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COMISIÓN NACIONAL DEL MERCADO DE VALORES

"The need for further progress in sustainable finance"
ESG INVESTMENT AND SUSTAINABLE FINANCE FORUM

MONTSERRAT MARTÍNEZ PARERA, VICE-CHAIR OF THE CNMV
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Good morning. Thank you very much, Joaquín, for your kind introduction. And thanks to El Economista for inviting me to participate in the opening of this first edition of the sustainable investment forum.

I am also pleased that a medium such as El Economista, which this year celebrates its fifteenth anniversary, is launching initiatives such as the one we are discussing today. I believe that, on issues such as sustainability, that is, in the face of such a relevant and new phenomenon, the media play an essential role in offering society truthful, clear and critical information that helps us separate the wheat from the chaff and to order the debate. So, thank you once again. It is a pleasure to be here with you all.

Thinking about what reflections I could share with you here today, and reviewing past speeches, I realised that in the year (almost a year) that I have been vice-chair of the CNMV, more than half of my speeches and participations in public events have been related to sustainable finance. And, in this context, one inevitably begins to feel the danger that some of you may think that I am repeating myself. So, today I want to change the focus somewhat. I will spare you the details of the regulation and recent developments, because for that you also have several panels with experts in the respective areas in front of you.

Today I want to offer a more strategic, broader view on what role we want to play, as a country and as an industry, in facing the challenge of improving sustainability, and the need not to miss the sustainable finance train. There is no doubt that much remains to be done, as I will now discuss, but it is a reality that is here to stay and one in which we cannot afford to lag behind if we want to continue to play a relevant role in Europe.

Sustainable finance continues to gain relevance

As you are well aware, sustainable finance continues to gain in importance in Europe and globally and is gaining in importance in all parts of the investment value chain.

To illustrate this with some figures, a clear example is the growing trend in the volume of corporate issuance with some kind of sustainability label, such as green bonds or social bonds. In the European Union, sustainable denominated bonds are growing at rates of over 40%, reaching a total outstanding balance of around 890 billion euros last June[1].

The same applies to collective investment. The latest estimates from the IMF[2] suggest that global sustainable investment funds have more than doubled in size over the last four years. In Europe, the trend is similar. The value of sustainability-denominated investment funds in Europe reached 1.5 trillion euros in June 2021, a year-on-year increase of 46%. As a result, ESG funds now account for around 18% of assets under management[3].

What factors are behind this development? What is driving it?

On the one hand, there is an intense demand from investors, in particular institutional investment funds, for sustainable products. Thus, large investment funds are actively integrating environmental, social and governance (ESG) factors into their investment strategies.

On the other hand, it raises the awareness of companies and society in general. More and more companies understand that their activity cannot be approached only from the point of view of simple economic profitability; this is no longer sufficient. Rather, they must follow a responsible business model that takes into account their impact on and relationship with customers, suppliers, shareholders and, ultimately, the society with which they interact.

Finally, there is also no doubt that the intense political and regulatory agenda is being an important catalyst for the development of sustainable investment. Here, the ultimate goal of regulation is to help economies transform their production model and move towards a more resource and environmentally friendly model. And what happens is that, in order to be able to make that transformation, large volumes of investment are required. The European Commission estimates the extra annual investments at 350 billion euros for the 2030 emissions targets for energy, plus an additional 130 billion euros for the other targets. It is therefore a question, on the regulatory agenda side, of having a responsible investment framework, which channels savings and finances the necessary investments to adjust business and consumption habits of companies and citizens.

Challenges ahead

As in any area of new development, the speed and acceleration at which sustainable investment is growing poses a number of short-term difficulties.

The main challenge facing the sector is that the regulatory machinery is still incomplete and imperfect. In other words, we do not yet have an adequate regulatory framework.

But please do not get me wrong. Much progress is being made, both at European and national level, on regulation. Without wishing to be exhaustive: we already have a

[1] ESMA, Report on Trends, Risks and Vulnerabilities, II, 2021

[2] IMF, Global Financial Stability Report, October 2021

[3] ESMA, Report on Trends, Risks and Vulnerabilities, II, 2021

green taxonomy, which describes which activities are environmentally sustainable. We also regulate the information that investment funds must publish in relation to their sustainable investment strategies. There is significant progress in the area of corporate reporting on sustainability, and we also have draft standards for the issuance of green bonds. All these elements are part of the intense and ambitious European agenda, which I mentioned to you. However, the intensity of the sector's growth creates, in my opinion, two major problems, which I am sure will be mentioned during the course of today's forum.

