



Token World Conference Chairman's closing speech

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Good morning.

Let me, first of all, thank the organisers, Alastria and the Universidad de Comillas, for the invitation to participate in this interesting event. It has brought together complementary views and experiences spanning multiple disciplines on asset tokenisation based on distributed ledger technology.

If there is one thing that we can all agree on, it is the transformative power of this tool, as well as its potential to become one of the pillars of the digital transformation of the economy, affecting almost all of it. Plenty of entities are performing research and testing processes based on blockchain technology: companies, private and public institutions in a wide variety of sectors, from finance to energy, from telecommunications to health or from retail distribution to stock markets. And this is not only modifying and making their internal processes more efficient, but also allowing the generation of new business models.

The institution that I represent as Chairman, the CNMV, is no stranger to all these new paradigms and technological developments, not only as a consequence of our daily interaction with the stakeholders that make up the securities markets - companies, issuers, investors, etc. - but also as a result of several factors.

Firstly, because of our mandate and activity. The CNMV, as the institution supervising the financial markets in Spain, must always act on the basis of the three objectives assigned to us by the Law: investor protection, transparency of information and orderly functioning of the market. But in the current context we must also make it easier for financial markets to be one of the tools driving a sustainable and digital economic recovery.

Secondly, in the context of our strategy for 2021 and 2022, which is based on four main strategic lines:

1. Implementing rigorous supervision based on investor protection and greater use of data.
2. Boosting capital markets as a source of financing for economic recovery

3. Facilitating the role of the securities market in the transition to a more sustainable and inclusive economy and finally *(what will be more relevant for this audience)*
4. Promoting technological advances applied to the securities markets, preventing their risks.

This last line applies to the so-called digital finance, which is part of the global digital transformation of our economy and therefore of our society, in which investors should be the ones to profit from it.

And thirdly, the involvement of CNMV is high because the link between securities markets and DLT technology must be “trust”. Blockchain is a shared and common database for a community of stakeholders who use and maintain it, in which the key to its nature is trust towards the majority of its participants. There is, therefore, no single node that provides trust, but rather all the nodes in the network that provide trust to the whole, insofar as all the copies are automatically synchronised in real time. That means that none of the participants centralise the information, nor are they capable of altering it without the rest knowing. The very same concepts that constitute the backbone of blockchain technologies, trust and transparency, are precisely the driving forces of financial markets supervision.

As I said earlier, the CNMV, as the supervisory body of the financial markets, is no stranger to these technological developments and, in this regard, let me refer to three recent developments that illustrate this.

Innovation hub and Sandbox

The innovation hub of CNMV and the sandbox project are two key tools to promote innovative developments. The CNMV operates the Innovation hub since 2016, in the form of our Fintech Portal. That hub has dealt with more than 400 queries to date. It's aim from the outset has been to create an informal space to exchange mutual knowledge between CNMV and the industry and to give guidance to project promoters especially with regard to regulatory matters.

Similarly, we started a few weeks ago to develop the Sandbox, which, together with the Spanish Treasury and the other two financial supervisors (Bank of Spain and DG Insurance) allows the creation of a specific controlled space in which promoters and authorities can test innovative projects in the field of finance. Although it is too early to assess the results, the project is a priority for us and the drive, commitment and support of the Spanish public authorities in this matter are crystal-clear. 67 different projects have been submitted, of which 32 are projects that could potentially affect the CNMV's sphere of competence either exclusively or jointly with other supervisors. A significant part of these projects is based on the application of DLT technology to the securities markets. As we speak, we are assessing these projects to determine which of them provide a real innovation, are mature enough to be tested

and are likely to generate some of the benefits outlined in the law. In any case, I have no doubt that the experience will be enormously positive and enriching for everyone.

Cryptoassets and their advertising

The second recent event is the advertisement of cryptocurrencies. In February of this year, the CNMV and the Bank of Spain issued a joint public statement warning of the risks of investing in these types of assets given that they are unregulated (at least for the moment, as there is a draft European regulation). Therefore, among other things, their price formation process is not fully transparent and involves a highly speculative component which has been reflected in the strong price fluctuations they have undergone in recent years.

We have all witnessed an increase in mass advertising of these products in recent months, both on physical and digital media. In these ads, some concepts that are more typical of financial products are used, such as “investment” or “profitability”. This explains why at the beginning of March the government amended the Securities Market Act granting the CNMV the power to develop the rules governing the advertising of cryptoassets. But let me insist on a key element: what will be subject to the CNMV’s control are not the instruments (cryptoassets) nor the service providers related to them nor the transactions carried out on these assets, but only their advertising when they are offered as an investment.

In this regard, exactly four days ago, we launched the mandatory prior public consultation, which is now ongoing. We encourage all of you to answer and contribute until next Friday.

