CNMV
Comisión Nacional del Mercado de Valores

Report on the CNMV's supervision of non-financial information and main enforcement priorities for the following financial year

2020

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The CNMV discloses its reports and publications online at www.cnmv.es.

Layout: Cálamo y Cran
ISSN: 1989-659-X

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Introduction

This report describes the supervision carried out by the CNMV in 2021 of the non-financial information statement (NFIS) for 2020 of the issuers of securities admitted to trading on regulated markets in the European Union (hereinafter, "issuers" or "entities"). In addition, it gives details of certain aspects identified in the review process that issuers must consider in order to improve the quality of the non-financial information they provide to the market.

In previous years, this information was included as a specific section of the *Report on the CNMV's review of the annual financial reports and main enforcement priorities for the following financial year*. Given its increasing importance in the annual information provided by issuers, a decision was taken to publish a separate report on this topic for the first time.

From a legal standpoint, the NFIS forms part of the management report,[1] which, in turn, forms part of the annual report that must be prepared and published by issuers of securities on regulated markets and therefore falls under the supervisory authority of the CNMV, in accordance with Articles 122, 233 and 234 of the recast text of the Securities Market Act (the "TRLMV"), approved by Royal Legislative Decree 4/2015, of 23 October, in order to reinforce confidence in the reliability of non-financial information published by issuers.

The preparation of the NFIS was mandatory from the years beginning 1 January 2017 for companies included in the scope of application of Royal Decree-Law (RDL) 18/2017, of 24 November, which included the obligations imposed by Directive 2014/95/EU of the European Parliament and of the Council, of 22 October 2014, on non-financial and diversity information[2] (Directive 2014/95/EU or the "NFRD").

Subsequently, Law 11/2018, of 28 December ("Law 11/2018" or the "Law"),[3] applicable to the financial years beginning on or after 1 January 2018, amended the Commercial Code, the recast text of the Corporate Enterprises Act (the "TRLSC") and the Spanish Auditing Act (that "LAC") and repealed the aforementioned RDL, expanding its scope[4] and increasing the content of non-financial information to be reported

1 Law 11/2018, of 28 December, amending the Commercial Code, the recast text of the Corporate Enterprises Act approved by Royal Legislative Decree 1/2010 of 2 July, and Law 22/2015 of 20 July, on the auditing of accounts as regards non-financial information and diversity, Article 1 of which establishes that the consolidated financial statements must contain a consolidated management report, which, when applicable, shall include the non-financial information statement. Article 2 of this Law states that corporate enterprises must include in their management reports a non-financial information statement with the same content as that provided for the consolidated financial statements under Article 49 of the Commercial Code, although referring exclusively to the company in question.

2 https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32014L0095&from=EN

3 https://www.boe.es/boe/dias/2018/12/29/pdfs/BOE-A-2018-17989.pdf

4 Law 11/2018 requires that the NFIS be included in the management report when the following conditions are met: i) the average number of workers employed by the group companies during the fiscal year

by companies, requiring that the information included in the NFIS be reviewed by an independent provider of verification services.

In application of the mandate contained in the NFRD, in July 2017 the European Commission (EC) published non-binding guidelines on the methodology applicable to the presentation of non-financial information (2017/EU guidelines),[5] which was supplemented in June 2019 with information related to climate change (Climate Supplement).[6] The Climate Supplement includes the recommendations of the Task force on Climate-related Financial Disclosures (TCFD) working group – sponsored by the Financial Stability Board (FSB) – in the regulatory framework of the European NFRD Directive.

Some of the main sections of the report are summarised below. However, we recommend reading the entire document.

Regulations on sustainability-related disclosures

The CNMV has highlighted the following initiatives in this area:

Proposal for a Corporate Sustainability Reporting Directive: in January 2021, the EC published this proposal for a Directive (CSRD) that will amend the existing NFRD and regulate the content of the "Sustainability report", requiring independent third-party verification with a limited assurance and expanding its scope to include all large companies and, in the case of issuers of securities on regulated markets in the European Union (EU), small and medium-sized enterprises.

The objective is to transpose the new Directive before 31 December 2022, and it would apply to the financial years beginning on 1 January 2023. To guarantee the comparability and usefulness of the information, the EC requested a mandate from the European Financial Reporting Advisory Group (EFRAG) to draw up a proposal for European sustainability reporting standards, which, after the preparation of the corresponding delegated act by the EC, are expected to be applicable in 2023.

Taxonomy Regulation: In December 2021, Delegated Regulation (EU) 2021/2139 and Delegated Regulation (EU) 2021/2178 were published. These Regulations complete Regulation 2020/852 of the European Parliament and of the Council, of 18 June 2020 (the "Taxonomy Regulation"), which will oblige entities subject to the NFRD to include in their NFIS information on how and the extent to which their activities are classified as environmentally sustainable, on the basis of the taxonomy approved by the EU.

is greater than 500 and ii) either it has public interest entity status in accordance with the auditing legislation, or for two consecutive fiscal years, it meets at least two of the following circumstances at the closing date of each one: a) total consolidated assets of over €20 million, b) net turnover of over €40 million, and c) an average number of workers employed during the year of over 250. The transitional provision indicates that three years after the entry into force of this Law, it will be applicable to all companies with more than 250 workers that meet certain requirements.

5 European Commission, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017XC0705(01)&from=ES

6 European Commission, https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

Therefore, the NFIS of non-financial companies published from 1 January 2022 onwards, reporting on the 2021 financial year, must provide a breakdown of the proportion of eligible and non-eligible economic activities, according to the taxonomy for the environmental objectives of mitigation and adaptation to climate change, under total turnover, investments in fixed assets (CapEx) and operating expenses (OpEx), along with specific qualitative information for this disclosure. Financial institutions must publish, for the financial years 2021 and 2022, their ratio of eligible and non-eligible assets and investments ("green asset ratio" or "GAR").

Annual non-financial statements received for 2020

Of the 145 issuers that submitted individual financial statements and the 136 that submitted consolidated financial statements for the 2020 financial year, 43 were required to include an NFIS in their individual management report and 96 in their consolidated management report (30% and 71%, respectively).

Verifiers

The CNMV draws attention to the high level of concentration in the sector. Specifically, in 85% of cases, the verifier was one of the "big four" in Spain: Deloitte, EY, KPMG and PwC. This is a slight increase compared to the figure of 82% seen in the previous year. Among the remaining 15%, Aenor stands out, as in the previous year, having carried out the verification of the NFIS for four issuers.

On a positive note, no issuers received qualifications in their verification report (two in 2019), which is the first time that this has happened since this report become mandatory under Law 11/ 2018.

Supervision of non-financial information

The CNMV notes that its enforcement work on the NFIS follows a similar approach to its supervision of financial information. It carries out: i) a formal review of compliance with presentation requirements, the content of the verifier's report and other specific aspects, and ii) a substantive review of a specific number of companies, focused mainly on the enforcement priorities issued by the European Securities and Markets Authority (ESMA) and the CNMV, and on the material aspects of each entity.

It should be noted that in the formal review recommendations were sent to 14 issuers and requests for additional information were sent to three entities on: i) the location of the NFIS, ii) the frameworks used, and iii) the tables of contents addressed in the report.

In the substantive review, recommendations were sent to 16 issuers and requests for additional information were sent to 14 entities, mainly about the following aspects: i) the consideration of double materiality; ii) the definition of value creation and how the business model impacts and is impacted by non-financial matters; iii) the methodology and concepts used to calculate the wage gap, explanations of the data, performance and measures implemented; iv) impacts of COVID-19; v) the description of the main risks related to environmental matters and climate change, greenhouse gas (GHG) reduction goals and the calculation of key performance indicators (KPIs); and vi) exclusions in the scope considered.

In most cases, the explanations provided by the issuers in response to the CNMV's requests satisfactorily completed the disclosures required by law or recommended by ESMA and the CNMV in their enforcement priorities, although there is still room for improvement, as described below.

The CNMV wishes to draw attention to several aspects that could be improved in the NFIS for future years.

Business model and value creation

The CNMV considers this to be a very important issue that gives context to the other content of the NFIS. Institutions must therefore continue to improve their disclosures, providing greater clarity and specificity: the goal is to provide a summary of what the institution does, how it does it and why, and the role played by the different stakeholders in the value creation process.

In accordance with the European Commission (EC) guidelines, when institutions report on their business models, they are expected to describe their strategic approach to non-financial matters and detail what their main non-financial objectives are, in quantitative or qualitative terms, and how they plan to meet them.

Double materiality

The CNMV has observed that the disclosures usually follow the "inside-out" or social and environmental materiality approach, and that some institutions state that their objective is to provide information to their main stakeholders so that they are able to understand the impact of their activity with respect to non-financial matters. Issuers are reminded that they must expand the "outside-in" or financial materiality approach in their disclosures in order to complete their materiality analyses.

In accordance with the EC Climate Supplement of June 2019, the "outside-in" approach refers to how the value of the company is affected by non-financial aspects in a broad sense, not just how it affects figures in the current financial statements. Institutions provide little long-term information.

The assessment and definition of both materiality approaches is the cornerstone for establishing which information is relevant for investors and other stakeholders, and prevents the omission of material information or the inclusion of irrelevant information. Additionally, neither approach is watertight and the issuer's impact on its social and environmental setting and its stakeholders will eventually, to some extent, have an impact on the entity's financial position and performance. More and better information on both approaches will make it easier to understand these interactions or cross-effects.

Institutions should expand the information they disclose, providing the different aspects ordered by priority and including more specific explanations of why they are relevant. Some have committed to reporting a materiality matrix in their 2021 NFIS, which is expected to improve the quality of this section. This is key to gaining a proper understanding of the NFIS as a whole.

Risks related to climate change and other environmental matters

Practically all of the companies reviewed include at least one GHG indicator that provides scope 1 emissions, 90% provide scope 2 emissions and 55% provide scope 3 emissions.

However, of those that provide scope 3 emissions, less than half indicate that indirect emissions from the customers' usage of the entity's goods and services are included in this scope.

50% of companies set specific reduction targets, although not all of them describe the means envisaged to achieve these. Likewise, an additional 30% of the companies reviewed describe generic GHG reduction goals.

While 90% of companies subject to substantive review describe their policies on climate change and other environmental matters, only half report approval of those policies by the board of directors.

Only half of the companies in the selected sample disclose certain information – of a generic nature – about the financial impacts (past or future) on the profit and loss account and balance sheet of climate-related risks and opportunities. 10% justify this omission by alleging immateriality. Given its cross-cutting nature for most sectors, it is considered that the information on impacts should be improved. Therefore, the 2019 EC Climate Supplement and the Recommendations of the Task force on Climate-related Financial Disclosures (TCFD) of 2017 should be taken into account.

Social and employee matters

Greater segmentation of the wage gap would be desirable and that it be provided, at least, by professional category and country, since if it is disclosed, in aggregate, by company or group, this could lead to erroneous interpretations and would not meet the objective of reflecting the institution's actions to promote diversity and eliminate gender bias. In some cases, the consolidated scope was not considered in the calculation, and certain staff or countries were excluded or information was not provided for all categories.

Nearly 20% of the companies in the selected sample do not provide comparative data on the wage gap or an explanation of its trend. Approximately three quarters of issuers do not include an explanation of the plans and measures to reduce this gap, when it is significant. Therefore, the CNMV highlights the importance of providing comparative data, an explanation of how the gap has evolved and, where relevant, a description of the plans and measures in place to close it.

For supply and sales chains employees, customers and other relevant stakeholders, it should be noted that around 40% of the issuers reviewed did not provide information on how inclusion and diversity matters have been addressed in their policies.

Characteristics and presentation of NFIS information

It is considered good practice to include a section containing the bases for the preparation of the NFIS, indicating, at very least, the framework or frameworks applied, the scope, any changes with respect to previous periods and other observations that help provide a better understanding of the report. Issuers should give greater details of their policies, indicating whether they have been formalised and the bodies involved in their approval, including the board and any committees involved.

NFIS scope

It must be clear what the scope of the NFIS is, in general terms or with respect to any specific aspect or KPI, whether all subsidiaries, activities and countries are included, or whether it contains information on key associates and joint ventures, and whether the scope in the different policies and KPIs for each non-financial issue is consistent.

Information should be expanded, where this is relevant, on how the supply chain is considered in the different breakdowns of the NFIS, including an explanation of the assessment of its relevance in relation to non-financial matters and providing sufficient detailed disclosures on subcontracting and the supply chain, under the heading "Company information".

Key performance indicators (KPIs)

Despite the recommendations made in recent years, information on KPIs remains an area for improvement. In some cases, comparative information for certain KPIs is still not provided. This should be restricted to specific cases and the reasons should be explained. Qualitative explanations are commonly lacking for different KPIs, which are key to understanding the calculation method and the reasons for any significant changes. This is a recurring theme in the letters of recommendation. In some cases, changes in the calculation criteria have been observed with insufficient information provided to understand the implications of this.

Fight against corruption and bribery

Institutions should be more explicit and specific about the main risks associated with this area, the internal control and diligence procedures established to address them and whether or not any risks have materialised during the year. The risks affecting the other links in the value chain, such as the supply and distribution chains, must be made clearer.

If any risk has materialised, sufficient information must be provided to ensure the relevance of the risk is understood and an explanation must be provided of the actions carried out, including internal (forensic) or external audits, and the changes made to prevent its recurrence.

The statement issued by the CNMV on 25 November 2019, resulting from cases of alleged irregular practices that affected some issuers, should be noted here.

Respect for human rights

Companies state their commitment to respecting human rights, although they should be more specific about the risks and policies in this area, and their scope, if it extends to the supply and distribution chains. In this area, it is recommended to provide information on how the company addresses frameworks such as the United Nations Global Compact, the United Nations Guiding Principles on Business and Human Rights, the OECD Guidelines for multinational enterprises and the International Labor Organization (ILO) Tripartite Declaration.

Company information

In this section, the description of the main short-, medium- and long-term risks must be improved, and in relation to the KPI disclosures, comparative data and an explanation of the trends observed must be provided.

The explanation of the performance of non-financial risks associated with subcontracting and the supply chain should be expanded, taking into account the entity's particular circumstances (activity, countries, etc.).

Issuers that consider consumers to be a material issue generally have systems for dealing with complaints, but in 25% of cases these are not properly explained and no data are provided on the complaints received.

In the area of tax information, the explanation of the relationship between the itemised profit and the income taxes paid in each country must be improved, as this was only provided in full by 30% of the companies and there is no reference to the reconciliation included in the corresponding note to the financial statements.

Special analyses carried out in 2021

Impact of COVID-19 on non-financial information in 2020

On a positive note, 95% of the entities analysed provided information that allows an understanding to be gained of the degree of resilience of their business model in the face of exceptional events, such as the COVID-19 pandemic. Although the impact of the pandemic on entities' business models has been uneven, most report the contingency measures and plans adopted to ensure the continuation of their activity during the pandemic and minimise its impacts. However, additional information was requested from one entity and 12 issuers were recommended to expand and improve the information they submit on the impact of COVID-19.

Analysis of the nature and scope of verification reports

As in the previous year, 92% of verifiers carried out a limited review. 94% of these carried out their work in accordance with the requirements established under the revised standard ISAE 3000 and in the guidelines of the Spanish Institute of Chartered Accountants (ICJCE).[7] The remaining 8%, who are verifiers of Ibex-listed companies, included some additional scope in their report, for example, on specific KPIs.

7 The revised ISAE 3000 standard addresses the review of various non-financial aspects and has been approved by the international auditing regulator (International Auditing and Assurance Standards Board), which belongs to the International Federation of Accountants (IFAC). In Spain, it has been adapted by the Spanish Institute of Chartered Accountants (ICJCE).

67% of the verifiers that follow this guide exclusively verify the information required by law, which is identified in a summary table. The CNMV highlights the importance of verified and unverified information being accurately identified and traceable. The content and format of these tables can be improved in many cases and they do not clearly indicate the information that has been verified and the information that has not been verified. It is also recommended to review the full content of the NFIS.

2021 NFIS enforcement plan

It should be noted that in October 2021 ESMA published its common enforcement priorities for non-financial information statements, which refer to the following issues: i) the impacts derived from COVID-19, ii) climate-related matters, and iii) disclosures relating to Article 8 of the European Taxonomy Regulation.

Likewise, the CNMV wishes to draw attention to its decision to include the following as additional enforcement priorities for non-financial information: i) a more detailed analysis of the disclosures related to the carbon footprint, ii) an analysis of the scope of the NFIS and disclosures of the participation of the entity and its stakeholders in the value chain, and iii) a more detailed analysis of the consistency between IFRS and the NFIS, all of which are considered key to properly understanding these issues.

I Regulations on sustainability-related disclosures

This chapter briefly introduces some of the ongoing initiatives related to sustainability reporting, which has become an important pillar for investors and managers in their investment strategies, as well as for other financial market participants (financial advisers, administrators of benchmark indices, intermediaries, etc.) so that they, in turn, are able comply with the new regulations on sustainability-related disclosures.

In March 2018, the European Commission (EC) launched an Action Plan to finance sustainable development,[8] whose fundamental objective is to redirect capital flows into sustainable investments, guarantee the stability of the financial system and promote market transparency, and shore up the long-term economic outlook.

To achieve this objective, multiple legislative proposals have recently been drawn up, at EC level and in Spain, which will significantly raise the importance, over the next two years, of the regulation that will affect the preparation and verification of sustainability reporting by companies.

Regulation (EU) 2020/852 of the European Parliament and of the Council, of 18 June 2020[9], the **Taxonomy Regulation,** acts as an umbrella for the rest of the regulations, by establishing the criteria to determine how and to what extent the activities carried out by entities subject to the Non-Financial Reporting Directive (NFRD) are classified as environmentally sustainable, considering for this purpose the taxonomy approved by the EU, which sets six environmental goals.[10]

In March 2021, the **European Sustainable Financial Disclosure Regulation** for the financial services industry[11] (SFDR) entered into force. This Regulation requires financial market participants and financial advisers to disclose the extent to which they have considered environmental, social and governance factors and risks in their investment decisions. In October 2021, the three European supervisory authorities, the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA), delivered their final report to the EC[12] with the draft regulatory technical standards that complement the Disclosure Regulation, which are expected

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8 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN

9 https://eur-lex.europa.eu/legal-content/ES/TXT/HTML/?uri=LEGISSUM:4481971

10 Climate change mitigation, adaptation to climate change, sustainable use and protection of water and marine resources, transition to a circular economy, prevention and control of pollution, and protection and recovery of biodiversity and the ecosystems.

11 https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019R2088&from=EN

12 https://www.esma.europa.eu/sites/default/files/library/jc_2021_50_-_final_report_on_taxonomy-related_product_disclosure_rts.pdf

to come into force on 1 July 2022[13] for products that have investments with climate objectives and on 1 January 2023 for those with other environmental objectives.[14]

In order to ensure that companies report the information required by both investors and financial markets participants subject to the Disclosure Regulation, on 21 April 2021, the EC published a **proposal for its Corporate Sustainability Reporting Directive[15] (CSRD),** which will amend the existing NFRD and that, once transposed into the regulations of each Member State, will regulate the content of the "Sustainability report", requiring a limited review of reported information[16] and expanding its scope to large companies and, in the case of issuers of securities on regulated markets in the EU, to small and medium-sized enterprises (SMEs), with the exception of micro-enterprises.[17]

This proposal has been forwarded to the European Council and the Committee on Economic and Monetary Affairs of the European Parliament, which will have to decide on the final legislative text so that Member States can transpose the new Directive into national legislation before 31 December 2022. It will apply to companies included in its scope for the fiscal years beginning on or after 1 January 2023.[18]

To guarantee the comparability and usefulness of the information disclosed by the entities, the EC requested the European Financial Reporting Advisory Group (EFRAG) to perform the preparatory work for the possible implementation of European standards for sustainability reporting. As a result of this work, in February 2021, EFRAG published a report[19] setting out its proposals for the creation of a first set of standards, which are expected to be apply from 2024, with 2023 as the first reporting year. In September, **the EFRAG PTF-ESRS subgroup** (Project Task Force on European Sustainability Reporting Standards) published a document entitled "Climate standard prototype"[20] and its conclusions, which will serve as the basis for future discussions for drawing up the draft standard. These standards include the concept of double materiality, which requires the impact of companies on the environment and impact on companies of sustainability matters to be reported.

In the international arena, trustees of the IFRS Foundation[21] announced, during the Climate Change Conference (COP26) held in Glasgow in November 2021, the formation of the **International Sustainability Standards Board (ISSB)** to develop disclosure standards on sustainability.

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13 Instead of 1 January 2022 as initially planned in the Taxonomy Regulation.

14 The other four environmental objectives: sustainable use and protection of water and marine resources, transition to a circular economy, prevention and control of pollution, and protection and recovery of biodiversity and ecosystems, will be applicable to all reports issued from 1 January 2023 on information for the 2022 financial year and subsequent years.

