# Bloomberg Capital Markets Forum Madrid

**SEBASTIÁN ALBELLA, PRESIDENTE DE LA CNMV**
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Good morning.

It is a pleasure to be here today at this event organised by Bloomberg, who I would like to thank for inviting me, to talk about European capital markets.

When I was thinking about topics that I could address today I thought of three issues that I consider relevant:

- Recent developments in the financial markets
- Some aspects of Brexit
- The reform of the European Supervisory Authorities, which is currently ongoing

## I

Regarding the recent developments, the capital markets performed erratically in 2018, especially in the final part of the year, in a way that disappointed almost all investors.

In the equity markets, despite a significant level of economic growth, well-documented uncertainties (trade restrictions, tensions in some emerging economies and European problems such as Brexit and doubts surrounding the degree of commitment of some countries to fiscal discipline) led to the resurgence of volatility and, especially at the end of the year, to falls in prices.

Although Spain's economic growth was greater than the European Union average, it was no exception and over the year as a whole the IBEX 35, our main stock exchange index, lost 15% of its value. These heavy losses were, however, compatible with satisfactory levels of liquidity, which is very relevant because it allowed investors to smoothly undo their positions when they considered it appropriate.

Trading in Spanish equities is estimated to have reached almost a trillion euros, which is a significant amount.

It is interesting to note that much of this trading (approximately 40%) took place in non-Spanish trading venues.

This reality, similar to that of the other main European countries, derives from MiFID I and has received added impetus with the implementation of MiFID II. These European standards have fostered the emergence of alternative platforms and, in short, have boosted competition, with the benefits that this always brings, in this case in terms of the overall efficiency of the system and costs for investors.

However, we must also bear in mind that the fragmentation of trading can also have negative effects on the depth and liquidity of markets, especially in a context in which alternative platforms are not part of the same trading book, as is the case in the US, and in which transactions are mostly referenced to the original market price.

In any case, beyond the debate about the pros and cons of this scheme, what is certain is that it forces original markets to be as competitive as possible in order to maintain their critical mass.

In Spain, the loss of share is now in line with that of countries such as France and Germany, but it has occurred later. During 2018, Spain was the only one of the important countries in Europe to suffer a decline in terms of share. It is no coincidence that it was precisely last year when the manager of our market infrastructures (Bolsas y Mercados Españoles, BME) carried out a very significant reduction in rates on the trading of the most highly capitalised equities.

As regards fixed income markets, in 2018 there was stability in interest rates with two important exceptions: in the US, where they increased in line with the monetary policy implemented by the Federal Reserve, and in Italy, where the increases were due to uncertainty regarding fiscal policy.

In Spain, rates were also stable or downward, except for a few isolated episodes of slight contagion with Italy. In 2018 the total amount issued by our companies was similar to that recorded in 2017, with one particular characteristic: for the first time the amount issued abroad was higher than that issued in Spain.

This is a relevant area that reminds us of the need to increase our competitiveness and in which the CNMV has adopted measures such as committing to approve prospectuses of issues aimed at professional investors within three days. In fact, over the course of 2018, the CNMV met this term in 97% of the transactions of this type, which were more than 200. In line with this, the regulated fixed income market that we have in Spain, AIAF, has lowered the rates applicable to these types of transactions as of 1 January 2019.

We hope that measures such as these may lead to positive results. In fact, several relevant issuers have recently brought issues to Spain, registering them with the CNMV and listing them in Spanish secondary markets.

## II

The second point I wanted to mention is Brexit, one of the main challenges we face, an unfortunate event which, from the point of view of the financial markets, could have a very significant impact given the huge interrelation of the continental markets with that of the UK.

Of course, from a purely supervisory perspective and in the interest of the optimal functioning of the market, and ultimately the financing of the economy, it is desirable that the future relationship be as similar as possible to the current one. I say this with the utmost respect for those on the EU side who have been assigned the task of conducting negotiations with the UK, and in the knowledge that the financial sector is only one element or part of the broad set of problems to be solved.

To illustrate what our role has been in this field, mainly as a member of ESMA (the European Securities Markets Authority), I am going to talk about three aspects.

