ESG disclosure, corporate reputation and financing costs
Evidence from Latin America and the Caribbean

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Contents

Figures

Boxes

Introduction

Sustainability-related (environment, social and governance) risks, as well as climate risks as a subset of environmental, are increasingly material to the global economy, having a significant impact on public or listed companies that account for a large share of global market capitalization. The fact that information regarding these risks may not be properly disclosed, implies that the prices of securities issued by those companies will not adequately reflect them, increasing the possibility of abrupt price corrections, affecting markets' stability, efficiency, and integrity, and eroding the trust and certainty that investors demand.

Sustainability-related risks have thus become a priority in the development of disclosure standards in many jurisdictions, involving the efforts of financial regulators, debt and stock exchanges, authorities in charge of pension and sovereign funds, and central banks among others. There is growing consensus regarding the importance of having disclosure regimes with quality and useful content, comparable and reliable, that allow investors, other stakeholders, and regulators to judge matters that affect financial stability and the global economy.

Risk materiality can impact directly through financial losses by not adapting to market changes (from technological innovation, better substitutes or changes in consumer behavior), known as transition risks: or from asset losses due to environmental or social irruptions, known as direct/physical risks.

However, companies and investors are also becoming aware of the risk of reputation-linked losses and their impact on business continuity. A good reputation might be considered a company's main asset in today's economy. The assumption that corporations jeopardize their reputation through legal and ethical violations calls for a broader view of accountability and the rule of law. Ethical responsibilities within the company drive compliance, and an important compliance issue for the board of directors is that of risk management, both in preventing crises and in dealing with them when they occur. Risk management, a legal and ethical compliance function, serves to limit corporate reputational risk (Holcomb, 2016).

Directors are responsible for ensuring the establishment of an internal information and reporting system that provides management and the board with accurate and timely information on internal operations. Mistakes in crisis management often lead to lawsuits and possible legal action, for example in value chain management. An internal control and monitoring system is key to pre-empting crises in companies' management systems (Fraser, 2016).

WTW (2021) found that loss of income, customer base reduction, and weakened human capital (as reputation losses damage companies' capacity of retaining talents) are the main threats posed by reputational damages to businesses outcomes. Reputational losses can also impact on companies' market value. De Fontnouvelle and Perry (2005) found that market values fall one-by-one with losses caused by external events and by over twice the percentage loss in cases involving internal fraud.

It is well known that reputational risks could emerge even from indirect partnerships or simple relationships. For example, banks face pressure from investors over their portfolios for lending their money to companies that are not respectful of the environment or human rights. Some banks are even offering more favorable terms to clients hitting sustainability targets (Addleshaw Goddard, 2021). Indirect reputational risks, such as the ones stemming from supply chain-related issues, have also been studied at length in the past few years (Guglielmo, 2013; Petersen and Lemke, 2015; Hoejmose et al., 2014; Roehrich et al., 2014; Lamming and Hampson, 1996). Due to irresponsible business activities posing increasing risks to other members of the supply chain, companies try to develop tools to better assess to what extent these risks are relevant to their own reputation.

The purpose of this paper is two-fold. First, we examine whether corporate environmental, social and governance (ESG) investments and disclosure, through their impact on corporate reputation, can reduce perceived risks and translate into lower costs of debt financing in Latin America's corporate sector. Since insufficient disclosure or soft information on the impact of sustainability-related risks can directly impact corporate financial position and public reputation, we then examine the state of current disclosure standards at the global level and in Latin America and the Caribbean (LAC) in particular, and what steps could be taken to improve them and facilitate corporate ESG investments. This document will not address transition and direct/physical risks, although some interlinkages do exist.

Following this introduction, the first chapter examines the relationship between ESG disclosures, corporate reputation, and the cost of debt financing in Latin America's corporate sector through an empirical approach. Companies' ESG scores are used as a proxy for corporate reputation and the cost of debt financing is measured by a bond's coupon rate at the moment it is issued.

The second chapter presents worldwide developments in global reporting frameworks —such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD)— and the progress that some Latin American countries have made in this area. To gain a deeper understanding of where Latin America and the Caribbean stands in this regard, the chapter describes the results of a survey implemented by the Economic Commission of Latin America and the Caribbean (ECLAC) aimed at building an inventory of the region's standards for the disclosure of sustainability-related information, based on responses from regulators and standard-setters from a sample of ten countries that includes Argentina, Barbados, Brazil, Chile, Colombia, El Salvador, Mexico, Panama, Peru and Uruguay.

The final chapter offers some final remarks, including possible policy recommendations and areas for future research.

I. Corporate reputation, role in international debt markets, and cost of debt financing in the ESG context

As environmental, social, and governance (ESG) considerations for screening potential investments gain momentum, the debate about the corporate benefits of ESG investing, as well as how to measure the impact and the effectiveness of the so-called green or sustainable initiatives they support, has also gained space in the literature. In the process of transitioning to a greener economy, companies can choose targets —key performance indicators (KPIs)— to help measure their progress against sustainability-related objectives and to showcase their efforts and attract investors' interest in their fixed-term instruments.

According to Pastor, Stambaugh and Taylor (2022), green assets have obtained high returns in recent years due more to an unexpected increase in environmental concerns than to high expected returns. The authors argue that this is explained by two reasons: (i) investors have stronger environmental preferences, so they are willing to accept lower returns in order to hold green assets in their portfolios, and (ii) green assets are considered a better hedge against climate risk. Therefore, climate concerns can boost the performance of green assets. The so-called "greenium" reflects investors' willingness to accept lower returns in exchange for owning assets more aligned with their environmental values that, at the same time, are less exposed to some environmental-related financial risks. According to the authors, the greenium for bonds is easier to measure than that for equities, as expected returns on equities are more volatile. In this chapter we will focus on the cost of debt (bond) financing in Latin America's corporate sector.

To be successful, companies' reporting of ESG information should be as transparent and concise as possible. Beyond the well-known benefit of attracting investors to support green initiatives, some authors argue that this process could also lead to lower debt costs (Maaloul et al., 2021). When studying the relationship between ESG disclosures and the cost of debt financing, what is noteworthy is that this is not a direct relationship, but one that is mediated by another component, corporate reputation.

A. Corporate reputation and how to define it

Corporate reputation is an important asset due to its strategic role for corporate and product differentiation. A good reputation could translate into value-creation capability and better customer retention rates. According to De Castro, López, and Sáez (2006), the term is a combination of social reputation (social legitimization of the company) and business reputation, and is configured by the following elements: (i) managerial quality; (ii) financial strength; (iii) product and service quality; (iv) innovation; (v) use of corporate assets/efficiency; (vi) capability to gather, develop, and retain talented people; (vii) social responsibility among the community; and (viii) value of long-term investments.

According to Eckert (2017), reputation can be understood as how the various stakeholders perceive the company. Scandizzo (2011) also defines reputation as how the organization is perceived by a variety of people. The reason why this perception is so important lies in the information asymmetry between the stakeholders and the organization.

De Quevedo (2001) and Eckert (2017) point out the existence of two main dimensions of corporate reputation: internal and external reputation. The first one is related to the business stakeholders' perception of firm activities, i.e., how workers, managers, shareholders, customers, allies, suppliers, etc. perceive corporate behavior. The second is related to the external stakeholders' perception of firm activities —consumers and society in general. Scandizzo (2011) and Honey (2009) assert that reputational risk arises from the difference between stakeholders' expectations and companies' performance, thus when companies fail to live up to external or internal stakeholders' expectations, the likelihood of reputational damage increases considerably.

Petersen and Lemke (2015) and De Castro, López, and Sáez (2006) found that risk managers tend to consider reputational risks as lower-order risks compared to risks of availability, costs, and quality. However, the lack of corporate attention to reputational risks could lead to severe and permanent losses to companies, such as loss of income, customer base reduction, and the capacity of retaining talents (WTW, 2021).[1]

The idea that only hard information, such as a company's payment track record or its credit rating, would influence corporate reputation has changed in the past twenty years in face of new evidence showing that "soft" information (such as ESG information) can also impact companies' reputation (Maaloul et al., 2021). Lenders are increasingly assessing non-financial information when electing borrowers, thus "soft" information, such as firms' innovativeness, quality of management, workforce's talent, or commitment to sustainability, has been gaining more relevance. In other words, corporate reputation may represent "soft" information not captured by financial statements, which is nonetheless valuable to lenders (Anginer et al., 2019). Roehrich, Grosvold, and Hoejmose (2014) argue that reputational risks were, at the time, the main drivers for implementing sustainability practices into companies' management strategies.

Stakeholders certainly expect more of companies with a good reputation that is built up through value sharing, investments in ESG activities and/or a corporate social responsibility (CSR) strategy, but they also recognize that a good reputation provides companies with more solid protection in case of a negative shock. Scandizzo (2011) argues that a solid reputation acts like a capital buffer, softening the impact of adverse events.

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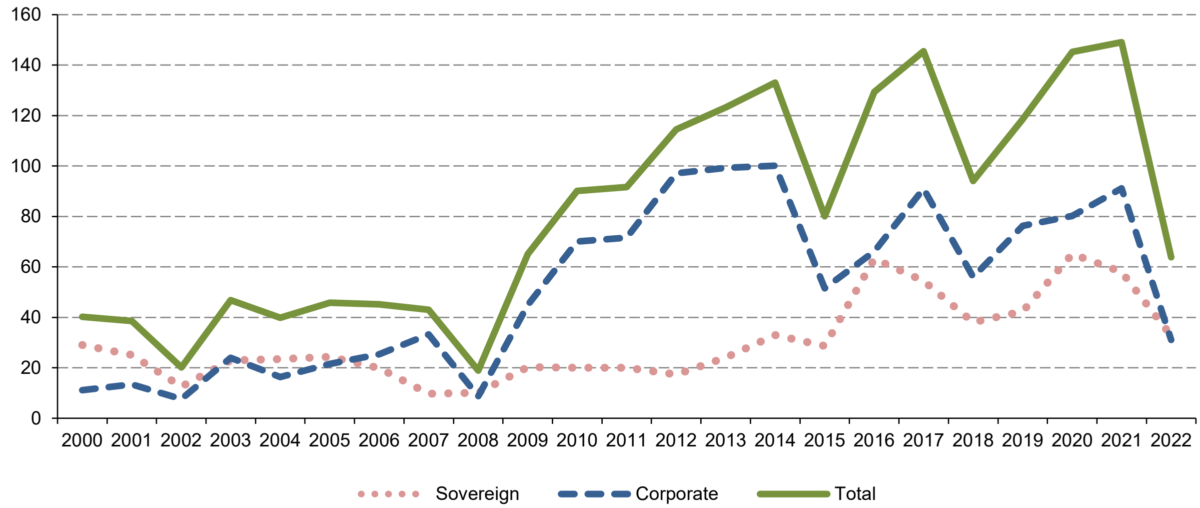
[1] Whether a reputation loss will lead to permanent losses will depend on the intensity of the reputational damage and on the structure of the market the company operates in (Knittel and Stango, 2014).

B. The role of LAC corporate sector in international debt markets

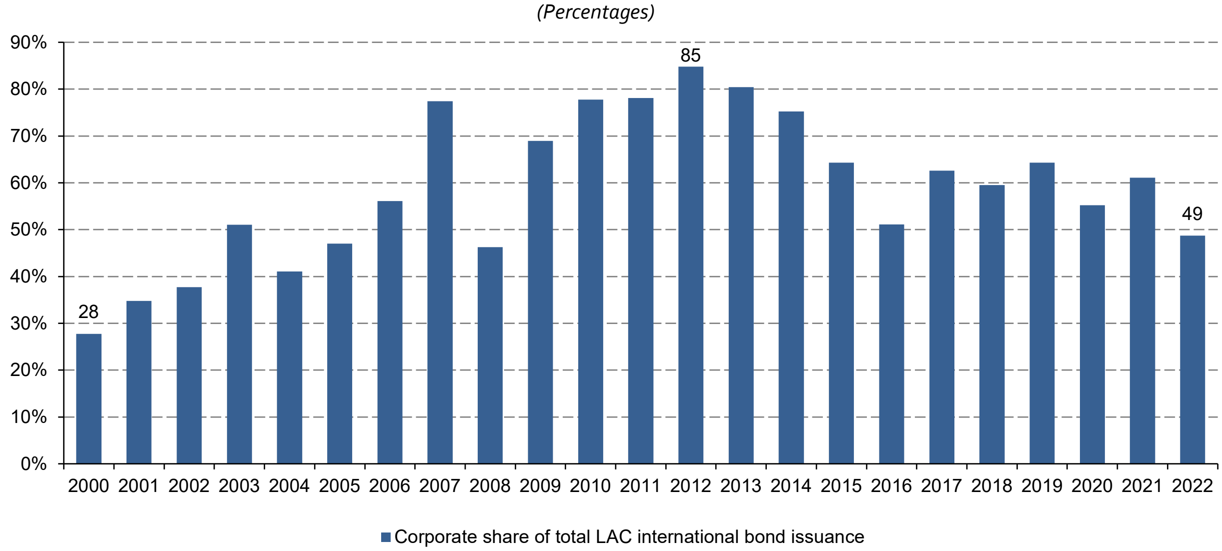
In the past twenty years, Latin American and Caribbean (LAC) corporate bonds emerged as a mainstream product in the global credit market as external funding shifted from sovereign issuers to corporations and banks. From 2009 to 2021 the corporate sector became the main driver of the region's international debt issuances (figure 1). The share of LAC corporate debt issuances in the LAC total amount issued in international debt markets also increased sharply, from 28% in 2000 to a peak of 85% in 2012. In 2022, however, the share fell to below 50% for the first time since 2008 (figure 2).

Figure 1
Annual LAC external debt issuance by issuer type, 2000–2022
(Billions of dollars)



Source: Bustillo and Velloso (2013), p.55. Updated by authors to 2022. The data includes only bonds issued in the international market.

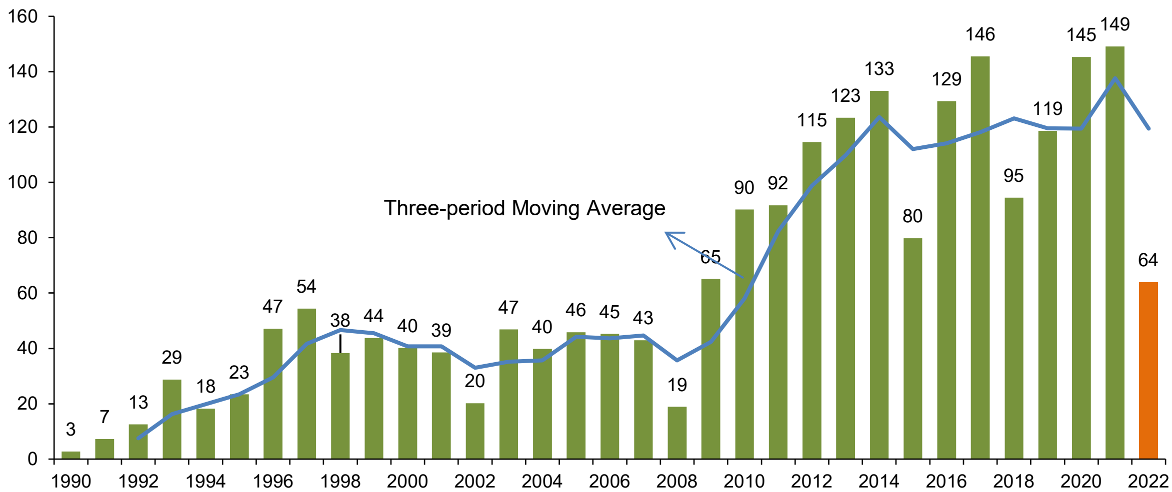
Figure 2
Annual LAC corporate external debt issuance as a share of the total: 2000–2022
(Percentages)



Source: authors' elaboration based on data compiled for ECLAC (2023). The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

Total Latin American and Caribbean (LAC) bond issuance in international markets was US$ 64 billion in 2022, the lowest annual amount since 2008 (figure 3). Against a backdrop of tightening financial conditions and higher borrowing costs, the 2022 total was 57% lower than in 2021, the region's highest annual level on record (US$ 149 billion), while the average coupon was 1.3% higher. Average debt maturity was lower, falling to 12 years in 2022 from 15 years in 2021 (ECLAC, 2023).

Figure 3
Annual LAC international bond issuance, 1990–2022
(Billions of dollars)



Source: ECLAC (2023), p.7.

The largest slowdown was observed in the corporate sector, with overall corporate bond issuance in international markets (including private banks, private non-banks, quasi-sovereign and supranational entities) declining by 66%. Issuance from private non-bank corporates fell by 70% (table 1).

