



“The role of directors in a changing environment” ICA Certificate and Diploma Ceremony

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Good afternoon. Thank you, Juan, for introducing me, and thanks to the Institute of Directors/Managers for inviting the CNMV once again this year to this event to award certificates and diplomas in good corporate governance. I am delighted to be able to be with you, on this occasion, in person.

I would like to begin by extolling the important role that directors play in the good governance of companies, especially at the present time, when major global challenges such as digital innovation or factors related to environmental sustainability are gaining prominence.

The role of directors has always been key to promoting good corporate governance. They are, after all, the link between the various stakeholders, and as ownership in a company becomes separated from the day-to-day management, good directors help to resolve conflicts of interest between the two parties, especially in listed companies.

But today the demands on this function are increasing. As a result, directors, as well as senior managers, are increasingly required to have in-depth knowledge in a wide range of subjects. They are required to be able to manage organisations of increasing complexity in a changing and uncertain environment. They should be proactive with regard to new innovation phenomena and trends and know how to properly integrate societal demands in areas such as social and environmental contribution, without losing sight of the company's own interest. This is accompanied by increasing legal liability, and the risk they take in the decisions they make. All in all, it is not a simple task.

The economic and social background of recent years illustrates these challenges well. Since the beginning of the pandemic, we have been required to be highly flexible and adaptable to change, as well as to respond swiftly in times of great uncertainty.

And we can say that we are still in a complex situation. The recovery in activity that began after the pandemic is being threatened by rising inflation, supply problems in some commodities, and the effects of the Russian invasion of Ukraine. We are facing a scenario of great uncertainty, as reflected in stock markets and rising risk premia, in which it is not easy to foresee how events will unfold.

Allied to this economic scenario are two cross-cutting trends, namely digital innovation and sustainability, which bring their own risks and opportunities for companies and for the economy as a whole. I shall focus on these two trends and, at the end, offer some reflections from the point of view of corporate governance.

Digital innovation

First, digital innovation is defining new business models and generating major growth opportunities. At the same time, it has also attracted the attention of legislators, who are pushing for the development of a regulatory framework to set the rules of the game.

In particular, the European Commission took the initiative some time ago and launched the well-known digital finance package. In addition to the digital payments strategy, two large blocks should be highlighted: the Regulation that will govern the provision of crypto-asset services that are not financial instruments, known as MiCA, and the Regulation for the management of technological risk, also known as DORA, which has a cross-cutting scope for the financial system.

This regulatory package is still under development. The MiCA Regulation, for example, is likely to be adopted early next year, but its practical implementation requires extra time for the development of technical criteria and the corresponding adaptation deadlines.

And in this context of impasse, and given the intensity of technological developments, it is necessary that we have areas of collaboration between the public and private sectors that allow us to move forward together and at the same time be cautious in the face of promising but untested innovations. At the CNMV, we have been following this approach for years. Financial innovation is in fact one of our four strategic lines of action, and it has been six years since we created the innovation hub, called the Fintech Portal, as a continuous communication gateway to facilitate support for promoters on regulatory aspects of the securities market that could affect their projects. We also actively participate in the Spanish sandbox where we assess innovative projects in a secure testing framework.

But as I said, the pace of innovation has accelerated exponentially. Thus, we see how traditional value chains are fragmenting; how the use of AI, blockchain, smart contracts or the development of platforms change the rules of the game; how companies are increasingly dependent on external suppliers, resorting to the contracting of technological services; and how new risks arise, whether of cybersecurity or concentration, and new interdependencies, which must be assessed.

On the investment front, the CNMV urges extreme caution when investing in unregulated products such as crypto-assets. Although we do not have direct powers over this activity, we have been and will continue to be very active in alerting citizens

to its risks and high volatility. And since last February we have been able to monitor their advertising, to demand clear warnings about the risks of these unregulated products.

Corporate sustainability

The second major cross-cutting trend is the promotion of sustainability and the regulatory framework that is developing around it. I am not going to detail the regulations, which I am sure you already know, but I would like to focus on two aspects relevant to corporate governance.

