Closure of the 26th Financial Sector Conference

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Good morning everyone.

I would like to begin by thanking the organisers, Diario ABC, Deloitte and Sociedad de Tasación, for inviting me, once again, to participate in this Annual Financial Sector Conference, the twenty-sixth edition, which has become a leading event for the entire Spanish financial sector. And, of course, I would also like to thank Yolanda Gómez for her kind and affectionate words.

I thought that it would of interest if today I referred to three fairly specific topics, taking advantage of the CNMV's recent reflection and information.

- Firstly, I would like to briefly comment on the structure of our market, from the standpoint of firms or professionals that participate in it, with regard to the scope of investment services.
- Secondly, I will give you some information on the marketing of structured products in our country.
- And, finally, I am going to refer to some aspects of interest related to the placement by banks of their own financial products among retail investors.

1. STRUCTURE OF THE INVESTMENT SERVICE PROVISION SECTOR

As you may know, the CNMV essentially supervises two aspects of banks: i.e. (i) as listed firms and issuers of securities; and (ii) as providers of investment services (that is, intermediation, advisory, management, administration and custodial services in relation to securities and other financial instruments).

- In this regard, the banks play a leading role in the market (in 2018, they earned more than 80% of the investment services fees in Spain, that is, approximately 4.5 billion euros out of a total of 5.5 billion euros). I would like to clarify that these figures only include investment services fees plus management fees net of rebates earned by banks (including non-bank subsidiaries, Investment Firms (IFs) and Collective Investment Schemes Management Companies (CISMCs).

  Undoubtedly, it is an important part of banks' business: approximately 30% of the fees earned by banks in 2018 came from these services (and more than half of these were related to the management and marketing of CISs).

- In any event, these data are based on a formal or regulatory concept of bank or banking group. I think that it would be useful when describing our investment services market and its participants to distinguish between two major types of investment services providers in Spain, instead of between banks and IFs:

  - What we could call commercial banks, whose income is mainly obtained from the provision of traditional banking services (deposits, loans, etc.).

  - What we could call independent firms specialised in the provision of investment services (not commercial banks or subsidiaries of commercial banks), a category which would include:

    - IFs, which today, in general, are independent from "commercial" banking groups (currently, there are only seven small broker-dealer subsidiaries of commercial banks; this is the result of a process, carried out over the past ten years, in which 20 banking institutions have absorbed their IF subsidiaries; in 2018, two broker-dealers were absorbed by two major banks: Santander and Bankinter).
    - CISMCs non-subsidiaries of commercial banks, earned fees in 2018, including CIS management fees and fees from other investment services, which amounted to approximately 1 billion euros.
    - Specialised banks, which earn most of their income, more than two-thirds, from the provision of investment services (I am referring to firms such as Renta 4, Allfunds, Cecabank, Self Trade, Andbank or Banco Inversis), which in 2018 earned fees net of rebates from the provision of investment services in Spain (including the marketing of CISs) for a total amount of almost 400 million euros, approximately 10% of the banks' fees for these items.

  Taking into account the different figures that I have mentioned, 70% of the investment services (including the management of CISs) are provided in Spain (taking the fees earned as a basis) by commercial banking groups and 30% by independent, specialised firms.

- In any case, at the CNMV we think that it is good to have an independent sector specialised in the area of investment services that is as strong as possible. The higher the importance of the independent firms, the greater the innovation, dynamism and competition in the sector.

  And this, apart from the associated benefits in terms of lower costs and better services for investors, is also interesting from two perspectives:

  - the desirable greater balance between purely bank financing and corporate finance through the markets, an unresolved issue in our financial system.
  - and from the standpoint of endeavouring to promote the investment culture of Spaniards, who apart from being characterised as having a low propensity to save, is more specific than in the European countries with which we like comparing ourselves in terms of investments in real estate and in low-risk products.

2. MARKETING OF STRUCTURED PRODUCTS

- A particular area of our market on which the CNMV has carried out a specific analysis is the placement of structured products, that is, financial products whose return is linked to the performance of an underlying instrument (indices, equities, derivatives, credit events, etc.). These include both structured bonds and deposits (although the data which I will give you later do not include 100% guaranteed structured deposits, which have been subject to the supervision of the CNMV since the recent transposition of MiFID II). I do not have to tell you that there are different types of structured products which have more or less risk (and return expectations).

- The marketing of these types of products in recent years has been based on the "search for yield"' phenomenon in an environment of very low interest rates.

  In any case, the investment volumes of our investors in these products have been relatively small, between 7 and 8 billion euros in 2015, 2016 and 2017, and only 4.5 billion euros in 2018 (a decrease that could be due to the negative performance of the underlying instruments in 2018, which are usually stock prices),

  Of the total amount of securities and financial instruments purchased by retail investors in 2018 (including equity securities, fixed income securities, investment funds and undertakings) approximately 220 billion euros, structured products (bonds and deposits) only represented 2%, and 75% of these placements were made by six entities.

