Companies and sustainability: the importance of reliable and comparable reporting

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Good morning. Thank you, Pedro, for your presentation. And to the organisers for their invitation. Congratulations for this event, we do require forums like this one to share the different initiatives underway for sustainability to progress.

We have certainly advanced as a country regarding the integration of aspects related to environmental and social sustainability. And an important part of this progress is possible thanks to the efforts made by companies to adapt their business and improve the information and transparency offered to the market and to investors.

Currently we are at a crucial moment, one at which voices can be heard alerting that the advances are excessive. These statements are a cry highlighting the complexity of the regulatory framework; the intensity and speed at which changes want to be implemented; the lack of definition in certain areas; and the risk that many companies may prefer to put the brake on before being, to put it simply, accused of selling smoke.

They are quite right as regards certain issues, it being true that the framework is complex, having many regulations being developed concurrently, without being complete and showing a lack of clarity in some areas, in particular regarding the part on investment. No one said the path would be easy, not in the slightest. There are many challenges ahead and many will surely be referred to in the panel expected to meet hereafter.

But the fact is there is no turning back. And not only due to the political and regulatory boost deriving from the European agenda and the Paris Agreement, but because there is a growing demand by investors, clients and society as a whole for a more sustainable growth model and economy. In this context, companies that do not adapt, those without a good transition plan with specific objectives, clearly face an uncertain future in my opinion.

Companies must freely adopt the commitments they consider most appropriate for their purposes and goals, and act accordingly. Our role as supervisors is to ensure these companies offer the necessary information and transparency for investors to decide on their funds in the most appropriate manner.

This leads me to the point on which I would like to focus today: the reliability and veracity of the information on sustainability disseminated by companies. How much we can trust what they say. What is missing? What can we improve?

Information on sustainability

It is five years now since the Spanish regulation requires companies with more than 500 employees to publish information on sustainability (previously called non-financial information) in their management reports. Since 2021 this requirement includes all companies with more than 250 employees[1]. Furthermore, this information must be verified by an independent third party in Spain.

This report includes different aspects related to the climate, such as the carbon footprint, social issues like the pay gap, and governance and business model aspects, among others.

The problem is that companies still lack a common set of reporting standards for accounting, such as those regarding financial information, offering a clear and homogeneous framework of reference. Therefore, information on sustainability still lacks the comparability and consistency necessary between companies and throughout time.

But this is changing very rapidly thanks to the European legislative initiative and the international agenda.

In fact, a new Directive came into force last January in Europe, known as the CSRD[2], which reinforces the regulations on environmental and social information of companies. This Directive extends both the content of the information and the number companies with a reporting obligation. And even more important, it establishes that information must be in accordance with the **European Sustainability Reporting Standards** (ESRS), whose first draft has been published by EFRAG[3], its approval being expected this coming June, for it to be applied gradually from 2025 onwards with information from the 2024 financial year.

In order to face these new obligations, it is essential for companies to immediately start adapting to the new requirements if they have not done so already.

This requires the previous implementation of appropriate internal procedures regarding information identification, collection, control and verification as, although the Directive is to be applied gradually, starting with larger-sized companies, that is,

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[1] As set out in Law 11/2018, only with the exception of small to medium-sized companies in accordance with Directive 2013/34/EU.
[2] Directive (EU) 2022/2464 as regards corporate sustainability reporting (CSRD).
[3] *European Financial Reporting Advisory Group.*

those of public interest with over 500 employees[4], collecting the information can be a challenge for many companies. For example, let us consider the difficulty of collecting information on the value chain and providers of companies with greater international presence, more decentralised or forming part of a complex value chain, of which they are only an isolated part and without a significant influence on the rest of the branches of activity.

So, what about the information already being published?

At the CNMV we perform a formal and substantive review of the non-financial information sent to us by listed companies[5] and publish a detailed report including our conclusions and recommendations for improvement[6]. Please allow me to indicate three areas highlighted in this review:

1. **Firstly, on information related to the climate, one of the priority areas for review being that regarding greenhouse gas emission breakdowns** and the measurement of the carbon footprint. Here we can see that almost 100% of the companies report Scope 1 and 2 emissions, while only 70% report Scope 3 emissions[7].

   Although most of us are becoming familiar with the new terms, a reminder: Scope 1 emissions are "direct" emissions, caused by the operation of the parts owned or controlled by a company; Scope 2 are "indirect" emissions deriving, for example, from the generation of the electricity used; and Scope 3 emissions would be the rest of "indirect" emissions, resulting from the activities occurring at sources neither owned nor controlled by the company[8].

   At the CNMV we continue stressing the importance of enabling Scope 1 and 2 emissions, but also Scope 3 emissions. Regarding these Scope 3 emissions, the measurement methodology should be improved for it to be as exhaustive as possible. This would entail, for instance, not including just employee business travel emissions, but all other emissions from the remaining value chain, or those deriving from credit or investment portfolios in the case of banks.

