

THE CNMV PUBLISHES TWO ARTICLES ON SPANISH SECURITIES ISSUERS AND INVESTMENT FUNDS AND THEIR RELATIONSHIP WITH CLIMATE CHANGE

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- Spanish investment funds show a lower transition risk than their comparables in the rest of the EU.
- Major Spanish companies' plans to reduce greenhouse gas (GHG) emissions are consistent with the goals of the Paris Agreement, although it is not stated whether their suppliers' indirect emissions, the total volume of which is unknown, are included.
- It is necessary to continue delving into data improvement, even if only partially, in order to obtain more precise assessments.

The Spanish National Securities Market Commission (CNMV) has published two working papers by three technicians from its Research and Statistics Department, respectively analysing the impact of climate change on investment funds and on securities issuers.

Measuring transition risk in investment funds

[The first article, by Ricardo Crisóstomo Ayala](#), develops a global methodology to quantify the effect of the ecological transition on the value of investment funds. According to this method, the losses suffered by each asset are obtained from the carbon intensity and the economic sector of each counterpart, while also considering the credit risk, volatility, duration, and convexity of each exposure.

The analysis shows that, in the event of a disorderly or abrupt transition, investment funds will suffer average losses of -5.7%. However, risk distribution is significantly skewed and the losses of the

worst funds amount to as much as -21.3%. In terms of asset classes, equities are the worst performers (-12.7%), followed by corporate bonds (-5.6%) and government bonds (-4.7%).

The article also concludes that:

- Sustainable funds would perform better than the overall fund sector; and
- On average, Spanish investment funds show a lower transition risk than their comparables in the rest of the EU.

Spanish securities issuers and their relationship with climate change

[The second article, by Ramiro Losada López and Albert Martínez Pastor](#), performs an initial estimation of the development of GHG emissions by Spanish securities issuers. Also, an initial exercise is carried out regarding the degree of alignment of their emission reduction targets with the goals set in the Paris Agreement and in the European Union.

Furthermore, an assessment is made of the inclusion of the challenges deriving from climate change in business management, in particular in the area of corporate governance, and of the identification of risks and opportunities and the setting of specific emission reduction targets.

The information used in this study is both varied and incomplete. On the one hand, the responses used were those to a questionnaire sent to 99 issuers on the requirements established in Article 32.1 of the Climate Change Law. On the other hand, the information offered by commercial databases was used and, finally, some of the estimates in the work produced by Crisóstomo (2022) on funds, in this case focussing on the description of the transition risk of securities issuers, were included.

According to the information obtained from the analysis, there has been a progressive reduction in GHG emissions by companies, measured in metric tons of CO₂ equivalent. Thus, a 13.7% reduction in emissions can be seen between 2018 and 2021, mostly corresponding

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to the decrease in Scope 1 and, partly, to that in Scope 3 emissions. However, limitations are observed in Scope 3 emission reporting.

According to published plans, major companies expect to continue significantly decreasing their Scope 1 and 2 emissions, in a manner that is consistent with that laid down in the Paris Agreement and the EU legislation. However, when including the forecasts for Scope 3 emissions, with the limitations mentioned, the emission reduction would not suffice to comply with the aforementioned goals.

The partial data from the questionnaire also allowed the preparation of a climate change index that incorporates and summarises issuers' responses on this matter. This index, whose maximum value for each company is 100, shows an average of 69.5. From this figure it can be surmised that the companies analysed are reacting adequately to the challenges posed by climate change, with larger companies proving to be at a somewhat more advanced stage.

The article reveals the need to continue improving with regard to the scope and the quality of the data provided by the entities, following the trend observed in the past few years.