

## THE CNMV PUBLISHES THE ANNUAL SUPERVISORY REPORT ON NON-FINANCIAL INFORMATION OF ISSUING COMPANIES

16 March 2023

- This is the second year the CNMV prepares a separate supervisory report of the Non-Financial Statement (NFS) securities issuers are required to prepare and publish.
- The report contains good and bad practices that could be useful to improve the quality of NFSs.
- In the supervision of the 2022 NFS, particular attention will be paid to information on matters related to climate, to the scope of the information and the quality of the data, and to the breakdowns relating to Article 8 of the Taxonomies Regulation.

Today, the Spanish National Securities Market Commission (CNMV) published the [“Supervisory report by the CNMV on non-financial information and main areas for review of the following financial year. 2021”](#). The document describes the supervisory work carried out by the regulatory body in 2022 in relation to the 2021 NFSs of issuers of securities traded on EU regulated markets. It also includes certain priority areas for the supervision of the 2022 NFSs to be carried out by the CNMV.

Of the total 136 issuers that published their consolidated and/or individual annual financial report, 102 included the NFS in their management reports.

### **NFS verification reports**

It should be highlighted that only one issuer had qualifications in the verification report (none in 2020).

### **Analysis on the nature and scope of the verification reports**

Most of the verifiers limited the verification to the information required by Spanish Law 11/2018. The CNMV highlights the importance of the verified and unverified information being perfectly identified and traceable.

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## Supervision of non-financial information

The CNMV's supervisory work on the NFS follows an approach similar to that of financial information: formal, with regard to compliance with the presentation requirements and other specific aspects; and substantive, with an in-depth review of a specific number of companies, mainly focused on the priorities of ESMA and the CNMV, as well as on the material aspects of each company.

As regards the formal review, it should be noted that various recommendations were submitted to seventeen issuers, with requests for compliance being issued to nine companies regarding issues such as:

- The qualification in the verification report;
- The frameworks used;
- The tables of contents; and
- Article 8 of the Taxonomies Regulation.

Regarding the substantive review, recommendations were made to 20 issuers, and requests were issued to 13 companies, mainly in relation to the following aspects:

- Carbon footprint and reduction goal breakdowns;
- The indicators of Article 8 of the Taxonomies Regulation;
- The scope considered and the exclusions;
- The business model and third-party participation in the issuer's value chain;
- The breakdown of the materiality analysis on the impact of COVID-19;
- KPIs;
- the methodology and concepts considered for calculating the wage gap, explanation of the data and development;
- The coherence between the information in the notes of the report regarding provisions and contingencies, and that included regarding human rights and corruption in the NFS; and
- The variable remuneration linked to sustainability indices.

In most cases, the explanations submitted by the issuer in reply to the CNMV's request, duly supplemented the breakdowns required by law, or those recommended by ESMA and the CNMV in their priorities for

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the 2021 NFS, despite it being considered that there is still room for improvement in some aspects such as those detailed below:

### **Climate-related matters**

The CNMV highlights the importance of including, in the breakdowns of greenhouse gas (GHG) emissions, data with qualitative and quantitative explanations of their performance and development, highlighting that such breakdowns are most useful when provided with an appropriate segmentation and put into context using specific objectives. Advances in the quantification of the data corresponding to scope 3 is recommended. Furthermore, a special analysis on the carbon footprint breakdowns has been performed.

In addition, the inclusion of breakdowns allowing for the financial consequences of climate-related issues to be understood is recommended.

### **Article 8 of the Taxonomies Regulation**

The CNMV has performed a special analysis on the breakdowns by issuers in the first year this was in force. The way in which the indicators are determined must be described in detail, while describing how they are being prepared to comply with the requirements coming into force.

### **Scope of the NFS**

The scope of the NFS for each issuer must be clear and whether it is coherent with all the information included in the NFS, indicating and appropriately justifying any exception, while providing information on the relevance of the information excluded.

The CNMV considers that, even though the obligatory scope of the NFS refers to subsidiaries, the assessment of the non-financial risks taken on through shareholdings in associates or joint ventures must be explained at the very least.

### **Business model. Participation in the value chain**

The CNMV considers that the explanations must be improved on the activities of issuers, the relevant stages in their value chain, the role of

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significant stakeholders and the relevant non-financial risks associated with the participation of third parties in the value chain, how they are managed via their policies, while contributing information on their results.

### **Materiality**

The CNMV has observed that most issuers still fail to explain in their NFSs if, in their analyses, they took into account the underlying dual materiality perspective in the non-financial information Directive and in Spanish Law 11/2018, developed in the EC supplement on reporting climate-related information of June 2019. For this they must breakdown the time horizon considered in the analysis, it being recommended this includes the short, medium and long term.

In general, breakdowns are more focused on the “inside-out” perspective, or environmental and social materiality, although they should be completed from the “outside-in” perspective, or financial materiality, to attain and publish a complete materiality analysis. The assessment and definition of both perspectives are the cornerstone to determine what information is relevant for investors and other stakeholders, and enables avoiding the omission of material information, or the inclusion of irrelevant information. Furthermore, neither perspective is watertight, and the impact of the issuer on the environmental and social surroundings and on its stakeholders will, to a certain extent, eventually have an impact on the financial position and performance and the value creation of the company.

### **The impact of COVID-19 on 2021 non-financial information**

Although the great majority of the companies reviewed provided a reasonable description of the consequences of COVID-19 on their business and activities, it is considered that the breakdowns left room for improvement regarding its impact on the sustainability objectives of the company.

### **Key performance indicators (KPIs)**

KPI reporting is still an area for improvement, basically regarding the following: qualitative explanations on their development; the relationship between KPIs and the non-financial objectives of the company; the inclusion of information on the definition and calculation methodology, and the origin of the data used.

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### **Corporate and personnel issues**

Excessive heterogeneity is observed in the calculation formulae and the presentation of the wage gap. Furthermore, greater segmentation of the wage gap would be desirable (providing the information, at least, by professional category and country), considering all wage concepts being for its calculation, providing comparative data and explanations on its development regarding the objectives set, and a description of the plans and measures for its reduction whenever relevant.

### **Issues regarding respect for human rights and the fight against corruption and bribery**

The CNMV considers that issuers should be more specific in their risks and policies regarding these issues and their scope, indicating if these extend to their supply chain and distribution channels.

A reminder is given of the importance of the coherence between the information provided in the notes to the financial statements and that included in the NFS, for example, that relating to provisions and contingencies regarding labour aspects and other issues.

In addition, taking into account that the whistleblowing channels are one of the main instruments to learn about violations in areas regarding personnel, human rights, corruption and bribery, a reminder is given on the importance of improving the information on their characteristics and management procedures, while also on their results and explaining, where applicable, any significant impacts. On the other hand, the CNMV considers that issuers should not limit themselves to inform on the whistleblower complaints received but should also provide information on the communications received and resolved via other channels.

### **Supervision plan for 2022 NFSs**

In October 2022, ESMA published common enforcement priorities for the 2022 non-financial statements, which refer to the following matters:

- Climate-related matters;
- Breakdowns relating to taxonomy; and
- Scope and quality of data.

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In addition, the CNMV would like to highlight its decision to include, as a priority, a more detailed analysis of the breakdowns relating to the Taxonomy Regulation in its review of the non-financial information.

Similarly, any other issues such as the water footprint and the whistleblowing channel, or any other issue specific to any company, will also be reviewed.