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Thank you very much Julián, Fernando and Juan for your introductory words and my thanks also to Deloitte, ABC and Sociedad de Tasación for your invitation to participate in this event.

A review of the agenda of presentations and interviews scheduled for the sessions over the next two days shows the quality and depth of this conference on the future of the financial sector. I note that almost all the speakers and panels come from or are related to the banking sector.

I therefore intend to address the "other side" of the financial system, the non-bank side, which should not come as a surprise given where I come from.

The challenges and opportunities facing the banking sector are many and well known: low interest rates, business margins, distribution structures, efficiency and regulation. This is coupled with three relentless realities that will transform the banking industry: digitalisation, sustainability and increased competition led by non-traditional service providers.

It is not uncommon to hear the term "shadow banking" when talking about competition in financial services and also risk.

It is on this last point that I would like to begin my presentation today and I will do so on the basis of three concepts: nomenclature, complementarity and macro-prudential regulation.

Nomenclature

Unfortunately, there is little rigour in defining what we mean by "shadow banking", a term that carries a negative connotation. Many include BigTech and FinTech platforms in this definition, which makes sense for some services. Others include some private, leveraged and unregulated investment vehicles. Still others include money market funds, UCITS funds, more traditional funds and, taken to the extreme, the stock market. Including as many elements and activities as possible in the definition, even if they are unrelated to each other, does not help a rational discussion.

The concept of "shadow banking" should in my view be formed by reference to two simultaneous factors:

1. The essence of banking activity, consisting of taking to offer loans.
2. The presence of risks identical or similar to those generated by the banking system.

Given the lack of definition of the term "shadow banking", or at least what I have been perceiving in the debates of the last few months, or even the term "non-bank financial intermediation", a somewhat friendlier but equally imprecise term, we securities supervisors have to vindicate a varied and rich part of the financial system, which is the capital market, and especially the securities market, which by definition is a non-bank creature. And, lest anyone should be concerned, an area that has been closely regulated and supervised for decades.

I will henceforth refer to the capital market, including the stock market, venture capital and regulated collective investment, which I hope you will agree with me are neither banking nor in the shadow.

Complementarity

The capital market, as I have just defined it, is a necessary complement to the banking system.

Let me a short digression, which will bring me back to why they are complementary. The process of decarbonisation of economies and their transformation towards sustainability is the most demanding challenge we have faced in the last 20 to 30 years. We are witnessing the biggest transformation of public and private finance in our history and more and more investors are placing sustainability at the heart of their investment criteria, thereby dragging the whole market in a continuous movement towards the adoption of a new standard.

The magnitude of the investment needed to finance the green change is of historic proportions. In the case of Spain, around 30 billion euros per year throughout this decade. And there is no way (nor would it be desirable) for banks to finance 100% of this extraordinary and additional investment by Spanish companies. Companies will need a lot of additional equity for this extra investment, and this is provided by the stock market and venture capital.

Therefore, the role of the non-bank financial system is complementary to that of traditional banking institutions; it is not exclusive, but rather it has a symbiotic relationship with them. We will need both to be able to finance this effort that the economies need.

The stock market, totally alien to the definition of shadow banking and closely regulated and supervised, is one of the necessary meeting points of the financial system and is an essential element in the financing of the transformation of current economic models. Listing on the stock exchange, for example, has enabled many Spanish companies to overcome the COVID crisis in a way which would not have allowed listed companies to have access to this type of financing in the days when it was raised through secondary capital increases.

Europe is aware of this need, and this is the reason for the Capital Markets Union (CMU) initiative, which aims to strengthen the non-bank financial system by attracting more companies and investors to the non-bank capital markets. The dependence of European companies on bank financing is excessive and this hampers their access to equity or new external financing at difficult times for banks or when regulations require levels of capital that are difficult to consolidate. The EU is clear: the percentage weight (note that I said percentage, not absolute) of the banking sector must be reduced, increasing the weight of the capital market, and thereby deepening financial disintermediation. And the model is the US market, where only between 8% and 12% of companies' liabilities are bank debt, compared with 30% in the EU.

The European Union has identified another strategic line in its regulatory policy on the financial system, parallel to the previous one: boosting retail investors' investment in securities in exchange for reducing their exposure to real estate assets and bank deposits. Not only from the perspective of companies' need to access new equity, but also from the point of view of the portfolio mix of a retail investor in Europe, also thinking about retirement issues and long-term returns on savings.

Macro-prudential regulation

In recent months and in different forums there has been a discussion, sometimes with divergent positions, on the need to impose regulation similar to banking regulation on some subset of the so-called shadow banking. Some of the proponents of this proposal argue that the existing regulation of non-bank financial intermediaries (NBFIs) is more lax, taking advantage of regulatory arbitrage and thus allowing the generation of an increasingly high systemic risk.

This statement is at least quite generalist given the great heterogeneity across countries, sectors and entities that can be considered as part of the discussion. Let me give you several examples.

One of the traditional arguments in favour of the thesis of the need for more stringent regulation is the higher degree of leverage of some vehicles, which can turn them into generators of price bubbles. But this assertion is not entirely correct in Europe and in investment funds, which are the most important schemes in terms of size within this concept. Leverage is only higher in certain categories of alternative investment funds, which today represent a very small part of this universe.

