"STRATEGY FOR THE DEVELOPMENT OF THE SECURITIES MARKETS"

BESTINVER-IESE'S FIFTH FORUM

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Thank you very much for inviting me, once again, to the presentation of the conclusions from the Bestinver-IESE survey on the saving and investment by Spaniards. The forum is a magnificent X-ray of retail investment in Spain. And following through with the medical simile, what can be seen year after year in this diagnosis is that the patient does not worsen but requires shock treatment.

The manner in which we invest our financial savings in Spain and Europe can manifestly be improved. The amount of deposits is unusually high, at around 35/40% in the EU, and the investment in equities surprisingly low. And, with this combination, the financing support and capacity received by Spanish and European companies will be insufficient.

European leaders, thinkers and think tanks overwhelmingly agree that either we boost capital markets and the investment by Europeans in such market or the European economy will regret not doing so for decades. We are literally risking our position as an economic power. Thus, there is agreement on what should be done, but there are certain differences of opinion on how to achieve this. In my view, there are several myths heard lately in the European capitals which should put into context, refuted or dismissed.

And, in turn, there are measures that need to be enacted urgently and which will require political, legislative and regulatory determination. I will tackle them in the following order, starting briefly with the myths:

1. "Unlike bank markets, capital markets are not integrated"
   Hearing this is commonplace, sometimes bewildered. The reality is quite the opposite. Irrespective of how we measure this (percentage of cross-border financing obtained by companies, percentage of foreign products bought by national clients, number of cross-border mergers, etc.) the

conclusion is clear. Securities markets are far more connected than banking ones.

2. "What Europe lacks to be like the US is a single supervisor"
   This myth is closely linked to the previous one. Paradoxically, the fragmentation of the bank financing market coexists with a single supervisor (SSM) for more than a decade. This fragmentation has not only not diminished but has increased since then. And despite this, there are people who affirm that centralised supervision creates cross-border markets... I don't think the current situation would change much if ESMA became the supervisor of the European listed companies, markets or fund managers. There are areas where central supervision can undoubtedly bring benefits. But we should not in the slightest trust that a single supervisor would be the incentive for the market to develop exponentially.

3. "Financial over-regulation is what hinders the development of the market"
   Undeniable this myth is in great health. This defends that it is the mounting regulations on issuers, managers, intermediaries and participants in the market which keep Europe behind the US regarding the development of securities markets and for this to be less deep. Undoubtedly, there may be areas in which the regulatory requirements should be revised, but nothing indicates that the demands on issuers of the European regulation are greater than the American ones (there is even certain evidence to the contrary). Neither is there any indication that the CNMV, for example, is stricter than the SEC regarding a flotation on the stock exchange or the supervision of financial statements. But still, the myth remains. And the way to end this probably has to do with the following myth.

4. "Europe as a whole suffers the same problems"
   The answer to this should be yes and no. It is true that the problems for the development of the Spanish securities market are shared with many Member States of the European Union. But the answer would be not at all to the idea that no European country has a vibrant securities market. Sweden has it and it is subject to the same regulation as Spain. The flotations on the stock exchange, the prospectuses, the review of financial statements, the rules on market abuse and the management marketing policy are exactly the same in Spain as in the rest of EU countries. In spite of this, its market has development much more in relative terms. That is to say, with the right measures a vibrant market is possible.

5. “Market fragmentation hinders liquidity”
   Once again it depends. The European market is not fragmented more than the American market, when focussing on the competition between equities trading venues. It is [more fragmented] when focussing on the first admission to trading venues of such equities. In Europe there are dozens of national securities markets, while there are basically three in the US. But once the securities are admitted to trading in a national stock exchange, competition is as intense when trading these shares in the EU as it is in the US. And this has benefited investors, in the form of lower trading costs. In other words, there should be a distinction between the primary and secondary market when speaking about fragmentation. Otherwise, there will soon be diagnostic errors.

6. “The savings of Europeans are diverted to the US and should be withheld in Europe”
   Here we enter the field of financial protectionism. The best way of protecting investors from the point of view of a financial supervisor is by allowing them to invest wherever they want, via intermediaries or regulated products, without hindering their freedom of choice regarding their portfolios. There is a debate in the EU and in some countries like France on whether there should be incentives (e.g., through tax measures) for the savings of European investors to stay in Europe, only benefiting from incentives if they invest in European companies. I believe this is a very delicate debate, running the risk of artificially distorting the assignation of assets in a way that is potentially detrimental to investors. Taking into account that the largest institutional investors in European companies are American funds, we would have even more to lose if the US administration did likewise.

7. “Securitisation is the most preferable solution”
   This seventh and last myth is certainly surprising. It states that credit securitisation, through which banks sell to the market portfolios of loans granted to companies or citizens to obtain new financial resources, would be an important element to encourage Europeans to invest more in financial instruments and companies to raise more funds by means of shares or bonds. In my opinion, there is no reason for this mechanism to work in the intended direction. Improving the securitisation framework is positive, but I don’t think it will have any positive impact on the liquidity or the depth of the equity markets, those whose stimulation is intended, for which reason I don’t think this measure should be a priority.

