Presentation of the White Paper on the boost of competitiveness among Spanish capital markets

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Good morning, everyone. My thanks to BME for having me in the closing of this event.

It is important to pay attention to any observations related to the revitalisation of securities markets, as that shared by BME today. The conclusions reached are signed by its authors, obviously, but its ultimate goal is aligned with that pointed out by the CNMV, and which they have worked towards for several years: reconsidering how our capital markets can be improved and enhanced is necessary. The CNMV even included the latter as one of its strategic lines years ago.

I think we can all agree that European capital markets have not developed sufficiently over the last decade, particularly primary equity markets. There has been a gradual decrease in the number of new companies that turn to markets for funding since the start of the 2008 financial crisis, in addition to the removal from trading of listed companies that took place, in many cases, due to takeover bids by funds and their subsequent delisting. Such events have led to a decrease in the number of listed companies in the Eurozone (going from 12,600 in 2008 to 7,000 in 2023, a reduction similar to that of the US). The weight of market capitalisation over gross domestic product, which in 2022 reached 65% in the EU compared to 158% in the US, is also still very striking.

The lack of market development is partly associated to the low participation of European citizens in equity markets as an essential formula to profit from savings in the long term. A fact that proves such reality is that the ratio of debt and quoted shares in asset portfolios of Eurozone households is only 7.5% of the total financial assets. In the case of the Spanish market, statistics highlight that only 2% of assets of Spanish mutual funds are invested in shares of the Spanish stock exchange (compared to 13% in foreign equities) and 52% of total assets are invested in fixed income instruments. Investing in equities is, by definition, a long-term investment to, therefore, acquire an expected return that will have a long-term impact on the financial well-being of citizens. It is worth reiterating this message.

Bearing this in mind, we are currently facing a crucial moment for European economies. Capital markets are and must continue to be an essential part of the equipment for long-term financing for companies, even more so in this decade. The necessary decarbonisation of our economies and, thus, the transformation of our companies' business models requires additional and extraordinary levels of investment unprecedented in recent economic history. Not to mention the challenge presented by digital shift. If we want European and Spanish companies to avoid missing the boat of economic transformation, the financing of such investments cannot depend exclusively on public funds or bank loans. Own funds must also be increased at a significantly faster rate than the natural rate of annual profit generation. Of course, private capital has a particular role to play, but it is up to the public capital markets to provide such own funds, the stable financing with a long-term vision, which also makes it possible to reinforce and strengthen the balance sheets and the financing structure. Economies will not be able to undergo transformation within the required time line without a deeper capital market and a greater census of companies and investors. Additionally, this will have an effect on employment, inflation, tax revenues and well-being in general.

Some voices the root of the current problems in European markets as the convergence of two simultaneous factors preventing greater market depth and liquidity. On one hand, the existence of several national markets and competing platforms, which means fragmentation, and on the other hand, according to some of them, the absence of a single supervisor at an European level.

I believe that neither the competition of markets and trading venues (associating such fragmentation) nor the absence of a single supervisor are the main reasons for the lack of dynamism of EU capital markets. Many other economic areas, specifically the United States, show high levels of competence and fragmentation among competing securities trading platforms, yet still show great depth. Moreover, competition among different trading venues has led to relevant benefits for investors, such as, mainly, lower execution costs and improved services.

The second factor, the centralisation of market supervision in a single body, can undoubtedly bring some benefits in certain market segments, but it is not a decisive driver for new firms to be placed on the market. Single and central supervision makes sense where two conditions are met: 1) Only a few of the participants are large-sized, with distinctly cross-border activity or of systemic nature and 2) said participants are regulated exclusively by European regulations. In the remaining cases, this being the majority, local supervision is more efficient and effective, more so among issuers of securities where the specificities of national corporate law are relevant.

Additionally, capital markets of the European Union have been quite active in the past, even with the supervisory structure it has today, and this has not changed the fact that some domestic markets, such as that of Sweden, continue having a strong level of stock market dynamism to this day.

Integrated supervision is not key, as I don't think financial regulation (which can be classified, at times, as excessive) is a block or insurmountable obstacle for new issuers to the market. Two observations prove the latter as true:

1. There are domestic markets under the same regulation that show an enviable degree of dynamism in IPOs.
2. In the case of locations with no regulation, such as MTF, listed companies are present, but in very modest and still insufficient numbers.

Therefore, if the current European regulation, homogeneous in all member states, does not act as a barrier to entry, forcing deregulation to act as a legislative pendulum would not make sense. The approach must be that carried out in Europe by means of the "Listing Act", implying a specific review of particular elements that could reduce the regulatory burden, but without reducing investor protection.

The set of actions to be implemented, identifying levers for market growth, should focus, in my opinion, on three lines of action: supply (issuers), demand (investors) and the improvement and competitiveness of market infrastructures. These must be, in turn, measures that allow reconsidering the traditional and common way of proceeding in stock markets, that mark an unconventional path, an outside-the-box way of thinking, taking a new perspective. The discussion should not be limited to the traditional systems of regulatory or tax incentives.

As an example, one of the factors to keep in mind is the way in which IPO processes are structured, which can often entail high risks of failure. A geopolitical issue or a decline of demand at the chosen time to enter the market can spoil an operation that took months of work and millions of euros in advisors (very little in fees to the supervisor, by the way). Shouldn't we re-imagine and reform how such processes are structured for entrepreneurs and investors to face fewer risks? None of this, for example, is included in the regulation. We must also take non-conventional solutions into account and, of course, consider the obligations of listed companies.

Tests are being carried out concerning the creation of qualified market segments that allow the reduction of reporting obligations of new issuers, position limitations during the first couple of years as a listed company, either by removing at certain points particular obligations or reducing the length of reports. It also becomes essential to treat listed and non-listed companies of similar size equally on issues not strictly related to investor disclosure. The CNMV has supported some of these ideas, as was the case for the initiatives to lighten the associated charges to prospectuses of the Listed Act. It has, likewise, supported or promoted competitiveness-enhancing measures for markets over recent years, such as:

- The elimination of the mandatory quarterly reports;
- The elimination of the mandatory promissory note prospectus;
- The creation of loyalty shares;

- The reduction of formalities in the admission to trading of bonds and debentures;
- The elimination of book-entry verification requirements;
- The reduction of formalities in capital increases.

Regarding to investors, other countries have studied promoting the role of pension funds as natural long-term investors or the development of collective investment vehicles or individual investment instruments that channel investment into the stock market, with systems similar to the American 401-K or the Swedish IPA. Additionally, the issuance of investment analysis and recommendations issued by IFs, banks or independent companies should be facilitated and expanded. All this can broaden the investor base in our markets, and I also believe that, as I have stated publicly, it is desirable to allow securities lending by funds.

A year ago, the CNMV promoted, in coordination with the Spanish Government, a European project for a mission of international experts, coordinated by the OECD, to issue a diagnosis and a set of proposals to be presented at the end of this year, on how to revitalise the Spanish stock market for it to continue catering to the Spanish economy's general interests and objectives.

I am, obviously, unaware what these future recommendations will include, or whether or not some of the proposed measures will be similar to those proposed by BME in its document, but, regardless of the measures, we are all facing the main challenge and it is up to all of us (companies, investors, market managers, supervisors, governments and the legislative branch) to strengthen the securities markets as a crucial tool for the development of our economy.

Thank you very much.