Participation in the 11th Financial Sector Conference

SEBASTIÁN ALBELLA, THE CNMV CHAIRMAN
20 October 2020

Good morning, everyone.
It is a pleasure for me to be here today, at this eleventh edition of the Financial Sector Conference organised by Expansión and KPMG, and of course, I would like to thank the organisers for their invitation.

This second day of the conference is going to focus on asset management, which is one of the main areas of the CNMV's supervisory activity.

In my speech, I am going to give you some data on the evolution of the sector (more detailed information will be available in our next bulletin for the first half of the year, which will be published in the next few days). I am also going to refer to some supervisory actions that we have carried out in the past few months, as well as to some issues related to regulations.

Firstly, with regard to **market trends**, total assets of Spanish investment funds (which are approximately 1,500) fell by 5.6% during the first half of 2020 to 263 billion euros; the reason for this decline was twofold.

On the one hand, from January to June, there was a **net investment outflow,** that is to say, net redemptions totalled approximately 2 billion euros, although the time distribution of the net outflow was not homogeneous. In January and February there was a net inflow of 3.5 billion euros, whereas in March, during the turbulence caused by the pandemic, net redemptions totalled 5.5 billion euros. The stress scenario improved from April onwards. In fact, in the second quarter of the year the subscriptions/redemptions position was balanced. In any case, the redemptions that I have mentioned represented a very low percentage of the total assets of investment funds in Spain (under 2%), although it is true that there were significant redemptions in some funds.

Another reason why the total assets of funds declined in 2020 was the **negative returns** of portfolios, which on average exceeded 4% up to 30 June (As a consequence of -9.3% in the first quarter and +5.6% in the second).

Analysing the performance of the **different categories of funds** shows that there were net redemptions, for example, in fixed-income and euro equity funds, whereas during the first half of the year, there were net subscriptions in other funds such as international equity funds.

With regard to returns, these were negative in the first half of the year in practically all categories. There was also a clear difference here between the first and the second quarters: returns were negative in all categories during the first quarter and were positive in all categories during the second quarter. The categories with the poorest performance during the first half of the year were euro equity (-20%) and international equity (-10%), due to obvious reasons related to the evolution of the markets.

I am now going to give you some data related to open-ended collective investment schemes (SICAVs) Currently, there are 2,562 SICAVs registered (as at 30 June). In 2016, there were 3,300. So far this year, there have been 52 de-registrations and one registration in the register. The total assets of these schemes currently amounts to just over 26 billion euros.

Although it has nothing to do with the area of collective investment, I would like to say that one of the trends observed during the period was an increase in **direct acquisitions of shares** by retail investors. During the first half of the year, trading in shares by retail clients increased by 117% compared with the half-yearly average of 2019, an increase that could be linked to changes in behaviour patterns deriving from the pandemic and the measures adopted to combat it. (It should be noted that this percentage of 117% is calculated on the basis of the periodic reporting by the most relevant Spanish entities to the CNMV. It does not take into account, for example, the activity of non-Spanish entities operating in Spain under the freedom to provide services regime, which normally offer online services.)

Also worthy of note are some data on the performance of **foreign funds**, which are all European funds marketed in Spain.

In 2020, there has been a slight reduction in the total assets of these funds for the first time since records began. It should be borne in mind that between 2008 and 2019 the total assets of these funds increased tenfold, from 18 billion euros to almost 180 billion euros.

Again in this case, a reduction of 6.2% was observed in the first quarter, and an increase of 2.4% in the second quarter, amounting the total assets as at 30 June to 172 billion euros (which represents approximately one third of the total funds marketed in Spain).

Reference should also be made to CISMCs that operate in Spain. In June 2020, there were 124 CISMCs registered, 23 more than in 2016, although this year the number of management companies has stabilised.