First, we have supported the temporary declaration of equivalence of certain British post-trading infrastructures which are critical for the operation of financial intermediaries on both sides of the English Channel and for the system itself, such as the central counterparty clearing houses (CCPs) established in the UK.

A second aspect to which we have paid attention, considering the possibility of a no-deal Brexit, is what is known as the "trading obligation", a rule included in MIFIR, which requires European intermediaries to carry out or direct their transactions on shares admitted in the EU to EU trading venues or which have been granted equivalent status.

The regulation alludes to the possibility of not applying this rule in cases of infrequent or irregular trading in European trading venues and we are in favour of a flexible interpretation. The effect of the rule should not be to prevent investors to access liquid markets or make it difficult in practice to achieve best execution.

Finally, another area in which we have collaborated, also within ESMA, has been to ensure that the logic, and to a certain extent, healthy competition between the different Member States when it comes to attracting businesses and companies that as a consequence of Brexit intend to relocate all or part of their activity in an EU country, does not lead to a race to the bottom that ends up lowering the standards of regulatory and supervisory quality in the EU.

ESMA's work in this field has been important and has been carried out through opinions detailing the minimum requirements to be met when authorising the entities formed as a result of these relocations. I am referring to elements such as the minimum number of specialist staff to be assigned to these entities to avoid delegation of functions to entities remaining in the UK converting them into empty shells.

In addition, ESMA has set up a network in which all the supervisors are present and which jointly monitors the requests for authorisation that we have received in connection with Brexit.

Likewise, we have also worked within ESMA to ensure that there continues to be a high level of cooperation between the British and EU supervisors. The fruit of this work has been the signing of MOUs between each and every one of the NCAs and the British FCA.

## III

Finally, regarding the ongoing reform of the European financial supervisory authorities (the ESAs: EBA, ESMA and EIOPA), proposed by the European Commission in September 2017 and currently at the stage of 'trilogue' negotiations between the European Council, the European Commission and the European Parliament.

The three European Supervisory Authorities will be affected by the reform. However, for obvious reasons, my remarks refer only to ESMA.

As a starting point, let me simplify a bit by saying that there have been two attitudes or approaches to the reform that I would describe as "extreme" (although obviously both are very civilised and legitimate):

- The first one (the initial European Commission's approach), in line with the Report prepared by the Five Presidents in June 2015, is inspired by the idea of creating a single securities supervisor in the EU, a kind of European SEC that centralizes all relevant supervision of capital markets.
- The second approach tends to see ESMA only as a "members-driven organization", that is, as a kind of club or mere association of commissions or securities supervisors.

My personal position, the way we see this from the CNMV, has been at an intermediate point between these two approaches.

We fully share the desire to strengthen ESMA. We believe that this is necessary in the context of the Capital Market Union project and the European Commission's Action Plan, especially in the context of Brexit, but in our view ESMA should continue to be essentially a body that coordinates the National Competent Authorities and promotes supervisory convergence.

In any case, this type of debate always brings to my mind the tension between the different realities existing in Europe. On the one hand, large countries, which obviously include Spain, and some medium-size countries; and on the other hand, many countries much less relevant in terms of population, GDP and the size of their markets.

The supervisory authorities of the larger countries feel that we are, not only at an appropriate distance to supervise – quality supervision requires a minimum distance – but also equipped to supervise adequately anything that is put before us. In addition, we are supervisors with larger or smaller markets, but with markets with mass and substance, and we always act to protect our own investors.

The European Commission stressed in its proposal the importance of an integrated supervisory system as a factor to achieving a true European Capital Markets Union. I agree completely. But integrated supervision does not necessarily mean more centralised supervision.

I am convinced that the direction and the objectives of the reform are compatible with respecting what I like to call the supervisory factor at the national level.

The Member States must continue to have robust supervisory bodies, with relevant powers, which will help to ensure that we continue having in Europe a plurality of markets and financial centres with a critical mass.

In addition to being positive for centres like Madrid, this would enable us to achieve a European capital market with greater penetration that really helps to improve the financing of our companies, not just the large ones, and reduce their level of dependence on bank financing, which is one of the main objectives of the Capital Markets Union.

Thank you very much.