15 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021PC0189&from=EN

16 The obligation to verify non-financial information using an independent provider of assurance services has already been included in Spanish regulations by Law 11/2018.

17 The terms "*micro-enterprise*", "*small enterprise" medium-sized enterprise" and "large company"* are defined in Accounting Directive (2013/34/EU), of 26 June 2013.

18 Except listed SMEs, which will not be required to submit reports in accordance with the Directive until three years after its application, i.e. from 1 January 2026.

19 https://www.efrag.org/Lab2

20 https://www.efrag.org/News/Project-527/EFRAG-PTF-ESRS-welcomes-Climate-standard-prototype-working-paper

21 https://www.ifrs.org/

Regulations on sustainability-related disclosures

In March 2021, these trustees set up the TRWG (Technical Readiness Working Group), whose objective was to prepare the start of operations of the International Sustainability Standards Council, with the participation of the IASB (International Accounting Standards Board), the CDSB (Climate Disclosure Standards Board), the TCFD (Task Force on Climate-related Financial Disclosures), the Value Reporting Foundation (the result of the merger between SASB[22] and IIRC)[23] and the WEF (World Economic Forum), while IOSCO (International Organization of Securities Commissions) and IPSASB (International Public Sector Accounting Standards Board) took part as observers.

On 3 November 2021, the TRWG published a prototype[24] for climate-related disclosures, which provided recommendations to the ISSB for consideration when developing the standards. The ISSB will work closely with the IASB to ensure connectivity and compatibility between International Financial Reporting Standards (IFRS) and sustainability standards.

On 9 and 10 December 2021, Commission Delegated Regulation (EU) 2021/2139, of 4 June 2021[25] and Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021,[26] were published in the *Official Journal of the European Union* (*OJEU*), completing the **Taxonomy Regulation.**

Delegated Regulation (EU) 2021/2139 establishes the technical selection criteria to determine the conditions under which an economic activity is considered to contribute substantially to the mitigation or adaptation of climate change and to determine that this economic activity does no significant harm to the rest of the environmental objectives. The delegated act that establishes the technical selection criteria for the other four environmental objectives is pending implementation by the EC.

Delegated Regulation (EU) 2021/2178 specifies the content and presentation of the information that must be disclosed, in accordance with Article 8 of the Taxonomy Regulation, by companies subject to Articles 19 *bis* or 29 *bis* of Directive 2013/34/EU,[27] regarding economic activities considered sustainable from an environmental standpoint and the methodology to comply with the new regulations on sustainability-related disclosures.

In accordance with these Regulations, the NFIS of non-financial companies are published from 1 January 2022 for the 2021 financial year must disclose the proportion of eligible and ineligible economic activities,[28] in accordance with the taxonomy for the environmental objectives of mitigation and adaptation to climate change, in their total turnover, their investments in fixed assets (CapEx) and operating expenses (OpEx), along with qualitative information relevant to this disclosure.[29]

22 Sustainability Accounting Standards Board.

23 International Integrated Reporting Council.

24 Prototype Climate-related Disclosures Requirements (Climate Prototype) (ifrs.org).

25 https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32021R2139&from=EN

26 https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32021R2178&from=EN

27 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0036&from=EN

28 *Eligible economic activity* appears in the taxonomy because it contributes substantially to one or more environmental objectives, while *aligned activities* are economic activities that, in addition to appearing in the taxonomy, meet the established technical selection criteria.

29 Described in Section 1.2 "Specifications of the disclosures that accompany the KPIs of non-financial companies," Annex I "Key performance indicators for non-financial corporations" of Delegated Regulation (EU) 2021/2178.

Financial companies must disclose the proportion of total assets of their exposures to: i) eligible and non-eligible economic activities according to the taxonomy; ii) central government, central banks and supranational issuers; iii) derivatives, and iv) companies that are not required to publish non-financial information under the NFRD, in addition to qualitative information[30] for the period between 1 January 2022 and 31 December 2023, with reference to information corresponding to the 2021 and 2022 financial years.[31]

In future years, financial companies (from 2024) and non-financial companies (from 2023) must expand their disclosures of information on alignment, in accordance with the provisions of Delegated Regulation (EU) 2021/2178.

On 20 December 2021, the EC published an FAQ document[32] addressing how financial and non-financial companies must report their activities and eligible assets in accordance with Article 8 of the Taxonomy Regulation. The publication of this document was accompanied by a guide published by the Sustainable Finance Platform[33] for companies that wish to make additional voluntary disclosures regarding the eligibility or alignment of their activity with the Taxonomy Regulation.

On 2 February 2022, the EC adopted a draft notification that includes 33 frequently asked questions,[34] additional to those contained in the document published on 20 December.

In addition, the EC has launched an online tool, the EU Taxonomy Compass,[35] which makes it easier to read the delegated acts on economic activities that contribute substantially to achieving climate goals. The EU Taxonomy Compass lists the activities that are eligible to achieve climate change mitigation and adaptation goals. At a later date, once the corresponding delegated acts have been approved, it will also identify the activities that are eligible for the remaining sustainable objectives.

As the Spanish legislator chose[36] to enforce the obligation to verify the information included in the NFIS using an independent provider of assurance services,[37] the new content required under Article 8, which is part of the mandatory content under the applicable regulatory framework, must also be subject to verification, which must be framed within the verification of the NFIS as a whole.

At national level, **Law 7/2021 on climate change and energy transition**[38] was approved in May 2021. Article 32 of this Law requires that entities that are obliged to

30 Described in Annex XI "Qualitative disclosures of asset managers, credit institutions, investment services companies and insurance and reinsurance companies" in Delegated Regulation (EU) 2021/2178.

31 Specific information must also be required for: asset managers, credit institutions, investment services companies and insurance and reinsurance companies.

32 https://ec.europa.eu/info/files/sustainable-finance-taxonomy-article-8-report-eligible-activities-assets-faq_en

33 *Platform on Sustainable Finance: Considerations on voluntary information as part of Taxonomy-eligibility reporting (europa.eu)*

34 https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-article-8-report-eligible-activities-assets-faq-part-2_en.pdf

35 https://ec.europa.eu/sustainable-finance-taxonomy/index.htm

36 Directive 2013/34/EU gave Member States the option of requiring that the information contained in the non-financial statement be verified by an independent provider of assurance services.

37 Article 49.6 of the Commercial Code.

38 https://www.boe.es/boe/dias/2021/05/21/pdfs/BOE-A-2021-8447.pdf

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publish an NFIS, including companies that issue securities admitted to trading on regulated markets, submit to the CNMV, as part of their management report, an annual report, whose content will be established by royal decree within two years after the approval of the Law. In this report, an assessment must be made of the financial impact on company of the risks associated with climate change generated by its exposure to this, including the risks relating to the transition to a sustainable economy and the measures implemented to deal with these risks. This reporting obligation will apply once the content of the report has been established by the aforementioned royal decree.

Lastly, Law 5/2021, of 12 April,[39] amends Article 49.6.II, fourth indent, of the Code of Commerce, implementing the section of the NFIS corresponding to information on social and employee matters that has been developed to include details of the mechanisms and procedures used by the company promote the engagement of workers in the management of the company, in terms of information, consultation and participation. This reporting obligation will enter into force 12 months after its publication in the BOE, on 13 April 2021.

The following table summarises the European regulations in force, or planned, described in this chapter, in relation to the sustainability report:

<table>
<tr><td colspan="2">TAXONOMY REGULATION
Regulation (EU) 2020/852 of the European Parliament and of the Council, of 18 June 2020
Article 8 applies to reports published as of January 2022</td></tr>
<tr><td rowspan="2">SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)
Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019, on sustainability-related disclosures in the financial services sector
Applies from March 2021</td><td>NON-FINANCIAL DISCLOSURE DIRECTIVE (NFRD)
Directive 2014/95/EU of the European Parliament and of the Council, of 22 October 2014, amending Directive 2013/34/EU as regards the disclosure of non-financial and diversity information by certain large undertakings and groups
In Spain, it has been applied since 2017, through its transposition in Royal Decree-Law 18/2017 and Law 11/2018</td></tr>
<tr><td>PROPOSED CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)
This Directive will apply from 2024
for information from fiscal year 2023</td></tr>
</table>

39 Law 5/2021, of 12 April, amending the recast text of the Spanish Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2 July, and other financial regulations, as regards the encouragement of long-term shareholder engagement in listed companies (https://www.boe.es/boe/dias/2021/04/13/pdfs/BOE-A-2021-5773.pdf).

II Verified non-financial information statements

Number of issuers required to publish an NFIS

The Commercial Code and the Spanish Corporate Enterprises Act, in the wording of Law 11/2018, establish the obligation to include an NFIS in the individual or consolidated management report of issuers considered to be public interest entities (PIEs) if they have an average workforce of more than 500 during the year.

In accordance with the transitional provision of Law 11/2018, three years after the entry into force of the Law (i.e. from financial year 2021) the threshold for the number of workers of public interest entities will be reduced to 250, except for small and medium-sized enterprises,[40] pursuant to Directive 2013/34/EU.

The issuers' annual financial statements and management reports, which will include, where appropriate, the NFIS and the verifier's report, are published on the CNMV website and filed in the official register provided for in Article 238 of the TRLMV.

Of the 145 issuers that submitted individual financial statements[41] and of the 136 that submitted consolidated statements for the 2020 financial year, 43 were required to include an NFIS in their individual management report and 96[42] in their consolidated management report (30% and 71% of the total, respectively).

NFISs received by the CNMV TABLE 1

	2017[43]	2018	2019[44]	2020[44]
Individual NFIS	42	43	45	43
	27%	28%	31%	30%
Consolidated NFIS	95	96	97	96
	67%	69%	73%	71%
Individual annual reports	155	152	144	145
Consolidated annual reports	142	140	133	136

Source: CNMV.

40 Small- and medium-sized enterprises are enterprises that, on their balance sheet closing date, do not exceed at least two of the following three criteria: i) balance sheet total: €4,000,000 and €20,000,000, respectively; ii) net turnover: €8,000,000 and €40,000,000, respectively; iii) average number of employees during the year: 50 and 250, respectively.

41 Excluding securitisation funds and bank asset funds.

42 Includes one entity, Pharma Mar, S.A., which voluntarily submits this report although it is not required to do so.

43 Year in which the provisions of Royal Decree-Law 18/2017, of 24 November (RDL 18/2017), were applied.

The number of issuers that submitted an NFIS for the financial year 2020 is one less than in the previous financial year, mainly due to: i) the delisting of several companies following a takeover bid, and ii) the redemption of various fixed income instruments, which meant that the issuing companies are no longer required to present financial information. This decrease was partially offset by: i) one entity that reported a change in its Member State of origin to Spain and is therefore required to submit an NFIS, and ii) one issuer that did not submit its NFIS for 2019 on time, while its NFIS for 2020 was received before the date of this report.[44]

Only 5% of the entities required to issue a statement (two issuers) presented a specific individual NFIS (the same number as in 2019). The remaining 95% complied with the obligation by including a reference to the consolidated NFIS or by including the consolidated NFIS in their individual management report. No issuers were required to exclusively publish an individual NFIS.

Lastly, four Ibex-listed entities[45] were not obliged to prepare an NFIS for 2020, as they had less than 500 employees on average in the year (two entities in 2019), although one of these[46] submitted the report voluntarily.

Verification reports

Law 11/2018 requires that the information included in the NFIS be verified by an independent provider of assurance services.[47] As in the previous year, all issuers subject to this Law (96 issuers) submitted their corresponding consolidated NFIS verification report.

One issuer submitted an individual NFIS verification report.

Qualifications

As a result of this verification, no issuers submitted qualifications in 2020 (two issuers[48] in 2019).

Figure 1 shows changes over the past three years (since the verification report became obligatory) in the percentage of issuers filing unqualified and qualified audit reports. In 2017, when it was not yet obligatory under Royal Decree-Law 18/2017, 10% of issuers submitted a verification report.

44 In December and August 2021, Abengoa, S.A. prepared and submitted to the CNMV its individual and consolidated annual financial statements for the years 2020 and 2019, respectively, which in both cases included a consolidated NFIS. The NFIS for 2019 was not considered for this report as it was received in 2021.

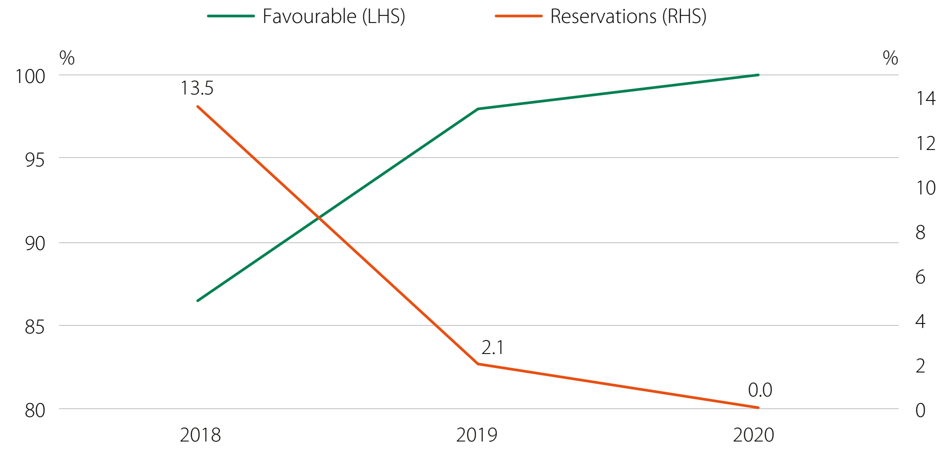
45 Inmobiliaria Colonial, SOCIMI, S.A.; Merlin Properties, SOCIMI, S.A.; Solaria Energía y Medioambiente, S.A., and Pharma Mar, S.A.

46 Pharma Mar, S.A.

47 Article 49.6 of the Commercial Code.

48 Obrascón Huarte Lain, S.A. and Fluidra, S.A.

Opinions on NFIS FIGURE 1



Source: CNMV.

In 2019, there was a significant drop in the number of verification reports with qualifications compared to 2018 (13 issuers presented qualifications in 2018), a trend which continued in 2020, when there were no qualifications. The decrease in the last two years is due to the improvements in internal systems and processes, which allowed information that had been omitted in previous years to be obtained, and due to the provision of documentary evidence and greater details compared to the previous year, providing a better understanding of the situation, performance and development of the entity or group, and the impact of its activity, for investors and other stakeholders.

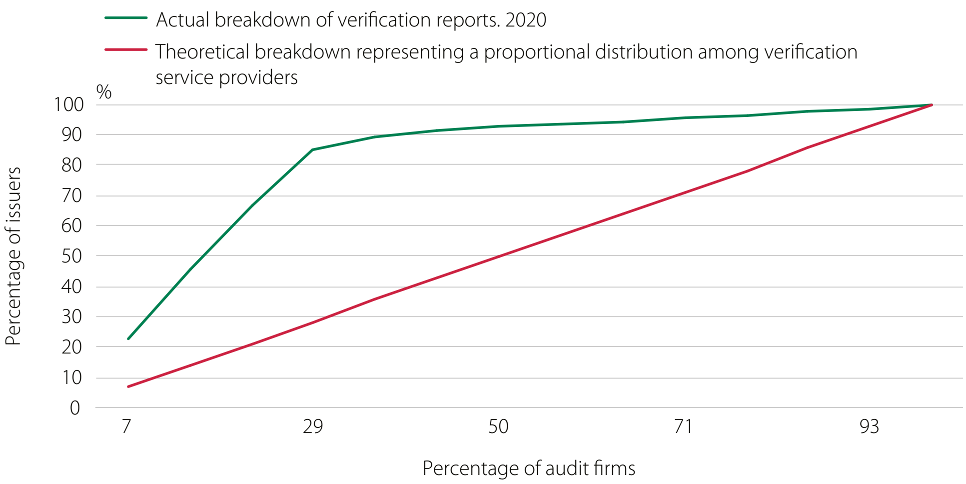
Chapter II.B of this report includes a section that provides a detailed description of the analysis carried out of the nature and scope of the NFIS verification reports for the 2020 financial year.

Verification firms

In approximately 85% of cases, the verifier was one of the four main auditing firms by business volume in Spain: Deloitte, EY, KPMG and PwC. This is slightly higher than the 82% seen in the previous year and reflects the high level of concentration in this sector. As in the previous year, Aenor stands out among the remaining 15%, issuing the verification report of four issuers, which represents 4% of the consolidated verification reports received (five issuers, 5% in 2019).

Figure 2 shows the level of concentration indicated.

Concentration of verification reports by firm FIGURE 2

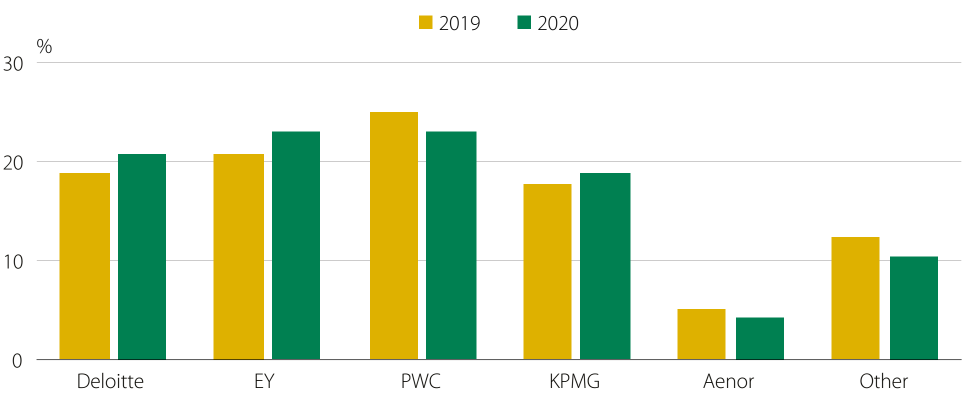


Source: CNMV.

It should be noted that in approximately 61% of cases (60% in 2019), the verification firm was the same as the company or group that audited the entity's 2020 annual financial statements.[49]

Figure 3 shows the breakdown of the verification reports prepared by the main firms in the last two years.

Breakdown of verification reports by firm FIGURE 3



Source: CNMV.

All Ibex 35[50] companies required to submit an NFIS for 2020 were verified by the top four audit firms. This was the same as in 2019 and in 2018, with the exception of one firm.

49 In the case of 12 issuers (ten issuers in 2019), the auditor and the verifier were the same natural person.

50 Includes the 31 Ibex 35 companies that submitted an NFIS to the CNMV. Arcelor Mittal is not required to submit financial information to the CNMV, since Spain is not its Member State of origin; and Inmobiliaria Colonial, SOCIMI, S.A.; Merlin Properties, SOCIMI, S.A., and Solaria Energía y Medioambiente, S.A. are not required to submit an NFIS, as they have less than 500 employees.

II.A Supervision of non-financial information

Review of 2020 NFISs

The TRLMV entrusts the CNMV with supervising the NFIS submitted by issuers to the extent that it forms part of their management reports. To exercise this function, the CNMV is empowered to require issuers to publish additional information, supplementing the disclosures provided, to include certain corrections, and where applicable, accompanied by commitments to restate or reissue the non-financial information.

In this process, the CNMV can address issuers, requesting information in writing to obtain clarification or data on specific matters. Oral requests are also sometimes made, by telephone or through meetings, in order to collect additional information.

In the first years of mandatory submission of the NFIS, the CNMV's supervisory effort focused on issuing recommendations, asking for further details only in the event of qualifications in the verifier's report, or in specific cases, to progressively ask for additional information, especially about the aspects that were considered a priority in the review of the 2020 NFIS.

It is important to remember that these requests for information are tools to investigate possible breaches, but that not all requests are ultimately related to a failure to observe applicable rules, and consequently, some responses given by entities do not lead to any corrective action by the CNMV.

The CNMV's enforcement work on the NFIS follows a similar approach to its work on financial information, with two levels of review performed: formal and substantive. In line with the principles set out in the ESMA Guidelines on enforcement of financial information,[51] the substantive reviews may, in turn, be full or partial, with the partial reviews only covering certain specific aspects of the non-financial information.[52]

All of the NFISs received are subject to a formal review regarding compliance with legal requirements. This type of review includes other specific issues that are described below.

A full or partial substantive review is also performed on a specified number of NFISs. To identify the entities that are subject to this type of review, a mixed selection model is applied based on risk, which takes into account factors related to financial

51 ESMA – Guidelines on enforcement of financial information (28 October 2014). These guidelines have been recently updated, and the amendments came into force from 1 January 2022. (https://www.esma.europa.eu/sites/default/files/library/esma32-50-218_guidelines_on_enforcement_of_financial_information_en.pdf)

52 Basically the enforcement priorities set by ESMA and the CNMV.

and non-financial information, and on random rotation, in line with the ESMA Guidelines on enforcement of financial information.

