



Second Edition of the El Español-Invertia Finance Observatory

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Many thanks to El Español and Invertia for inviting me, for the second year, to this event, the Second Edition of the Finance Observatory.

I would like to focus my speech on the collective investment industry, which for many years has been one of the mainstays of savings and retail investment in our country. According to the latest figures available (December 2021), collective investment has assets of 325 billion euros in CISs and more than 15.8 million unitholders in more than 2,800 funds.

And today, for a change, I am not going to talk about sustainability in investment funds, but about other topical issues. More specifically, I would like to focus on the recent proposal to reform the European fund directives (UCITS and Alternative Fund) by amending the AIFMD (Alternative Investment Fund Managers Directive) and the ELTIF (European Long-Term Investment Fund) regulation.

Both reforms, promoted by the European Commission, seek to boost collective investment in an efficient and safe way and to attract more retail investors to the capital markets. In doing so, they also aim to contribute to the objectives of the Capital Markets Union (CMU), arguably one of the Commission's most ambitious initiatives. This is intended to boost securities markets, which is more than necessary in light of the volumes of investment that will be required over the next decade to cope with changes in economic models linked to environmental and social sustainability and the digitalisation of the economy and businesses.

The proposed reform of the investment fund directives involves three major changes.

The first of these is determined by the introduction of regulatory requirements on liquidity management tools for funds and, with it, the strengthening of liquidity requirements. This is a very relevant and, in my view, very positive point, insofar as the CNMV has been particularly active in this respect. Our supervision of management companies - especially in times of market stress or illiquidity, such as in the early months of the pandemic - has been aimed at safeguarding the interests of unitholders, particularly in the management of redemptions. This measure, which to date has been implemented in Spain mainly through national regulation, CNMV practices to criteria

through technical guides, such as last year's liquidity technical guide. These measures should allay some existing concerns about potential systemic risks arising from investment funds.

The second of the changes proposed in the reform relates to changes in the regime for reporting to supervisory authorities and, in turn, to ESMA. The current European reporting regime does not cover reporting of individual portfolio positions, and therefore its current usefulness is limited. In Spain, since 1990, we have required monthly reports of the portfolio positions of each individual fund at ISIN level and we have found that the benefits on the quality of supervision are undeniable. It is a very useful tool for the supervisor and comes at a very low cost for Spanish management companies once the systems have been adapted. The importance of this amendment, extended to the European level, is extreme and the question to be resolved is the granularity, frequency and homogeneity of the information requested so that a homogeneous framework for reporting to supervisors of positions can be achieved, eliminating duplication and redundancies.

The advantages for supervision are crystal clear and with it the minimisation of the systemic risk in funds that some would like to see. Here is an example. In March 2020, in the early stages of the first impact of the pandemic on the markets, thanks to the unitary information on the assets of each fund, we were able, in a matter of few days, to directly target individual management companies who might be facing liquidity problems. This allowed us to take an interest in their situation and to monitor not only existing redemptions - I am referring to the week after the start of lockdown - but also the necessary asset sales to avoid potential conflicts of interest and to ensure a fair treatment of unitholders. This same activity, carried out in a period of extreme uncertainty, was not possible for the other European supervisors who do not have this information.

Less than a month ago we published the "Technical Guide on the management and control of the liquidity of collective investment schemes" in which we encourage the use of anti-dilution tools. In this way, and depending on the characteristics of the CIS, the management company may opt for the application of bid/ask prices on each of the assets held in the CIS and swing pricing, applying an adjustment factor to the net asset value.

As you will have noticed, in the first two areas I have mentioned, liquidity management of funds and regular reporting to the supervisor, we could say that the European Union is adopting the Spanish supervisory model, which has been incorporating them for decades.

The third of the amendments envisaged in the reform of the AIFMD Directive focuses on alternative lending funds in order to support the strategy of the Capital Markets Union. Current regulations allow these types of collective investment vehicles, but only for professional investors, prevent their indebtedness and make it impossible to grant

loans to individuals or other collective investment vehicles, while forcing the maintenance of a lockup of investors until the vehicles are settled.

The changes proposed in the reform determine a much more flexible (perhaps too flexible) and comprehensive proposal on two main issues. On the one hand, the ability of alternative funds to lend to retail customers, with only a 20% diversification limit for lending to financial institutions or pooled vehicles, which, while not creating a significant risk, will not make a substantial difference in terms of credit availability for European citizens. On the other hand, the fund will be closed when the total amount of loans exceeds 60% of the assets under management, which is a high figure for adequate and efficient liquidity management and equal treatment of investors.

With regard to the regulation of long-term funds (called ELTIFs in English), the planned amendments are relevant and are also aimed at boosting this type of long-term investment vehicle, which has been so unsuccessful in Europe. Today there are fewer than 60 such vehicles in Europe (two in Spain) with assets of less than 2.4 billion euros. It is an initiative that has not been successful so far and is to be revived.

Leaving aside technical and operational considerations to make its operation more flexible, the proposal introduces two points that I believe are noteworthy.

