Presenting of Certificates by the Institute of Directors/Managers (ICA)

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Good afternoon.

Thank you, Juan, for your kind words, and thank you to the Institute of Directors/Managers for inviting us, once again, to participate in this year's event to present the certificates and diplomas for good corporate governance.

You have always made the CNMV part of the ceremony, since the very beginning almost 18 years ago. In fact, the CNMV itself will be celebrating its 35th anniversary in a few weeks. We can therefore say that the Institute of Directors/Managers (ICA for its abbreviation in Spanish) has been working alongside the CNMV for a large part of our history to promote good governance in our markets.

Acquiring such certificates and diplomas are a form of guarantee indicating you as experts and guarantors of good corporate governance, knowledgeable of new trends, and as being capable of performing the role as directors with responsibility, expertise and professionalism. Speaking of new trends, I would like to focus my speech on two recent publications of the CNMV.

- The recent update of the technical guide on audit committee; and
- Reports on corporate governance and remuneration of directors of listed companies, published by the CNMV a few weeks ago.

1. Update of the technical guide on audit committees

I will start by highlighting that the CNMV has always stated to be in favour of the stability of rules and of giving entities time to make sense of the new regulations (undoubtedly quite detailed in many areas) and properly prepare for compliance.

In the case of the Technical Guide on Audit Committees, developed more than seven years ago, its modification was deemed necessary in order to incorporate recent changes in the institutional, socio-economic and regulatory context, particularly in the area of sustainability information in annual reports.

I would like to highlight two aspects of the new guide:

- Firstly, such modification tackles, among others, the topic of **new roles of audit committees to adapt to the requirements regarding the approval and transparency of information on sustainability**. To do so, the CSRD Directive was taken into account, which, as you may know, is a European directive regulating the submission by companies of information on sustainability, along with the draft law for its implementation in Spain, the best practices document regarding the role of audit committees published by IOSCO in 2019, and supervisory experience.

- Second, it is worth highlighting that the guide was designed to launch a **new standard relating to formatting and style**, with the objective of improving clarity and increase its usefulness for its target audience.

The connection between sustainability reporting and corporate governance is clear, as companies are increasingly embedded in the sustainability arena, which has an impact on their internal structure, priorities and governance structures. In this regard, the audit committee plays a key role. The new regulation determines that audit committees must expand and develop its control mechanisms related to sustainability, ensuring greater transparency.

Additionally, the update has also **implied an adjustment to terminology**; the term **"information on sustainability"** is used in reference to environmental, social and governance (ESG) information and the term "non-financial information" is reserved for its general use, including information on management, corporate governance, directors' remuneration, or risk management and control systems, as well as, in a broad sense, information on sustainability.

Moreover, **the reference for corporate social responsibility has also been replaced** by the broader and more appropriate term of "**sustainability**". Likewise, the term "non-financial risks" is used to expressly include sustainability-related risks and other additional risks, such as legal, reputational, tax risks, those resulting from competition or consumer preference, as well as cybersecurity risks.

On the other hand, the guide's update was an opportunity to clarify the roles of the audit committees and, if applicable, the committee for sustainability, highlighting the importance of appropriate coordination among the latter, in the same way in which such matter is managed, in regards to the risk committee, in the Guide and the Code of Good Governance for Listed Companies.

Additionally, the Technical Guide determines it is desirable for members of the audit committee to hold, as a whole, the **necessary knowledge** on accounting, auditing, financial, internal control and risk management and business issues, as well as knowledge **related to sustainability**. To such means, topics related to sustainability are recommended to be included in the regular training plan for audit committee members.

The law that is to incorporate the CSRD to the Spanish legal system has not yet been adopted. The Council of Ministers recently agreed to request the Council of State to give an opinion without delay (no later than 26/09), reason why we hope to have the transposition in place as soon as possible.

Our intention was for the technical guide to be published along with the new Law on Sustainability Information but, given the delay in its transposition, we considered appropriate for the guide to be published. However, once the directive is transposed, the possible need for any technical change or adjustment to the technical guide on audit committees shall be assessed, but we believe that it is fully compatible.

2. Report of listed companies on corporate governance for the 2023 financial year

I would also like to briefly share the content of the CNMV's Annual Report on corporate governance of listed companies, published this past month of September, that discusses the data for 2023.

Such a report analyses the **importance of good practices in corporate governance** in order to increase economic efficiency and strengthen investors' trust. The latter reflects, **in aggregate and summarised terms, the main conclusions of the information provided by the companies to the CNMV** on such issues. It also analyses the evolution of corporate governance rules at European and international level.

The report also summarises the main regulatory implementations and recommendations of good governance codes promoted in Spain over the last few years and a description of the corporate governance guidelines of listed companies.

Without giving further details, I would like to share some of the data presented in this report.

- Firstly, we have confirmed that the degree of compliance of listed companies with the new good governance code **has continued to increase, surpassing 88% of the recommendations** included in the Code, which are fully complied with by the companies. If we combine this data with that obtained from the partial monitoring of the Code of Good Governance, compliance accounted for 94.3% of the recommendations. Bearing in mind such data, we can confidently say that Spanish listed companies comply, for the most part, with corporate governance standards.

  It is worth highlighting that 53% of companies followed at least 90% of the recommendations made by the new Code and nine companies stated to be in full compliance, with only one company reported less than 60% compliance.

