

General Council of Economists Presentation of the 1st four-monthly report

Opening speech

24 May 2017

INITIAL ACKNOWLEDGMENTS

Good morning to you all.

Let me begin by thanking the General Council of Economists and its Chairman (Valentín Pich) for their invitation to participate in this presentation of the First Four-Monthly Report.

I have had the opportunity to collaborate with the General Council of Economists and the Association of Economists during my time as Chairman of the Spanish Accounting and Audit Institute (ICAC), but this occasion is special since it is the first time that I have participated as CNMV Vice Chairman and at the new Council headquarters.

INTRODUCTION TO THE SPEECH

The Financial Observatory that is being presented today fulfils its objective of providing, in an objective and independent way, information about the financial environment and evolution of its main parameters. It is certainly a very complete and extremely useful analysis.

This report shows an improvement in GDP forecasts compared with the previous report to stand at 2.6% for 2017 (2.3% in January), higher than the average of the advanced economies and the Eurozone.

In addition, the recovery of consumption and investment, coupled with the moderation of wage costs, should make the rate of job creation in 2017 similar to that of 2016 and could create up to half a million jobs annually.

However, as indicated, there is still a climate of uncertainty marked by Brexit and US economic policy measures that force us to continue working to make **our economy more productive and competitive** and, thereby, further reduce unemployment rates that unfortunately continue to beset our country.

In this brief speech, I would like to inform you about **three burning issues** on which CNMV is working and which **are directly related to the efforts we must continue making to further improve the country's economic situation and its projections.**

I am referring to the **enhancement of the attractiveness and competitiveness of the Spanish securities markets, the adaptation of the financial sector to new technologies and the transposition of the new European legislation (MIFID II) on securities markets** into the Spanish legal system.

STRENGTHENING OF THE SPANISH SECURITIES MARKETS

At CNMV we have set ourselves the priority of **enhancing the attractiveness and competitiveness of the Spanish securities markets**.

As I said before, in a context such as the current one, marked by a moderate growth outlook and extreme uncertainty, having a developed and competitive capital market is particularly important.

Financial markets, the Spanish ones included, are becoming increasingly globalized, and this trend will increase in the coming years.

As you know, CNMV has a proactive attitude in this regard. Our intention is to work so that Spain can receive more investment and more financial firms in a context of greater distribution of institutions and markets.

The aim is to ensure that CNMV is perceived, at all levels, as one of the most modern and efficient supervisors in Europe.

Accordingly, we have already launched a very relevant initiative that we have called *Welcome to Spain*, which I would encourage you to take a look at on our website.

Its objective is to streamline the procedures of all companies that show interest in establishing themselves in our country as well as offering personalized attention to accompany them throughout the process.

The initiative is being very well-received and there is interest from all types of companies in the financial field to which we are providing adequate attention.

NEW TECHNOLOGIES IN THE FINANCIAL SECTOR

And this leads me to the **second issue** I wanted to address, which is specifically related to the development and modernization of our markets. I am referring to new technologies in the financial sector, or **FinTech**.

Mention is made in Block 6 of the Observatory that this is a period of extensive transformation of traditional banking activity marked by low interest rates, downward pressure on profitability and increased regulation.

Well, at CNMV we are aware of this new transformation phase, we believe that FinTech companies are also influencing it and we have also included them among our priorities.

At CNMV we are of the opinion that the emergence of these types of companies represents an opportunity to improve financial markets. Its application makes it possible to offer business models more oriented to the end investor and to increase the efficiency and competitiveness of financial markets.

For this reason, we have launched what we have called the Fintech Portal (which can be found on the CNMV website), which has been created to meet the need to bring CNMV closer to these types of companies.

CNMV's philosophy is to provide quality "client" service: it is necessary to be receptive, to address queries and enquires by providing the technical knowledge requested and, in the case of the projects, to assist as far as possible so that they can advance towards their authorization, so that the FinTech aspect of the project does not hinder the authorization procedure.

This new perspective undoubtedly requires us to change our mentality since, as well as being supervisors, we offer a consultancy and support service for these types of projects.

During the time that this portal has been available, we have already dealt with more than 40 issues, many related to crowdfunding, the digitization of financial services and also theft or automated advice. In addition, we have organized face-to-face meetings with associations and with several entities to try to respond to their doubts and needs.

