Current challenges in the asset management sector

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Introduction

- I would like to express my sincere thanks to the Chair of Asset Management at Universidad Pontificia de Comillas for inviting the CNMV to deliver the opening remarks at this conference on the asset management sector. It is a pleasure to be able to speak before an audience of both industry players and university students. I think these events are a wonderful opportunity for university students to develop their understanding of asset management, enabling them to help drive greater financial literacy across society.

- Promoting financial literacy among the public is precisely one of the key challenges facing our country, which the CNMV is addressing as a top priority through the financial education plan, together with other institutions. But financial education is not solely the responsibility of supervisory bodies. It requires a systemic approach, encompassing everything from formal education to initiatives aimed at different groups and stages of life. Adopting a comprehensive approach is the only way to ensure the public becomes more aware of the importance of proper financial planning and better equipped to make informed financial decisions, making them less vulnerable to fraud.

- In my remarks today, I will review what I consider to be the most significant challenges currently facing the asset management industry as a whole, including open-ended CISs and venture capital firms. I will speak on these issues from a regulatory and supervisory perspective, referring to the main regulatory packages currently being implemented in the EU, and leave it to the experts to discuss investment strategies. But first, I would like to provide some context for today's event by giving an overview of the sector's key figures.

The asset management sector in Spain

- **Sector size**: According to the most recent available data, Spanish CISs and venture capital firms have total assets amounting to 561 billion euros (equivalent to approximately 33% of GDP), with over 19 million unitholder accounts. These figures underscore the economic and social importance of the sector. They also explain why CISs are attracting increasing attention from international bodies responsible for ensuring financial stability, including the IMF and ECB. CISs are a

crucial component of what is known as "non-bank financial intermediation", which is sometimes mistakenly referred to as "shadow banking". Due to a number of factors, including interconnections within the financial system, leverage and investor behaviour during periods of market stress or unexpected liquidity constraints on their positions, CIS performance can affect financial stability and ultimately the real economy.

This warrants monitoring from a macroprudential perspective, with the necessary measures being taken to maintain financial stability. In the case of CISs, this should primarily be done through the use of liquidity management tools. However, it should also be noted that such measures must be designed with the specific characteristics of CISs in mind. In short, I would argue that CISs are not banks, as it is investors who bear the risk, nor are they in the shadows, given that they are subject to supervision and reporting obligations.

- Savers vs. investors: One of the defining features of Spanish investors is arguably their aversion to risk. In fact, the amount of household wealth held in bank deposits in Spain is almost double that held in CIS investments, and the assets of Spanish CISs are concentrated in those with lower-risk investment policies. Equity CISs thus account for only 16% of the total number of CISs in Spain, compared to 47% worldwide. These figures confirm that Spanish households are more inclined to save than to invest and tend to concentrate their financial assets in those offering the most favourable risk-return trade-off. The downside is that this erodes their financial wealth through inflation and the opportunity cost of foregoing higher long-term returns if risks are involved.

  Our financial system is therefore faced with the challenge of gradually turning Spanish savers into genuine investors, so that some of the savings currently held in bank deposits can be channelled into financing the real economy. Today's programme includes a talk on "Long-term savings and investment", as well as a roundtable discussion interestingly titled "Live longer, invest better", where I imagine they will speak about the higher long-term returns that can be expected from riskier investments.

- Growth in alternative investment: Although venture capital (VC) figures in Spain remain modest in comparison to those of traditional CISs (with 51 billion in assets compared to 510 billion), the sector has grown at a remarkable pace of late, as seen in the fact that the number of vehicles has grown by 2.5 times in under five years, reaching over 1,600.

  At the same time, retail investors are becoming a growing presence in these vehicles, especially since the requirements for marketing venture capital vehicles to retail investors were relaxed in 2022. This is why the CNMV is placing special emphasis on supervising the marketing of these vehicles to retail investors, given that they are high-risk, completely illiquid investments with long-term horizons. In addition, VC is known for having lower levels of transparency, greater conflicts of interest in certain transactions and less reliable valuations of assets, meaning that interim valuations should be regarded as indicative only.

