



Closing of the Inverco General Meeting

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Many thanks to Ángel Martínez-Aldama and to the senior management of INVERCO for having invited me to close this annual meeting. It is a pleasure for me to be able to transmit to you some reflections and comments on the occasion of this event.

I intend to refer essentially to three issues:

- to some aspects of the impact of the implementation of the MiFID II-MiFIR regulatory package on the collective investment industry;
 - to a specific project that we are currently working on (the proposal for a CNMV Technical Guide on the procedures for the selection of intermediaries for Collective Investment Scheme Management Companies);
 - and to sustainable finance, an issue that will affect the activity of collective investment scheme management companies and investment service providers in general in the coming years.
1. Beginning with the impact of the implementation of MiFID II, as everyone here knows, 2018 was the year in which the measures contained in this important European Directive were implemented.

The new regulations deriving from it have resulted in very significant changes in the ways in which intermediaries and management companies operate, and of course it is necessary to recognise, and the CNMV does so, the effort made in the sector and which it continues to make to adapt and comply with such regulatory changes.

These changes entail more transparency and, in general, greater demands to ensure that investment services are always provided in a manner that is responsible and consistent with the interests of investors.

There are many areas in which changes have taken place, but I am going to refer to just three of them, which I believe are probably the ones that it makes most sense to comment on here today.

- Firstly, the new MiFID II regime in relation to the analysis service.

In Spain, in the interests of consistency, and in my opinion correctly, this new regime, which obliges management companies to buy the analysis separately and in a more disciplined way when its cost is charged to the client, is also applied in the field of fund management and other collective investment schemes.

The new regulations oblige management companies, in the event that they do not decide to bear the costs of the analysis themselves, to inform about them and to assign them among the funds managed in an appropriate and equitable way. In addition, the new regime includes the obligation to assess whether the analysis being acquired is really worthwhile and whether it is consistent with the investment vocation of the investment funds to which its cost is passed on.

I understand that this new system may have generated some discomfort for management companies - after all, these are new rules to which attention must be paid, to which procedures must be adapted, etc. - but I am sure you will agree with me that it is very difficult to argue at the level of principles. Management companies, given their role and position with respect to the client, should be the most interested in the client only bearing those costs from which it really benefits.

That said, we are aware of the risk that the application of the new rules in this area may produce an effect of lower demand for analysis that reduces supply by making part of the analysis economically unviable. We are going to be attentive, both locally and as members of ESMA, to how the market is evolving and to possible measures or steps that can somehow compensate for this effect, but it seems to me extremely unlikely that there will be any kind of backtracking at the regulatory level in this field.

One aspect that specifically concerns the collective investment industry is the fairly general movement of Spanish management companies that we are observing in the CNMV in the sense of reflecting in the investment fund prospectuses that they bear the costs of the analysis (something that in general terms was already the case, but that had not attracted due attention, we must admit, until the arrival of the new rules, separation or unbundling).

Specifically, we have gone from 184 registered funds expected to bear analysis costs in mid-2017 to 780 funds registered with last month's data. A trend that, curiously enough, contrasts with what is happening in other markets, especially in the UK, where the effect of the new regulations is not explicitly passing on the cost of analysis to collective investment schemes.

- A second aspect in which the influence of MiFID II can be perceived is the extent to which intermediaries or distributors provide (or recognise that they provide) advisory services to clients.

In 2018 there was a very significant increase - 76% growth rate - in retail clients that receive some form of advice, which now stands at almost two million (including advice without follow-up).

This increase is mainly due to the fact that some credit institutions have begun to provide advisory services to some segment of their clients or have decided to transfer the bulk of the marketing of managed collective investment schemes to the advisory sphere as a strategy to adapt to MiFID II regulations, i.e. they have opted for advisory services as a formula for improving the quality of the service provided to their clients which legitimates them, in accordance with the regulations, to continue to receive their remuneration via retrocessions.

The trend, still incipient due to the recent implementation of the regulation, is in line with expectations and we consider that it is positive. Any of the three possible effects of the new regime (more direct remuneration by clients to intermediaries, more distribution of third-party products or more advice) must be considered positive both

from the point of view of the quality and dynamism of our market and from the perspective of a higher level of protection of investors' interests. More recognised advice means more care and attention, more involvement in marketing, and needless to say, for us, the CNMV, this is good news.

- My third and final comment on the impact of MiFID II concerns the obligation to report annually on the costs and expenses associated with the products that investors purchase.

This is a new obligation that came into force in 2018 and is therefore applicable for the first time with respect to that calendar year. There is no legal deadline for providing this information, but at the European Securities and Markets Authority (ESMA), due to the fact that there is consistency at European level, we have made it clear that it must be provided as soon as possible.

At the CNMV we are aware that the information to be submitted is precise and especially detailed and therefore requires entities to make a significant effort. In addition, it has been the case, which has complicated matters further, that the entry into force of this obligation has coincided with a financial year in which the behaviour of the markets has not been precisely favourable, which has logically affected clients' profitability and has made the costs borne more striking.

Having said this, we are convinced that, in the medium term, the annual provision of this information will encourage investors to invest more in the products that best suit their interests and that this will result in a higher degree of satisfaction and a better perception of the work carried out by the sector.

2. Moving on to other matters, as I said at the beginning, I would also like to mention a relevant initiative included in our Activity Plan for 2019 and on which we have made great progress.

