Norbolsa Market Forum.
"Challenges in a period of recovery" Conference.
Opening speech.

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Good morning, all.

Thank you very much, Manuel, Gregorio and Unai for your words of welcome. And also, of course, thanks to Norbolsa, Deusto and Bolsa de Bilbao for inviting me to participate in this conference.

It is a pleasure for me to be here in Bilbao today for two reasons. Firstly, the fact of being able to be present at this conference under the title "Challenges in a period of recovery", given that there are many challenges ahead of us, not only from a financial and capital markets point of view, but also as a society in the transformation processes we are undergoing, which I will refer to later.

But also, secondly, because this event coincides with the day on which we are going to inaugurate, in a few hours' time, the new CNMV headquarters in Bilbao, on Calle Heros.

Bilbao is Spain's third largest financial centre and is home to more than a dozen listed companies with a very significant combined stock market value. It also hosts a number of issuers active in fixed income.

Bilbao is also a place with a long tradition not only in the financial industry, but also in asset management and private equity today.

And it is this relevant dimension that justifies why we at the CNMV have understood, for some time now, specifically during the previous chairman’s term in office, the importance for the institution of having a permanent presence in the Basque Country.

Returning to the topic of the day, the challenges we face are many and varied, but I would like to focus my speech today on two of them: the role that the capital market must play in the recovery and the implications of the digital transformation we are witnessing.

The securities market, a key to recovery

The first of these is determined by the importance of the securities market as a key player in economic recovery. And the recovery, as many say, will or will not be green. The integration of environmental sustainability in economic decisions and in the production model is one of the greatest economic transformations that those of us present here have experienced. It is coming with increasing impetus from society as a whole, driven primarily and with greater impetus by the younger generations. But it has a very clear translation into financial markets and their regulation. Europe has been at the forefront, leading the world in terms of regulatory thinking and in the practical application of this regulation to the design and transformation of sustainable financial products. In this sense, it is leading this process at a global level in the idea of transforming the financial product into a sustainable product.

But I will leave the issue of sustainability here today to focus on what it means in terms of the investment needs of the Spanish economy and the relevance this has for the development of the stock market.

The European Union estimates the investment needs for the current decade to achieve the decarbonisation of the EU economies at 350 billion euros per year. Moreover, if we add water and waste to this, we reach 500 billion euros per year. Taking only the part of sustainability due to climate change, those 350 billion euros, with the single rule of three relating the investment needs in the Union with the weight of our country's GDP in it, it can be deduced that, in the case of Spain, the needs to decarbonise our economy would reach an additional annual amount of necessary investment of 30 billion euros for the coming years. And that will obviously require public-private partnerships. Public funds, whose margins are not excessive following the pandemic, will not be able on their own to provide the necessary resources for this flow of investment, and this dilemma also arises in the case of Spain. Even if we translate this to what it would be, we would be talking about around 2 billion euros per year to ensure this transformation. Possibly even more, due to the greater weight of the industrial sector in the Basque Country than in the rest of Spain.

Moreover, it is not feasible - nor is it sustainable given the degree of usage of bank services of the European economies - to finance needs by resorting exclusively to the use of external resources, i.e., bank debt.

Basque companies, like the rest of Spanish companies, need more equity, more capital, to be able to raise finance for the extraordinary investment they are facing. And capital has only two or three outlets through which it flows: the accumulation of past profits in the form of reserves, additional contributions from existing partners, or the addition of new partners or venture capital. Spanish companies suffer from a lack of size. The number of micro-enterprises is much higher than in European business leaders such as Germany. And that small size makes it more inefficient, more difficult to internationalise and more vulnerable to certain crises. And in order to grow, additional capital is also needed.

To make it all fit together, we have to obtain financial capital from where it is (investment portfolios, funds, Spanish savers, international investors, etc.) to where it is needed (companies) and that is what stock exchanges have been doing in Europe for hundreds of years. But it needs to be done better and on a larger scale. In Europe (and Spain is no exception) there is less financing via equity and capital markets and more weight of bank debt than in the US.

And we have seen how the US economy has recovered better from recent crises, in part due to the greater diversification of its companies' sources of financing, which means that when banks restrict or tighten credit conditions, companies suffer a halt to their expansion possibilities, even the healthy and profitable ones.

For all these reasons, the securities market and venture capital must be the great natural link between investors and companies, a key and essential part of this financial puzzle.

The experience of the last 18 months of the pandemic provides us with an additional key. Several listed Spanish companies that were hit by the crisis in its early stages, as well as others that, without suffering from it, were undertaking substantial investments, and were able to raise the necessary funds in the financial markets in a short period of time. In other words, being listed on a deep and transparent stock market such as the Spanish one offers added advantages in times of crisis and uncertainty, as well as being a success factor when facing extraordinary investment needs.

