Presentation of the study "The role of finance in a sustainable economy"

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Good afternoon.

Thank you very much, Juan Carlos, for your kind words. I would like to begin by sending my warmest greetings to all the speakers in the interesting and enjoyable debate you have just had. And I also wish to thank Jorge Yzaguirre and the Financial Studies Foundation for inviting me to close this event.

It is a pleasure for me to participate in the presentation of the study "*The role of finance in a sustainable economy*". Congratulations to the Foundation and to the two co-directors of the study. You have the merit of having managed to combine very different perspectives by including articles by authors from different backgrounds: companies and associations, regulators and supervisors (such as the CNMV itself[1]), or experts and academics, among others. In a field where the analysis is still at a developmental stage, it is important to integrate different sensitivities into the debate. I would also like to highlight the rigour and quality of the articles published, as well as the effort of the authors to incorporate data and empirical analysis. This is particularly difficult, given the scarcity of homogeneous data and sufficiently long time series, but it is certainly necessary.

The development of sustainable finance is an unstoppable trend. To transform the economic model and meet the climate goals of the Paris Agreement we need high volumes of finance. Fortunately, the market is developing at a rapid pace and we see an increasing demand for sustainable products. Although the figures must be taken with great caution, given the lack of clear definitions, some estimates put the volume of sustainable assets under management at around 285 billion euros in Spain[2]. Similarly, green bond issuance has also increased significantly. In Europe, the number of these doubled in the second part of 2020. And, in Spain, the volume of sustainable issues registered with the CNMV has quadrupled in the last year[3]. It is

[1] The CNMV has contributed with two articles by Teresa Rodríguez Arias: "Punto de vista del supervisor mercado de valores" ("Point of view of the securities market supervisor") and "Información y formación del público" ("Information and education of the public").

[2] See La inversión sostenible y responsable en España (Sustainable and responsible investment in Spain), SpainSif 2020.

[3] See Trends, Risks and Vulnerabilities Report of ESMA, 2H 2021, for data for Europe. The CNMV data refer only to sustainable securities admitted to trading on regulated markets in Spain, which have been verified by the CNMV.

true that the total volumes are far short of the figures estimated to be needed to finance the transition, but they certainly illustrate the growing interest.

The political and regulatory impetus for sustainable finance is becoming consolidated in Europe. The agreement reached last week on the European Climate Law, which enshrines climate neutrality by 2050, is a sign of the degree of commitment of the European Union in this field. Also, the upcoming Climate Change Law in Spain, recently presented.

The European Commission, for its part, is making progress in completing the taxonomy to identify sustainable activities. A major regulatory package was adopted last week in this respect, including a proposed revision of the Non-Financial Disclosure Directive[4]. Today I would like to focus on precisely this last point, on the importance of companies' non-financial information in terms of sustainability. As they say, what is not measured is not managed, and if we do not manage it, we will not achieve the objective. So, what can we do to improve the sustainability information that companies report?

Corporate sustainability reporting

In markets and investments, confidence is everything. Confidence that the products invested in will behave according to the published characteristics; confidence that the system is able to match supply and demand appropriately; and confidence that the resulting price is in line with the risk-return trade-off. Well, I am sure you will agree with me that in order to reinforce this confidence we need reliable information. This is particularly relevant in the field of sustainable finance, where the regulatory framework is not yet complete, and we do not have standards that allow us to compare information.

A key element is undoubtedly the responsibility of each company and the importance of good corporate governance. To this end, I encourage companies to pay adequate attention and strengthen boards of directors on sustainability issues and environmental risks. In fact, one of the axes of the recent reform of the Good Governance Code of Listed Companies, which we published in June 2020, was precisely to give greater relevance to sustainability in corporate governance recommendations.

In our country, it must be acknowledged that companies are making a significant effort to improve the climate, environmental and social information they publish. I am referring, for example, to data on the use of renewable energy, greenhouse gas emissions or the pay gap, among others. At the CNMV, we review annually the information reported to us[5] and we note a gradual improvement, particularly after the entry into force of the Spanish regulations[6].