The concept of risk used in the model combines two factors:

– The likelihood that the financial statements contain a material error.

– The potential impact of any material errors on market confidence and investor protection.

The risk-based selection is supplemented by randomised rotation criteria to ensure that the financial and non-financial information received from all issuers is reviewed at least once in every rotation cycle.

Formal review

All NFISs filed were subject to a formal review that involved, at least:

i) Checking that both the NFIS and the verification report were included in the consolidated or individual management report submitted by the entities that are required to do so and confirming consistency with the section "Other information: management report" in the audit report of the annual financial statements.

ii) Analysing the content of any qualifications included in the verification reports, as well as the nature and scope of the verification.

iii) Reviewing other aspects of the NFIS, such as the identification of the global frameworks used, the inclusion of a table or index of contents, a statement that the 2017/EU guidelines and the Climate Supplement had been taken into account, or if they followed the recommendations of the Group Task Force on Climate-Related Financial Disclosures (TCFD).

In the 2020 NFIS, checks were also made to ensure that information on the significant impacts deriving from the COVID-19 pandemic on non-financial matters had been included and a more in-depth analysis of the nature and scope of the verification reports had been carried out. Chapter II.B of this report includes a section with a detailed description of the two analyses.

Recommendations were sent to 14 issuers and three entities were also requested to provide information on issues such as: i) the location of the NFIS, ii) the frameworks used and, iii) the table of contents.

Four entities were contacted by telephone, all of which were subject only to a formal review, mainly to rectify shortcomings in formal aspects or in relation to the improvement of aspects such as mentioning the frameworks used or the references to the NFIS included in the individual management report in future years.

In relation to the aspects related to the location of the NFIS, it was noted that approximately 12% of the issuers that had submitted individual annual financial statements, despite not being required to prepare an individual NFIS, had attached the consolidated NFIS or a reference to it in their individual management report.

The main conclusions from these other aspects are highlighted below.

Inclusion of equivalence tables in the NFIS

In 2020, 99% of the issuers required to submit an NFIS included a summary of contents in the form of a table or box (98% in 2019 and 91% in 2018). In general, they include a single table with the contents set out in Law 11/2018, but approximately 30% include other tables: most frequently a Global Reporting Initiative (GRI) index, and on occasion indices of compliance with other additional frameworks, such as the Sustainable Accounting Standards Board (SASB), the TCFD, or the Sustainable Development Goals (SDG), or the principles of the United Nations Global Compact, which improves the clarity and usefulness of the information and is therefore a recommended practice.

Around two thirds of the issuers identify the content of the Law in the table, the pages of the document in which the information can be found and the framework used for the report (usually the GRI), and in the other cases, they refer to broad chapters or the tables are less complete. It is recommended that the content of the Law listed in the table should not be incomplete or highly summarised and that the references are correct and refer to specific pages, stating the indicator or reporting framework that has been used for each item.

68% of the issuers included in the tables omissions of information (KPIs, policies, etc.) that had not been mentioned by the verifiers in their reports, and which they often justified, explicitly or apparently, by considering them to be disclosures that were non-material or not applicable to the entity in question, such as biodiversity or actions to combat food waste. On occasion, total or partial omissions of the information required by law were detected that were not indicated in the tables. It is recommended that all omissions of the information required by the law be indicated in the tables and properly explained using a materiality analysis.

The quality of these tables is important, especially in cases in which the verifier's review only refers to the information required by law and identified in the tables and not to the entire NFIS report, and also in cases where the NFIS information does not follow the structure of the legal requirements, is not organised according to the five issues indicated, or the non-financial information is included with the other content of the management report, forming part of an integrated report.

As in the previous year, it was noted that there is still a need to improve the quality and consistency of the tables. On this point, recommendations were sent to nine entities (12 in 2019) subject to substantive review.

Following EU guidelines and the reporting framework

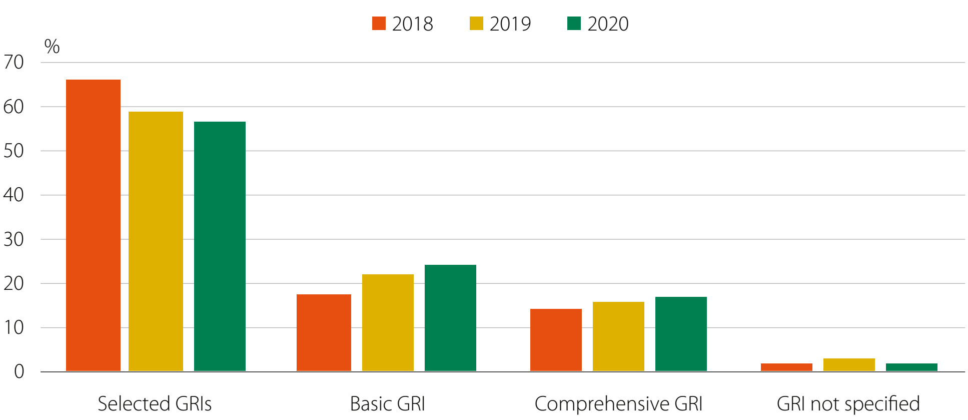
It was observed that approximately 80% of the total number of companies subject to this reporting do not refer to the 2017/EU guidelines and only 4% state that they have taken the Climate Supplement into consideration, or plan to do so in the future. As in the previous year, the CNMV recommends following these guidelines, although they are not binding, since they are a useful guide on how to properly comply with the regulations.

Law 11/2018 states that for the disclosure of non-financial information, the reporting entities must base their disclosures on recognised national, EU or international regulatory frameworks, and must specify the frameworks they have used. Further, ESMA stated in its enforcement priorities for the 2019 NFIS that, in accordance with Directive 2014/95/EU, issuers must specify the level of use of these frameworks (for example, indicating whether they have been fully or partially applied and explaining which disclosures have been prepared using each framework, and why).

It should be noted that in 2020, as in 2019, a general framework was identified in all cases, in the statement itself or in the verifier's report (97% of cases in 2018).

As in the previous year, the most widely used reporting framework was the GRI (99% of cases). 2% of issuers using the GRI did not indicate the option followed, but for those who did, a growing bias was observed in favour of the most complete application options (core and comprehensive) permitted by the GRI, as shown in the figure below.

GRI options used by issuers FIGURE 4



Source: CNMV.

Approximately one quarter of the issuers that prepared an NFIS according to the core or comprehensive GRI option took into account the sector disclosures of the GRI G4 guidelines[53] that corresponded to them, according to their sector, with highlights including the "Financial services", "Oil & gas" and "Electric utilities" supplements.

In addition to the GRI, it is common for issuers to mention other frameworks that they adhere to or take as a reference.

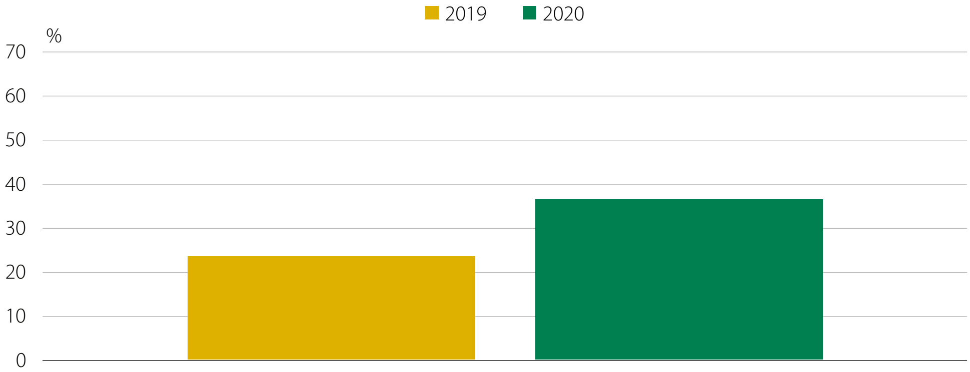
36% of the reporting entities indicated that they were following or in the process of implementing TCFD recommendations, although not all of them address the four recommended areas (governance, strategies, risks and metrics). An additional 4%

53 The G4 sector supplements were implemented through the GRI G4 guidelines and published in 2014. This GRI G4 guidelines subsequently became the GRI Standards. GRI standards apply to reports or other materials published on or after 1 July 2018. The Global Sustainability Standards Board (GSSB), the independent GRI standards-setting body, has started to implement sector standards, which will describe the most significant impacts of a sector from the standpoint of sustainable development. In October 2021, GRI standard 11 for the oil and gas sector was published, which will enter into force on 1 January 2023.

refer to these recommendations but do not follow them or indicate that they plan to implement them in the future.

Figure 5 shows the comparison versus 2019 of the percentage of issuers that indicated that they had considered, or were in the process of implementing, the TCFD recommendations.

Issuers following TCFD recommendations FIGURE 5



Source: CNMV.

Other frameworks were also reflected to a varying extent, most notably: i) the United Nations Global Compact; ii) the United Nations SDGs; iii) Carbon Disclosure Project (CDP); iv) the SASB; v) the United Nations Guiding Principles on Business and Human Rights; vi) the International Labor Organization (ILO) Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and vii) the International Integrated Reporting Framework (IIRC).

Four issuers were requested to submit additional information and recommendations were sent to ten entities (one and ten in 2019, respectively), all of which were subject to substantive review, in relation to reference frameworks and the EU guidelines. Additionally, two issuers subject to formal review were contacted by telephone, mainly regarding the following matters:

– As in the previous year, it was observed that there was room for improvement in the statements made by issuers of the GRI option followed, in accordance with GRI 101 (Foundation), as occasionally this information was provided only in the verifier's report. The importance of including not only a table identifying the GRI, but also a section describing the bases for preparing the NFIS, is highlighted. This should be an indication of the general framework(s) used and the GRI option followed (core, comprehensive or selected), in accordance with GRI 101 (Foundation).

– Clarifications were requested in cases where inconsistencies were detected between the framework indicated by the issuer and that included by the verifier in its report, e.g. when the issuer indicated that it had prepared its NFIS in accordance with selected GRIs and the verifier stated in its report that the NFIS had been prepared following the core GRI option.

– Where selected GRIs are used (which is the most frequent option):

i) The option must be expressly stated, be consistent over time and the criteria used to select the indicators must be explained, in addition to any changes made from one period to another. As in previous years, issuers commonly failed to explain the selection criteria for the indicators.

ii) In the event that a GRI is partially used, in accordance with clause 3.3 of GRI 101, an indication must be provided of which specific content of the standard has been applied and why. Examples of partially used GRIs are GRI 405-2, relating to employees, or GRI 301-1 and 2, relating to the environment and circular economy.

– The reasons why the framework was not detailed or it was considered appropriate to use an internal framework for some of the contents of Law 11/2018 must be explained, taking into account that the preamble of this Law indicates that these must be based on national frameworks, European Union frameworks or recognised international frameworks. Although there is no single standard, in these cases the preparation criteria for the internal frameworks should be clearly explained and, when applicable, details and the methodology of the calculations used must be provided, with an indication of whether a recognised framework is expected to be used for this purpose in the following year.

– It has been recommended that the NFIS text should indicate the specific standards or reporting criteria used, as identified in the table, to make it easier to follow (e.g. the GRI number if this standard is followed), in addition to the information disclosure the criterion has been used for. This reduces the risk of GRIs that have not been used to prepare the content of the report being included in the table.

– In cases in which other frameworks that have been used in the preparation of the report are mentioned throughout the NFIS, such as the CDP, the TCFD or the Principles of Responsible Banking created in 2019 by the United Nations Environment Programme Finance Initiative (UNEP FI), details should be provided of the aspects have been taken into account, e.g. in the form of a table, along with additional disclosures about the scope of their use.

  Additionally, more in-depth explanations should be given of the way in which their activities contribute to achieving the sustainability objectives, reflecting on those that indicate the frameworks to which they declare to have adhered, and about the progress made in the year towards their achievement (for example, with respect to the United Nations SDGs).

– It has been recommended that the 2017/EU guidelines and the Climate Supplement be taken as a reference and, if this is the case, an indication that they have been taken into account should be included in the report.

There is a growing tendency for issuers to include good sustainability practices in their NFIS, such as the issuance of green bonds, taking out sustainable credits with margins indexed to sustainability ratings or greenhouse gas (GHG) emission indices, or the inclusion of sustainability objectives in the variable remuneration schemes for professionals.

Substantive review

In 2020, the substantive review of the NFIS focused mainly on the enforcement priorities set by ESMA and the CNMV, and on certain significant aspects of each entity. Additionally, a sample of the companies subject to substantive review was selected based on a sector criterion, for which a more in-depth review of their NFIS was carried out (the selected sample).

A total of 20 entities were subject to substantive review, ten of which were included in the sample selected for a more detailed review. By sector, these 20 entities corresponded to 30% of the commerce and services sector, 25% of the banking and insurance sector, 25% of the energy sector, 15% of industry and 5% of construction and real estate. In terms of the total assets of the issuers in each sector in 2020, these 20 companies represented 50% of the assets of the banking and insurance sector, 25% of the energy sector, 21% of the trade and services, 7% of the industry sector and 2% of construction and real estate.

It should be noted that in the 2019 *Report on the CNMV's review of the annual financial reports and main enforcement priorities for the following financial year*,[54] the main areas on which the CNMV would focus its review were listed for the 2020 NFIS – both those set by ESMA and the additional areas established by the CNMV.

Among other aspects, ESMA highlighted the importance of reviewing the disclosures related to the impact of the COVID-19 pandemic on non-financial matters, business model and value creation, certain aspects relating to social and employee matters (at the entity itself and in the supply and sales chains), and the risk related to climate change in the 2020 NFIS.

The CNMV included among its enforcement priorities a more detailed analysis of the consideration of double materiality and how stakeholders influence its assessment, as well as certain information relating to climate change.

As a result of the substantive review, in 2021, 14 entities were required to provide additional information mainly on the following aspects: i) the consideration of double materiality and other aspects of the materiality analysis; ii) the disclosure of their definition of value creation and how their business model impacts and is impacted by each of the non-financial matters; iii) the methodology and concepts used to calculate the wage gap, and an explanation of the data used and their trends, as well as the measures implemented; iv) impacts of the COVID-19 pandemic on the entity's non-financial matters and the main mitigating actions taken; v) expanding the description of the main risks related to environmental matters and climate change, if they had established GHG emission reduction goals, and to the calculation of key performance indicators (KPIs) in this area, and vi) exclusions from the perimeter considered or variations with respect to the previous year. In ten cases, the request for additional information for the NFIS was included with the request for additional financial information, and in four, a specific request for additional information was sent.

54 https://www.cnmv.es/DocPortal/Publicaciones/Informes/IA_2019_ENen.pdf

In most cases, the explanations provided by the issuer in response to the CNMV's request were adequate and in others the lack of disclosure would not have had a material effect on the NFIS.

In addition, recommendations were given to 16 issuers for the preparation of future NFISs.

One entity subject to substantive review was contacted by telephone to improve some aspects of its NFIS in the future, to indicate whether it considered the concept of double materiality and improving the description of the scope and results of its cybersecurity policies.

Main actions in 2021

Table 2 shows the non-financial aspects with regard to which listed entities were served with requests for information or issued written recommendations, separately breaking down the requests regarding enforcement priority areas for review in 2020 and including the formal aspects[55] mentioned above.

Information requested and recommendations made in regard to the NFIS TABLE 2

	Number of entities[56]	
Nature	**Information requested**	**Recommendations**
1. Priority areas for review		
Impact of COVID-19 on non-financial matters	1	12
Social and employee matters	6	11
Business model and value creation	7	9
Climate change	3	13
Materiality	11	7
2. Other issues		
Characteristics and presentation of NFIS information	-	11
NFIS scope	3	11
Framework	4	10
Key performance indicators (KPIs)	6	12
Other environmental matters	1	11
Issues relating to the fight against corruption and bribery	1	11
Questions about respect for human rights	–	7
Sustainable development	–	2
Outsourcing and suppliers	1	5
Consumers	–	4
Tax information	–	6

Source: CNMV.

55 This table includes the concepts for which information was requested or recommendations were given for the formal issues indicated above, included under "Characteristics and presentation of NFIS information" and "Framework".

56 In cases where an issuer was requested to provide additional information or given recommendations about an aspect that, due to its nature, affects more than one area, it has been considered in both (e.g. an employment KPI).

In most cases, the explanations provided by the issuer in response to the CNMV's request completed the disclosures required by law or those recommended by ESMA and the CNMV in their enforcement priorities for the 2020 NFIS, although room for improvement has been observed in some areas, as seen in the comments below.

The main results of the CNMV's enforcement actions are highlighted below:

– Two issuers included in their response to the request published on the CNMV website a **corrective note**[57] concerning to the disclosures relating to its materiality analysis.

– In 11 cases, corresponding to six issuers, the enforcement actions carried out with regard to the 2020 NFIS gave rise to a **commitment to future correction** of the non-financial information, the main issues being:

  i) Methodology used for the materiality analysis and the explanation of the results (five issuers).

  ii) Results of employment policies (two issuers):

    • Clarifications on average remuneration and wage gap KPIs, in particular omissions of scope, the calculation methodology used, the concepts included, the explanation of trends and changes in criteria with respect to the previous year.

    • Explanations on the measures adopted to promote the principle of equality.

  iii) Assessment of the risks to associates or joint ventures in relation to non-financial matters (one issuer).

  iv) Clarification about the GRI standards option used in the report and consistency with the indication on this matter made in the auditor's report (two issuers).

  v) The use of internal frameworks to report certain information required by law (one issuer).

In all the cases described above, the issuers took on a commitment to change their methodology or expand the disclosures contained in their 2021 NFIS.

Some aspects that can be improved as a result of the main actions carried out by the CNMV to monitor the defined priority areas and other aspects for which additional information was requested and recommendation were made in the 2020 NFIS for issuers subject to substantive review are explained below.

57 In line with ESMA's guidelines on enforcement of financial information, a corrective note is the issuance by an enforcer or an issuer, as initiated or required by an enforcer, of a note making public a material misstatement with respect to one or more particular items included in already published financial information and, unless impracticable, the corrected information.

In this chapter, percentage data are provided, resulting from the analysis of the group of issuers that made up the substantive sample (20) in 2020 and selected for more detailed review (10). Although they are indicative of the situation, the two samples are not comparable with those of the previous year and this should be taken into account when reading this report.

Follow-up of enforcement priorities for the 2020 NFIS

Impact of the COVID-19 pandemic on non-financial matters

In line with ESMA's enforcement priorities, a special analysis of the significant impacts deriving from the COVID-19 pandemic on non-financial matters was carried out in the 2020 NFIS, the results of which are set out in Chapter II.B of this report.

Social and employee matters

In this area, requests for additional information were sent to six issuers and recommendations were given to 11 (one and 20 issuers, respectively, in the previous year) out of a total of 20 entities analysed.

One of ESMA's enforcement priorities is the impact of the COVID-19 pandemic on social and employee matters. Chapter II.B of this report includes a section with a detailed description of the analysis that was performed.

Wage gap and other issues related to inclusion and diversity

For ESMA's priority of disclosures on inclusion and diversity, the information requested on the wage gap and average remuneration KPIs stands out, where five issuers were asked to provide information and recommendations were sent to six companies. Additionally, one entity was also requested to provide additional information and four issuers received recommendations for other matters relating to inclusion and diversity. The main issues for which information was requested or recommendations were issued were the following:

– Expand the information on KPIs relating to the wage gap and average remuneration. Basically:

  i) Provide details of the concepts that are considered in the average remuneration disclosures (fixed, variable and with or without supplements) and in the calculation of the wage gap. It is recommended that issuers provide not only the wage gap for fixed remuneration but also consider remuneration received for all items or at least provide a measure of the weight of variable remuneration as part of the total, as some recognised frameworks recommend.

  ii) Explain the data provided for the same year (sometimes the wage gap was not consistent at company level or broken down by professional category) and provide explanations of any changes compared to the previous year, including the context in which they occurred, whether the data were considered positive or not, and whether there were specific actions for improvement in place or plans or measures to specifically manage and, where appropriate, mitigate the situation. For this point, if they have been set, it is important that the target figures established by the entity are disclosed, which would allow performance and compliance levels to be assessed.

iii) Indicate the methodology used to calculate the wage gap and indicate whether it is weighted by different parameters.

iv) As an extension of the "Formal review" section on the inclusion in a reference table of indicators that are not applied or are not applied in their entirety, in cases where the issuer has stated that it follows GRI 405-2 for its calculation of the wage gap, it was requested that this be provided for each professional category, with a breakdown by location of significant operations, in accordance with the GRI.

v) Although in most cases comparisons were included for almost all KPIs relating to employee matters, it was still recommended in specific cases that they be provided for the wage gap or director remuneration.

