PRESS RELEASE

CNMV BULLETIN: INCLUDES THE MARKET SITUATION REPORT AND THREE ARTICLES ON INVESTMENT FUND STRESS TESTING, THE SANDBOX AND THE CENTRAL COUNTERPARTY RESOLUTION REGIME

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The Spanish National Securities Market Commission (CNMV) has today published its quarterly bulletin for the fourth quarter of 2020. This issue includes the market situation report, which describes the trend in national and international financial markets in 2020 as a whole, with emphasis placed on the events of the last quarter. The bulletin also contains three articles: the first article includes the results of the stress tests carried out by the CNMV on Spanish investment funds; the second describes the two key innovation enabler instruments adopted in several countries (innovation hub and sandbox) and the third article presents the framework for resolution of central counterparties, in particular, the assessment and treatment of available financial resources.

The "Market situation report" describes the major trends in financial markets in 2020, a year marked by the evolution of the coronavirus pandemic, which caused financial market turmoil in March and April, triggering heavy losses in share prices, all-time highs in volatility, loss of liquidity and valuation problems in some debt market segments. The rapid adoption of measures of a different nature by governments, central banks and other financial supervisors helped to prevent the continuance of the bearish trend in financial markets, particularly in debt markets. In the latter part of the year, the easing of some uncertainties (the initiation of vaccination in several countries, the agreement to avoid a hard Brexit, and the confirmation of the victory of the Democratic Party in the US) enabled stock market indexes to consolidate their bullish trend following a few erratic months. In some cases, such as the US and Japan, stock markets rose in the year as a whole. This was partly due to a greater presence of technology companies, while in Europe the indexes ended in negative territory (with some exceptions such as the German Dax 30 index). In debt markets, the measures adopted by central banks opened a new era of very low interest rates, particularly in the case of Europe.

The trend in national financial markets was similar to that of the rest of international markets, except in relation to developments in share prices, which was more unfavourable. The composition of the Ibex 35

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Index, with a higher weighting of sectors hardest hit by the crisis – banking, tourism, leisure, hospitality, transport, etc.-, was a crucial factor in this performance. The upward trend in the last few months of the year could not offset the losses of the previous months. Consequently, the Ibex 35 Index fell by 15.5% in 2020, the largest percentage decline among the European benchmarks. Liquidity and volatility indicators, which rose considerably in March and April, improved substantially in subsequent months but did not return to pre-crisis levels. Trading in Spanish shares also declined in 2020 (by 3.4%). The yield of debt securities followed the pattern of other European markets, most of which ended the year in negative territory (including the 10-year government bond for various days in December). Finally, it is important to highlight the increase in fixed-income issues registered with the CNMV in 2020 (up 47% to €132,111 billion), at the expense of issues outside Spain (which decreased by 9.2% to €82,774 million, according to data up to November), thus interrupting the trend of recent years.

Stress testing

The article "Test de estrés para fondos de inversión mobiliaria" (Stress testing for investment funds), by Ramiro Losada and Albert Martínez, includes the latest results of the stress tests carried out by the CNMV on investment funds. This test is based on the methodology established by the European Securities and Markets Authority (ESMA) in 2019 and the work carried out by the CNMV itself (see Ojea (2020)). The purpose of the test is to identify funds or categories of funds that could face liquidity problems under adverse scenarios. Furthermore, it also analyses what impact illiquid vehicles could have on securities and fixed-income markets. The results based on information as at 30 June 2020 show that investment funds, in general, have a high level of liquidity that would allow them to address an increase in redemptions. The most adverse scenario considered is the only scenario where a small number of funds (8 funds, 1.77% of the total)) could face difficulties. These funds belong to the "sovereign and corporate", "high-yield corporate" and "other" categories.

Innovation

The article "Instrumentos facilitadores de la innovación: centro de innovación (*innovation hub*) y espacio controlado de pruebas (*sandbox*)" (Innovation enabler instruments: innovation hub and sandbox) by the CNMV's FinTech team, analyses and describes the two major innovation enabler instruments adopted by competent authorities of several countries in the past few years, in the context of sharply increased presence of new technologies in financial services.

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This article places particular emphasis on the development of these two instruments in Spain. On the one hand, it describes the functioning of the CNMV's innovation hub (FinTech Portal), which has received 455 enquiries since its launch in December 2016. These enquiries are divided into four categories: crowdfunding platforms (CFP), crypto-assets and blockchain, automated management and advice, and other matters. Furthermore, the article explains the key features of the recent regulation which establishes a sandbox for the Spanish financial system and includes a comparative study of various types of sandboxes implemented in different jurisdictions (United Kingdom, Lithuania, Holland, Singapore and Australia).

Resolution

The last article deals with the resolution of central counterparties (CCPs). Recent financial market turmoil has demonstrated the benefits of centralised clearing for global financial stability. The key role played by central counterparties and the increase in their systemic importance means that a regulatory framework for recovery and resolution is required to ensure the continuity of their critical functions, maintaining financial stability and without incurring losses for CCP members. To do this, it is essential that resolution authorities assess the suitability and adequacy of available financial resources in the event of resolution, and their treatment. The recent adoption of European regulations on CCP recovery and resolution and the publication by the FSB of the "Guidance on financial resources to support CCP resolution" provide the basis for this Bulletin's third article by María José Gómez Yubero, who co-chairs the fmiCBCM group of the FSB, which has prepared the Guidance paper, and by Bárbara Gullón. The article analyses this Guidance paper and the new regulation, and addresses future challenges to enhance the resilience and resolvability of these infrastructures.

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