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[4] The package includes: the delegated act on climate taxonomy, clarifying which economic activities contribute most to achieving environmental objectives, the proposal for a directive on corporate reporting on sustainability and six amending delegated acts to ensure that companies, as advisers or asset managers, include sustainability in their procedures and their investment advice to clients. See Sustainable Finance and EU Taxonomy (europa.eu).

[5] See, for more detail, the CNMV report on the supervision of annual financial reports and main areas of review for the following year.

[6] Spanish Law 11/2018, of 28 December, on non-financial and diversity information.

- Thus, 98% of issuers required to send non-financial statements already included in 2019 some form of summary table of contents or table, which is very useful for locating information and pointing to the reference framework.
- Similarly, we have also observed that companies, when breaking down their KPIs, are providing an increasing amount of comparative data, which makes it easier to interpret them.
- Finally, it is also worth noting that in 2019 all companies already identified the reference framework they use to prepare the information. The most widely used is still the one known as GRI, but others are also cited, such as the recommendations of the working group on non-financial information sponsored by the Financial Stability Board, the so-called TCFD[7].

That said, while progress is commendable, there is still much room for improvement. There are **four elements** that I consider important when we talk about strengthening sustainability reporting.

Firstly, it is necessary to improve the **materiality analysis** of non-financial information. Let me explain. In Europe, the principle of dual materiality is applied when assessing the relevance of sustainability information. That is, companies should not only explain how the climate or society affects the company's own business (financial materiality, or outside-in perspective). They must also report on how their activity impacts on climate and society in a broad sense (environmental and social materiality, or an inside-out perspective)[8].

This is where the new Corporate Sustainability Reporting Directive comes into play, the proposal for which was published last week by the EC. The latter has a bearing on the principle of dual materiality and specifies in greater detail the information that companies must provide.

Secondly, we need to have reporting standards that are homogeneous, so that all companies use the same references, and we can compare. Currently, given the heterogeneity of existing frameworks - I am not going to bore you by listing them - it is very difficult for investors to carry out a genuine analysis of the information.

To this end, it is very positive that the revision of the Directive incorporates the recommendations made by the European Financial Reporting Advisory Group (EFRAG), which is expected to be responsible for developing draft common standards on the basis of maximum consensus.

But in an increasingly globalised environment, the development of these common standards cannot remain only at the European level. We need common frameworks at the international level. Of particular note here is the activity of IOSCO, the Madrid-based global organisation of securities commissions, in promoting the development of a global standard for sustainability[9]. This has prompted the announcement by the

[7] Task Force on Climate-related Financial Disclosures (TCFD).
[8] In fact, the EC guidelines were updated in June 2019 providing detailed information on this principle of dual materiality, also integrating the recommendations of the working group on climate-related non-financial disclosure (TCFD).
[9] Announced on 24 February past.

International Financial Reporting Standards Foundation (IFRS) of the creation of a working group to accelerate convergence on sustainability reporting.

Of course, the degree of progress on sustainability is not equal across jurisdictions. Thus, in Europe, reporting obligations are more demanding, in line with the level of political ambition, and incorporate the aforementioned principle of dual materiality. This is not the case in other jurisdictions. We need to move forward, ensuring that the different degree of development of each country is allowed to be integrated, based on the most advanced standards already used by companies. But this does not prevent us from aspiring, in the medium and long term, to have a homogeneous application of the same set of rules at a global level.

