madrid

Where the Perimeter Blurs

- In Session 1 we met a market with an unclear perimeter: crypto
- The activity exists. Which of the three boxes does it belong to?
- A stablecoin looks like a deposit; a token sale, like an issue

- The supervisor follows what the thing does, not what it is called
- For next day: who supervises banks and markets in your country?

The Map in One Slide

- Three parts: banks, insurance and markets
- Directly through a market, or indirectly through an intermediary
- Three supervisors: SEC and CNMV, the Fed and the Banco de España
- What each of them does: licence, supervision, sanction

- Next: the bond — the first instrument we are going to price