RODRIGO BUENAVENTURA

Chair, Spanish Securities and Exchange Commission (CNMV)

Towards CMU: how to incorporate safely a more retail-oriented market

CMU is an essential component to achieve deeper markets, better investment choices and healthier financing by companies. It acquires even more relevance in pandemic times, as we have seen how important for companies is to have enough equity and for investors to have diversified portfolios across different Member States. But we have also seen, thanks to Brexit, how relevant is to have diversification on financial centers. A polycentric financial marketplace is not only more competitive but also more robust. This is compatible with a polycentric financial supervision, bound together by tighter coordination mechanisms and a stronger ESMA.

One aspect that merits attention is the coincidence of new entrants into the markets in the SME spectrum and the increased participation of the retail investors. While these two trends, taken individually, are worth supporting, we should be extremely careful when combining them, especially if at the same time we promote a lowering of disclosure requirements by issuers. Those three ingredients could be a dangerous combination for the following reasons. Firstly, the retail end of the spectrum may lack the training and experience needed to assess SMEs. Secondly, research coverage is very thin for the SME part of the listed companies. Thirdly, SMEs are frequently subject to higher volatility and default rates, making them the riskiest part (also the most promising sometimes) of the investment spectrum. The ingredients for mis-selling, losses and possibly a withdrawal of confidence in equity markets from retail investors would be served if we stimulated both processes at the same time.

I genuinely that the only intelligent way of promoting at the same time the new flow of SMEs and an increased retailisation of the buy side is to promote retail investors accessing this new market through collective investment. Collective investment schemes run by professional managers provides both diversification, which is key when we talk about SMEs, and research capabilities that are absent in that niche, hence reducing risks and increasing return for retail investors. Actually, these types of vehicles could even be incentivised from a policy perspective vis-a-vis direct investment in single SME stocks.

Collective investment schemes could also professionalise SMEs through their role of stewardship, which is becoming more popular in the area of sustainable finance. Nevertheless, the role of Asset managers in SMEs markets should be closely monitored by supervisors to avoid any market abuse situation and keep confidence in primary and secondary markets.

Capital markets have withstood the COVID crisis remarkably well and the extreme volatility we observed in March-April 2020. Although IPOs were quite scarce in 2020, we have seen a clear surge in 2021. But even during the direst times, companies that were already listed and that required financing found relevant demand at fair prices in EU equity and fixed income markets. Some Spanish companies, for instance, led the biggest secondary equity offerings in 2020 and being already listed made a real difference for them compared to what would have been the case as a non-listed company. The depth shown by EU capital markets was truly remarkable in that sense.

It is obvious that we need to bring more companies to the listed world, from all sides of the spectrum: large and small, traditional and innovative. To do that, lowering costs and reducing the time required to access the market is appropriate, but when doing so we should not lower investor protection. The key for strong and stable capital markets is long-term trust from investors as well as the development, improvement and refinement of an appropriate financial education that allows, to all investors, a better understanding of risk in the investment decision making.