



THE CNMV PUBLISHES THE REPORT ON THE BREAKDOWNS OF EUROPEAN ENVIRONMENTAL TAXONOMY OF FINANCIAL INSTITUTIONS FOR THE 2023 FISCAL YEAR

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- The report describes the information published by financial entities issuing securities on the degree of environmental sustainability of their financial activities, in line with the sustainability taxonomy established by the EU framework.
- This is the first year in which financial issuers have had to provide information on the extent to which their financing, investment, management or underwriting activities are aligned with the objectives related to climate change, mitigation or adaptation.
- The data shows that the alignment indicators published by financial institutions have been considerably low when compared to the eligibility indicators.

Today, the Spanish National Securities Market Commission (CNMV) published the [“Report on the breakdowns regarding European Taxonomy of financial entities. 2023 financial year”](#). The document describes the features regarding eligibility and alignment with the European environmental taxonomy by financial institutions issuing securities admitted to trading on EU regulated markets.

Environmental taxonomy is regulated by Regulation (EU) 2020/852, which establishes the requirements for an economic activity to be deemed to make a substantial contribution to an environmental purpose. An activity is considered eligible when it falls within the activities described and covered by such Regulation. In order for activity to be aligned, in addition to eligible, it must meet the following three requirements:

- Make a substantial contribution to one of the goals related to the environment;
- Refrain from substantially harming the remaining objectives (DNSH); and
- Respect minimum safeguards (MS).

Among such indicators, we can highlight the Green Asset Ratio (GAR), provided by credit institutions, and, in the case of insurance companies, the key performance indicator (KPI) and the proportion of premiums of non-life insurances and reinsurances.

Some conclusions

Seven of the eleven financial institutions required to report on taxonomy are credit institutions, three belong to the insurance industry and the remaining one is an investment services and asset management company.

From the data provided by entities, and with the exceptions detailed below, low percentages of investment alignment (CapEx) with the climate change objective of adaptation can be concluded, which would be, partially, indicative of low investment in climate resilience and the limited supply of financial products specialised in its financing.

The insurance sector is an exception, as the average alignment indicator related to non-life insurance premiums, a product that contributes exclusively to alignment, exceeds the percentage associated to investment portfolios.

Overall, data shows that alignment indicators have been considerably low compared to that of eligibility. Bearing this in mind, in terms of stock, the Green Asset Ratio (GAR) has a 1.71% average, when based on the turnover KPI, and 2.08% when based on the CapEx KPI, while the ratios for eligibility were 34.79% and 35.36% respectively.

Such low levels of alignment are proof that there is still a long way to go to meet the criteria established by the EU Taxonomy and to fast-track the ecological transition.

Comments from entities

Most entities indicate that the reported indicators do not properly represent the size and weight of their aligned investments, mainly due to the disproportion between the assets subject to their inclusion in the denominator and those available to be considered in the numerator of the ratio.

Current methodology does not allow exposures to companies that are not subject to the Directive on non-financial reporting (NFRD), such as SMEs and companies from non-EU countries, to be included in the numerator, while they are in the denominator. This may lead to a degree of imbalance in the indicator and cause a trend of low values, depending on the business model of each financial institution, its client base and geographical presence.

Such restrictions would have prevented the inclusion of some transactions in these indicators, such as the financing of wind farms or solar projects, had they been granted to companies not required to report under the NFRD Directive. This has implied that the highest eligibility figures belong to the household portfolios. Moreover, according to the issuers themselves, certain difficulties can be highlighted to properly reflect the investment and financing in the decarbonisation of the economy, such as uncertainties in the completion of the templates, lack of information regarding the alignment of their financial counterparties, considering

it is the first year of mandatory disclosure, or the lack of documented evidence to ensure compliance with DNSH and MS principles.

Areas of improvement

While the information provided by financial institutions, relative to the 2023 fiscal year, has represented a step forward in the implementation of the Regulation (EU) on Taxonomy, certain observations or recommendations are relevant for issuers to keep in mind, in the CNMV's view, to improve taxonomy reporting in the future:

- If an issuer chooses to include additional voluntary disclosures, these must not be part of the obligatory disclosures, nor contradict them or be highlighted. Additionally, it is important to justify their inclusion, explain the methods applied and detail how they differ from the mandatory information.
- Templates must be completed according to regulatory requirements, without modifications.
- It is important to ensure compliance with the DNSH and MS principles when determining the alignment of an activity.
- Groups with subsidiaries in different areas (asset management, banking, investment firms or insurance activities) should provide indicators for each segment, in addition to including a consolidated indicator.
- Insurance companies must state the approach applied to estimate the alignment and eligibility of premiums for comprehensive insurances.
- Explanations attached to taxonomy indicators should be clear, specific and avoid generalities, including qualitative and quantitative aspects. It is essential to detail the assumptions used, significant judgements, and explain modifications of previous figures, providing justification for relevant variations.