



## Appearance before the Economic Affairs and Digital Transformation Commission of the Spanish Parliament

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Thank you very much, Mr Chairman.

Ladies and gentlemen, I appear before this Commission to report on the activities of the CNMV and the evolution of the financial markets in 2020, as established in the Spanish Securities Market Act.

Bearing in mind that the annual report provides you with full information on the events of the year, my intention is to refer very briefly to the key events that took place in 2020 and then focus on the current challenges faced by the Spanish financial markets.

I will begin with the most relevant matters that have occupied us in the 2020 financial year, a different year in every way, and I would like to point out from the outset that the merits of the management, which I believe are countless, are of the previous CNMV Chairman's Office and Executive Committee and also of the Commission's staff.

### 1. Overview of market developments in 2020

During 2020, the trajectory of the Spanish stock markets was marked by the crisis caused by the pandemic, as in the rest of the international markets, as shown by some indicators:

- In the first quarter the crisis triggered by Coronavirus produced historic figures. In Asia, the Nikkei index plunged 20% in three months, in Europe, equities lost 23%, more than the worst quarter of the 2008 financial crisis, and on Wall Street the fall was 18%.
- In Spain, the Ibex 35 index closed the month of March 2020 with the largest monthly and quarterly decline in its history, 22.21% and 28.94% respectively, and performed worse than its European peers for the year as a whole (down 15.5%).

Trading in Spanish equities declined for the third consecutive year to 780 billion euros (its lowest value since 2013) and the gradual shift away from Spanish trading venues to other trading venues and competing markets continued.

In terms of primary market issuances, although the number of capital increase transactions fell during the year, their total amount rose by 11% compared to the previous year. Worthy of note was the increase in the number of transactions with preferential subscription rights, including some of the largest European capital increases, carried out precisely by Spanish companies.

Meanwhile, fixed income markets contributed nearly 50% more funding compared to 2019, illustrating the usefulness of having deep equity markets in times of crisis.

To sum up, the balance of the year and where we are now, it can be said that the effects of the pandemic on the financial markets were very intense in the second and third quarters of 2020 and have almost entirely disappeared today. Therefore,

- Ibex35 has already reached pre-pandemic levels.
- The assets of Spanish investment funds recovered in April 2021.
- Volatility, on the other hand, is still somewhat higher.

In general, we can say that market conditions have practically returned to normal, as graphically summarised since April by the CNMV stress indicator, which you can consult in the annual report.

## **2. Most relevant CNMV activities**

The CNMV's activity, despite having to move to a non-face-to-face working model, was carried out almost within the usual parameters of any other financial year. If you analyse the number of requests for information, inspections, requests for international collaboration, sanctioning proceedings or processing of issuances, you will see that they are in line with previous years. Nor were the processing times of authorisation proceedings or the resolution of complaints greatly affected, and in some cases even improved. In this regard, I believe that the exceptional situation was handled in a very professional manner by the staff and management of the CNMV.

I shall now highlight some of the most relevant actions taken by the CNMV during 2020 to manage the effects on the financial markets of the impact caused by the pandemic.

Liquidity supervision work in collective investment schemes was reinforced during the year, with daily monitoring of subscriptions and redemptions of investment funds. In addition, the valuation procedures implemented by the fund managers were monitored and the reviews of the valuations of assets with lower levels of liquidity were intensified. In all these actions, the CNMV was able to verify the proper functioning and soundness of the mechanisms we have in place in the investment fund industry for liquidity management.

The context of extreme volatility in the financial markets generated the need to intensify supervision of the markets, their infrastructures and the agents involved.

Of particular note in this area were the decisions to restrict short trading in securities listed on Spanish markets, adopted by the CNMV in March 2020, which

we extended on two occasions. Similar decisions were subsequently adopted by other European securities supervisors, namely those of France, Italy, Belgium, Austria and Greece. We have analysed a posteriori the effect of these bans and, as previous empirical studies have already shown, their effectiveness is nil or very low, which makes it advisable to use them as a last resort measure, in extreme cases and always ideally in coordination with other European supervisors.