Challenges in the collective management sector

I have already covered two of the broader challenges facing our financial system: improving financial literacy and the goal of turning Spanish savers into investors. Now, let me briefly turn to five other challenges that I believe will shape the future of the asset management sector, looking at them from a regulatory and supervisory perspective.

1. **Expansion of the European capital market**: Europe has reached a point at which it must strengthen its autonomy across many strategic areas, which will require huge amounts of funding to finance necessary investments. Today's programme includes a roundtable discussion entitled "A necessary transformation: AI, Europe and the energy sector", where I imagine this issue will be explored in greater depth. For my part, I would like to focus on the Savings and Investments Union (SIU) initiative launched by the European Commission (EC), which aims to encourage EU citizens to channel their savings into financing productive investments through capital markets.

   One of the SIU measures that has attracted the most interest is the development of "savings and investment accounts", which are designed to attract retail savings and allocate them towards financing European businesses. In Spain, the Ministry of the Economy already put the regulation of an account of this kind out to public consultation several months ago. Its success will depend on the quality of its design, its tax treatment and its ability to meet investors' expectations. How the initiative is taxed will clearly be one of the most important factors, as the greater the tax incentives, the more attractive it will be to investors. To have a truly transformative impact then, the initiative must take a sufficiently ambitious approach to taxation.

   It is also important to emphasise the need for a simple, regulated product that is free of unnecessary financial restrictions and designed to minimise administrative and supervisory intervention where it does not add value to investor protection. In any case, if the initiative is successful, it could result in a significant increase in CIS assets. Given their professional management, liquidity and diversification, CISs are clearly the ideal vehicle for retail investors to access capital markets and more sophisticated, higher-risk financial instruments.

2. **Maintaining investor confidence**: One of the biggest challenges in any industry is meeting the needs of customers and maintaining their trust. And in the world of finance, the saying goes that trust takes years to build, but seconds to break. I bring up this point in light of the cases observed in the US semi-liquid private credit fund market, where "gates" have been activated, which are limits on the redemptions that can be made on a given date. It should be noted that these types of funds have a very small presence in our market, with an equally small number of retail investors. Regardless, these cases serve as a warning that particular care should be taken when structuring and distributing open-ended vehicles that invest in assets with low liquidity.

   It is also worth mentioning that Spanish asset managers and distributors have recently begun to show some interest in launching "evergreen" vehicles. These are

hedge funds (HFs) that invest in private markets — which are known for their illiquidity — while offering subscriptions and periodic redemptions, which is why we are supervising them particularly closely. At the CNMV, we believe that proper investor protection in these types of vehicles requires two fundamental conditions, for which asset managers and distributors bear ultimate responsibility:

- Firstly, asset managers must ensure that these products are designed appropriately. Redemption frequency is a particularly important feature, as it must align with the actual liquidity of the underlying investments and the ability to obtain reasonable market valuations, ensuring fair treatment of investors.

- Secondly, evergreen HFs should be marketed appropriately to ensure that investors understand the liquidity risks and restrictions of their investments and can give their informed consent. Likewise, distributors must ensure that the product is suitable for each client's financial situation and investment objectives, as is their legal duty. This is the only way to avoid situations where investors' expectations are not met if the asset manager has to introduce liquidity restrictions in the future, such as "gates", to avoid conflicts of interest between investors.

3. **Taking advantage of the opportunities offered by technology and managing its risks:** Considering that collective investment relies heavily on technology for all of its processes and control mechanisms, and given the times we are living in, marked by the rapid advance of AI, technology is clearly one of the key factors shaping the future of the sector. The challenge here is twofold: on the one hand, we must harness the economies of scale generated by technology (especially AI) to become more efficient; and on the other, we must mitigate the risks posed to cybersecurity and digital operational resilience.

