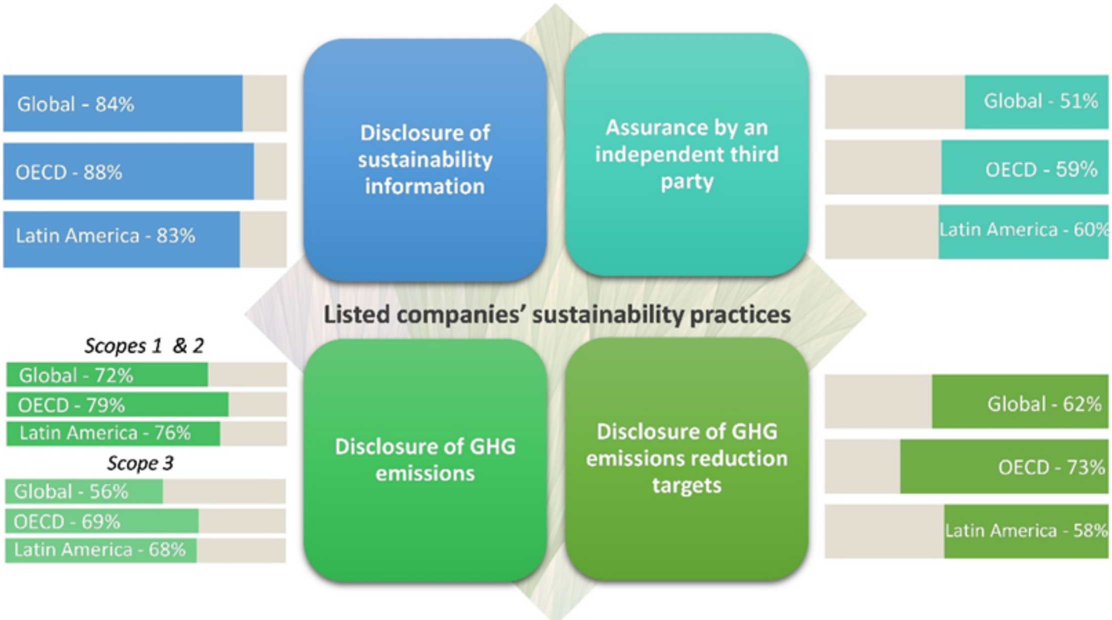
How can corporate governance frameworks support the region's corporate sector sustainability and resilience?

Key highlights

- While not every Latin American country requires listed companies to disclose an annual sustainability report, companies representing 83% of the region's market capitalisation disclose sustainability-related information. Among them, more than two-thirds of companies by market capitalisation hire a third party to conduct an external assurance of the report (typically by an audit firm and with a limited level of assurance).
- Market participants in Latin America recognise the need to make sustainability disclosure more reliable, consistent, and comparable. Most asset managers and listed companies would support mandatory corporate sustainability disclosure (89% of support from large asset managers and 92% from large companies). Likewise, both asset managers and companies endorse the adoption of an international sustainability disclosure standard for listed companies (71% of support from large asset managers and 70% from large companies).
- For large asset managers investing in Latin America, water and wastewater management, climate change, and human capital have been the main engagement priorities with companies. In shareholder meetings and boards of directors, the top priorities have been human capital, data security and customer privacy, human rights, and climate change. In Latin America, climate change risks are more relevant than in other regions, being financially material for 71% of companies by market capitalisation (6 percentage points above the global average).



Note: Greenhouse gases emissions resulting directly from a company's activities and indirect emissions related to its energy consumption are known as scope 1 and scope 2 GHG emissions respectively, and emissions generated in a company's supply chains are known as scope 3 GHG emissions.

[1] All information in this policy brief is sourced from OECD (2023), Sustainability Policies and Practices for Corporate Governance in Latin America, Corporate Governance, OECD Publishing, Paris, https://doi.org/10.1787/76df2285-en.

What's the issue?

Capital markets are less developed in Latin America than in other regions. For instance, while all countries in the region have market capitalisation of listed companies to GDP ratios smaller than 50%, major OECD and G20 economies stage an average ratio typically higher (85% in China, 116% in the United Kingdom, 134% in Japan and 237% in the United States). The global transition to a low-carbon economy offers the possibility for Latin America to further develop its capital markets. In the region, companies have access to immense natural resources, and global institutional investors have increasing assets under management to invest in sustainable businesses. If public capital markets can efficiently connect both parts, Latin America's economy and the environment will both benefit.

While sustainable bonds have been the focus of some sustainability related initiatives in Latin America, the relative importance of these debt securities is low. For instance, non financial corporations issued less than USD 15 billion in sustainable bonds in either Chile or Mexico between 2013 and 2022, while the market capitalisation of listed companies' equity in these countries was USD 150 billion and USD 453 billion, respectively, in 2021. There is a strong demand for corporate sustainability disclosure from asset managers investing not only in sustainable bonds but in all types of securities, including equity. Companies have been responding to this demand, and the most relevant improvement currently possible is probably the adoption of a single sustainability accounting standard accepted by both local and non domestic investors that would allow a more efficient capital allocation to enable companies to benefit from a transition to a more sustainable economy.

Examples from OECD countries and/or Latin American countries

In recent years, legislators, regulators, and stock exchanges worldwide have been increasingly active in developing rules and guidance for sustainability disclosure by listed companies.

Among the seven Latin American countries[2] and six large jurisdictions from other regions[3] covered in the OECD report Sustainability Policies and Practices for Corporate Governance in Latin America, Argentina, Brazil, Peru, and the United Kingdom adopt a recommendation for companies to disclose sustainability information under a "comply or explain" approach, meaning that they need to either disclose the information or explain why they do not do so. China, Costa Rica, and India, by their turn, recommend listed companies to disclose sustainability information, but they do not need to explain if they do not make such a disclosure. Other four jurisdictions (Chile, Colombia, the European Union, and Mexico) have adopted specific disclosure requirements, and, in the case of the United States, the capital markets regulator is conducting a public consultation on requirements for climate-related disclosure. In the case of Japan, the financial services regulator unveiled in November 2022 proposed regulatory revisions that would require sustainability disclosure.

Among the thirteen jurisdictions above, five allow companies the freedom to choose which sustainability disclosure standard they will use (Argentina, Brazil, Costa Rica, India, and Mexico). Among the jurisdictions that do choose a single sustainability accounting standard for all listed companies, there is also the alternative between adhering to an existing global standard and developing a local one. The three biggest surveyed jurisdictions (China, the European Union, and the United States), as well as Chile and Peru, have chosen to develop a local standard, while Colombia, Japan and the United Kingdom have adopted the SASB Standards and/or TCFD's Recommendations.

[2] Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru.

[3] China, European Union, India, Japan, United Kingdom, and United States.

Suggested Policy Actions

- Argentina, Brazil, Chile, Costa Rica, Mexico, and Peru may contemplate the adoption of a high-quality and internationally recognised sustainability-related disclosure standard that facilitates the comparability of disclosure across markets.
- All Latin American countries should consider requiring or recommending annual assurance attestations by an independent, competent, and qualified attestation service provider to deliver an external and objective assessment of a company's sustainability-related disclosure.
- Argentina, Chile, Costa Rica, and Mexico may consider prioritising, in their regulatory activities, the most salient sustainability matters in their respective markets, which include climate-related risks and opportunities. All Latin American regulators may prioritise their supervisory activities in a similar way.

Further reading

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