



CEOE - Forvis Mazars Conference

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Management of expectations related to the directive on sustainability: regulators', supervisors' and issuers' perspectives.

Good morning.

I would like to start by thanking the CEOE and Mazars for inviting me to kick off this interesting conference focused on the CSDR directive.

Please bear with me if I stray from the main script and not centre my speech on the new directive, as it will be extensively discussed in the following panels. I will also be talking about the updated related to information validation (known as assurance) and the opportunity this entails.

Before the CSRD's approval in December 2022, the EU had not established the use of a unique set of standards on which to base the preparation of non-financial information. What is important about the approval of this directive and its transposition into national law is that it allows for the correction, unification and homogenisation of the framework of corporate reporting on sustainability, while adding relevant modifications. Let me highlight a few.

The first one is related to scope. The CSRD is applicable to more companies (defined as entities with a "large" public interest), understood as companies that for two consecutive years meet two of three criteria points: more than 25 million euros in total assets, more than 50 million euros in revenues and an average of 250 employees in the financial year. Additionally, regardless of said criteria, it obliges any company with securities admitted to trading on EU regulated markets, including SMEs.

It also establishes unique standards. During the first stage, twelve standards developed by EFRAG are implemented, two of which are on general topics, two related to the environment, and four touch on social issues and one on governance.

Moreover, besides the use of single standards, which in itself is a huge step forward, information must be verified by an independent expert who complies with previously established requirements. In addition, the verifier is subject to the same

approval, training and independence regime as account auditors, and to an equivalent inspection and sanction regime by, in the case of Spain, the ICAC.

The fourth modification is the focus on dual materiality. That is, on the one hand, impact materiality, which includes the information necessary for investors to understand the impact of the company's activity and its value chain on the environment and people (in the broadest sense) and financial materiality, this being the information needed to understand how sustainability affects the company's performance, situation and evolution.

Last but not least, the directive sets the scope of application not only for the company itself or its group, but for its value chain. This point is relevant as it multiplies the number of necessary information to develop the information and makes robust internal control and integration mechanisms to ensure the quality of information obligatory.

The only thing I regret is that it is a directive and not a regulation, which would have led to much more effective harmonisation.

To sum up, such modifications translated to a major debate before reaching common ground. Nonetheless, I think that one of the most significant elements of the directive is that obliging listed and unlisted companies. The basis of this approach, which was highly controversial at the time, is the need for homogeneity. Sustainability is not peculiar or exclusive to listed companies, but to any large company. The obligation to develop such sustainability information cannot be exclusive to listed companies, with other, unlisted, companies of a similar size free from such obligation. The contrary would be like introducing more obstacles and obligations for listed companies. This is why I believe it is necessary to review the extent to which small, listed companies should be subject to higher standards than SMEs when they are not listed. There are reasons for this to be the case, but it is not ideal while we strive to convince thousands of companies to join the public markets, to go public, as part of the EU's ongoing initiative to boost public stock markets.

One of the CSRD's factors is that known as "assurance". No matter how much effort we put into developing non-financial reporting standards, these would be wasted if the information were not verified by an independent third party. As is the case of financial information, verification is key for such information to be credible and establish the necessary assurance for investors.

The CSRD adopts a progressive approach to the verification commissions on sustainability information. As a first step, the directive will require the auditor or the independent expert providing the assurance service to develop it at least to a limited extent. In the future, however, an opinion based on a reasonable verification commission will be required. To this end, the European Commission must carry out

an assessment to determine if it is feasible for the auditor or expert to do so and adopt the necessary standards for reasonable verification by 1 October 2028.

The homogenisation of sustainability reporting, internationally, is absolutely necessary if sustainability information is to be comparable across jurisdictions. This has led to a major international effort to develop new professional standards for the review or auditing of sustainability information. The IAASB, as the standard setter in auditing, as well as the IESBA, which is an important international body relevant to ethical standards for auditors and verifiers, have consultation and review processes under way and have announced that they will be available before 2025. The IAASB is developing the International Standard on Sustainability Assurance (ISSA 5000).

This ISSA 5000 shall be the basis of a comprehensive and independent standard to carry out verification commissions on limited and reasonable assurance sustainability information. It can be used to verify any aspect of sustainability and independently from the framework used to produce the verified information. The standard will also not be limited to a profession, allowing its use by auditors and other independent verifiers or providers of verification services.

Said international standards must be the basis for those at regional or national level, in this case, at a European level. Everything surrounding sustainability is already complex enough to have different reporting or verification systems for each country, which also makes it difficult to compare companies' non-financial information according to their corresponding markets. IOSCO, the international organisation of securities markets, has also been an important player in this respect.

In the Sustainability Committee I chair, in December 2023, IOSCO expressed its support for the work done by the IAASB and its ambitious approach in the development of the draft standard. It also shared a number of observations with the IAASB aimed at improving the final standard, mainly focused, on one hand, on providing additional definitions and guidance to support the application of the standards by independent assurance service providers that are not auditors, and, on the other hand, 1) a clearer differentiation of the work implied in reasonable assurance compared to limited assurance; 2) on the materiality assessment process; 3) the review of forward-looking information; and 4) on aspects related to the existence of material errors in sustainability information.

Nonetheless, beyond the details I have mentioned and the possible confusion that the new CSRD regulation can create, I personally think it is worth highlighting two important ideas to Spanish companies as a whole.

First, our companies are better equipped than the average European company. The reason for this is that we have been more strict in terms of sustainability reporting standards than our European neighbours: since 2018, we have included more

companies according to the way in which quantitative criteria for the subjective scope of application of the Law on Non-Financial Reporting were defined, and the information items that such companies had to publish was expanded. This implies that there already are a number of companies reporting in Spain more than in other European countries.

On the other hand, companies that adapt the latter shortly will be able to enforce their reports internationally, as the new European system is essentially interoperable with the international system based on ISSB standards. In other words, Spanish companies with a presence in other countries will not need to prepare two non-financial information reports.

I will conclude. It is important for companies to continue to prepare, and I am aware they are doing so, not only because this directive entails a legal obligation, but also because of the internationalisation opportunity it implies. In any case, the CNMV is committed to facilitating such adaptation, supporting our companies in order to ensure that it is done effective and harmoniously.

Thank you very much.