



## Investment funds

### Thirty-first edition of the *Expansión* Awards

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Good evening everyone.

First of all, I would like to thank Ana Isabel Pereda (Director of *Expansión*) for inviting me to this event. I would also like to congratulate the winners of an award that is the fruit of your professionalism, contribution to and promotion of the investment and pension fund industry.

The fund sector is particularly relevant within the securities market, and this is also our point of view at the CNMV. Accordingly, we consider that these awards are of great importance and we always like to attend this dinner. Fortunately, as Ana has commented, these are good times for the sector, despite the situation, hopefully circumstantial, that we are facing due to Coronavirus, the evolution of which we are closely monitoring at the CNMV.

I would like to share with you some of the activities that we are carrying out with regard to Collective Investment Schemes (CISs).

At international level, particular attention is being paid to the liquidity of funds, both from the perspective of the supervision of CIS vehicles, and from the standpoint of financial stability. We have been monitoring the liquidity of funds for years and we have conveyed the message several times, that according to the results of our controls, at a micro level and under current market conditions, the liquidity risk of CISs is low. This is not sufficiently evident to warrant us continuing to pay attention to this issue. In fact, one of our objectives for this year is the approval of a technical guide on the management and control of CIS liquidity. Our idea is to include in the guide our supervisory experience in relation to procedures available at management companies to monitor the liquidity of CIS portfolios. The Guide is going to address issues such as swing pricing (potential adjustment in certain cases of the subscription or redemption value considering the costs incurred in subscriptions or redemptions), the criteria to be followed in selling the positions or the contingency plans that firms should have in place.

Another issue that is being discussed at national and international level and to which we are paying attention is what is known as the “search for yield”.

In view of the low interest rate scenario, firms providing investment services could offer products with a higher risk-level and with a higher yield potential.

Currently, according to the information available at the CNMV, it does not appear to be a particularly significant phenomenon, but there are certain elements that are pointing in this direction. Specifically:

- In the field of CISs, apart from investments considered as “investment grade” (BBB rating), we should also highlight that in recent years, the number of funds investing in fixed-income assets below the “investment grade” category (rating below BBB) has been gradually increasing.
- Thus, as at December 2019, there were 496 investment firms (IFs) which included in their prospectuses the possibility of investing in these types of issues. Since the beginning of 2015, the CNMV has been requiring the inclusion of a warning in the information documents of such funds indicating the maximum percentage that will be invested in assets with high credit risk. When investments exceeding 25% are anticipated in these assets, IFs must also indicate that the credit risk is very high (according to data as at December 2019, only 96 IFs exceeded this percentage).
- In addition, we have recently requested management companies of these funds to also include a statement in their KIDs indicating the greater potential liquidity risk of these IFs in the event of adverse market conditions.

Incidentally, we are aware that KIDs of Luxembourg and Irish funds, which are the non-Spanish funds most widely marketed in Spain, do not include these types of information or warnings when they invest or can heavily invest in high-yield or high-risk bonds. Therefore, we try to identify funds of these types, in particular for passport communication purposes, in order to require distributors to issue warnings accordingly to investors.

Another fact that should be highlighted in this regard is the increased presence of management companies offering venture capital vehicles to retail investors. To date, there are 19 SGEICs (private equity management entities) and 27 managements companies of collective investment schemes (CISMCs) reporting this activity. They are required to designate a depositary and there are stricter requirements for their authorisation, thus showing the interest of promoters in giving retail investors access to these types of investments.

In this regard, we consider that it is particularly relevant to duly assess the appropriateness and suitability (as appropriate) when offering these types of products to retail clients, as well as the obligations related to product governance.

Likewise, we consider that it would be wise to promote a regulatory reform to unify, without reducing investor protection and giving it an equal treatment, the marketing system for all types of collective investment schemes other than UCITS and quasi UCITS.

The aim would be to apply in all cases what is becoming the standard European treatment: permitting the marketing of alternative investment vehicles among retailer clients, provided that three requirements are met:

- assessment of the suitability of the instrument for the client;

- where the investor holds financial assets of less than €500,000, the investment represents no more than 10% of such assets;
- the minimum amount invested is €10.000.

Finally, we also consider that the regulatory framework for Spanish CISs should be aligned as much as possible with that established at EU level, in order to ensure a “level playing field” in terms of competition between local products and UCITs from other EU countries offered to Spanish investors. In this regard, there are two areas pending alignment:

1. The limitation of the liability regime of CISMCS that market CISs by using global accounts in EU countries.
2. The possibility of CISs having access to securities lending.

I would like to conclude by saying that, at the CNMV, we promote and consider that it is essential to find an appropriate balance between the interests of the fund industry and optimal investor protection levels.

I would like to reiterate my sincere congratulations to the winners, and I wish you all a pleasant evening here on this very special occasion.

Thank you very much.