Firstly, there is a lack of data, a lack of information, and when it does exist, it is not standardised or easily comparable. Here, it is important to highlight the work being done at the international level to homogenise the sustainability information that companies have to publish, so that they do so on the basis of globally accepted standards. But time is of the essence. In the best-case scenario, if, in the end, it is not delayed, i.e., if the international and European institutions that are working stick to the initially planned timetable, companies could publish their sustainability reports using common standards in 2024, on the 2023 financial year. In addition, many companies, especially smaller and less well-resourced ones, may find it difficult to live up to investors' expectations in terms of data and information. It is normal that, given this scenario, firms face certain difficulties in complying today with the information requirements already demanded by regulation, investors and citizens.

Secondly, in the regulation already in place, there is a lack of technical developments explaining how to comply with the reporting obligations set out in the European Regulations.

This is particularly relevant in the area of collective investment. Thus, for example, among other requirements[4], since last March, investment funds must include information on whether their investments promote environmental or social characteristics, or whether they have sustainable development objectives (so-called Article 8 and 9 funds, respectively).

But while we have the first-level obligations, we do not yet have the level-two developments of these transparency obligations. This time lag between the date of application of the obligation and the approval of the technical developments is making it very difficult for the sector to implement the new obligations. Moreover, it is not conducive to ensuring homogeneous application across jurisdictions.

There is no doubt, therefore, that meeting the existing requirements is no easy task. Something similar will happen on 1 January with the implementation of new reporting obligations under the Taxonomy Regulation.

The need to move forward without complacency

As a supervisor, I would like to point out that we are well aware of this problem. Faced with this reality, from the outset, we have tried to offer flexibility in the implementation of the reporting requirements, and we have published guidelines and guides to the sector, within the scope of our competences, to aid companies on this path. And we will continue to do so.

[4] Sustainable Finance Disclosure Regulation (SFDR)

The sector, for its part, must also devote resources and efforts to ensure that it does not fall behind. Turning to the area of collective investment and investment funds, the data in Spain suggest that there is a risk that the industry is not being sufficiently agile to adapt the product offering to the new reality.

In fact, we currently have a total of 154 investment funds registered as sustainable: 147 registered funds that promote sustainability and seven that declare that they comply with the highest sustainability requirements of the Regulation, i.e., that they directly target sustainable investments. We are talking about 17.4% of investment fund assets.

While this percentage is on an upward trend, it is somewhat below the EU average and, above all, far from the figures observed in other relevant European jurisdictions. This is particularly important given that a large proportion of the funds marketed in our country are foreign funds. In particular, in June 2021, funds from other jurisdictions had assets equivalent to 74% of the assets of Spanish CISs. In other words, slightly less than half of the assets of the funds marketed in Spain come from foreign funds. I would therefore encourage the Spanish sector to maintain the dynamism that characterises it and to adapt to new demands.

That said, as a supervisor, I must remind you that the growth and increase in the supply of sustainable products cannot be at the expense of the quality of investor information. Here, we must maintain rigour, as we cannot allow abuses that could lead to a loss of market confidence in the information published. In the end, the incentives to "gloss over" results and appear greener than they really are may not be negligible in the face of growing demand.

This is, in fact, one of the challenges facing supervisors in Europe, to avoid the so-called risk of greenwashing, that is, the dissemination of biased or unreliable information that is not in line with the reality of the sustainability characteristics of the product or company in question.

But it is a task for all of us, both supervisors and entities alike. We have common interests, and we want the sector to grow. And this is where I would like to appeal to the collective responsibility to find this balance that allows the sector to grow and increase the supply of sustainable products, and to do so in a rigorous and reliable way, staying faithful to the characteristics of the product.

We, for our part, will offer the necessary flexibility, provided that the reliability of the information and investor protection is not called into question.

Conclusion

I shall finish by saying that, as I said at the beginning, sustainable finance is a reality that is here to stay. Environmental, social and governance factors are all essential and inseparable components of the new economic and social model we are building together.

And if we want the private sector to help finance this transition, we must work to ensure that the funds are a success.

The road is not without its difficulties; I have mentioned several today. But we must join forces to get on board the sustainability train, in a responsible way, if we do not want to be left behind in the European league.

Today you have an interesting day ahead of you in which you are sure to share enriching experiences. Thank you very much for your attention. I hope you enjoy the day.