International
Comparative
Legal Guides

Environmental, Social & Governance Law

2024

Fourth Edition

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1 Setting the Scene – Sources and Overview

1.1 What are the main substantive ESG-related regulations?

In Spain, the main substantive environmental, social and governance ("ESG")-related regulations are as follows:

Regarding governance

- Law 2/2023, of February 20, regulating the protection of people who report regulatory infractions and the fight against corruption.
- Law 1/2023, of February 20, on Cooperation for Sustainable Development and Global Solidarity.
- Law 11/2018, of 28 December, approving the Code of Commerce ("Law 11/2018"); the revised text of the Capital Companies Act approved by Royal Legislative Decree 1/2010, of 2 July; and Act 22/2015, of 20 July, on the Audit of Accounts, in relation to the non-financial information and diversity aspects that companies must include in the non-financial information report ("EINF"). This Law transposes the Non-Financial Reporting Directive (Directive 2014/95/EU) of the European Parliament and the Council. The law introduced a series of changes in the Spanish Commercial Code (Código de Comercio) relating to non-financial information and the different documentation that must be included in the EINF. Last May a draft bill on sustainability information was published. The main objective of this regulatory development is to adapt the provisions introduced by Directive (EU) 2022/2464 to the Spanish legal system in order to improve the quality, comparability and reliability of sustainability information published by companies.
- The Corporate Enterprises Act (*Ley de Sociedades de Capital*, or "LSC") is also modified by Law 11/2018, stating that company directors shall be obliged to include the EINF in the annual accounts in addition to the management report, where appropriate. Article 262 of the LSC specifies that Law 11/2018 applies regarding compliance with the EINF to entities considering the number of employees, turnover, and assets.
- Law 9/2017, of 8 November, on Public Sector Contracts, which contemplates the incorporation of social and environmental criteria in a cross-cutting and mandatory manner in the public procurement process.

Regarding the environment

- Royal Decree 1055/2022, of 27 December, on packaging and packaging waste
- Law 2/2011, of 4 March, on Sustainable Economy (Ley Economía Sostenible) ("Law 2/2011").
- Law 7/2021, of 20 May, on Climate Change and Energy Transition (Ley Cambio Climático) ("Law 7/2021").
- Royal Decree-Law 15/2018, of 5 October, on urgent measures for Energy Transition and Consumer Protection. A statute that promotes the integration of renewable energy and energy efficiency in Spain, in part through providing fiscal incentives for energy generation, and which allows citizens to produce their own energy without charges or registration.
- Royal Decree 617/2017, of 16 June, regarding alternative energy vehicles. A law that regulates how the Spanish government grants aid to consumers who purchase alternative energy vehicles. The law also expands to electric vehicle charging sites.
- Royal Decree 564/2017, of 2 June, on the certification of energy efficiency in buildings. A law that sets energy efficiency standards for new buildings and provides for certification of energy efficiency in new and existing buildings.
- Law 7/2022, of 8 April, on waste and contaminated soils for a circular economy.
- Law 26/2007, of 23 October, on Environmental Responsibility.

Regarding social considerations

- Royal Decree 193/2023, of March 21, which regulates the basic conditions of accessibility and non-discrimination of people with disabilities.
- Law 4/2023, of February 28, for the real and effective equality of trans people and for the guarantee of the rights of LGTBI people.
- Organic Law 10/2022, of September 6, on the comprehensive guarantee of sexual freedom.
- Law 15/2022, of July 12, comprehensive for equal treatment and non-discrimination.

- Royal Decree-Law 28/2020, of 22 September, on Remote Work.
- Royal Decree-Law 6/2019, of 1 March, on urgent measures to guarantee equal treatment and opportunities between women and men in employment and occupation.
- Royal Decree 901/2020, of 13 October, regulating equality plans and their registration.
- Royal Decree 902/2020, of 13 October, on Equal Pay for Women and Men.

1.2 What are the main ESG disclosure regulations?

As mentioned above, Law 11/2018 is the ESG disclosure regulation. There is a draft bill that will modify Law 11/2018 to adapt the disclosure regulations to the provisions introduced by Directive (EU) 2022/2464. The Corporate Sustainability Reporting Directive ("CSRD") will amend the existing Non-Financial Reporting Directive ("NFRD"): Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014.

