



“Sustainable finance as leverage for transition” Institutional Opening Session of the 2nd ESG Forum - El Economista

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Good morning. Thank you Joaquín for your introduction and thanks to El Economista for the invitation.

I am delighted to be here and happy to see you consolidating these ESG sessions. I said so last year and will now insist, I believe it is crucial that specialised media, such as El Economista, shine a light on and provide rigour to the challenge of the development in the sustainable finance sector.

Last year I focussed on the sector’s growth considering the new regulations; today, after this initial growth stage, the focus is not so much on how to boost the sector, but on how to do so properly, without misleading investors or shedding doubts on the degree of sustainability or on how “green” the company or product in question is.

I will tackle this thought by focussing on two equally important areas: first, that of companies and their governance; second, that of new sustainable investment products. Both these subjects will also be addressed in today’s forum.

Towards more sustainable good governance

There is a very interesting debate regarding corporate governance on what the scope of the mission of companies should be, in other words, to what extent these should include elements that are beyond purely financial matters, and how to incorporate incentives to attain more sustainable and resilient companies in the long term.

This is not new. The corporate governance concept has been in development for years, from just focussing on incorporating shareholders’ interest, to also considering the preferences and interests of a wider set of stakeholders, these including employees, clients, suppliers and local communities. That is to say, taking into account the community the company interacts with along the entire value chain.

This has encouraged companies to redefine their mission following a more modern approach, one including their best interests, this meaning the search for profitable and sustainable business in the long term.

At the CNMV, we already included this change in our review of recommendation 12 of the Good Governance Code, two years ago, and last year the OECD itself commenced, together with the G20, a far-reaching review process of its Corporate Governance

Principles, which is to conclude next year, placing particular emphasis on how to incorporate the ESG scope to the corporate governance practices.

But the debate is still underway. Sometimes, there is reference to the need to find a balance between financial results and the inclusion of social and environmental issues. Other times, the role played by companies to attain certain climate and environmental objectives is questioned.

In my opinion, I believe focusing on the debate in this way is wrong, especially if we are to maintain, as we should, a medium to long term approach.

In other words, if we look further ahead, there is no dilemma regarding the results and the ESG scope. The contribution by companies to social and environmental matters is closely related to value creation, an area in which reputational aspects and other intangible resources are increasingly important to companies.

Therefore, the challenge is how to get Spanish companies to adapt to this new reality. Because failing to do this is not an option. The question is how to do so while maintaining the competitiveness and financial sustainability of our economy. This is particularly complex in the case of small and medium-sized enterprises.

So, what does this challenge comprise?

On the one hand, companies must straight away include in their strategies the potential or actual impacts of the so-called physical and climate transition risks they are confronting. That is to say, how climate risks have an impact of their business. We should bear in mind that this risk can be greater in certain sectors.

On the other hand, they have to measure and control how their activity has an impact on the surrounding community and society.

And these strategies must be accompanied by specific long-term objectives to reduce these risks, based on scientific evidence and backed by a clear incentive system.

Within this context, I believe it is very important to favour the implication of and the dialogue between investors and companies, and I refer to listed companies in particular. For this there are recently approved measures that help, both for companies to be well aware of their shareholders and to favour the active involvement of institutional investors in the management of companies.

Regarding the latter, the CNMV will soon publish a stewardship code, with the adhesion and compliance of institutional investors, which will be of great use to favour a sincere dialogue leading to more sustainable and less short-term business, this short-termism being one of the factors that contributed to the crisis in our recent past.

By looking at the figures, we could say that we are not doing badly as a whole.

From among the Ibex companies, 66% already publish social and environmental objectives, it being true that they still focus too much on the short term and less on the long term.

The relevance of the ESG factors is also confirmed by the greater number of companies with specific sustainability committees in their Boards, 74% of the Ibex in 2021 compared to 44% in 2019; and with directors with certain experience in sustainability matters (69% in 2021 compared to 35% in 2020).

This greater concern regarding sustainability has also shifted to the internal organisation of companies: 80% of Ibex companies now having specific sustainability departments, compared to 68% one year ago.