These are what I call myths or mantras that continue being repeated in the past few years and months and which are nothing more than scarcely sophisticated ways of

tackling the problem. So then, what do we do? It is clear to all of us that acting to boost European markets is imperative if we don't want the European economy to lag behind.

In my opinion, there are five essential lines of action:

1. The promotion of a national and European strategy to boost retail investment
   If we could only do one thing, this should be it. It is imperative to outline a plan to encourage Europeans and Spaniards to invest a larger part of their savings in financial instruments. Savings are what they are and depend on macro elements, but their natural destination should be investment funds, pension funds, bonds and shares. If we fail to promote this cultural and structural change, no other measure will work, making this a truly necessary condition like no other. This is what really differentiates the US market from the European market. And the way to promote such important changes has already been invented and requires a series of very clear elements that are maintained over time, as they don't work in the short term:
   A. Stable tax incentives to personal investments in financial instruments. A group of countries is considering the creation of personal financial savings accounts with tax incentives, which have given such good results in countries like Sweden. But this requires stability over time. It cannot change every 4 years.
   B. A favourable framework for investment in funds and pension schemes, that inset in long-term assets, which are what we least have.
   C. The promotion of financial education to youngsters and adults, dedicating far more resources to those we have up until now.

2. Remaining open to international capital and as an ambitious EU
   When so much is said about strategic autonomy or of holding back the savings of Europeans so they invest in the continent, I'm aware that arguing in favour of opening up capital markets could mean swimming against the tide and even seem like a symptom of geopolitical naivete. However, I'm convinced that keeping capital markets open internationally is absolutely essential for their development and the success of the European economy. And this opening up is in both directions: the freedom of non-European investors to invest or disinvest in Europe and the freedom of European savers to invest or disinvest their savings outside Europe. If we trust the EU as a financial centre and the point of origin of leading companies, we cannot attempt to stem the tide by limiting or steering the investment policies of Europeans (either retail or institutional).

3. Progress regarding a single regulation and improvement in coordinated supervision

   It is imperative for us to complete the regulatory corpus of the EU by transforming the directives into regulations. Having a single rulebook and applying it in a consistent and harmonised manner. For this, ESMA must take a qualitative step forward becoming a strong coordination mechanism for national supervision; it must have more robust powers to introduce discipline and convergence, while it must change its medium-term governance, seeking greater independence regarding national interests. Likewise, co-legislators and the Commission must have greater faith in ESMA and provide it with more capabilities, in order to be swifter in the EU when adjusting regulations to such dizzyingly fast changes the markets frequently present. Regarding central supervision however, I believe we should exclusively make progress in areas in which it is more efficient and reasonable to supervise in a centralised manner: large entities or infrastructures of a purely cross-border nature and a system size at EU scale.

4. Not blocking consolidation

   Paraphrasing Celia Cruz, there's no "bed" in Europe for so many markets: 32 CSDs, 15 CCPs and over 200 trading venues. Sooner or later there will be a consolidation of markets, clearing houses and depositories, most of all when the investment in technology that will be necessary is not within everyone's financial reach. And we must be ready for this. The consolidation must not be promoted via the regulation, it should not be forced. Neither must it be hindered, as with a truly harmonised regulation and with the right conditions, this can improve the quality and price of the services received by investors, it can increase market liquidity and attract more companies to the market, this being the final objective. And there is no reason for this to affect actual competition.

5. Being sensitive to the market ecosystem

   By market ecosystem I'm referring to the set of structural, business and regulatory elements that affect the cost of trading in financial markets and to the availability of funds and instruments in these. As in biological ecosystems, introducing disturbances could destabilise these systems, with their consequences only being noticed in the medium and long term. What do I mean by being sensitive to the ecosystem? Well, I'm referring to elements such as looking after and analysing very carefully any rule imposed on listed companies or on collective investment vehicles which may reduce their competitiveness or the appeal of such vehicles. Using listed companies as an experimental population, introducing rules tackling much wider social or economic problems,

should be avoided. If issues as important as gender diversity or GHG emissions are applicable to all organisations, whether they are listed or not, why impose rules or the most onerous rules on listed companies and not also on non-listed companies of a similar size? In the same manner, if it is clear that European companies lack equity to grow, we should end the tax asymmetry between interest and profits.

It is important to favour the presence of experienced and competitive service providers that back companies approaching markets or the investors that trust them. Figures such as law firms, consultants, financial advisors, auditors, accountants, valuators, analysts, etc. are relevant and it's not the same if these services are provided from New York, London, Madrid or Barcelona. Proximity is an asset and this "auxiliary industry" (using the terms of the automotive sector) is as important as the "main industry".

I will end by saying that there will be important proposals at both European and Spanish level. Tomorrow ESMA will publish its view in this sense, including 20 specific proposals. The OECD's mission, promoted by the CNMV, will do so for Spain in December. I believe that, if we are capable of acting in this sense and of not falling for the siren calls of the aforementioned seven myths, we literally have a unique opportunity to act in order to avoid a decline of the European economy, partly caused by the deficiencies of its financial system. Now is the time, we have the political attention at European level, the solutions are known, and the regulatory tools are available. We cannot afford to fail.

Thank you for your attention.