   Moreover, it is appropriate for companies to compensate for their emission of greenhouse gases into the atmosphere, for example, via investments in

[4] Its application starts (in 2025 regarding information from 2024) on companies subject to the current NFRD, public-interest entities with more than 500 employees; one year later extending to large companies currently not subject to NFRD (+250 employees and/or a turnover of €40 million and/or total assets amounting to €20 million); the following year on listed SMEs (except micro-enterprises), small and non-complex credit institutions and captive insurance and reinsurance undertakings; and, finally, in 2029 regarding information from 2028, on non-EU companies with a turnover of €150 million in the EU and having a branch or subsidiary in the EU that exceeds specific thresholds.

[5] From a selection, following risk-based models among other aspects.

[6] Supervisory report by the CNMV on non-financial information and main areas for review of the following financial year. Financial year 2021.

[7] Only four entities of 107 with a reporting obligation do not report Scope 1 and 2 emissions, with 38 not reporting Scope 3 emissions.

[8] For example, the extraction and production of materials acquired, the transport of such materials in vehicles not belonging to the organisation, the final use of products and services produced by the company, etc.

environmental projects, although emission data should be presented both net and gross, that is, without net compensation. In fact, we strongly insist on the importance of informing separately on either issue.

The information provided should allow for the progress to be compared and assessed year on year, as the total amount is as important as its development. But such development should not be restricted to that regarding historical data, it should also shed light on the progress in the face of future, predetermined and declared objectives.

2. **In second place**, 2021 was the first financial year in which companies with more than 500 workers had to publish the percentage of their **economic activities were eligible according to the Taxonomy**[9], either in terms of turnover, investment in fixed assets, or operating expenses.

   This information is important, used in an ever-increasing manner from the investment standpoint, albeit being properly understood. The fact that a company does not have eligible activities according to the Taxonomies Regulation does not mean that it performs activities that are harmful to the environment or unsustainable. Not being included can be due simply to the current scope of development of the taxonomy.

   In fact, a fairly diverse magnitude of the indicators can be observed in the information published. Electricity and construction companies have high indicators, over 80% in the latter case, while those in the pharmaceutical sector, for instance, are much lower.

   Future developments in taxonomy will make it possible to consider the positive contribution of more activities with regard to climate change or other environmental objectives of the EU, thus increasing the percentage of activities with a positive contribution[10].

3. **Last but not least, within the social scope, I will also highlight the analysis of the pay gap data.** Almost all companies offer this information and a certain improvement in its depth and granularity can be appreciated, but there is still a long way to go. Even though 90% of the sample reviewed provided the pay gap with some kind of segmentation, under half of these also broke this down according to age, geographically, or a combination of these.

   This is important as data simply at company or group level without any segmentation, which should at the very least be according to professional

[9] Breakdowns required by Article 8 of the Taxonomies Regulation.
[10] On the other hand, it is also worth noting that this refers to eligible activities, not aligned ones. This will be a further step to be published next year.

category and country, can lead to erroneous interpretations regarding the actions of the company to promote diversity.

As stated from the start, there is still a long way to go to for the sustainability report to reach the level of reliability, comparability and veracity we have in the case of financial information.

But this is fully understandable. Let us consider that we are developing a new framework, a new language, with standards, control and verification systems which, in the case of international financial information regulations, we have been dealing with for over fifteen years and continue improving year after year. Now we are developing a whole new framework for sustainability information in barely three years. We will necessarily make mistakes along the way, there will be areas requiring improvements, but this cannot stop or delay our advance.
The situation becomes even more complex when considering the international dimension, when we are fully aware global, not simply European, homogeneous standards are required within a context in which our companies are increasingly international. As a result, the work carried out by the ISSB and driven by IOSCO, the organisation bringing together the world's securities regulators and whose head office is here in Madrid, is essential.

Today I have focussed on reporting, on information, but sustainability for companies is much more. They have to adapt their structures and business models.

I don't believe there will be a debate between environmental and financial returns in the middle to long term. In fact, companies have to take into account how their activity has an impact on the environment and social surroundings, while also how ESG factors impact their business. This is known as the double materiality criterion or principle and neither perspective is exclusive. The impact of a company on the environmental and social surroundings in which it operates can, to a certain extent, end up also having an impact on its returns and on the value creation of the company. But both impacts are relevant, as argued by the European approach. In the end, more and better information on both perspectives is what will help us understand these interactions and cross-cutting effects better.

The responsibility of companies and managers on environmental and social aspects is also increasing. There is a new European Directive on due diligence, its adoption expected to occur in the next few months, which precisely seeks to ensure a responsible business conduct, where activities do not affect human rights of workers or the environment in a negative manner (for example, by avoiding pollution and the degradation of biodiversity). This will surely help in raising company awareness of their social and environmental responsibility, in turn fostering a more inclusive and a fairer society.

I will now conclude. You may say that I did not mention the term on risk of greenwashing, the truth being that this was implicit in all I have said. All we are doing seeks to build the trust for sustainable finance to develop and aid in the transformation of the economy towards a more sustainable growth model. Companies are an essential cog in this wheel. On our part, the CNMV will continue working to enable the development of sustainable finance thus contributing to this transformation.

Thank you.