

PWC. Conference on Corporate Governance

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It is an honour for me to be speaking here today and reflect on the current state of corporate governance: a field that is undergoing constant transformation. I would like to personally congratulate you on the report you are presenting today, which is invaluable for understanding the trends and challenges facing corporate governance in the United States and how to appropriately respond to them. Lessons learned are of equal value here in Europe.

The economic, technological, and social transformations of recent years compel us to reconsider corporate governance structures to ensure they remain effective, sustainable, and reliable. In this context, I would like to centre my speech upon three key areas: the challenges and trends shaping the future of corporate governance, the current approach of Europe and the United States, and lastly, I will provide some insights on the upcoming update of the Good Governance Code for Listed Companies in Spain.

1. Challenges and Trends in Corporate Governance

Five major trends stand out, each posing a different challenge for corporate governance to navigate:

- The first key challenge lies in the growing importance of **ESG criteria**—environmental, social, and governance—within business strategies and objectives, at least in Europe. Companies must strike a balance between sustainability and innovation in a rational manner, seeking a more efficient regulation that fosters economic development without compromising the ethical and environmental principles demanded by society.
- Adding to this evolution is the second key factor: **technology**. Digitisation, cybersecurity, and, increasingly, artificial intelligence, are transforming business management. However, it is important to remember that artificial intelligence is a supporting tool for the Board, not a substitute for human responsibilities. Directors require training and support to integrate AI responsibly, as a tool that enhances efficiency and control, but without delegating decision-making to it.
- The international **geopolitical and economic context** adds new layers of complexity. Companies must anticipate risks, adapt their strategies, and

reassess their board structures to incorporate profiles with expertise in technology, international affairs, and sustainability.

- The fourth challenge would be **diversity**—not only in terms of gender but also encompassing other aspects such as age, as well as the new demands arising from geopolitical uncertainty and emerging technologies.
- The last challenge would be enhancing and safeguarding the **competitiveness** of companies. The increasing demands regarding corporate governance should not lead to a loss in competitiveness. Therefore, striking the right balance between responsibility and competitiveness is crucial.

2. What is Europe's and the United States' approach to these trends?

European and U.S. corporate governance models have gradually aligned on some key principles, such as board independence, transparency, risk assessment, and responsible remuneration. However, significant cultural and regulatory differences remain, particularly in how social interest and shareholder relations are understood.

- **The United States** maintains a more contractual approach, with a market-driven approach focused on creating **value for shareholders** through mandatory regulations. In the U.S., there has been a noticeable decline in environmental and social proposals, with a stronger emphasis on governance-related issues (such as board composition, voting rights, and capital structure).
- In contrast, **Europe** is moving towards a more inclusive and flexible model, based on a “comply-or-explain” approach, with a more institutional view of social interest that prioritises **investor protection and sustainability**.

Debates have been ongoing about the advisability of moving towards a **single European code**. This idea may not be easy to implement in the short term due to differences in commercial legislation across jurisdictions.

However, we do identify **areas where a certain degree of convergence could be achieved**, leading to a more efficient corporate governance framework at the European level. Examples include: a recommendation- and principle-based structure, a voluntary approach subject to the comply-or-explain principle, the importance of independent directors, and an appropriate remuneration policy for directors, among others. There is also a growing trend towards a more institutional interpretation of social interest, ensuring that governing bodies consider the interests of the various stakeholders in society, not just those of their shareholders.

3. Update of the Good Governance Code in Spain

In Spain, we are familiar with the new trends and challenges related to corporate governance. Since the approval of the last code in 2020, several regulatory changes have been implemented, as well as the publication of the OECD principles in 2023. All of this underscores the need for a thorough review of our Good Governance Code for

Listed Companies, updating areas that have become outdated, adapting to the new landscape, and aiming for a simpler and more flexible model.

At the CNMV, we have initiated the **review process** the Good Governance Code for Listed Companies, which we expect it to be concluded during the first half of 2027.

As in previous instances, a multidisciplinary **advisory expert committee** will be assisting the CNMV in this process. Additionally, specialists will be appointed to provide advice on specific matters through bilateral engagement.

The following points are worth highlighting, among others:

- Structure and content will be reviewed seeking **flexibility and simplicity**. Currently, our code is one of the most extensive in the world. The aim is to reduce its content by around 30%, making it more operational and better aligned with other codes, such as those of the UK and Germany. This is not about lowering standards, but rather reinforcing the effectiveness of its principles.
- The new approach will strengthen the “comply or explain” model by adding the **“apply and explain” approach to the principles**. We believe that, at times, declaring compliance with a recommendation is insufficient, as there are several ways to implement it. Therefore, a due explanation of how said principles are implemented is necessary.
- New challenges in **sustainability and emerging technologies** will be incorporated. We will place special emphasis on sustainability, integrating it as a cross-cutting principle. New recommendations on digitisation, artificial intelligence, and cybersecurity will also be included.
- Appropriate adjustments will also be made in regard to **parity**, in light of the recently approved Organic Law on Gender Parity. Last month, we published a Q&A document to clarify questions regarding the interpretation of the regulation.
- In addition, other matters included in the code will be reviewed, such as remuneration policies and the role of the coordinating director, among others.

In short, we are at a critical juncture to undertake a thorough review of corporate governance. The experience gained over these years of implementation, the new emerged landscape, the trend towards simpler and more efficient frameworks, and the need to move towards a certain degree of convergence are some of the factors driving this context of reflection and review.