“Shaping the Future of Sustainable Finance: Unveiling Emerging Trends and Market Evolution” ESG Summit Europe

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Good morning. First of all I would like to thank Monica (Rico- co founder) and ESG Summit for inviting me to this event. I totally agree, as stated in your website, that we can and we should create **a better future for generations to come.**

I would like to focus on **two topics** linked to sustainable finance:

- First, the **market evolution, the role of capital markets and the role of financial supervision**.
- Second, the position of IOSCO at global level and the main projects developed to **support investors' informational needs and the ability of markets to price sustainability-related risks and opportunities and support capital allocation**.

I.- Market evolution and the role of capital markets: Importance of ESG and some figures

- In recent years, there has been a **growing recognition of the significant economic and financial impacts of climate change and environmental, social and governance (ESG) risks.** Internationally, industry participants, investors, regulators, and policy makers have stepped up their efforts to address the related risks, opportunities, and impacts and to combat greenwashing.

- Several studies concur in the fact that the change in attitudes towards ESG and sustainable investment approaches has perhaps been the **biggest structural trend in the investment industry in the recent years**. Of course, by continents, you can detect different sensitivities, with Europe leading and North America lagging behind. In Europe, nine out of ten institutions consider ESG as a **factor in investment decisions involving real assets**. For 17%, ESG and sustainability matters are a critical factor”.

- In terms of numbers, we know that **sustainability-related finance has increased substantially in the last decade but the trend has slowed down during the last two years**. According to the U.N. 2023 World Investment Report [1], the value of the overall sustainable finance market (bonds, funds and voluntary carbon markets) reached $5.8 trillion in 2022, despite the turbulent economic environment, including high inflation, rising interest rates, poor market returns and the looming risk of a recession, which all affected financial markets.

- However, it is still **short of the amount needed to avoid the worst and to be able to effectively build for better and prosper future**. Estimates about the need of **mobilising extra external finance for the net-zero transfomation investment vary significantly, but figures range between** 2 and 5 trillion euros per year.

- What is clear is that the closing of the necessary financing gap is going to require redefined or new sources of finance. There are at least **two very clear immediate reasons for the capital markets to play a strong role**:

    - **Effective allocation of available capital**: in order to finance the transition, healthy and efficient capital markets could draw on readily available capital and provide opportunities for risk diversification.

    - **Powering business of innovation and change**: while businesses have dynamic capacity for innovation and scaling potential solutions, capital markets have the ability to provide a secure, safe and sustained financing that can encourage those efforts.

Within this context, let me share my perspective on the role of financial regulation and specifically the role of financial supervisors.

I believe I am the only speaker today from the financial supervision community. We financial supervisors are a strange breed, if you allow me. We don't shape laws and regulations and we have naturally a different perspective than investors or issuers. Our main goal is to ensure that adequate, reliable and accessible information is available for investors in order for these to take decisions. Nothing more (and nothing less) than that.

I like analogies, so let me use one. If climate finance would be road transportation, financial rules and supervisors should take care of the infrastructure, the road. We should ensure that the highway is safe, clean, well lit, road signs are clear,

[1] wir2023_en.pdf (unctad.org)

information is available and entries and exits are correctly and clearly announced. And that the road can be scaled up in the future. That's our job. But our job is not how many cars take the road, in which direction, what types of cars or at what times of the day they decide to circulate. Traffic, and the way to incentivise it, disencourage it or subsidize it is another story.

In my analogy, traffic represents financing volumes, how much investors demand sustainable products, how much transition finance there is, how much is issued in green bonds, and so on. We cannot pretend that financial regulations and supervision establish as objectives the volumes and the flows on sustainable finance transactions. Neither can we pretend that they will change the preferences of investors or the desire of corporations.

What we can ensure instead is that if someone makes an enviromental claim in a financial product, that information is accurate and verifiable and science-based. That if some investor wants to search for funds or bonds that pursue environmental goals, that information is accurate and precise and that it is available, comparable and verifiable. In other words, that the financial markets are safe and accessible, for whoever wants or needs to use them to channel sustainable finance. It is the role of governments and international organizations to establish the rules, objectives, prohibitions and incentives for adapting our economies and our companies to a net-zero word and to decide at which pace we should do that.

Don't get me wrong: there is no lack of commitment from financial regulators, definitely not from CNMV, about the fact that the right thing to do is to support the development of sustainable finance. It is just important to understand in which manner we can do that (and in which manners we cannot).

II.- IOSCO- Some interesting initiatives

All of the above makes sense only if there is sufficient trust and integrity in the market. Let me turn to that for a moment.

