Emerging Markets Insights:

Sustainability Disclosure Regulations

Having proven a link between resource efficiency and future firm value in the developed markets, Osmosis Investment Management committed resources and capital to a year-long emerging market research project, the findings of which we presented to a global audience of investors in a recent webinar.

In this follow-up article, we provide a high-level overview of the local regulatory landscapes in emerging markets and outline the prominent climate and sustainability disclosure regulations and guidelines established in key jurisdictions within the MSCI Emerging Markets Index, as of mid-January 2024.

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Executive Summary

Mandatory Disclosure: We begin by looking at those countries that have obligatory sustainability disclosure regulations for all listed entities. This section highlights countries that have specific adherence to global frameworks such as the Sustainability Accounting Standards Board (SASB) or the Task Force on Climate-Related Financial Disclosure (TCFD), and stock exchanges that provide additional support to entities to ensure accurate and engaged disclosure. We will also consider the regulatory environment in Chile, South Korea, and Mexico, where mandatory disclosure does not apply to all entities, but rather to corporations or sectors which meet specific criteria.

Regional Disclosure: The article goes on to discuss regional disclosure trends, such as the nuances between Chinese reporting guidelines and the mandatory disclosure of Hong Kong-listed Chinese companies (H-shares), and an explanation of the new EU mandatory reporting requirements.

Reporting Guidelines: The last section of this article looks at guidelines published by the stock exchanges or governmental bodies of countries that do not require mandatory disclosure. These guidelines, whilst voluntary, are still crucial in understanding why disclosure rates continue to improve, and why data reported from these nations becomes increasingly reliable.

Mandatory Disclosure

Some prominent countries within the MSCI Emerging Market Index, have already made sustainability disclosure mandatory for all listed entities, which is likely to increase both reporting rates and data quality.

India

In India, disclosure rates are improving as the top 1000 listed companies on the Bombay Stock Exchange and National Stock Exchange are now required, by the Securities and Exchange Board of India (SEBI), to disclosure ESG data as part of their integrated annual reporting from and including the financial year ending 31st March, 2023. Whilst disclosure rates and quality have not historically been as high in India as in other emerging market nations, such as South Korea and Taiwan, a significant increase in disclosure rates has already been observed for the FY 2022-23 which can be attributed to these regulations. Further, almost all MSCI EM listed Indian entities follow the same Business Responsibility and Sustainability Reporting (BRSR) format, as a reporting requirement. This makes for efficient and easy comparison between companies as they all include the same environmental performance indicators (EPIs) in the same format, in addition to the immense guidelines and support that have been published by the SEBI.

United Arab Emirates (UAE) and the Philippines

Similar legislation was approved in the UAE in 2020, when the Securities And Commodities Authority (SCA) issued a decision requiring joint listed entities on both the Abu Dhabi Securities Exchange (ADX) and the Dubai Financial Market (DFM) in the UAE to produce annual sustainability reports, no later than 6 months after the entities' financial reports are released. This regulation was likely introduced to encourage sustainability reporting from the largest and most international entities in the UAE, as the ADX was established to promote international trading. Similarly, starting in 2023, the Securities and Exchange Commissions of the Philippines, made sustainability reporting mandatory for all publicly listed companies; a regulation that was initially proposed due to low reporting in the Philippines. Although ESG reporting is not required for listing, compliance with ESG reporting constitutes a continuing listing requirement for companies in the exchange. The mandate requires that separate sustainability reports be annually submitted to the SEC of the Philippines, alongside annual reports. A 'comply or explain' procedure has been adopted, and sustainability reporting templates to guide companies that have not previously disclosed.

The sustainability disclosure requirements for India, the UAE, and the Philippines cover all three of Osmosis's key metrics including units for which companies should disclose data for specific environmental outputs and inputs. This inclusion of standardised units is likely to make for higher-quality reporting and increased comparability for investors.

South Africa, Taiwan, and Malaysia

Some regulators explicitly call for the use of globally recognised sustainability reporting frameworks. The South African Johannesburg Stock Exchange (JSE) has required the mandatory inclusion of environmental data in the form of integrated reporting on a 'report-or-explain basis' since 2010. Globally, this mandate was the first of its kind. In addition to this, the JSE has published its own sustainability disclosure guidance which aims to be specific to a South African context such as legislative requirements and social, economic, and environmental challenges. This guidance is aligned with the recent International Sustainability Standards Board (ISSB) Sustainability related Financial Information, released by the International Financial Reporting Standards (IFRS). This alignment is particularly valuable as the ISSB is positioned to become a global baseline for sustainability disclosure and the most comparable framework to date.