The transitional provision regulates that three years from the entry into force of Law 11/2018, ESG reporting shall be applicable to all companies with more than 250 employees that either have the consideration of public interest entities in accordance with legislation on the auditing of accounts, or, for two consecutive financial years, meet, at the closing date of each of them, at least one of the following circumstances: (i) the asset total exceeds EUR 20 million; or (ii) the net amount of annual turnover exceeds EUR 40 million. Given that the law came into force in 2018, companies that met the above requirements for the previous fiscal year, 2021, had to submit their EINF along with their financial statements of 2021.

The CSRD complements issues already covered by Law 11/2018 on non-financial reporting and diversity.

1.3 What voluntary ESG disclosures, beyond those required by law or regulation, are customary?

Law 11/2018 is sufficiently broad to cover almost all ESG criteria commonly used in the market. From the review of EINFs of listed companies, the following advantages of good non-financial reporting stand out: (i) cost savings by implementing environmental measures; (ii) improved reputation; (iii) employee pride in the company; (iv) ease of public procurement; (v) easier access to large companies; (vi) access to new markets; and (vii) anticipation of new regulations. Some of the ESG voluntary disclosures that are made beyond those required by law are:

- concern for sustainability;
- increasing use of renewable energy;
- approval of new and more ambitious decarbonisation targets;
- an increase in digitalisation to achieve a more sustainable, circular and decarbonised world;
- a reduction in the waste produced;
- defence of the rights of children through associations such as MSF;
- advocacy for children's rights through associations such as UNICEF; and
- establishing a 360° vision of sustainability, and anti-corruption policies.

1.4 Are there significant laws or regulations currently in the proposal process?

In relation to the EU, there are a several proposals for ESG regulations in the short term that will be applicable in Spain, especially:

- Proposal for a Directive on corporate sustainability due diligence in the field of energy and climate change ("CS3D").
- Proposal for a Directive on new rules for substantiation of environmental claims ("Green Claims Directive").
- European Social Taxonomy: Final Report on Social Taxonomy.
- Proposal for Regulation of the European Parliament and of the Council, on ensuring a level playing field for sustainable air transport by ensuring fairness between single aviation market players.
- Proposal for a Council Directive restructuring the framework for the energy products and electricity taxation union. This proposal aims to align the taxation of energy products and electricity with climate objectives and to improve the internal market.
- Proposal for a Directive of the European Parliament and of the Council, on common rules for the internal markets in natural gas and renewable gases and hydrogen. Renewable gases will increase from a minimum proportion to represent two thirds of the gaseous fuels in the energy basket by 2050.
- Proposal for Regulation of the European Parliament and of the Council, on the reduction of methane emissions in the energy sector and amending Regulation (EU) 2019/942.

1.5 What significant private sector initiatives relating to ESG are there?

Significant private sector initiatives relating to ESG include:

1. The Transparency, Good Governance, and Integrity Cluster (*Clúster de Transparencia, Buen Gobierno e Integridad*), which is established as a business platform coordinated by Forética (https://foretica.org/) with the aim of promoting a sustainable corporate governance model and addressing different issues related to the management of ESG aspects.
2. Cámara de Comercio de España (https://www.camara.es/), which offers sustainability as a transformation lever for small and medium-sized enterprises.
3. The Sustainable Financial Institutions Programme (Programa de Entidades Financieras Sostenibles), the aim of which is to provide specialised knowledge to prepare for regulatory changes and to integrate them into the financial entity in an effective way, to direct capital flow towards green transformation and to understand the role of the financial industry in the financing of the green economy.
4. The Spanish Group for Green Growth (https://grupocrecimientoverde.org/), which is an association created to promote public-private collaboration and jointly advance in environmental challenges. The solutions for mitigating and adapting to climate change, the decarbonisation of the economy and the promotion of a circular economy will undoubtedly come from the business sector and are key to a prosperous society.
5. The Spanish forum "Spainsif", created by various Spanish companies to promote socially responsible investment in Spain (https://www.spainsif.es/).
6. Ship2B Foundation, whose aim is to boost the impact economy, with the main purpose of helping start-ups, businesses, investors and organisations to maximise profitability while improving their social and environmental impact (https://www.ship2b.org/).
7. DIRSE (https://www.dirse.es/), founded in 2013, DIRSE is the Spanish association of Sustainability and ESG

