

THE CNMV PUBLISHES THE ANNUAL SUPERVISORY REPORT ON NON-FINANCIAL STATEMENTS OF ISSUING COMPANIES

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- For the first time, the CNMV has prepared a separate report on the supervision of the Non-Financial Statement (NFS) of securities issuers that are required to prepare and publish it
- The report contains good and bad practices that could be useful to improve the quality of NFSs
- In the supervision of the 2021 NFS, particular attention will be paid to greenhouse gas (GHG) emission information, the scope of the information and the value chain of the company. In addition, breakdowns of the impact of the COVID-19 pandemic will continue to be reviewed

The Spanish National Securities Market Commission (CNMV) has today published the [“2020 Report on the CNMV’s supervision of NFSs and main areas for review of the annual accounts for the following financial year”](#). The document describes the supervisory work carried out by the body in relation to the 2020 NFSs of issuers of securities traded on EU regulated markets. It also includes certain priority areas for the supervision of the 2021 NFSs to be carried out by the CNMV.

Of the 145 issuers, 43 are required to include the NFS in their individual management report, and 96 in the consolidated report (30% and 71% of the total, respectively).

NFS verification reports

A positive aspect to be noted is the fact that no issuers have qualifications in the verification report (two in 2019). This is the first time that this has happened since the entry into force of the mandatory nature of this report.

Analysis on the nature and scope of the verification reports

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Most of the verifiers limited the verification solely to the information required by Spanish Law 11/2018. In this regard, the CNMV highlights the importance of the verified and unverified information being perfectly identified and traceable. In many cases, the tables of contents do not clearly indicate what information has been verified. It is recommended that the verification include all the content of the NFS.

Supervision of the financial information

The CNMV's supervisory work on the NFS follows an approach similar to that of financial information: formal, with regard to compliance with the presentation requirements and other specific aspects; and substantive, in respect of a specific number of companies, mainly focused on the priorities of ESMA and the CNMV, as well as on material aspects of each company.

As regards the formal review, it should be noted that various recommendations were submitted to 14 issuers, and requests for compliance were issued to three companies, for:

- the location of the NFS;
- the frameworks used; and
- the tables of contents.

Regarding the substantive review, recommendations were made to 16 issuers, and requests were issued to 14 companies, mainly in relation to the following aspects:

- the concept of double materiality;
- the breakdown of their definition of value creation and how the business model impacts on and is impacted by non-financial matters;
- the methodology and concepts considered for calculating the wage gap, an explanation of the data, evolution, and the measures implemented;
- impacts of COVID-19;
- a description of the main risks relating to environmental matters and climate change, greenhouse gas (GHG) reduction goals and calculation of key performance indicators (KPIs); and
- exclusions from the considered scope.

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In most cases, the explanations submitted by the issuer, in reply to the CNMV's request, duly supplemented the breakdowns required by law, or those recommended by ESMA and the CNMV in their priorities for the 2020 NFS. However, it is considered that there is still room for improvement in some aspects, such as those detailed below:

Business model and value creation

The CNMV considers this to be a relevant matter to contextualise the rest of the NFS. Therefore, companies must further improve their breakdowns, which must be clearer and more specific: they must state what they do to create value, how they do so and why, and the role played by different stakeholders in this value creation process.

Double Materiality

The CNMV has observed that the breakdowns are more focused on the “inside-out” perspective, or on environmental and social materiality, and that some companies indicate that their main objective is to provide information to their main stakeholders, to enable them to understand the impact of their activity on non-financial matters. Accordingly, issuers are reminded of the fact that they must also enhance the breakdowns and include the “outside-in” perspective, or financial materiality, in order to carry out and publish a comprehensive materiality analysis.

In this regard, according to the EC supplement on reporting climate-related information, of June 2019, the “outside-in” perspective refers to how the company's value is affected by non-financial matters, in a broad sense, and not only on how it affects the figures of the current financial statements. The companies provide limited long-term information. The assessment and definition of the two materiality perspectives is the cornerstone to determine what information is relevant for investors and other stakeholders, and enables avoiding the omission of material information, or the inclusion of irrelevant information.

Furthermore, neither of the perspectives are watertight, and the impact of the issuer on the environmental and social surroundings and on its stakeholders will, to a certain extent, eventually have an impact on the financial position and performance of the company. More and better information is required on both perspectives, to ensure a better understanding of these interactions or cross-cutting effects.

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Risks relating to climate change and other environmental matters

Almost all of the companies subject to substantive review report at least scope 1 GHG emissions, 90% report scope 2 emissions, and 55% report scope 3 emissions. However, of the companies reporting scope 3 emissions, less than half of them indicate that this scope includes indirect emissions for the use of their goods and services by their clients. Depending on their materiality, it is necessary to include more details on the scope, methodology and inputs used, also segmenting the emissions by geographical areas and lines of business.

Corporate and personnel issues

Greater segmentation of the wage gap would also be desirable, providing the information, at least, by professional category and country, since if it is broken down on an aggregate basis by company or group, this could lead to misinterpretations or failure to comply with the objective of promoting diversity and eliminating gender bias.

The CNMV highlights the importance of providing comparative data, an explanation of the evolution of the wage gap, and where relevant, a description of the plans and measures to reduce it.

Characteristics and presentation of the NFS information

It is considered good practice to include a section based on preparation of the NFS, indicating the framework applied, the scope, developments compared to previous periods and other observations that help to better understand the report. With regard to the polices, issuers should provide further details indicating whether they are prepared, and the bodies involved in their approval, including the board and special committees.

Key performance indicators (KPIs)

Despite the recommendations made in recent years, KPI reporting is still an area for improvement. In some cases, comparative information is still not being provided on certain KPIs. This should be limited to very specific cases and the reasons should be explained. The lack of qualitative explanations accompanying the KPIs relating to certain matters is also still common.

Supervision plan for the 2021 NFSs

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In October 2021, ESMA published common enforcement priorities for the 2021 non-financial statements, which refer to the following matters:

- the impacts of COVID-19 pandemic;
- climate-related matters; and
- disclosures relating to Article 8 of the Taxonomy Regulation.

In addition, the CNMV would like to highlight its decision on including as a priority in its review of the non-financial statements: a more detailed analysis of the breakdowns relating to carbon footprint, an analysis of the scope of the NFS and the breakdowns relating to the participation of the company and its stakeholders in the chain value, as well as a comprehensive analysis on the consistency between financial statements and the NFS.

Any other specific issues that are relevant for the purposes of each listed company subject to the CNMV's supervision, will also be reviewed.