



Sustainability leads the future of investment

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Good morning all.

I would like to begin by thanking El Nuevo Lunes and BME, and especially Antonio Zoido, for his invitation to participate in this Conference "Sustainability leads the future of investment".

There is increasing awareness of the need to move towards a sustainable society and economy. We talk about sustainability in different spheres and from different points of view, but as Vice-Chair of the CNMV I am going to focus on sustainable finance and the role that the securities market supervisor plays in it.

There is no single or official definition of sustainable finance, but in line with the Commission we consider sustainable finance to be the incorporation of environmental, social and governance (ESG) factors into the investment decision-making process. This is a process which involves a variety of stakeholders:

1. Investors, increasingly interested in investing in assets that take ESG factors into account.
2. Issuers of securities that are required to disclose non-financial information about environmental, social and corporate governance issues that is clear and reliable.
3. Financial advisers (IFs).

This is where the essential role of a supervisor such as the CNMV lies in this field: to help ensure that the non-financial information disseminated by issuers on environmental and social matters, or on the state of their corporate governance, is clear and reliable, and that investors are properly advised.

Aware of the importance of this "new dimension" of finance, sustainable finance is part of our Strategic Lines and Activity Plan for 2019 and 2020. In particular, one of the strategic lines is to contribute to the attractiveness and competitiveness of the Spanish market, which is capable of adapting quickly to new challenges such as sustainability.

Then I'll tell you some of the most noteworthy initiatives that are being carried out and in which the CNMV actively participates.

International Initiatives

European Union

1. I believe that an initial important initiative was the adoption of the 2014 Directive on the Disclosure of Non-financial and Diversity Information.

In Spain, the Directive led to the approval at the end of 2018 of Spanish Law 11/2018, which requires large public interest entities and large companies to submit a non-financial information statement that includes information on the entity's policies on environmental and social factors, the protection of workers and respect for human rights, as well as the fight against corruption and bribery.

This information can be provided through different national or international frameworks and the European Commission also issued non-binding guidelines for such purposes, which have recently been updated in the part concerning climate change.

This statement is of enormous importance insofar as it is the first time that certain entities have to provide a statement that is no longer of a financial nature. An indication of its importance is that ESMA's Corporate Reporting Standing Committee and European securities market supervisors have included the review of the non-financial statement as one of their priorities for 2019.

2. The Activity Plan for the financing of sustainable development published by the European Commission in March 2018 which, two months later, resulted in the adoption of a package of legislative measures to make it effective. These measures relate to three Regulations on which the Expert Group appointed by the Commission (TEG) has also recently issued its reports.
 - a) The Taxonomy Regulation, to determine in a harmonised manner the extent to which an economic activity is environmentally sustainable.

Taxonomy relates a series of economic activities, specifically 67, which represent approximately 80% of the total, with the objective of determining how they contribute to a greater or lesser degree to the environmental objectives included in the Paris Agreement.

- b) The approval of a Regulation, pending publication, which largely obliges institutional investors and financial advisers to report on how they take into account ESG factors in their investments and advice.

An agreement has been reached on this draft Regulation 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.

- c) The third one refers to the amendment of the Regulation on Benchmarks (stock exchange or interest rate indices) 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 regulates the characteristics and requirements that an index must meet in order to be classified within one of these two categories and establishes that conventional index managers will have to explain whether their methodology has taken into account ESG factors.

Finally, I would also like to refer to the Processing of a Standard on green bonds. It will be a guide that actually involves the application of the Taxonomy to a specific product, the green bond. An issuer of these types of bonds raises funds to invest in activities that, according to the parameters provided by the Taxonomy, achieve ESG objectives to a greater or lesser extent (let us remember, especially environmental at this time).

Another point in the Activity 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 sustainability risks and 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 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, ESMA expects that it will adapt its suitability assessment guidelines to accommodate client preferences for sustainable products.

Given the diversity of activities that ESMA is carrying on in relation to sustainable finance and the importance that this whole matter is acquiring, ESMA has just created a new committee, called the Coordination Network on Sustainability, which I also lead, whose objective is to coordinate the work related to sustainability that is being done by the various standing committees of ESMA 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.

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 I also lead, aims to conduct a comprehensive study of financial sustainability activities carried on 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 month¹, 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.

¹ Specifically, as at 13 June 2019.

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 on 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 Directorate General of Insurance and the Climate Change Office with the aim of cooperating and exchanging knowledge on financial initiatives related to sustainability, which has been very active in drafting the Draft Bill on Climate Change and Energy Transition.

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:

- 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 on various activities, mainly related to financial education.

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

Thank you very much for your attention.