Needless to say, I am not discovering all this myself. This is a well-established analysis and coincides with what is known as the Capital Markets Union (CMU), which the European Commission has identified as one of its main lines of action. It basically involves promoting capital markets with two objectives. On the one hand, to make it easier for European companies to access equity markets by enabling the growth and development of new innovative and disruptive business models and renewing the European business structure. And on the other hand, it also encourages Europe's citizens, an increasingly ageing population in statistical terms, to access higher-yielding forms of long-term savings and to reduce their relative exposure to real estate assets or bank deposits.

In the current context of an expected economic recovery, securities markets have to become a cornerstone of the recovery. Indeed, without a greater role for securities markets, the recovery will be hampered.

To this end, we must continue the work of adapting regulation to the new instruments and thereby making capital markets attractive to investors. This is a constant effort that needs to be made at European level and not exclusively at national level, but always without jeopardising adequate investor protection.

This is especially relevant in this building where we are today, the Bilbao Stock Exchange. Stock exchanges are built precisely to respond to the problem I have outlined. What is happening is that in times of electronic trading and data in the cloud, the physical location of stock exchanges and markets in general is no longer the most important element from the perspective of secondary market trading.

But it may be important from a primary market point of view. In a globalised and digital world, perhaps one of the main social functions that the physical headquarters of stock markets can provide today is to "train" and accompany expanding companies in their territorial scope on their path to growth and appeal to increasingly sophisticated and stable forms of financing.

Basque companies, like the rest of Spanish companies, need to travel the road from micro-enterprise to multinational. In this transition, financial structure and raising new capital are essential. Of course, seed capital and venture capital play a very important role in this area and the Basque Country has a great tradition in this field. But after a certain point, companies must decide whether to go public, be it the SME growth market or the primary market. And on this path, stock exchanges can be real consultants and coaches for the financial management of companies, preparing them to make the leap.

Of course, we must also support this work at the regulatory level, which brings us back to the CMU initiative I mentioned earlier and the European Commission's imminent public consultation, announced a few weeks ago, on reforming listing regulations to make it easier for new companies, especially small and medium-sized ones, to become listed. The objective is worth the effort, as we are talking about enabling a flow of capital without which the transformation of the economic system will not be feasible and would put the prosperity of our society at risk.

In any case, let us not overplay the importance of regulation. Even with identical regulation, some regions in Europe have been more successful in attracting innovative companies to go public and finance their expansion plans. In Sweden, for example, they have the same regulations on prospectuses, financial information and market abuse as in Spain. And yet the number of companies that have made the leap into the markets in 2020 and 2021 (122 companies) dwarfs the numbers in Spain or any other European country.

We cannot make a Manichaean analysis: there is probably no single key that explains a success story. Financial education, the culture of individual investment and savings, the commitment to innovation, even social ethics and the consideration that entrepreneurs and businesspeople deserve something from the rest of society, are important factors that explain why a country, or a region stands out in terms of business. But there is nothing to prevent a successful model from taking hold and standing out even when the regulatory playing field is identical to that of many other countries.

The Basque Country has been and continues to be one of those economic areas where the spirit of entrepreneurship and internationalisation has given rise to a lively, thriving, diverse and active business demography. Why not be ambitious and commit to promoting Basque companies' access to capital markets as a factor in boosting their growth? Obviously, we are not starting from scratch, nor is it a short-term process, but, for that very reason, the sooner we start, the better.

Technological change and new dynamics in capital markets

I shall now switch to the second of the topics I had planned to cover today. The other axis that is transforming the financial sector is digitalisation. The development of new technologies - where DLT or blockchain technology stands out - is bringing new and very interesting business models to the fore almost on a weekly basis. And it is enabling, beyond the efficiencies of using technology, financial markets to be brought closer to investors and even sectors of the population that were previously kept out of the picture.

DLT technology brings gains in terms of efficiency, effectiveness and security. But we must not lose sight, especially us supervisors, of the associated risks. I am referring in particular to three issues: cryptocurrencies, collective trading and financial fraud.

Decentralised finance is increasingly becoming a reality among investors as a whole and is in itself positive; there should be no doubt about that. Quite possibly, in a short period of time, we will see crypto-stocks, crypto-bonds, crypto-shares of investment funds or even tokenised real assets (real estate) forming part of the asset pool in investors' portfolios alongside traditional assets.

Today, however, it is cryptocurrencies in particular that are the focus of attention in the development of DLT technology applied to the financial world. These are hitherto unregulated assets and, more importantly, lack a stream of flows that determine an intrinsic value. This makes them more like currencies than other financial instruments, but with the important caveat that their deposits do not pay interest, which makes traditional exchange rate theories not entirely applicable.