A third challenge for sustainable information is to increase the number of companies that report it. After all, the more companies, the better the information and the more investment options. But this is not straightforward. The preparation of the information requires a certain level of sophistication that sometimes is not within the reach of all companies, particularly the smaller ones. The new draft Directive proposes to broaden the scope of entities subject to the Directive by eliminating the minimum threshold of 500 employees. Currently, in Europe, only large, companies that are public-interest entities with more than 500 employees, are required to report climate information. That is, some 11,000 companies across the EU. With the new Directive, the number of reporting firms would rise to 49,000 entities. In Spain, the impact of the future regulation will foreseeably be less, because since the beginning of this year companies with more than 250 employees, which also meet other requirements, are subject to the obligation to report non-financial information[10]. Let us think that in Spain there are around 4700 companies with more than 250 employees that must assess whether the obligation to publish this report applies to them. The draft directive also intends to include listed SMEs[11], so that they are not excluded from possible investments, although, as the Commission announced, we will have to look for ways to prevent these requirements from being an excessive burden on smaller companies.

And last but by no means least, the final challenge I want to mention concerns the **role of verifiers** who audit companies' non-financial information. This function is key, as having a third party review the information provides greater assurance of the quality of the information and also offers an additional defence against the risks of greenwashing. According to the data reported to the CNMV, the degree of concentration of verifying firms is high. Approximately 80% of non-financial statements were verified or audited by one of the four major audit firms[12].

Currently, the regulation does not detail the requirements that independent verifiers must meet, nor the degree of review they must conduct. In addition, most verifiers are limited to reviewing only the information required by law. That is, they do not review additional disclosures that companies voluntarily publish. If the information reported is to be reliable, the review by verifiers should cover the entire content of the non-financial information published by companies, not just the legally required

[10] Companies with more than 250 employees that also meet certain asset and turnover requirements, under Spanish Law 11/2018.
[11] Excluding micro-enterprises.
[12] According to business volume in Spain: Deloitte, EY, KPMG and PwC.

information, so that no information is published that has not been verified by a third party.

Final thoughts

In conclusion, we still have a long way to go to improve sustainability information. The ultimate goal is to understand how environmental, social and governance risks affect the business model of companies and how they contribute to improving the sustainability of their environment; and, most importantly, to enable investors to compare data across companies on a consistent basis. In short, it is about having a robust framework that avoids possible greenwashing practices by companies, whether intentional or unintentional.

At the CNMV, our strategic line for the next two years is to facilitate the role of the securities market in the transition towards a more sustainable and inclusive economy.

How do we achieve this goal? By working on several fronts. At national level, in addition to what has already been mentioned, we are immersed in facilitating the implementation of the new transparency obligations for investment managers and funds[13]. To this end, we have established criteria so that investment funds, which so wish, can be classified as sustainable or promoting sustainability.

Likewise, we also maintain an active position in the international regulatory debate. In Europe, the CNMV chairs the sustainability committee of ESMA[14], the European Securities Markets Authority. This committee has promoted, among others, the response to the EC consultation on the Renewed Sustainable Finance Strategy and the public consultation on green bonds. ESMA has also been active in calling for regulation of companies that award environmental ratings.

Also at European level, it is worth noting the CNMV's work in the joint committee of the three European supervisory authorities (EBA, ESMA and EIOPA) in which Level 2 standards are drawn up, such as the proposals for common metrics to measure adverse impacts of investments on sustainability factors.

And, at international level, the CNMV also leads the IOSCO working group on sustainability[15] and actively participates in the preparation of the aforementioned common standards.

We ourselves, as an institution, also plan to make progress in incorporating the sustainability dimension into the way we conduct our daily business, and we will implement measures to reduce our carbon footprint.

In short, we have a very comprehensive regulatory and supervisory agenda. Our ultimate objective, as I said, is to provide the market with an orderly framework that facilitates the development of sustainable finance on the basis of transparency and credibility of information, which generates investor confidence and protection.

[13] As a result of the direct application since March of the European Disclosure Regulation.
[14] The Vice-Chair chairs the Coordination Network on Sustainability (CNS).
[15] The Chairman of the CNMV is Vice-Chairman of the IOSCO sustainability task force and co-chairs, together with the UK FCA Chairman, a sub-group on issuer disclosure.

This is a goal that we cannot achieve alone, as is reflected in the study presented today. All of us who participate in the markets, by fulfilling our respective responsibilities, have to contribute to the common goal.

Thanks for your attention. And congratulations again on the study presented.