On the other hand, UCITS, central counterparty clearing houses (CCPs), or exposure to derivatives and securities lending among others, already have their own specific rules and the reality shows that these institutions have withstood the latest crises just as well as or better than the banks themselves. As far as investment funds are concerned, the incorporation of banking-type macroprudential measures such as capital buffers, makes no sense in my opinion, given the very different nature of these institutions compared with a banking institution, and may have the opposite effect to that sought, that is, limiting the activity of collective investment when they are most needed as financiers of this extra need for companies' own resources.

This is not to say that regulation is immutable, but rather that changes need to be assessed sensibly and prudently and that we are starting from a very solid starting point. For example, in the case of Money Market Funds (MMFs) and especially those of constant value that encourage withdrawals and sales in times of uncertainty and volatility. Such funds are almost non-existent in Spain, but in other jurisdictions they are common and have had redemption demands very concentrated around times of market volatility. To address this risk, it is sufficient to introduce mandatory notice periods during which supervisors can impose redemption fees or the establishment of such fees automatically when redemption volumes are exceptionally high and thereby mitigate the risks involved.

However, experience in Spain shows that even without regulatory changes, with proper liquidity management and supervision, funds can face an episode such as the one which arose in March 2020 without perceptible tensions in their redemption management and without even needing to temporarily suspend them. Simple mechanisms such as swing pricing are sufficient to prevent episodes of severe redemptions from affecting fairness among unitholders. In my opinion, this type of measure makes the adoption of macroprudential tools or supplementary capital requirements unnecessary.

This is what we have done in Spain. From the early stages of the Covid crisis in March last year, the CNMV focused its efforts on the control and monitoring of the liquidity of CISs by management companies, and on the early detection of potential deficiencies in the controls and procedures they had to implement to ensure proper liquidity management. This analysis and supervision allowed us to focus on two aspects. On the one hand, respect for the principle of fairness among investors and the application of valuation procedures aimed at avoiding fire sales. On the other hand, constant monitoring of subscriptions and redemptions, identifying relevant movements, analysis of portfolios and transactions carried out, all accompanied by the issuance of criteria to the sector based on all these parameters.

At the European level, initiatives have also been taken in this regard: an ESMA Common Supervisory Action (CSA) was carried out, an investigation requested by the ESRB from ESMA on possible liquidity problems in the first months of the pandemic in large European funds.

All these analyses concluded that Spanish fund managers manage their assets prudently with high percentages of assets in highly liquid assets, facing a situation of extreme volatility and uncertainty with adequate attention to the needs of their unitholders and without relevant incidents that would produce conflicts of interest or harm to them. It is true that the CNMV has been one of the most active European supervisors, even if I do say so myself, on the issue of liquidity risk in funds. We have recently, in fact, put out for consultation our technical guide on liquidity management of CISs, which covers some of the aspects I have just mentioned.

The Spanish asset management industry, and I would venture to say that of much of Europe, has weathered the last two deep crises without serious problems. There is always room for improvement but let us be cautious in discussing new regulations and I think it is a good idea to discuss specific activities rather than generic categories.

Financial fraud and IFs FPS

I will end with a reference to a less attractive part of the financial system.

In a scenario such as the current one, with low interest rates, high savings, the constant search for profitability in new products and technological developments and platforms that facilitate and bring access to the financial markets closer to the non-professional investor, is the ideal breeding ground for unscrupulous investment offers. This is a complex phenomenon, ranging from uncontrolled sales by authorised entities (generally non-Spanish) to a notable increase in fraud and massive financial scams, in many cases of a pyramidal nature, often linked to cryptocurrencies.

This phenomenon generates public distrust of financial markets and compromise the prestige of the financial sector itself, in addition to the damage it entails. One of the lessons of recent years is that the reputation of the financial industry is an asset that is as easy to lose as it is costly to maintain. Therefore, we must all pay attention to illicit activities that can damage it.

The CNMV is being very active on two levels:

1. With regard to regulated entities providing services in Spain with passports issued from other European countries, we are stepping up supervision to alert the home supervisor, which has the legal powers, of possible irregularities in the sale of investment products. In the last six months, the CNMV's actions have led to the suspension of the activities of six EU investment firms that were marketing their products in Spain without sufficient rigour.

2. In terms of fraudulent conduct, obviously carried out by unregulated entities, we have detected a notable increase in these irregular activities and we are working on a joint plan between the different public and private authorities and agents, including the justice administration, law enforcement agencies, associations and technology companies, to create a cooperative framework to increase the security and confidence of investors and reduce the harmful effects of these criminal activities.

Public-private cooperation is necessary for the adoption of a set of practical measures that will allow us to better alert and inform investors in order to hinder and slow down the reproduction and growth of these fraudulent practices. And here the banking sector has a privileged role to play in alerting, raising awareness and educating its clients.

In conclusion, I hope that with the appropriate sensitivity to the important and essential role that the non-bank financial system must play in the next decade, we can build a solid framework of investor protection that is compatible with a renewed way of financing our companies and public administrations, and that we are able to value and exploit to the full this symbiosis between the securities market and bank financing, in order to maximise the contribution of the financial system to the real economy.

Thank you very much.