As regards market infrastructures, particular attention was paid to the central counterparty clearing house, BME Clearing, which functioned properly, as well as to the settlement activity.

Regarding to the investor assistance office, it is worth noting the increase in the number of queries and complaints and in particular the effectiveness of the CNMV in resolving complaints: in the last two years, between 70% and 80% of the cases in which the CNMV decided in favour of the investor who complained, the firm eventually succumbed to the pressure and dealt with the complaint in the investor's favour. In other words, although the CNMV's decisions are not binding, they are effective in three quarters of the cases.

During the year we were also able to focus on a partial review of the Good Governance Code of listed companies in four main areas: promoting the presence of women on boards of directors; greater relevance of non-financial and sustainability information; greater attention to the reputational and non-financial risks of listed companies; and clarification of aspects relating to directors' remuneration. In this review process, 20 of the 64 recommendations contained in the Code were reworded.

Another project that required a certain number of resources in 2020 was the preparation and implementation of the sandbox, a project that brings together the various national financial supervisors under the coordination of the General Secretariat of the Treasury. In November, the law for the digital transformation of the financial system (sandbox) was published, and in December, the first call for access to this controlled testing space was published. Already in 2021, a total of 67 project applications related to financial markets have been received, of which 18 have had a favourable pre-assessment. Of the projects accepted in this call, four are managed by the CNMV (10 by the Bank of Spain and four by the Directorate-General for Insurance and Pension Funds (DGSFP)).

This first positive experience will help us to organise the following calls even more efficiently, the next one being scheduled for 1 September.

And as a summary of the economic and management dimension of the CNMV, I will point out as key data that we obtained income from fees of close to 62 million euros and incurred expenses of almost 48 million euros, less than would have been the case in a normal financial year due to the pandemic. The surplus was therefore higher than would have been expected in a typical year and amounted to 16 million euros. This has an impact on the need to review the fees, which we had already identified in recent years. But it will be important to do so when we have regained our cruising speed, including some investments, and we have added the staff to cover the departures in 2019 and 2020.

In terms of our human resources, we ended the year with 435 staff members, which is still insufficient to fulfil the Commission's functions. As you know, the CNMV suffers from a structural shortage of resources, which is accentuated by the new competences attributed to the institution, such as those related to sustainable finance or digitisation, the control of cryptocurrency advertising or the sandbox, to name a few. In this area, I can only add my voice to the request already made repeatedly by previous CNMV chairs to provide the CNMV with the necessary flexibility to incorporate and retain the necessary staff to meet the new challenges and the new skills that we must acquire. On the other hand, it is important to note that at the CNMV we made a significant effort in ongoing training and more than 65% of the staff undertook specialised training, mainly distance learning, during 2020.

### **3. Strategic lines of action and activity plan**

I shall end this first part by mentioning the 2021 Activity Plan, which contains the CNMV's strategic lines of action for the next two years.

There are four lines of action:

- i. Rigorous supervision, based on investor protection and a greater use of data;
- ii. Boosting capital markets as a source of funding for economic recovery;
- iii. Promoting financial sustainability to facilitate the transition to a more sustainable and inclusive economy, ensuring the reliability of investor information, and
- iv. Promoting technological developments in securities markets and preventing their risks.

We have deployed these lines of action, which are in line with the messages I conveyed to you when I appeared before this Commission on the occasion of my proposed appointment, in an activity plan with 54 concrete and verifiable measures, which facilitate the monitoring of our activity by society as a whole.

### **4. Current issues and challenges**

I now turn to the second part of my presentation, which focuses on current issues and challenges for the coming months.