- A similar product that also experienced something of a boom in 2018 for the same reasons as structured products (the negative trend in stock markets) were guaranteed funds. This product was very popular among retail investors a few years ago but its popularity declined in the face of the risk appetite awakened by the continuing low-return environment, a decline which was particularly noticeable in 2017.

  In 2016 net inflows in guaranteed funds amounted to 5.435 billion euros. However, in 2017 there were net outflows of 1.5 billion euros and in 2018 net subscriptions in these types of funds only amounted to 411 million euros (in these first months of 2019, there seems to be no change in the trend).

3. INSTRUMENTS ISSUED BY BANKS FOR THEIR PLACEMENT TO RETAIL CLIENTS

- Finally, I would like to refer to an extremely important matter: the marketing of securities issued by banks to their retail investment clients, specifically subordinated securities.

- In fact, the European Parliament has recently approved the so-called second Directive on resolution or BRRD2, whose publication is scheduled for mid-June.

  This European regulation introduces important developments such as

  - the obligation of having a higher degree of subordination to consider certain instruments as equity;
  - new powers for national resolution authorities such as the possibility of imposing a moratorium on banks' obligations to avoid excessive liquidity outflows or restrict the distribution of resources to shareholders and employees in the event of breaching MREL.

  However, the changes to the Directive in this respect include forecasts on the marketing of bonds and other securities issued by banks to retail investors. Specifically, restrictions on the sale of subordinated liabilities that are intended to absorb losses, if necessary ("bailinables").

  Thus, Member States are allowed to request, to market these types of products to non-professional investors, the assessment of suitability in accordance with MiFID II (that is, marketing them with investment advice). And if the assessment concludes that the product is suitable for the client and the value of its portfolio is less than 500,000 euros, the assessment must indicate that these types of products cannot represent more than 10% of the portfolio, and that the minimum investment amount must be 10,000 euros.

  However, replacing these restrictions by imposing a minimum investment amount of 50,000 euros is acceptable.

- It should be recalled that the Spanish Securities Market Act contains a provision (Additional Provision four) with requirements for the marketing of banking instruments categorised as own capital: at least 50% of the issue must be placed among professionals (at least 50 professional investors) and there is a minimum investment amount per investor of 25,000 or 100,000 euros, depending on whether the banking institution is listed or not.

  This provision was included in 2009 (following the financial assistance given by Europe to the Spanish financial sector).

- When transposing the BRRD2, we will have to decide to what extent this national system is maintained, which, in some ways, has been a pioneer. As you know, at the CNMV we do advocate that our regulations follow, as a rule, the European guidelines.

  On the one hand, we share and are continuously verifying this as members of the European Authority, ESMA, an approach which undoubtedly has been maintained by our successive governments to support regulatory harmonisation and the convergence of supervisory practices in the financial sphere.

  On the other hand, we are convinced that local peculiarities, as a rule, hamper the efficiency and competitiveness of our financial system.

  Having said this, we believe that the traumatising experience lived in Spain has meant that we could be the European country with the greatest social awareness on these matters, and it is recommended to continue with the two special tools that we have available to protect retail investors and to control the marketing of these types of products: the obligation of placing a certain percentage of the issue among professional investors and the need to add warnings for products with a particular complexity laid down in CNMV Circular 1/2018.

- A specific matter that would have to be decided in the transposition is to what categories of liabilities would the special marketing requirements be applicable. The Directive uses the term "eligible subordinated liabilities" but allows Member States to include all bailinable financial instruments (elegible for internal recapitalisation), including ordinary and senior financial instruments and bonds.

- We share the concern of other regulators and supervisors about the placement among retailers of all types of bailinable instruments (particularly bearing in mind that they are usually marketed by the actual issuer of the securities - the so-called self-placement - with the relevant underlying conflict of interest), but we consider that senior instruments and plain vanilla bonds of banks (the so-called non-preferred senior debt is not included in this term) should not be subject to the restrictions of this category.

  The placement of these types of instruments, which is usually simple as the majority are instruments that are more liquid than term deposits, helps develop the market and investment culture. In this regard, we understand that a scope beyond transparency (including the relevant bailinability warning, since they are banking products) and strict supervision has not been provided.

- In any case, in the last few years, bank placements of subordinated instruments (including the non-preferred senior debt), which were so important in the past among retailers, have been reduced significantly. In 2018 and the first quarter of 2019, only 40 million euros of debt instruments categorised as own capital (among approximately 150 retail investors) and 53 million euros of non-preferred senior debt among 200 retail investors.

Thank you very much.