(Environmental, Social and Corporate Governance) professionals, which works for the promotion, defence and recognition of people who, from all types of entities, develop this specific function, thus contributing to improve their ability to influence the creation of value in organisations. In its 10 years of existence, DIRSE has gathered more than 700 members and has territorial delegates in 14 autonomous communities. It has also formed, together with its counterparts in Italy, the United Kingdom and Germany, the European Association of Sustainability Professionals (EASP), which brings together more than 2,000 DIRSE members from seven European countries.

2 Principal Sources of ESG Pressure

2.1 What are the views and perspectives of investors and asset managers toward ESG, and how do they exert influence in support (or in opposition) of those views?

Previous research has examined the impact of mergers and acquisitions on companies ESG performance, finding a positive effect, especially in the year following the transaction. This suggests that effective management of environmental, social and corporate governance issues can positively influence the financial performance and valuation of companies.

We have now seen a marked increase in investor interest in hotels that embrace ESG principles. These investors express a clear preference for high quality establishments and a strong commitment to sustainable development. Investors specialised in this field are confident in the profitability and growth potential of the hotel sector in Spain.

Investors have widely integrated ESG aspects into their decision-making.

Sustainability is a determining factor in the investment thesis for asset managers through three fundamental channels that form the fundamental axes of action for investors: (i) asset selection under sustainability criteria; (ii) the search for ESG impacts; and (iii) stewardship.

The five steps of stewardship for investors, through which they exert influence are: voting at shareholder meetings; engagement in investee companies; presence on boards of directors; taking part in activist campaigns; and participation in litigation.

In addition, investors will coordinate their ESG policies as a lever for change in companies through collaboration.

2.2 What are the views of other stakeholders toward ESG, and how do they exert influence in support (or in opposition) of those views?

Other stakeholders' views on ESG are that:

(i) companies should be encouraged to create specific sustainability committees to oversee the non-financial aspects of companies.

(ii) sustainability should be an objective competence included in the competences of the board of directors and those members of the board who have been attributed sustainability functions should have experience in this area.

(iii) the board of directors is ultimately responsible for the management and reporting of climate-related and non-financial information.

(iv) the governing body should ensure that policies and procedures comply with ESG criteria in the long term.

(v) the board should be responsible for approving the sustainability strategy in line with the Sustainable Finance Action Plan.

2.3 What are the principal regulators with respect to ESG issues, and what issues are being pressed by those regulators?

In this case, the main regulator in Spain in relation to ESG issues is the EU.

Currently, the main issue is the transposition of the CSRD into national law. Under the CSRD, companies will have to report under the European Sustainability Reporting Standards (ESRS) on a sequential basis. The adoption of the Delegated Act on the first set of ESRS by the European Commission was published on 31 July 2023. The ESRS will enter into force only after it has passed the scrutiny of the European Parliament and the Council and has been published in the Official Journal.

Also, the Council of Ministers has approved and submitted the Sustainable Mobility Bill to Parliament at its meeting of 13 December 2022. Parliamentary processing of the text will now begin, so that the law can be approved and enter into force before the end of 2023, thus complying with the commitments made to the European Commission in compliance with the milestones and objectives of the PRTR (*Plan de Recuperación, Transformación y Resiliencia*), as this law is one of the reforms committed to by Spain within the framework of the Recovery, Transformation and Resilience Plan.

2.4 Have there been material enforcement actions with respect to ESG issues?

The principal ESG-related litigation risk, as indicated in question 1.1 by the list of regulations in force in Spain, is non-compliance with any of their provisions, e.g., failure to comply with the workers' equality plan, failure to comply with the reporting obligation, etc., which can be grounds for a claim by the person concerned.

As far as we know, there has been no material litigation with respect to ESG issues, although there have been some ESG-related disputes.

2.5 What are the principal ESG-related litigation risks, and has there been material litigation with respect to ESG issues, other than enforcement actions?

