



## 11th National Meeting on Collective Investments

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Good morning,

First of all, I would like to thank APD, Deloitte and INVERCO for inviting me to open this National Meeting on Collective Investments.

This event has become a “must attend” and relevant meeting for those responsible for the leading investment and pension fund management companies, as well as to understand and analyse the current situation and outlook for the asset management industry, one of the basic pillars of our market.

I am going to briefly mention some data to highlight the importance of the sector.

In these first nine months of 2019, collective investment schemes in our country have increased their assets by more than 10 billion euros, with over 15 million unitholders.

In addition, the increasing trend in the number of management companies registered with the CNMV has continued throughout the year, a further expansion of that which had begun in 2014. At the end of 2018, there were a total of 119 management companies registered with the CNMV, 10 more than at the end of 2017. This year, four more have been registered.

These figures reflect a sector that is growing continuously, and responding professionally to challenges along the way.

As all of this has occurred in a highly complex environment, marked by trade tensions between the US and China, the negotiations for the United Kingdom’s withdrawal from the European Union, and with the global growth outlook for 2019 and 2020 at its lowest level since the financial crisis.

I am going to focus my speech on three issues:

- Firstly, I am going to briefly mention some areas of supervisory interest for the CNMV in relation to CISs.
- Then, I am going to review the situation of our industry following the entry into force of MiFID II, and the major consequences two years after its entry into force.
- Finally, I am going to take a few minutes to comment on the situation of Socially Responsible Investing in Spain.

At the CNMV, we have proposed to promote, within our remit, the development of best practices in sustainability, and the asset management industry is a sector of great importance in this regard.

Well then, I am going to briefly comment on **two areas of supervisory interest in the field of CISs**.

I am going to focus on two issues:

- **The first is related to monitoring the liquidity of investment funds.**

In the past few months, there have been two important cases in Europe where investment funds have had liquidity problems, which have raised concerns among and the engagement of supervisors worldwide.

However, this is not a new issue for the CNMV as we have been paying special supervisory attention to the adequate control of liquidity by CIS management companies for a long time, but it will never be enough to insist on the importance of strictly complying with the provisions provided for in this regard by law and the Collective Investment Scheme Regulation, at all times.

Entities managing funds with relevant exposures to assets with lower liquidity must have procedures to control the liquidity and avoid conflicts of interest among investors.

Specifically, they should have a methodology to establish the liquidity level and the time horizon required to make each of the assets in its schemes liquid, establishing internal exposure limits or thresholds for investments that could pose greater liquidity problems.

In addition, CIS assets and liabilities should be subjected to stress tests, in order to anticipate potential liquidity problems. Contingency plans should also be implemented to activate the mechanisms or tools provided for by law to avoid conflicts of interest among unitholders, specifically: the creation of side pockets, partial subscriptions and redemptions or even the suspension thereof.

As I have mentioned earlier, for years we at the CNMV have been engaged in the supervisory monitoring of IFs' liquidity, guiding entities to enhance their procedures in this regard.

- **Secondly**, in accordance with one of the objectives established in the CNMV's Activity Plan for 2019, we are completing the preparation of a **Technical Guide for CIS management companies (CISMCS) on the procedures for the selection of financial intermediaries**. After the consultation phase has ended, we expect to publish the final text before the end of the year.

The aim of the Guide is to provide CISMCS with a series of good practices and criteria based on the CNMV's supervisory experience with regard to the procedures established for selecting intermediaries for executing transactions relating to CISs and other managed portfolios.

For these purposes, management companies have to adopt and implement a policy whereby entities to which orders are transmitted are determined, in the best interest of CISs and managed clients, focusing primarily on avoiding conflicts of interest.

The Guide refers exclusively to the obligation of management companies to establish appropriate policies and to assess them periodically, based on their own experience. Therefore, the intermediaries' policies and procedures (best execution policies) are not included in the scope of the Guide.

In any event, during the consultation process of the draft Guide, we received many comments which we are currently assessing for their possible incorporation into the final text.

Also noteworthy is the recent proposed **Technical Guide on the authorisation procedure for new firms**, which contains recommendations and good practices to facilitate and speed up authorisation processes.

Authorisation processes for entities are, in general, laborious procedures where promoters are required to submit a wealth of documentation in accordance with applicable legislation. Hence, it has been deemed necessary to clarify issues and to include certain changes to streamline the processing.

Specifically, the Guide offers promoters the possibility of contacting and holding preliminary meetings with the CNMV (pre-notification), to identify the most relevant issues of the project and expedite the CNMV's assessment. In addition, a documentation form and self-assessments have been designed to ensure the adequacy and consistency of the documentation submitted during the official authorisation phase, thereby reducing the deadline in the interests of the promoters.