The importance of being able to compare KPIs is highlighted. In cases in which a different methodology was observed to calculate the wage gap or average remuneration in different countries, it was recommended that the data calculated using the same methodology be provided, which would facilitate a comparison between the two figures, and an explanation of the differences between the methodologies.

vi) Clarify the reasons for exclusions from the scope used in the KPIs (e.g. because they are not material, system problems, etc.), providing a measure of what has been excluded each year. Additionally, explanations of changes in the scope with respect to the previous year (e.g. due to the incorporation of subsidiaries) must be provided, indicating whether the comparative figures have been restated and quantifying the impact.

It is important to note that the scope of the KPIs should extend to the entire group (see "Scope" section), and exclusions are only justified for reasons of materiality. Information on the average remuneration by gender or wage gap in a significant geographical area should be provided, and it is not justified to not provide it because there are collective agreements that include the remuneration of employees that guarantee non-discrimination, for which reason disclosure is requested.

From the analysis of the information provided on the wage gap by the issuers in the selected sample, it can be noted that:

*Although all issuers subject to substantive review provided **wage gap** data, about a quarter of the selected sample only provide this information at company or group level, without any type of segmentation. Of those that do break down the information, more than 80% do so by category or professional classification and more than two thirds of these also provide disclosures by age or geography, or both.*

Therefore, it would be desirable that the wage gap be provided at least by professional category and country, since if it is disclosed at company or group level this often leads to erroneous interpretations and does not meet the objective of reflecting the institution's actions to promote diversity and eliminate gender bias.

In some cases, it was observed that the total population was not considered in the calculation and some countries were excluded, or information was not provided for some categories because there was only one woman in the group. In these cases, as explained in previous sections, a proper explanation should be provided of the information that has been excluded, where relevant.

Although only one of the issuers in the selected sample did not indicate the formula used in its calculation, more than half provided incomplete information. As in the previous year, large differences were observed in the calculation formula used, partly explained by the lack of specific regulations: some companies use the median remuneration and others use the average figures in their calculations, and sometimes it is weighted by different parameters that are not always explained and quantified.

More than one third of the companies in the selected sample still do not provide details of the remuneration items used to calculate the wage gap. Approximately 30% of those that do provide details, only provide information for fixed remuneration. In the other cases, which also consider variable remuneration, it is not always clear whether other supplements have been considered, or what these supplements consist of.

Around 75% of the companies in the selected sample made reference to GRI 405-2, 2016. However, some did not provide all the details required for this GRI or explain that they had partially applied the standard.

Around 20% of the companies in the selected sample do not provide comparative data or an explanation of changes in the wage gap. Although the remaining 80% do provide comparative figures (in some cases from a different scope, e.g. Spain only), only one third provide an explanation of the figure obtained and its trend, and very few link it to predefined objectives.

Approximately three quarters of issuers do not include an explanation of the plans and measures to reduce this gap, when it is significant.

– It was recommended that the scope of the disclosures provided on inclusion and diversity be expanded to include supply chain employees and, where applicable, franchisees.

Around 40% of issuers subject to substantive review did not provide information on how inclusion and diversity matters related to supply chain and sales employees, customers and other major stakeholders were addressed in their policies.

– Provide an explanation of any plans and measures that have been adopted, or are planned to be adopted, to promote the principle of equal treatment and opportunities between women and men. It is also recommended that issuers explain how they decide on and supervise their policies and measures on inclusion and diversity, such as their selection policy or the main aspects of their equality plans, and provide information on the results of the equality indicators used.

Although all issuers subject to substantive review included disclosures on inclusion and diversity in their NFIS, sometimes the descriptions are generic or just state that there are equality plans or diversity and non-discrimination policies in place, without sufficiently detailing the due diligence procedures that have been established, the specific measures that they include or the achievements made.

Other matters included in social and employee matters by law

For other matters included in social and employee matters by law, one entity was asked to provide additional information and recommendations were sent to seven issuers, basically in regard to:

– The recommendation to expand the description of the risks identified that are inherent to social and employee matters and provide a perspective of these risks in the short, medium and long term, as recommended by the EU guidelines. Additionally, it is desirable for issuers to describe, where appropriate, the due diligence procedures used to identify, assess, prevent and mitigate these risks, including the measures implemented.

Although most issuers subject to substantive review explicitly or apparently mention some aspects of the risks relating to this issue, only about half provide a balanced description of the risks and opportunities.

Furthermore, very few issuers in the selected sample provided an outlook for short-, medium- and long-term risks, and more than one third did not indicate whether risks with a significant impact had materialised over the year.

Most of the issuers subject to substantive review provided information on their due diligence policies and procedures, although it is still necessary to improve the details given of the procedures applied, improve the specification of the measures adopted and explain the results obtained with respect to the objectives that have been set, avoiding generic explanations. In more than half of the selected sample, it was not indicated whether the employment policies had been approved by the board of directors.

As highlighted in the ESMA priority, users should be able to clearly identify the policies adopted by the issuer, the actions taken to implement those policies and the results obtained. Additionally, disclosures should be factual and provide evidence of specific behaviours and actions, presenting the facts without bias and without overemphasising positive or negative issues.

– The areas for improvement listed for inclusion and diversity KPIs could also largely apply to all the KPIs related to social and employee matters, such as the frequency and severity indices of workplace accidents or the absenteeism rate.

> *In general, the entities subject to substantive review have included comparative data for most, but not all, employment KPIs. Half of them do not provide qualitative explanations about their performance or only provide them for very few KPIs.*
>
> *Around 40% of the selected sample did not explain the methodology used to calculate a KPI when it was necessary.*

– It would be desirable that when KPIs are presented by professional category, they are properly defined, and any changes explained. Likewise, these professional categories should be consistent within the NFIS with those presented by the entity in its different published documents (annual financial statements, ACGR, etc.), and with those used for the company's internal management, and an explanation should be provided for any changes that occur.

– It is recommended that issuers expand the information relating to objectives set, for example, for work-life balance policies, flexible working hours, absenteeism, retention and training, including a description of the KPIs used to measure the degree of compliance with these objectives, and including, where possible, an indicator showing the results and the level of progress achieved.

– Omissions of certain employment information required by law were observed that on occasion had been indicated in the table of contents as provided and the reasons why it had not been provided were not explained. Among others, these omissions refer to disclosures by type of employment contract that have not been broken down by gender, age or professional classification, the number of dismissals by age and professional classification, training hours that have not been broken down by professional category, or regarding the implementation of employment disconnection measures.

> *Approximately two thirds of the selected sample omitted an employment disclosure required by Law 11/2018 and in about half of the cases the reasons for this omission were not explained. In the rest of the cases, the omissions were mainly explained as being non-material aspects.*

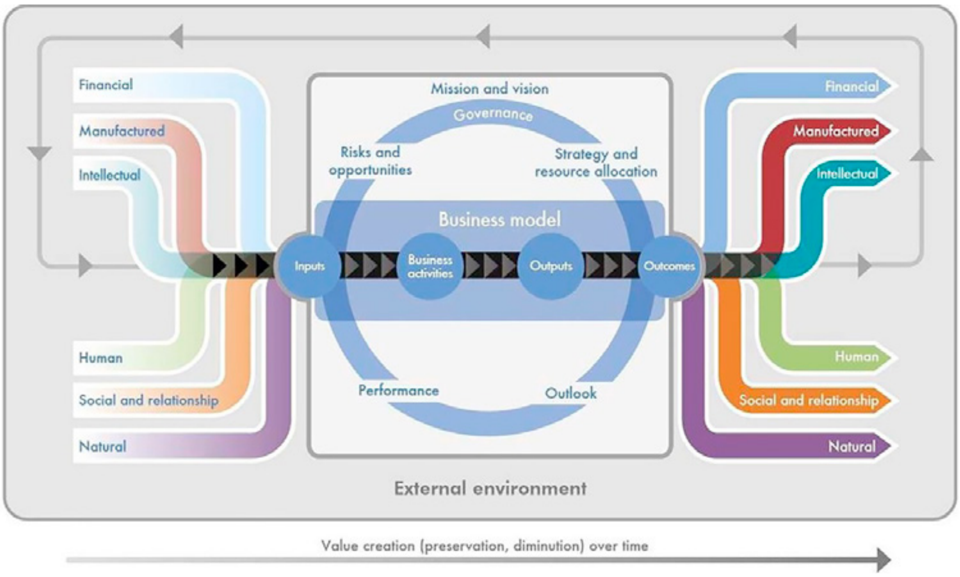
– It is recommended that issuers provided more information on the following aspects: i) the organisation of working hours and measures to ensure a work-life balance and encourage shared responsibility between both parents; ii) whether they have employment disconnection policies or procedures in place and an assessment of their risks, explaining, when applicable, the reasons why such a policy is not available; iii) the inclusion of information on the procedures for informing and consulting members of staff and negotiating with them; or iv) the training policies implemented.

– One entity was requested to explain the findings of an independent health and safety audit that had been carried out, indicating the scope of its disagreement, its nature and the measures adopted, if any, to correct or mitigate it.

Business model and value creation

In accordance with ESMA's enforcement priorities for the 2020 NFIS, which refer to Section 4.1 of the 2017/EU guidelines, and taking into account that the description of the business model is a mandatory disclosure established by Law 11/2018, issuers are expected to include in their NFIS clear, comprehensible and objective information about their business model, so that users can obtain an understanding of this aspect and how it relates to non-financial matters.

The value creation process



Source: IIRC.[58]

In the review of the 2020 NFIS, requests were sent to seven entities to provide additional information (one in the previous year) and recommendations were sent to nine issuers (nine in the previous year) in relation to the business model and, in particular, asking them to expand the information they had disclosed on the following matters:

– Their definition of value creation, explicitly indicating the framework the definition comes from, where applicable.

> *Although all issuers subject to substantive review provide varying levels of information about their business model, the CNMV considers that this is a significant issue that puts the rest of the NFIS information into context and, therefore, entities must continue to improve their disclosures, making them **clearer and more specific**.*
>
> *According to the EU guidelines, the business model describes how a company generates and preserves value through its products and services over the long term. It provides an overview of how the company operates and a sense of its structure, describing how it transforms inputs into outputs through its business activities. In short, WHAT a company does, HOW it does it and WHY.*

58 https://www.integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf

ESMA's enforcement priorities for 2020 state that it would be useful for entities to disclose how they define the concept of value creation and explicitly mention the framework from which they have obtained this definition.

Although in the NFIS it is usual to mention concepts such as "value" or "value creation", many issuers in the sample do not provide a definition as such and very few provide the reference framework used. Seven requests for further information were sent out asking about this matter.

In their responses about the frameworks they use as a base for their definitions of value creation some entities refer to the international integrated reporting framework. In contrast, others do not refer to frameworks that support their definition of value creation, which in general are related to meeting the needs and expectations of their stakeholders, and some refer to certain publications.

– ESMA's enforcement priorities indicate that issuers must explain how non-financial matters are incorporated into their business models, explaining how their relationships work in both directions, from the perspective of double materiality, i.e. how the business model impacts and is being impacted by non-financial matters, taking into account their short-, medium-, and long-term goals. In this area, they were asked to provide more information on:

  - Their strategies and how they are implemented and, in particular, what their strategic approach is to non-financial matters.

  - Their specific objectives, in qualitative or quantitative terms, for the short, medium and long term, explaining how the value creation process is related to these objectives.

  - The risks that are linked to the business model.

  - How they create value for each of their main stakeholders (shareholders, customers, communities in which they operate, etc.).

In accordance with the EU guidelines (3.4 and 4.2), when reporting on their business model, entities are expected to show their strategic approach to non-financial matters and detail what their main non-financial objectives are, in quantitative or qualitative terms, and how they plan to meet them.

Some issuers explain their value creation process, but their interrelationship with non-financial objectives is often not made explicit or clear.

In this sense, they should expand their explanations on how they create value for their shareholders and also for other stakeholders, making it clear what their priorities are. More than half of the substantive sample do not make this information explicit or it is not clear enough. The information on the impact of the business model on non-financial matters, and vice versa, could be improved in a large part of the sample, especially the latter approach.

Some entities emphasise that their products or services, by their very nature, have a positive impact on non-financial matters, for example, the environment. Although this aspect is highly relevant, the information must be completed with other impacts of the business model on non-financial matters (for example, whether the entity's production process to obtain those products with a positive impact on the environment is also sustainable, in particular, how it integrates sustainability into its production process, how its activity impacts other non-financial matters such as human rights, how it satisfies the needs of its customers through its products or services, what it contributes to society through its business, etc.) and vice versa.

The disclosure of the risks and opportunities that non-financial matters entail for companies' business models is still included on a recurring basis in the CNMV's written recommendations. Entities are expected to more explicitly and broadly reflect what their risks are in the short, medium and long term.

Some issuers state very general objectives. Specific and measurable objectives should be included with reference to the time frame in which they are expected to be achieved.

For sustainability plans that span several years, some entities focus on breaking down the goals that have already been achieved or the initiatives that have already been launched, but they must also include information on the medium- and long-term objectives for the different non-financial matters, beyond environmental matters.

For the financial impact of non-financial matters, clear metrics should be provided in the information on each issue. Therefore, in Chapter II.C, consistency between financial and non-financial information is stated as a priority for the 2021 NFIS.

In their answers, the entities expand the information on how their business model impacts and is impacted by non-financial matters and how they generate value for their different stakeholders (customers, suppliers, franchisees, employees, shareholders, etc.), taking into account their needs and expectations, although their priorities are not always clear, for example, it is not specified whether they are the shareholders or other investors, whether they present a long-term outlook, etc.

– Details of how the company and the different stakeholders contribute and position themselves in the value chain of the issuer's business. In particular, the entity's level of involvement in the different parts of the value chain, pointing out the areas where the participation of third parties is significant, such as the supply chain. This is necessary to understand the risks of their business with respect to non-financial matters.

  This issue has once again been set as a priority by the CNMV in its review of the 2021 NFIS, as indicated in Chapter III.

– Their business environment, including its particularities (competition, regulation, type of clients, etc.) and the main factors and trends that may affect its future performance (regulatory changes, etc.).

– Their organisation and structure, describing the main governance bodies in general and, in particular, for non-financial matters, how the group is organised into different companies, etc.

– The markets in which they operate.

In addition to the NFIS, information on the activities carried out by the company is usually included in the notes to the financial statements or in other sections of the management report, sometimes scattered throughout the document. This is often general information, which should be more specific, based on of the activities of each issuer.

Companies must include information on the markets in which they operate for their main activities, not only in terms of income but also expenses, e.g. purchases made abroad if they are significant.

– Whether there have been significant changes in the business model and their ability to create value during the year. In particular, explain the impact of the pandemic on the business model and value creation in the short, medium and long term and on the policies put in place to address non-financial matters.

– Include information on the expected future development of the entity's business model.

Issuers are expected to highlight and explain whether there have been any material changes to their business model as a result of changes in their environment (for example, the review and setting of European climate targets or the recently passed Ecological Transition Law) or their business decisions. COVID-19 could be a particular trigger for these changes (see Chapter II.B for an analysis of the impact of COVID on the 2020 NFIS).

Around two thirds of the sample include information on the expected future development of the business model, especially in the environmental area.

Almost half of the selected sample do not specify whether there have been changes in the business model during the year or do not specify what the changes have consisted of.

– Other related topics.

ESMA's enforcement priorities for the 2020 NFIS include the possibility of disclosing an issuer's business model through schematic illustrations that serve to guide users. About half of the sample present a schematic illustration of their business models.

In some cases, all or part of the information on the business model is included in another section of the management report, and must be appropriately referenced. As a minimum, the most significant aspects of the business model in relation to non-financial matters should be included in the NFIS, even if they are developed in greater detail in other sections.

Issuers that make reference in the table in this area to certain GRI standards, 102-14 and 15, should include the information recommended by the GRI, for example: information relating to more general trends (macroeconomic or political) that affect the organisation and influence its sustainability plans; major events, achievements and failures during the reporting period, the impact of risks and opportunities on the organisation's long-term outlook and financial performance; tables that summarise its goals and performance in the reporting period and for the future.

Risks related to climate change and other environmental matters

When drawing up their 2020 NFIS, ESMA recommended that issuers disclosed, where relevant, the physical and transition risks related to climate change and the measures implemented to prevent these risks from materialising and mitigating their effects. It also advised issuers to describe the performance of the risks and opportunities related to climate change for different time horizons in order to reflect the existing uncertainty in the short, medium and long term.

ESMA reminded issuers that they had the option of providing disclosures for these matters, taking the Climate Supplement as a reference,[59] which transfers the recommendations of the TCFD into the regulatory framework of the NFRD Directive and goes a step further by providing guidance indicators for financial and non-financial companies.

As a result of the review of the 2020 NFIS, additional information was requested from three companies on matters related to climate change, and from one for other environmental matters, while recommendations were sent to 13 companies for matters related to climate change and 11 for other environmental matters (in 2019 recommendations were sent to 19 issuers).

The main aspects for which information was required and recommendations were sent to issuers were:

– Provide an indication of whether, in preparing the NFIS, the provisions contained in the Climate Supplement were taken into consideration.

As mentioned in the formal review section, in all the NFIS received for the 2020 financial year, 36% of entities indicated that they were following or in the process of implementing the TCFD recommendations, compared to only 4% of issuers that said they had taken the Climate Supplement into consideration.

59 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620(01)&from=EN

– Expand the information on the consequences that the pandemic has had on matters related to climate change and the environment, detailing the mitigation actions adopted to address these.

75% of the companies subject to substantive review provided a varying degree of information on the consequences of the pandemic on environmental matters and the mitigation actions adopted to address these (for more information see Chapter II.B).

– List the bodies involved in the approval of the energy or ecological transition strategy and the environmental policies, specifying the role played by the Board of Directors and its committees, and indicating whether these policies have been reviewed after their approval.

While 90% of companies subject to substantive review describe their policies on climate change and other environmental matters, only half report approval of those policies by the Board of Directors.

– Indicate whether due diligence procedures are in place that ensure the objectives for climate change and other environmental matters are met, which help to detect, prevent and mitigate existing and potential adverse effects.

90% of the companies subject to substantive review detail the due diligence procedures applied to the management of climate change and other environmental matters.

– Describe the main measures implemented to reduce or prevent greenhouse gas (GHG) emissions and adapt to climate change.

90% and 80% of the companies subject to substantive review describe, to a varying degree, the mitigation and adaptation measures for climate change, respectively.

– Provide information on the impact of risks and opportunities related to climate change and other environmental matters on the business model, as well as the way in which the model may affect the climate, positively and negatively, detailing any changes that have occurred in the business model to address material and transition risks and to take advantage of climate-related business opportunities.

85% of the companies subject to substantive review provide information on the impact of their business model on the climate, while 75% also provide a description of the impact of the risks and opportunities related to climate change on their business model.

One company states that it does not provide this information for reasons of immateriality.

– Describe how climate-related risk identification, assessment and management processes are integrated into the company's overall risk management activity.

85% of companies subject to substantive review describe how climate-related risk identification, assessment and management processes are integrated into the company's overall risk management activity.

– Detail the procedures followed by the company to identify, assess and manage climate-related risks.

90% of companies subject to substantive review describe procedures to identify, assess and manage climate-related risks.

– Improve the description of the main risks and opportunities related to environmental matters and climate change, including the existing risks in the value chain and the main measures implemented to prevent their materialisation and mitigate their effects, taking into account both the risks of the company's impact on the climate as well as the risks of climate change on the company (physical and transition risks).

80% of companies subject to substantive review detail the climate risks of their activities, while 70% also disclose climate risks to their activities.

Two thirds of the companies in that sample describe transition risks in the company's activities related to climate change, while only half describe physical risks.

– Disclose how the different time horizons have been taken into account in the identification of risks, detailing how they believe the identified risks and opportunities may evolve, in order to reflect the uncertainty related to the short, medium and long term, as well as the potential business implications of different conditions.

  In addition, issuers were asked to specify the number of years or periods included in the medium- and long-term time horizon associated with risks linked to climate change.

Only half of the companies subject to substantive review provide a breakdown of the risks with reference to different time horizons that reflect the uncertainty related to the short, medium and long term.

85% of entities describe how risks related to climate change may evolve, while 75% detail this information in relation to opportunities.

– Describe the main financial impacts (past or future) deriving from climate-related risks and opportunities on the balance sheet and profit and loss account.

Only half of the companies in the selected sample disclose information – of a generic nature – about the financial impacts (past or future) in their profit and loss account and balance sheet on climate-related risks and opportunities. 10% justify this omission by alleging immateriality.

None of the companies belonging to the selected sample reflect the materialisation of environmental risks with a significant impact during the year.

– Provide key performance indicators (KPIs) to show the scope considered in the calculation (e.g. franchise network) and any changes to this, explaining the performance with respect to previous years, where relevant, along with the context in that these changes have occurred, indicating whether or not the data are considered positive and whether there are specific expectations of improvement.