Personally, I am sceptical about the contribution and value creation capacity of cryptocurrencies for investors in the long term, beyond taking advantage of intense periods of extreme volatility, such as the current one. In my view, the only cryptocurrencies that can retain any value in the long term are those that eventually become a commonly accepted means of payment, whether for international or local payments. At that point, their value will need to stabilise in order to fulfil this function. That is to say, the success or consolidation of a cryptocurrency in the future, in terms of acceptance, will be inseparably associated with the stabilisation of its value, which means that it will no longer offer profitability but stability. In other words, if a cryptocurrency is volatile and profitable it will not last as a currency and, if it does last, it will cease to be profitable. Obviously, only an infinitesimal part of the thousands of cryptocurrencies available today can become commonly accepted means of payment.

In any case, these are all assumptions or forecasts about the future of an asset, which are likely to be incorrect when we analyse them in a decade's time. But the truth is that price formation in these types of products today lacks the minimum guarantees. There is nothing to prevent anyone from manipulating the price of any cryptocurrency, either through transactions or by spreading false information. Similarly, information about the risks of these products seems almost always obscured by the get-rich-quick messages that abound on social media. And that raises concerns among supervisors and regulators.

Supervisors' scepticism of this asset class does not stem from traditionalism or conservatism, nor does it stem from a fear of change resulting from the emergence of a new asset that may unbalance or alter the status quo, as is perhaps the view of the new generation of investors. In fact, the last few decades have seen the creation, development and growth of many different types of assets. Supervisory caution is driven by our investor protection mandate and, in particular, by the potential harm that risky decisions on unregulated assets can have on thousands of investors if they are unable to properly weigh up and understand the risks they are willing to assume.

The development of digitalisation has also brought with it the flourishing of the "gamification" of trading, which consists of presenting stock market investment as a game. It reminds me of the old and very Spanish expression "jugar a bolsa" (playing the stock market), adapted today to a digital environment. The risks of such a trend are obvious: it creates the investor's feeling that they are gambling, with prizes, digital confetti, and literally, fireworks when they get it right, like slot machines. As with the latter, cases of trading addiction are beginning to be detected in some population groups. Frankly, I believe that this situation does not lead to anything good and trivialises what in some cases can be very important decisions for the lives of investors.

Furthermore, the development of social networks and Internet forums has brought great advantages in terms of information sharing and access and there is nothing negative about users in a group exchanging knowledge and information about a company, about market developments or about the attractiveness of buying and selling.

But there are also new risks, such as groups of investors agreeing on strategies designed to artificially price a security at a certain level. This could amount to market manipulation.

The Gamestop case in the United States a few months ago is a clear example of the power of connected trading, where a large group of people can affect market dynamics and price formation mechanisms. Market supervisors must block out the background media noise that such activities can attract and apply the law uniformly irrespective of the size of the investor, the number of investors or their knowledge of the market. But equally, we must be able to reach segments of the population that are not aware of these risks and thereby increase their knowledge of the rules governing securities markets and legal awareness of these activities.

Lastly, another challenge that is largely a result of digitilisation is the fight against financial fraud. Fraud has always existed, of course, but the cost of reaching a victim through digital channels is much lower than when using more traditional methods. Last year, the CNMV warned of an increase in potential fraud and pyramid schemes, some of which are already in the judicial investigation phase. This phenomenon is now often linked to cryptocurrency offerings.

The CNMV does not have, nor should it have, the power to prosecute offences. But we do believe, and we are working on it, that cooperation and coordination between different administrations, bodies, associations and private entities is the most effective way, not to eradicate these activities, which is unlikely to happen, but to reduce their scale and thus their harmful effects on investors and on the financial system as a whole. For this reason, and in conjunction with other bodies, the Public Prosecutor's Office, the Ministry of Finance, State security forces and bodies, and financial and technological companies, we are drawing up an Action Plan against Financial Fraud, with early detection, technological, communication and financial education measures.

Let me conclude by saying that on Monday past I participated in a welcome day for new technicians at the CNMV and I told them that I can think of few better times to start a career in financial regulation and supervision. Those of us who have been involved in financial markets for some decades now have seen great transformations, but I firmly believe that the ones we face now are no less significant, and no less exciting. Capital markets have to prove their worth and their role in this decade, in an ever-changing environment, and this makes these challenges exciting. I hope that the financial community in the Basque Country will be in a position to add value to this process and help companies to raise the finance they need under the best possible conditions and that investors will maintain as high a level of protection and knowledge as possible.

And I hope to be able to accompany this process from today through the new CNMV office here in Bilbao.

Thank you very much for your attention.