Table 1
LAC debt issuances in international markets by sector, 2022
(Millions of dollars, percentages and number of deals)

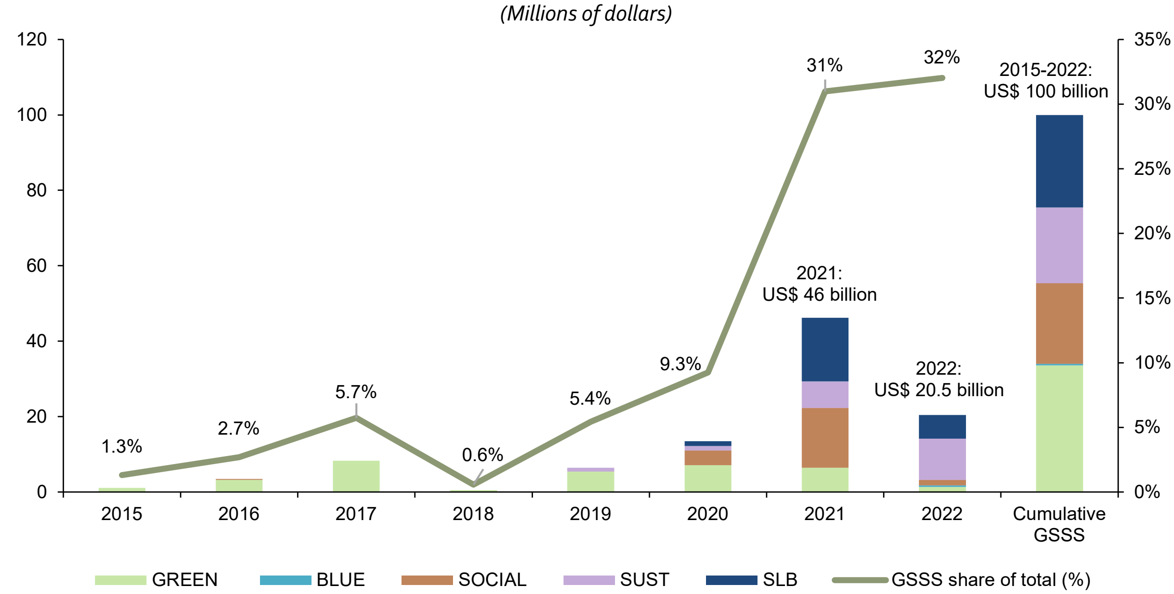
	Private banks	Private non-banks	Quasi-sovereign enterprises	Supranational entities	National governments (sovereign issuances)	Total
Total 2022	1 347	19 178	5 208	5 392	32 764	63 889
Year-on-year growth	-84%	-70%	-59%	-15%	-43%	-57%
Share of Total	2%	30%	8%	8%	51%	100%
Number of deals	8	34	8	28	29	107
Deals year-on-year decline	-30	-80	-8	-2	-25	-145

Source: ECLAC (2023), p.9.

Due to the fact of the high potential materiality of climate-related financial risks and the opportunities arising from the energy and electro-mobility transition among other climate imperative actions (FSB, 2015 and NGFS, 2018), the focus of global financial markets has increasingly moved towards climate action and the achievement of the Sustainable Development Goals (SDGs). Interest in financial instruments with the purpose of financing ESG projects and strategies has increased accordingly. Since the Peruvian company *Energía Eólica* issued Latin America and the Caribbean's first green bond in the international market in December 2014 (a US$ 204 million 10-year bond, with a 6% coupon), the international green, social, sustainability and sustainability-linked (GSSS) bond issuance from the region grew cumulatively to a total of US$ 100 billion in December 2022, accounting for an average 11% share of the region's total overall international bond issuance during this eight-year period.

Following the broader market trend of declining bond activity due to worsening macroeconomic conditions, the region's 2022 GSSS bond issuances were down 56% from 2021, declining to US$ 20.5 billion from US$ 46 billion in 2021. However, the 2022 total was still the region's second highest GSSS annual volume ever issued in international markets. Despite the slowdown in volumes, the region's GSSS bond issuances showed resilience, increasing their annual share of the total to 32%, a slight increase from the 31% share in 2021. The annual share of GSSS bond issuance in the region's total overall bond issuance has grown from only 0.6% in 2018 to 32% in 2022 (figure 4).

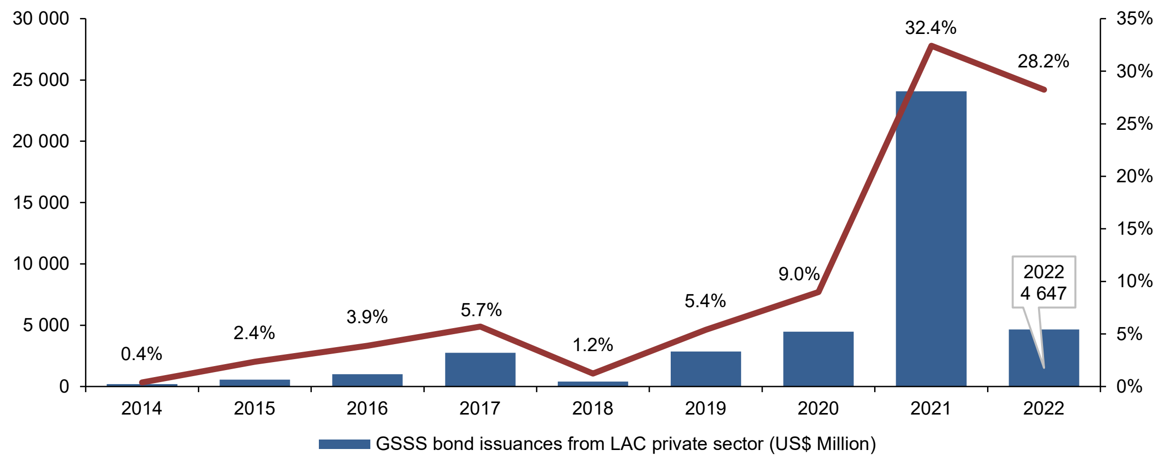
Figure 4
Annual LAC international GSSS bond issuance, 2015–2022
(Millions of dollars)



Source: Nuñez, Velloso and Da Silva (2022), figure 2, p.19. Data updated by authors to December 2022.

The largest decline in 2022 was in GSSS bond issuances from the private sector (81%), which was almost twice that of the sovereign sector (42%), while the share of GSSS bond issuances from quasi-sovereign and supranational entities increased by 124%. Global inflation concerns, the United States Federal Reserve's tightening monetary policy stance and the strength of the dollar, as well as the war in Ukraine, contributed to push funding costs higher, restricting the market access of more indebted and riskier issuers in the non-investment grade sector. As a result, the share of GSSS bond issuances from the region's private corporate sector declined to 28% in 2022, from 32% in 2021 (figure 5).

Figure 5
Annual LAC international GSSS bond issuances from the private sector, 2014–2022
(Left axis, millions of dollars; right axis, percentage)



Source: authors' elaboration based on data compiled for ECLAC (2023). The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

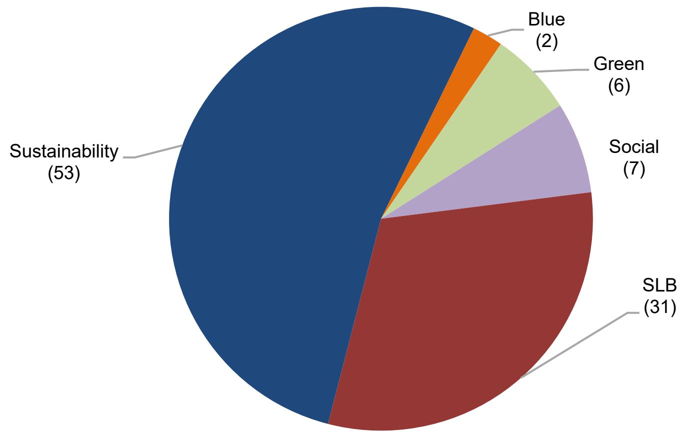
Sustainability bonds were the most used ESG debt instruments by LAC issuers in 2022. They accounted for 53% of the region's total international GSSS bond issuance (US$ 11 billion), with the Governments of Chile and Mexico issuing 46% (US$ 5 billion) and 25% (US$ 2.8 billion) of the sustainability bonds total, respectively, leading to a bump in this category. Sustainability-linked bonds (SLBs) were the second most used ESG debt instrument, representing 31% (US$ 6.3 billion) of the total (figure 6).[2]

The share of SLBs in the GSSS total bond issuance fell to 31% in 2022 from 37% in 2021. According to a recent Moody's report on global sustainable finance, "greater market scrutiny and heightened greenwashing fears may dampen near-term growth, especially for sustainability-linked bonds."[3] The most common objective or target of the region's SLB issuances in 2022 continued to be reducing greenhouse gases (GHG) emissions (as in 2021), although it also included generating energy from renewable resources, reducing energy consumption, and maintaining native forest area (as in Uruguay's sovereign SLB). The objectives included the reduction of Scope 1 and Scope 2 emissions, and a SLB issued by Guatemala's Central America Bottling Corporation in January 2022 had the objective of reducing Scope 3 emissions.

[2] Green, social and sustainability bonds are 'use of proceeds' bonds, associated to a specific project and specific eligible expenditures. The SLBs are more closely aligned to the issuer's overall sustainability strategy. If the issuer commits to achieving certain sustainable targets, the money from the sale of SLBs may be used for general corporate purposes instead of specific eligible expenditures. SLBs embed an ESG-related key performance indicator (KPI) that issuers commit to achieve, accruing additional payments to bondholders should they fall short, thus if the targets are not met, the bond's interest rate will go up by a pre-defined amount.

[3] Moody's Investors Service, "Sustainable bond issuance to rebound 10% in 2023 to $950 billion, short of record high", *Sector in-depth, Sustainable Finance - Global*, 31 January 2023.

Figure 6
LAC international GSSS bond issuance: types of instruments, 2022
(Percentages)



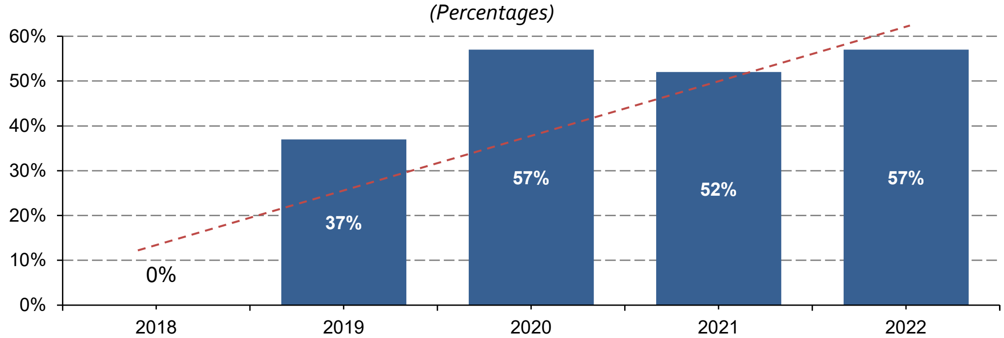
Source: ECLAC (2023), figure 6, p.10.

There were two sovereign SLBs issued in 2022. The first was issued by the Government of Chile in March, a US$ 2 billion 20-year bond and the first sovereign SLB in the world, and the second by the Government of Uruguay in October, a US$ 1.5 billion 12-year bond that came with an innovation —while SLBs offer to pay a step-up rate if sustainability targets are not met, Uruguay added the possibility of paying lower rates if it exceeds these targets.

There were several firsts in the region's sovereign sustainable debt in 2022, including not only the world's first sovereign SLB (by Chile) and the addition of a step-down coupon with the second SLB issued in the region (by Uruguay), as mentioned above, but also the first sovereign sustainability bond in local currency (Chilean pesos) and multi-currency sovereign Sustainable Development Goals (SDG) focused bond issuances (mostly by Mexico).

The larger role national governments are playing in the region's sustainable issuance has been a major trend of the past five years (figure 7). Until 2019, all LAC GSSS bond issuances originated in the corporate sector. In June 2019, the Government of Chile issued the region's first green sovereign bond in international markets. From then to 2022, the governments of seven countries —Chile, Ecuador, Guatemala, Mexico, Peru, Bahamas, and Uruguay— in order of appearance in the international markets, issued green (or blue), social, sustainability, and sustainability-linked bonds. The role of sovereign issuers is expected to remain of critical importance to expand the region's sustainable bond markets in 2023 and beyond.

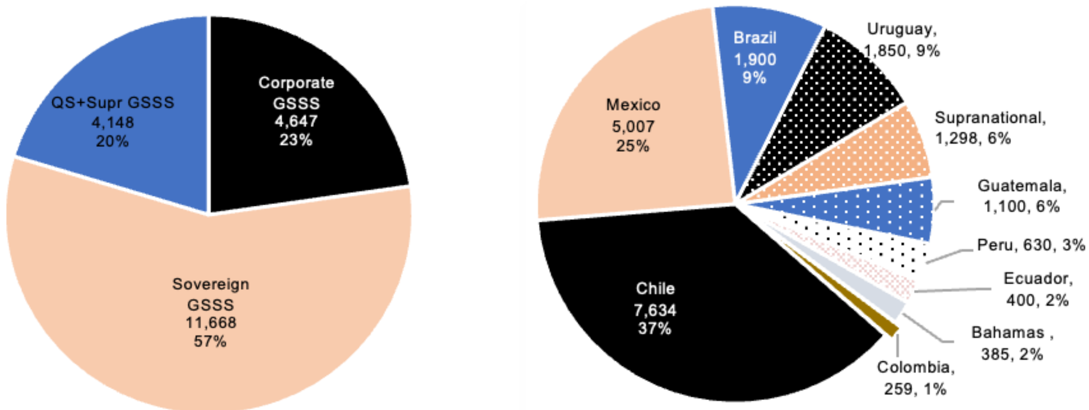
Figure 7
Sovereign bond issuance as a share of LAC GSSS bond issuance, 2018–2022
(Percentages)



Source: ECLAC (2023), figure 7, p.11.

While the sovereign sector accounted for 57% of the region's total international GSSS bond issuance in 2022, corporate represented 23% and quasi-sovereign and supranational issuers 20% of the total.[4] LAC international GSSS issuances in 2022 came from nine countries – Bahamas, Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Peru and Uruguay – and three supranational entities (figure 8).

Figure 8
LAC international GSSS bond issuances by type of issuer and by country, 2022
(Millions of dollars, percentages)



Source: ECLAC (2023), figure 20, p.22.

Chile had the highest share of International GSSS bond issuances in 2022 (37%). Most of its international GSSS bond issuances (92%) came from the sovereign sector. They included four sovereign sustainability bonds, three in U.S. dollars and one in local-currency, one sovereign SLB, and two corporate green bonds.

Mexico had the second highest share (25%) with three deals including two sustainability bond issuances by the state-owned Comisión Federal de Electricidad (CFE) and one corporate SLB in the first quarter. In August, Mexico issued a US$ 2.2 billion 2033 sovereign sustainability bond, with proceeds to be used primarily to finance a buyback operation, and five new sovereign Samurai sustainability bonds for a total amount equivalent to US$ 554 million, in multiple terms: 3, 5, 10, 15 and 20 years, with interest rates between 1 and 2.5% per year.

Brazil had the third largest share (9%), with all its GSSS bond issuances taking place in the first four months of the year and originating from the corporate sector, 47% of which consisted of SLBs. Brazil has consistently been the region's top corporate issuer overall in recent years. Banco do Brasil became the first Latin American bank to issue seven-year social bonds in the international bond market in January.

Uruguay had the fourth largest share (9%), with the sovereign SLB issued in October accounting for 84% of the country's total. The other issuance was a corporate SLB issued in April.

In sum, despite the difficult financing landscape throughout the year, the 2022 GSSS total was still the Latin America and the Caribbean's second highest GSSS annual volume ever issued in international markets. Expectations of a rebound in 2023 and beyond remain optimistic, but a return to the peak seen in 2021 may be unlikely. With market scrutiny of issuers' sustainable targets steadily increasing, issuers' fears of being exposed to reputational damage may potentially constrain growth.[5]

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4 As a share of the total LAC International bond issuance (including all instruments and not only GSSS bonds), sovereign GSSS bond issuances accounted for 18.3%, corporate for 7.3%, and quasi-sovereign and supranational entities for 6.5%.

5 For more on this issue see Moody's Investors Service (2023a).

Although the focus of this section was on international bond issuances, LAC issuances of sustainable bonds in local markets have also been on an upward trend. In 2022, as financial conditions tightened, both the demand for and supply of international bond issuances from the region declined due to a combination of higher global interest rates and borrowing costs, with lower financing needs. As a result, looking for innovative ways to raise capital at a time of tight and expensive financing, more Latin American issuers have been selling sustainable bonds in the local market, as it offers a way of removing currency risk and linking the interest rate to sustainability goals. Market experts expect this trend will grow, which bodes well for the development of the asset class.[6]

C. ESG scores and the costs of debt financing in Latin America's corporate sector

ESG scores have become increasingly popular in recent years as one way of assessing companies' sustainability and ethical practices and performances, as well as enhancing their reputation. The environmental impact of a company's activities, the treatment of its employees and community, and management practices are currently the main determinants of the ESG scores assigned by ranking agencies, which are important to building a good reputation among stakeholders.

The growing interest in ESG scores is driven by the belief that companies with high ESG scores are not only more transparent and accountable, but also more likely to generate long-term value for investors. In this section, we go beyond this assumption by hypothesizing that better ESG scores may also impact companies' borrowing costs. The idea is that a company's investments in and reporting of ESG activities indicate a more granular monitoring of their operations and its commitment to sustainability to potential investors, bringing a positive impact on its reputation and translating into reduced perceived risk, lowering debt costs. Using an empirical approach, we examine the relationship between companies' ESG scores (a proxy for corporate reputation) and the cost of debt financing, measured by a bond's coupon rate at the moment it is issued.[7] Our findings suggest that this relationship is negative, meaning that the higher a company's ESG score is, the lower its borrowing costs are.

1. Building a dataset

For the purpose of examining whether ESG investments and disclosure —through their impact on corporate reputation— may reduce perceived risks and translate into lower costs of debt financing, we built a dataset with evidence from Latin America[8]. It consists of information from Latin American companies that have been active in the domestic and international bond markets during the 2018-2022 period and that have received a ESG score. More specifically, it includes: (a) Latin American corporate bond issuances in the domestic and international markets during this five-year period extracted from Dealogic, and (b) the ESG scores (rated on a scale of 0 to 100, where 100 is the highest possible score), aggregated and disaggregated for each pillar, E, S, and G,[9] of these corporate issuers, extracted from Bloomberg (box 1).[10]

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6 For more on this issue see Latin Finance (2023).

7 The coupon rate is the nominal yield the bond is stated to pay on its issuance date. It is thus the interest rate paid on a bond by its issuer. This yield changes as the value of the bond changes, thus giving the bond's yield to maturity (YTM).

8 There is no data available for Caribbean based corporations.

9 The information on corporate bond issuances was coomplemented by additional sources, including LatinFinance and Climate Bonds Initiative (CBI). It is based on data compiled by the ECLAC office in Washington D.C. for its periodic publications "Capital Flows to Latin America and the Caribbean". See ECLAC office in Washington, D.C. (studies and research papers), available online at https://www.cepal.org/en/taxonomy/term/8134.