Practically all of the companies subject to substantive review disclose KPIs related to information on climate change and other environmental matters. Although they all provide comparative information (KPIs from previous periods), only half include a narrative explanation of the performance of most KPIs, including a description of the scope used and any changes in this.

– Provide a definition of the KPIs used, along with the calculation methodology, as well as the regulatory framework on which they are based.

If the data corresponding to KPIs from previous years are recalculated, the reasons for this change and the impact it has had must be indicated.

Only 30% of the companies subject to substantive review provide a definition of the KPIs disclosed, while approximately 50% describe the methodology used to calculate some or all of their KPIs.

– Expand the information on the key elements of GHG emissions required under Law 11/2018 relating to the use of the goods and services produced by their group. Specifically, entities that only list direct emissions were told that emissions corresponding to scopes 2 and 3 should be disclosed separately.

Practically all of the companies subject to substantive review include at least one GHG emissions indicator, providing scope 1 information. 90% also provide scope 2 emissions data and 55% provide scope 3 data.

- For scope 3 GHG emissions, it was recommended to list the type of emissions included in the calculation, reminding issuers that they must include emissions deriving from the activities of their company that come from sources that are not their own and over which they have no control, including upstream and downstream emissions, such as the production of purchased materials or the transportation of these materials in vehicles that are not owned or controlled by the entity, or emissions derived from the use of the goods and services produced or supplied by the issuer.

  Less than half of the companies that provide scope 3 emissions show that this scope includes indirect emissions derived from the use of the company's goods and services by its customers.

- Provide quantitative information on the goals or objectives related to the entity's policies, as well as the deadlines set to achieve them.

  For GHG emissions, it was recommended to include reduction targets for each of the scopes, linked, as far as possible, with national and international targets (particularly with the European targets for 2030 and 2050 in line with the Paris Agreement), as established in the Climate Supplement, explaining the degree to which the aforementioned objectives are being met, together with any uncertainty associated with meeting those objectives.

  30% of companies subject to substantive review describe generic GHG reduction targets, while 50% set specific reduction targets. However, not all companies describe the means implemented to achieve their objectives.

  70% of the entities explain the degree to which the objectives related to climate change can be achieved, detailing any existing uncertainty associated with meeting those objectives.

- Report on the resilience of their business model, carrying out a sensitivity analysis that considers different scenarios on different time horizons.

  In accordance with the Climate Supplement and the recommendations on the financial risks of climate change of the TCFD, it was recommended to disclose at least two scenarios: a scenario that contemplates a rise in temperature of 2°C or less, and another that contemplates a rise of more than 2°C, indicating how these scenarios have been selected.

  It was recommended to disclose the specific risks detected in the analysis of scenarios for the performance, results and financial situation of the company.

  60% of the companies subject to substantive review propose different scenarios depending on the increase in the planet's temperature due to climate change. 25% have considered scenarios of increases below and above 2°C, while 10% describe other types of scenarios.

– Indicate if they apply or consider the precautionary principle[60] in environmental matters.

60% of the issuers belonging to the selected sample explicitly indicate that they apply or consider the precautionary principle in environmental matters.

– For environmental matters, in some cases issuers were requested to provide quantitative information on their objectives related to policies for the responsible use of natural resources and responsible management of waste, as well as the time horizons foreseen for their fulfilment, providing a greater explanation of the significant increase in the figure for hazardous waste.

80% of the issuers in the sample describe measures of prevention, recycling, reuse or other forms of recovery and disposal of waste or residues.

30% of the issuers belonging to the selected sample quantify in the NFIS their existing provisions for environmental risks, while 20% state that this risk is not material and that same percentage expressly states that they have not recorded provisions for this concept.

Guarantees for environmental risks are quantified by 10% of issuers, an equivalent percentage indicate that they are not material, and 30% state that they do not exist.

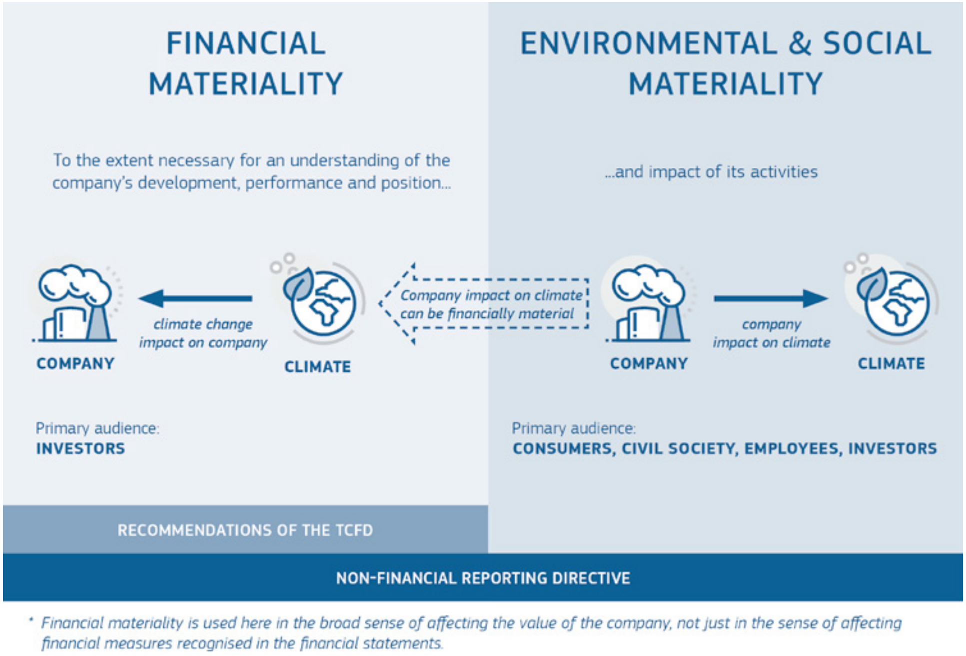
Double materiality

One of the CNMV's enforcement priorities in the 2020 NFIS was the materiality analysis of non-financial information and its proper disclosure, with a focus on the concept of double materiality that underlies Directive 2014/95/EU[61] and that was developed in 2019 through the Climate Supplement, which takes into account not only the impact of non-financial matters on the entity's situation and results (outside-in perspective or financial materiality), but also the impact of the entity on the environment (inside-out perspective or environmental and social materiality) and hence on the different stakeholders.

60 The precautionary principle is mentioned in Article 191 of the Treaty on the Functioning of the European Union and aims to guarantee a high level of protection of the environment through preventive decision-making in the event of risk. GRI 102-11 "Precautionary principle or approach" establishes that it should be indicated whether the precautionary principle or approach is applied and how it is done, noting that applying said principle can help the organisation to reduce or avoid impacts that are negative for the environment.

61 Directive 2014/95/EU states that the companies subject to this regulation are obliged to disclose information on non-financial matters, to the extent necessary for an understanding of the performance, results and situation of the company […] and adds that the companies are also required to disclose information on non-financial matters, to the extent that such information is necessary to understand the impact of their activities.

Double materiality in the Non-Financial Information Directive in the context of climate-related reporting



Source: Climate Supplement.

Although all issuers subject to substantive review provided explanations of their materiality analysis in their NFIS, with varying levels of detail, this disclosure should be further improved. Requests for additional information were sent to 11 issuers, written recommendations were sent to seven and one issuer received a telephone recommendation (recommendations were sent to 17 issuers in 2019), mainly addressing the following materiality matters:

– Issuers must expressly indicate whether they have taken into account the concept of double materiality in their general analysis and for each of the non-financial matters in question, providing information if this is the case.

In accordance with Directive 2014/95/EU and Law 11/2018, non-financial information must be disclosed if it is significant from either of the two risk perspectives, which in some cases overlap. Information on this issue was required in all requests for information concerning the materiality analysis.

In the NFIS of the entities subject to substantive review it was observed that, in general, no explicit reference is made to the concept of double materiality and it is considered that this should be made explicit and better explained, as recommended to issuers in the previous year.

Detailed explanatory information must be provided on how issuers determine what information is material from this double perspective, both for the entity as a whole and for each of the non-financial matters in particular. These should not be general explanations and must be clear and reflect the issuer's particular activity and circumstances.

In the event that either of the two perspectives has not been considered, globally or in the context of a specific non-financial issue, an explanation of why this is the case must be included.

In general, issuers' disclosures focus more on the inside-out perspective and some entities even indicate in the presentation of their NFIS that their objective is to provide information to their main stakeholders to allow them to understand the impact of their activity on non-financial matters. It should therefore be noted that the GRI, which is the framework most commonly used in Spain, is more focused on this environmental and social perspective.

In the responses provided by entities to which requests for information were submitted, some acknowledge that they have not taken this two-fold approach into account in their analyses for the 2020 NFIS, but they generally report that they will incorporate it as much as possible in future non-financial statements. In one case, the issuer has already included the information in a sustainability report published later in 2021. Other entities consider that both perspectives are already implicitly included in their analysis of the 2020 financial year, although they are not formally included or have not been clearly explained in their 2020 NFIS. Some indicate that the two perspectives are closely related and overlap.

– Expand the explanations on the criteria and methodology used and the results of the analysis, indicating, among other matters:

  i) The internal and external factors that have been taken into account, their information sources and how sector issues affect the analysis.

All the entities in the sample, except one, include information on the criteria and methodology used in their materiality analyses, although in many cases they must expand their explanations, which are often generic.

Some entities state that their analyses are based on different methodologies, such as those used by the GRI, SASB or AA1000APS, among others.

Approximately two thirds of the substantive sample provide information on the internal and external factors considered, although sufficient information is provided in only in 60% of cases.

Internal factors include the business model, the strategic plan, the issuer's main financial and non-financial risks, its code of ethics, the opinions of managers and employees, etc.

As mentioned in the section "Business model and value creation" in general, and as reflected in the comments on the different non-financial matters, it is very important that the entity properly discloses its main risks related to non-financial matters and that it provides suitable information on the aspects with respect to serious risks that are most likely to materialise or have already materialised.

External factors include legal and other regulatory requirements, international agreements, the requirements of analysts and investors, or concerns expressed by other stakeholders.

Some sources used are sector studies, news and publications on matters that are relevant to their sector, such as the GRI Sustainability Topics for Sectors, *sector regulations or sustainability reports published by their competitors.*

Issuers often obtain the opinion of internal and external stakeholders through surveys and interviews about their needs and expectations and their level of satisfaction (including the opinion of employees – mainly management personnel) through various channels (telephone, email, meetings and events, etc.) and consultations with authorities and sector associations.

60% of the sample explicitly state that they have taken into account how sector issues affect their analysis, although half of the explanations are not sufficient and sometimes they merely state that they have carried out an analysis or have commissioned a study of companies in the sector. The CNMV considers that there are likely to be significant issues in common with other companies in the sector and that it is important to highlight these.

In general, entities included in their responses a description of the process followed in their analyses and how they take into account sector issues.

ii) Who the significant stakeholders are and how they influence which non-financial information is material, providing detailed explanations for each case.

- How they contribute and position themselves in the value chain, as mentioned in the section "Business model and value creation".

- The main dialogue tools used.

- Their needs, including information needs, and how they are taken into account.

- The impacts that affect them and whether they have been taken into account in the group's operational and strategic plans and, if applicable, how.

In 70% of the NFIS in the sample, the stakeholders are clearly identified, while in 15% they are not indicated and in the remaining 15% partial information is provided or it is not sufficiently clear.

The EU guidelines (3.1) state that having a thorough understanding of the key components of its value chain helps a company to identify the key issues and assess what makes the information material.

In general, the needs or expectations of stakeholders are taken into account but often companies do not provide details about what each one. It is recommended that they be made explicit, although, in some cases, they are common to other organisations and are considered to be obvious.

The impacts of a company's activity on its environment and its stakeholders may be many: i) positive or negative; ii) real or potential, or iii) direct or indirect through the entity's business relationships, such as the supply chain. And all of these must be included in the NFIS disclosures according to their severity.

A way of showing the importance that the entity gives to its impact on the environment and the needs of its stakeholders is to consider them in its strategic plans, policies and procedures, and this should be reflected in its KPIs. Although some entities refer to the inclusion of environmental, social and good governance (ESG) matters in their strategy, these disclosures are generally open to improvement.

Companies that were requested to provide additional information have provided more details on who their stakeholders are and what channels they use to communicate with them and discover their needs, although some could be more precise about their participation in the value chain.

iii) The time horizon used to assess which non-financial information is material, which should be focused on the long term, and the effects in that term they consider the aspects related to social and environmental materiality will have on the entity's financial position and results.

It is recommended that when assessing whether certain non-financial information is significant companies should take into account a longer time horizon than that traditionally used for financial information. In this sense, companies should not conclude that a non-financial matter is not significant just because the related risks are considered long-term risks.

In general, not much information is provided on the time horizon of the materiality analysis. Some entities refer, in other sections of the NFIS, to the long term, especially in climate related matters and the objectives of the 2030 Agenda. Others indicate that they have non-financial strategic plans with durations between three and five years.

In accordance with the Climate Supplement, the ***outside-in*** *approach refers to how the value of the company is, or could be, affected by non-financial aspects in a broad sense, not just how it affects figures in the current financial statements. Entities provide little information about this aspect and should explain what effects they consider there will be on their financial situation and future results in the horizon they are using, which must be long-term. It should also include matters that, while unlikely to occur, if they were to materialise, would significantly affect the financial statements or the value of the company, including intangible factors such as reputation (e.g. a case of corruption).*

In their responses, entities provided information to clarify the time horizon of their analyses (long term, duration of the business plan, short term, etc.) and some state that they plan to expand this.

iv) A clear identification of the results of the materiality analysis, which non-financial aspects are significant and which are not, explaining their reasons and conclusions.

- For significant aspects, establish their order of relative priority, considering the severity and probability of the consequences of each one.

- In the case of non-significant aspects, especially in matters required by law, make it clear how they have reached that conclusion.

Material matters are identified in all the companies in the sample, although half do not clearly identify in the conclusions of their analysis the non-financial matters that, in whole or in part, are not material, although in some cases it is recorded in the table of contents, by reflecting the omissions of the content required by law. Around 40% of the sample do not include sufficient explanations for their conclusions.

Entities often list significant non-financial matters and rank their importance using a chart or matrix. However, in other cases, only a list of issues is included that is not always prioritised.

It is considered good practice to include a chart or matrix to represent the identification and prioritisation of material issues, but this should complement, not replace, the detailed qualitative explanations of the analysis performed.

In the different matrices presented by issuers, the assessment of the impact of non-financial matters is reflected in chart format, including for example: i) internal and external relevance; ii) the relevance for the stakeholders and for the entity, and iii) the relevance for the different stakeholders and the impact of the business, etc.

Inconsistencies between the results of the materiality analysis and the rest of the information provided in the NFIS should be avoided. In some cases, certain matters are identified as non-material that are shown to be relevant from the reading of the NFIS, for example, an understanding of the business model.

In some cases, information required by law is provided even though it refers to issues identified as not significant.

In their responses, the entities to which requests for information were addressed have completed the information on the process followed to identify the material issues. However, they should expand the information in future NFIS by providing the issues ordered by priority (some classify them by category but not always by risk) and include more specific explanations of why each of these issues is considered relevant for their entity. Some commit to reporting materiality matrices in their 2021 NFIS.

– Date of the last update of the materiality analysis and if it was not carried out in the year an explanation of why this was not considered necessary.

Materiality analyses must be periodically updated and, if they are not, reasons must be provided as to why such an update is not considered necessary. In any case, the date on which the last review was carried out must be indicated.

Two thirds of the substantive sample state that they have updated their analyses in the year. 20% of the remaining issuers have not updated their analyses and only half explain their reasons, while another 10% do not indicate the date on which the analysis was carried out.

The update of the analysis must take into account environmental and sector trends. In 2020, due to the pandemic, some stakeholder expectations are likely to have changed and several issuers state that they have updated their materiality analyses to include COVID-19 as a new external factor to consider.

Some entities clarify in their responses that they do update their analyses every year and undertake to provide a proper explanation in future NFIS.

In general, entities provided the required information, although they must continue to expand the details and clarity of this analysis. Many of them are in the process of reworking their analyses to take into account some of the issues discussed. Given its importance, the relevant information from this analysis should be included in the NFIS, even if it is included in other sustainability reports published by the company separately.

In conclusion, the assessment and definition of both materiality approaches is the cornerstone for establishing which information is relevant for investors and other stakeholders, and prevents the omission of material information or the inclusion of irrelevant information. Additionally, neither approach is watertight and the issuer's impact on its social and environmental setting and its stakeholders, will eventually, to some extent, have an impact on the entity's financial position and performance. Having information on both approaches will make it easier to understand these interactions or cross-effects.

Follow-up of other matters subject to requests for information or recommendations

Characteristics and presentation of NFIS information

Recommendations were sent to 11 issuers, which basically include the following matters (in addition to those already explained in the "Formal review" section and in Chapter III concerning references to other documents or the existence of additional reports):

– The inclusion of a section on the basis of preparation of the NFIS, indicating, for example, the general framework or frameworks applied, the scope to which the information refers, any new developments in relation to prior periods and other observations to help hone and improve the understanding of the report.

- In relation to policies, as also indicated in the sections on specific matters, some issuers must offer more detailed descriptions and indicate whether they have been formalised and, where appropriate, the bodies involved in their approval, including the role of the board of directors, highlighting whether there have been significant changes during the year, in line with the 2017/EU guidelines, which indicate that entities may offer an explanation of the governance aspects of non-financial matters, such as their enforcement (including follow-up and monitoring) by the board of directors, its committees or other internal bodies.

- In cases in which the certifications issued to the group are reported (e.g. in relation to environmental management systems, health and safety management, information security, criminal compliance systems or anti-bribery management systems), it is recommended that issuers not only report their scope of application, but also the period in which they are in force.

NFIS scope

The NFIS must include information on all the activities of the group, carried out by all subsidiaries and in all countries in which they operate. As described in Chapter III, in its review of the 2021 NFIS the CNMV has given priority to disclosures of the scope used and its consistency with that used in the different non-financial matters, including policies and KPIs.

Requests were sent to three entities in relation to scope issues (two in 2019). In addition, recommendations for improvement were made to 12 issuers (12 in 2019), of which 11 were submitted in writing and one by telephone, mainly relating to the following aspects:

- The general scope of the NFIS must be clear (i.e. indicate whether it includes all subsidiaries, activities and countries; whether it includes information on main associates and joint ventures, etc.) and it must also be clear whether it is consistent with the scope of the different policies and KPIs applied for each non-financial matter, specifying any exceptions if this is not the case, providing information that allows users to assess the impact of the information that has been omitted and understand the reasons for its exclusion, and taking into account the materiality analysis. As mentioned above, it is good practice to provide an explanation in a section detailing the basis of preparation of the NFIS, referring to the sections of the report in which the exceptions for each non-financial matter are explained in greater detail.

The CNMV observes that, although many issuers subject to substantive review provide information on the scope of the NFIS in general terms, there are still a significant number of cases in which there is no explicit reference to the scope in the NFIS, or it is not clear. There should be an explicit reference.

In some cases no explicit reference is made, although specific cases are referred to throughout the report. In other cases, it is noted, for example, that all subsidiaries are included in the scope unless otherwise indicated, but there is no reference to where a list of exclusions can be found.

– In addition, the changes in the scope of the NFIS with respect to the previous year should be explained.

In the selected sample, in many cases a general comment is not included on whether there have been changes in the criteria for determining the NFIS scope with respect to the previous year, although for some issuers this can be deduced from the explanation of the performance of certain KPIs.

Sometimes the explanation of the changes in the consolidation scope and the changes in NFIS scope give rise to confusion. It is important to make it clear whether the group has changed the criteria used for the scope, e.g. whether it has included certain activities that were excluded in previous years and the reasons for the change.

Further information was requested from two entities in relation to certain employment KPIs, in one case to clarify the subsidiaries that had been incorporated in the year and in the comparison and, in the other case, to complete the information on a KPI by including all the countries in which it operated.

– Information should be provided on whether or not activities outside the consolidated group are included if they could have a significant impact on non-financial matters, in terms of risk-related information, policies and due diligence procedures, as well as in terms of results and KPIs:

i) Joint arrangements and associates, to the extent that they may have a significant impact on non-financial matters, including a suitable explanation. It is considered good practice to include information on these investees that is relevant for the purposes of the NFIS.

In general, non-financial information refers to the consolidated group.

It is often not clear how stakes in associates or joint arrangements are considered for the purposes of the NFIS. For example, in some cases, when talking about the scope, reference is made to the list of companies in the notes to the financial statements, which contains all investees without specifying whether or not these investees are included.

Sometimes, associates or joint ventures are not included in the list of companies that are stated to be included in the scope of the NFIS and yet they are referred to in relation to some KPIs in the report.

