# The EUROFI 2023 Financial Forum
# Opening remarks

RODRIGO BUENAVENTURA, CNMV'S CHAIRMAN

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Good morning. It is a pleasure to have the Eurofi conference in my home country, with the occasion of the Spanish Presidency and to welcome you to this edition.

I would like to share some thoughts about the prospects of EU capital markets.

We are at a critical juncture: one in which capital markets need to demonstrate their ability to serve the real economy and the preferences of investors. And this has to do with a rare combination of events: huge additional investment needs, for companies to transform their business models, public budgets with limited pockets and a very significant rise of debt costs.

We know that European companies have structuraly weak balance sheets, an over-reliance on bank credit and poor access to long term financing and equity.

In this context, we need vibrant capital markets and especially equity markets, more than ever.

Private finance has, to some extent, taken a bite on the role that public markets used to play and we are witnessing an increase in public-to-private transactions. On top of this, IPOs are way less frequent across the continent. Hence, our markets are not growing: the number of listed companies has declined in the last 5 years and the weight of market cap over GDP has not increased either in Europe.

I have always believed in the superiority of public over private financial markets. I think that they offer the most democratic, open and accessible way of allowing citizens to invest their savings and also to influence those that manage them. I also believe they are an extremely efficient way of assigning capital. They also offer a long-term prospect for issuers, that cannot be matched by private finance.

The first obvious question is how we can revitalise public equity and debt markets in a way that helps European companies and issuers without compromising the protection of investors.

I am afraid there is no silver bullet for this but a series of reforms with incremental effects if we design them appropriately. The first one lies in making easier for companies to go public. Entrepreneurs, when faced with the pros and cons of becoming a listed company, do not always conclude on the positive. I think there are many reasons for this and regulation might not be the most important one.

For instance, the role of capital, it's importance on the modern company, has changed. Young entrepreneurs especially in the IT sector, do not place the same level of importance on capital as on ideas and technology innovations. They see shareholders' role and contribution very differently from how executives used to see them ten or twenty years ago.

But there might be other reasons behind the slow pace of primary public capital markets. Cultural factors and financial education might also play an important role. If you look at the distribution of total wealth of European families you find immense differences in how, for instance, Spaniards, Germans or Danish citizens invest their savings. But that has to do not only with culture and financial planning awareness. It has also a lot to do with incentives. If we collectively, as a Society of Europeans, agree on the absolute importance of having deeper capital markets for the success of our economies, we cannot avoid a serious debate around how to stimulate it through one of the most powerful tools that we have: taxes. For instance, we need to abolish the asymmetry between the tax treatment of interests paid and dividends, which is introducing an artificial bias to the financial structure of EU companies, causing over-indebtedness.

We also can re-think how IPOs are conceived. IPO processes are not enshrined in regulation, they come from market practice, but they are very much the same than what they used to be in the 90s. They are excessively long, costly and difficult to predict: the risks of last-minute failure of IPOs are quite tangible. And the role of some participants shows clear conflicts of interest that can affect the price formation mechanism.

As you know, none of these elements have much to do with financial regulation and yet, they might be way more effective than upgrades to the financial rulebook. But I will not shy away from making some comments on the regulatory front, of course. There are three sides to the problem: attract more companies, attract more investors and improve the infrastructures in which they meet, prices are formed and assets are settled and registered.

I think the listing act proposal by the European Commission goes in the right direction to try to ease a bit the cost and the fuzz of becoming a public company. This is not easy to say for a financial markets' supervisor, who is typically more concerned with investor protection, but we need to be realistic and pragmatic. Prospectuses are too long, too complex and too few people read them. We need to adapt them to a more reasonable point together with other obligations of listed companies. That's why I think that it is in general a proposal worth supporting, even if it's no silver bullet.

But besides the reforms on the listing act, it's important that we are vigilant about the rules imposed on listed companies on matters that are not strictly linked to the information or the interests of shareholders. We have some rules going from sustainability to gender equality or to important social matters imposed on occasions only on listed companies and not on equally large private companies. To my mind, if we are dealing with issues that are important for society, and those that I just mentioned are really important, we should not impose obligations on listed companies just because they are listed. We should treat equally large organisations irrespectively of whether they're private or public.

