Panel discussion at the AFME's 16th Annual Spanish Capital Markets Conference

JAVIER RUIZ DEL POZO, DIRECTOR OF THE SECONDARY MARKETS
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Speech at the Panel discussion: The Savings and Investments Union, Perspectives for Spanish and European Markets, moderated by Remi Kireche, Director, Advocacy, AFME.

The CNMV was at the initiative of this OECD report. It contains more than 30 recommendations. What are the key actions point for the CNMV, and perhaps more specifically in your area (trading and post-trading)?

The OECD report is a very sound base to initiate reforms that will improve liquidity in our markets.

The CNMV has announced in its annual work programme for this year that is going to set up a working group to follow up on the recommendations of the OECD.

Probably the recommendations that would have a bigger impact are those addressed to the **demand side**, to encourage more retail and institutional participation in capital markets.

For retail investors, the key measure would be the development of an investment account designed to facilitate easy investing by our citizens. From the success cases in some countries, it seems that elements of the design could be having a simple tax structure with minimal administrative burdens and promoting long-term investing in financial instruments.

Also, the Spanish institutional investor sector could invest more in corporate securities. Pension funds, insurance companies and investment funds have different characteristics and therefore a specific approach is need for each investor category. The CNMV will establish a dialogue with the relevant authorities and market participants to discuss the OECD recommendations with the aim of channelling more savings to productive investment.

Regarding **infrastructure** and the **supply side**, there are 18 recommendations. We will have to prioritise first on the short-term recommendations and some of the medium-term ones.

A few of them are already being implemented, because the CNMV had started the work before the OECD report was published and the Treasury has been very supportive. For example, the reform to allow collective investment schemes to engage in securities lending or the removal of the obligation for issuers admitted on an MTF to transition to a regulated market when they reach a capitalization of EUR 1 billion. On the minimum free float required for a company to admit is shares on a regulated market, the CNMV has already advised our Treasury on the new design to implement the Listing Directive. This should be one of the key reforms, as it will introduce much flexibility into the listing process, even allowing that the required free float is achieved after the company's shares are already admitted, by undertaking the distribution through the market in the short term.

The CNMV is going to establish a dialogue with other authorities, institutions and market participants for the rest of the recommendations; I would like to mention, in particular, the design of a dedicated framework for debt issues by smaller companies.

The European Commission SIU's strategy proposes to address barriers to more integrated trading and post-trading infrastructures. Do you agree that barriers remain, and if so which ones, and what reforms the trading and post-trading need to happen to contribute to the objectives of the SIU?

The Commission's project seeks not only the free movement of capital across the Union, but also the mobilization of that capital to fund the green transition, innovation and security through capital markets, whilst providing suitable investment opportunities for UE citizens.

Having that goal in mind, the recommendations of the OECD for the Spanish market can be extrapolated to some extent to other EU markets. The European Commission should prioritise the measures to enhance the demand side because the focus should be to have bigger and more liquid EU markets.

It is often mentioned that there is much more fragmentation in Europe than in the US, but for example **in the area of equities trading**, the bulk of the trading is concentrated in a few groups, as it also happens in the US. Further integration might have a positive impact on liquidity, but we consider that market forces are already driving this process (i.e. SIX' acquisition of BME group and then of Acquis).

Measures such as the setting up of a Consolidated Tape that will publish prices and volumes data for bonds and equities might have a very positive impact on integration. Also, we believe that the EU should assess whether MiFID is still fit for purpose or whether more OTC trading should go back to the multilateral lit order books of the exchanges.

The area of post-trading is fragmented in Europe, with around 30 CSDs in the EU and only one in the US (DTCC); but in practice the real picture is much more nuanced. Most of the settlement is concentrated in the five largest CSDs. Many of the EU CSDs use the common infrastructure provided by T2S, whose standards have provided strong harmonization.

Having said that, having just one CSD could reduce costs for financial intermediaries, and it might also lead to more efficient markets.
However, we believe that action to promote the integration of the EU capital markets should not be motivated by simple comparisons between the EU and the United States alone. Rather we should consider the distinct European context within which the Savings and Investments Union operates.

An obstacle to the merging of EU CSDs is the lack of a common legal framework in the EU. A single CSD would not be able to operate easily under different national regimes regarding the holding of securities, corporate law, bankruptcy law and tax law.

The European Central Bank, through AMISECO, has recently conducted a survey among market participants to identify remaining barriers to cross-border settlement. From the forthcoming AMISECO report we expect a number of proposals to reduce the existing barriers.

Replacing national securities holding, settlement and bankruptcy regimes would be a very complex and expensive project but there has been already some integration of European post-trading infrastructure and CSDs can cooperate further i.e. by harmonising the interfaces to their systems.

Also, local barriers, have arisen from national silos (i.e. an exchange, CCP and CSD in a group operating solely within a single Member State. These silos often operate using their own standards and IT systems, making it difficult for market participants from other countries to access them without using a local intermediary. The CNMV, with the cooperation of the BME group and the Spanish post-trading community, has recently removed one of these barriers. The so called PTI (post-trading interface) of Iberclear. On the 11th of March the PTI was removed, after several years of work, which proves that barriers can be dismantled when there is political will and consensus among all concerned parties.

Regarding the area of clearing, it seems that fragmentation should not be a concern, as there is a good degree of interoperability between EU CCPs for cash equities. The CNMV supports interoperability, and we believe it is going to be expanded further in the short/medium term.

Also, we should be bear in mind that an excessive concentration, although facilitates more efficient and homogenous processes, may also have an impact on concentration risk (single points of failure) and lack of competition, which influences innovation and at the end, it can result in higher costs.

In terms of innovation, the EU-CSDs are actively involved in different initiatives from the ECB to test wholesale CBDCs, and some of them are also promoters of business cases under the DLT Pilot Regime.

All in all, in our view, the right balance between competition and efficiency should be reached by eliminating barriers which may protect national silos, but taking into account the EU reality, the optimal result may not necessarily be the US model or 1 CCP and 1 CSD.

To sum up, in our view, the priority should be to promote more investment in capital markets by EU citizens and institutional investors (pension funds, insurance companies and investment funds). Bigger and more liquid capital markets will be a powerful force for integration. In addition, we favour a bottom-up approach to remove barriers, especially in the settlement and custody space.