Another relevant fact that affects the activity of CISMCs is the decrease in the percentage representing rebates on their management fee income, which currently stands at approximately 50%. In 2017, this percentage was 60% and in 2015, 64%. Undoubtedly, this decrease has been due to the implementation of MiFID II, on which I am going to briefly comment at the end of my speech.

I also have to refer to what is known as **alternative management**, which includes the so-called hedge funds and venture capital.

Hedge fund collective investment schemes, hedge funds and funds of hedge funds still represent a small share of approximately 1% of the total assets of CISs registered with the CNMV, i.e. 3.2 billion euros. This is despite the fact that their tax regime is the same as that of ordinary CISs and that their regime in terms of investments is very flexible.

With regard to **venture capital**, over the course of 2019, the total assets of venture capital firms registered with the CNMV, venture capital funds and venture capital companies increased by 24.2%, exceeding 13 billion euros. The total assets figure for this year is not available yet, but it appears that in the first eight months of the year dynamism in the sector has continued: 63 more firms have registered with the CNMV (55 investment vehicles and 8 management companies). Currently, there are 226 venture capital funds, 173 venture capital companies and 109 closed-ended CISMCs.

Changes have continued with regard to closed-ended investment schemes not classified as venture capital: 11 more in the first eight months of 2020, hence, as at 31 August, a total of 57 vehicles had been registered in this category, which has maximum flexibility in terms of investment policies.

In any case, the increase in recent years with regard to entities registered with the CNMV in the area of venture capital, which should be considered as a very positive phenomenon for our economy, is in line with the boom in the sector at international level.

The increasing number of large management companies and private equity and venture capital funds operating at international level, and their interest in Spain has been witnessed in the last decade and remains very relevant.

Evidence of this boom is the increasing size of companies in which these international funds invest, to a minor or major extent, including relevant listed companies, a phenomenon which, in view of the current scenario of sharp declines in the capitalisation value of numerous companies, may intensify. (Incidentally, in my opinion, our system includes certain elements, specifically the way in which the exemption to the rule on delisting takeover bids is regulated in the event of a prior takeover bid, which could be excessively favouring transactions with these types of funds that are executed via takeover bids, what is known as "public to private").

Finally, I would like to highlight that in line with what I have already stated, that the **fund management sector has proven to be a very robust sector** (or resilient, as has become custom to say lately) under the difficult circumstances caused by the pandemic.

Nonetheless, the crisis has revived international debate on the regulation of the sector, whose activity is within the framework, and is one of the most relevant parts, of what used to be known as "shadow banking" or currently in a more neutral manner, Non-Bank Financial Intermediation (NBFI).
In any case, despite the non-common use of the term "shadow banking", the reality is that NBFI, and specifically, collective investment, is very different from banking activity.

The banking activity, in its simplest form, consists of attracting deposits and granting loans by dissociating depositors from the risk associated with the loans, which makes it reasonable that regulation and supervision should be based on a model focused on controlling the solvency of institutions. The world of investment funds is different.

Those who invest in them in search of a return are aware, or at least should be aware, that they are acquiring a stake in a pool of financial assets subject to price fluctuations and, consequently, that the value of their investment upon redemption may be different. And they know, or should know, that redemptions may require sales of the assets, which are not on the balance sheet of management companies but are owned by the fund, i.e. the investors themselves. The risks, in this case, are associated with the overall market trends, and therefore, the supervision model must be based on the control of the activity rather than on the solvency of the management companies' assets.

Collective investment is a very different activity from banking and the regulatory and supervisory approach to it should be different, which does not mean that it is not likewise heavily regulated and supervised. Its supervision, which is mainly aimed at investor protection, and essentially of the micro-prudential kind, also contributes to financial stability by addressing issues such as investment diversification, liquidity requirements and management, as well as limits on leverage.