S*ome IOSCO work*

As many of you know, IOSCO is the international organization that gathers financial markets supervisors. Some of you know the Basel Committee, which is the twin brother of IOSCO, but on the banking side. Besides, as a fewer of you might know, IOSCO has its global headquarters in Madrid, one kilometre from here. So it is very handy and timely to have this conference now in Madrid.

IOSCO is the **international standard setter for capital markets and together with the G20 and the FSB, we set the global regulatory reform agenda for financial markets**.

IOSCO´s membership is made up of over **130 jurisdictions, oversees 95% of the world's capital markets**. Reflecting the responsibilities of its members, its objectives include investor protection, maintaining fair, efficient and transparent markets, and seeking to address systemic risks.

I have the honour to chair the IOSCO Sustainable Finance Task Force so let me illustrate some of the IOSCO work, to give you an idea of how active this field has become.

One of the cross-cutting features of IOSCO's work in sustainable finance over the last years is exactly this **call for transparency in ensuring that investors receive timely, full, comprehensive and comparable information**. Since we started work on sustainable finance in 2020, we have covered quite a spectrum of topics. I will focus on three of them: **Corporate reporting, greenwashing and carbon markets.**

A) Corporate reporting

This year was particularly important for our work in corporate reporting where we focus on contributing to the urgent goal of improving the completeness, consistency and comparability of sustainability reporting – with the aim of providing investors with accurate information. These efforts are twofold:

IOSCO was one of the first organizations that asked in 2020 for the development of new international standards on sustainability information. And we asked for the creation of a new board, within the IFRS foundation, to pursue that task. The IFRS foundation took the lead and constituted it in 2021.

And this has worked out very quickly, in just three years. **In June 2023 the ISSB published the first standards (called S1 and S2).**

In July 2023 announced that, based on our assessment of the new standards issued by the brand new International Sustainability Standards Board (ISSB), IOSCO endorses the standards as fit for use in capital markets. And we called on our members to consider ways in which they might adopt, apply or otherwise be informed by these standards.

The advantage of this is that we have a common standard and, therefore, for those countries or regions of the world that go ahead and require their issuers to comply with this standard, the similarity will be so high that we will achieving a de-facto single international reporting regime, which I think is the beauty of this project.

The second is that these **standards focus on what is material, what is proportionate, what is a useful decision for investors**, and so on. That's their main feature: they are standards that are primarily **intended for investors to be able to assess or make**

decisions about the impacts of climate change on those issuers, in terms of risks and opportunities for those issuers. And in particular, on their enterprise value.

And the third element is that, from the beginning, we have pursued a very **close link between sustainability reporting and financial reporting** in general so that they are coherent, can work together and are, let's say, consistent with each other.

So, in terms of its concept, to a certain extent, it is **very similar to the international financial reporting standards**, which are a reference set by an international standard-setting body and then each country or region decides whether to incorporate those IFRS or not, but at least we have a common language. But as opposed to accounting standards, that took literally decades until they were developed and endorsed by most international public authorities, we have completed this in 3 years.

Does this mean that all is done and set, that we have completed the task of laying out "the road". Not at all !

Several elements are still to be developed.

- The first one is assurance. If information, even if it is standard and in digital form, is not verified by independent third parties, it will not be credible enough. Earlier in the year we had set our vision at IOSCO on how the trust in sustainability reporting should be complemented by a sound assurance and ethics framework.

This is why our dedicated teams are working closely with the standard-setters in this area (IAASB and IESBA) as they develop a new sustainability-related system architecture and standards for an independent verification of this reports. And we expect to have those standards ready for companies to start reporting in 2025 about their 2024 data, for those countries and regions that go ahead.

The second is going beyond climate. The international standards cover some general principles (S1) and climate-related risks and opportunities. This was the most urgent and pressing issue and it is understandable the request to start with climate. But "climate first" does not mean "climate only".

ISSB has launched a consultation asking for views on what the next steps should be, whether ISSB should develop the next standards based on things like water or biodiversity or some other topics of interest within the sustainability area, and I would expect ISSB to start working on further standards when it has gathered that evidence, that input, from market participants and from users.

The third is improving consistency and interoperability with national or regional standards. Europe is the most obvious case. The ESRS has been adopted a few weeks ago and is really really similar to ISSB on the part that they share. This common part is the report by issuers on the assessment of risks and opportunities for those issuers. On that aspect, both standards are practically identical, so a European company that reports under the EU rule (ESRS) can claim to have reported under ISSB too. So no double reporting will be necessary (maybe with the exception of 2-3% of the data).

And the fourth element is the reporting of data related to what Europeans would call "outward materiality". This would be the impact of the issuer on the climate or the environment (not the impact of climate change on the issuer). The international standards do not fully cover this perspective (that some denominate the double materiality approach). The European rules do. Investors may need data or assessments of the degree of impact (irrespective of their effect on enterprise value) attached to a company or even a financial instrument. For investors outside Europe, those data and opinions will come mainly from data providers and ESG rating agencies, which leads me to the second area of IOSCO's work.