The main element that requires regulatory action lies in the possibility that crypto-asset advertising as an investment does not contain objective information about the product and its risks. You have probably noticed that the advertising of these products to retail clients in recent months has been carried out through a wide and growing variety of media and with increasing intensity. Those acquiring such products need to be aware of the risks involved and of the fact that such an investment could in some cases result in a) significant losses due to price fluctuations, b) episodes of illiquidity or c) even in total loss due to cyber-attacks or custody failures.

The purpose of the future circular will be to develop the rules, principles and criteria to which advertising on cryptoassets must be subject to. In particular, we intend to define the objective and subjective scope, to specify the advertising activity that will be subject to prior authorization and to establish the tools and procedures that will be used to make the supervision of this advertising activity effective.

With regard to the objective scope, the CNMV is considering capturing the advertising activity aimed at potential investors in Spain in which cryptoassets are

offered or brought to the attention of those potential investors. To this end, it will probably be necessary to exempt from this scope certain professional activities like white papers, professional investment research, offers to professionals, non-fungible tokens and those which are exclusively a means of payment.

With regard to the subjective scope, we are considering focusing on cryptoasset service providers, the definition of which would be included in the Circular, irrespective of their home State. The advertising companies acting on their behalf would also be subject to the circular.

As to the forms of administrative control, we are also considering requiring prior authorisation by CNMV for mass advertising campaigns aimed at the general public that are carried out through the media, physical ads in the streets or certain virtual media, although we are also considering the intermediate possibility of simply requiring prior notification in some of these cases.

The rest of the advertising actions would be subject to subsequent supervisory action by the CNMV, which may require the cessation or rectification of the advertising activity in accordance with the terms established in the Circular.

Advertising campaigns would be required to be clear, balanced, unbiased and not misleading. This is particularly relevant in the information on returns, in particular where reference is made to past returns, and in the information on costs. It is also our intention to include mandatory warnings about the risks of investing in cryptoassets, along the lines of the mandatory warnings on other products such as medicine or complex financial products, both in an abbreviated and standardised form in each advertising communication, and in more detailed supporting documentation.

The regulation will also include a regime for the supervision of advertising by the CNMV, which will detail the procedures and deadlines for requesting information from regulated parties, demanding cessation or rectification and initiating sanctioning proceedings when necessary.

I understand that some of you may be surprised by the emphasis that some supervisors place on risks when cryptocurrencies are offered as an investment. After all, some people have seen their bitcoins increase in value very substantially and it may seem that the CNMV does not perceive that aspect. However, it should be remembered that "the jury is still out" when it comes to the role that bitcoin and other cryptocurrencies will play in the future. Now they are not yet a widely accepted means of payment and we do not know if they will ever be. They offer no intrinsic coupons or payment promises. Therefore, being realistic, they are promoted mainly as an investment, trusting their future appreciation due to a growing demand. But we have seen in the past that when an asset with no intrinsic use or value is bought mainly based on the prospects of future price rises, bubbles tend to occur, and prices can fire back strongly.

It is only normal for a supervisor whose mission is to protect investors to issue alerts about these risks and to ensure that marketing of these products, which are not regulated financial instruments, is fair, clear and not misleading.

DLT technology as a positive disruption and market efficiency benefits

But let me assure you that this caution does not make our commitment to digital finance any weaker. Let me refer again to the development of DLT technologies. It may still be in its infancy, but I am convinced that it can have a huge impact on securities and derivatives markets. It is a disruptive technology in the good sense of the word disruptive, of course, because through DLT and smart contracts we can build a more efficient, digitally native marketplace that allows its participants to transact quickly, securely and without borders.

On the basis of this decentralization we can, among other things, significantly shorten the settlement times of financial transactions, even making this process immediate, with the associated efficiency gain in terms of costs borne by investors. It could also lead to a reduction in the risk currently concentrated in central counterparties' clearing, which could also reduce the costs of trading financial instruments. All in all, the use of this technology could result in settlement and clearing systems that are clearly very different from the current ones. Another possible application of this technology could be the reduction of issuance authorization times by the supervisor. The CNMV for instance was one of the first supervisors in Europe, several years ago, to participate in a pilot project consisting of a DLT private network to streamline the issuance process of covered warrants.

But this requires DLT technology to be robust and resilient, and an initial step could be the development of permissioned networks. We will need also control mechanisms along with a set of closed participant nodes with the definition of different roles of participation. In these networks, we the supervisors could also play a role.

Let me conclude by pointing out that there is no doubt that blockchain technology is already a driver of innovation in securities markets. Tokenisation processes must work to offer an interactive, efficient, cheap, robust and secure platform that will allow not only efficiency gains in existing processes, but also the development of new products and services forming the core of the global digital economies.

The CNMV, always from its position as a supervisor, will do its utmost to accompany this process and incorporate it successfully and safely into the Spanish securities markets.

Thank you very much for your attention.