The regulations of Taiwan and Malaysia similarly call for the use of globally recognised sustainability and climate reporting frameworks, such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD). Using these frameworks will not only allow investors to better compare the environmental performance of companies as they utilise similar metrics for their reporting but will also likely increase the accuracy of such metrics, through the use of standardised and approved methodologies. In Taiwan, a new disclosure mandate, introduced in June 2022 and amended in September 2022, requires all companies listed on either the Taiwan Stock Exchange (TWSE) or the Taipei Exchange (TPEx) to disclosure ESG information such as greenhouse gas emissions, on an annual basis and in dedicated ESG reports.

Penalties and fines are to be imposed on entities that do not comply. These companies have been advised to report their environmental data following the guidelines set out in frameworks such as the GRI, SASB and TCFD. Similarly, the stock exchange of Malaysia, Bursa Malaysia, with aid from Malaysia's Joint Committee on Climate Change, is gearing up to make climate disclosure mandatory. This entails new requirements for mandatory climate disclosure related to companies listed on either the main market or Access, Certainty, Efficiency (ACE), the sponsor-driven market. Entities will have to disclose by the end of 2025 and 2026 for the respective markets, and Bursa Malaysia is using the TCFD recommendations as disclosure guidelines for entities.

Thailand and Indonesia

In both Thailand and Indonesia, additional support is provided by the respective financial boards and stock exchanges to ensure the accurate disclosure of mandatory environmental data. The Indonesian Financial Services Authority has required the mandatory annual disclosure of sustainability reports since 2021, recommending entities to follow TCFD disclosure frameworks, as well as additional specific 'Guidance for Sustainability Reporting' from the financial authority to promote more accurate disclosure. The regulations were introduced to increase sustainable investment, and Indonesia was one of the first APAC nations to introduce such a reporting requirement for all listed companies, in 2020. Similar regulatory practices have been introduced in Thailand, and not only has the Securities and Exchange Commission of Thailand required mandatory ESG reporting as a listing rule following the 2021 financial year, but the Stock Exchange of Thailand (SET) also provides courses on sustainability reporting for Thai listed companies, under the Corporate Sustainability Strategy. The SET works with organisations such as the Carbon Disclosure Project (CDP) and the Global Reporting Initiative (GRI) to improve and increase corporate climate action, and environmental reporting quality, and to engage with entities that historically have not reported.

Chile, South Korea, and Mexico

Regulators from the Financial Market Commission (CMF) of Chile released a new regulation relating to mandatory sustainability disclosure in 2021. Although this regulation is similar to those introduced in Malaysia and Taiwan, e.g. it calls for data disclosed to relate to metrics and advise established by SASB, it does not yet apply to all listed entities. The new regulations require listed corporations whose total consolidated assets exceed 20 million Chilean UF to report from the 2022 financial period and all listed corporations with consolidated assets exceeding 1 million Chilean UF to report after the 2023 financial period. Additionally, special corporations registered in the Securities Registry must report from the 2024 financial period.

In South Korea, the mandatory environmental disclosure requirements also only relate to certain entities. Entities traded on the Korea Composite Stock Price Index (KOSPI) with assets over two trillion Korean won will have to disclose key environmental information by the end of year 2025. This accounts for the majority of South Korean companies within the Emerging

Markets index. Mandatory ESG disclosure will be introduced for all entities by the end of 2030. Further, KOSPI has ruled that major listed companies will have to disclose material information in English, for entities with over 10 trillion won from 2024, and entities with assets over 2 trillion won from 2026, which would again affect the majority of South Korean companies in the index. According to a 2021 joint report on global sustainability reporting by the International Federation of Accounts and the American Institute of Certified Public Accountants, it is commonplace in South Korea for entities to report certain environmental metrics (for example, greenhouse gas emissions), in a separate report for assurance, increasing both the transparency and accuracy of South Korean sustainability reporting.

Despite not having legislation that directly enforces climate and sustainability-related disclosures, some jurisdictions, like Mexico, have broader climate change legislation that requires the disclosure of environmental data in certain sectors. In some contexts, mandatory disclosure of certain EPIs is required of certain sectors and emissions sources, such as energy, transportation, waste, agriculture, forestry, and some industrial processes. For example, the General Climate Change Law of Mexico mandates energy companies to report on carbon emissions of over 25,000 tCO2e annually. Although such mandating laws are only applicable to certain sectors and environmental concerns, we have found Mexican entities to have strong disclosure rates in the last five years.