The other side of the equation is the attraction of more investors to our markets. This is linked to even more complex matters. The retail investment strategy tackles some of them and I think it is an overall balanced and adequate approach: increasing the protection for investors on elements unrelated to more cost for issuers. But we might need more than that. We need to improve the investment experience for the retail investor, make it simpler and cheaper. And for that, technology is a very powerful ally.

We might need to also use our imagination to unlock the enormous potential of institutional investment so that it also reaches the less liquid markets. SME Growth markets are lacking institutional investment and are therefore suffering from additional illiquidity. We should develop funds with non-daily redemptions, let’s say once a week, once a month or even once a quarter, to offer retail investors the possibility to enter collective vehicles invested in not-so-liquid but potentially more profitable investment opportunities in the long run, in a diversified manner. This will not only benefit those investors, but also the underlying equity markets and the companies that tap them. This is more linked to an important dossier: the AIFMD/UCITS reform.

And finally, we need to improve and strengthen the fabric of markets, the meeting point and the infrastructures. Which is one of the topics that will be discussed in this conference.

There is always in Eurofi an underlying debate on deepening the integration of EU capital markets. We use the word Union, single market, more integration to mean very different things and sometimes the debate is a bit fussy. Let me share my view on this, in the form of four possible questions.

1. If the question is whether we should harmonise legislation, and increase the use of regulations over directives, my answer would be a very neat “yes”: to the fullest possible extent.

2. If the question is whether we should have more consistent and uniform supervision, with a stronger ESMA bringing real convergence to decisions by National Competent Authorities, I would also answer loudly on the positive.
3. If the question is whether we should have fewer players, more consolidation on secondary markets and CCPs and some European global champions, I would say that this should come naturally from consolidation and competition, not driven by regulation.
4. And if the question is whether we need a single supervisor to strengthen the EU capital market, I would not be so sure. There are a few areas in which central supervision is more efficient, like when you have very few and very large entities, with operations in many Member States. But for most of our daily supervision, I still think a local supervisor can do the job more swiftly and efficiently than a central one, provided that strong coordination and consistency are ensured by ESMA.

In any case, let's look at the bright side: capital markets are way more integrated than banking markets in the Union, even after the so-called banking union. The level of cross border investment is astronomically superior to the level of cross border lending by banks. Just an example: only 2% of AUMs of all Spanish UCITS is invested in Spanish equity. Spanish funds invest in non-Spanish listed companies (mostly European) 7 times more than on Spanish ones. Exactly the opposite of bank lending. So we already have integration of flows and a capital markets union: we "simply" need to make it bigger and more effficient.

And for the latter we will need tons of technology. I have to confess that a few years ago I thought that in 2023 we would be already at the peak off the incorporation of DLT technology into financial markets. That prospect has not happened. Maybe many of us were wrong or overly excited about the pace of the technological disruption. Or maybe we underestimated the resistance to change from the incumbent market participants.

But I am sure of one thing: that we have lost an enormous amount of time and efforts discussing about the less interesting part of these technological disruption, investment in so-called crypto currencies. Or, at least, cryptocurrencies in the way they exist today. At the risk of generalising, my impression is that most of the coins that are trading today do not offer any value to companies, investors or society as a whole.

DLT has indeed the power to change, for the better, financial markets, but not like this ! We don't need to reinvent a bond, a share or a fund unit, we simply need to make them cheaper, make it open to investors anywhere in the world and more efficient through the use of technology. We need to concentrate on how to incorporate that technology in a manner that is useful. And we need to be clear to citizens and investors: they will not be equally protected (even after MiCA becomes applicable) if they invest in a cryptocurrency than if they invest in a financial instrument.

I conclude now. We have very exciting times ahead of us and lots of topics to discuss this week. Let's make sure that we improve the regulatory framework in a manner that serves the public interest.

I thank you very much for your attention and I hope you have an excellent conference.