1st CESGA Congress
EFFAS Certified ESG Analysts

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Good morning.

First of all, I would like to thank EFFAS for the invitation to the opening of today's congress and Acciona as a host.

The organization of this first congress of CESGA's international ESG certification shows the importance of sustainability in financial markets. And is to a certain extent a symbol or recognition of the birth of a new profession: ESG analyst.

European companies will need a historic amount of investment and financing over the next decade to tackle decarbonization. According to the latest EU estimates, we are talking about an additional €600 billion per year for each of the next few years. It would be unthinkable that this unprecedented volume of investment could be met exclusively through public budgets or bank credit. In order to add this level of extra financing, we will require a higher level of equity and own funds, which will have to be raised on the capital markets. Capital markets, both bonds and equity, need to become more active, channel more money and incorporate more players and investors if we want to catch this train.

And capital markets, as we know, are built on two foundations: money and information. Information is the basis for price formation, decision making and asset allocation. And in order to do analysis and research we need robust, accurate, verified and comparable information. So, it is no wonder that the first steps in financial regulation linked to sustainability were addressed precisely to the buildup of information flows and standards.

The approach of securities regulators

Let me stress the line that has been taken by Securities Markets regulations and supervisors. As opposed to other areas of regulation and supervision, financial market regulators have focused on the reliability of the information. We have not tried to make the financial system greener or to stimulate the allocation of investments towards sustainable activities. On the contrary, our role is merely to ensure that the information framework that investors have at their reach to take their decisions is functional, reliable and ideally comparable.

As a citizen, of course, I want meaningful improvements in sustainability and ESG matters, but I'm not here today as a citizen; I am representing a financial markets supervisor. And all about our role hinges around transparency and integrity of information. Our role is not to determine or to push how much brown or green investment there should be out there. Our role is to allow that to happen in an orderly and transparent manner. To establish the foundations of regulated information so that investors can take their decisions (and analysts can do their research and recommendations) in a sound and robust manner, with accurate information and without greenwashing.

However, anybody that has followed the evolution of financial regulation in the last 20 years knows that when developing brand new pieces of regulation, international coordination is to say the least hard to achieve.

The EU rules

The EU has driven and led, well ahead of other economic areas, the creation of financial regulation on sustainability to provide us with a framework to move forward. At the time the EU went ahead, the previous US administration was, as we know, not very keen on advancing in this road. So it is not that the EU decided to depart from other countries, but a very particular political momentum that explained this leadership.

The EU one has been a continuous effort over 5 years, and, at times, the financial community has felt a sense of regulatory fatigue or tiredness, when completing the regulatory framework. But despite this possible regulatory exhaustion, we must look back and be aware of what has been achieved in such a short time:

- We have a very comprehensive system for rating economic activities in relation to their impact on climate change or its mitigation and adaptation.
- We have a fully harmonized regulation on disclosure of information relating to financial instruments.
- We are implementing a comprehensive system of disclosure by issuers of securities, for use by producers of financial instruments including managers.
- We have a single standard for defining what a green bond is.

All these elements show the progress that has been made and a regulatory architecture that is almost complete in the EU. Besides, a new Parliament and a new Commission will lead the way on this matter as from this summer.

At this juncture, the most likely outcome to my mind is that in the next four years we will have mainly a consolidation and fine-tuning of rules, an effort on implementation and clarification. It is unlikely that we will have anything close to the type of regulatory big bang we have had in the EU in the last four years.

Global viewpoint: IOSCO’s work

Going beyond the EU, worldwide, the pace has been equally fast, although the scope has been more reduced.

In this case, an important part of the efforts has been led the International Organization of Securities Commissions (IOSCO). As you will know, IOSCO is based in Madrid but gathers almost all financial markets supervisors (130 of them), including CNMV.

In 2020 IOSCO agreed to establish a Board-level Task Force on Sustainable Finance, which I have the honor to chair.

IOSCO has been instrumental in calling for a common international language on how to report sustainability-related information by issuers, which is the fabric on which everything else should be based. Let me give you just four dates:

In June 2021, IOSCO called for the creation of a new international standards board to improve the consistency, comparability and reliability of sustainability reporting
In November 2021 the IFRS Foundation Trustees announced the decision to establish the International Sustainability Standards Board (ISSB).

In June 2023, the ISSB issued its inaugural standards—IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures following extensive engagement and consultation with stakeholders globally.

In July 2023, IOSCO endorsed the ISSB standards and called on its members to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards in a way that promotes consistent and comparable climate and other sustainability-related disclosures for investors.

As many of you know, the main differences between EU and International standards on sustainability reporting are that:

- The international standards cover, at this time, only climate-specific disclosures, while the EU covers way beyond that (biodiversity, social, water, etc)
- The EU applies a “double materiality” approach. On climate, for instance, reports should cover both the impact of climate change on the company’s finances but the impact of the company’s activities on climate change. However, the ISSB standards cover just the first dimension.

Let’s have in mind that some estimates point out that in 2025 we will have around 80.000 companies reporting sustainability-related information worldwide. That number will be growing towards 2027, with the EU alone estimating 49.000 companies at the end of the transition period. That is a phenomenal flow of information that I am sure ESG analysts will be keen to build upon.