10 See appendix I for a description of the dataset variables.

Box 1
ESG Scores Methodologies

The Bloomberg ESG disclosure scores were created with the dual aim of assessing performance and promoting transparency. To ensure accuracy and consistency with the original corporate information, the ESG data used for the scores is collected solely from direct (primary) sources through voluntary disclosures. These sources include sustainability reports, annual filings, proxy statements, corporate governance reports, supplemental releases, and company websites.

According to Bloomberg, the methodology employed to develop the scores was developed by a team of specialized cross-business contributors in research and consultation with external experts, as well as through active engagement with clients to gather insights and experiences. Bloomberg consulted various ESG reporting frameworks and industry associations, including the Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD), Global Reporting Initiative (GRI) Standards, and Carbon Disclosure Project (CDP). In sum, its scoring methodology is described as follows:

1. Qualitative input from research analysts and industry experts for identifying appropriate fields and metrics, as well as their relevance to specific issues and industries.
2. Statistical and data science techniques to assist in identifying peer groups. Factor analysis to aid in identifying unique environmental and social issues.
3. Incentives for improved transparency and disclosure, so that the best scores reflect both good sustainability performance and good disclosure.

In addition to the ESG scores built by Bloomberg, the dataset includes the S&P Global ESG Scores, also obtained from Bloomberg. The S&P Global ESG Scores are based on industry-specific methodologies and weighting schemes and encompass a wide range of sustainability topics that are financially relevant or significant to stakeholders. The S&P Global ESG scores evaluate companies based on their exposure to and handling of key ESG risks and opportunities, focusing on quantitative, performance-driven metrics, as well as management programs and policies across sixty-one sub-industries.

Source: Prepared by the authors, based on information from Bloomberg and S&P Global ESG Scores, "Ahead of disclosures, in front of standards" available at: https://www.spglobal.com/esg/documents/sp-global-esg-scores-brochure-2022.pdf and methodology available at https://www.spglobal.com/esg/documents/sp-global-esg-scores-methodology-2022.pdf.

The dataset contains 439 observations. Each observation corresponds to a Latin American company that has issued a bond (in domestic and/or international debt markets) during the 2018-2022 period and has been assigned at least one ESG score. There are six countries represented in the dataset —Argentina, Brazil, Chile, Colombia, Mexico, and Peru. In terms of representativeness, Brazil is by far the leader in terms of unique companies in the dataset (72), followed by Mexico (26), Chile (13), Colombia (8), Argentina (5) and Peru (3).

2. Empirical analysis and results

The coupon rate of a particular bond issuance (fixed or floater) at the moment in which the issuance took place ("Tranche Coupon Rate") was used to measure the cost of debt financing. The ESG scores consisted of the Bloomberg ESG disclosure scores and its disaggregated pillars —environment, governance, and social disclosure scores— and the S&P Global rank and its own disaggregated pillars, which are widely used by stock market indices such as the Dow Jones Sustainability Index. First, we examined what kind of correlation exists between the variables (table 2).

Table 2
Correlation matrix
(Correlation coefficients)

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Tranche Coupon All	1 000								
(2) Environmental B	-0.158[b]	1 000							
(3) Governance B	-0.260[b]	0.309[b]	1 000						
(4) Social B	-0.203[b]	0.593[b]	0.325[b]	1 000					
(5) ESG Global B	-0.252[b]	0.879[b]	0.621[b]	0.813[b]	1 000				
(6) Environmental S&P	-0.127[a]	0.409[b]	0.456[b]	0.352[b]	0.517[b]	1 000			
(7) ESG Global S&P	-0.171[b]	0.332[b]	0.422[b]	0.339[b]	0.454[b]	0.928[b]	1 000		
(8) Governance S&P	-0.208[b]	0.287[b]	0.410[b]	0.317[b]	0.414[b]	0.850[b]	0.961[b]	1 000	
(9) Social S&P	-0.165[b]	0.341[b]	0.402[b]	0.350[b]	0.459[b]	0.872[b]	0.969[b]	0.923[b]	1 000

Source: authors' elaboration based on dataset. The data includes Latin American corporate bonds issued in the domestic and international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others, and ESG scores from the Bloomberg terminal for these issuers.
Note: Each cell in table 2 represents the correlation coefficient between two variables, with the diagonal being the correlation coefficient between the variable and itself, which is always equal to 1. The correlation coefficient ranges from -1 to 1, with values closer to 1 indicating a strong positive correlation between two variables, values closer to -1 indicating a strong negative correlation, and values closer to zero indicating no correlation.
[a] at the 5% level.
[b] Means that the coefficient is significant at the 1% level.

All correlations between the variables coupon rate and Bloomberg's and S&P's ESG scores were negative and statistically significant, which would support the hypothesis that better ESG scores may reduce the cost of debt. Of the three pillars, Bloomberg's Governance score showed the highest negative correlation with the coupon rate ($r = -0.260$, $p < 0.01$), which is statistically significant at 1%. The second highest statistically significant negative correlation is between the Bloomberg's aggregate score (ESG Global B) and the coupon rate ($r = -0.252$, $p < 0.01$), suggesting that companies with better ESG disclosures may have lower coupon rates on their debt instruments.

Overall, the correlation table suggests a negative relationship between ESG-related factors and debt instrument's coupon rates, with better environmental, governance and social disclosures potentially associated with lower coupon rates. However, correlation does not necessarily imply causation, and further research was needed to establish any causal relationships.

In order to perform a more thorough assessment of the data, a linear regression was used to investigate the relationship of the eight score variables —Bloomberg's ESG Disclosure, Environment, Governance, and Social Disclosure scores, as well as S&P Global ESG Rank, Environmental, Governance and Social Dimension ranks— and the Tranche Coupon Rate (Tranche Coupon All), which stands for the cost of borrowing. That was regression 1 (table 3).

The regression output suggests a statistically significant relationship between companies' borrowing costs and their performance in terms of ESG scores. The regression model has an R-squared of 0.185, indicating that about 19% of the variation in the cost of debt financing can be explained by the independent variables included in the model. Bloomberg's Environment, Governance and Social Disclosure variables have negative coefficients — -0.486, -0.535, and -0.527, respectively— which suggests that firms with higher environmental, governance and social disclosures face lower costs of debt financing.

Table 3
Regression 1 results
(Coupon rate vs Bloomberg's and S&P's ESG scores)

Tranche Coupon All	Coef.	St. Err.	t-value	p-value	95% Conf	Interval	Sig
Environmental Disc. B	-.486	.126	-3.85	0	-.734	-.237	[a]
Governance Disc. B	-.535	.131	-4.08	0	-.793	-.277	[a]
Social Disc. B	-.527	.126	-4.19	0	-.775	-.279	[a]
ESG Global Disc. B	1.515	.379	4.00	0	.768	2.262	[a]
Environmental Disc S&P	-.004	.019	-0.22	.826	-.041	.033	
Governance Disc S&P	-.015	.024	-0.61	.543	-.061	.032	
Social Disc. S&P	.015	.025	0.59	.556	-.034	.063	
ESG Global Disc S&P	-.019	.048	-0.39	.698	-.114	.076	
Constant	8.608	1.262	6.82	0	6.122	11.093	[a]
Mean dependent var		5.401	SD dependent var			2.700	
R-squared		0.185	Number of observations			266	
F-test		7.292	Prob > F			0.000	
Akaike crit. (AIC)		1 245.909	Bayesian crit. (BIC)			1 278.161	

Source: authors' elaboration based on dataset. The data includes Latin American corporate bonds issued in the domestic and international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others, and ESG scores from the Bloomberg terminal for these issuers.
Note: It is clear that there is multicollinearity between the Bloomberg global variable and the sub-variables (the three pillars) in this regression. Even though the model is not statistically useful, the regression was included to illustrate possible relationships between the variables.
[a] Means that the coefficient is significant at the 1% level.

However, the trend implied by the disaggregated Bloomberg ESG scores reverses when the three pillars are combined. While the coefficients for the disaggregated Bloomberg ESG scores are negative, the aggregate ESG Disclosure Score variable has a positive coefficient (1.515). This may be because the aggregate score is a weighted average (and thus a linear combination) of the individual pillars and thus positively correlated with them. None of the coefficients for the S&P Global independent variables have a statistically significant relationship with the cost of debt, as their p-values are greater than the conventional 0.05 level of significance. The sectoral distribution of Latin America's corporate issuance may be one reason why the S&P Global rank and its disaggregated pillars did not show a statistically significant relationship with the cost of debt. The S&P Global scores cover a wide range of industries, while Latin American corporate bond issuances have come from a narrower set of sectors.[11]

In summary, while the results of regression 1 suggest that firms with higher environmental, social and governance disclosures tend to have lower costs of debt financing according to the disaggregated Bloomberg indices, the aggregate index shows the opposite sign. Moreover, the other independent variables —the S&P Global ESG scores, which evaluate companies based on their exposure to and handling of key ESG risks and opportunities across sixty-one sub-industries— do not have a significant relationship with the cost of debt financing.

In an attempt to improve the estimates, regressions 2 and 3 tested the impact of Bloomberg's ESG disclosure scores only, which had a statistically significant relationship with the cost of financing, on the coupon rate. In addition, the overall score is presented separately from the individual scores since it is a linear combination of the individual ones.

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[11] Reinforcing this point, table 2 on page 17 indicates a relatively low correlation between the Bloomberg and the S&P indices, which suggests different coverages.

Indicator variables were also included to account for the impact of the COVID-19 pandemic on the volume and the cost of bond issuances that year (D 2020) and whether the corporate issuer had an investment grade (D Investment Grade) or not at the time of issuance. An investment grade classification reflects credit rating agencies' evaluation of the issuer's debt sustainability and macroeconomic conditions. If a company is highly leveraged, it might need to borrow additional money to stay afloat at a higher cost, thus an investment grade classification may have a negative relationship with the coupon rate at the moment of issuance, leading to lower borrowing costs.

Moreover, since our database account for both international and domestic bond issuances, dummies for five of the six issuer countries in the database were added to account for country-specific macroeconomic and financial conditions that could affect the cost of financing, as country-specific economic and regulatory frameworks may affect the coupon rate of a corporate bond issuance originating in this country. For example, the five Latin American countries for which a dummy was added have adopted mandatory or comply-or-explain environmental disclosure requirements, with four of them having adopted disclosure requirements for all three ESG pillars. Sectoral dummies, assigned to the top five sectors (financial, energy, food, manufacturing, and telecommunications) from which the Latin American and Caribbean corporate debt issuances in the past five years originated, were also added to account for any sector-specific factors that may also impact the cost of debt financing. The impact on the coupon rate of corporate bond issuances originating from particular sectors may be larger than for other sectors.[12]

Regression 2 has an R-squared of 0.456, which indicates that approximately 46% of the variation in the cost of bond financing can be explained by Bloomberg's ESG Global score (table 4), a substantial improvement over regression one in table 3. The independent variable has a statistically significant coefficient, which has the expected negative sign (-0.066), suggesting that firms with higher environmental, governance and social disclosures have lower costs of debt.

The COVID-19 pandemic and investment grade dummies also have negative coefficients that are statistically significant. The Investment Grade dummy —with a statistically significant negative coefficient of -1.037— suggests that issuers who have an investment grade may benefit from lower borrowing costs than those who have not. The coefficients of all country-specific dummies had the expected sign and were all statistically significant. One of the explanations may be that corporate bond issuances originating in a country that has adopted sustainability-related disclosure requirements may also benefit from lower coupon rates than those originating in countries that have not. There are also macroeconomic factors that are country-specific that may be influencing the coupon rate.

Finally, of the sectoral dummies only the financial sector was statistically significant at the 1% level, while telecommunications and manufacturing were statistically significant at the 5% and 10% level, respectively. The results suggest that corporate bond issuances from the financial sector have a significant impact on the coupon rate. As mentioned in the introduction, banks face pressure from investors over their portfolios for lending money to companies that are not respectful of the environment or human rights. Some banks are even offering more favorable terms to clients hitting sustainability targets (Addleshaw Goddard, 2021). This may be one of the many reasons why the financial sector dummy has a statistically significant negative coefficient (-1.888).

Regression 3 is the same as regression 2, but for the individual scores, presenting these results separately from the overall score, which is a linear combination of the individual ones. Regression 3 has an R-squared of 0.458, which indicates that approximately 46% of the variation in the cost of debt can be explained by the independent variables included in the model (table 5). Of the three individual ESG

[12] On the basis of the dataset, the following sectoral classification was used: *Financial* (Finance, Insurance, Holding companies); *Energy* (Oil & Gas, Chemicals); *Food & Beverage* (Agribusiness); *Manufacturing* (Machinery, Auto/Truck, Textile, Mining, Metal & Steel, Forestry and Paper, Construction); *Telecommunications* (Computer & Electronics); *Services* (Transportation, Healthcare, Professional Services, Retail, Dining and Lodging, Consumer Products, Real Estate / Property).

pillars, only the Bloomberg Social Disclosure score is not statistically significant. The Environmental and Governance Disclosure scores are statistically significant and have the expected negative sign. All the dummies behave in a similar fashion as in regression 2.

Table 4
Regression 2 results
(Coupon rate vs Bloomberg's ESG global disclosure scores)

Tranche Coupon All	Coef.	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
ESG Global Disc B	-.066	.015	-4.40	0	-.095	-.036	c
D Investment Grade	-1.037	.366	-2.84	.005	-1.757	-.318	c
D Brazil	-3.545	.812	-4.36	0	-5.143	-1.947	c
D Chile	-6.214	.864	-7.19	0	-7.914	-4.515	c
D Colombia	-3.373	.904	-3.73	0	-5.151	-1.595	c
D Mexico	-4.535	.868	-5.22	0	-6.243	-2.826	c
D Peru	-5.537	1.241	-4.46	0	-7.979	-3.095	c
D Financial	-1.888	.486	-3.89	0	-2.844	-.932	c
D Energy	-.031	.362	-0.08	.933	-.743	.682	
D Food	.263	.491	0.54	.593	-.704	1.229	
D Manufacturing	-.938	.504	-1.86	.064	-1.93	.054	a
D Telecommunications	-2.233	.944	-2.37	.019	-4.091	-.376	b
D 2020	-1.288	.321	-4.02	0	-1.919	-.657	c
Constant	14.64	1.113	13.15	0	12.45	16.83	c
Mean dependent var		5.718	SD dependent var			3.054	
R-squared		0.456	Number of observations			337	
F-test		20.845	Prob > F			0.000	
Akaike crit. (AIC)		1 530.493	Bayesian crit. (BIC)			1 583.974	

Source: authors' elaboration based on dataset. The data includes Latin American corporate bonds issued in the domestic and international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others, and ESG scores from the Bloomberg terminal for these issuers.
[a] means that the coefficient is significant at the 10% level.
[b] Means that the coefficient is significant at the 5% level.
[C] Means that the coefficient is significant at the 1% level.

Table 5
Regression 3 results
(Coupon rate vs Bloomberg's three ESG individual disclosure scores)

Tranche Coupon All	Coef.	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
Environmental Disc. B	-.026	.011	-2.31	.022	-.048	-.004	b
Governance Disc. B	-.054	.018	-3.11	.002	-.089	-.02	c
Social Disc. B	.001	.016	0.09	.928	-.03	.033	
D Investment Grade	-.901	.387	-2.33	.021	-1.662	-.14	b
D Brazil	-3.415	.836	-4.09	0	-5.061	-1.77	c
D Chile	-6.287	.885	-7.10	0	-8.029	-4.545	c
D Colombia	-2.994	.946	-3.16	.002	-4.856	-1.131	c
D Mexico	-4.457	.891	-5.00	0	-6.212	-2.703	c
D Peru	-5.747	1.274	-4.51	0	-8.254	-3.24	c
D Financial	-1.658	.516	-3.22	.001	-2.673	-.644	c
D Energy	-.004	.41	-0.01	.992	-.811	.804	
D Food	.249	.503	0.50	.62	-.74	1.238	
D Manufacturing	-.813	.519	-1.57	.118	-1.834	.209	
D Telecommunications	-2.191	.967	-2.27	.024	-4.095	-.288	b
D 2020	-.963	.357	-2.70	.007	-1.665	-.261	c
Constant	15.534	1.307	11.89	0	12.963	18.105	c
Mean dependent var		5.665	SD dependent var			3.106	
R-squared		0.458	Number of observations			316	
F-test		16.884	Prob > F			0.000	
Akaike crit. (AIC)		1 450.720	Bayesian crit. (BIC)			1 510.812	

Source: authors' elaboration based on dataset. The data includes Latin American corporate bonds issued in the domestic and international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others, and ESG scores from the Bloomberg terminal for these issuers.
[b] Means that the coefficient is significant at the 5% level.
[C] Means that the coefficient is significant at the 1% level.

In the next two regressions, a new independent variable was added —the level of leverage of the issuing company— which could be another variable having an important impact on corporate borrowing costs. Both have a similar R-squared (0.451 and 0.455) to the previous two regressions, and the new variables coefficient was positive and statistically significant, meaning that higher the corporate issuer's leverage is, the higher its bond's coupon rate will be at the moment of issuance.[13]

Table 6
Regression 4 results
(Coupon rate vs Bloomberg's ESG global disclosure scores)

Tranche Coupon All	Coef.	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
ESG Global Disc B	-.061	.015	-4.08	0	-.09	-.032	c
Leverage	.613	.303	2.02	.044	.017	1.209	b
D Brazil	-3.956	.808	-4.90	0	-5.545	-2.366	c
D Chile	-6.898	.829	-8.32	0	-8.529	-5.267	c
D Colombia	-3.84	.895	-4.29	0	-5.6	-2.08	c
D Mexico	-5.065	.853	-5.94	0	-6.744	-3.387	c
D Peru	-6.062	1.234	-4.91	0	-8.489	-3.634	c
D Financial	-1.566	.499	-3.14	.002	-2.548	-.585	c
D Energy	.031	.371	0.08	.934	-.699	.761	
D Food	.434	.495	0.88	.38	-.539	1.408	
D Manufacturing	-.876	.51	-1.72	.087	-1.88	.128	a
D Telecommunications	-2.031	.958	-2.12	.035	-3.915	-.147	b
D 2020	-1.334	.328	-4.07	0	-1.979	-.688	c
Constant	13.537	1.124	12.04	0	11.325	15.748	c
Mean dependent var		5.722	SD dependent var			3.072	
R-squared		0.451	Number of observations			333	
F-test		20.130	Prob > F			0.000	
Akaike crit. (AIC)		1 519.955	Bayesian crit. (BIC)			1 573.269	

Source: authors' elaboration based on dataset. The data includes Latin American corporate bonds issued in the domestic and international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others, and ESG scores from the Bloomberg terminal for these issuers.
[a] means that the coefficient is significant at the 10% level.
[b] Means that the coefficient is significant at the 5% level.
[C] Means that the coefficient is significant at the 1% level.