The challenge is undoubtedly enormous, as the reporting and transparency obligations continue increasing. And there is still a lot to be specified. The obligations to inform on the degree of alignment of the activities with the taxonomy will be joined by the future Directive on sustainability matter reporting, which will impose obligations on companies with more than 250 employees. We are talking about a universe of over three thousand companies in Spain. The fiduciary responsibility and the need for control will also increase.

That said, as shown by Ibex data, large companies seem to have sufficient tools to adapt to this new environment.

The point is that many of these obligations go far beyond large companies, may they be listed or not. And they affect small to medium-sized enterprises, which is the main challenge. We must also find the way to help small to medium-sized enterprises in their adaptation process. The sustainability challenge is a cross-cutting challenge and, with SMEs being one of the main motors driving the economy of our country, we must also support their economic transition if we want greater competitiveness and efficiency.

Sustainable investment funds

The second area I wish to briefly address refers to sustainable products, specifically to investment funds, and how to measure their level of “sustainability”.

The Regulation on sustainability-related disclosures in the financial services sector (SFDR) has been applicable for almost two years. This regulation establishes, among others, certain transparency requirements in terms of the classification of products in Article 8 or 9.

The objective of this regulation was not the classification or labelling of investment funds, but to regulate the information and the degree of transparency provided to investors for these to know the social and environmental impact of their investments and to allow them to choose better how to invest.

In this way, for example, a fund with sustainable investment objectives, regarding which Article 9 is applicable, must describe in detail its objectives, the policy followed to attain these or what indicators will be followed to measure the negative impact the investments may have on the environment and society, among other matters.

However, the distinction between funds in Article 8 and funds in Article 9 – “light green” funds, promoting environmental characteristics, or “dark green” funds, having sustainable investment objectives – is being used rather as a label or a system of fund categories. That is, a framework whose main objective was to regulate transparency is being used as if it were a framework to simply categorise the products for the final investor.

This may generate a certain degree of confusion for investors as the characteristics the funds have to fulfil, in particular the so-called Article 8 funds, are not 100% clear.

This lack of clarity has caused some of the so-called Article 9 investment funds to be reclassified as belonging to Article 8 in Europe. And there is no doubt that these movements can cause mistrust among investors regarding the degree of sustainability of the product.

These changes are not being observed in Spain, where I believe we are following a rigorous process. In fact, at the CNMV we are carrying out a detailed analysis of the consistency of the information appearing in the prospectuses of investment funds having sustainable characteristics regarding portfolios declared in the confidential information statements sent to us monthly.

But the lack of clarity remains. And to avoid misleading investors, I believe we must move forward with a better regulation of the labels of these products, since there is nothing that informs investors better, in a more powerful manner, than the label or the name of a fund.

Some countries like France established their own national labels years ago, but we must not follow national approaches nowadays. What is desirable is to have a common European label, an eco-label to classify sustainable funds.

We will be forced to continue being careful in the use of ESG terms with regard to the names of funds until we move forward in that direction.

That is what we are doing at the CNMV: the use of expressions such as “sustainable” and “sustainability” must only be used for funds effectively with sustainable investments, using other terms such as “impact”, “social”, “ethical” or the like only when they are consistent with the characteristics and the investment policy of the fund.

But, as I said, we need to have a European approach, one followed in all jurisdictions. In this area, I welcome the consultation published by ESMA to establish certain minimum investment percentages for the use of ESG terms in the names of the funds. It’s just a proposal, but anything that helps us forward the harmonisation of criteria means going in the right direction, since the sector continues to grow, with the volume managed reaching 34% of the assets under management in Spain.

To conclude, sustainable finance is a reality that is here to stay. And the regulatory framework under development in Europe is going in the right direction, generating the appropriate incentives and increasing transparency.

It is true that certain precautions are taken, given that the framework is incomplete and that this could lead to doubts of investors on the real destination of their funds. I have also highlighted the challenge that sustainability and adaptation reporting obligations can pose to smaller companies.

As a whole, this is a golden opportunity for our economy that we cannot miss and I encourage everyone to continue moving forward. On our part, we will do everything in our power to maintain the confidence in the progress up to now.

Thank you and I hope you enjoy the rest of the day.