- **All listed companies stated to be in compliance with eight recommendations**. The least followed recommendations, fully as well as in part, were those relating to the practices advised by the Code for companies with high capitalisation to have separate appointment and remuneration committees and for directors' variable remuneration to be linked to the delivery of shares.

- While the degree of compliance with the Code of listed companies is satisfactory, there are areas with room for improvement to strengthen the corporate governance framework.

  One of these is related to the quality of explanations provided by companies when they do not follow, or only partially follow, any of the Code's recommendations.

  Thus, as in previous years, redundant explanations, that merely reiterate the failure to follow the recommendation, continue to be the most common.

  This proves that there is still room for companies to duly apply the considerations of the Technical Guide 1/2016 for good practices, in order to implement the "comply or explain" principle, thus making the explanations provided in justification of failing to comply with the recommendations of high quality, as well as allowing shareholders, investors and other stakeholders to know and properly assess the reasons why the company has decided not to follow a particular recommendation.

- In relation to the Board of Directors, the **average size remained at ten members, as the previous year.**

  The 2023 financial year was the first year in which Ibex 35 companies have had, on average, a percentage of female board directors that will enable them to comply with the requirements of the recently approved Law on Parity, providing that boards of directors must have a composition that ensures the presence of at least forty percent of individuals of the underrepresented sex.

  The percentage of executive chairpersons of the governing body remained the same as 2022, set at 49.6%, while the percentage of independent directors acting as chairman of the board has increased.

  Moreover, in 2023, 80% of the Ibex 35 companies had on their boards at least 50% of independent directors, improving last year's numbers. Among the remaining companies, a similar percentage had at least one third of independent directors on their governing bodies.

  In regards to the types of directors, definitions of which are established in the Spanish Capital Companies Law (LSC for its abbreviation in Spanish), it is worth noting that our review of compliance with these definitions highlighted specific situations that challenged the adequate qualification of some board members, which indicated that this is a relevant aspect to which entities should pay particular attention.

- To conclude this topic, it should be highlighted that the average participation in general meetings increased slightly to 73% and the percentage of companies whose shareholders used remote voting systems increased by 4 points.

- Nonetheless, there still exists a negative correlation between the percentage of floating capital and that of holding, which points out that the degree of involvement of minority shareholders in meetings is lower than what we would like.

- Another issue I would like to touch on is that regarding the information disclosed by audit committees about the authorisation of the auditor or audit firm to provide additional services.

  During the reviewing process of our annual corporate governance reports, we have identified that, in many cases, the information provided on the approval process for such services is not sufficiently detailed to determine how the audit committee assessed the threats to auditor independence and the safeguards applied.

  Entities have also been found to not always properly determine the ratio of the amount of such work with respect to the total amount invoiced by the audit firm. In practice, different criteria are applied, thus reducing the comparability and usefulness of the data.

It is, therefore, important to pay close attention when disclosing such information, aimed to help assess the potential threats that the auditor could face from their provision of services not related to auditing.

3. Report on the remuneration of board members of listed companies for the 2023 financial year

I would only like to highlight a few points regarding this report.

As in the previous year, among the aspects that can be improved, it would be appropriate to provide better explanations on the assessment of the degree of compliance with the non-financial parameters linked to the variable remuneration of board members.

It would also be advisable to explain in greater detail the most significant variations that took place in the reported financial years.

The average remuneration of executive board members increased by 7% (by which the average remuneration amounted to €1.8 million) and that of non-executive board members by 4.6% (up to 160,000 euros).

The growing importance of sustainability factors in both short- and long-term variable remuneration plans should be highlighted. In short-term plans, these sustainability factors appear in 85% of the Ibex 35 companies and in 59% of the rest of companies. In long-term plans, these factors appear in 80% of the Ibex 35 companies (62% in 2022, an 18% increase) and in 50% of the rest of companies (the same percentage as in 2022).

Regarding the gender pay gap, the remuneration of female executive board members was 13.5% lower than that of male executive board members, although widely dispersed according to the capitalisation of the company. Thus, while the average remuneration of executive board members has been 47.6% higher than that of male executive board members in the Ibex 35, this percentage is negative in the rest of companies (-58.8%). However, the small number of female executives makes such average unrepresentative. In the case of non-executive board members, men's remuneration is 19.7% higher than that of women.

This year has been the third in which companies have had to make comparisons between the amount and annual development of the remuneration of board members, and the consolidated results and the average remuneration of their employees.

According to the data published in the IARC, in 2023 the remuneration of executive board members, not considering extraordinary items, on average was 31.5 times the average remuneration of employees of listed companies (31 times in 2022). The ratio between executive board members and employees increases up to 53 times (54 times in 2022) in the case of Ibex companies, this being 19 times the average remuneration for companies not forming part of said index (17 times in 2021). Just like in 2022, the average remuneration of non-executive board members in 2023, excluding extraordinary items, was almost 3 times the average remuneration of employees.

4. Final considerations

I would like to conclude pointing out the importance of companies' adjustment and transformation to achieve good governance.

In this context, we cannot leave behind, as I previously mentioned, the importance of training our board members in sustainability, what is today a key and cross-cutting aspect.

I am sure that, thanks to the board members' commitment and the existence of entities such as ICA, we will manage to adapt and improve in these areas.

I cannot finish without first giving my most sincere congratulations to the 78 of you who will be receiving a certificate and the other 16 people who will receive diplomas.

Thank you very much.