Table 7
Regression 5 results
(Coupon rate vs Bloomberg's three ESG individual disclosure scores)

Tranche Coupon All	Coef.	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
Environmental Disc. B	-.019	.011	-1.66	.099	-.041	.004	a
Governance Disc. B	-.053	.018	-3.02	.003	-.088	-.019	c
Social Disc. B	-.007	.017	-0.41	.685	-.04	.026	
Leverage	.611	.319	1.91	.057	-.017	1.239	a
D Brazil	-3.769	.826	-4.56	0	-5.394	-2.144	c
D Chile	-6.852	.841	-8.15	0	-8.508	-5.197	c
D Colombia	-3.442	.931	-3.70	0	-5.275	-1.609	c
D Mexico	-4.946	.868	-5.70	0	-6.654	-3.237	c
D Peru	-6.22	1.252	-4.97	0	-8.684	-3.756	c
D Financial	-1.321	.522	-2.53	.012	-2.348	-.294	b
D Energy	.073	.411	0.18	.859	-.736	.882	
D Food	.394	.502	0.79	.433	-.593	1.381	
D Manufacturing	-.788	.52	-1.51	.131	-1.813	.236	
D Telecommunications	-1.957	.974	-2.01	.045	-3.873	-.041	b
D 2020	-1.025	.356	-2.88	.004	-1.726	-.325	c
Constant	14.663	1.329	11.04	0	12.048	17.277	c

[13] The Investment Grade dummy is not included in the regression because if kept the coefficient for the new variable became statistically insignificant. In a simple regression model, the estimated coefficient of the independent variable refers to the response of the dependent variable to a one-unit change in the independent variable. If the dummy variable does affect the significance/size of the slope coefficient, that may be a sign the regression was mis-specified, and leverage as a variable does not directly impact the coupon rate, but only indirectly through other measures, such as through an investment grade classification, this may also be due to the presence of collinearity in the regressors, since the Investment Grade dummy may be related to the level of leverage. More research is needed to understand this effect.

Mean dependent var	5.665	SD dependent var	3.106
R-squared	0.455	Number of observations	316
F-test	16.671	Prob > F	0.000
Akaike crit. (AIC)	1 452.546	Bayesian crit. (BIC)	1 512.638

Source: authors' elaboration based on dataset. The data includes Latin American corporate bonds issued in the domestic and international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others, and ESG scores from the Bloomberg terminal for these issuers.
[a] means that the coefficient is significant at the 10% level.
[b] Means that the coefficient is significant at the 5% level.
[C] Means that the coefficient is significant at the 1% level.

The results of this empirical analysis suggest that firms with better ESG disclosure scores —a proxy for corporate reputation— have comparatively lower borrowing costs, measured by the coupon rate at the moment of issuance. A negative relationship between the two variables was found, meaning that the higher the ESG scores, the lower the costs of debt financing. As companies' investments in and reporting of ESG activities signal their commitment to sustainability to potential investors, they may feel a positive impact on their reputation, which could translate into reduced perceived risk and lower borrowing costs. The results also suggest that country and sector-specific conditions may also have an impact on this relationship.

The country-specific circumstances that may affect the relationship between ESG scores and borrowing costs may include not only macroeconomic and financial conditions, but also their ESG regulatory environment. The Latin American countries from which the corporate bond issuances in our database originated tend to have already started to build a ESG regulatory landscape. According to Moody's (2023b), the ESG policy and regulatory landscape is top of mind for market participants globally and is the most significant ESG trend affecting debt issuers in 2023, according to audience members in the Americas, Europe, and Asia-Pacific. In the Americas, nearly half of poll respondents cited this as the top ESG issue facing debt issuers. And nearly 40% cited heightened regulatory risks as the most significant credit impact of mandatory climate disclosure requirements for companies.[14]

The second part of the study will look at the state of current sustainability-related disclosure standards at the global and regional level. To gain a deeper understanding of where Latin America and the Caribbean stands in this regard, a survey was conducted with regulators and standard-setters from a sample of ten countries of the region, with the goal of identifying areas where focalized support (i.e., technical assistance, training, or coordination promotion) could yield positive harmonization results that could facilitate corporate ESG investments and improve the stability of capital markets across the region.

[14] This is also consistent with the findings of the most recent report of the Sustainable Banking and Finance Network: https://www.sbfnetwork.org/global-progress-report-2021/.

II. Sustainability-related regulatory developments

ESG practices can improve a company's reputation, which in turn can change the way the market perceives its business model. The results of the previous chapter suggest a negative relationship between ESG practices and the cost of debt, where companies with a higher level of disclosure and transparency in their ESG reporting may benefit from lower coupon rates when issuing debt in domestic and/or international markets. They offer support to the notion that the quality of ESG reporting can significantly affect the perception of investors and creditors toward a firm's reputation and ultimately influence its borrowing costs.

The legislative and regulatory environment can contribute to improve the quality of ESG reporting. In this chapter, we review the global developments in norms and regulations regarding sustainability disclosure and the progress that some Latin American countries have made in this area. To gain a deeper understanding of where the region stands, a survey was conducted by ECLAC to gather information from jurisdictions in the region on the standards they apply for the disclosure of sustainability-related risks and investments. The results produced with the answers obtained will be displayed by topic (environmental, social, and governance) and include complementary information from market agents such as exchanges and pension funds.

A. Global level

Despite some recent legislative and regulatory developments regarding sustainability in other parts of the world, the European Union (EU) has an advantage of several years, and in January 2023 a new "Corporate Sustainability Reporting Directive" (CSRD) adopted by the European Parliament and the Council entered into force.[15] The CSRD requires large and listed companies to publish sustainability information on an annual basis, extending the scope and increasing the substance of the already

[15] The CSRD will update and reinforce the EU's Non-Financial Reporting Directive and operate in tandem with the Corporate Sustainability Due Diligence Directive (CSDDD). Member States will be required to implement the CSRD, and its obligations will start to apply as of 1 January 2024.

extensive 2014 "Non-Financial Reporting Directive" (NFRD).[16] In 2022 the European Commission also adopted a Corporate Sustainability Due Diligence Directive (CSDDD),[17] which is part of the European Green Deal[18] and the European human rights strategy.[19]

This European approach to sustainability disclosure has often been inspired by the French model (Pientracosta, 2022), which is among the world's most advanced in social and environmental matters. As expected for these types of reforms, they have been met with a fair degree of debate and critique,[20] despite the fact that the experience of French companies has been generally positive and demonstrates that issuers adapted quickly to higher standards.[21]

In the United States, the Securities Exchange Commission (SEC) proposed rules to require climate change disclosure in the annual reports and registration statements of public companies registered with the SEC, including any company (domestic or foreign) listed on a U.S. stock exchange.[22] The new rules, as proposed in March 2022, would require three categories of disclosure: material climate impacts,[23] greenhouse-gas emissions,[24] and any targets or transition plans.[25]

The SEC proposal was also met with strong disagreement during the public comment period,[26] as ESG and related issues have become highly politicized in the country. Litigation challenging the SEC's authority for issuing the regulation is likely, judging from the strong reactions and comments received on the proposed regulation (Eccles, Robert and Daniel F.C. Crowley, 2022).

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[16] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU with regards to disclosure of non-financial and diversity information by certain large undertakings and groups ("Non-Financial Reporting Directive"), available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095.

[17] "Could value chains integrate human rights and environmental concerns?" *The 'EU Legislation in Progress' briefings*, proposal for a Directive of the European Parliament and the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 ("CSDDD"), available at https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/729424/EPRS_BRI(2022)729424_EN.pdf. See, also, "European Commission issues major proposal on due diligence obligations to protect human rights and the environment across supply chains," *White & Case LLP*, available at https://www.whitecase.com/insight-alert/european-commission-issues-major-proposal-due-diligence-obligations-protect-human.

[18] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - The European Green Deal, COM/2019/640 final, available at https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1588580774040&uri=CELEX%3A52019DC0640.

[19] The EU is also preparing a proposal regarding a ban on sales in the EU of products made with forced labor.

[20] See, for example, EU directive, ECLE, Legal certainty and the directive on Corporate Sustainability Due Diligence (2 August 2022), available at https://ecgi.global/blog/legal-certainty-and-directive-corporate-sustainability-due-diligence.

[21] Commentators argue that the French model has shown that companies can adapt to new sustainability regulation fast, often turning them into differentiating factors that bring opportunities for consumers and partners. See Pietrancosta, Alain and Marraud des Grottes, Alexis, ESG Trends – What the Boards of All Companies Should Know About ESG Regulatory Trends in Europe (1 September 2022), available at https://ssrn.com/abstract=4206521.

[22] See the SEC Press Release "SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors" (March 2022) available at https://www.sec.gov/news/press-release/2022-46.

[23] Including risks from physical climate-related hazards such as fires or floods (by location and by share of assets exposed); from transition risks, which could be regulatory, technological, market, or reputational risks (over the short term, medium term, and long term), as well as strategic impacts, financial impacts, and operational impacts (and their governance and risk management processes to manage these risks).

[24] Including reporting of audited Scope 1 and Scope 2 emissions (those generated by a company's own operations and through the energy it purchases), and Scope 3 disclosures (upstream and downstream emissions along the company's entire value chain) if they are material or if the filer has a target. For more details of Scopes 1, 2 and 3 see IFRS, 2023 a,b

[25] Including any existing targets around emission reductions, energy use, nature conservation, or revenues from low-carbon products, and the transition plans to achieve those targets (with information on the use of offsets or renewable-energy credits).

[26] See Comments for The Enhancement and Standardization of Climate-Related Disclosures for Investors [Release No. 33-11042; File No. S7-10-22] https://www.sec.gov/comments/s7-10-22/s71022.htm.

1. Standard-setting and reporting frameworks

In parallel to developments on the regulatory side, there has been significant progress on the standard-setting side, where non-governmental organizations (NGOs) and not-for-profit entities have for a long time offered diverse and competing reporting frameworks to facilitate disclosure of sustainability information. They include:[27]

- Global Reporting Initiative (GRI) Standards:[28] a widely accepted sustainability reporting standard, it is built around stakeholder information needs and materiality assessments, while structured into ten reporting principles related to content and quality.
- Sustainability Accounting Standards Board (SASB):[29] these standards enable companies to identify, measure, and manage the subset of ESG topics that most directly impact long-term enterprise value creation at their specific industries, focusing on the most pertinent industry-specific sustainability concerns for 77 industries (divided under 11 sectorial categories).
- Integrated Reporting (IR) Framework:[30] developed by the International Integrated Reporting Council (IIRC), the standard seeks to combine material information about an organization's strategy, governance, performance, and prospects such that it reflects the commercial, social, and environmental context within which it operates. It has a focus on the information needs of providers of financial capital to enable a more efficient and productive allocation of capital.
- CDP's[31] framework was designed to focus investors, companies, and cities on building a sustainable economy by measuring and understanding their environmental impact over climate, water, and forests, with the aim to ultimately reduce their greenhouse gas (GHG) emissions. Information is collected through an extensive questionnaire, done usually by investors or by costumer request, to be filled online on the CDP website.
- Task Force on Climate-related Financial Disclosures (TCFD):[32] the recommendations of the TCFD were prepared at the request of the Financial Stability Board (FSB) to provide guidance for more effective climate-related management and disclosure, which could promote more informed investment, credit, and insurance underwriting decisions. The recommendations, an important benchmark for the achievement of the goals set out in the Paris agreement, span four different areas: governance, strategy, risk management, and metrics & targets.
- Partnership for Carbon Accounting Financials (PCAF):[33] PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose GHG emissions associated with their loans and investments.

Despite the fact that some of these reporting frameworks have been tailored to serve the specific needs of different audiences (with their own materiality approaches and thresholds), in practice they have been seen as alternative reporting frameworks and have generated confusion. In part because of the variety of frameworks available, regulators in many jurisdictions, particularly in developing countries, have been hesitant about the direction of their own sustainability-related disclosure regulation. Depending on which framework or standard may eventually become dominant, their own regulations will have to

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27 Additional sustainability-related frameworks and initiatives include the United Nations Sustainable Development Goals (UN SDGs), the International Finance Corporation (IFC) Performance Standards, the UN Principles for Responsible Investment (PRI), the Dow Jones Sustainability Index (DJSI), and the Streamlined Energy and Carbon Reporting (SECR), among others.

28 See https://www.globalreporting.org/standards/.

29 See https://www.sasb.org.

30 See https://www.integratedreporting.org/resource/international-ir-framework/.

31 Since the Climate Disclosure Standards Board (CDSB) inception in 2007, CDP (formerly known was Carbon Disclosure Project, founded in 2000) has been providing its global secretariat leading the strategy delivery and managing the day-to-day work programme on behalf of consortium of business and environment NGOs that make up the Board. See https://www.cdsb.net/cdp.

32 See https://www.fsb-tcfd.org.

33 See https://carbonaccountingfinancials.com/about.

adapt to it or risk becoming impractical or obsolete. In the meantime, issuers have been expected to voluntarily report under multiple frameworks and standards simultaneously, producing reports that have not always been comparable or useful to their target audiences.[34]

In the past few years, however, we have seen great progress in the unification and harmonization of disclosure frameworks and standards. One of the highlights was the announcement in November 2021 at the 26th United Nations Climate Change Conference of the Parties (COP26), in Glasgow, that the International Financial Reporting Standards Foundation (IFRS)[35] would create the International Sustainability Standards Board (ISSB) to provide a comprehensive global baseline of sustainability-related disclosure standards that provides investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.[36]

There has been coordinated work to merge or consolidate the many reporting frameworks listed above under the umbrella of the IFRS initiative. In this process, the CDSBand the Value Reporting Foundation (VRF) (which was formed with the merger of the SASB and GRI Standards) have joined the IFRS Foundation to give rise to the ISSB, which issued in June 2023 its inaugural standards —IFRS S1 and IFRS S2— (IFRS, 2023 a,b) ushering in a new era of sustainability-related disclosures in capital markets worldwide. The Standards will help to improve trust and confidence in company disclosures about sustainability to inform investment decisions. And for the first time, the Standards create common language for disclosing the effect of climate-related risks and opportunities on a company's prospects.

The ISSB is working to support effective implementation of IFRS S1 and IFRS S2, which provide for a global baseline of sustainability-related disclosures worldwide, including capacity building and monitoring progress towards the broad use of high-quality disclosures. As such, from 2024 —as the ISSB Standards start being applied around the world— the IFRS Foundation will take over the monitoring of the progress on companies' climate-related disclosures from the TCFD, which has been monitoring progress towards climate-related disclosures against the recommendations since they were published. IFRS S1 and IFRS S2 fully incorporate the recommendations of the TCFD and as such, the Financial Stability Board noted that the Standards mark "the culmination of the work of the TCFD", which was created in 2015 at its request.[37]

By joining forces and taking the best of each existing reporting framework into one organization with expertise in setting global standards, the prospects for consolidation improved significantly. There is no doubt that there were too many reporting frameworks, which multiplied the costs for issuers and recipients of the information. This is why consolidation is seen as a solid step forward towards a global and comprehensive framework for sustainability disclosures, connected to financial statements.

This global convergence is encouraging for both the financial regulators and the business sector. It can contribute, both from the perspective of issuers and investors, and the financial sector in general, to the identification and management of risks and opportunities related to sustainability. It can also contribute to responsible capital allocation, management, and monitoring, in line with the sustainability goals set by the international community, in particular the Paris Agreement, the Sustainable Development Goals (SDGs) and the United Nations 2030 Agenda. This is the right time for regulators to adopt their own sustainability-related disclosure expectations, following the direction that global

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34 For instance, CDP, for example, has a focus on environmental impact, not really contemplating the "S" dimension. SASB is very much focused on risk for the company, whereas GRI on external risk.

35 The IFRS (2022) was developed by the International Accounting Standards Board (IASB). The standards, methodology, and infrastructure behind their accounting standards have ensured a robust set of reporting standards that are used in more than 140 jurisdictions.

36 See https://www.ifrs.org/groups/international-sustainability-standards-board/.

37 See press releases "ISSB issues inaugural global sustainability disclosure standards" https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/ and "IFRS Foundation welcomes culmination of TCFD work and transfer of TCFD monitoring responsibilities to ISSB from 2024" https://www.ifrs.org/news-and-events/news/2023/07/foundation-welcomes-tcfd-responsibilities-from-2024/?utm_medium=email&utm_source=website-follows-alert&utm_campaign=immediate.

disclosure framework consolidations are taking, and consider making their adoption mandatory or pushing for their voluntary (comply-or-explain) implementation.

B. Regional level: Latin America and the Caribbean

In Latin America and the Caribbean (LAC), at the same time as these global developments were taking place, regulators in some jurisdictions took important steps towards better disclosure of sustainability-related information. Among the most advanced jurisdictions in the matter are Chile, Brazil, and Colombia. While all three of these countries adopted regulation within the past two years, an analysis of their work shows that not all countries have advanced at the same pace or in the same direction in regulating the disclosure of sustainability risks:

- In Chile,[38] the Commission for the Financial Market (CMF) published in November 2021 the General Standard (NCG) 461, which incorporates requirements for disclosure of sustainability-related information in the annual reports of security issuers and other supervised entities such as banks, insurance companies and fund managers. As of early 2023, NCG 461 requires reporting for large issuers from a financial materiality perspective, accepting a selection of applicable reporting frameworks (SASB, GRI, and TCFD).
- In Brazil (OECD, 2022), its Securities and Exchange Commission (CVM) modified its regulations on the disclosure of sustainability matters in December 2021, requiring a "comply or explain" approach to a sustainability report starting in January 2023, with issuers being able to choose from any existing sustainability reporting framework.[39]
- In Colombia,[40] through External Circular Letter 031 of December 2021, the Financial Superintendence issued instructions regarding the reporting of sustainability issues, classifying issuers according to their characteristics and size, setting the applicable materiality criteria for disclosure, the specific content of the chapter dedicated to practices, policies, processes and indicators in relation to social and environmental issues, including climate issues, and the definition of "material change" for disclosure.