There are several clear benefits to making ESG disclosures, including providing companies with a competitive edge, allowing businesses to uncover opportunities and providing the Board with better oversight of progress with ESG objectives. Well-formulated, accurate and precise ESG disclosures can also help to remove or mitigate litigation risk relating to ESG and sustainability issues which businesses may otherwise face, by building transparency, increasing board oversight over ESG issues and assisting businesses in identifying and remedying emerging ESG risks facing their business.

2.6 What are current key issues of concern for the proponents of ESG?

The energy and climate sector will be an important challenge not only for Spain but also for Europe and the whole world. The COP28 scheduled in Dubai for the end of November 2023 will assess global progress on climate goals. The priorities for COP28 should be: (i) fast-tracking energy transition to an energy system free of unabated fossil fuels by 2050, tripling renewables, and doubling energy efficiency investment by 2030; (ii) finance delivering on existing promises, and working to a new deal on climate finance; (iii) focusing on adaptation, resilience, and loss and damage; and (iv) inclusion of people and non-state actors at all levels, for "the most inclusive COP". As it demonstrated in 2022, Spain will take advantage of its presidency of the Council to promote the green agenda and the ecological transition at the European level.

Some sectors are more advanced, others are just starting out. The challenge is to comply with the very strict regulations that are being imposed by the European Union. Companies are also entering the international market and competing with companies that do not have the same requirements. Investment funds are also demanding that social, environmental and governance standards be met.

One issue of concern for ESG proponents is the lack of comparability in reporting; i.e., there is no comparable reporting between the different companies that carry out non-financial reporting.

On 14 September 2023, the EU Commission launched a consultation and review in relation to Sustainable Finance Disclosure Regulation 2019/2088 (SFDR). The consultation is open for three months, with the deadline for comments being 15 December 2023. The market is using Article 8 and Article 9 of SFDR as a marketing label when were designed for disclosure purposes only; so Commission believes that a credible European labelling regime with robust common criteria would provide more clarity on the investment options for investors to decide if and how to contribute to financing the energy transition.Another issue of concern is related to greenwashing, which is the misleading or misperception of the public by emphasising the environmental credentials of a company, person, or product when these are irrelevant or unfounded. Many companies today take advantage of this situation by trying to exploit certain buzzwords in society and on their product labels, such as "sustainable", "ecological" or "natural", in order to sell more, even if their activities continue to pollute in the same way as they always have done.

2.7 Have ESG issues attracted shareholder activism, and from whom?

While ESG activism has long been a feature of many markets globally, the past year has signalled the increased willingness of large institutional investors to take or support activist action against corporate boards where they perceive companies' progress on ESG issues to be slow or halting. While ESG-related shareholder activist campaigns may have been driven by non-governmental organisations (NGOs), community groups and worker groups in the past, it seems that institutional investors are increasingly willing to draw from the activist "toolkit" to improve ESG performance within their portfolios.

3 Integration of ESG into Strategy, Business Operations and Planning

3.1 Who has principal responsibility for addressing ESG issues? What is the role of the management body in setting and changing the strategy of the corporate entity with respect to these issues?

The responsible for addressing ESG issues lies with the company administration, the management body.

Spanish companies must comply with the law regarding EINFs, until the new CSRD is transposed to national law, which is management body task. As discussed, companies with an average number of employees exceeding 250 in the fiscal year 2021 must prepare an EINF. EINFs have been included in the obligations of all companies to disclose their financial information, through the annual accounts, regulated in Title VII of the LSC. Three months after the end of the financial year, the directors, in addition to preparing the annual accounts, must also prepare an EINF or ESG report, so they should address those issues in order to be ready for such disclosure.

To disclose the information required by the law, the management body should provide information regarding the evolution, results, and situation of the company, the impact of its activity with respect to environmental and social issues, how human rights are respected and how it fights against corruption and bribery, as well as what impact its activity generates with respect to personnel, including the measures that have been adopted to favour equal treatment and opportunities between women and men, non-discrimination and inclusion of people with disabilities and universal accessibility.

3.2 What governance mechanisms are in place to supervise management of ESG issues? What is the role of the board and board committees *vis-à-vis* management?

