

São Paulo, September 3rd, 2021

To: International Organization of Securities Commissions (IOSCO)

**Subject: Public Comment on ESG Ratings and Data Products Providers**

The Brazilian Institute of Corporate Governance (IBGC) would like to thank the International Organization of Securities Commissions (IOSCO) for the opportunity of commenting the Consultation Report on *Environmental, Social and Governance (ESG) Ratings and Data Products Providers* and to praise the aim of assisting regulators in understanding the implications of these activities.

The theme of this public consultation comes at a great time. There is a growing interest in ESG aspects in the investment universe, but access to financial and non-financial information about these issues is a challenge due to the low quantity and lack of quality and standardization of this type of information over time. This reality highlights some crucial challenges, such as concerns about greenwashing, consistency and comparability of information. Rating agencies and data product providers have emerged as important gatekeepers and due to their relevance they demand a certain leveling and robustness in the provision of their services.

The market of ESG ratings and data products tends to grow and we want it to grow with quality, attracting more investors by offering useful and reliable information for decision-making. That is why it is important sustainable bonds to go through due diligence processes, in the same way as with the issuance of traditional bonds in the financial markets.

There are clear signs that disclosure of ESG information needs to be re-evaluated globally. The results found by the artificial intelligence tool GreenWatch<sup>1</sup> when analyzing media statements, websites and other corporate communications from 700 global companies show that there is a high probability of greenwashing in 95% of the statements they analyzed from media companies. Meanwhile, more than 80% of corporate declarations in the industrial and consumer sectors have a high probability of greenwashing.

The diagnosis that IOSCO makes in the document is quite accurate. In general, ESG evaluators and data providers are largely unregulated, have diverse levels of transparency in their methods, offer uneven coverage, prioritize different aspects of evaluations, and open up potential conflicts of interest. IOSCO's research work could be the first step for local regulators to increase public disclosure and awareness on ESG ratings, suggesting formal oversight of an industry that helps to orientate trillions of dollars in investments.

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<sup>1</sup> <https://www.greenwatch.ai/>

That said, we would like to point out some remarks on the specific recommendations presented by Consultation Report. Below are suggestions for recommendations 1, 5, 8 and 9:

### **Recommendation 1**

The IBGC supports the trend towards regulating the services of rating agencies and data product providers, which would guarantee availability of information, uniformity of criteria and comparability. We recommend that the action points covered by Recommendation 1 go a step further, going beyond the proposal for formal oversight of regulators and proposing that jurisdictions consider the liability and sanction of rating agencies and data product providers for some situations, always aiming to balance incentives, restrictions and punishments of these gatekeepers, which are important to reduce information asymmetries and transaction costs.

### **Recommendation 5**

Information disclosed by rating agencies should be of sufficient quality to allow stakeholders to have a reasonable sense of the respect that the assessed organization has with the ESG aspects, indicating the sources consulted, methodologies and criteria of evaluating.

### **Recommendations 8 and 9**

The increased interaction between companies and rating providers is important for clarifying doubts, presenting incomplete documentation and correcting misinterpretation of data. This interaction is valid, fair and benefits the market, but this due diligence process should not make room for the assessed company to seek to influence the final result of the assessment in which it is being submitted. It cannot also be a space that allows the rating agency to offer consulting services. This scenario would be more complex if the market moves towards a model where the contracting of rating services by issuers and not by the user prevails. It is important to think of mechanisms that avoid conflicts of interest and the maintenance of evaluation independence.

Those comments were built by IBGC's policy staff with the support of IBGC's voluntary members that are experts in ESG practices. We hope our comments can contribute to IOSCO's reflections.

Sincerely,

**Valeria Café**

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**IBGC**