From these three more advanced jurisdictions' diverse approaches to disclosure, the challenges and opportunities that may arise for the rest of the region can be inferred. Hence the ambition of this report to learn more about the state of sustainability-related disclosure expectations of the regional regulators, which may help to identify the areas where focalized support to them (i.e., technical assistance, training, or coordination promotion) could yield positive harmonization results that could improve the stability of capital markets across the region.

1. Mapping sustainability-related disclosure requirements in the region

In order to map the different approaches to the sustainability-related disclosure requirements and regulations within the LAC region, a survey was conducted to offer issuers, investors, and the financial

38 See https://www.cmfchile.cl/normativa/ncg_461_2021.pdf.

39 According to CVM Resolution 80/22, ESG information must be disclosed in the Reference Form (Formulário de Referência (FRE)), in item 1.9 of section "1-Issuer Activities." Within the "comply or explain" context, issuers have the option of disclosing their information in an annual report or other specific document for this purpose ("sustainability report"), informing where it is found, the standard followed (which is discretionary, as the issuer can choose the standard), and whether it is audited or not. The document should also consider the SDGs and TCFD recommendations. Information should be provided according to the sector and industry to which the issuer belongs. In this sense, it should be noted that Brazil does not have a rule that establishes what type of content should be completed by sector and industry. Still within item 1.9, the issuer must report information regarding the emission of greenhouse gases, indicating, if applicable, the scope of inventoried emissions and the page on the World Wide Web where additional information can be found. Finally, if the aforementioned information is not provided, the issuer must explain why not.

40 See https://www.superfinanciera.gov.co/descargas/institucional/pubFile1057620/anceo3121.zip.

sector a useful catalog to compare different approaches and navigate the regional regulatory landscape, and to help regulators identify existing gaps.

Prepared as a detailed online questionnaire, the survey covers a list of ninety-two ESG items for possible disclosure divided as follows:

- Environment: biodiversity Ecosystem Services; Climate Change; Land Use; Energy; Resources; Waste; Water; Oceans, and Emissions/Pollution.
- Social: Human Rights; employment Conditions, Policies and Practices; Product and Service Responsibility; Social Impacts/Value Creation; Market presence, and Supply Chain.
- Governance: Leadership; effectiveness; Accountability; Remuneration, and Relations with Stakeholders.

Regulators responsible for the local capital markets in the region were asked to report if those items were included or not in their disclosure regulations. If they were included, they were asked to describe some of their features, including the format required for the disclosure of sustainability-related information; disclosure characteristics; external framework used; materiality requirement; whether disclosure is mandatory or not; scope (per type of regulated entities, or based on sectorial/industry approach); SDG alignment, and status. The following jurisdictions responded to the questionnaire in time to be included in this report:

- Argentina's National Securities Commission (Comisión Nacional de Valores (CNV));[41]
- Brazil's Security Commission (Comissão de Valores Mobiliários (CVM));[42]
- Barbados' Financial Services Commission (FSC);[43]
- Chile's Financial Market Commission (Comisión para el Mercado Financiero (CMF));[44]
- Colombia's Financial Supervision (Superintendencia Financiera (SF));[45]
- El Salvador's Financial System Superintendence (Superintendencia del Sistema Financiero (SSF));[46]
- Mexico's National Baking and Stock Commission (Comisión Nacional Bancaria y de Valores (CNBV));[47]
- Panama's Stock Market Superintendence (Superintendencia del Mercado de Valores (SMV));[48]
- Peru's Stock Market Superintendence (Superintendencia del Mercado de Valores (SMV)),[49] and
- Uruguay's Central Bank, Sustainable Finance Department (Departamento de Finanzas Sostenible del Banco Central de Uruguay (BCU)).[50]

The differences between jurisdictions were striking. Some regulators responded that they require disclosures in most of the areas listed in the survey, while others reported not having any requirements for some of the three areas (E, S, and G). Most regulators have requirements in the area of governance and environmental regulations (particularly regarding climate change), but only a few require the disclosure of information on social issues. The detailed results are discussed in the following sections.

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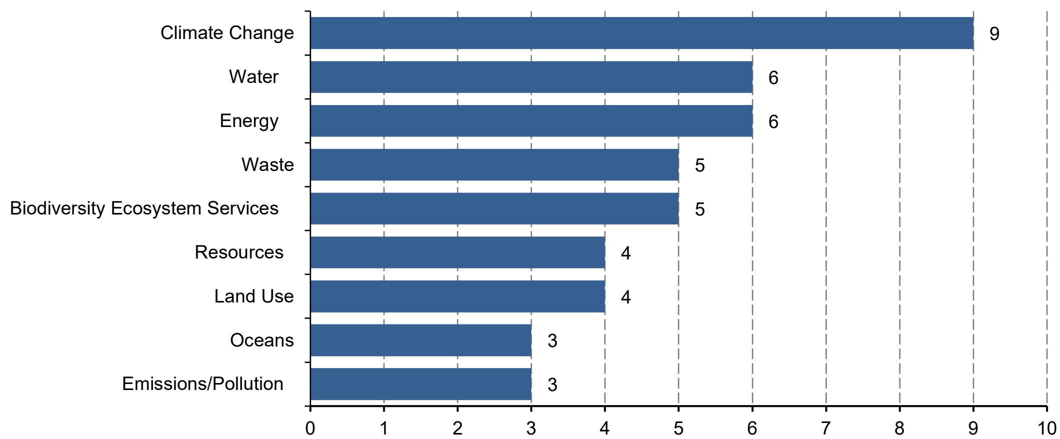
41 See https://www.argentina.gob.ar/cnv.
42 See https://www.gov.br/cvm/en.
43 See http://www.fsc.gov.bb/index.php/en/.
44 See https://www.cmfchile.cl/portal/principal/613/w3-channel.html.
45 See https://www.superfinanciera.gov.co/jsp/index.jsf.
46 See https://ssf.gob.sv.
47 See https://www.gob.mx/cnbv.
48 See https://supervalores.gob.pa.
49 See https://www.smv.gob.pe.
50 See https://www.bcu.gub.uy/Paginas/Default.aspx.

(a) Environmental disclosures

Environmental issues covered in the survey included: biodiversity ecosystem services; climate change; land use; energy; resources; waste; water; oceans, and emissions/pollution. Nine of the ten jurisdictions cover climate change in their disclosure standards, while the rest of the environmental disclosure topics is covered by fewer jurisdictions (figure 9). Argentina is the exception, as its disclosure standards do not cover any environmental issues.

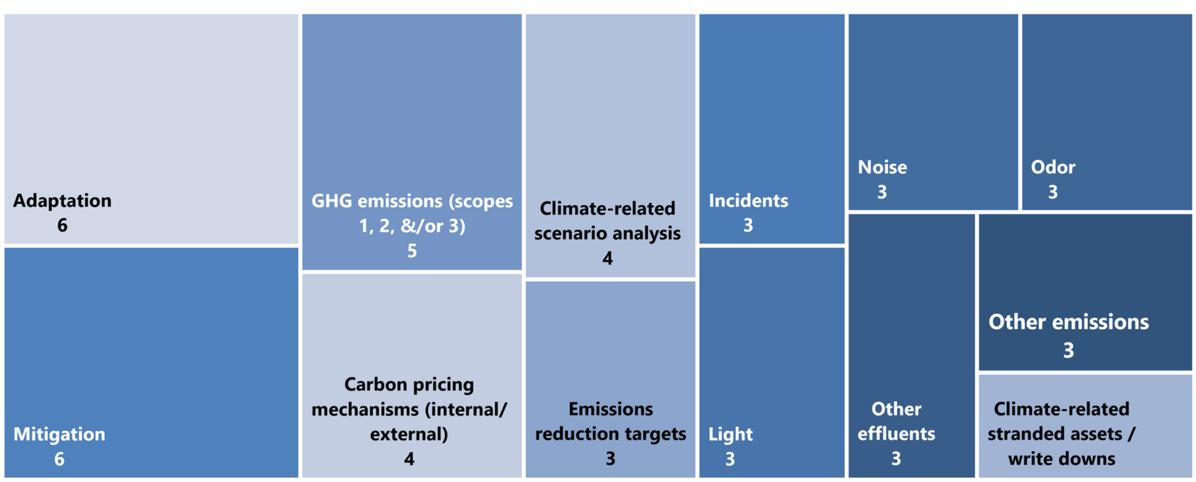
Within the issues related to climate change and emissions, the disclosure requirements of six jurisdictions include adaptation and mitigation, five cover greenhouse gas (GHG) emissions and four cover carbon pricing mechanisms and climate-related scenario analysis. The rest of the topics are covered by a smaller number of jurisdictions (figure 10).

Figure 9
Environmental subjects covered: all jurisdictions
(Number of jurisdictions covering each subject)



Source: Authors' elaboration based on Survey's responses.

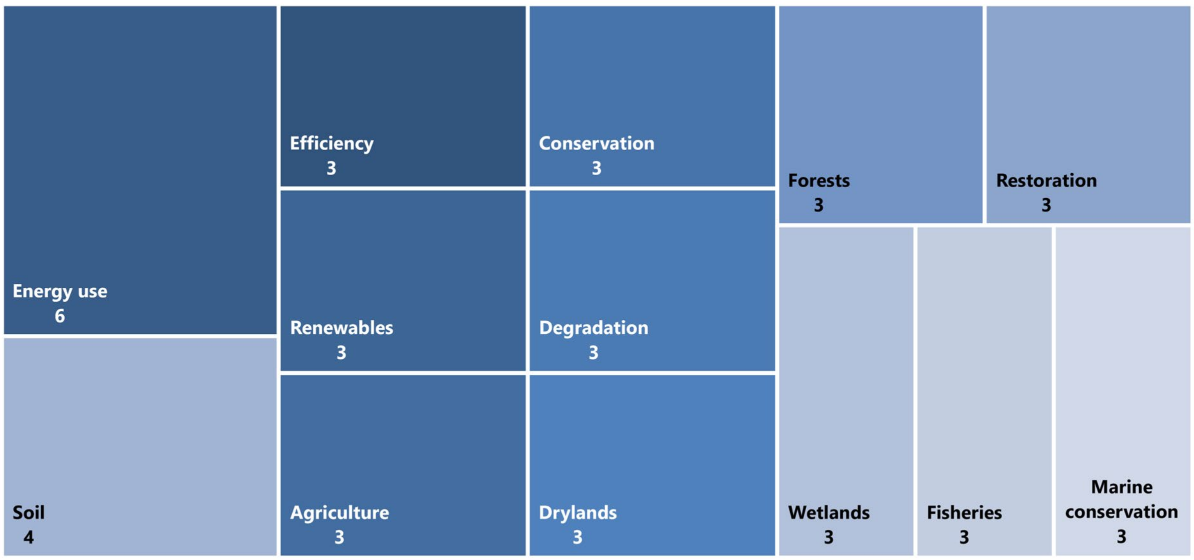
Figure 10
Sub-subjects covered under climate change and emissions
(Number of jurisdictions covering each sub-subject)



Source: authors' elaboration based on Survey's responses.

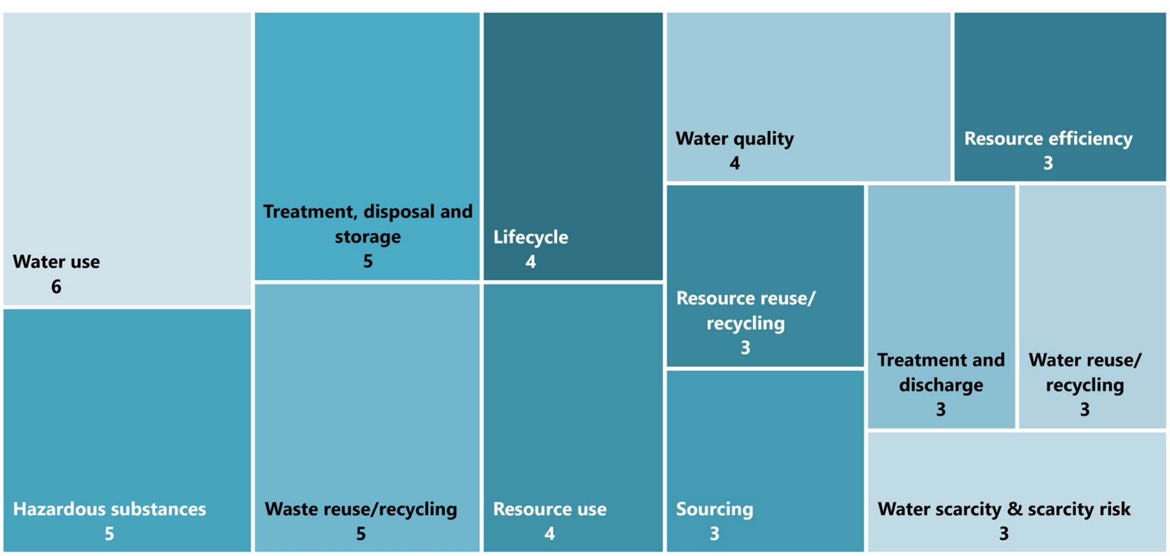
Regarding biodiversity, energy, land use and oceans, the disclosure requirements of six jurisdictions include energy use and four include soil. All the other topics are covered by three jurisdictions (figure 11). Within the issues related to resources, waste and water, the disclosure requirements of six jurisdictions include water use, while five include waste treatment, disposal and storage, waste reuse and recycling, and the presence of hazardous substances. The other topics are covered by three or four jurisdictions (figure 12).

Figure 11
Sub-subjects covered under biodiversity, energy, land use and oceans
(Number of jurisdictions covering each sub-subject)



Source: Authors' elaboration based on Survey's responses.

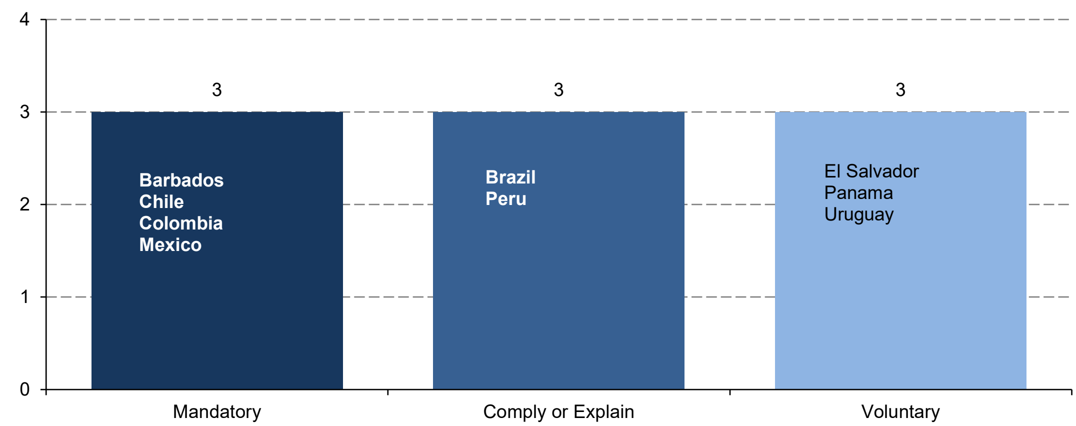
Figure 12
Sub-subjects covered under resources, waste and water
(Number of jurisdictions covering each sub-subject)



Source: Authors' elaboration based on Survey's responses.

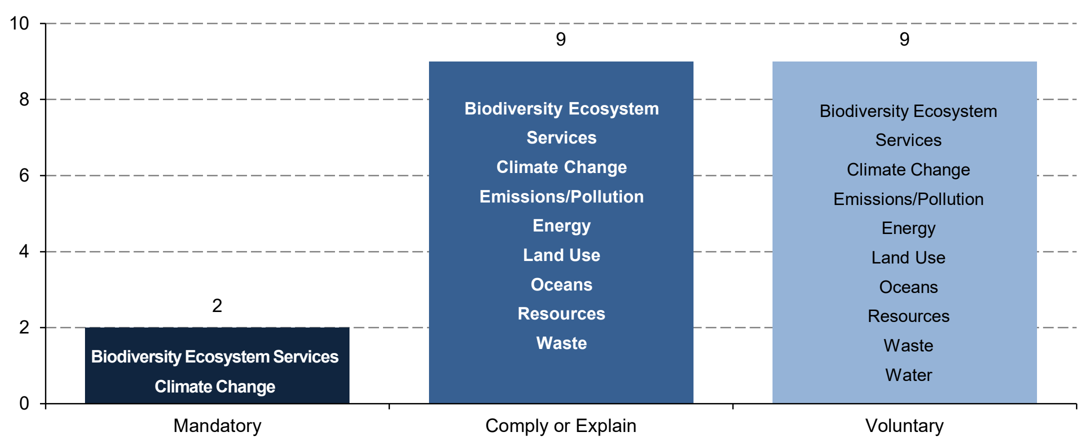
The environmental section of the survey asked jurisdictions to disclose the way they expect the disclosure of this information. Barbados, Chile, Colombia, and Mexico apply a mandatory disclosure approach, Brazil and Peru apply a "comply-or-explain" approach, and El Salvador, Panama and Uruguay apply a voluntary approach (figure 13). By subject, the mandatory approaches apply to climate change (Barbados, Colombia, and Mexico), and biodiversity ecosystem services (Mexico). All the other subjects are either disclosed under a comply-or explain and/or voluntary approach (figure 14).

