



The CNMV and sustainable finance UIMP

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Good morning all.

I would like to begin by thanking Universidad Internacional Menéndez Pelayo and the Spanish Financial Journalists' Association (APIE), and especially Miguel Ángel Noceda and Amancio Fernández, co-directors of the course, for inviting me to participate in this seminar, which gives me the opportunity to share with all of you information on the role and contribution of the CNMV in matters of sustainability.

In recent years, we have been witnessing a growing awareness in this area of society in general and the financial sector in particular.

Attention to new trends: sustainability

At the CNMV we could not be oblivious to this and we have proposed to pay the utmost attention to what has been reflected in the Strategy and Activity Plan of the institution which we made public in February of this year.

In addition to the objectives and specific actions to be carried out in 2019, the Plan includes the strategic lines that shall guide our activity in 2019 and 2020. One of them is to contribute to the attractiveness and competitiveness of the Spanish market, which is capable of adapting quickly to new trends with growing relevance such as sustainability.

But the main reason why for us (who have set in our DNA the duty to help our markets develop but are essentially a supervisory authority) this whole movement towards sustainability and sustainable finance is important, is a different one: more and more investors are incorporating environmental or other sustainability considerations into their decision-making processes. And it is important that this interest is taken into account and that interested investors have at their disposal reliable information, including in this regard, when making their investment or divestment decisions.

This is where, in my view, the essential role of a supervisor such as the CNMV in this field lies:

- in helping to ensure that the non-financial information disseminated by issuers on environmental and social matters, or on what their corporate governance is like, is clear and reliable;

- in helping to ensure that information on the nature and destination of investments from a sustainability perspective is sustainable as well;
- and in helping investors to be properly advised in this area.

I therefore believe that the measures proposed or adopted at international and national level by the regulatory bodies, which I shall now explain, are fully justified, even apart from the level of militancy that there can be in an attempt to achieve sustainable development objectives.

Later I am going to comment on some of the most noteworthy initiatives that are being carried out and in which the CNMV actively participates.

International Initiatives

European Union

I am going to start with the European ones. Firstly, I must mention the Action Plan for financing sustainable development published by the European Commission in March 2018, which was translated, two months later, into a package of legislative measures to make it effective. These measures relate to three European regulations or laws:

- The first one aims to establish a unified classification system (taxonomy) for the entire European Union (EU), i.e. harmonised criteria for determining whether an economic activity is environmentally sustainable. To this end, the Commission will identify activities that can be considered "sustainable", taking into account existing market initiatives and practices and the advice of a group of technical experts. This will provide investors and economic stakeholders with clarity which will serve as a basis for the future establishment of standards and labels for sustainable financial products.
- The second one refers to the publication of information and certain obligations of institutional investors. This proposal seeks to introduce coherence and clarity in the way institutional investors, such as asset managers, insurance companies, pension funds or investment advisers, integrate environmental, social and governance factors (ESG factors) into their investment decision-making process. An agreement has been reached between the European Commission (EC), the European Parliament (EP) and the European Council on this draft Regulation and it is now just pending publication in the Official Journal of the European Union.
- The third one refers to the amendment of the Benchmarks Regulation and creates two categories of indices related to climate change: the "EU Climate Transition Benchmarks", a label reserved for indices that select companies with a carbon emission reduction trajectory, and the "EU Paris-aligned Benchmarks", for those that select only companies that contribute to the long-term reduction of global warming.

The Regulation, in addition to regulating the characteristics and requirements that an index must meet in order to be classified within one of these two categories, encourages managers of significant indices to have at least one of

these climate transition indices. At the same time, it states that conventional index managers will have to explain whether their methodology has taken into account ESG factors and in the declaration they are required to submit (Article 27 of the Benchmarks Regulation) they will have to incorporate information on how ESG factors have been taken into account.

Earlier this week, on 18 June, the Technical Expert Group (TEG) on sustainable finance (created in 2018 to assist the European Commission in relation to the plan and composed of 35 members) published three reports in relation to the development of these initiatives.

The first one, on taxonomy, aims to provide practical guidance to politicians, industry and investors on how best to support and invest in economic activities that contribute to a climate-neutral economy. The second report contains criteria for the issuance of green bonds and the third one includes the requirements to be met by the new categories of sustainable benchmarks.

Another point in the Action Plan was a mandate given to ESMA and EIOPA for both authorities to provide technical advice to the Commission on possible regulatory changes with a view to reviewing and integrating risks and sustainability factors into a number of European directives, including three related to the securities market and investment services:

- The UCITS Directive on harmonised collective investment undertakings.
- The MiFID II Directive on markets in financial instruments.
- The AIFMD Directive on alternative fund managers.

