

## THE CNMV APPROVES THE TECHNICAL GUIDE ON REINFORCING THE TRANSPARENCY OF CERTAIN FIXED INCOME FUNDS: BUY AND HOLD STRATEGY FUNDS AND SPECIFIC RETURN TARGET FUNDS

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- The objective is to reinforce investor protection and their informed consent.
- Investor warnings are improved and criteria are established for the information provided on the annual percentage rate (APR)

The Spanish Securities Market Commission (CNMV) has approved the [Technical Guide on reinforcing the transparency of CIS with a specific return target and fixed income fund CIS with a buy-and-hold strategy](#), an initiative included in CNMV's activities plan for 2023.

The Guide updates the criteria set out in [Technical Guide 1/2017 on reinforcing the transparency of investment funds with a specific long-term return target](#) (TG 1/2017), which was applicable exclusively to funds with a specific return target with a term exceeding three years. Six years after its publication, it is considered necessary to update certain aspects to reflect the market's best practices and to extend its application to investment funds with a buy-and-hold strategy. The goal is to strengthen investors' protection and their informed consent.

In 2022, 32 investment funds with buy-and-hold strategies and 41 with a specific return target were registered with the CNMV. This trend has continued in the past months of 2023 (21 funds in the first category and 18 in the second category have been registered to date). This justifies the validity of the objectives pursued by the update of TG 1/2017, as certain criteria included in this TG are already being applied by the CNMV in its registration practice to funds with buy-and-hold strategies, given the similarities of such funds with funds with a specific return target.

The main objectives of the Technical Guide are as follows:

To establish criteria regarding the information provided to investors on the estimated return (in terms of annual percentage rate, APR) that can be reasonably expected in fixed income funds with a buy-and-hold strategy, should the investment be maintained until the maturity of the strategy's time horizon. This will provide investors with information that is highly relevant to their investment decision.

- To complete the contents included in Technical Guide 1/2017 to reflect the registration and supervision experience acquired since its publication.

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Particularly, criteria are established regarding the warnings to be given to investors on the risk derived from not valuing part of the fund's transactions during the marketing period, as well as on the effects of inflation on the nominal return of their investments.

- To reinforce some of the warning included in the previous Technical Guide. On the one hand, the warning related to the cost of liquidity, which will become applicable to funds that provide investors with less than twelve liquidity windows per year (possibility to redeem units without fees) instead of the four annual windows referred to in Technical Guide 1/2017. On the other hand, the warning regarding the risk of loss in the event of rising interest rates will be applicable to all funds and not only to those with a term of more than three years, as was previously the case.
- To extend the warnings on interest rate risk and the cost of liquidity to fixed income investment funds with a buy-and-hold strategy.

The content of the Technical Guide has been defined after analysing and evaluating the comments and observations received during the public consultation period (from 13 February 2023 to 31 March, 2023) as well as the report issued by the CNMV's Advisory Committee. [A document containing the assessment of the allegations received has also been published.](#)

During the public consultation process, the CNMV commissioned for the first time, as part of its procedure of elaboration of Circulars and Technical Guides, a market study among retail investors (consumer testing). The goal was to measure investors' understanding of the text of the warnings and to identify adjustments to the wording to facilitate understanding. This has allowed several modifications to be made to the final wording of the warnings, based on the results of this process, in order to make them more comprehensible to the final investor.

The CNMV recalls that some risks applicable to this type of funds are also relevant for other fixed income products not subject to the Technical Guide (such as bills, bonds, debentures or fixed income funds other than these two types) in contexts of interest rate tension or high inflation. Entities marketing such products or advising on them must, in compliance with their client information duties, provide clients with adequate information to ensure that they understand the associated risks and costs.

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