Figure 13
Disclosure approach regarding environmental information
(Number of jurisdictions per disclosure approach)



Source: Authors' elaboration based on Survey's responses.

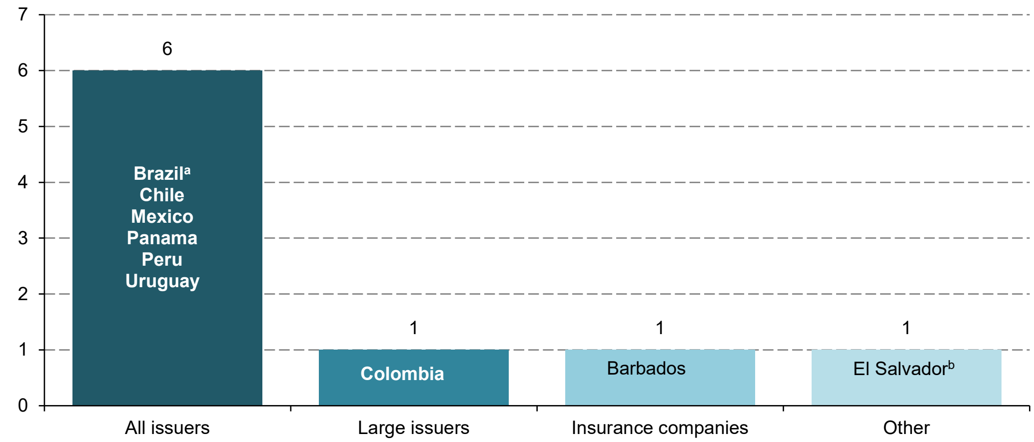
Figure 14
Disclosure approach regarding environmental information by subject
(Number of subjects per disclosure approach)



Source: Authors' elaboration based on Survey's responses.

The survey also asked regulators to describe if the environmental disclosure standards were applicable to all entities under their authority, or only a selection thereof. As shown in figure 15, in six jurisdictions the disclosure is expected from all entities, while in the other three it is required only for certain issuers or regulated entities.

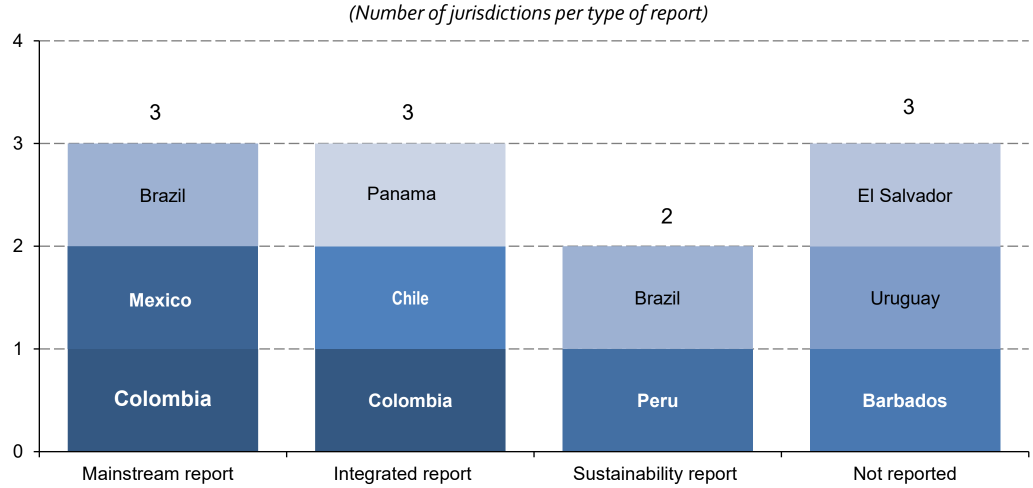
Figure 15
Applicability of environmental disclosure standards by type of entity
(Number of jurisdictions per type of entity)



Source: Authors' elaboration based on Survey's responses.
[a] Brazil applies only climate change measures to all issuers.
[b] El Salvador applies the disclosure of the use of electricity by state banks that subscribe to the Green Protocol (BH, BFA and BANDESAL).

Regarding the format used for the disclosure of the environmental information, the responses highlight different approaches. Mexican regulators require that the information be included in the mainstream report, while in Chile it must be included in an integrated report. In Colombia both approaches are used and in Peru the disclosed information is expected to be included in a sustainability report. In Brazil both a mainstream and/or a sustainability report are accepted, while Barbados, El Salvador and Uruguay did not specify the type of report (figure 16).

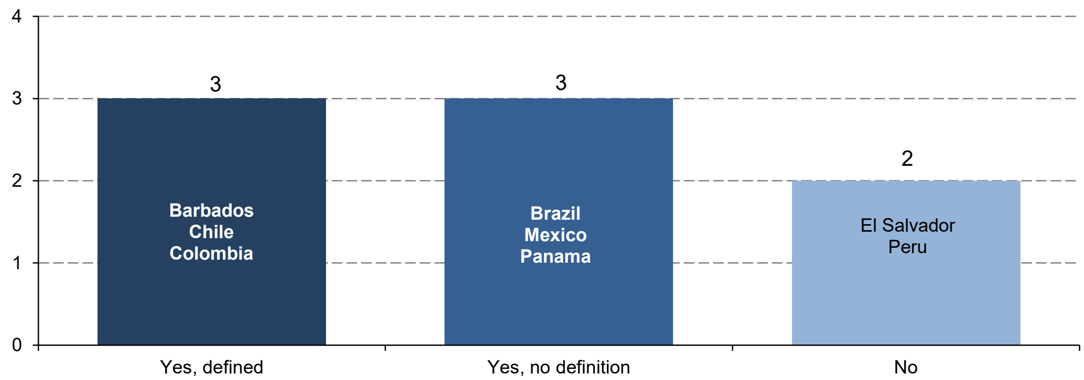
Figure 16
Format used to disclose environmental information
(Number of jurisdictions per type of report)



Source: *Authors'* elaboration based on Survey's responses. Uruguay did not provide a response for this question.

Finally, the survey asked for the use of materiality to determine if environmental disclosures were needed and if there was a definition for it. Barbados, Chile, and Colombia have both the requirement for materiality and provide a definition. Brazil, Mexico, and Panama have the requirement, but no definition, and El Salvador and Peru do not use materiality to determine when or what to disclose (figure 17).

Figure 17
Use of materiality and definition in environmental disclosures
(Number of jurisdictions that use materiality and define it (or not))

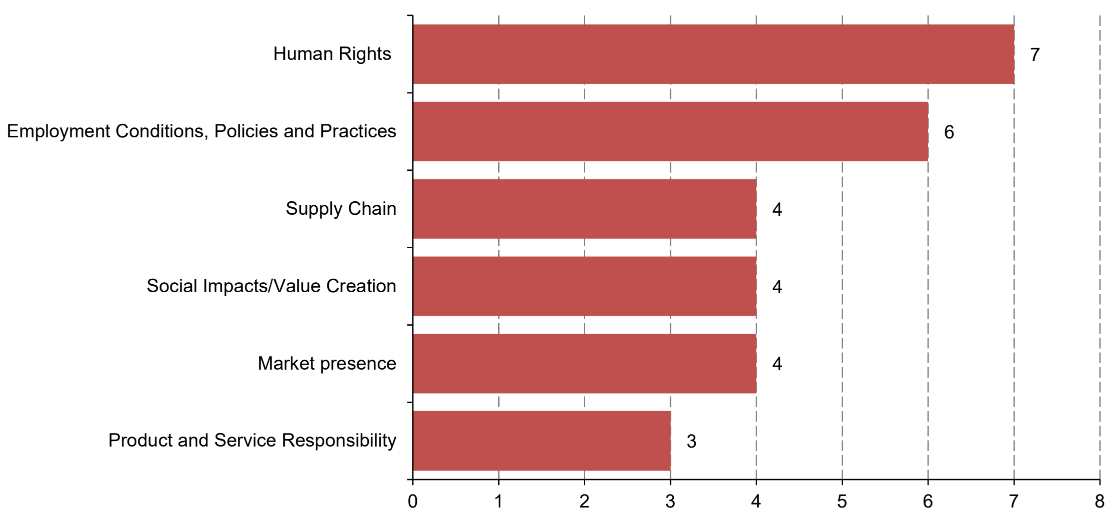


Source: Authors' elaboration based on Survey's responses. Uruguay did not provide a response for this question.

(b) Social disclosures

Social issues covered in the survey included: human rights; employment conditions, policies, and practices; product and service responsibility; social impacts/value creation; market presence, and supply chain. Seven jurisdictions cover human rights and six employment conditions, policies, and practices in their disclosure standards, four cover issues involving supply chain, social impact/value creation and market presence, and three cover product and service responsibility (figure 18). Argentina, Barbados, and Colombia reported not having any social disclosures.

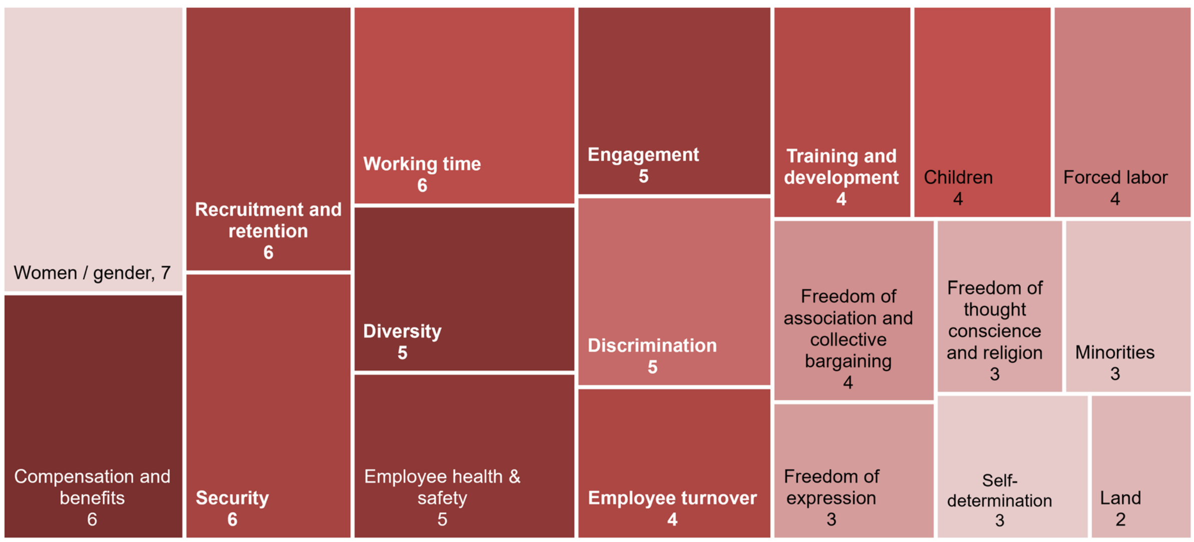
Figure 18
Social subjects covered: all jurisdictions
(Number of jurisdictions covering each subject)



Source: Authors' elaboration based on Survey's responses.

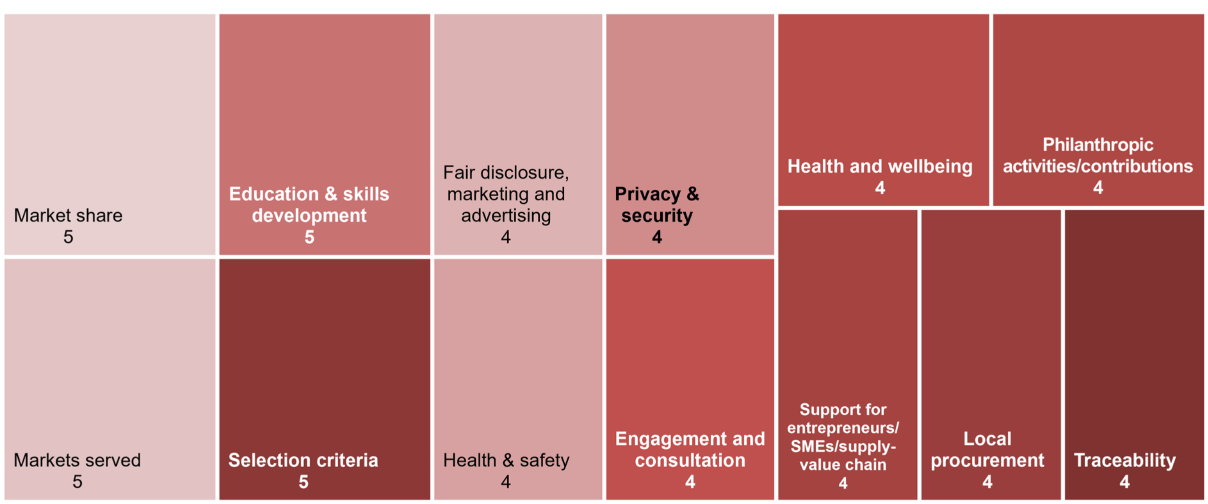
Within the issues related to employment conditions and human rights, the disclosure requirements of seven jurisdictions include the topic of women/gender discrimination. Six include the topics of recruitment and retention, compensation and benefits, security and working time, and five include diversity, discrimination, employee health and safety, and labor engagement. There are several topics covered by four jurisdictions, such as employee turnover, training and development, freedom of association and collective bargaining, forced labor and children, while others are covered by only two or three jurisdictions (figure 19). Regarding the other social issues covered by the regulation requirements of the countries of the region, five jurisdictions include the topics of market share and markets served, education and skills and development, and selection criteria (figure 20).

Figure 19
Sub-subjects covered under employment conditions and human rights
(Number of jurisdictions covering each sub-subject)



Source: Authors' elaboration based on Survey's responses.

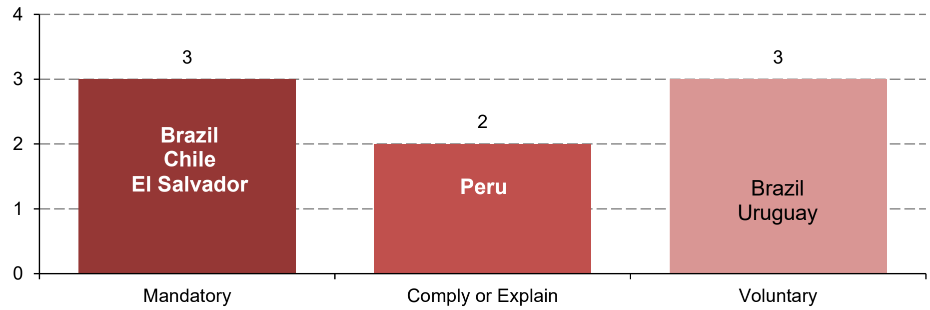
Figure 20
Sub-subjects covered under other categories
(Number of jurisdictions covering each sub-subject)



Source: Authors' elaboration based on Survey's responses.

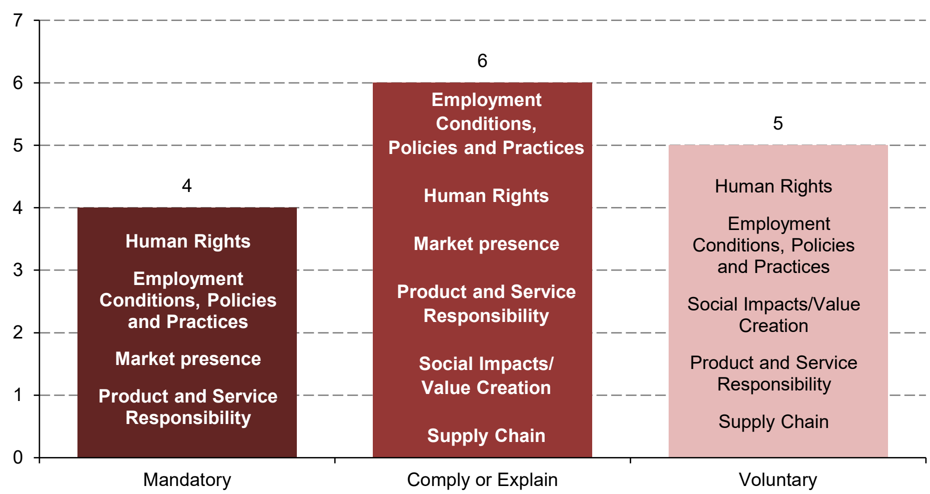
The social section of the survey asked jurisdictions to describe the way they expect the disclosure of this information. El Salvador and Mexico apply a mandatory disclosure approach. Brazil and Chile applies a mandatory approach for some subjects and a voluntary approach for others. Peru apply a comply-or-explain approach, and Panama and Uruguay a voluntary approach (figure 21). By subject, the mandatory approaches apply to human rights (Brazil, El Salvador, and Mexico), employment conditions, policies, and practices (Brazil and Mexico), markets presence (Brazil and El Salvador) and product and service responsibility (Brazil). The same topics are covered by other jurisdictions on a comply or explain or voluntary basis as well, while the topics social impacts/value creation and supply chain are covered only under a comply or explain or voluntary approach (figure 22).

Figure 21
Disclosure approach regarding social information
(Number of jurisdictions covering each sub-subject)



Source: Authors' elaboration based on Survey's responses.

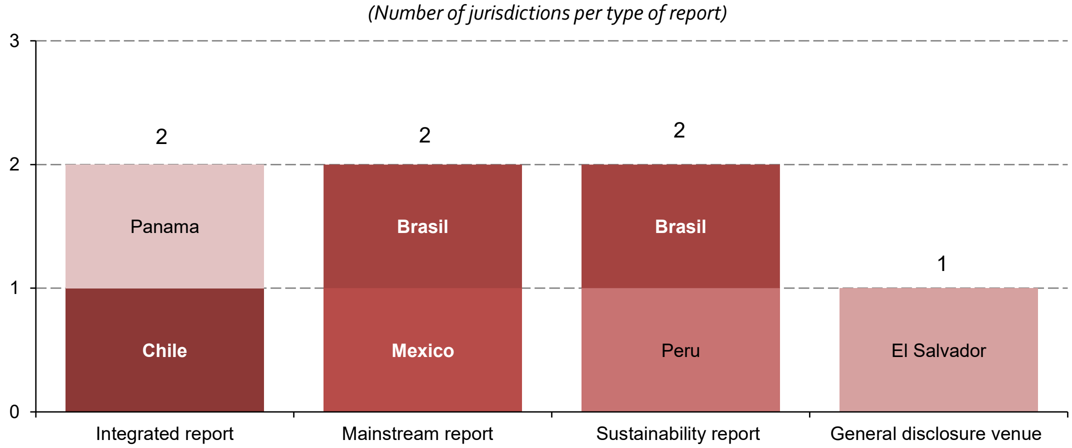
Figure 22
Disclosure approach regarding social information by subject
(Number of subjects per disclosure approach)



Source: Authors' elaboration based on Survey's responses.

