Closing speech of the "Working Towards More Sustainable Finance" Conference

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Good afternoon.

First, I would like to thank all the speakers and participants for their attendance and, specifically, the First Vice-President of the Government and Minister for Economic Affairs and Digital Transformation, who is joining us to close the series of conferences on sustainable finance organised by the CNMV.

The different panels of said conferences allowed obtaining greater understanding of some of the key aspects of incorporating a sustainable point of view to finance. Let me share some insight on the topic.

For some years now, the CNMV includes among the three or four strategic lines of action the objective of facilitating the contribution of capital markets to the sustainable transition we are experiencing.

It's common to hear that finance is not part of the problem (at least of the problem at hand), but it can be an important part of the solution. It is also said, rightly so, that the channelling of financial capital on beneficial terms to sectors and companies that so require to finance the ecological transition is an accelerating element of such transition.

Nonetheless, financial intermediaries and managers do not act out of altruism. They have not become, all of the sudden, champions fighting against climate change or social exclusion, turning into Saint Paul-like beings. They act mainly as they perceive deep changes in their end clients' preferences, whether they are retail or institutional clients.

Those companies that launch green bond programmes or make efforts to present themselves to financial markets as sustainability-sensitive are probably not doing so spontaneously either. On one hand, they act on the long term to ensure the company's survival in certain sectors and, in the short term, because they compete with other issuers in the capital market for a scarce resource: funding.

The processes, the competition for the supply of funds of final clients and the competition of issuers for capital in international markets, are common and well-studied processes in economics. While this time round, they interact in a way that, if the regulation and monitoring is appropriate, we may be able to set it down the right path.

In my view, there are three keys to this.

The first is concerning regulation, which has been discussed in detail today, so I will not go into depth. It centres around the European conceptual framework, the most developed in the world, which includes taxonomy, the regulation on public disclosure, and the directives on non-financial reporting and due diligence. Transparency and sunlight act as disinfectants.

The second key is on supervision and consists of ensuring that the temptation to cover up data of an issuer or a product is not worthwhile. CNMV's Vice Chairwoman mentioned the latter in her opening speech. For the CNMV, it is an element we want to follow very closely.

In our stock market, and in particular in the collective investment industry, the sustainability factor is beginning to take shape and take centre stage. If we take into account the scale of the Regulation on Sustainability Information in the financial sector (the SFDR), until the middle of the month, CNMV registered 237 "Article 8" funds (that is, those promoting investments with environmental and social characteristics) and 14 "Article 9" funds, which target sustainable investments. In total, these funds together account for just under 35% of the total assets of investment funds, which translates to more than 100 billion euros targeted to investments associated in some way to sustainability. In addition to this data, 45 venture capital investment vehicles linked to sustainable investments or promoting sustainability have been registered.

Such figures mark the path for the coming years, even if the nomenclature adopted by the regulation ("article 8", "article 9" or "article 6" among others) is not, from a commercial point of view and from the point of view of understanding society in terms of the adoption of ESG criteria, the most appropriate.

In the area of supervision by the CNMV, there are three main areas. Securities issuers, collective investment, and ESIs. I will speak only about the last two, as the matter on issuers has been a direct or indirect subject of two of the panels.

In regards to collective investment, the CNMV is supervising in different phases, as European regulations are slowly coming into force. The first stage for this year is focused on reviewing IICs of articles 8 and 9. Specifically, as stated in the Activity Plan, there is an analysis to see if the portfolios of these funds are consistent with the information provided on the website and the prospectus of each fund in relation to the sustainable characteristics and objectives stated. Likewise, the methodology used to analyse ESG aspects, the asset selection criteria, the sustainability indicators and data sources will be reviewed. Similarly, the transparency regarding environmental, social and governance aspects provided on the website and in each fund's annual report is being reviewed to ensure its compliance with the formal and content aspects of the Disclosure Regulation.

In regards to the supervision of IFs and CIs, the CNMV has been attending to queries and doubts raised by entities within the scope of application of the Disclosure Regulation on information regarding sustainability in the financial sector. As a result, in June of 2021 we developed a Q&A document in order to transfer the interpretation criteria to the industry for the correct application of reporting obligations resulting from the Disclosure and the Taxonomy Regulations.

Likewise, from the last quarter of this year, the CNMV will carry out a horizontal supervisory action in relation to certain transparency obligations resulting from the Disclosure Regulation. The action will focus on obligations already in force that do not depend on pending regulatory developments.

Now, moving on to the third of the three keys I listed above. This one comes to be given the connection between investors' preferences and their investment portfolios.

Europe has done something that no other economic zone in the world has done yet, and is probably, in my opinion, the most powerful element in this whole regulatory scheme. Most of what I have mentioned to so far is in regards to the publication of information. Notifying investors or the company in order for them to make decisions accordingly.

But, one small extra step can make a difference. I refer to the sustainability preferences of investors. The amendment to the MiFID II Delegated Regulation has been applicable since last August, which incorporates the notion of sustainability preferences as an additional characteristic of the client, in parallel to their risk aversion, investment horizon or degree of financial knowledge. A legal amendment requires that each investor receiving financial advice or subject to having their portfolio managed by the entity must be asked whether they have sustainability preferences, what these are, for the entity to record the latter, and apply them when providing advice or managing their portfolio. In other words, a financial institution or IF simply cannot advise a client to purchase a financial product that does not fit with their stated sustainability preferences.

This small step means moving from transparency and information to action. It means handing over the steering wheel to the investor and following the course they want to set. It then goes from being a small step to a large one. Of course, we now depend on how investors' environmental, social or governance preferences develop. It can either follow a course of a greater emphasis on sustainability or the opposite. It may seem very optimistic, but my feeling is, observing how our societies are transforming and particularly how new generations are dealing with these issues, that clients will express increasingly strong sustainability preferences. The step will prove, in the medium term, to be truly transformational for the way in which finance channels flows to certain sectors or activities in our economies, facilitating environmental, social or governance transitions.

The criteria for the implementation of this new obligation have been set out in recently published ESMA Guidelines (23 September 2022), developed by the European supervisor's investor protection committee, which I have the honour of chairing, and which are expected to be implemented 6 months after their translation into the official EU languages. CNMV plans to start supervisory actions related to the application of these new obligations in the suitability assessment by the end of 2023, once the Guidelines become applicable.

There are many more relevant areas, many of which have been discussed in detail in the panels and which I do not intend to elaborate further on today: the forthcoming requirements for investment funds from January 2023; sustainability reporting by securities issuers from 2024, or the expected convergence between ISSB global standards and EFRAG European disclosure standards, which will apply to our issuers.

What is undeniable is the complexity and magnitude of the change at hand. For issuers, funds and their managers, compliance officers, reviewers or auditors of financial and non-financial information, investors and, incidentally, for supervisors themselves.

It is also perceptible, for those of us who have lived through several waves of financial regulation, the sense of a new era, of a paradigm shift, that can be perceived when taking a step back and witnessing the horizon of regulations, even if it is still under construction.

But, this time, we are not responding to a major financial crisis or resolving an unpleasant situation of instability. We are building a new financial framework to improve the future of the planet and our societies. It is an equally difficult task, but undoubtedly more rewarding and exciting.

I hope that you have enjoyed the series of conferences and hand the floor to the First Vice-President, thanking her once again for her participation, who will close the conference.

Thank you very much.