B) Fighting greenwashing

The growth of ESG investing and sustainability-related products has led to several challenges, including concerns regarding the **reliability, consistency and comparability of available information, and the risk of greenwashing**. While some of these challenges are currently being addressed, greenwashing remains a fundamental concern.

In November 2021, **IOSCO published two reports** addressing greenwashing in **two areas of critical importance in sustainable finance namely asset management and ESG ratings and data products providers**.

- The Report on Sustainability-related Practices, Policies, Procedures, and Disclosures in **Asset Management industry**[2] lays down a **series of recommendations that securities regulators and/or policymakers**, as applicable, should consider in order to improve sustainability-related practices, policies, procedures and disclosure in the asset management industry.
- The Report on **ESG Ratings and Data Products Providers**[3] explores the developments and challenges related to the use of ESG ratings and data products and sets out recommendations for regulators, providers, users and rated entities considering the increasingly important role of these products.

Greenwashing is on the top of the agenda of many of the main supervisors. IOSCO is currently in the process of finalizing a Report which will provide an **overview of the initiatives undertaken in various jurisdictions to address greenwashing in line with**

[2] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf
[3] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf

its 2021 Recommendations. It will provide a mapping of the regulatory and supervisory approaches and practices by supervisors to address greenwashing in the areas of asset managers and ESG rating and data product providers.

C) Carbon Markets

The third important area of work for IOSCO is Carbon markets. We have split our approach to carbon markets in two segments: the more established compliance carbon markets and voluntary carbon markets where the current state of play is not as clear. Both mechanisms can be relevant in managing risks and in the transition to a low carbon economy.

Compliance carbon markets. We have just published a report in July this year which intends to facilitate the implementation of Compliance carbon markets on those IOSCO-member jurisdictions that wish to do so. By compliance markets we mean those based on mechanisms of cap and trade, where public authorities cap the level of emissions of certain sectors or issuers, allocate issuance rights and allow the secondary/financial trading of those, creating a "market for carbon". This report builds from the experiences of more advanced jurisdictions and gives other jurisdictions a solid starting point to avoid repeating past mistakes when moving quicker towards reducing harmful greenhouse gas emissions.

Voluntary carbon markets. These are markets where entities buy carbon credits generated by third parties to offset some of their own carbon emissions. However, they have not yet scaled to their full potential in helping to mitigate climate change. They are too small and suffer from significant integrity issues. And this situation puts at risk the credibility of those claims and the mechanisms for threading them. For that reason, we had taken a thorough look at the state of play in these markets last year and we are in the final stages of issuing a consultation on the topic with specific good practices, extrapolated from how financial markets work.

So we are all very aware of the challenges. Asset managers are still facing difficulties in complying with the legal and regulatory requirements in their jurisdiction due to **data gaps and limitations from corporate issuers**. Incomplete sustainability disclosures at the corporate level have implications at the product level for product design, delivery, and disclosure, as well as ongoing performance reporting, which could lead to investor harm. At the same time, some investors also struggle to access robust data on companies' ESG performance or are buying financials products which do not include the characteristics that they are demanding. All of these short comings are being addressed at the international level and at region/country level too.

On one hand, the issuance of the **inaugural IFRS Sustainability Disclosure Standards, ESRS or any other disclosure standards** will help to access complete and consistent sustainability-related disclosures at the corporate level. **Better information leads to better economic decisions.**

On the other hand, on those countries where there are no Disclosure Standards available yet, the fact of having a global framework (endorsed by IOSCO) will help to develop their national standards or at least to inform them. In addition, investors will also be able to g**et additional information through ESG Ratings or data providers** which are currently in the process of being regulated (at least in Europe) or covered by national Code of Conducts (Singapore, Japan and UK), following the IOSCO recommendations.

So let me finish with an **optimistic takeaway**, a bit in contrast with the gloomy mood we are seeing these days in the press and in NY in terms of the degree of global warming and the steps back that some ar taking in their pursuit of net zero.

I am convinced that public authorities with responsibilities in the financial markets have taken an active and proactive stance. Experience shows that very fast results have been achieved to lay out the new regulatory framework and there is a conscious dialogue to achieve maximum convergence and interoperability. We are serious about this and we are dedicating significant resources.

So the tools for the “traffic” to flow are there already. We just need that the demand of final investors incorporates these new preferences in a larger percentage, at international level, so that the financial flows support our goal of creating **a better future for generations to come.**

I want to thank you for your attention and wish you have a productive summit.