It is important to note that all the nations listed above, especially APAC nations, are on par with some developed market countries with regard to climate disclosure regulations. For example, mandatory climate disclosure was only brought into the UK and EU in 2022, and in the US, whilst the SEC proposed regulations regarding climate disclosure the same year, the legislation is yet to be passed. The UK climate regulations apply to the 1,300 largest UK registered companies, and require disclosure using the Task Force on Climate-related Financial Disclosures, whereas the EU follows its own guidelines, published in 2022 by European Financial Reporting Advisory Group (EFRAG) EFRAG, a private association of the European Commission.

Regional Trends

China

Chinese companies were found to have low rates of disclosure overall, however, Hong Kong listed Chinese companies fared much better. Publicly traded Chinese companies often opt to list on the HK stock exchange as H- shares, to increase exposure to foreign investment. In 2016, the HKEX introduced a requirement for listed companies to publish annual ESG reports, including specified mandatory disclosure. These reporting requirements were also updated in 2020 and 2022 to better align with TCFD climate disclosure. The mandatory aspect of the disclosure relates to issues of materiality, quantitative methods, and the consistency of the methodologies used, whereas the "comply or explain" provisions relate to the actual environmental data, such as emissions scopes, waste outputs and water consumption.

Surprisingly, despite low rates of disclosure compared to their emerging market peers, Chinese companies have been encouraged to disclose ESG information since 2018, under the Listed

Company Governance Code. More recently, voluntary disclosure guidelines were released by the China Enterprise Reform and Development Society (CERDS) in June 2022- the first of its kind. Although CERDS is a think tank, it has ties to the state-owned Assets Supervision & Administration Commission. The guidelines encourage disclosure on China- focused ESG issues and aim to promote more uniform disclosure.

Emerging Market EU

Further, swift increases in reporting rates from EU member states are expected given the passing of new mandatory disclosure regulations. As of mid- January 2024, the Czech Republic, Greece, Hungary and Poland had entities in the MSCI Emerging Markets Index. In April 2022, the European Financial Reporting Advisory Group (EFRAG), an advisory association to the European Commission, released the European Sustainability Reporting Standards (ESRS). The sustainability standards were approved under the EU Corporate Sustainability Directive (CSRD) in November 2022. The new CSRD ESRS sustainability and climate specific reporting requirements not only cover waste, water, and carbon data relevant to Osmosis' thesis, but will also apply to organisations with over €20 million in total assets, a net turnover of €40 million, and/or over 250 employees, from FY24. Further, these reporting requirements will not only impact EU companies, but also subsidiaries of non- EU member state companies, and/or those with an annual net turnover of €150 million in the EU, from 2028. Accuracy is likely to improve as companies will need to be prepared for third party data assurance. Additionally, as the disclosure is mandatory under the CSRD, any companies that fail to comply with its' disclosure requirements can face fines of up to 1% of their annual turnover.

Reporting Guidelines

Although some Emerging Market nations do not have mandatory disclosure, guidelines are being released by respective stock exchanges and regulatory boards as ESG reporting globally gains momentum. Countries such as Brazil, Saudi Arabia, and Qatar were found by our research to have high company counts and disclosure rates within the MSCI Emerging Market index have released guidelines for ESG disclosure, specific to the context of their respective countries. Brazil has introduced a corporate sustainability index, called the ISE B3, to assess the climate disclosure of listed companies, and increase transparency in both ESG disclosure and practices.

Similarly, the Qatar Stock Exchange has been publishing ESG reporting guidance since 2017 and introduced a sustainability platform in 2018 to encourage listed companies to disclose such information. Despite not yet having mandatory disclosure, the Qatar Stock Exchange does state that Qatar and its listed companies can expect that in due course the reporting of material ESG metrics and sustainability reports will become mandatory. Countries which have not yet introduced mandatory ESG disclosure are also adopting internationally recognised climate disclosure frameworks, such as the TCFD framework, as part of their guidance on voluntary sustainability reporting. In Saudi Arabia, the stock exchange has been working with the aid of the UN's Sustainable Stock Exchange Initiative and the CDP to provide training to listed entities on how best to implement the TCFD disclosure guidelines. Guidelines have been published by the Saudi Exchange for transparent sustainability disclosure that is specific to their national context.

Important Information

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