In general, neither the analysis carried out (whether or not they are significant for these purposes) or the group's approach to the NFIS is provided.

In 2020, in relation to a significant investment in a joint venture, one entity was requested to explain its assessment of the main non-financial risks in this area and their disclosure, or whether they should be included in a KPI. The response indicates that the group assessed the financial and non-financial risks of significant investments accounted for using the equity method, and concluded that they were not significant for inclusion in the 2020 NFIS and that the 2021 NFIS will include information on the risk analysis carried out.

ii) Other participants along the entire value chain, such as supply chains or suppliers, and franchises, explaining the main risks and, if significant, whether they have assessed the advisability of including them in certain KPIs.

The information on how the supply chain is considered in the different NFIS disclosures must be expanded to include at least an explanation on the assessment of its relevance for the NFIS and detailed disclosures of the information required by law in relation to subcontracting and suppliers, which will form part of the "Company information" section.

In regard to the supply chain, some issuers include data in their employment KPIs (e.g. number of subcontracted or franchised personnel, or data on health and safety), or explain the reasons why they have resolved not to use such data even though they use subcontracted personnel. Others include this data in some of their policies, e.g. those related to human rights, health and safety, regulatory compliance, etc., and ask suppliers to commit to these requirements in their contracts.

Key performance indicators (KPIs)

Directive 2014/95/EU and Law 11/2018 require entities to include relevant KPIs. ESMA put forward some recommendations in this area in its enforcement priorities for the 2019 NFIS.

In the 2020 NFIS, six entities were requested to provide additional information and recommendations were sent to 12 entities (one and 16 in the previous year, respectively), highlighting the following:

– Issuers should show the progress made in their non-financial policies by reference to the KPI figures, preferably including comparative information with previous periods, as well as qualitative explanations of any changes to make them easier to understand.

In some cases, comparative information for certain KPIs is still not provided. This should be restricted to specific cases and the reasons should be explained.

There is still a general lack of qualitative explanation accompanying the KPIs for various matters. This is one of the most recurrent themes in the letters of recommendation sent out.

– It is also recommended that an explanation be provided of whether issuers consider the data to be in line with their expectations or objectives and, if not, whether they have taken steps to improve it. In this regard, it is useful to indicate whether target figures have been achieved, the time horizon in which they are expected to be achieved, how they have evolved with respect to these objectives and whether there are improvement plans in place to achieve them. It is also good practice for companies to compare their KPIs against external benchmarks.

– It is considered useful to provide definitions and calculation methodologies, as well as the inputs and sources, and the scope of application, which must be consistent over periods, particularly in cases where the KPIs are more relevant or complex.

In some cases, changes in the calculation criteria have been observed with insufficient information provided to understand the implications of this.

The requests refer fundamentally to employment KPIs.

Fight against corruption and bribery

In recent years, the CNMV has recommended that issuers be more specific and detailed in relation to the measures they employ to fight against corruption and bribery and in the area of human rights, two issues where information is not properly defined in the NFIS of some issuers.

In the 2020 NFIS, one entity was requested to submit additional information and recommendations were sent to 11 issuers (13 issuers in 2019) to expand the information they provide on this matter, mainly about the following aspects:

i) The information must be more specific and adapted to the particular circumstances of the entity, more explicit in the identification and description of the group's main risks in this area in the short, medium and long term (considering its activities, the countries in which it operates and the highest risk participants in the value chain – suppliers, subcontractors, franchisees, etc.). In addition, the materiality analysis and any reasons why there are considered not to be significant risks in this area, should be clear.

All issuers in the sample provide information on this issue to a greater or lesser extent, although part of the sample does not indicate what the risks are in this area and in other cases they are not clearly identified. Entities should be explicit about what their main specific risks are in this area, although they can be partially deduced from reading the report or inferred from the type of activity in which they are engaged. In addition, the risks associated with other links in the value chain must be made clearer.

In regard to the impacts that the materialisation of a case of corruption or violation of human rights may have on the company, some companies refer to sanctions or reputational damage.

In relation to money laundering, where measures to combat this issue are subject to disclosure by law, some entities state that this is not a material risk without giving a proper explanation of the reasons such a conclusion has been reached.

ii) Expand the description of the policies and due diligence procedures applied to identify, assess, prevent and mitigate risks, and the verification and control processes. In particular, expand the information on the management procedure for the entity's complaints channel from the entry of the complaint to its resolution.

The mechanisms that entities refer to in this area in their NFIS include the publication on their websites of the policies related to this area, various procedures (authorisation of transactions, acceptance of gifts, dealing with government officials, etc.), crime prevention manuals, codes of ethics or conduct, complaints channels, compliance committees, specific control departments, specific training for employees and suppliers in this area, analyses of practices in the new markets in which they operate or in the companies that they will acquire, questionnaires for suppliers, clauses in contracts and external certifications of prevention models, among others.

In regard to complaints channels, which are generally one of the main instruments used by issuers to discover breaches in this and other areas, it is not always clear which stakeholders can use them (employees, customers, suppliers, etc.), how the complaints are classified according to their nature, how they are structured or how they are processed depending on the type of practice that is reported. Sometimes the results they are trying to show for the different areas involved are not clear.

In several cases in the sample, it is not clear whether the entities' policies in this area and in the area of human rights have been approved or not by the board of directors, individually or as part of their broader policies.

Some entities state that they have certifications (UNE 19691, ISO 37001) in this area, but they do not always specify the date or the group companies they cover.

iii) Provide more information on the results of the policies adopted to measure the entity's performance and level of compliance with the established objectives, which should also be disclosed. To do this, it is recommended to provide more KPIs and include comparative data and qualitative explanations about these policies and any changes made.

Although most issuers include some KPIs related to this area and to human rights – in general, related to the complaints received –, it is recommended to provide more performance indicators.

In approximately half of the sample no comparative data are provided and in many cases explanations of the performance are not included.

Some examples of KPIs are: i) the hours of employee training in these matters and the number of employees who have received them, separating this from other training; ii) the number of reports or complaints received through the channels established for this purpose – or cases detected directly by the entity –, that have been resolved and those that remain unsolved, reporting on their progress or resolution and explaining their nature; iii) the number of legal actions pending or concluded, including those relating to anti-trust behaviour (2017/EU guidelines), and iv) contributions to foundations and not-for-profit entities, providing the amounts separately.

Not all issuers provide the number of complaints received and disclosures in this area can often be improved and are not always broken down according to their nature. A breakdown of the complaints should be provided in which, among other categories, those related to corruption are distinguished from those relating to human rights violations and other breaches, with details of the main concepts. Breaches committed by the entity and significant value chain participants should be included separately. It is also useful to provide a breakdown by country, bearing in mind that the risks tend to be different in different geographies.

Information on the resolution of complaints should also be expanded. Recommendations have been made to an issuer regarding the progress of a complaint set out in the NFIS about a project carried out outside Spain.

iv) Information on the risks that materialised in the year, or that are still open, which have a significant impact.

v) The measures established by the group to manage and redress possible violations in this area, even when they have not been detected in the year, including those relation to the prevention of money laundering.

vi) The changes or developments that have occurred in regard to risks, objectives, policies and procedures with respect to previous years must be explained.

vii) The relationship between the cases of corruption and bribery that have materialised and the breakdown of provisions and contingencies in the notes to the financial statements.

Entities should provide information not only when the risks materialise, but if there are none, explain that no significant risks have materialised in this area, to ensure clarity. Some entities report the complaints they have received or the investigations carried out and it is important that they specify whether these include any material issues.

If they do, they must provide information to explain how they are material and explain the actions carried out, including internal audit or forensic activities, and any changes made to prevent them from recurring in the future. The statement issued by the CNMV[62] on 25 November 2019, in response to recent cases of alleged irregular practices that affected some listed companies,[63] should once again be noted here.

One entity was requested to provide additional information on sanctioning procedures related to alleged anti-trust practices, which appear in the notes to the financial statements relating to provisions and contingencies, to clarify the reasons why they are not mentioned in this section of the NFIS.

62 https://www.cnmv.es/portal/verDoc.axd?t={bdebaf17-7c30-4a5f-8b2f-ea14903c21f6}
63 https://www.cnmv.es/portal/verDoc.axd?t={bdebaf17-7c30-4a5f-8b2f-ea14903c21f6}

In other cases, news has come out in the press about investigations being carried out by certain authorities into this type of practice and entities have been recommended to include this information in their NFIS.

Only one NFIS in the selected sample shows that the company has made changes to its procedures in this area.

viii) Report on contributions to foundations and not-for-profit entities, including comparative information.

Respect for human rights

In relation to these matters, most of the observations indicated in the previous section apply, which state that in some cases the information on the two issues is not properly differentiated in the NFIS.

Recommendations on this issue were sent to seven issuers (15 issuers in the 2019 NFIS), relating to the issues mentioned in the previous section (particularly KPIs, the complaints channel and information on risks that materialised in the year) and additionally companies were recommended to:

i) Expand the information on their risk assessment for violation of human rights beyond concluding that they are not relevant due to the type of activity or the geography in which they are carried out, where legislation protects these rights, or declaring the entity's commitment to respecting human rights.

ii) Provide details of the frameworks they follow or the initiatives to which they are adhered, in addition to the objectives that have been set and provide data to assess compliance.

In general, companies have stated their commitment to respect human rights, although they should be more specific about their risks and policies in this area. The reference frameworks for human rights are the Guiding Principles on business and human rights that put into practice the framework of the United Nations, and the Tripartite Declaration of the International Labor Organization (ILO) on labour rights.

The information disclosed could reflect how a company approaches other frameworks such as the Organisation for Economic Co-operation and Development (OECD) guidelines for multinational enterprises. Specifically, Law 11/2018 requires information on whether entities promote or comply with the provisions of the fundamental conventions of the ILO related to respect for the freedom of association and the right to collective bargaining, the elimination of discrimination in employment and occupation, the elimination of forced or compulsory labour, and the effective abolition of child labour.

Company information

Law 11/2018 covers four major headings on this issue: company commitments to sustainable development, subcontracting and suppliers, consumers and tax information. One entity was requested to provide additional information and recommendations were sent to eight issuers (12 in the previous year) on some of the aspects relating to this matter. Most of the recommendations that highlight the need for improvement correspond to:

– Improving the description of the main short-, medium- and long-term risks related to this issue.

> *Although a large part of the issuers subject to substantive review mention some aspect of the risks related to company information, there are still companies that do not provide a description or, if they do, it is too general.*
>
> *None of the companies in the selected sample refer to significant risks that have materialised in the year or changes in the due diligence procedures in this area, although in general they are not made explicit.*

– Comparative figures for all KPIs and qualitative explanations of their performance should be included.

> *Approximately half of the companies subject to substantive review did not include comparative data or only did so for some of the KPIs related to this issue. Additionally, about two thirds of the companies did not include a narrative explanation of the performance of the KPIs corresponding to the company information section.*

– In relation to **subcontracting and suppliers** one entity was requested to provide additional information and recommendations were issued to five, highlighting the following aspects:

  i) The explanation of the performance of non-financial risks associated with the supply chain should be expanded, taking into account the entity's particular circumstances (activity, countries in which it operates, etc.).

> *All companies subject to substantive review provided information on subcontracting and suppliers in their NFIS. However, in half of the sample the description of the related risks can be improved or is not clear.*
>
> *One entity was asked to explain the reasons why certain aspects in this area were considered non-material, taking into account their risks.*

  ii) The information on the policies and procedures that the entity has in place to sustainably manage its value chain and, in particular, on suppliers, should be expanded to:

  - Consider the non-financial aspects of supplier approval and contracting processes, assessing whether there are any risks in this area.

- Communicate to suppliers its main policies on non-financial matters (inclusion and diversity, equality, health and safety, bribery and corruption, environmental matters, etc.).

- Ensure that suppliers meet their commitments on non-financial matters.

In general, the companies in the sample include some type of explanation about how they take into account non-financial matters when managing their supply chain, although 40% do not cover all matters (social, labour, environmental, human rights and corruption) and in some cases these are very general descriptions. Mechanisms described by the companies include: i) supplier approval policies; ii) obtaining commitments from suppliers to comply with their purchasing conditions and codes of ethics, e.g. through clauses in contracts or questionnaires; iii) training; iv) requesting ESG certifications; v) sustainability assessments; vi) setting up communication channels with suppliers, and vii) through the selection of local suppliers.

Not all entities carry out sustainability audits on their suppliers and in some cases the information provided is not sufficient to understand the procedure (how suppliers are selected, how the audits are carried out, etc.).

iii) Report on the results of their policies and, in particular, on the results of sustainability assessments or audits carried out on suppliers in relation to each non-financial matter, providing data to assess whether the suppliers' sustainability indicators have improved or worsened in the year.

Although 70% of the sample provide some KPIs, in general, few indicators are submitted for this area and comparative information is not always included. Some of the KPIs provided for suppliers or subcontractors are: i) number of subcontracted workers or their working days, ii) percentage of purchases from local suppliers, iii) suppliers trained in the code of ethics, iv) number of complaints received, v) number of audits, vi) number of suppliers approved for non-financial matters, and vii) number of contracts with clauses that refer to non-financial matters, such as human rights.

60% of the selected sample have supervision or auditing systems in place to check suppliers and subcontractors but some do not provide information on the number of audits or supervisions carried out, or do not provide the results.

It is recommended that the number of KPIs in this area should be increased, e.g. to include the results of communications made through the supplier communication channels.

As indicated in Chapter III, the CNMV considers it a priority in its 2021 NFIS review to look into the disclosures related to the participation of subcontractors and suppliers in the value chain, among other issues.

– In relation to **consumers**, recommendations were sent to four issuers, mainly advising them to expand the information they provide on their complaints systems (social networks, customer service areas, calls, emails, etc.), the complaints they receive and their resolution. Data on the number of complaints received and resolved should be provided separately from the rest of customer communications for other reasons and classified by category as relevant to the entity (type of complaint, country, etc.). In addition, data must be provided separately from the complaints made by other stakeholders (employees, suppliers, shareholders, etc.).

Practically the entire selected sample for which this non-financial matter is material have consumer or customer complaints systems in place. However, about 25% do not explain them properly and do not provide data on the complaints received. Resolved complaints are not always indicated, nor are the mechanisms are required for their resolution or comparative data.

Additionally, it is recommended to be more specific, as well as to expand the information on health and safety measures for consumers, or measures designed to ensure ethical and truthful advertising, also taking into account the current circumstances of COVID-19, as indicated in the analysis in Chapter II.B.

It is recommended that KPIs related to consumers be expanded, especially in regard to product health and safety.

– The explanation of the **tax information** provided should be expanded in such a way as to provide a proper understanding of the fiscal responsibility of issuers, and its quality should be improved in terms of comparability, reliability and relevance. It should be noted that there has been a progressive improvement in recent years in the tax information included in the NFIS. The most significant recommendations made this year are the following:

i) **Profits by country** must be effectively disclosed by country, and breakdowns by geographical segments are not generally suitable. In any case, if any type of grouping occurs, the criteria followed must be explained and sufficient and useful information must be provided for investors and other users. Likewise, it is preferable that profit before tax be considered as profit, in accordance with Spanish tax regulations, as indicated by the Accounting and Auditing Institute (ICAC) in its *Informative guide on the application of Law 11/2018*, published in April 2021 (issues 8 and 13).

ii) In regard to **income tax paid**, several issuers were recommended to expand their explanations about the main factors that serve as fiscal adjustments to determine the tax bases in each country, relating them to the corresponding note to the financial statements. The ICAC guide signals the importance of allowing profit before tax obtained in each country to be linked to the tax amount payable to the tax authorities of each country, i.e. the effective tax rate (issue 17 of the guide).

Likewise, it is recommended that when explaining the relationship between income tax paid and accounting profit, the methodology used in the calculation is indicated, as well as the significant differences that could have arisen between the estimated provision of the amount to be paid and the amount actually paid when these may correspond to the previous year.

iii) Lastly, in regard to the **fiscal responsibility** of issuers, it is noted that information on holdings in entities domiciled in tax havens or other types of relationships must be included.

From the analysis carried out for companies subject to substantive review of tax information, the following points stand out:

– *Most issuers provided information on **profits by country** or, at least, they generally provided aggregated information by geographical area.*

– *There is still heterogeneity in the data provided. Around 70% of the companies subject to substantive review provided profit before tax information, although 40% presented this in consolidated form and the remaining 30% in aggregated form. The latter calculation is preferable in accordance with the provisions of Article 14.2 of the Corporation Tax Regulation, as indicated by the ICAC guide (issue 14). The rest of the issuers use other measures, such as profit after tax or profit before tax that includes only some of the consolidation adjustments, although in these cases the issuers usually include explanations about the adjustments made.*

– *In regard to **income tax paid**, the vast majority of companies subject to substantive review provided details by country or by significant countries. However, it was observed that on occasion the amount paid that corresponds to the profit for each year is still not specified, the payments made in instalments or on account in the current fiscal year are shown, together with the balance of corporate tax corresponding to the previous year, or the tax expense for corporation tax is provided instead of the amount paid.*

– *Unlike the previous year, none of the issuers in the selected sample aggregate corporate tax with other taxes, which in previous years was not always explained and quantified. In this regard, it should be noted that the ICAC guide indicates that the tax to be taken into account is the corporate tax regulated by Spanish law and other taxes of an identical or similar nature in non-Spanish jurisdictions, although there is currently no a list of taxes by country that are considered comparable in Spain (paragraph 16).*

– *Areas for improvement continue to include an explanation of the relationship between the itemised profit and the income taxes paid in each country, which was only provided in full by 30% of the companies subject to substantive review and there is no reference to the reconciliation in the corresponding note to the financial statements.*

– *Approximately half of the selected sample include information about the **fiscal responsibility** of the issuer (for example, revealing the existence of holdings in entities domiciled in tax havens or indicating the guidelines and principles that guide the group's tax strategy in terms of transparency to prevent, among others, non-transparent structures).*

Other actions in 2021

Letters, claims and complaints relating to the NFIS

In 2020, a letter was received indicating that the sender had carried out a project to analyse the quality of the publications on climate change and sustainability of 300 European companies (58 of them Spanish), in accordance with Directive 2014/95/EU, and had come to the conclusion that very few companies report on sustainability matters with sufficient clarity and usefulness, while the vast majority of the reports meet the legal requirements and approximately 10% do not meet the basic obligations. In February 2021, it submitted to the CNMV information on the reports of some Spanish companies that it considered had committed specific breaches.

As a result of this letter, the CNMV requested information from the companies under analysis, asking for explanations of the reasons why their 2019 NFIS did not include information on their policies, key indicators, objectives and risks related to climate change, as well as the impact of these on the company's activities, its business relationships and its products or services, along with details of how the company manages these risks. Additional information was also requested about the measures they had planned in relation to these aspects.

II.B Special analyses carried out in 2021

Impact of COVID-19 on non-financial information for 2020

On 11 March 2020, the World Health Organization classified the COVID-19 outbreak as a pandemic. This triggered a global health warning which had a significant economic and social implications, and which affected productive activity, demand and social well-being.

The pandemic has had a widespread impact on all issuers in terms of non-financial matters, and ESMA[64] has recommended that they carefully evaluate the consequences of the pandemic and provide transparency about these issues and about the mitigation actions implemented to address them. In its enforcement priorities for the 2020 NFIS, ESMA highlighted the importance of reviewing the disclosures related to the impact of the pandemic on non-financial matters, the business model and value creation, certain social and employee matters (for the entity itself and in the supply and sales chain), and the risk related to climate change.

In 2021, the CNMV verified that all issuers reported in their NFIS information relating to the impact of COVID-19. Additionally, for the NFISs subject to substantive review, an in-depth analysis was carried out of the breakdowns provided by issuers on the most significant impacts of the pandemic in the context of ESMA's enforcement priorities, where the following main conclusions were reached:

– Practically all the entities analysed (95%) provided information that makes it possible to understand the level of resilience of their business models in the face of exceptional events such as the COVID-19 pandemic. It should be noted that while the impact of the pandemic on entities' business models has been uneven, as it has affected some sectors of activity more than others and has even been positive for some companies due to the essential nature of their activity, most entities report the measures and contingency plans adopted to ensure they can carry out their activity during the pandemic and minimise its impacts.

  Most issuers (85%) provided information about the impact of the pandemic on their business model and on value creation in the short, medium and long term, as well as on the policies put in place to address non-financial matters, although in some cases (15%) the information provided was partial and did not address all these issues in depth.

  In general terms, the information provided by the issuers makes it possible to relate the financial impacts of COVID-19, disclosed in the notes to the financial

64 https://www.esma.europa.eu/sites/default/files/library/esma32-63-1041_public_statement_on_the_european_common_enforcement_priorities_2020.pdf.

statements and the management report, with the non-financial impacts detailed in the NFIS.

