



Q&amp;A

## RODRIGO BUENAVENTURA

Chairman - Spanish Securities and Exchange Commission (CNMV)

### CMU is way too important to leave it just to financial regulation

Is the CMU initiative moving in the right direction? Should more emphasis be put on growing capital markets in the EU? Is the CMU initiative sufficiently connected to the key strategic objectives of the EU such as the green and digital transitions and the EU open strategic autonomy agenda?

Let me start by the last question: without stronger and deeper capital markets, the green and digital transitions and the strategic autonomy are at serious risk. All of those three projects require way more investment than Europe has ever executed. And EU companies are quite short of capital. Hence, CMU is an essential piece of this agenda.

The CMU initiative is moving, to my mind, in the right direction and has introduced some important ideas to harmonize European markets and national regulations and to make European markets more attractive to investors. But we need to do more on stimulating capital markets. We need to focus on their growth.

The EC indicators show a fragmentation of markets in terms of trading, but not so much in regulatory regimes (most is already in Regulations, with maximum harmonization supervision) and in supervision (the role of ESMA has brought EU national supervisors quite close together). I truly think that addressing fragmentation is not the priority if we want deeper markets, with more companies listed.

We need to act to stimulate listing, investment and to improve the infrastructures, so that growth becomes the priority. The Listing act and the retail investment strategy go in that direction, of course.

Can we do more? Yes: we could use taxation to drive this process, at national or EU level. We could improve financial education so that Europeans understand that they will need to complement their future pensions with their private long-term

savings and that, for that, we should better invest in capital markets. We could channel sovereign and public pension funds into equity markets. We could show to citizens the weaknesses of crypto assets compared to the long-term profitability of equity markets. Or we could convince entrepreneurs, through the right incentives, that public, long-term markets are a necessary complement to bank loans or private finance. But for that you need more than just financial regulation.

### What potential drivers of capital market growth may be more taken advantage of in the future steps of the CMU?

One of the elephants in the room is taxation. Including tax incentives can have the greatest impact on the growth of stock markets. In this respect, the DEBRA initiative, which tries to break the traditional tax asymmetry between borrowing and equity raising, is absolutely the right thing to do. DEBRA, is probably more important for the attraction of EU companies towards equity markets than any of the other "classical" CMU initiatives.

But taxation is also important for retail investors. Countries that have adopted a simplified taxation scheme for financial holdings (like Sweden) have obtained very promising results. This may be linked to competition and open finance too. When you have all your financial investments in one intermediary, it's easy and convenient: you get all the info in one app and you get a single report with all the information for your tax filing. Shopping around with other intermediaries is a nuisance, operationally. That's where open finance comes in, as a way to eliminate the nuisance and benefit from real competition. This has been downplayed in the public debate around the Retail Investment Strategy, but I think it is really important to make the investment experience easier if we want to attract more retail investors to markets.

The other elephant is institutional investment and especially pension funds. The US has something close to 30

trillion USD in private pension funds, which invest heavily in equity. That is in a completely different league in the EU. In Spain, for instance, pension funds account for less than 100 billion €, just one third of the AUM in UCITS. And UCITS (and their clients) have very conservative portfolios and very short investment horizons, which is a curse for the liquidity of the equity market. For instance, in Spain, only 15% of the assets managed by Spanish UCITS are invested in equity. That is nothing, in terms of long-term investment! This explains a lot about what should be changed. Without deeper institutional investment, the liquidity of markets will be severely curtailed.

### Does the proposed Retail Investment Package set out the key measures needed for increasing retail participation? What are the priorities? Are there any actions missing?

---

Increasing participation in capital markets will require a change in investment culture that can only be achieved when the retail investor is convinced that investing in capital markets is attractive, safe and cost-effective. In addition, it requires a modification of the current model which is based on the concept of written documents and does not make extensive use of the possibilities of digitalization to inform the investor interactively.

The retail investor must be able to make decisions based on the information they receive, and this information must be clear, simple, easy to understand and not misleading. These measures should contribute to increasing the quality of advice and the confidence of retail investors in the financial industry.

Therefore, RIS proposes a wide range of measures covering the entire retail investment journey: changes to disclosure rules and marketing communications and measures to address conflicts of interest, ensure better investment decision making, improve financial literacy, enhance the knowledge and competence of investment advisors, strengthen cross-border supervision and enforcement. The proposal also includes some more controversial issues, like rules on pricing processes to ensure that products that are offered to retail clients offer good value for money for retail investors. This means that ESMA and EIOPA will develop and make publicly available cost and performance benchmarks against which the manufacturers and distributors must compare their products prior to offering them. However, the definition and practical implementation of this measure is far from simple.

What I think is missing is a coordinated effort at EU level to improve financial literacy and fight fraud. The investors that have gone through a fraud episode are probably not going

to trust again markets for a long time and those that do not understand how important is to invest in equity if you are investing long term will simply not count in the equation we are trying to solve. This is of course a long-term effort, so the earlier we start, the better.

### Can significant improvements be expected from the MiFIR review proposals in terms of liquidity, depth and competitiveness of EU securities markets? Are further actions needed to enhance the competitiveness of EU securities markets?

---

The reform aims to streamline the market, reduce regulatory complexity and eliminate distortions, which I think is to be welcome, as an approach.

As for liquidity, and in particular its relation to transparency requirements for non-equity, I have been witnessing this never-ending debate since MiFID I days. And, to say the truth, the apocalyptic forecasts by those that were opposed to increase transparency have not materialized. It is of course difficult to separate the effect of regulation on liquidity but I think it is clear that those fears have not materialized.

Our mission as supervisors is to safeguard price formation and to protect investors, promoting disclosure of information needed to achieve those objectives. I consider that a successful CTP could reach both goals as it will certainly reduce information asymmetries. And the area in which the benefits will be clearer is on fixed income, first and then on equities.

As for competitiveness, I think we need to embed that dimension in regulation, but never in supervision. It is just natural to take into account this when drafting the rules that will govern markets in the coming years, as it is already the case in MiFIR. This can be seen in the debates around softening the derivative trading obligation when trading with non-EU counterparts, the tick size regime for non-EU shares or the exemption from pre-trade transparency for voice and RFQ.

But we should be very wary of incorporating that parameter on supervisory or enforcement decisions. Supervision should be driven by compliance with the law, not by trying to bend the law to favor EU firms or, worse, the firms from your own Member State. That's why we need a strong ESMA to discipline National Competent Authorities into a convergent, single interpretation of EU law.