REGULATORY TRANSPOSITION: MIFID II

And lastly, I would like to briefly comment on the third aspect of what I wanted to talk about today, which is related to the transposition of the new regulations on securities markets and, specifically, **MiFID II**.

As you know, the essential function of CNMV is to ensure the integrity and transparency of market and investor protection. In this regard, MiFID II extensively affects CNMV, since it deals with both the regulation of securities markets and investor protection.

In relation to the **regulation of securities markets**, as you know, the development of alternative negotiation formulas, technological advances in this field and the need to channel more OTC operations to multilateral implementing centres made it necessary to reform the Directive only a few years after the entry into force of MiFID I.

At present, an important part of the trading of securities that are not equities is carried out outside organized markets. MiFID II, through greater contracting obligations in negotiation centres and greater transparency, will, to a large extent, solve the problems we have encountered in the past.

In relation to **investor protection**, entities must assume that the regulatory paradigm in which they are to move is that of greater protection for investors and, in general, for clients.

This new regulatory scenario will include, among other measures:

1. revision of the client classification policy;
2. more frequent evaluation of the suitability of services and instruments for the profile of each client; or
3. modification of the practices of variable remuneration to the sales network.

All of them undoubtedly constitute significant changes.

By way of an example, I would like to highlight two issues that are, in my view, fundamental.

Firstly, MiFID II has emphasized the **need for financial products to be sold in an appropriate way**. To this end, these products have to be designed taking into account the target group at which they are going to be aimed. And they have to be distributed only among the target group. A financial product should not be sold to a client that does not belong to the target group for which it was designed.

Secondly, I would like to mention that MiFID II has placed special emphasis on the **need for the sales network to be well-trained**.

For this reason, CNMV, taking into account MiFID II and the guidelines established by the ESMA directives, has developed a technical guide which details the theoretical and practical training that the staff who advise or inform clients must have.

For us it is very important for investors to understand the risks of the products in which they invest and, for this purpose, it is necessary that those persons who offer investment products have the necessary knowledge to understand and explain them, as well as to assess if they are appropriate or suitable for each client.

Throughout the entire process of approving European legislation and its transposition into the domestic legal system, CNMV has worked for many years closely with ESMA and the European Commission on the preparation of different pieces of legislation that form part of what has been commonly called MiFID II.

In addition, we have been collaborating with the Ministry of Economy, Industry and Competitiveness for more than nine months to comply with the deadlines and be ready for its entry into force which, as you know, is scheduled for January 2018.

Our work focus is on amending national regulations, and checking for obsolete regulations that need to be repealed or modified. The Securities Market Act will no doubt be deeply affected by the transposition.

The Ministry of Economy, Industry and Competitiveness has already announced that it will have a draft transposition law on the European regulations for its submission to a public hearing at the end of May. So I would encourage you to give us your opinion and send us your comments about this matter.

The Ministry has already launched the Public Consultation on the Draft and, in April of this year, the specialized financial body of the General Council of Economists (Financial Advisors – Economistas Asesores Financieros, EAF) published a series of comments, where it was stressed that the emergence of new investment channels related to technology, greater sophistication of financial instruments and low interest rates may lead investors to incur risks they are unaware of, and underline the importance of Financial Advisory Firms (Empresas de Asesoramiento Financiero, EAFI) as a partner to consult before taking investment decisions.

Today we are accompanied by representatives of several Financial Advisory Firms. So I would like to highlight the relevant role they play in our securities market.

In this regard, I assure you that at CNMV we are fully aware of the peculiarities of these types of entities and we are taking this into account in the process of transposing MiFID into our regulations.

Finally, I would also like to point out that CNMV is in constant contact with the industry to try to resolve any queries that may arise regarding this directive.

On the CNMV website we have made a mailbox available to the public so they can consult us on matters related to the markets and financial instruments of the new regulations. I would also encourage you to send us any queries you may have.

SPEECH CLOSURE

Without further ado, I would like to finish by congratulating you once again on the quality and usefulness of the Report presented today and encouraging all those present to continue working to make our economy increasingly more productive and competitive.

I hope you enjoy the presentation.

Thank you very much for your attention.