- There is room for improvement in the area of the impacts of the pandemic on environmental matters and the mitigating measures adopted, since only 25% of the selected entities provided complete information, while 50% reported partial information or very generally and the remaining 25% did not include any information on these impacts. Most of the entities reported a positive impact of COVID-19 in regard to environmental and climate matters, due to the decrease in energy consumption following the large-scale use of teleworking, and to the carbon footprint due to a drop in activity and the cancellation of business trips.

- For disclosures on employee matters, the information included by issuers in their NFIS is fairly diverse – broader in relation to the policies applied during the pandemic than in regard to their permanent nature or future development.

  i) Practically all of the entities analysed (95%) provided information on the actions carried out and policies implemented to guarantee the health and safety of their employees during the COVID-19 pandemic, highlighting the use of preventive security measures, extensive teleworking and other work flexibility measures, and actions aimed at providing information, communication and emotional support for staff. However, only a quarter of the NFISs reported on the permanent nature of these policies and strategies for the gradual return of employees to the workplace, complying with the measures required to guarantee their health and safety.

  ii) The extensive use of teleworking during the pandemic was a test of the resilience of entities' IT infrastructures. 85% of the NFISs analysed included information related to cybersecurity and the preventive measures applied in this area. In addition, 71% of these entities also provided information on the results of the actions or policies implemented. From the information provided, it can be deduced that, in general, entities had adequate security and protection systems in place or these had been suitably reinforced to handle widespread teleworking, guaranteeing the stability of the systems and the maintenance of the operations without any major incidents.

  iii) 65% of entities included information on how they handled employees who had to remain in close physical contact during the pandemic, although the information provided by approximately 30% of these was partial and, in some cases, although this would appear to be relevant due to the company's sector of activity, it did not include information on employees in the supply chain.

  iv) Only a quarter of entities included information on the objectives set for the workforce in the context of the COVID-19 pandemic (for example, the return of all employees to the workplace by a certain date) and in some cases the information provided was too general. Additionally, only half of those issuers provided sufficient information to assess how they were measuring the progress made towards meeting these objectives.

- Most entities (60%) did not refer to human rights matters in relation to the impacts of COVID-19. Furthermore, the vast majority of entities (90%) did not link the impacts of the pandemic to anti-corruption and bribery matters, suggesting that COVID-19 did not have a material impact in these areas.

Main actions in 2021

The main enforcement actions carried out were as follows:

– One entity was requested to expand the information it had provided on the main impacts of the COVID-19 pandemic on non-financial matters and the mitigating actions implemented, and to describe the most relevant policies that it had put in place to ensure health and safety at work, specifying whether these were permanent and how they have been implemented, including the mechanisms for measuring the progress made towards achieving its objectives. The request was responded to in a timely manner and the necessary information was provided.

– In addition, recommendations were made to 12 issuers to expand and improve the information provided in relation to the impact of COVID-19 on non-financial matters in their future NFIS.

Figure 6 shows the main recommendations for listed entities.

Recommendations on the impact of COVID-19 FIGURE 6

Source: CNMV.

– 14% of the recommendations made referred to the impact that the pandemic has had on each of the non-financial matters reflected in the consolidated NFIS (environment, climate change, employment, human rights, corruption, etc.) and the main actions adopted by the entity to mitigate this impact.

– The percentage of recommendations relating to the consequences of COVID-19 on environmental matters was lower, as in some cases these issues had already been the subject of a recommendation, through the specific questions asked about the risks and indicators relating to environmental matters and climate change, as well as with the general recommendation mentioned in the previous paragraph to include disclosures on the impact of COVID-19 on non-financial matters.

- Most of the recommendations related to matters concerning health and safety in the workplace and the main topics addressed the policies followed to gradually bring employees back into the workplace; whether some of the policies implemented in the context of the pandemic had become permanent (for example, teleworking, paid leave for especially vulnerable personnel or special reductions in working hours), and how entities measure the progress of the actions adopted in the context of the pandemic to achieve the objectives they have set. Additionally, one issuer was given a recommendation to report on the objectives it had established in the context of COVID-19.

- Three issuers were recommended to expand their disclosures on the resilience of infrastructures and the institution's ability to prevent and manage cyberattacks. In addition, two entities were recommended (one in writing and the other by telephone) to provide details on the results they had obtained through their procedures for managing information security risks and vulnerabilities in computer systems and the restoration of information and the most critical systems.

- Recommendations relating to human rights and anti-corruption and bribery were also fewer as in some cases they were made through the general recommendation to include disclosures on the impact of COVID-19 on non-financial matters, and because the pandemic has had a lower impact on these issues.

As explained in Chapter III of this report, in line with ESMA, it is considered that the pandemic is still an important issue that continues to affect the economic activities of issuers, and may harm their ability to meet any predetermined sustainability-related objectives in the short or medium term and, therefore, it is recommended that issuers provide transparency on how the consequences of the pandemic are affecting their plans to meet these targets and whether new or adjusted targets have been set.

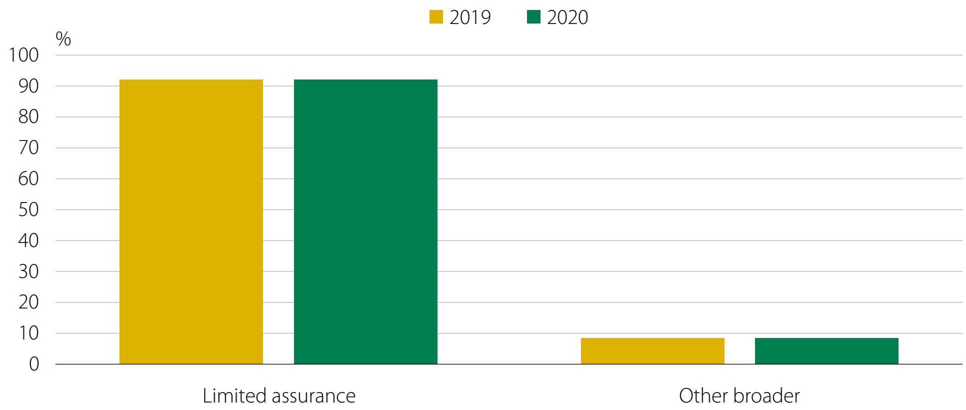
Similarly, together with ESMA, issuers are encouraged to provide information on how they expect their business to develop in response to the changing conditions resulting from the pandemic, in particular, regarding any expected structural changes to the way they conduct their business (for example, restructuring supply chains and distribution channels) and in organising the working conditions of their employees.

Analysis of the nature and scope of the 2020 NFIS verification reports

Nature of the verification

Figure 7 shows the nature of the verification of the NFIS in 2020 and 2019.

Nature of the verification FIGURE 7



Source: CNMV.

As in the previous year, 92% of the verifiers (related to the NFIS of 87 issuers) issued a limited assurance report only. Of these:

– Most (94%) performed their work in accordance with the requirements set out in the IAASB review standard of the IFAC, the revised ISAE 3000[65] and the Spanish Institute of Chartered Accountants (ICJCE) guidelines on verification orders,[66] expressing a limited assurance as to whether the NFIS was prepared, in all significant respects, in accordance with current mercantile legislation and following the criteria of the standards selected by the persons in charge of their formulation.

– The rest correspond to verifiers other than the main auditing firms. Of these, Aenor stands out, which performs limited assurance on whether the NFIS has been drawn up in accordance with Law 11/2018 and, only in one case, on whether it is in accordance with the selected standards, indicating that the verification programme was carried out in accordance with ISO/IEC 17029:2019, among other standards.

The remaining 8% of the verifiers (of the NFIS of eight issuers, all Ibex-listed), in addition to publishing a limited assurance report, based on the revised ISAE 3000 and the ICJCE guidelines, included an additional scope in their reports:

– For one issuer, reasonable assurance of certain GRI indicators, in accordance with ISAE 3000R.

– For another issuer, verification, with a limited assurance scope, of the preparation of the "Emissions (Tm CO_2)" section in accordance with GRI 305-1, 305-2

65 International Standard on Assurance Engagements, ISAE 3000, "ISAE 3000 (Revised) Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

66 Among the different possible verification frameworks, the Spanish Institute of Chartered Accountants (ICJCE) and the Registry of Accredited Companies (REA) both published action guidelines in 2019, which specify and clarify the scope of these reviews, based on the ISAE 3000. The ICJCE subsequently published two addenda to its guidelines. The verifier of only one of the issuers mentions the NFIS guidelines on verification orders published by the REA, of the Spanish General Council of Economists (CGEE), the rest refer to the ICJCE guidelines.

and 305-3 standards, according to the international assurance engagement standards ISAE3000R and ISAE 3410 "greenhouse gas assurance engagements".

– Six issuers requested a moderate type 2 assurance engagement, in accordance with the AA1000 AS Sustainability Assurance Standard, issued by AccountAbility,[67] on the application of the principles of inclusivity, materiality, responsiveness and impact, in accordance with the provisions of the AccountAbility Principles AA1000 (AA1000 AP) (2018).

  One of these six issuers, in the same verification report, also requested a reasonable assurance engagement under ISAE 3000R for certain GRI indicators.

  It should be noted that for the reports based on AA1000 AS, the verifiers included recommendations for improvement in the application of these four principles of the AA1000 AP (2018) standard, which should be included in the NFIS for the next years.

  Examples of these recommendations are: i) review of the relationship models with stakeholders, including local ones, and their adaptation to the entire group scope; ii) broadening the assessment of double materiality and the periodic reassessment of material issues; iii) integration of the relevant issues identified in the company's strategy and internal management and decision processes, including ESG performance in the financial information; iv) strengthening the internal control systems for non-financial information and ensuring that the plans and actions implemented are communicated internally and to stakeholders; v) progress in the measurement and analysis of the long-term value created, developing a process to evaluate and manage the real impacts and working on the monetisation of the negative and positive impacts of each aspect, as well as the analysis of risks and impacts related to climate change; and vi) periodic review of the selected indicators, incorporating new ones, and including the main results and an explanation of the performance of the indicators more explicitly in the information provided.

Two of the eight issuers provided two additional reports to accompany their NFIS. One of these, a reasonable assurance report from the same verifier, in accordance with ISAE 3000R, on six indicators in the framework for strengthening the internal control of its non-financial information and a limited assurance report from a different verifier on the "Verification of the inventory of greenhouse gas (GHG) emissions for 2020". The other, a limited assurance report from the same verifier, based on ISAE 3000R, on the "green bond indicators" referenced in the NFIS, and an independent verification statement of the inventory of GHG emissions from another verifier. It is recommended that if issuers engage these reports, they should include them in their NFIS as an annex or reference.

Although the number of reports with additional scope is similar to that of the previous year, there was a change in their composition: two issuers no longer carried out moderate assurance in 2020 in accordance with AA1000AS, a decrease that was offset by one issuer including such assurance and another asking the verifier for a limited security report on CO_2 emissions in accordance with the GRI.

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67 Generally AA1000AS v3 2020, except for one verifier that applies AA1000AS(2008) and therefore does not include the impact principle.

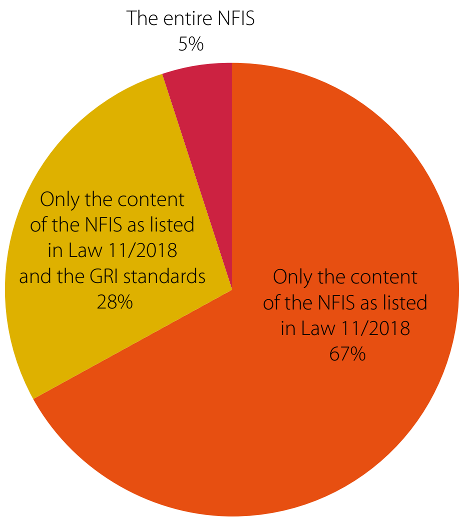
Verification scope

In general, issuers include in their NFIS or management reports, non-financial information in addition to that required under current mercantile legislation. Section 22 of Guideline 47 – on verification orders for the Non-Financial Information Statement – of the ICJCE indicates that the verification report of the NFIS must clearly identify the scope of the verification carried out.

Most of the verifiers that follow this guideline (67%) exclusively verify the information identified in a summary table, which includes the information required by Law 11/2018 (together with the criteria of the standards or selected frameworks, and the page or section of the report in which it is located). While on several occasions, the verification also included the information identified in a GRI content index table and, in a few cases, an SASB table of contents, the verification work did not generally extend to the additional disclosures that had been voluntarily included by the issuers.

Figure 8 shows the verification scope of the NFIS by the verifiers that followed the ICJCE guidelines in 2020.

Verification scope FIGURE 8



Source: CNMV.

In line with the ICJCE guidelines, the CNMV highlights the importance of verified and unverified information being perfectly identified and traceable. The use of a table helps to meet in this objective, however, as indicated in the section on the formal review in Chapter II.A of this report, these tables can frequently be improved as they do not allow readers to clearly understand which information has been verified and which has not. It is also considered good practice for the verification to refer to the entire content of the NFIS.

Other issues

Article 49.6 of the Commercial Code, which regulates this matter, does not establish the qualification, experience and independence requirements applicable to independent verifiers, nor the basic aspects of the review to be carried out, such as the scope, level of security sought or the content of the report and the opinion to be issued, which has contributed to unevenness in the nature and scope of the verification and highlights the need to further regulate the verification work carried out on the NFIS. This would make it possible to avoid the risk of different interpretations or expectations and improve quality and harmonisation. This matter is addressed in the proposed Corporate Sustainability Reporting Directive (CSRD).

Additionally, as the ICJCE guidelines point out, in order for the verification to be carried out, non-financial information must be prepared based on an objective framework, which highlights the importance of developing non-financial information standards in the European Union that also contribute to comparability and harmonisation in the sustainability reports, as reflected in the CSRD.

II.C Main enforcement areas for non-financial information in relation to 2021 NFIS

In October 2021 ESMA published the common enforcement priorities in application of European regulations for annual financial reports for the year 2021,[68] differentiating between financial information and non-financial information.

ESMA, together with the national supervisors of the European Union, will pay particular attention to these areas when monitoring and assessing the implementation of the needed requirements and will also continue to focus on the aspects that are important for the different issuers analysed.

Common enforcement areas for the IFRS financial statements and non-financial information statements, as well as considerations relating to other alternative performance measures (APM), refer to the following topics:

ESMA enforcement priorities for 2021 TABLE 3

	Priorities related to IFRS financial statements	Priorities related to non-financial statements	Other considerations related to APM
Impacts derived from COVID-19	√	√	√
Climate related matters	√	√	
Expected credit losses	√		
Taxonomy related disclosures		√	

Source: ESMA.

Additionally, the CNMV has included, as an additional priority for non-financial information, a more detailed analysis of the disclosures related to the carbon footprint, as well as a study on the scope of the NFIS and the disclosures related to the participation of the entity and its stakeholders in the value chain.

It should be noted that ESMA's enforcement priorities include an analysis of the consistency between the information included in the IFRS financial statements and the NFIS, and that the CNMV has included, as an additional priority for financial information, a more detailed analysis of this consistency.

Lastly, in accordance with the guidelines issued by ESMA on the enforcement of financial information, the national authorities will inform ESMA about the actions carried out in 2022 and the measures implemented if any breaches are detected, including any relating to non-financial information. ESMA will publish a summary

68 https://www.esma.europa.eu/sites/default/files/library/esma32-63-1186_public_statement_on_the_european_common_enforcement_priorities_2021.pdf

of the actions carried out in its annual Report on Enforcement and Regulatory Activities of European Enforcers.

Those aspects in the ESMA document relating to financial reporting that have been deemed most significant are highlighted below, together with the additional issues on which the CNMV will focus its attention. However, it is recommended that the ESMA statement be read in full.

Impacts derived from COVID-19

ESMA already highlighted certain areas in which disclosures of the impacts of COVID-19, in relation to social and employee matters and the issuer's business model, could be relevant among its enforcement priorities for the 2020 NFIS. For the 2021 NFIS:

– ESMA notes that the pandemic is still relevant and affects the economic activities of issuers, and that this may impair their ability to meet any predetermined sustainability-related objectives in the short and medium term. Thus, it recommends that issuers provide transparency on how the consequences of the pandemic are affecting their plans to meet such sustainable targets and whether new or adjusted targets have been set.

– ESMA encourages issuers to provide information on how they foresee the development of their business to develop in response to the changing conditions arising from the pandemic, in particular, regarding any expected structural changes to the way they conduct their business (for example, restructuring of supply chains and distribution channels) and in organising the working conditions of their employees.

ESMA recommends that issuers provide transparency on any material effects that the pandemic might have had on non-financial KPIs, as well as on any new non-financial KPIs that are disclosed to reflect any long-term effects of the pandemic.

Climate related matters

Disclosures related to climate change

ESMA has once again established disclosures related to climate change as a priority, specifically:

– It emphasises the importance of providing transparency on climate-related policies and their results, reminding issuers of the guidelines provided by the EC Climate Supplement, which, while non-binding, are consistent with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

– ESMA considers it good practice to list the reasons that would justify not having provided information on climate-related matters.

– ESMA highlights the importance of issuers describing the policies they have put in place to deal with climate change, both in terms of risk and opportunities for their activities and in relation to the impact (positive or negative) that the company's actions may have on the climate. The disclosure of these policies must include a reference to the physical and transition risks identified by the issuers that have a current and future material impact on their activities and business model, and must disclose how these risks are managed and the mitigation measures or measures to adapt to climate change that have been taken to address these risks.

Main enforcement areas for non-financial information in relation to 2021 NFIS

– ESMA recommends that issuers be transparent about the process they use to identify these risks and the results of their climate-related policies, providing specific indicators and explaining the consistency of the performance of these with pre-established objectives, as well as information on the extent to which the objectives have been achieved. ESMA reminds issuers that greenhouse gas (GHG) emissions disclosures are most useful when provided in properly segmented format (i.e. by country/region of operations or business segment) and when they are placed in context with pre-established objectives. This information must be accompanied by qualitative and quantitative explanations about the level of achievement of the objectives and quantitative information on how the company's emission patterns are aligned with the objectives of the Paris Agreement. ESMA emphasises the importance of facilitating scope 1 and 2 emissions, and scope 3 emissions when reliable data are available, together with an explanation of how issuers are moving towards the achievement of their objectives, as well as information on the most relevant sources for the emissions disclosed.

– ESMA believes that in order to provide useful information for investors and other stakeholders to assess the performance and position of issuers in relation to climate-related matters, disclosures in this area should not be limited to providing backward-looking information. Instead, the authority recommends that this information be contextualised in the company's broader strategic lines and related implementation plans that should indicate the progress that is expected when moving towards these pre-established objectives.

– Lastly, an issuer's strategy, plans, objectives and performance in relation to climate-related matters should be considered in terms of both non-financial disclosures and financial information. In particular, ESMA notes the importance of providing in the NFIS the information needed to understand the financial consequences of climate-related matters, highlighting the relevance of ensuring the consistency and connectivity of the climate-related information included in the non-financial statements with the information provided in the financial statements, including the assumptions and estimates made, which must consider any financial implications of climate-related matters.

Consistency between IFRS financial statements and non-financial information

In regard to this consistency between financial and non-financial climate-related information, in its enforcement priorities for financial information in 2021, which are included in the *Report on the CNMV's review of the annual financial reports and main enforcement priorities for the following financial year,*[69] it is considered

69 http://www.cnmv.es/portal/Publicaciones/PublicacionesGN.aspx?id=20

that, if the financial effects are material, issuers and auditors should consider climate risks when preparing and auditing IFRS financial statements and that while some sectors will be more affected than others, it is key that all issuers consider climate-related matters in a comprehensive manner in their communications to the market and ensure consistency between the information disclosed in the management report, the NFIS, the financial statements and, where appropriate, the information prospectus.

Additionally, as detailed in this report, the CNMV has included as a enforcement priority a more detailed analysis of the consistency between the financial information and the information disclosures in NFIS regarding exposure to risks related to climate change and their effects, which will require a more detailed analysis of aspects related to materiality, the disclosure of information on climate-related risk, the preparation of an impairment test for non-financial assets, the recoverability of deferred tax assets and the calculation of expected losses due to credit risk.

Information related to the carbon footprint

The CNMV has broadened the analysis of the information provided by issuers on their **carbon footprint** and recommends increasing transparency in this area and, to the extent possible, including the following information in the 2021 NFIS:

– Absolute greenhouse gas (GHG) emissions broken down according to scope 1, scope 2 and scope 3, and if possible provide intensity indicators based on variables that are representative of the company's level of activity. If relevant, it could be useful to provide a breakdown of emissions, differentiating by:

  i) Each type of greenhouse gas.[70]

  ii) Strategic units or main lines of business.

  iii) Country or geographical area.

  iv) Type of source.

  v) Type of economic activity.

