



Meeting of Directors Spanish Institute of Internal Auditors Opening speech

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Good morning to you all. I would like to thank the IAI (Spanish Institute of Internal Auditors) for its invitation to **open this meeting of Directors**, at a time when precisely the role of the Director is **more "public"**. When I say more public, I mean that it has acquired **more relevance and weight** over the last few years.

One of the factors that have contributed **to the greater visibility of the Director** has been the **set of reforms related to corporate responsibility**, which has been strengthened through changes in the **criminal and commercial area**.

In the **criminal area**, in 2010, the Criminal Code was amended and the **criminal liability of the legal person** was regulated for the first time. This modification generally requires the implementation of **systems of control, regulatory compliance and crime prevention**.

In the **commercial sphere, with the aim of strengthening the company's controls**, the **corporate governance** reform is key. In 2014, the Spanish Corporate Enterprises Act was amended and in 2015 the Good Governance Code of listed companies was published.

The aim has been to achieve a **greater degree of involvement** of both the **partners** themselves through the general meeting of shareholders and of **the directors** through the management body.

This means that the **partners** are **aware of the management and decisions** taken by the company and that **the directors assume full responsibility in this management**. I will not expand much more on this because, as you well know, the Spanish Corporate Enterprises Act introduced amendments in terms of:

1. Directors' duties of **diligence, loyalty and avoiding conflicts**.
2. The **non-delegable powers** attributed to the board of directors as related to the fundamental aspects of **management and supervision**, etc.

The **2015 Good Governance Code of listed companies updated that of 2006** and **introduced 67 recommendations** on the basis of a series of **principles**.

These include **most notably two groups**: the one related to Corporate Social Responsibility (CSR) and those related to Audit Committees. I highlight them **because they are recommendations that have subsequently become obligations through community directives** that have been **transposed** into our legal system or are **in the process of being transposed**.

The aim of the recommendation **on CSR** is to encourage companies to analyze **how their activity impacts on society**. To this end, it is recommended that the company **report** in a separate document or in the management report on **CSR-related matters: sustainability, environment, social issues and diversity**.

This recommendation has become **an obligation only for certain large PIEs, through Directive 2014/95 on non-financial information**, whose APL is still in the draft phase.

This directive obliges that group of **companies to report separately and accompanying** the individual and consolidated annual accounts on the impact of the activity of the company or its group on the following issues:

1. Environmental and social.
2. Relating to staff.
3. Relating to respect for human rights
4. Relating to the fight against corruption and bribery.

The recommendations of the Good Governance Code on **Audit Committee** matters became mandatory through the Spanish Audit Act, of 2015, under Article 529(m) of the Spanish Corporate Enterprises Act.

The Spanish Audit Act has introduced changes in terms of which entities must have an audit committee, its composition, functions and supervision.

The **obligation to have an audit committee** no longer rests solely on **listed companies** but also on **other types of public interest entities (PIEs)**, basically different types of **financial institutions, even if they are not listed**, that in one way or another channel savings through different instruments (deposits, insurance contracts, marketable securities or investment funds and pensions), and **non-financial entities with 4000 employees whose turnover is more than 2 billion euros**.

The **functions** of the audit committee are also strengthened, as the audit committee is given a **greater role in supervising the preparation and presentation of financial information, risk control, internal control** and the **appointment, monitoring and independence** of the auditors' activity.

Finally, CNMV has been responsible for the **supervision** of Audit Committees since 2016.

It is precisely in the exercise of this supervision that CNMV **has detected: disparate practices** between the audit committees of the different PIEs, and that the members of the s (mostly independent directors) had some **doubts** on how to exercise functions that CNMV has been assigned.

CNMV's Business Plan for 2017 included the preparation of a Technical Guide on the Audit Committees of PIEs.

The Technical Guide, as you know, has **already been approved by CNMV's Board** and was **published yesterday**.

The **standards, recommendations and good practices contained in the corporate governance codes and/or guides on audit committees of some reference countries**, such as Germany, USA, France, the Netherlands, Italy and the United Kingdom, have been analyzed, as well as the recommendations from other **European and international institutions such as the OECD**.

It is not obligatory, but criteria and good practices are **advisable** to ensure the proper functioning of audit committees so they can fulfil that function.

CNMV **will take** these criteria and good practices **into account** when carrying out its **supervision work**.

I am not going to expand any further on the content of the Guide, but I would like to **comment briefly on some principles and recommendations**:

1.- One of the principles it emphasizes is **scepticism**. A term already coined in the Spanish Audit Act and that makes it necessary to have a critical attitude while the Audit Committee has a supervisory role.

2.- It is **necessary to ensure the independence of the committee** with respect to management and the company. Management and other directors should not **attend** meetings unless they are occasionally expressly **summoned** and only to discuss **matters** for which they are called.

3.- It is recommended that members **not only be in their majority independent directors**, as provided by law, but also have the appropriate **expertise** to perform the specific duties assigned to them (it should not be just any director).

Remember that the law provides that at least one of the directors on the Audit Committee must have expertise in accounting and/or auditing, and they all must have knowledge on the sector of activity in which the company operates.

4.- It is necessary to ensure adequate **access to the essential information** of the company, arbitrating channels for such purpose, and the possibility of being able to **consult external experts**.

5.- It includes a series of recommendations on the **relationship that the Audit Committee should have with the auditor**, in particular to reinforce its independence.

5.- **Channel for submitting complaints** to the audit committee on irregularities.

6.- It is **recommended that it has a public operating regulation** that strengthens the performance of its duties and **is accountable to the board through the corresponding activity report**.

This is all I have to say.

I think that the seminar has a **very interesting programme** that will address many of the issues that I have just touched on:

1. Audit committees.
2. Responsibility of legal persons, as well as.
3. The new audit report, which was also substantially **amended and improved** following the approval of the Spanish Audit Act, which the **Board of Directors and in particular the Audit Committee** should give particular consideration to.

Thank you very much for your attention.