   Beyond AI, the other tech development that could help the sector make major strides in efficiency is the tokenisation of CISs, which enables their units or shares to be represented using distributed ledger technology (DLT). This would streamline administrative processes to a major degree, enabling some to be completed instantly, while reducing operational risks.

4. **Simplification - reducing burdens**: One of the CNMV's strategic objectives for 2030 is to simplify and reduce regulatory and supervisory burdens that cannot be justified from an investor-protection perspective. This is also one of the lines of action of the EC's SIU initiative. A key test of Europe's commitment to simplification without compromising investor protection will be the regulations created by the EC and the European supervisory authority, ESMA, which they will need to develop in the short term following the recently approved Retail Investment Strategy (RIS) package.

   These Level 2 rules will provide further detail on key areas such as "value for money", which addresses undue costs to investors, and the "investor journey", which covers both the information that must be provided to investors and the procedures financial intermediaries must follow when onboarding clients. I encourage the sector to participate in the public consultation on this strategy that

will be held at European level. The shared challenge for the sector and for us as regulators will be to strike the right balance between investor protection and market development.

5. **Better regulation and supervision for a more integrated and efficient European market**: The EC is currently working on an initiative called the Market Integration and Supervision Package (MISP), which aims to create a more integrated and efficient European financial system. Among other measures, it proposes reorganising supervision at the European level and giving the European supervisor, ESMA, greater powers.

   In terms of collective management, the EC proposal is limited to giving ESMA certain duties to annually review the supervision carried out by national supervisors of large asset managers with cross-border activities. The aim is to strengthen supervisory convergence without granting ESMA direct supervisory powers over these large groups. The asset management sector has criticised this approach, arguing that it would impose an additional layer of oversight and associated costs. The proposal has also failed to receive support from the different Member States. One alternative that could generate broader support would be to create supervisory colleges for large European groups, in which ESMA would assume certain coordination functions without taking on direct supervisory responsibility.

   In my opinion, this would be a missed opportunity to make real progress towards a single market for asset management. It is important to remember that one of the characteristics of the European UCITS market is its high concentration in two jurisdictions, Luxembourg and Ireland. They account for 95% of the passports, or "exports", to other EU countries, while the remaining 25 countries are net importers. In Spain, UCITSs with passports make up 42% of the market.

   Given how the market is structured, it would be more efficient for ESMA to be granted direct supervisory powers over large UCITS managers operating in multiple Member States. Rather than adding extra layers of oversight, this would create a more efficient system by replacing the national supervisor with the European supervisor for these groups. On a conceptual level, it is worth noting that, unlike the two national supervisors concerned, ESMA would not be faced with any conflicts of interest between industry development and investor protection. In any case, this is purely a theoretical consideration, as the allocation of supervisory powers to ESMA in the area of asset management has not even been considered yet. However, it has been considered for the areas of market infrastructures and crypto-asset service providers, where, interestingly, it seems that ESMA will be the responsible supervisor when cross-border activity reaches a significant scale.

Closing

To conclude, I hope you find today's event interesting. I expect some of the points I have raised will be discussed again, alongside other challenges that will influence the future of the Spanish asset management sector. Personally, I believe the sector is

mature, consolidated and resilient. It has proven that it can face the challenges that lie ahead and adapt to a changing landscape. In my view, the key to achieving this lies in putting the investor first in every strategic decision, especially by designing simple products, adjusting to their needs, ensuring fair costs and avoiding conflicts of interest. These products must be distributed appropriately, with a balanced presentation of their risks.

If European and national initiatives also succeed in increasing the presence of retail investors in capital markets, CISs could stand to see a significant increase in their assets. This, in turn, would allow them to provide greater financing to the real economy. Let us hope that this virtuous circle of events becomes a reality. At the CNMV, we will do everything in our power to help make it happen.