The Importance of Stock Markets as a Source of Financing
Closing Speech of the Forum on the Advantages of Being Listed on the Stock Exchange

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Good afternoon. It is a pleasure to give the closing speech on IPOs. Particularly, having the Regional Minister of Catalonia for Economy and Finance, Natàlia Mas, with us, who I will introduce in a moment.

Firstly, I would like to congratulate all the speakers for speaking clearly and firmly on the benefits and risks of trading in regulated markets, and for discussing these subjects from their own experience.

I would also like to thank the BME Group and the Barcelona Stock Exchange for their organisation. As the CNMV's Markets Directorate-General pointed out in the opening speech, this is the second conference of this kind promoted by the CNMV, with the support of BME, proving the importance we attach to the stock markets as a means of financing for companies.

Important ideas have been discussed today, and I will focus on just three of them, but first I would like to emphasise two current realities that further reinforce the relevance of conferences such as the one we attend today:

1. Firstly, we urgently need, as a country, to increase the size of our companies in order to face the current challenges, especially that regarding digitalisation and sustainability. SMEs are one of our main economic drivers, and Catalonia, one of the most dynamic economies, with a strong, powerful and innovative business network, is no exception. Nonetheless, it is also true that, on average, companies in Spain are smaller than those in other countries, which is a disadvantage in terms of competitiveness and efficiency. Overcoming this disadvantage implies growing in size. To do so, finance and investment is necessary.

2. The second reality I would like to highlight is that our business sector is highly dependent on bank financing, despite the improvement in recent years, especially if we compare with other geographies, such as the U.S. There is, therefore, room for improvement in the diversification of financing sources and in companies' capital structure. This becomes more relevant in the existing difficult economic climate. The cost of credit financing is significantly increasing after the shift in monetary policies. This is attached to the fact that

we have now seen four consecutive quarters of stricter concession criteria for companies[1].

The period of high liquidity, at virtually zero cost, is over. The cost of appealing fixed income markets is also increasing very visibly in all segments. While private investment such as venture capital, which has grown substantially in recent years as an important means of financing companies, especially smaller ones, also has its limits in such a scenario.

Of course, the current environment also penalises equity markets, as reflected in stock prices. But, it is precisely at times of high uncertainty and volatility that the greater liquidity and depth offered by stock markets is most valuable, making these markets an important source of funding to consider when others fall behind. We saw this happen, for example, during the uncertainty of the pandemic, when listed companies were able to raise capital and raise additional funds. Or during the now distant 2008 crisis, when equity markets continued to perform well despite the difficulties that arose in some fixed income segments.

Thus, it is urgent to diversify financing sources and ensure that companies have a sound capital structure, limiting the need for further leveraging.

That said, it is a reality that in recent decades we have seen fewer IPOs, in the U.S. As well as in Europe. In Europe, for example, the number of IPOs has halved in the last decade compared to the previous period[2]. That is why it is important to have forums such as this one, in which the culture of listing is fostered, areas for improvement are identified and additional measures that may be necessary are assessed.

In this sense, I would like to highlight three concepts:

1. Firstly, I think it is essential to continue promoting alternative markets, such as BME Growth, for growing small and medium-sized companies, with lower costs and more flexible regulation, as Javier Hernani said. BME Growth is a segment that is performing very well. Its capitalisation represents close to 3% of the regulated market, higher than other European peers[3], and trading has quadrupled in recent years. It is also a market that complements private equity well, offering liquidity and increasing the supply of investment opportunities. Additionally, it can provide companies with a route or gateway for a prospective jump to regulated markets.

   Nonetheless, it is also true that the data can be improved [4] and that the liquidity of some stocks remains low. That is, there is room for improvement and I welcome the initiatives being promoted by the BME Group to boost its development, offering multiple services, such as the Lighthouse project to provide subsidised analysis reports.

[1] Survey on bank loans in Spain, October 2022, Bank of Spain.
[2] FESE, European IPO Report 2020.
[3] Such as the German (0.4%) or Italian (1.7%). And not so far from that observed in the United Kingdom (4.8%). See Jesús González Redondo, "*Mercados alternativos de empresas en crecimiento y el caso español BME Growth*", Third Quarter Bulletin, CNMV, third quarter, 2022.
[4] The balance is not as positive if we look only at growing companies, that is excluding REIT.

I would also like to highlight that the promotion of markets is one of the priorities of the European agenda to foster of the single capital market or CMU. This project includes a variety of initiatives. One of them, in its early stages but of particular relevance, is the initiative known as DEBRA, which aims to reduce the tax bias towards debt as opposed to equity, as debt is often treated more favourably for tax purposes. In general, the aim is to avoid regulations or restrictions that unjustifiably distort the choice of one or another financing channel. Other initiatives on the European agenda are aimed at bringing the market closer to investors, including retail investors.

2. This brings me to my second concept: the importance of broadening the investor base in regulated markets, in order to enhance what is one of the main advantages: the ability to connect companies with a large and diverse number of potential investors. This extends the resources available and also reduces the dependence on being tied to only one or two large private investors. Moreover, current legislation also allows for so-called loyalty or double voting shares, which can help some companies that wish to join the stock exchange, to use it as a temporary mechanism to avoid losses of control in the future.

   Increasing the investor base requires boosting institutional and retail investment. For example, Spanish mutual funds invest less than 20% of their portfolio in equities, while in Europe this percentage is close to 40%. There may be elements of financial culture or investment preferences, but I believe there is room to explore. Retail investor interest in stock market investment exists. In fact, its share of the stock market continues to grow. It now stands at levels above 6%, up from 4.4% before the pandemic.

3. Thirdly and lastly, we should not underestimate the quality certificate that listing can represent. Visibility and market presence are intangible assets that brings multiple benefits. It is known that going public works as a catalyst for the company's professionalisation, as it establishes new internal control mechanisms and systematising the reporting of information, among others.

   It also offers additional benefits, such as helping to negotiate better financing conditions, fostering talent management, improving image and visibility with clients, and fostering the development of a long-term strategy. And, if we are honest, the regulatory requirements for listing are not that different in some areas. For example, future reporting on financial sustainability will apply to both listed and unlisted companies. The difference is that the information from listed companies goes through an additional review filter. This means, if anything, that it adds to the quality and reinforces the intangible value I mentioned. Any extra regulatory requirements on listed companies that do not have a clear economic policy justification should be avoided.

I will finish. What is more important is for companies to access the financing option that best suits their growth and development needs at any given time. Equities is like a long-distance race, which cannot be done in a day but can bring multiple benefits. The different funding channels do not compete with each other, but rather complement each other and benefit from the many synergies in place.

Catalonia, as I said at the beginning, is one of the most dynamic and innovative economies, with leading companies in diverse sectors such as biotechnology, finance, pharmaceuticals and health, and energy and construction, among others. It also has great international projection. Catalan companies account for 20% of the total number of companies listed on the continuous market, 7 of them in the IBEX35, with a capitalisation of more than 100 billion euros, in addition to those traded on BME Growth. It is an economy that has all the elements to take greater advantage of the growth benefits of going public, and I am convinced that it will.

Lastly, there is no one better than the Regional Minister of Catalonia for Economy and Finance, Natàlia Mas, to close the event. Not only because of the position she holds, which speaks for itself, but because of her extensive professional career, which makes her well versed in the financial world. I will hand her the floor, thanking her for her attendance today, as her commitments following her recent appointment are many and I know that it has not been easy to adjust to them.

Thank you.