Companies run best when the board and the management hold the same perspectives on strategy. In general, most major institutional investors and asset managers state in their proxy voting policies that the board of directors should be the body in charge of overseeing sustainability issues. To a lesser extent, they include a requirement to create a specific committee for sustainability issues.

Companies need to incorporate the evaluation of sustainability strategy and practices into the board's annual work plan, plan induction and training for directors on ESG policies, and appoint a non-executive director responsible for ESG issues, as well as strengthen the management and reliability of indicators that enable the board to monitor ESG strategy.

3.3 What compensation or remuneration approaches are used to align incentives with respect to ESG?

Law 5/2021, redefines the contents of remuneration policies and requires that all remuneration systems for all tasks performed by directors are reflected in the bylaws. Investors have placed special emphasis on wage moderation and on the discretion of the remuneration committee to grant incentives to executives.

Some companies are incorporating ESG performance goals into their short-term (annual) incentive and long-term incentive compensation programmes, not only for members of the ESG team, but also for executive officers and other senior management.

Some of the approaches used include:

- Obtaining a certain percentage of the company's financing from sustainably sourced loans (green loans).
- Reducing carbon emissions compared to the previous year's figure.
- Reducing annual water consumption compared to the previous year's figure.
- Increasing the number of women among senior managers.
- Helping to increase carbon sinks, for example, by planting trees (each employee must plant at least one tree per fiscal year).
- Equal salaries between women and men.

3.4 What are some common examples of how companies have integrated ESG into their day-to-day operations?

Some common examples of day-to-day operations are:

- Reduction and reuse of paper used in offices, such as printing only when necessary, printing in black and white to reduce the use of toner in printers, and recycling paper that is no longer used in specialised companies.

- Use of courier services provided by bicycle or electric vehicles only.
- Rejecting the use of single-use plastics.
- Food donations to attend the needs of the most disadvantaged people.
- *Pro bono* services to provide legal assistance to the most disadvantaged people.
- Numerous measures in energy efficiency: water reuse; flow sensors; double push button toilets; renewable energy; efficient lighting with auto shut-off systems and motion sensors; and use of reusable and recyclable items.
- Relying on regular environmental report for continuous improvement.

3.5 How have boards and management adapted to address the need to oversee and manage ESG issues?

The Board of Directors has a key role to play in guiding, supervising and monitoring ESG issues. This is laid down in good corporate governance recommendations and is expected by major international investors.

The relationship between ESG and the board of directors is strategic. In fact, this is true for large companies as well as for smaller ones. Therefore, many of the leading Spanish companies have established sustainability committees on their Boards of Directors.

A significant percentage of Spanish directors also consider that these issues will occupy an increasing place on the boards' agendas. The board of directors is expected to:

- Have formally assumed their responsibilities in this area.
- Understand which ESG objectives are priorities/essential for the company.
- Inquire about the purpose and direction of the company's ESG policies and strategy.
- Ensure that key indicators are available to adequately monitor the company's ESG performance and monitor the quality of the non-financial information provided to the market.

Ultimately, expectations of the board revolve around dedicating sufficient time to guide, supervise and monitor the company's sustainability performance.

4 Finance

4.1 To what extent do providers of debt and equity finance rely on internally or externally developed ESG ratings?

One of the main challenges in this area is the development of generally accepted ESG methodologies that allow institutions, independently of their size, to find the right mix between internal and external analysis, between in-house capacity-building and recourse to external providers, and which methodologies are comparable and of high quality.

The BME (Spanish Stock Exchange Markets) has announced the launch of two Ibex ESG index ratings with the aim of promoting investments with a sustainable approach, joining other ratings already offered by the Spanish stock market operator such as the FTSE 4Good Ibex or the Ibex Gender Equality.

Spanish banks already apply ESG ratings in their strategies, although they are only starting to integrate them in their decision-making and business models. For example, BBVA Asset Management has had a Sustainability Plan in place for several years and has started to incorporate ESG ratings in their investment process.

This leads us to think that providers of debt and equity finance rely on developed ESG ratings in their decision making.

4.2 Do green bonds or social bonds play a significant role in the market?

Already in 2014 one of the Spanish Utilities issued a green bond.