The survey also asked jurisdictions to describe if the social disclosure standards were applicable to all entities under the authority of the regulator, or only a selection thereof. In five responding jurisdictions that had social disclosure requirements (Brazil, Chile, Mexico, Panama, and Peru), they are applicable to all issuers, regardless of their type. In El Salvador they are applicable to specific entities, such as insurance companies and banks. The channel used for the disclosure of social information varies among the six responding jurisdictions (figure 23).

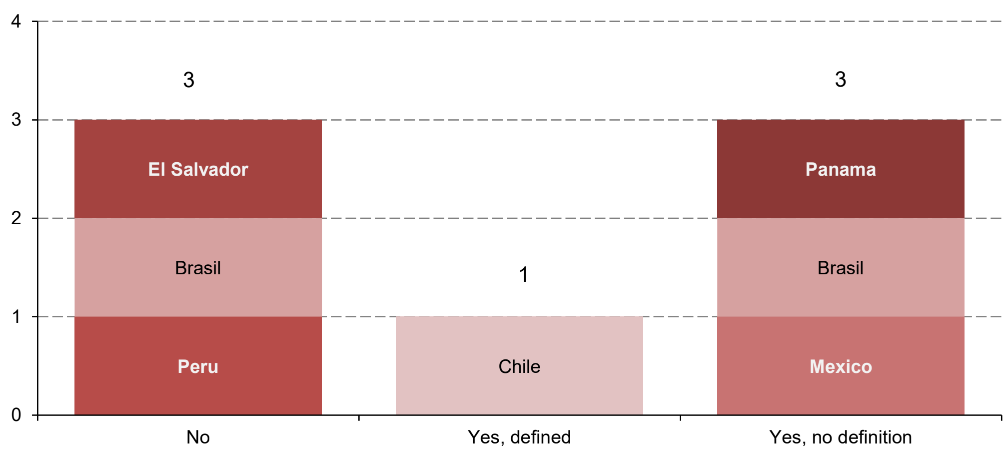
Figure 23
Format used to disclose social information
(Number of jurisdictions per type of report)



Source: Authors' elaboration based on Survey's responses.

Four of the jurisdictions that have social disclosure requirements use materiality to determine the need to disclose information on social issues, and only one of them offers a definition (figure 24).

Figure 24
Use of materiality and definition in social disclosures
(Number of jurisdictions that use materiality and define it (or not))

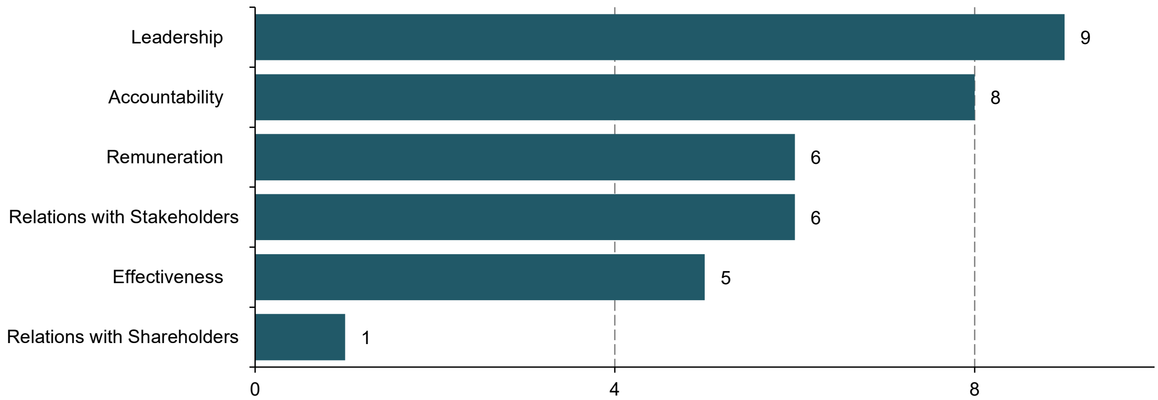


Source: authors' elaboration based on Survey's responses. Brazil answered yes for some sub-subjects and no for others.

(c) Governance disclosures

The third and last section of the survey covered disclosure related to governance, including subjects such as leadership, effectiveness, accountability, remuneration, and relations with stakeholders. Only Colombia reported having no governance disclosure standards. All other jurisdictions' disclosure requirements cover leadership, eight of nine cover accountability, six cover remuneration and relations with stakeholders, five cover effectiveness, and only one covers relations with shareholders (figure 25).

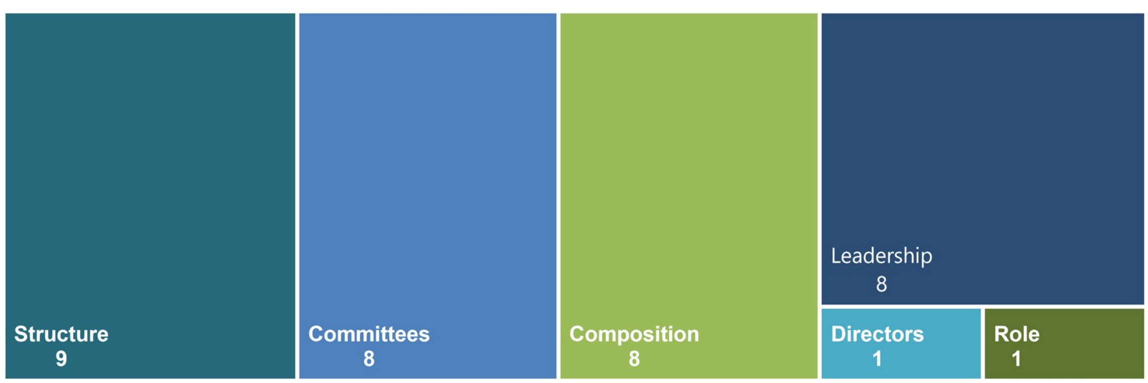
Figure 25
Governance subjects covered: all jurisdictions
(Number of jurisdictions covering each subject)



Source: Authors' elaboration based on Survey's responses.

Within the subjects related to leadership, accountability, and effectiveness, all nine jurisdictions covered structure, financial and business reporting, internal control, and risk management. Eight jurisdictions covered committees, composition, leadership, conflicts of interest, and external audit. Six covered anti-corruption and bribery, as well as information and support. Other sub-subjects are covered by a smaller number of jurisdictions. **Figures 26, 27 and 28 show the distribution of different governance sub-subjects within the disclosure standards of the responding jurisdictions.**

Figure 26
Sub-subjects covered under leadership
(Number of jurisdictions covering each sub-subject)



Source: authors' elaboration based on Survey's responses.

Figure 27
Sub-subjects covered under accountability
(Number of jurisdictions covering each sub-subject)

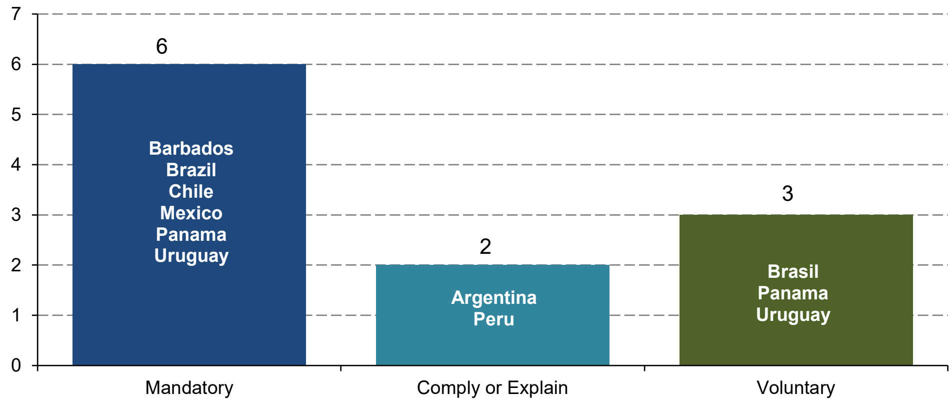
Source: Authors' elaboration based on Survey's responses.

Figure 28
Sub-subjects covered under effectiveness
(Number of jurisdictions covering each sub-subject)

Source: Authors' elaboration based on Survey's responses.

In terms of the manner of reporting information on governance, Barbados, Chile, and Mexico, apply a mandatory disclosure approach for all sub-subjects, while Brazil, Panama, and Uruguay apply a mandatory disclosure approach for some sub-subjects. For the most part, a mandatory approach is applied to the topics of leadership, effectiveness and accountability, and a few other sub-subjects. Brazil, Panama, and Uruguay apply a voluntary approach to some sub-subjects, such as relations with stakeholders. Argentina and Peru apply a comply and explain approach to all sub-subjects (figure 29).

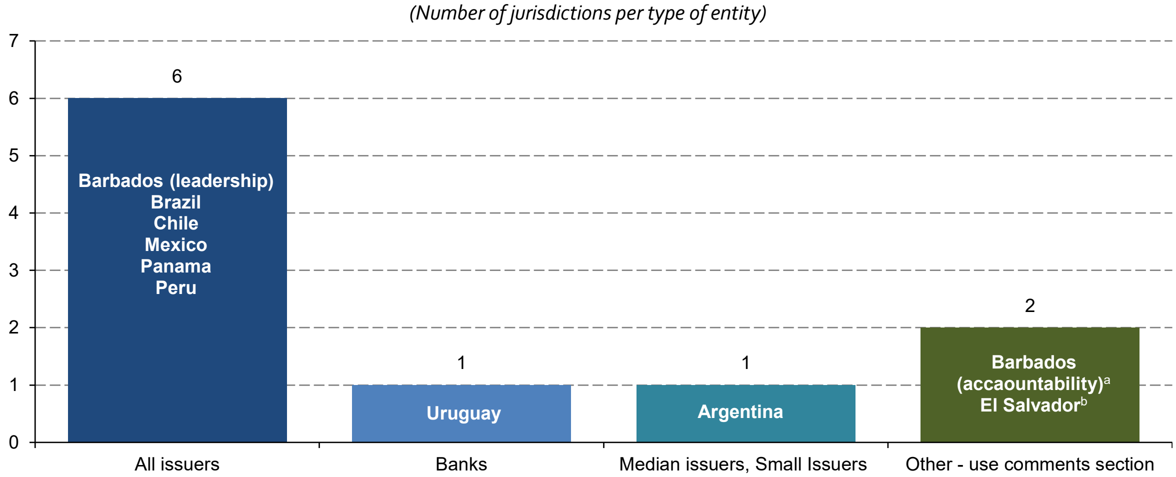
Figure 29
Disclosure approach regarding governance information
(Number of jurisdictions per disclosure approach)



Source: Authors' elaboration based on Survey's responses.

In six jurisdictions the disclosure of governance information is applicable to all entities under the authority of the regulator, while Argentina and Uruguay have targeted reporting requirements to certain issuers or regulated entities. Barbados requires all issuers to disclosure information on leadership (including structure, committees, and composition) but not in the case of information on accountability, where the requirement is targeted to certain issuers only. In the case of El Salvador, a list of the entities to which the disclosure of governance information is required was listed in the comments section (figure 30).

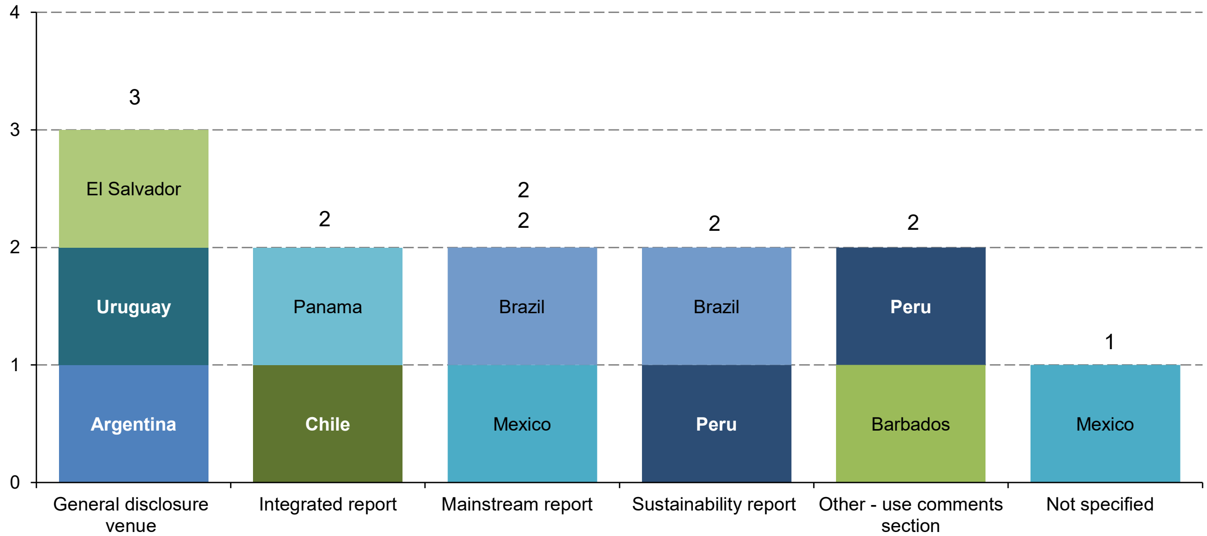
Figure 30
Applicability of governance disclosure standards by type of entity
(Number of jurisdictions per type of entity)



Source: Authors' elaboration based on Survey's responses.
[a] Insurance companies, Credit Unions, Occupational Pension Plans, Securities Companies.
[b] Banks, Cooperative Banks, Savings and Credit Societies, Insurance Societies, Pension Fund Administrators, Stock Markets, Stockbroker Houses, Risk Rating Agencies, Securitization Agencies, Managers, among others.

Regarding the format used for the disclosure of information on governance, the responses highlight different approaches in all jurisdictions. Brazil and Peru use a combination of reports. Brazil requires a sustainability report on accountability and relations with stakeholders, and Peru requires a sustainability report on the relations with stakeholders only (figure 31).

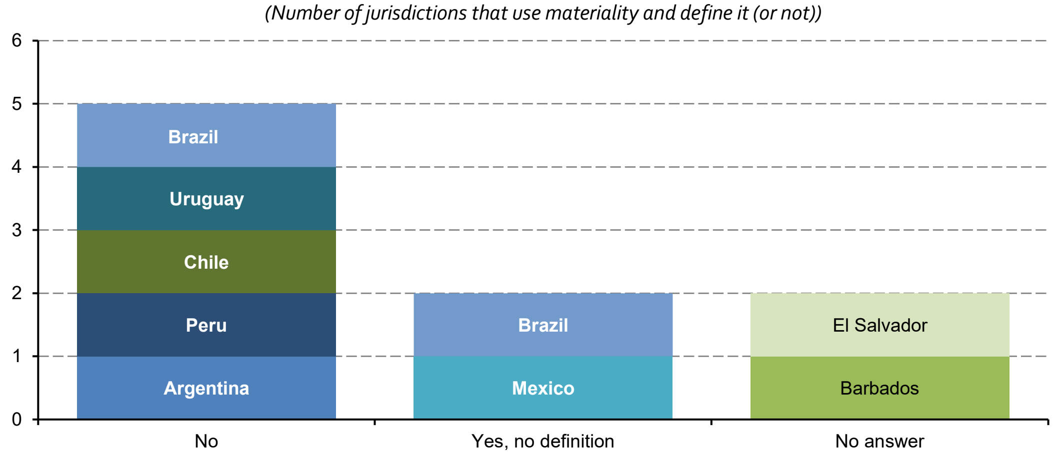
Figure 31
Format used to disclose information on governance
(Number of jurisdictions per type of report)



Source: Authors' elaboration based on Survey's responses.

Finally, Brazil and Mexico are the only two of the ten jurisdictions reporting the use of a materiality test for reporting in governance disclosures. Brazil reports the use of materiality only for accountability and not for other topics (figure 32).

Figure 32
Use of materiality and definition in governance disclosures
(Number of jurisdictions that use materiality and define it (or not))



Source: Authors' elaboration based on Survey's responses.
Note: in the case of Brazil, its responses included yes in some cases and no in others, but there were also some categories for which it did not provide an answer.

The results show a striking diversity among the countries that participated in the survey. Table 5 summarizes some of the main survey results and the main characteristics of LAC's diverse landscape of disclosure standards.

Table 8
Survey summary: LAC landscape of disclosure standards

Jurisdictions	Disclosure requirements			Disclosure approaches									Applicability						Use of Materiality		
				E			S			G			E		S		G				
	E	S	G	M	C/E	V	M	C/E	V	M	C/E	V	All	Selection	All	Selection	All	Selection	E	S	G
Argentina			✓								✓							✓			
Barbados	✓		✓	✓						✓				✓			✓(L)	✓(A)	✓		
Brazil	✓	✓	✓	✓(CH)		✓	✓			✓			✓		✓		✓		✓	✓	✓(A)
Chile	✓	✓	✓	✓				✓		✓			✓		✓		✓		✓	✓	
Colombia	✓			✓										✓					✓		
El Salvador	✓	✓	✓			✓	✓			✓				✓		✓		✓			
Mexico	✓	✓	✓	✓			✓			✓			✓		✓		✓		✓	✓	✓
Panama	✓	✓	✓			✓			✓	✓(A+L)		✓	✓		✓		✓		✓		
Peru	✓	✓	✓		✓			✓			✓		✓		✓		✓				
Uruguay	✓	✓	✓			✓			✓	✓(A+L)		✓(SH)			✓			✓			

Source: Authors' elaboration based on Survey's responses. E, S and G: environmental, social and governance. M=Mandatory; C/E=comply or explain; V=voluntary. A+L=accountability and leadership, SH=relations with stakeholders; CH=climate change.

