Emerging Markets Insights: Regulatory Rigour & the Rapid Growth of Environmental Disclosure

Regulatory Rigour & the Rapid Growth of Environmental Disclosure

Key takeaways

- Climate change, coupled with increasing environmental degradation, is prompting regulators in emerging markets to swiftly implement sustainability reporting mandates.
- Contrary to perception, some emerging market jurisdictions have sustainability disclosure requirements that are more advanced than their developed market peers.
- China and India, once struggling with lower environmental disclosure rates, have now enacted legislation mandating the release of material environmental information.
- Certain historical and regional contexts, such as those in Taiwan, Brazil and South Korea have led to high environmental disclosure rates without regulatory mandates.

Figure 1: Source: Osmosis IM, November 2024

Emerging markets (EM) environmental disclosure regulations are exceeding expectations.

Historically, EM environmental data was perceived as lacking transparency and regulatory rigour. However, Osmosis research demonstrates that in some EM regions, environmental disclosure mandates are more robust than certain developed market counterparts, like the USA.

Recognising that climate-related risks can significantly impact a company's operations and bottom line, EM regulators have acted to swiftly implement sustainability disclosure requirements. These mandates push companies to measure and transparently disclose their environmental impact. While global environmental reporting standards originated in developed markets, it's notable that countries like South Africa were pioneers; the Johannesburg Stock Exchange led the way with mandatory environmental data disclosure in the form of integrated reporting as early as 2010.

Figure 1 highlights the growing coverage of climate disclosure mandates across EM, with many key countries and regulators significantly enhancing their ESG transparency efforts. Countries like India and Malaysia have already implemented mandatory environmental reporting requirements, while others, including China and South Korea, have adopted mandates that will be implemented in upcoming years.

Regulation has rapidly improved disclosure in India

Thanks to mandatory environmental disclosure requirements, India has caught up to and in some cases, overtaken its EM peers. The Securities and Exchange Board of India (SEBI) now requires the top 1,000 listed companies to disclose ESG data in a standardised format, enabling easier environmental performance comparison.

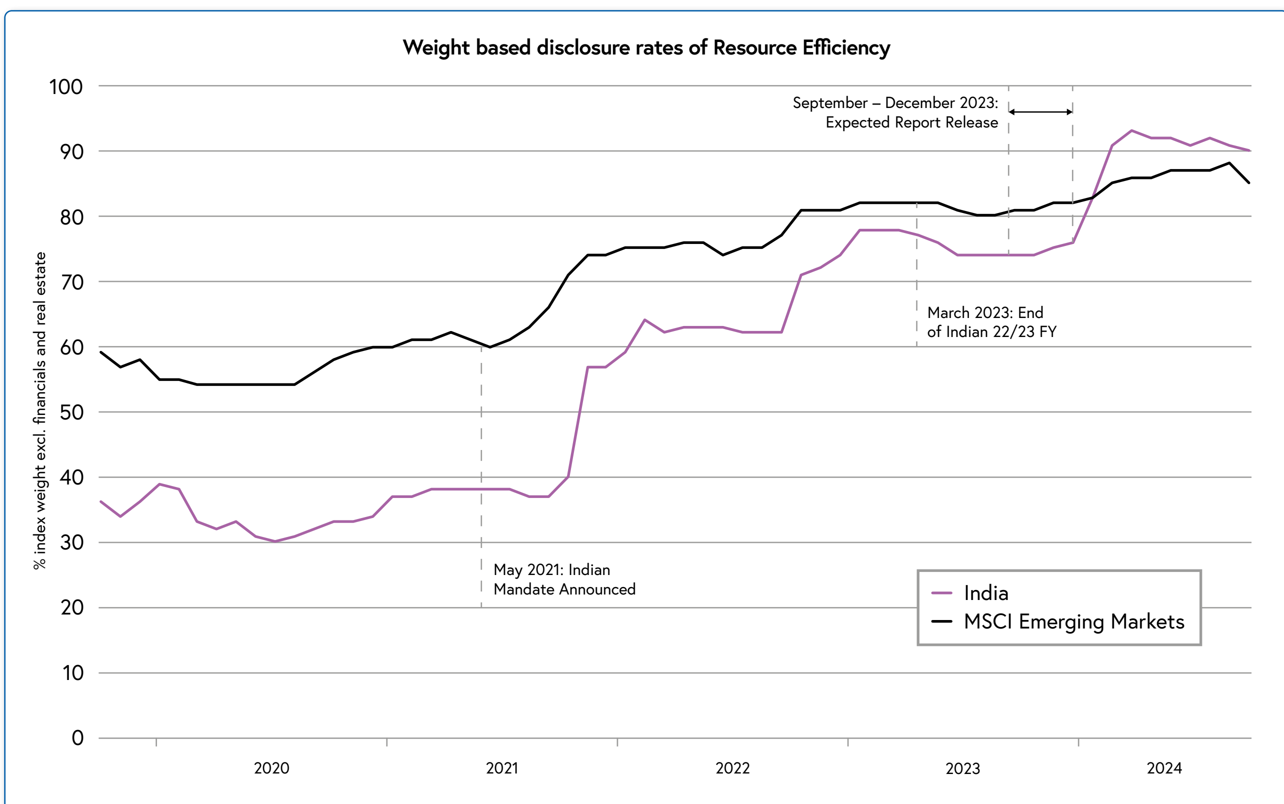

Figure 2: Source: Osmosis IM, September 2024. Disclosure means at least two of three metrics of carbon, water or waste are disclosed