The first of these is the concept of a secondary market for "shares" or units of ELTIFs that would allow an early exit for investors and not wait for the end of the life of the product, which by its nature incorporates illiquid assets. This is certainly a commendable idea, but in no way can it ensure liquidity even through this mechanism. In this case, it will be essential to provide the investor with adequate transparency so as not to confuse him with an idea of permanent liquidity through this secondary market, given that it will depend exclusively on the buying interest of other potential investors.

The second key point of the new Regulation concerns its marketing requirements with the aim of broadening the investor base for these products. In this regard, the approach entails the removal of the minimum subscription amount (currently set at €10,000), the elimination of the threshold of 10% of the client's financial assets and the need for professional advice on the acquisition, while maintaining the suitability test and the written warning or alert when the life horizon of the ELTIF exceeds the 10-year barrier. While the broadening of the investor base is necessary, at the same time, disclosure procedures need to be strengthened to avoid, with these new features and requirements, excessive concentration and liquidity risk in retail investors' portfolios.

Although at the international level the proposed amendments to the ELTIFs and the AIMFD directive are important for the future development of collective investment, in the strictly Spanish dimension, I would like to point out two relevant and topical issues for the collective investment sector.

The first concern is the change in the tax regime resulting from Spanish Law 11/2021 affecting SICAVs (open-ended collective investment companies). As you are well aware, the Law introduces greater requirements to be able to enjoy the tax benefit of being taxed at 1% on returns, taking into account, in order to determine the minimum number of 100 shareholders, only those with a minimum holding of 2,500 euros (or 12,500 euros in the case of SICAVs with compartments) and who must comply with this criterion for at least three quarters of the tax period.

As a result, the CNMV required the management companies with SICAVs to inform their Boards of Directors of these tax changes, and to inform the CNMV and their investors through the disclosure of price-sensitive information, before 31 January 2022, of the decisions that the Boards were to adopt.

In the event that it was agreed to submit the proposed liquidation resolution to the general shareholders' meeting, the shareholders were also to be informed of the possibility of availing themselves of the tax deferral. Similarly, the need was also expressed to publish price-sensitive information regarding the SICAVs that were planning to opt for dissolution, as well as those that would continue but whose tax regime would be affected, and lastly, we asked them to update their prospectuses to include information on the tax rate they foresaw as of 31 January.

To date, we have received a response from most but not all SICAVs, and we have reiterated the request. From the replies we have received it can be deduced that more than 50% of SICAVs expect to be liquidated (around 37%-40% of the assets), while a minority, 33% of the assets, will continue to be taxed at 1%. I insist, these are data from the replies we have received so far. A significant number of SICAVs have not yet replied, so this should be taken with some caution. The rest will either convert to other types of vehicles or have not made a decision. In the coming weeks we will continue to insist that all SICAVs publish this price-sensitive information and inform their unitholders of the option they are going to take or the tax option most likely to occur.

I hope that a significant portion of the assets of the SICAVs, which amount to 28 billion euros, can be retained through other Spanish collective investment vehicles and that these assets do not migrate to other jurisdictions.

The second issue I mentioned relates to the behaviour of retail investors in securities markets. During the Covid pandemic we have observed a change in the pattern of retailers' engagement with securities markets, in particular with equity markets, which demonstrates a significant change in behaviour, although, given the time horizon of our recently published study, we cannot yet foresee whether this is a structural or a cyclical change.

We have observed that the participation of Spanish investors in the securities markets has quadrupled - in some periods of the pandemic - compared to traditional averages and this greater activism also has a series of demographic considerations insofar as it

responds to a profile in which 80% of transactions correspond to men, 20% to women, and the average age of these new participants or people who had not previously participated in the securities markets, at least in the data that the CNMV has, have lower average ages than has traditionally been the case.

We are talking about a younger group, with more men than women, who have gone from having an average share of 4-4.5% of market purchases to having shares of between 9% and 12% at some points. This is a significant trend that coincides with the behaviour of these retailers in other countries, for example, in the Netherlands and France where similar studies have been carried out and have reached very similar conclusions of this structural change in direct participation.

In any case, such direct participation is certainly welcome and fits in with the Capital Market Union's objectives of greater access for European citizens to the securities markets. But it must also be combined with the professionalised management that provides diversification and professional management offered by collective investment schemes. These are phenomena that should be mutually reinforcing each other rather than being mutually exclusive. In any case, we have started to publish this data on the CNMV website so that the public and analysts can follow this trend and observe how this pattern evolves.

I conclude by noting that the collective investment industry has very positive prospects for further expansion capacity, obviously, except for SICAVs, as I have explained. However, these are processes that are going to depend a lot on the market situation, on how geopolitical risks are going to affect - we are experiencing this today in the stock market session that started a few minutes ago - on market variables. I believe that if the regulatory reforms being proposed in the EU are successful, we can have a stable and competitive framework for collective management in our country and in the EU that reinforces the important role that the securities market must play in the financing of Spanish companies in the phase of expansion they are facing.

Thank you very much.