



## Latin American Organizations Must Create a Culture of Reporting ESG Impact To Access Global Green Bonds and Finance Markets – The Case of Brazil

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The movement of major investors and lenders to push companies, financial institutions and funds to measure and report in financial statements the risks and opportunities related to environment, social and governance (ESG) is arriving in Latin America as a condition to access the global green bonds and finance markets.

Although awareness is broadening due to advocacy of organizations such as the Task Force on Climate-related Financial Disclosure (TCFD), Climate Bonds Initiative, the United Nations-supported Principles for Responsible Investment, and others, there is still the need for improvement in the region's laws and regulations towards the subject, and most importantly the need for the local issuers and borrowers to create a culture of ESG reporting.

Taking Brazil as the regional example, the country's domestic market regulations are at its early stage to effectively require private and publicly held companies, funds and financial institutions to quantify the ESG impact on their business in their income statement, cash flow statement, and balance sheet, although initial steps have been taken.

With respect to public held corporations, the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários* or "CVM") issued regulation dated 2014 requiring corporations to disclose in the Reference Form (*Formulário de Referência* – equivalent to Securities and Exchange Commission (SEC)'s Form 10-K) their environmental policies and practices, costs associated with complying applicable environmental laws, and endorsement to international standards of environment protection.

CVM also issued a guidance in 2019 providing general orientation to corporations regarding relevant matters to be disclosure periodically to the authority and investors, including social-environment one.

**According to the [target agenda for 2021](#), CVM will propose the review of the Reference Form to include more comprehensive disclosure by publicly-traded companies of ESG information that may be relevant to investors.**

With respect to investment funds, for the ones whose shares are listed in stock exchanges, they have to comply with CVM's regulation applicable to corporations. In addition, the self-regulatory market entity Anbima (*Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais*), which members include fund managers, securities brokers and distributors, and investments banks, issued an ESG guidance book in 2019 for fund managers that may implement ESG standards in their investments in debt and equity securities.

Financial institutions in Brazil are the ones with the most advanced stage of disclosing ESG impact in their periodic financial statements. Social-environmental risk management and reporting became an obligation for the banking sector in 2014.

Based on recent public statements and commitments made by authorities and self-regulatory entities, there is a bold trend for the next three years that Brazilian laws and regulations applicable to financial and capital markets will require concrete measurement of ESG impact on business and financials of debt and securities issuers, financial institutions and funds, broadly in line with TCFD's recommendations.



The fact is that the green finance and green bonds markets are experiencing an exponential growth over the past five years, with the green bonds market alone surpassing in 2020 the US\$ 1 trillion milestone in announced transactions, according to [Bloomberg LP](#).

As for Brazil, being the country a global powerhouse in agribusiness and renewable energy generation, both liquid (eg biofuels) and non-liquid (eg solar and wind), it is a prospect to become one of the main markets for green bonds and green finance within the next years.

Notwithstanding the potential, Brazil currently represents less than 0.5% of the green bond market. Issuances of sustainable bonds in 2020 grew 52.1% against the year before, reaching US\$ 5.3 billion, according to data the local business newspaper Valor Econômico, but it is still a fraction of the country's capacity.

The country's borrowers and issuers community have not awakened for the importance of assessing, measuring, and reporting ESG impact in the financial disclosures. A clear evidence is the number of local endorsees to TCFD's recommendations. Until March 2021, over 1800 organizations around the world had already endorsed the recommendations, which together represent a market capitalization above US\$ 50 trillion. Endorsees from Latin America (including Mexico) account for 54 entities, of which 29 are headquartered in Brazil.

Most of the Brazilian small, medium and even large local organizations, private and publicly traded ones, are yet to understand that ESG reporting will be a short to medium term condition imposed by major investors and lenders to commit funding in the region.

To change such lack of understanding and pave the way to international green bonds and green finance markets, there will have to be synchronized efforts of Brazil's business community in order to create a strong and sustainable culture of reporting ESG impact. To that extent, the country's large and active issuers and borrowers, particularly the ones that have already endorsed and are implementing TCFD's recommendations, have a key role to shape the local culture and educate the market on the importance of ESG-reporting.

Lawmakers and regulators also have their share of responsibility by tightening laws and regulations requiring private and publicly held organizations to quantify and disclose such exposure.

But the primary responsible parties for creating and solidifying such reporting culture are the small-scale local issuers and borrowers that have not noticed the relevance of the subject for the global capital allocators.

Based on the foregoing, the access to the US\$ 1 trillion-plus green bonds and green finance markets will be given to organizations that pro-actively disclose information to investors and lenders on how ESG-related risks and opportunities are likely to affect the organization's future financial position as reflected in its income statement, cash flow statement, and balance sheet.

Overall, the large and sophisticated Latin American (including Brazilians) issuers and borrowers already understood the importance of the subject. The challenge will be replicating the same awareness and creating a reporting culture in small-scale local organizations, which will be decisive for the region to become one of the main markets for green bonds and green finance within the next years, with Brazil potentially holding a major share of it.