I would also like to **briefly analyse the consequences of the entry into force of MiFID II**.

Almost two years have passed and the consequences of the transposition of the new regulatory framework are now being seen in the Spanish asset management industry. They affect both management companies and their clients.

For this analysis, I am going to focus on three issues: the annual information on expenses and the increase in advice and inducements.

- Firstly, one of the most relevant changes affects the information on fees and expenses charged to clients. Specifically, to the obligation of forwarding to clients an **annual report explaining in detail what they are paying**.

2019 has been the first year where itemisation of the total costs incurred by retail clients during the previous year (2018) has been required.

Even though the directive does not establish a deadline for the submission of this information, it must be delivered as soon as possible after the end of the calendar year, subject of the report. For this reason, we are considering the publication of a clarification via a CNMV Q&A document, in order to indicate a reasonable deadline.

- Secondly, **in the case of the distribution models**, an **increase in advice** has been observed, in particular at CISs managed by the group itself, together with an annual monitoring of the suitability of the recommendations, in order to increase the quality of the advisory service provided, thus justifying continued charging of inducements.

In 2018, retail clients who received advice totalled 1.9 million with assets amounting to 175.2 million euros, representing an increase in advice of 77% compared with the previous year; we consider that this is positive data.

Revenue from this service totalled 594 million euros, an increase of 15% compared with the previous year.

- Finally, in the case of **discretionary portfolio management by banking groups**<sup>1</sup> (and **this note**), it was observed that in 2018, **remuneration via fee rebates had already**

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**disappeared**, and client positions in classes with no rebates for distributors had been transferred.

With MiFID II, the specific charging is mandatory for discretionary portfolio management services (and for independent advice).

Unlike advice, in this case, remuneration has become explicit (in 2017, for example, revenue from inducements represented 60% of the total income obtained from portfolio management).

In 2018, 1.3 million clients received this service, an increase of 21% compared with the previous year. The market value of managed assets totalled 70.7 billion euros.

As in all pieces of applicable legislation, and in this case it is particularly relevant, our mission is to monitor their appropriate implementation and enforcement. I believe, however, that sufficient time has elapsed and it is reasonable to conclude what has worked and what has not.

At the CNMV, we are aware that there are some aspects of MiFID II, for example, standards related to the analysis or on information for investors which have been excessive in terms of workload for firms, undermining the business of local operators.

We will continue to monitor the evolution of the sector closely, and we intend to propose, within our possibilities, the measures that we deem appropriate.

**And I am going to conclude with the third issue that I mentioned at the beginning.**

At the CNMV, we have proposed to help make the Spanish financial market as competitive as possible. This was provided for in the second strategic line of action of our biennial plan for 2019-2020, which we presented at the beginning of this year.

For a market to be attractive and competitive, it has to be capable of adapting quickly to new trends.

In this regard, we at the CNMV wish to **promote, within our remit, the development of ESG best practices, i.e. environmental, social and governance best practices.**

The list of funds investing on the basis of environmental, social and corporate governance principles has doubled in a short period of time. However, for the time being, they only represent a marginal position.

With regard to the authorisation and registration of entities, the CNMV has registered:

- 17 solidarity investment funds, characterised by assigning, either themselves or the management company, part of the management fee to charities or NGOs.

At the end of 2018, the combined assets of these funds stood at 1.2 billion euros.

- 37 ESG funds which apply ESG criteria in their investments, to be included in their prospectuses and investment policies.

As at June 2019, the combined assets of these types of funds had reached 2 billion euros, after having doubled in recent years.

Sustainable finance has developed positively, although the industry still has to advance further in this field.

At the CNMV, we are currently paying special attention to European initiatives, including most notably, as you may know, the Taxonomy Regulation, the Regulation on disclosures

relating to sustainable investment and sustainability risk, the amendment of the Benchmarks Regulation and the proposal for standards on green bonds.

At national level, we have promoted the creation of an informal group of national regulators and supervisors comprising the Bank of Spain, the Directorate-General of the Treasury, the Directorate-General for Insurance and Pension Funds, and the Climate Change Office, with the aim of cooperating and exchanging knowledge and experience on financial initiatives related to sustainability.

To conclude my speech, I would like to mention that we have started this month of October with doubts and uncertainties which have triggered declines in the markets, in general.

In view of such a difficult environment, I would encourage you all to continue working so that CISs and pension funds can take their rightful place within the savings structure of families.

Collective investment schemes have become the most efficient vehicle for channelling savings of citizens. Undoubtedly, the challenge is to uphold the position and for citizens to continue channelling savings, and for the sector to continue growing, responding to investors' requirements.

Thank you very much.