But IOSCO still has some important topics to tackle. I refer in particular to two elements.

- **1. Assurance**: The ultimate goal of corporate sustainability-related reporting is to bring investor-useful information to global capital markets. But that information will not be credible if it is not audited or verified by independent third parties. And this is where the word of assurance comes in.
  The IAASB and IESBA are, as we speak, developing new standards (like IAS 5000) on how to do assurance of sustainability-related disclosures. And those will be ready before the end of this year.

  Therefore, one of the most important activities in 2024 will be the assessment of the sustainability-related standards and providing feedback to these standard setters. IOSCO will seek to review the IAASB and the IESBA proposed standards, so that they are ready for 2025 reporting, also in Europe.

- **2. Adoption** and interoperability of **ISSB standards**. So far only a few jurisdictions have adopted ISSB standards or other standards that are similar enough to ISSB ones as to be interoperable with them.
  The US has adopted its own rules recently, in several aspects less ambitious than ISSB or EU ones. China has also adopted a few weeks ago, with a double-materiality approach but only for very large companies and not including in all cases scope 3 emissions.

  There is a clear risk that we end up with a patchwork of national disclosure standards that make it difficult to compare and to integrate reporting by issuers around the globe. And the issue is that investment in capital markets is, by definition, global. The same as climate change and GHG emissions, which knows no frontiers! There is no point in having a perfect standard if other issuers in the neighbouring country or financial market, use a different one that is not easy to integrate and use by analysts, investors or asset managers to measure common features in a certain cross-country portfolio.

  That's why IOSCO was so adamant to develop a global baseline and that's why we are putting so much emphasis on interoperability. And trust me: as ESG analysts you are (together with investors) the ones to suffer more from an alphabet soup of reporting standards and the possible inconsistencies among them.

Beyond the financial and non-financial reporting regulatory territory, there are also tensions.

Unfortunately, political pressure linked to electoral cycles seems to have taken its toll in some countries and we are now seeing some governments and institutions reconsidering their positions on how they are facing climate change. A few weeks ago, four US financial giants (JP Morgan, BlackRock, State Street and Pimco) with trillions of dollars in assets abandoned or reduced their ties to Climate Action 100+, a large group initiative for the reduction of emissions and the fight against global warming. Some governments are shying away from previous commitments, due to electoral reasons.

As is often the case, some of these movements and behaviours are probably the result of a typical pendulum swing. Yesterday sustainability was embraced and today, in some corners, it is scorned.

Financial market regulators are not in this battle. Instead, we continue to be focused on ensuring that information is robust, verifiable and accurate, so that when the pendulum stops, wherever it stops, decisions can continue to be taken in a sound manner, with proper information.

Clients' preferences

There is just one element in EU regulation about sustainability that departs from this information integrity approach and goes into more invasive territory, which is the connection between investors' preferences and their investment portfolios under MiFID. Basically, since 2023, a financial adviser cannot advise a client to invest in a financial product that does not fit with the client's stated sustainability preferences. The same goes for a portfolio manager. And that requires of course to ask clients in the first place about their preferences as regards sustainability in their investments.

Precisely today, CNMV is publishing the results of a supervisory review of this matter in Spain. We have carried out a first horizontal supervision of compliance with these regulations and the procedures applied by the entities that provide advice or portfolio management.

The study shows that the percentage of customers with sustainability preferences is still low, below 25%, which is in line with the European ratio observed at a recent ESMA survey.

Not everything is perfect in the way that Spanish advisers and portfolio managers are incorporating these rules, but we are sending out recommendations on how to improve that. I encourage institutions to complete the process and customers to contact their providers to convey their preferences.

In addition, in 2024 the CNMV will participate in the joint supervisory action announced by ESMA on the sustainability preferences of customers throughout the EU and will check the status of the issues raised with the institutions.

This item about expressing and following client's preferences is, to my knowledge, unique to the EU and still is in my opinion a very wise move and fully compatible with the approach taken by securities regulators around the globe. The key is not to force capital into or away from "green" portfolios through regulation, but to allow the investors to express their preferences and empower those investors, asset managers and ESG analysts with proper, verified information to take their choices.

My feeling, looking how our societies are evolving and especially the new generations, is that customers will express increasingly strong sustainability preferences. And this step will, in the medium term, be truly transformative for the way finance channels flows to certain sectors or activities in our economies, facilitating environmental transitions, social impact or governance.

I will conclude now.

You are gathering in a first congress of a new certification, ESG analyst. And I think you have a tremendous role to play. I said earlier that markets work on two components: money and information. But for markets to be efficient, they need to incorporate that information in prices and in investment decisions. And for that the role of analysts is absolutely paramount. And professional certifications, as we have seen for decades in traditional finance, improve the quality of decisions, the compliance with regulations and the value that financial services add to issuers and investors. That's why I commend the certification and the initiative to progress collectively on this matter.

I am pretty sure that in 20 years from now, we will look back to 2023 and 2024 as the years in which all this started. Political pendulums will have moved probably several times by then (I hope in the right direction) but I hope that the foundations of a functioning system, the information, the verification, the analysis, the ratings, 20 years from today, will still be there, working for investors and for the greater good.

I hope you have an excellent congress and I thank you for your attention.