If I had to highlight one challenge among the many faced by the Spanish stock market, ladies and gentlemen, it would undoubtedly be the risk of underestimating its own importance. Let me explain: Europe suffers from rickets in its stock markets. Bank debt accounts for 30% of European companies' balance sheets, compared with 8% for US companies. The volume of funds in institutional investment amounts to 70% of GDP in Europe, compared to 281% of GDP in the US. This has been a chronic problem in our society, but in the present circumstances it is on the way to becoming an acute problem.

Spanish companies have little equity, a lot of bank debt and substantial investment needs. The European funds that are about to arrive are a historic milestone, but they will only cover a minority part of what the Spanish economy requires to incorporate digital and sustainable transformation.

According to the European Commission, the transformation linked to climate and environmental sustainability alone will require an additional 350 billion euros in each of the years of this decade, which represents some 30 billion euros in new investment in Spain. And that volume of funds must be financed.

By whom? Certainly not by public administrations, which have a very limited fiscal margin, nor only by banks, which would logically require the entrepreneur to contribute part of his own capital. Companies will need more equity (i.e., more capital) and more borrowed funds, mainly non-bank, in the long term.

Private investment will be essential (as will European funds) if we are to transform our economy. According to our estimates and depending on the degree of reallocation of existing capital, Spanish companies will need to raise up to an additional 10 billion euros in the capital markets each year over the next decade.

And that is where stock markets play an absolutely essential role. It is no exaggeration to say that, without greater activity and strength in the stock market, which would allow us to increase the equity of our companies, the medium-term prospects of our economy are in doubt. These markets need to be strengthened, provided with appropriate legal frameworks and made accessible to international and domestic companies and investors.

That is why I believe it is important to support the Capital Markets Union initiative, which the European Union is promoting. Facilitating access to markets for companies is a guarantee of strength in the face of future crises, stability in the flow of financing and business maturity. I know that this is easier said than done, and that we supervisors are often the first to object when certain requirements are lowered, putting investor protection at risk. And I am aware that we have seen crises caused in some cases by deregulation of systemic activities. But the current situation is unlike any other I have ever known and requires a determined drive to improve the financing of our companies. And that impetus should be given at European level, since we share 90% of the rules that affect us.

IPOs have started to recover, which is great news, but we must look for imaginative solutions that facilitate the flotation of Spanish companies on the Spanish stock market (not on the Dutch or US ones). SPACs are one such solution. Not for all cases, and not without risks and conflicts of interest. But it is necessary to provide for and regulate them according to their nature. At the CNMV we have analysed the matter, we already have clear supervisory criteria, and we are open to analysing specific transactions.

Venture capital, or private equity, is also an essential ingredient in this area. Although they are not public markets, in recent years they have offered Spanish companies around 30% of the capital they have raised.

And another solution is the so-called SME markets. In Spain we have one, but it still contains very few companies (a third of those in the first market, when the proportion should probably be the reverse).

In any case, I firmly believe that in order for the stock market to develop and offer the investment volumes that are needed, it is essential to attract international capital. We need to show openness to foreign investors, because our companies will need them, in aggregate terms, to be able to reinvent themselves, become sustainable and transform themselves as the new times require.

We must also be aware of the significant erosion that the crisis has caused in the financial structure of some Spanish companies and in their liquidity status. Of course, it has been heterogeneous across sectors, but some listed companies have emerged from the COVID crisis with very clear restructuring needs. Some cases have already materialised. The CNMV cannot alter the underlying reality of our listed companies, but we are making a special effort to ensure that these processes are carried out with transparency.

I shall now turn to a growing phenomenon that concerns us: financial fraud committed through investment offers.

As you are well aware, the first function assigned by the Law to the CNMV is the protection of investors, with special attention to retail investors. In this area, the CNMV closely monitors compliance with the rules of conduct of investment firms. And overall, we have a professional investment services industry, which functions properly according to the highest standards, and which allows the channelling of investors' savings efficiently and safely, as it demonstrated during 2020.

In contrast to the regulated sector, we have observed that there are several cases that have accumulated in recent months in the form of complaints filed by those affected, about non-regulated entities and admitted for processing in the competent courts. We have also noticed an increase in investor enquiries about offers received from unregistered entities and alleged scams, many of them linked to crypto-assets or derivatives on currencies, stocks and commodities.