The CNMV, as I said, has been actively participating in the ESMA working groups that deal with these issues and, therefore, in the preparation of the technical advisory reports, which were sent to the European Commission on 30 April. The content of these reports can be summarised as follows:

- With regard to investment funds, ESMA recommends introducing certain changes to the delegated or level 2 legislation corresponding to the directives on harmonised collective investment undertakings (UCITS Directive) and on alternative fund managers (AIFMD) in order to consider sustainability factors in organisational requirements, operational conditions and risk management.
- For investment firms, ESMA's technical recommendations to amend delegated MiFID II legislation similarly refer to the integration of sustainability factors into organisational requirements, risk management and conflict of interest policies, as well as product governance. In addition, significantly, ESMA expects that it will adapt its suitability assessment guidelines to accommodate client preferences for sustainable products.

Furthermore, our experts in rating agencies are participating in ESMA's work which, also in the context of the European Commission's mandate, aims to assess current practices in the sector, analysing the scope of environmental, social and governance considerations, and to include information on environmental and social sustainability in ESMA's guidelines on the disclosure of information to rating agencies.

To fulfil the mandate, ESMA has carried out a public consultation.

With regard to non-financial information on listed companies, this is an area that falls within the scope of activity of ESMA's Standing Committee on Corporate Reporting, chaired by the Vice-Chair of the CNMV. In a few moments, I shall explain the work that the CNMV carries out at a national level in this field.

Given the importance that this whole matter is acquiring within ESMA, we have just created a new committee, called the Coordination Network on Sustainability, which is also lead by our Vice-Chair, whose objective is to coordinate the work related to sustainability being carried out by the various ESMA standing committees and national authorities.

This Committee has also begun work on a mandate which the European Commission has addressed in parallel to the three European financial sector authorities (EBA, EIOPA and ESMA) with the aim of preparing recommendations in relation to the pressures that make companies opt for short-term investments over long-term ones. The European Commission doubts that business decisions sufficiently incorporate the long-term considerations necessary for a transition to a low-carbon economy.

To conclude with the European environment, I must mention the work carried out within the Joint Committee of the Authorities (the European Committee formed by the three European Authorities in the financial sector, EBA, EIOPA and ESMA). Last March, european legislators reached an agreement on the proposed Regulation on the disclosure of information on investments and sustainability risks in the financial sector¹. This Regulation, also linked to the European Commission's Action Plan, sets out a series of reporting obligations addressed to a wide range of financial market stakeholders. Its essential pillars are:

- The elimination of greenwashing (unfounded or misleading claims about the sustainability characteristics and benefits of an investment product) and increasing market awareness of sustainability issues.
- Regulatory neutrality. The aim is to ensure greater convergence and harmonisation of the disclosure of information in all the sectors involved.
- A level playing field across the financial sector. The Regulation applies to: (i) investment funds; (ii) insurance-based investment products (life insurance products with investment components); (iii) private and occupational pensions; (iv) individual portfolio management; and (v) insurance and investment advice.

The Joint Committee of Authorities will draft a number of proposals for delegated regulations on the following matters:

- Public disclosure of the so-called "major adverse consequences" of investment decisions on sustainability factors.
- Disclosure of information on products with an indication of their sustainability characteristics or objectives.
- How sustainable investments should be marketed.

¹ <https://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=CELEX:52018PC0354>

International initiatives outside the European Union: IOSCO

Outside Europe, the work of IOSCO (an international body that brings together the main regulators and supervisors of securities markets around the world, whose headquarters, as you know, are in Madrid) in the area of sustainability must be highlighted. Specifically, the CNMV participates in the Sustainable Finance Network, created at the request of the Swedish supervisor, Finansinspektionen, in 2018 and which has two working groups.

One of them, which is also led by our Vice-Chair, coordinates an initiative aimed at conducting a comprehensive study of financial sustainability activities carried out by regulators, supervisors and industry participants in each of the jurisdictions examined.

The other working group focuses on the analysis of major international initiatives carried out by other international bodies.

Domestic Initiatives

Our sustainability activity is also intense internally.

Thus, with regard to the authorisation and registration of entities, up until the middle of this month², the CNMV has registered:

- 17 solidarity investment funds, characterised according to the Inverco classification, which I shall mention in a moment, for assigning part of the management fee to charities or NGOs (on average 0.26% of the assets per year). At the end of 2018, the combined assets of these funds stood at approximately 1.2 billion euros.
- 35 ESG funds which, also according to Inverco's criteria, apply ESG criteria in their investments (i.e. environmental, social and governance criteria) to be included in their prospectuses and investment policies. By the end of 2018, the combined assets of these ESG or ethical funds had reached 2.2 billion euros, after growing 128% in the year (compared with 32% in 2017).
- Three solidarity SICAVs (open-ended collective investment schemes) and one ESG SICAV.