2. Interviews and country approaches

The information obtained through the survey's questionnaire was complemented with interviews with a selection of regulators and market players in each jurisdiction. The objective of the interviews was to make sense of the striking diversity of results obtained by the survey. The interviews, which helped to clarify the different approaches and the role that regulation plays in each jurisdiction, included representatives (with responsibility for sustainability and ESG issues) from:

- Santiago Stock Exchange (Bolsa de Comercio de Santiago (BCS)).
- Lima Stock Exchange (Bolsa de Valores de Lima (BVL)).
- Mexican Stock Exchange (Bolsa Mexicana de Valores (BMV)).
- Buenos Aires Stock Exchange (Bolsa de Comercio de Buenos Aires (BCBA)).
- Colombian Stock Exchange (Bolsa de Valores de Colombia (BVC)).
- Argentine Stock Exchange (Bolsas y Mercados Argentinos (BYMA)).
- Chile's Superintendence of Pensions (Superintendencia de Pensiones (Chile)).
- Mexico's National Commission of the Retirement Savings System (Comisión Nacional del Sistema de Ahorro para el Retiro (CONSAR)).
- Mexico's Central Bank (Banco de México).

(a) Chile

The adopted General Standard 461 (Norma de Caracter General 461) sets Chile's reporting standards for issuers and other regulated entities at a very high level and in a comprehensive manner, in a jurisdiction that is not characterized by private sector-led or voluntary initiatives. If the regulator or the legislator do not set a mandatory standard, it is unlikely that the issuers will move towards it.

The stock exchanges in Chile do not use their listing requirements or other initiatives to move issuers towards best practices. It is not clear that they would get much traction with companies, and they have a reasonable fear of losing listings or causing de-listings. In our interview with the Santiago Stock Exchange (Bolsa de Comercio de Santiago (BCS)), we were told that BCS has put a focus on disseminating and promoting best practices via capacity building, training and access to information that could help issuers adopt sustainability and ESG reporting practices.

For debt issuers that aim to list their instruments on ESG or thematic segments, BCS has voluntary recommendations and guidance to promote better disclosure. It only requires a certification from a Climate Bonds Initiative (CBI) accredited third party and an annual report of the use of funds. BCS also works with Standard & Poor's to indicate Chilean issuers that may wish to be included in its Dow Jones Sustainability Index.

(b) Colombia

In Colombia, unlike in Chile, voluntary frameworks are highly influential among companies. Corporate issuers compete to rank in the top places of the "Encuesta Código País" —a corporate governance survey— and in other rankings, and the Colombian Stock Exchange is quite active using its listing power. The regulator and the private sector work together to raise the standards and promote a sustainable and well-governed capital market.

In our interview with the Colombian Stock Exchange (Bolsa de Valores de Colombia (BVC)) we found that the exchange has high listing standards, demanding disclosure of ESG information, and produces its own index to highlight issuers with best practices. The IR Recognition (Reconocimiento IR in Spanish) —a BVC's investor relations program— encourages "timely and transparent information disclosure" and "requires publication of environmental, social and corporate governance documentation and investor relations mechanisms." It "seeks to highlight the efforts made by those companies that go above and beyond to strengthen trust and credibility among the investment community." The exchange performs "periodic monitoring of compliance with these requirements to support the issuer in its preparation for renewing the IR Recognition" and uses the information provided to offer a proprietary COL/IR index of companies with good sustainability practices (all but one of the Colombian issuers included in the MSCI COLCAP Index —an index designed to represent the performance of the local Colombian equity market— participate in the program).

Despite issuers' enthusiasm to report and adopt better ESG practices, however, on the demand side the interest comes mostly from foreign investors. They have a particular focus on climate change and seek information about emissions, including Scope 3, which most Colombian companies do not even measure. Only a handful of companies in Colombia report using TCFD standards, as is the case of Ecopetrol, the State-owned oil company. Local investors have shown less interest in ESG investments as they seem more focused on short-term results.

(c) Peru

Like in Mexico, in Peru the regulator requires disclosure of some environmental and social issues, together with comprehensive governance reporting. The listing requirements of the Lima stock exchange (Bolsa de Valores de Lima (BLV)) do not add disclosure requirements except for green and thematic debt instruments. There, like in the case of Chile, the exchange requires a certification of a Climate Bonds Initiative accredited third party and an annual report of the use of funds.

The exchange also works with Standard & Poor's to include Peruvian issuers that may wish to be included in its Dow Jones Sustainability Index. Issuers are invited to answer the S&P's CSA questionnaire and the number of reporting companies has been growing every year, reaching twenty-two in 2022. This interest is mostly from larger and less concentrated issuers, seeking to attract capital from sophisticated and large investors. The regulator that oversees pension and insurance companies has also pushed those institutional investors to evaluate the sustainability of their portfolios, fostering demands for better disclosure of ESG information among local issuers.

(d) Merger of the stock exchanges

An interesting feature of the regional landscape related to ESG reporting is the ongoing merger process between the stock exchanges of Santiago, Lima, and Bogotá. After many previous failed attempts to create a joint capital market, it seems that this process will be successful, and the three exchanges will operate as one group. It is yet to be seen what that will mean for disclosure standards, but the sustainability and reporting teams of the three exchanges are already coordinating among themselves and with the national regulators to find convergence and unify reporting requirements that will allow securities to trade simultaneously in all three jurisdictions.

(e) Mexico

In the case of Mexico, the survey showed that the regulator demands comprehensive governance disclosures and only limited social and environmental information. We asked the Mexican stock exchange (Bolsa Mexicana de Valores (BMV)) if they had additional listing requirements that complemented the demands from the regulator, and the answer was yes, but only of a voluntary nature. The exchange provides guidance, principles, and reporting frameworks that it invites issuers to use.

For new listings, BMV has recently started inviting companies to issue a voluntary 20-point ESG x-ray report, using a pre-defined template, in addition to their prospect (which does not include this information). The exchange does not review or verify their information, but only serves as an information and dissemination channel to the market. It has not been used yet, as no new debt issuances have occurred since.

For already listed issuers, BMV asks for a voluntary annual sustainability report and has developed an annual sustainability maturity assessment matrix, that only a few companies use voluntarily, despite what is reported as great interest regarding ESG information from institutional investors (including local pension funds or AFORES (Administradoras de Fondos para el Retiro)). BMV also works with Standard & Poor's to list companies in their sustainability index.

The Mexican Central Bank (Banxico) jointly with the Ministry of Finance (SHCP) are also key players in the promotion of ESG disclosure. Since 2021, Banxico has had cooperation with the TCFD, the CDP and Bloomberg that has led to the creation of a TCFD private sector consortium in the country. Both the Ministry and the Central Bank created the Sustainable Finance Committee within the National Board for Financial Stability. Under this Committee, they also fostered the creation of an implementation subcommittee to prepare a rapid adoption of the new ISSB standards, led by the *Consejo Mexicano de Normas de Información Financiera* (CINIF)[51] and that also includes the BMV, the CNBV and private sector institutions. Furthermore, the Sustainable Finance Committee has also been developing a taxonomy to facilitate sustainability disclosure and is producing detailed climate change scenarios both in collaboration with ECLAC and other scientific partners.

The CINIF also participates as an advisor to the International Sustainability Standards Board (ISSB) and the Latin American Regional Alliance. At the same time, it oversees the design of a two-stage strategy for small and medium-enterprises (SME) to apply standards for reporting and disclosure of sustainability information to non-public and smaller companies. The strategy includes 30 of the 34 sustainability indicators linked to the Sustainable Development Goals known as GLASS

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[51] See https://www.cinif.org.mx.

and designed by the United Nations Conference on Trade and Development (UNCTAD). For the first stage, disclosures are limited to the fair value of assets, while the second stage will focus on the identification of climate and sustainability risks. The objective is to connect accounting with sustainability, which requires clarity on the identification of transition risks.

(f) Argentina

In Argentina, the private sector and the exchanges are not filling the gap left by the absence of a disclosure requirement set by the regulator, the National Securities Commission (Comisión Nacional de Valores (CNV)). Besides governance issues, ESG reporting is entirely voluntary and there is no set standard that companies are invited to follow.

Social and environmental issues are reported by some companies out of their own initiative and the stock exchanges only serve as conduits to disseminate that information and with the idea to be better positioned to attract foreign capital. The Buenos Aires stock exchange and BYMA (Bolsas y Mercados Argentinos) have taken and implemented different voluntary initiatives with the aim of fostering corporate governance and sustainability best practices within companies.

These efforts include a panel for green bonds and the development of a non-commercial sustainability index in collaboration with the Inter-American Development Bank (IADB) and is based on IndexAmericas methods. The Index aims to identify companies with leading sustainability practices within the local capital market by evaluating them on four main pillars: (i) environmental impact; (ii) social impact; (iii) corporate governance, and iv) development (contribution to the UN Objectives of Sustainable Development). The index is comprised of 15 companies. Despite these efforts, there is no reported appetite from either issuers or investors for the disclosure of ESG issues beyond core governance aspects, as the market has endured several years of low levels of activity.

III. Conclusions

This document applies an empirical approach to evaluate the impact of investing in ESG projects and practices —through its effects on corporate reputation— on the cost of debt financing in Latin America's corporate sector. ESG practices improve a company's reputation, which can change the way the market perceives a company's business model and risks. The findings suggest that firms that invest in ESG practices, which hence leads to better ESG scores assigned by Bloomberg, tend to have lower borrowing costs than firms with worse ESG scores. They imply that the relationship between ESG practices and borrowing costs is stronger for firms with a higher level of disclosure and transparency in their ESG reporting, and that investors and creditors may consider ESG practices as a sign of commitment to long-term sustainability, risk management, and profitability. Therefore, the quality of ESG reporting can significantly affect investors and creditors' perception of a company's risks and ultimately influence its cost of debt financing. From a corporate point of view, reporting sustainability metrics accurately under the three ESG categories and analyzing data to identify trends, areas for improvement and monitoring, are crucial to enhancing sustainable performance.

These results also point to an opportunity for LAC governments to raise private sector awareness of the benefits of ESG investing and reporting to their reputation and borrowing costs. In order to achieve the Sustainable Development Goals and the UNFCCC´s National Determined Contributions and the goals of the Paris agreement, the region's governments will need to catalyze private sector participation in the efforts towards climate change adaption and mitigation, among other sustainability targets. Offering regulatory and standard-setting frameworks that facilitate private sector participation and engagement in these efforts, may facilitate and widen corporate participation in the achievement of sustainability goals. The results of the survey of the region's disclosure standards suggest that governments should highlight and spread the importance of ESG reporting and disclosure, by staying current with global trends in sustainability-related regulations, collaborating with other regulators in the region, and advising companies on how to comply with relevant regulations and best practices.

Mandatory and voluntary approaches could converge when the benefits of such ESG reporting and disclosure are exposed, as capital market transparency and accountability is a positive value for most institutional investors looking for sustainable assets. On the other hand, ESG disclosure reflects an internal corporate effort that brings more granularity in the surveillance of the corporation operations, raising more opportunities to improve efficiency and reduce social and environmental-related financial risks.

The ongoing consolidation of international ESG reporting frameworks under the ISSB offer a unique opportunity for those jurisdictions within the region that have not yet advanced in their regulation to adopt the new standards and benefit from the efforts to promote them to obtain technical support and capacity building. This could move some of the regional capital markets from the bottom to the top of the ranking in terms of disclosure and preparedness for climate change and other sustainability objectives, also improving the attractiveness of their private sector to foreign investment.

As the current standard development is being carried out by a global initiative, collaboration among financial regulators can be cost efficient and effective by jointly developing capacity building initiatives, shared tools and data gathering.

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List of acronyms

AFORES	Administradoras de Fondos para el Retiro (Retirment Funds Administrators)
BCBA	Bolsa de Comercio de Buenos Aires (Buenos Aires Stock Exchange)
BCS	Bolsa de Comercio de Santiago (Santiago Stock Exchange)
BCU	Banco Central de Uruguay
BMV	Bolsa Mexicana de Valores (Mexican Stock Exchange)
BVC	Bolsa de Valores de Colombia (Colombian Stock Exchange)
BVL	Bolsa de Valores de Lima (Lima Stock Exchange)
BYMA	Bolsas y Mercados Argentinos (Argentine Stock Exchange)
CBI	Climate Bonds Initiative
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standards Board
CMF	Comisión para el Mercado Financiero (Financial Market Commission)
CNBV	Comisión Nacional Bancaria y de Valores (National Baking and Stock Commission)
CNV	Comisión Nacional de Valores (National Securities Commission)
CONSAR	Comisión Nacional del Sistema de Ahorro para el Retiro (National Commission of the Retirement Savings System)
COP26	26th United Nations Climate Change Conference of the Parties
CSDDD	Corporate Sustainability Due Diligence Directive (CSDDD)
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
DJSI	Dow Jones Sustainability Index
ECLAC	Economic Commission for Latin America and the Caribbean
ESG	Environmental, Social and Corporate Governance
EU	European Union
FSC	Financial Services Commission
GHG	Greenhouse Gas
GRI	Global Reporting Initiative Standards
IASB	International Accounting Standards Board
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards Foundation
IR	Integrated Reporting
ISSB	International Sustainability Standards Board
LAC	Latin America and the Caribbean
KPIs	Key Performance Indicators
NGOs	Non-governmental Organizations
NFRD	Non-Financial Reporting Directive
PCAF	Partnership for Carbon Accounting Financials
PRI	Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
SEC	Securities Exchange Commission (SEC)
SECR	Streamlined Energy and Carbon Reporting
SDGs	Sustainable Development Goals
SF	Superintendencia Financiera (Financial Superintendence)
SMV	Superintendencia del Mercado de Valores (Stock Market Superintendence)
TCFD	Task Force on Climate-Related Financial Disclosures
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNFCCC	United Nations Framework Convention on Climate Change
VRF	Value Reporting Foundation

Annex

Annex 1

Box A.1
Dataset variables and explanation

1. Pricing Date: the date on which the bonds were priced.
2. Company: the name of the issuing company.
3. Company Nationality: the country in which the issuing company is headquartered.
4. Tranche Maturity Date: the date on which the tranche of bonds matures.
5. Deal Type: the type of deal, such as a public offering or a private placement.
6. Tranche Currency: the currency in which the tranche of bonds is denominated.
7. Tranche Value (Face) Local: the face value of the tranche in the local currency.
8. Tranche Value USD (Face): the face value of the tranche in US dollars.
9. Investment Grade (Y/N): a binary variable indicating whether the bonds are rated investment grade or not.
10. Use of Proceeds: a description of how the proceeds from the bond issuance will be used.
11. Tranche Primary Use of Proceeds: a more detailed description of the primary use of proceeds for the tranche.
12. Green Bond Instrument Type: a classification of the bond as a green bond, which is a bond issued to finance environmentally sustainable projects.
13. Instrument Innovation Type: a classification of the bond as an innovative financial instrument.
14. Tranche Issue Type: the type of bond issued, such as fixed-rate or floating-rate.
15. Tranche Coupon: the interest rate paid on the tranche.
16. Tranche Coupon % (Fixed Rate): the fixed interest rate paid on the tranche.
17. Tranche Note: a description of the tranche notes.
18. Tranche Governing Laws: the governing laws of the tranche.
19. Tranche Market Type: the market in which the tranche is sold, such as primary or secondary.
20. Tranche Effective Rating (Current): the current rating of the tranche.
21. Tranche Effective Rating (Launch): the rating of the tranche at launch.
22. Tranche Spread to Benchmark (bp): the spread of the tranche to a benchmark rate in basis points.
23. Company Region of Incorporation: the region in which the company is incorporated.
24. Region of Risk: the region in which the bonds are considered to have the most risk.
25. Tranche Benchmark: the benchmark rate used to calculate the spread of the tranche.
26. Tranche International Market (Y/N): a binary variable indicating whether the tranche is sold in an international market or not.
27. Company Effective Rating: the effective rating of the issuing company.
28. Company Full Name: the full name of the issuing company.
29. Company Nationality of Incorporation: the nationality of the issuing company's incorporation.
30. Company Region: the region in which the issuing company operates.
31. Company Specific Industry Group (SIG): the specific industry group to which the issuing company belongs.
32. Deal General Industry Group (GIG): the general industry group to which the deal belongs.
33. Deal Nationality: the nationality of the deal.
34. Deal Region: the region in which the deal takes place.
35. Deal Sector Type: the sector to which the deal belongs.
36. Deal Specific Industry Group (SIG): the specific industry group to which the deal belongs.
37. Nationality of Risk: the nationality of the entity that poses the most risk to the bonds.
38. Type of issuance (domestic or international): a classification of the bond as a domestic or international issuance.
39. Issuer Name: the name of the issuer of the bonds.
40. Bloomberg ID transaction: a unique identifier for the transaction in Bloomberg.
41. Ticker Equity: the equity ticker symbol of the issuing

Source: Prepared by authors.

The purpose of this study is twofold: (i) to examine the relationship between investments in environmental, social and governance (ESG) activities and the cost of debt financing in the corporate sector in Latin America and the Caribbean, and (ii) to map theregion's sustainability-related disclosure requirements by conducting a survey of local capital market regulators.

The second part of the study looks at the current state of sustainability-related disclosure standards at the global and regional levels. To gain a deeper understanding of where Latin America and the Caribbean stands in this regard, regulators and standard-setters from a sample of 10 countries —Argentina, Barbados, Brazil, Chile, Colombia, El Salvador, Mexico, Panama, Peru and Uruguay— were surveyed, with the goal of identifying areas where focalized support (i.e. technical assistance, training or coordination promotion) could yield positive harmonization results to facilitate corporate ESG investments and improve the stability of capital markets across the region.

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