I am referring to the draft Technical Guide on the procedures for the selection of intermediaries for Collective Investment Scheme Management Companies.

This project is currently in the public consultation phase (until 17 June) and this afternoon it will be analysed in the session of the CNMV Advisory Committee.

The objective of this proposal is to promote better compliance with the best execution rule by management companies and to contribute to the prevention, detection and proper management of conflict of interest situations that may arise when management companies select the financial intermediaries and counterparties involved in the execution of collective investment scheme transactions.

To this end, the new Technical Guide will include a series of criteria derived from the CNMV's supervisory experience on the procedures that management companies should have in place in this area and which must be taken into account in the annual compliance assessment.

It also lists some practices that are not generally considered adequate, such as:

- selecting entities that apply higher fees than market ones for reasons of operational or administrative simplification;
- the use of more intermediaries than are necessary without sufficient justification; or

- establishing a certain distribution of the execution activity among several intermediaries by assigning a percentage to each of them a priori.

We believe that this Guide on the selection of intermediaries will help to continue to improve the practices followed by management companies in this field, although, as always, we must be aware of the nature of the CNMV's Technical Guides, which purely and simply seek to disseminate the criteria for action that we consider most appropriate to comply with the regulation and that we apply in our supervisory work.

In any case, you can be sure that the draft Guide has been the product of a rich and complex internal debate, in which, as always, there has also been a concern to ensure that the criteria for regulation and supervision are compatible with the dynamism of the market.

3. The third issue to which I referred at the beginning of my speech is sustainable finance. I think it would be worth mentioning this matter again, which has come to feature prominently on the agendas of all the financial supervisory bodies and in which we are very active. In fact, our vice-chair, Ana Martínez-Pina, is part of IOSCO's new Sustainable Finance Network, leading one of the two working groups that have been created within it, and she has just been appointed Chair of ESMA's recently created Sustainability Coordination Committee.

As you may know, in 2018 the European Commission launched an Action Plan to strengthen the role of finance in building an economy that will make it possible to achieve the Paris Agreement goals and the European Union's sustainable development goals. It is clear that both the European Commission and European governments are very committed in this area.

In any case, the proposed measures or actions affecting investment services are fully justified even beyond the level of activism for sustainable development goals. More and more investors are incorporating environmental or other sustainability considerations into their decision-making processes. It is important that this interest is taken into account and that investors who so wish have reliable information, including in this regard, when making their investment or divestment decisions. This is where the role of a supervisor such as the CNMV lies in this field: to help ensure that the non-financial information disseminated by issuers on environmental and social matters, or on the state of their corporate governance, is clear and reliable, and to help ensure that information on the nature and destination of investments, from a sustainability perspective, is also clear and that interested investors are also correctly advised in this regard.

The European Commission has proposed a strategy on sustainable finance, the measures of which include, among others, the establishment of a unified classification system - or taxonomy - that defines what is sustainable, the creation of labels for "green" financial products on the basis of this EU classification system or the obligation for companies providing investment services to advise their clients on the basis of their sustainability preferences.

With regard to taxonomy, the Council of the European Union is examining the draft proposal submitted to it by the Commission.

With regard to the incorporation of sustainability into advice, the European Commission's legislative proposals seek to ensure that, when advising, entities collect information on the preferences that their clients may have regarding the ESG

(environmental, social and governance) component of their investments and that they record how they have taken such preferences into account.

Last May, ESMA sent to the European Commission a technical advisory report on possible amendments to MiFID II, UCITS and AIFMD in this area, in relation to which ESMA carried out an extensive public consultation on level 2. Among the conclusions of this technical advice is that the approach to regulation should generally be a high-level principles approach rather than a detailed one.

We at the CNMV can only support these initiatives. We are completely in favour of interested investors having access to information and it being reliable - that what is known as green washing does not occur. In any case, we are sure that the regulation in this area will be reasonable and that it will be applied in a proportionate manner.

- In conclusion, I would very briefly like to draw attention to two specific and topical issues.

Firstly, the phenomenon, which is occurring again, given the additional recent downward trend in interest rates, of funds with a specific profitability target that reach it earlier than expected.

A similar situation, although on a larger scale, occurred at the beginning of 2017, which meant that in March of that year we sent to all the collective investment scheme management companies managing these types of funds a communication reminding them of the obligation to inform in the PPIs about exceeding the target and informing, as well as about the upcoming liquidity windows and the applicable redemption fees. We also reminded them to publish price-sensitive information.

In the last few days, several management companies have published around ten pieces of price-sensitive information of this type referring to funds with maturities up to 2028.

It is important to ensure that this type of information actually reaches investors, and we would therefore highly value informative steps that go beyond what is strictly required by the regulations (publishing price-sensitive information and mentioning it in the PPIs, duties the fulfilment of which we are going to verify).

- Finally, I would like to stress once again the importance of management companies paying constant attention to the control of liquidity, strictly complying with the provisions of the Law and Regulations on collective investment schemes at all times. This is one aspect, as many of you know, that we deal with regularly as part of our supervisory tasks.

In recent days, a case has arisen, which has had great repercussions, involving the suspension of redemptions in a major, well-known fund in the United Kingdom, the Woodford Equity Income Fund, which has reminded us of the importance of this issue. Incidentally, I can tell you that the fund was not registered for active marketing purposes in Spain and that, at least at the end of April, it was not part of the portfolio of any Spanish collective investment scheme.

Thank you very much for your attention.