The ESG funds and SICAVs are very varied. Some establish exclusionary criteria, such as not investing in companies that threaten life or human rights, manufacture arms, produce tobacco, or carry out activities detrimental to public health. Others take a positive approach: environmental protection, good corporate governance, the fight against hunger, poverty and inequality. In many cases, they have an internal committee that controls compliance with the fund's ideology, and it is common for management companies to rely on information from external entities and experts.

In addition, the CNMV forms part of an informal group of national regulators and supervisors comprising the Bank of Spain, the General Secretariat of the Treasury, the

² Specifically, as at 13 June 2019.

Directorate General of Insurance and the Climate Change Office with the aim of cooperating and exchanging knowledge on financial initiatives related to sustainability.

Likewise, as I mentioned earlier, in our 2019 Activity Plan we have taken sustainability into account in a special way. Specifically, we intend to carry out various actions over the course of this year:

- A specific analysis of the non-financial information statement of securities issuers whose 2018 annual report is to be subjected to substantive review during 2019.

The obligation to draw up and submit this statement is currently in accordance with the provisions of Spanish Law 11/2018³, of 28 December, which derives from Spanish Royal Decree-Law 18/2017 and incorporates into Spanish Law Directive 2014/95/EU⁴ on the disclosure of non-financial information and information on diversity by companies over a certain size; to put it simply, those that have more than 500 employees.

Incidentally, I would like to stress, and quite rightly, that the obligation to publish financial information in compliance with these rules does not only apply to listed companies. At the CNMV we are vigilant and always try to exert our influence so that the rules that may establish new requirements or obligations for the relevant companies do not use the listing criterion to define the group of companies that are subject to such requirements or obligations. From the point of view of the general interest, it is good that there are more listed companies - if you wish I can expand on this - and legislation should not impose more burdens or obligations for the sake of listing.

This task of supervising non-financial reporting poses significant challenges for us because, although the aforementioned reporting obligations have been in force since 2017, Spanish Law 11/2018 of 28 December introduced more stringent obligations with respect to those of the Directive, above all because it incorporates the detail proposed by the voluntary Guidelines on non-financial reporting, which makes our legal framework more demanding than that of the average European countries in this area. Many entities, therefore, are reporting for the first time to the CNMV information that they were previously not required to disclose and that, like some breakdowns by territory, they consider to be sensitive information because it involves submitting more information than their competitors in other countries have to provide. We are aware that we are in the early stages of the practical implementation of the regulations and that proportionality criteria and some flexibility need to be introduced into our supervisory task.

In our public annual report on our activities for the supervision of the annual reports we will include a section with the main conclusions drawn from our analysis and with recommendations to improve their quality in the future.

³ Law 11/2018, of 28 December, amending the Spanish Commercial Code, the recast text of the Spanish Corporate Enterprises Act approved by Spanish Royal Legislative Decree 1/2010, of 2 July, and Spanish Audit Law 22/2015, of 20 July, on the disclosure of non-financial information and diversity.

⁴ Directive 2014/95/EU of the European Parliament and of the Council, of 22 October, amending Directive 2013/34/EU with regard to the disclosure of non-financial information and information on diversity by certain large companies and groups.

- In 2019, we also intend to promote initiatives with sustainability components within the CNMV itself, including some aimed at reducing the environmental impact of the CNMV as an organisation, such as the installation of recharging points for electric vehicles or additional measures to reduce paper consumption.

Initiatives are also being developed to improve health and well-being at work and to encourage the CNMV staff to participate in social volunteering programmes.

Incidentally, in the area of volunteering, the CNMV already has a programme involving more than 100 volunteers (25% of the workforce) who have carried out various activities, mainly related to financial education.

Finally, I would also like to highlight the collaboration of the CNMV, together with the bodies I mentioned earlier (the Bank of Spain, the General Secretariat of the Treasury, the General Directorate of Insurance and the Climate Change Office) in the drafting of the precepts of the Draft Bill on Energy Transition and Climate Change that will affect our supervisory tasks. These precepts include obligations to disclose the financial impact of risks linked to climate change and energy transition on financial institutions, insurance companies and companies in general, whether listed or not, of a certain size.

As you can see, sustainability has become a major player in the financial world and one of the areas in which financial supervisors are most occupied.

At the CNMV we are approaching this issue with the utmost interest and enthusiasm, and we do so in particularly good spirits: on the one hand, our mission is to help make the information of interest to investors clear and reliable, bearing in mind that more and more investors are interested in taking sustainability factors into consideration in their investment decisions; and on the other hand, we strongly feel that our application in this area, in the sense of being applied students, is fully in line with the sensitivity of Spanish society and the Spanish Government.

Thank you very much for your attention.