The evolution of sustainable finance markets has been very significant. In recent years we have seen an upturn in new bonds and instruments. According to the latest Climate Finance Monitor published by the IMF (Climate Finance Monitor, May 2023), green bond issuance experienced the strongest growth compared to the previous quarter and to the same quarter of the previous year. Financial institutions and governments continued to be the largest issuers, accounting for more than 73% in the first quarter of 2023.

Spain remains in the top 10 largest issuers of bonds with ESG criteria, above the position that would correspond to its GDP. Sustainable financing in Spain in 2022 reached a record €60,134 million, an increase of 9% over the previous year, according to OFISO's annual report and looks like it is going to continue growing in the next few years. On 23 October 2023 the EU Council adopted a regulation creating a European green bond standard that it will start applying 12 months after its entry into force. The regulation lays down uniform requirements for issuers of bonds that wish to use the designation "European green bond" or "EuGB" for their environmentally sustainable bonds.

Environmentally sustainable bonds are one of the main instruments for financing investments related to green technologies, energy efficiency and resource efficiency as well as sustainable transport infrastructure and research infrastructure. European green bonds will be aligned with the EU taxonomy for sustainable activities and made available to investors globally. The new standard will foster consistency and comparability in the green bond market, benefitting both issuers and investors of green bonds. Issuers will be able to demonstrate that they are funding legitimate green projects aligned with the EU taxonomy. Investors' confidence in green investment will be enhanced thanks to a framework that reduces the risks posed by greenwashing, ultimately stimulating capital flows into environmentally sustainable projects.

4.3 Do sustainability-linked bonds play a significant role in the market?

Yes, there is an increasing variety of financial products that meet ESG criteria, are socially committed and promote sustainable growth and development:

- Sustainable investment funds: this typology satisfies the need to put money into projects that are in line with your ethical values. Therefore, you can find investments in companies that focus their efforts on innovation, improving energy efficiency or social conditions, among others.
- Green and social bonds: these are debt securities issued by organisations to finance socially responsible projects.
- Social venture capital: this activity consists of investing in companies whose mission is to provide solutions to social and environmental problems. Social venture capital investors expect a return in terms of both profitability and sustainability.
- Green loans: these are financial products designed to finance projects that help to preserve the environment, such as the purchase of more efficient household appliances, fewer polluting cars, etc.

4.4 What are the major factors impacting the use of these types of financial instruments?

Aligning capital investments with the critical objectives of sustainable development is fundamental to economic, social and environmental well-being. The financial sector is undergoing a process of transformation to adapt to the needs and concerns of society. This change has experienced a great boost in recent times, thanks to initiatives such as the Net Zero Banking Alliance ("NZBA"), where entities such as Santander are committed to achieving a net-zero emissions economy, adapting their product portfolio towards sustainable finance.

With the same purpose, the European Union and various public bodies have reinforced their commitment through policies based on climate change mitigation and the inclusion of the most disadvantaged groups. For their part, investors incorporate ethical and ecological values, preferring to include in their portfolios those business activities with economic models that are responsible with the planet and those who inhabit it. Ultimately, the aim is to promote inclusive and sustainable growth, as well as contributing to the transition to a low-carbon economy.

4.5 What is the assurance and verification process for green bonds? To what extent are these processes regulated?

The first Allocation and Impact Reports of the Kingdom of Spain's Green Bond Programme was published in 2023 by EQA Spain (*Entidad de Certificación, Inspección y Verficiación*), who verified the Public Treasury's Sovereign Green Bond Allocation Report.

The financing obtained through the Green Bond Programme in 2021 has contributed significantly to the decarbonisation of our economy.

EQA Spain will support the growing demand for green investments in both established and emerging markets by providing a verification service that assesses whether the bond, or any debt instrument, meets the requirements for Certification under the Climate Bonds Standard. The verification service to be provided by EQA Spain aims to increase the trust and transparency that the green market needs to achieve.

Green bonds are often certified and assessed by independent bodies to guarantee their sustainability. The process of buying and issuing green bonds is like any other bond, although with a focus on projects that have a positive environmental and social impact.