Historically, India has lagged behind EM countries like Taiwan in both disclosure rates and quality. However, mandatory disclosure, announced in May 2021 and implemented for the 2022-23 financial year, significantly boosted Indian reporting by weight, as illustrated in Figure 2.

Figure 2 compares Indian companies disclosing data on at least two of Osmosis' environmental metrics- carbon emissions, water withdrawal and waste generation- against overall EM rates. To receive a Resource Efficiency (RE) score and an active portfolio weight, entities must disclose at least two of these metrics.

Historically, India lagged from a water and waste disclosure perspective, but weight-based rates rose ~50% between 2020 and mid-2024, overtaking the overall MSCI EM rates in early 2024. India has now surpassed the overall EM weighted disclosure rate, in full RE reporting and across all three environmental metrics. While SEBI states non-compliance may result in penalties and fines, full weighted disclosure is yet to be achieved but is expected to improve as regulations become stricter.

Could this trend be replicated in China?

As Chinese regulators have announced new climate disclosure requirements, we expect to see an upward trend in Chinese reporting rates, similar to what has been observed in India. Since 2018, Chinese companies have been encouraged, but not required, to disclose ESG information. Any environmental data provided by Chinese firms also primarily focused on air and water pollutants, rather than emissions, waste generation, and water withdrawal, restricting environmental comparisons with entities in other markets.

However, Chinese disclosure rates have significantly increased in recent years, driven by, and in preparation for, the introduction of new mandatory reporting requirements. In February 2024, the three main stock exchanges in mainland China announced that large listed companies would be required to disclose ESG information aligned with global markets starting in 2026. Whilst disclosure rates have been generally low for Chinese companies, there were exceptions. Many publicly traded Chinese firms opted to list as H-shares on the Hong Kong Stock Exchange (HKEX) to attract foreign investment. Since 2016, the HKEX has required listed companies to publish annual ESG reports with specified mandatory disclosures. We expect to see Chinese disclosure continue to rise in line with this new legislation.

But legislation is not the only factor increasing disclosure rates

In some countries, companies have disclosed pre-regulation. Taiwan mandated disclosure in 2022, requiring listed companies to disclose ESG metrics annually. However, high reporting rates amongst Taiwanese entities were common prior to the legislation even being announced. Figure 3 below illustrates Taiwan's weight-based disclosure rate of over 90% since early 2020. High standards of reporting, in both quality and rates, have long been common in Taiwan due to market best practice of adhering to globally recognized sustainability frameworks, such as the GRI, SASB, and TCFD.