Firstly, the importance of publishing a clear and detailed report on aspects related to environmental and social sustainability. That is, the importance of being transparent, of providing information. It is about how environmental and social risks are integrated into the business, and also how the company's activity impacts on the environment in a broad sense. This is not only a response to the growing demand from citizens, but also to the ever-increasing information requirements, a trend that is set to continue in the near future.

For example, since the beginning of the year, all companies with more than 250 employees must now publish their non-financial statement and, in addition, companies with more than 500 employees must also quantify what percentage of their business is environmentally sustainable based on different ratios.

At the CNMV, we review in detail the sustainability reports of listed companies and publish an annual report with recommendations on issues as varied as the pay gap and greenhouse gas emissions.

But, as I said, bonds cover a wider range of companies, not just listed companies. And the requirements for fostering transparency will increase further when the Sustainability Reporting Directive is adopted, and we have common standards which are currently under discussion at European and international level.

Another example of the importance of transparency is in the area of corporate governance, where aspects such as the integration of sustainability policies in companies, which must be approved by the board of directors, the need to assign specific sustainability functions to specialised committees, whether existing or created ad-hoc, and the promotion of diversity and gender equality aspects are becoming increasingly relevant.

In fact, in the next few days we are going to publish the data on the presence of women on the boards of directors of listed companies for 2021 and, for yet another year, they are once again improving, meeting the current recommendation of 30% and, in the case of Ibex35 companies, approaching the recommendation of 40% by the end of this year.

In this regard, I would also like to mention an initiative launched by the CNMV in which the Institute of Directors/Managers itself is actively participating: the future Code of stewardship or best practices for institutional investors and asset managers. The work of the group of experts we set up to prepare it is proving very fruitful and we hope that we will soon be able to publish it for consultation and, once it has been agreed and approved, it will serve as a reference in Spain to encourage the involvement of institutional shareholders and foster the creation of long-term value.

However, the European Commission, in addition to strengthening reporting, is going one step further, raising the level of requirements and regulating by law issues currently in the area of principles and recommendations.

This is the case in the recently proposed Due Diligence Directive, which when adopted will regulate the duty of loyalty of directors on issues such as human rights, climate change and environmental consequences, among others. And these requirements will apply to the entire value chain, with clients and suppliers with whom you have a stable relationship. This can be costly and complex for some companies, especially smaller ones. And it will require applying the principle of proportionality properly and allowing time for them to adapt. But I would encourage companies to start preparing. To this end, there is nothing better than following existing recommendations, and already having adequate internal policies and controls in place to identify, monitor and manage climate risks and respect for human rights.

Final reflections

I shall finish by saying that at the beginning of my speech I mentioned the complexity of the economic and social environment in which we find ourselves, and the challenges of digital innovation and sustainability. And there is no doubt that, in this context, all of us need to make an extra effort to improve our knowledge and understanding of new developments.

Businesses need to be able to navigate through times of change and uncertainty, weighing up the various options carefully. This requires a pluralistic board, with critical capacity and sufficient knowledge to assess the different scenarios. It should help to weigh up risks, particularly in those areas that are not very consolidated, and should also move towards innovation and know how to incorporate the new demands of society, such as sustainability and responsibility towards the environment.

I am not advocating the search for expert directors or specialists in the various subjects. As I said last year, I do not believe that it is important to have the greatest experts in the various facets of business life. This would be ideal. But it seems to me more useful that the profile of the board, as a whole, should be diverse and pluralistic, that it should be critical, and that it should ensure an enriching debate, in which diverse opinions can be freely expressed and groupthink avoided.

I would therefore like to acknowledge the work of the ICA in continuous training, with its many courses and programmes, and to congratulate those of you who are receiving diplomas and certificates today for your efforts and willingness to continue learning about good corporate governance. Congratulations to those of you who have completed the programme. I hope you enjoy the rest of the day.