With regard to the European level and the European Green Bonds, mentioned above, it should be noted that the Commission presented its proposal for a regulation establishing European green bonds on 6 July 2021. The European green bond proposal aims to regulate the use of the designation "European green bond" or "EuGB" for bonds that pursue environmentally sustainable objectives. The regulation establishes a registration system and supervisory framework for external reviewers of European green bonds. To prevent greenwashing in the green bonds market in general, the regulation also provides for some voluntary disclosure requirements for other environmentally sustainable bonds and sustainability-linked bonds issued in the EU.

The Council set its position on the proposal on 13 April 2022. Trilogue negotiations started on 12 July 2022 and ended with the provisional agreement reached on 28 February 2023. The European Parliament adopted the contents of the agreement in its position on 5 October 2023.

The Council adopted the regulation on 23 October 2023. It will be signed, and published in the EU's Official Journal before entering into force 20 days later. It will start applying 12 months after its entry into force.

5 Trends

5.1 What are the material trends related to ESG?

The main trend is still the need for greater ambition in combating the climate emergency, biodiversity loss and inequality, challenges that require commitment, leadership and good governance. In this sense:

- the impact of the current macroeconomic, geopolitical and social context on the sustainable development agenda;
- the integration of ESG aspects into CEO decision-making; the interrelationship between Net-Zero and Nature-Positive objectives;
- business action and social impact as key in a turbulent environment; and
- the value of supply chain and adaptation to new reporting frameworks.

ESG Spain 2023 – Corporate Sustainability Forum pointed out the below five main trends related to ESG.

Artificial intelligence as an ally

From predicting what is going to happen in a certain building in the event of a possible climatic risk, to achieving the inclusion of blind people on the Camino de Santiago, the truth is that artificial intelligence can be a great ally for progress and a lever for economic acceleration.

Leaving technophobia and technoptimism aside, it is the smartest way forward if we want to deepen the environmental and social benefits that AI can offer us, possibly the most relevant change since the introduction of the printing press.

Energy transition as an unwavering challenge

Energy transition (fair and viable) is not an option. It is an absolutely necessary transformation to achieve decarbonisation objectives, which also represents a great opportunity in economic and reindustrialisation terms: it can generate more than one million skilled jobs and increase 50% of the value of Spanish companies.

Evidence-based materiality

Although Europe remains at the forefront of regulatory pressure on sustainability, "reporting standards need to be more demanding to exceed global standards", said Helena Viñes, advisor to the Comisión Nacional del Mercado de Valores (CNMV) and head of the European Commission's Sustainable Finance Platform.

According to the CSRD, not only issues that have a financial impact on the company must be reported, but also those that have a material impact on its surroundings and the environment. The subordination of the standards to the principle of dual materiality is one of the key elements incorporated in the directive.

In dual materiality, climate change is the only issue that cannot be removed. "It is easier to report climate change than not to report it", said Viñes. In this sense, the assessment of impact materiality should be based on evidence, which is precisely why the taxonomy exists.

Decisive Boost to the "G" in ESG

The commitment of the board of directors is fundamental to the success of all of the above, but not only: it is also essential to ensure their in-depth, rigorous and consistent knowledge of ESG. It is crucial, therefore, to commit to training at the highest level.

In relation to the above, it is not surprising that, increasingly, sustainability directors want to be part of this decision-making table.

The governance model, in short, is key, and goes beyond the transactional. It requires a coherent structure, active listening to all stakeholders and clear policies and objectives as a clear signal that permeates the whole company.

Doing and telling (well)

With new regulation against greenwashing on the horizon, transparency and rigorous, truthful, performance-based communication has become even more important.

In a context of information saturation and noise, the window of opportunity is huge when it comes to telling the story, and telling it well, through transformative narratives and engaging channels and formats, bearing in mind that ethics and aesthetics always go hand in hand, and that this authenticity (or lack thereof) is perceived by a critical citizenry that is aware of its consumption decisions.

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At RocaJunyent, Iñigo provides comprehensive advice in the energy practice area and, thanks to his extensive experience in implementing compliance systems, he leads the ESG unit providing advice to the firm's clients and at the same time supports all of the firm's practice areas in ESG matters.

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