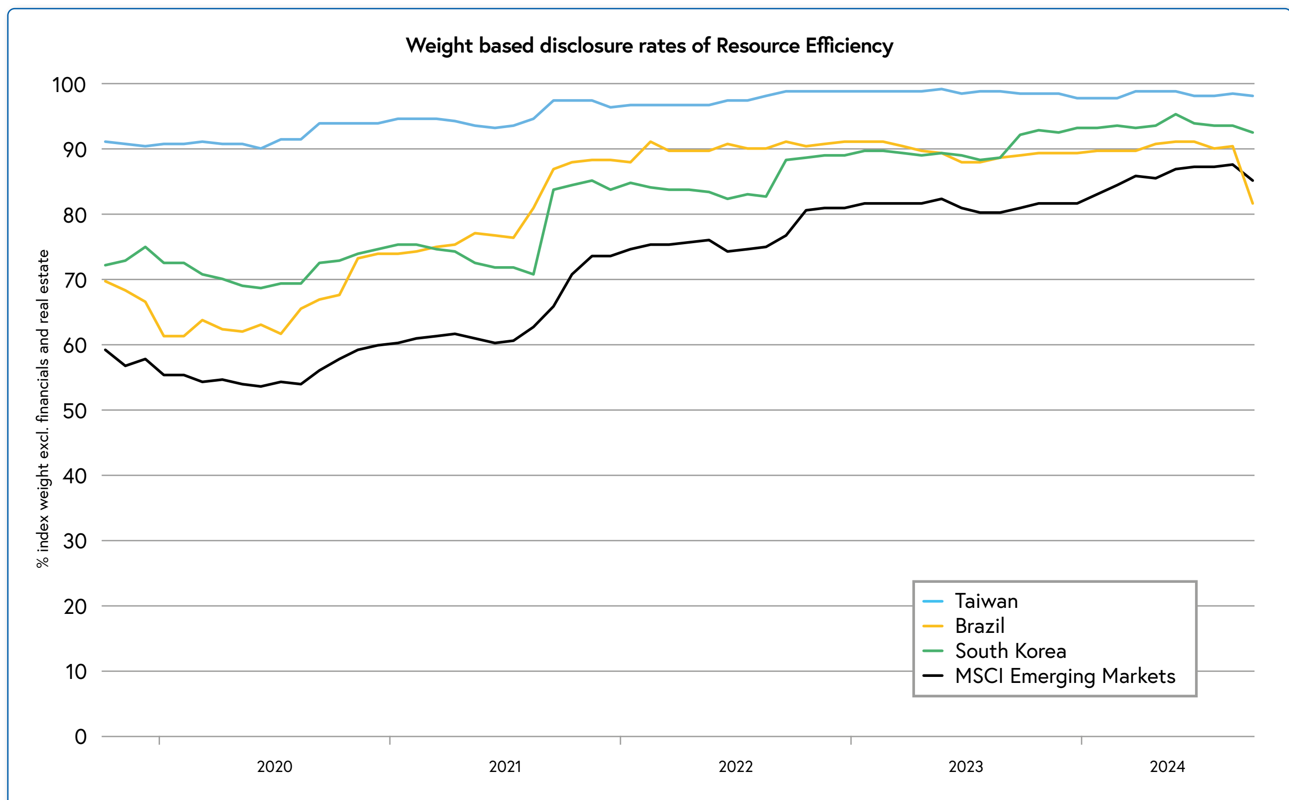

Figure 3: Source: Osmosis IM, September 2024. Disclosure means at least two of three metrics of carbon, water or waste are disclosed.

Similarly, Brazil and South Korea have been slower than India to implement disclosure regulations, but already have high reporting rates. Since early 2020, their weighted disclosure rates have consistently outperformed the overall MSCI EM Index, even with disclosure remaining voluntary, illustrated by Figure 3.

Despite this, regulations have recently passed in both countries that will be implemented in upcoming years. In South Korea, mandatory ESG disclosure will be introduced by the end of year 2025 for all entities on Korea Composite Stock Price Index with assets over two trillion Korean won and all remaining listed entities by 2030. In Brazil, entities will be required to provide annual sustainability and climate disclosures, starting January 2026, and the Brazilian Securities and Exchange Commission recommends that entities follow the new International Sustainability Standards Board (ISSB) disclosure standards.

Across both markets some regions have some catching up to do.

Despite progress in environmental disclosure across EM, regions like the Middle East lag, mirroring recent trends in certain developed market regions. The UAE is the only EM country in the Middle East to have implemented any level of mandatory sustainability report, and even then it is limited. The UAE's neighbours Qatar, Saudia Arabia and Kuwait are even further behind, having only issued sustainability reporting guidelines without any mandatory requirements. Whilst Qatar's primary stock exchange announced that reporting material ESG metrics will eventually become mandatory, it remains to be seen when this legislation will be adopted.

When evaluating environmental data availability from EM entities, investors must consider the regulatory context of climate disclosure mandates and compare them with those in developed markets. It is important to remember that developed countries, particularly the U.S., have faced significant challenges in implementing such regulations. For instance, the climate disclosure rules proposed by the SEC in early 2022 were only adopted at the start of this year, and had to be significantly scaled back, covering only Scope 1 and 2 emissions for certain entities. This more lenient approach contrasts with the recommendations of globally recognized frameworks and is a far cry from the original, more prescriptive proposal, which still did not encompass broader environmental issues such as waste and water.

Emerging market disclosure regulations beat some developed countries, but not all.

The EU is undoubtedly the global lead for environmental reporting regulations. Although some developed market countries fall short in regards to environmental disclosure, the strongest framework is the EU's EFRAG Corporate Sustainability Reporting Directive (CSRD). As of November 2024, there are four EU member states with entities in the MSCI EM Index: the Czech Republic, Greece, Hungary and Poland.

Approved in November 2022, the new EU CSRD has a greater reporting scope than other frameworks. It encompasses 10 sustainability topics, such as climate change, water & marine resources, and biodiversity and covers over 1,000 data points, where material, on a comply or explain basis. Furthermore, the EU standards also demonstrate a significant advancement in the scope of covered entities, with certain EU and non- EU organizations required to report under the framework or face significant penalties and fines.

A positive outlook, and not finished yet.

The advanced nature of these EM regulations may reflect the recognition by local regulators of both the climate risks and the opportunities tied to foreign investment. Given the already rapid increase in climate disclosures in these markets, it will be exciting to see the efficacy of upcoming mandates in China, South Korea and Brazil and how the global regulatory landscape continues to evolve.

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