It is also a segment subject to rules and requirements that are harmonised at the European level and that derive from the principles of international bodies such as IOSCO (the International Organization of Securities Commissions), which include a wide range of tools available to management companies and supervisors to deal with different situations that may arise. In fact, conventional investment funds - UCITS and equivalents -, whose weight in the system has been very relevant for decades, have never posed any significant problem from the point of view of financial stability, not even at the most critical times of the last financial crisis, or as we have seen in the current crisis. As far as alternative investment is concerned, the additional regulations implemented in recent years have undoubtedly generated transparency and more control.

We must never cease perfecting the rules and tools mentioned, but always taking into account the characteristics of the activity itself. Above all, it is important to persevere in our efforts to inform and educate so that all investors understand that an investment fund has little connection with a deposit and that, depending on the type of fund, daily or very short-term liquidity may be limited in certain scenarios to ensure equal treatment of unit-holders. I have to admit, incidentally, that the debate has had the positive effect of making securities supervisors even more aware of the importance of investor information and financial education.

I would now like to briefly mention what we, the supervisors, have done in these past difficult months in respect of the sector.
At international level, the problems (that arose basically in the form of suspension of redemptions) during this crisis were focused on two types of investment funds: monetary and real estate. Due to various circumstances, we practically do not have these types of funds in Spain.

In any event, there has been a high degree of cooperation through institutions such as the International Organization of Securities Commissions (IOSCO) and the

European authority, ESMA, which have been actively facilitating the exchange of information and experiences and ensuring the existence of a minimum alignment in the measures adopted by regulators and supervisors.

In Spain, the key tasks of the CNMV during these months were related to monitoring the liquidity conditions of fund portfolio assets and the evolution of redemptions at the various entities, by liaising with management companies in order to monitor the situation and remind them of their obligations and the liquidity management tools that they had available. In this regard, the CNMV gave indications on the advisability, in certain cases, of valuating at bid price or of using swing pricing mechanisms.

Regarding macroprudential tools, worthy of note is the inclusion, in Spanish Royal Decree-Law 11/2020, of the possibility of establishing, upon authorisation or by decision of the CNMV, periods of advance notice for redemptions without being subject to requirements in respect of deadlines, minimum amounts or prior inclusion in generally applicable management regulations. Fortunately, use of this tool has not been necessary.

Finally, I would like to briefly refer to **inducements**, an issue of regulation which is still active, and at present, still relevant.

There is excessive dispersion in the regime applicable on this matter, among both European countries and sectors. Furthermore, the MiFID regime on inducements is too complex, not only for entities that operate in the sector, but also for supervisors.

In the European Union, there have been different implementations of the MiFID II directive. From total bans, which is the case of the United Kingdom and the Netherlands, to the introduction of cases of increasing the quality of the service (which is what makes it possible to continue with a rebates model) in addition to those mentioned in the directive, which are extremely diverse. In Spain, we are at a mid-point as we have closed the list of cases for increasing the quality of the service to be eligible to receive inducements. These are limited to the three expressly stated in the European directive.

We at the CNMV are in favour of greater harmonisation and simplification of the European regime in this field. Maximum simplification would be achieved with a general ban at European level, but it is very unlikely in the short/medium term, among other things, due to the impact that it could have on the industry. Of course, I have not detected any appetite for a ban at present in a clear majority of countries.

However, what we do consider to be feasible is greater harmonisation at European level in respect of the cases for increasing the quality of the service. We cannot have local markets that are totally different when we are committed to building a more integrated European capital market.

We also consider that it would be advisable to avoid bureaucratic approaches in terms of documentation and registration of rebates and their application.

And naturally, it is crucial to ensure that transparency requirements on the matter are applied in general. I am referring to specific products from other segments of the financial sector competing with strictly investment products.

Inducements have been one of the issues that have required extensive implementation work, an effort which I would like to acknowledge.

The Spanish asset management industry stands at a very good level and it will surely navigate successfully in the coming years, which will be marked by more rapid progress towards a genuine Capital Markets Union.

Thank you very much for your attention.