I believe that the situation requires a joint effort by the various State institutions, including Parliament of course, to come up with a set of measures to help combat financial fraud.

I am well aware that an administrative authority such as the CNMV is not assigned the task of prosecuting crime. When we detect indications of a suspected crime, we, of course, bring them to the attention of the competent authorities. This is an area that far exceeds our competences and I know that the State security forces, and the Public Prosecutor's Office are making an extraordinary effort in all matters related to online fraud, including financial fraud. But insofar as we usually

detect many of these cases at an early stage (when it is not yet known whether they are real, but unregulated, activities or whether they will lead to cases of fraud), we believe we have a responsibility to promote coordinated action by the public sector and the regulated private sector in this area. This action should focus on two objectives: improving information and financial education tools so that citizens do not fall for fraudulent offers and detection of them by the public authorities as early as possible, in order to act early and limit their impact. And all of this could, in my opinion, make up an Action Plan to combat financial fraud. Until now, we have found a strong willingness to address this issue in other administrations, starting with the Ministry of Economic Affairs and Digital Transformation, which has shown support and conviction in the need to solve this problem.

I will also briefly touch on the digitisation of capital markets, which is continuing at a remarkable pace. In this area, our stance at the CNMV is somewhat ambivalent: we are great advocates of technological transformations, including DLT technology, but great sceptics about the virtues of investing in cryptocurrencies, at least while they are not regulated at the European Union level. We have therefore issued warnings about the risks of investing in cryptocurrencies and are currently developing a Circular to regulate their advertising as an investment.

In these matters, one always runs the risk of erring on the side of excessive optimism or excessive caution and conservatism. It is not strange that an institution whose mission is to protect the investor tends towards the latter, but in any case, the speed with which the market is changing forces us to re-assess our position every few months on many issues related to digitisation.

We have also detected changes of some depth in the trading patterns of retail investors, on a global scale, with an increase in the connectivity of these investors and the emergence of phenomena such as supposedly free brokerage, which may generate dynamics such as those observed a few months ago in the Gamestop case that require regulatory attention.

What has been constant in recent years, and will be constant in the coming years, is our concern for cybersecurity. Market infrastructures are critical facilities in any developed economy and the risks are increasing every day. That is why we are supporting various international initiatives to increase scrutiny of this issue and want to be particularly active in our supervision at national level.

Finally, to conclude this list of relevant issues, I must refer to sustainability. This factor is driving one of the biggest transformations in our financial markets. The demand for sustainable securities and investment vehicles is altering portfolios with historic proportions and speed. At the CNMV we want to facilitate and verify that the Spanish financial sector and issuers also incorporate this dimension.

But it is also necessary to put in order and systematise the many public and private initiatives in the field of sustainability. In this sense, the development of international standards, supported by the relevant organisations in each field, should be one of the keys to support. Fortunately, the situation in the EU is much



more structured than in any other economic area and Spain has the potential to co-lead this process. To this end, it will be essential to delicately combine two elements: that there is a sufficient supply of sustainable financial products to meet the growing demand, but not at the expense of the so-called "eco-posturing" or "greenwashing".

## **5. Conclusion**

I conclude, ladies and gentlemen, with the conviction that we are at a turning point, probably an historic one, in the evolution of the capital markets and in their transformation. The CNMV must also transform itself, at the pace set by the markets and our economy, in order to continue to be effective. We need to consolidate our independence, strengthen our resources and adapt them to the new priorities that are emerging.

When I appeared before you prior to my appointment in December 2020, I said that I greatly appreciated the role of scrutiny and accountability before this Commission. I continue to believe this, and I also trust in the support of this institution for the needs of the CNMV, if we reasonably fulfil our mission, so that we continue to adequately serve Spanish society.

I remain at your disposal for any questions you may have.