  Currently, many companies that provide scope 3 GHG emissions do so to a "limited" extent, only including the work trips made by employees using external means and excluding emissions that come from the value chain (e.g. from the purchase of goods and services), or use throughout the life cycle of products or services sold by the company, due to the greater difficulty involved in measuring these emissions, for which they rely on parties external to the company. Thus, depending on their importance, and considering, among other factors, the economic sector or sectors to which they belong, the CNMV expects issuers to provide details of all categories of activities corresponding to

70 The gases that are indicated in the Kyoto Protocol as the most responsible for the greenhouse effect, that contribute to global warming are: carbon dioxide (CO_2), methane (CH_4), nitrogen oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulfur hexafluoride (SF_6) and, since COP 181 held in Doha at the end of 2012, nitrogen trifluoride (NF_3).

the phases before and after their internal processes that are relevant to their scope 3 and try to correctly quantify these emissions.

Bearing in mind the requirements established under Commission Delegated Regulation 2020/1818, of 17 July 2020,[71] on minimum standards for benchmark indices and scope 3, the CNMV recommends that in the coming years issuers gradually try to provide fuller information on this scope, according to its relative materiality. The CNMV notes that gross GHG emissions and compensation deriving from investment in environmental projects that reduce GHG emissions into the atmosphere must be reported separately.

Additionally, if estimates are used to calculate emissions due to a lack of reliable data, the percentage of emissions obtained in this fashion must be indicated, in addition to the reasons why reliable data for a proportion of the emissions could not be collected and the method used to estimate the percentage of emissions for which reliable data is not available.

The breakdown of GHG emissions must be accompanied by quantitative and qualitative information to show the progress made with respect to previous years and towards achieving the pre-established objectives.

– An indication of the scope used to calculate the footprint, explaining the reasons for the exclusion of any GHG source (e.g. facilities, activities, countries, subsidiaries, specific gases, etc.), disclosing the percentage of activities covered by the reported emissions.

– A description of the methodology used to calculate emissions and an explanation of any changes that have been made, disclosing, where appropriate, any recalculations.

– A reference to the sources considered to obtain the data used in the emissions calculation, including data for the emission factors used.

– If the footprint data have been verified by an independent expert, this must be expressly indicated, along with a description of the details of the verification entity and information on the nature and scope of the verification carried out.

– Details of the objectives set for each scope and, where appropriate, for each type of greenhouse gas,[72] in absolute terms or in terms of intensity, indicating the base year used, as well as the date and deadline for the objective, in order to provide evidence of the progress achieved towards meeting the objective, on an annual basis.

The CNMV considers it good practice to explain how progress made towards meeting the different objectives is monitored, revealing the frequency with which this supervision process takes place and to which person(s) or department(s) the information is reported.

71 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1818&from=EN

72 At the COP26 climate summit held in Glasgow (UK) in November 2021, more than 100 countries committed to reducing their methane emissions (gas responsible for 25% of global warming) by 30% by 2030.

It is recommended to indicate whether these objectives are in line with the Science Based Targets initiative (SBTi),[73] i.e. science-based greenhouse gas emission reduction targets that align with reduction trajectories that limit the global temperature rise to 1.5°C, or below 2°C, compared to pre-industrial temperatures.

Likewise, the CNMV considers it important for issuers to indicate whether they have established sustainable investment commitments in capital goods (CapEx) in the short, medium and long term, specifying whether these investments fall within the taxonomy of the European Union or are aligned with objectives related to the 2050 carbon neutrality objective or the Paris Agreement.[74]

– Lastly, it is recommend to disclose whether any type of variable remuneration has been established for the directors, employees and managers of the company, linked to the achievement of climate objectives, providing, where appropriate, a description of its scope.

While acknowledging the difficulty of providing all this information, the CNMV emphasises the importance of transparency. It should be clearly explained which information is not provided, the reasons why it cannot be provided and, where possible, a measure should be given that allows users to assess its impact. Additionally, taking into account the uncertainty and variety of criteria surrounding these measurements, the importance of providing qualitative information detailing the assumptions used is highlighted.

Disclosures relating to Article 8 of the Taxonomy Regulation

ESMA reminds issuers of the disclosure obligations required under Article 8 of the Taxonomy Regulation, regarding the alignment of the activities they carry out with the taxonomy, recognising the possibility that the assessment of which activities are eligible and aligned with the taxonomy could require progressive adjustments to internal procedures and methodologies for obtaining and processing data.

Specifically, the system established by the Taxonomy Regulation for the classification of economic activities as environmentally sustainable provides six environmental objectives. The European Commission has developed technical criteria for two of them (mitigation and adaptation to climate change).

Since the first-time application of the disclosure requirements is subject to simplified information obligations, as indicated in Chapter I,[75] for a transitional period of

73 The Science Based Targets initiative, which promotes the establishment of objectives based on science as a forceful tool to ensure the growth of companies in the transition to the low carbon economy, is a collaboration between the Carbon Disclosure Project (CDP), the World Resources Institute (WRI), the World Wildlife Fund (WWF) and the United Nations Global Compact (UNGC).

74 Through the Paris Agreement, national governments committed to limiting temperature rise to below 2 degrees Celsius (°C) and pursuing efforts to limit the temperature rise to 1.5°C.

75 In the 2021 NFIS, non-financial companies must disclose the proportion of eligible and non-eligible economic activities, according to the taxonomy, for the environmental objectives of mitigation and adaptation to climate change, in their total business volume, their *CapEx* and *OpEx*, along with certain qualitative information relevant to this disclosure. In the 2021 and 2022 NFIS, financial companies must disclose the proportion of total assets of their exposures to: i) eligible and non-eligible economic activities according to the taxonomy;

one year for non-financial entities and two for financial entities, issuers are encouraged to use the time available to configure their internal information systems to be able to meet the requirements.

Main enforcement areas for non-financial information in relation to 2021 NFIS

ESMA notes that the assessment of the level of alignment of an issuer's economic activities with the taxonomy, as well as the breakdown of the related information, may require the collection of data that are not always readily available. ESMA encourages issuers to implement the necessary procedures to ensure they correctly adhere to their corresponding obligations.

Together with the national supervisors of the European Union, the authority will pay special attention to the disclosures required under Article 8 of the Taxonomy Regulation and its Delegated Regulation (EU) 2021/2178.

NFIS scope

Among ESMA's enforcement priorities for non-financial information for 2019, issuers were reminded that, in the preparation of their consolidated NFIS, material information relating to all the group's activities must be disclosed, including those carried out by all the subsidiaries in their scope of consolidation. Thus, Article 49.5 of the Commercial Code, as regards which companies are obliged to include an NFIS in their consolidated management report, states: "[...] including all subsidiaries and for all the countries in which it operates".

The CNMV has reiterated this priority for the 2021 financial information, given that is one topic that is still regularly referred to in the requests for information and recommendation letters sent to issuers.

The CNMV expects the following scope-related items to be clearly laid out in the NFIS:

– An explicit and clear reference must be made to the general scope of the NFIS, indicating whether it is consistent with all the information presented in the report, and any exceptions must be clearly marked.

– Exclusions from the obligatory scope set out in the Commercial Code should be treated as exceptional cases, and a clear explanation provided for each case.

  - The type of exclusion: whether it refers to a subsidiary, a country or geographical area, a segment or a group activity, etc.

  - The scope of the exclusion: whether it affects one or more KPIs, an entire non-financial matter, one or more policies, etc.

  - The reasons for the exclusion: materiality, inability of information system to obtain the information, etc., indicating, where appropriate, the measures that will be taken to resolve the issue and their timeline.

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ii) central government, central banks and supranational issuers; iii) derivatives, and iv) companies that are not required to publish non-financial information under the NFRD, in addition to qualitative information. In future years, both financial companies and non-financial companies must expand their breakdowns of information on alignment, in accordance with the provisions of Delegated Regulation (EU) 2021/2178.

- A measure of the relevance of the excluded information, preferably using quantitative information, so that users can assess the impact of this, considering the materiality analysis carried out by the group.

– If the scope exclusions relate to the mandatory disclosures, this should be indicated in the table of contents and a full explanation should be provided.

– Although the non-financial disclosure requirement refers to group companies, issuers must assess the risks they take on in regard to non-financial matters through their holdings in associates and joint arrangements. If these risks are significant, they should be disclosed and, insofar as possible, these investees should be included in the scope of NFIS, with an explanation of how they have been taken into account (in the policies, procedures, KPIs, etc.). If no information is available or the risks are not significant, this should be expressly indicated.

– It must stated whether or not there have been changes in the criteria used to establish the scope of the NFIS with respect to the previous year and, to the extent possible, restate the comparative data.

Participation in the value chain

For the non-financial information for 2021, the CNMV considers that entities must continue to improve their disclosures on their business models and, in particular, those related to the description of their activity and the different phases of their value chain, explaining which ones the group participates in and which ones third parties or stakeholders significantly participate in, as a starting point for understanding the shared value creation process and the group's risks with respect to non-financial matters.

In this context, entities are expected to include sufficient information to provide an understanding of their supply and sales chains (suppliers, subcontractors, distributors, franchisees and other relevant third parties in the value chain), specifically, in regard to their main non-financial risks and how they manage them, showing the results of their policies through KPIs and relating these to any objectives that they have set.

In addition to specific KPIs (e.g. for the regulatory requirement of subcontracting and suppliers to detail the audits and their results), it would be advisable that, depending on their significance, issuers assess whether the scope of some of the KPIs provided in the NFIS could be expanded, to include information related to supply and sales chains separatelyso that it can be clearly identified by users.

For example: i) in the case of scope 3 GHG emissions, indicate whether the emissions for suppliers or other third parties are included and whether these should be quantified separately (in line with the priority "Information related to the carbon footprint"); ii) in regard to employment, provide data on the number of employees of franchisees or other third parties, and iii) in the area of human rights, provide data on complaints related to suppliers or subcontractors. If quantitative information is not available, it is recommended to include qualitative information as a minimum.

The EU guidelines include some recommendations for this matter.

III Other issues to consider with regard to non-financial reporting

In this chapter, the CNMV draws attention to certain issues arising from regulatory changes or its enforcement work.

Analysis of the impact of the Guidelines on alternative performance measures (APM) in the NFIS

ESMA's Guidelines on alternative performance measures (APMs)[76] were published on 5 October 2015 on its website. The purpose is to promote the usefulness and transparency of the APMs included in prospectuses, regulated information or other relevant information to improve their comparability, reliability and understanding.

To do this, a series of principles have been drawn up relating to the disclosure of information, presentation, reconciliation, explanation of their use, prominence and form of presentation, comparison and consistency.

The guidelines apply to the APMs that are published in the NFIS, as the latter is part of the management report of the annual financial statements.

For the purpose of these guidelines an APM is understood as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

In the CNMV's supervision plan for 2021, the level of compliance with these guidelines was reviewed for a sample of entities through a cross-cutting analysis that covered regulated information, other relevant information related to financial information for the second half of 2020 and bid prospectuses or prospectuses for listing on regulated markets.

For the NFIS, the main conclusions of the review carried out, deriving from the cross-cutting analysis of the level of compliance with the guidelines, were drawn following the detection in several issuers of a series of magnitudes or ratios that met the definition of an APM established in the ESMA Guidelines (para. 17-19) and Q&A document,[77] but which were nonetheless not identified as such and did not meet the principles of the guidelines.

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76 *ESMA/2015/1415 Guidelines – ESMA Guidelines on Alternative Performance Measures*, 5 October 2015 (https://www.esma.europa.eu/press-news/esma-news/esma-publishes-final-guidelines-alternative-performance-measures).

77 *ESMA32-51-370 Questions and answers – ESMA Guidelines on Alternative Performance Measures (APMs)*, 17 April 2020 (https://www.esma.europa.eu/sites/default/files/library/esma32-51-370_qas_on_esma_guidelines_on_apms.pdf).

These included "generated value", "distributed value" and "retained value".

Thus, as enforcement actions, requests for additional information were sent to two of the companies analysed asking them to explain why they had not identified these factors disclosed in their NFIS as APMs, referring to the information requirements of the guidelines.

Issuers are therefore reminded of the importance of observing these guidelines to ensure that the KPIs included in their NFIS meet the definition of an APM, in which case they should meet all the required specifications.

Lastly, it should be noted that in Chapter II.B of the 2020 *Report on the CNMV's review of the annual financial reports and main enforcement priorities for the following financial year* a broader analysis of the cross-cutting review carried out on APMs in 2021 is included and Chapter II.C pinpoints some specific issues relating to compliance with APM guidelines with regard to enforcement priorities for financial information in the 2021 financial statements.

Article 8 of the Taxonomy Regulation

In addition to the ESMA priority, the CNMV considers it important that the information required under the Taxonomy Regulation is properly identified in the NFIS and traceable, and recommends including a specific section related to the taxonomy requirements in the table that identifies where the different content of the NFIS can be located. In addition, companies must present their indicators in quantitative terms, together with the corresponding qualitative disclosures, to allow users to know how they have been obtained and the limitations of the information.

Inclusion of the NFIS in the management report by reference to other documents

Article 262 of the recast text of the Spanish Corporate Enterprises Act and Article 49 of the Commercial Code state that entities that meet certain requirements must prepare an NFIS that, by law, must form part of the management report.

If the NFIS is published separately and included in the management report through a reference, the following requirements must be met:

– It must be expressly stated that by law, the NFIS is also part of the management report and must be subject to the same approval, filing and publication criteria as the latter.

– At the time of preparation of the annual report, the documents incorporated by reference must have been prepared and approved internally.

– Neither the NFIS nor any other of the documents included through a reference may be published after the annual financial report.

References to other documents in the NFIS and additional non-financial information published after the NFIS has been submitted

– Sometimes references to other sources or documents that are not included in the management report are included in the NFIS or in the tables (e.g. CDP questionnaires, additional corporate social responsibility or sustainability reports, information on the company's website), in which case it is advisable to clearly detail its location (which should be public and easily accessible) and the pages of these documents that contain the specific content.

  Thus, it should be clear which part of the content belongs to the NFIS, formulated by the board of directors and submitted to the vote of the general meeting, and which part has been verified (often the verifier's report indicates that the work is limited exclusively to the verification of the information in the reference tables, where the pages of the NFIS which contain the different content of Law 11/2018 are referenced; those pages in turn include references to the external documents mentioned).

– As demonstrated in the previous years, some issuers (around 20% of the companies in the selected sample in 2020), in addition to publishing the NFIS as required by law, publish separate corporate social responsibility or sustainability reports, usually at a later date.

  These reports still frequently include additional information to that contained in the NFIS and, in some cases, additional verification reports are also provided. These documents are not always submitted to the board of directors, to the vote of the general shareholders' meeting or review by an independent third party.

  Issuers are reminded to ensure that the mandatory NFIS contains all the information necessary for a proper understanding of the business and the situation, performance and development of the issuer and its group, as well as the impact of its activity in non-financial matters, without justifying material omissions that were included in the subsequent voluntary report.

  In any case, issuers must ensure the necessary consistency between the two reports and avoid potential confusion among investors and other users of the information, expressly indicating in the NFIS their intention to publish a subsequent separate report.

  Consequently, issuers who make use of the possibility of voluntarily preparing and publishing a subsequent report should take appropriate precautions, especially when the frame of reference used is of a greater scope in the subsequent voluntary report (for example, when the NFIS is prepared according to selected GRI and the subsequent report according to the core or comprehensive GRI option).

Recommendations were sent to three companies in relation to these aspects.

IV Annexes

List of verifiers issuing reports on the 2020 NFIS of issuers and/or companies with securities admitted to trading on official secondary markets required to publish this statement

ANNEX 1

Verifier	Company
AENOR INTERNACIONAL, S.A.U.	EROSKI SOCIEDAD COOPERATIVA
	FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.
	GRUPO EMPRESARIAL SAN JOSÉ, S.A.
	NATURHOUSE HEALTH, S.A.
AUREN AUDITORES SP, S.L.P.	CLÍNICA BAVIERA, S.A.
BDO AUDITORES, S.L.P.	LABORATORIO REIG JOFRE, S.A.
BUREAU VERITAS CERTIFICACIÓN	ERCROS, S.A.
CROWE ACCELERA MANAGEMENT, S.L.	MINERALES Y PRODUCTOS DERIVADOS, S.A.
DELOITTE, S.L.	ACERINOX, S.A.
	AENA, S.M.E., S.A.
	ALANTRA PARTNERS, S.A.
	APPLUS SERVICES, S.A.
	AUDAX RENOVABLES, S.A.
	CELLNEX TELECOM, S.A.
	CEMENTOS MOLINS, S.A.
	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.
	CORPORACIÓN FINANCIERA ALBA, S.A.
	DEOLEO, S.A.
	DURO FELGUERA, S.A.
	INDRA SISTEMAS, S.A.
	INDUSTRIA DE DISEÑO TEXTIL, S.A.
	MEDIASET ESPAÑA COMUNICACIÓN, S.A.
	MELIÁ HOTELS INTERNATIONAL S.A.
	OBRASCÓN HUARTE LAIN, S.A.
	SOLTEC POWER HOLDINGS, S.A.
	TALGO, S.A.
	TUBACEX, S.A.
	VISCOFÁN, S.A.
ERNST & YOUNG, S.L.	AIRTIFICIAL INTELLIGENCE STRUCTURES, S. A.
	AMADEUS IT GROUP, S.A.
	AMPER, S.A.
	AZKOYEN, S.A.

Verifier	Company
ERNST & YOUNG, S.L.	CODERE, S.A.
	COMPAÑÍA DE DISTRIBUCIÓN INTEGRAL LOGISTA HOLDINGS, S.A.
	DEUTSCHE BANK, SOCIEDAD ANÓNIMA ESPAÑOLA
	EBRO FOODS, S.A.
	EDREAMS ODIGEO, S.A.
	ENAGÁS, S.A.
	FERROVIAL, S.A.
	FLUIDRA, S.A.
	GESTAMP AUTOMOCIÓN, S.A.
	INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
	NATURGY ENERGY GROUP, S.A.
	PRIM, S.A.
	PROSEGUR CASH, S.A.
	PROSEGUR, COMPAÑÍA DE SEGURIDAD, S.A.
	RED ELÉCTRICA CORPORACIÓN, S.A.
	SIEMENS GAMESA RENEWABLE ENERGY, S.A.
	TUBOS REUNIDOS, S.A.
	VIDRALA, S.A.
ETL GLOBAL AUDITORES DE CUENTAS, S.L.	LIWE ESPAÑOLA, S.A.
EUDITA PFS AUDITORES, S.L.P.	LIBERBANK, S.A.
GABINETE AUDIWORK, S.L.	NUEVA EXPRESIÓN TEXTIL, S.A.
KPMG ASESORES, S.L.	ABENGOA, S.A.
	ACCIONA, S.A.
	ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.
	AMREST HOLDINGS, S.E.
	BANCO DE SABADELL, S.A.
	BANKIA, S.A.
	ELECNOR, S.A.
	ENCE ENERGÍA Y CELULOSA, S.A.
	ENDESA, S.A.
	EUSKALTEL, S.A.
	GENERAL DE ALQUILER DE MAQUINARIA, S.A.
	GRIFOLS, S.A.
	IBERDROLA, S.A.
	LABORATORIOS FARMACÉUTICOS ROVI, S.A.
	LINGOTES ESPECIALES, S.A.
	MAPFRE, S.A.
	RENTA 4 BANCO, S.A.
	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.
MAZARS AUDITORES, S.L.P.	ADOLFO DOMÍNGUEZ, S.A.
MAZARS AUDITORES, S.L.P.	MIQUEL Y COSTAS & MIQUEL, S.A.
PWC AUDITORES, S.L.	ALMIRALL, S.A.
	ATRESMEDIA CORPORACIÓN DE MEDIOS DE COMUNICACIÓN, S.A.

Verifier	Company
PWC AUDITORES, S.L.	BANCO SANTANDER, S.A.
	BANKINTER, S.A.
	CAIXABANK, S.A.
	CIE AUTOMOTIVE, S.A.
	DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A.
	EDP RENOVAVEIS, S.A.
	FAES FARMA, S.A.
	GLOBAL DOMINION ACCESS, S.A.
	GRUPO CATALANA OCCIDENTE, S.A.
	GRUPO EZENTIS, S.A.
	IBERCAJA BANCO, S.A.
	NH HOTEL GROUP, S.A.
	PHARMA MAR, S.A.
	REPSOL, S.A.
	SACYR, S.A.
	TÉCNICAS REUNIDAS, S.A.
	TELEFÓNICA, S.A.
	UNICAJA BANCO, S.A.
	VOCENTO, S.A.
	ZARDOYA OTIS, S.A.
SSG INTERNATIONAL CERTIFICATION SERVICES IBÉRICA, S.A.U.	PROMOTORA DE INFORMACIONES, S.A.