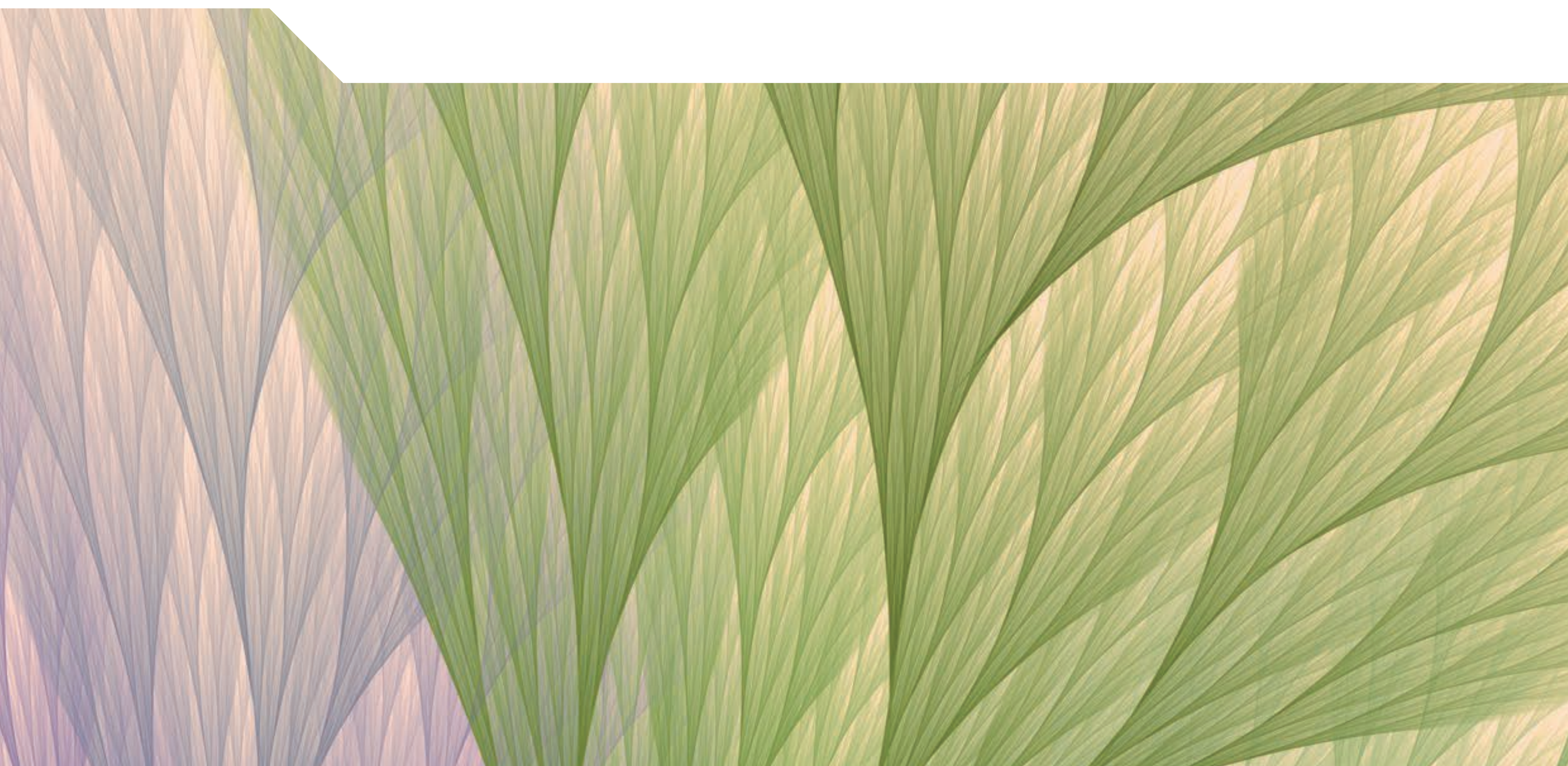
Corporate Governance

Sustainability Policies and Practices for Corporate Governance in Latin America



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Foreword

Sustainability Policies and Practices for Corporate Governance in Latin America offers a comprehensive account of the main trends and issues related to sustainability policies and practices for corporate governance in the region. It informs policy makers, regulators and market participants on some of the most relevant factors they may consider when assessing whether their national corporate governance frameworks adequately respond to investors' and companies' demands related to sustainability.

Through key policy recommendations, this report supports the development of the region's frameworks for disclosure, the responsibilities of company boards of directors, and shareholder rights in alignment with the G20/OECD Principles of Corporate Governance (G20/OECD Principles). The G20/OECD Principles are the leading international standard in the field of corporate governance. They are currently under review, and the key policy recommendations in this report do not aim to anticipate guidance that may be eventually included in the revised G20/OECD Principles.

This report was authored by Adriana De La Cruz and Lizeth Palencia under the supervision of Caio de Oliveira, all from the Corporate Governance and Corporate Finance Division of the OECD Directorate for Financial and Enterprise Affairs. It benefits from discussions within the OECD-Latin America Corporate Governance Roundtable and incorporates comments from its members. The authors are grateful for the capital markets regulators from Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru, who have invested significant time in providing information for this report.

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Acronyms and abbreviations

ABRASCA	Brazilian Association of Public Companies	GSSB	Global Sustainability Standards Board
AMAFORE	Mexican Association of Pension Fund Administrators	IASB	International Accounting Standards Board
ANBIMA	Brazilian Financial and Capital Markets Association	ICGC	Colombian Institute of Corporate Governance
AUM	assets under management	IDEA	Institute for Business Development of Argentina
BIC	Public Benefit Corporation (in Spanish)	IFC	International Finance Corporation
BMV	Mexican Stock Exchange	IFRS	International Accounting Standards Board
CDP	Carbon Disclosure Project	IOSCO	International Organization of Securities Commissions
CDSB	Climate Disclosure Standards Boards	IPO	initial public offering
CEO	chief executive officer	IR	Integrated Reporting
CMF	Chilean Financial Market Commission	ISAE	International Standard on Assurance Engagements
CNCPIE	National College of Independent Professional Business Advisors	ISSB	International Sustainability Standards Board
CNV	Argentinian Securities Commission	NPL	natural language processing
CSR	corporate social responsibility	OECD	Organisation for Economic Co-operation and Development
CVM	Brazilian Securities Commission	PBC	Public Benefit Corporation
ESG	environmental, social and governance	REIT	real estate investment trust
EU	European Union	SASB	Sustainability Accounting Standards Board
FASB	Financial Accounting Standards Board	SPO	secondary public offering
FIAB	Ibero-American Federation of Stock Exchanges	SWF	sovereign wealth fund
GDP	gross domestic product	TCFD	Task Force on Climate-Related Financial Disclosures
GHG	greenhouse gases	UK	United Kingdom
GRI	Global Reporting Initiative	US	United States
GSS	green, social and sustainability	VRF	Value Reporting Foundation Board

Executive summary

This report presents an overview of the main trends and issues related to sustainability policies and practices for corporate governance in Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru. Through key policy recommendations, its objective is to support the development of the region's frameworks for disclosure, the responsibilities of company boards of directors, and shareholder rights in alignment with the G20/OECD Principles of Corporate Governance (G20/OECD Principles). This report benefits from two OECD surveys conducted with 275 Latin American companies comprising around half of the region's market capitalisation and 521 asset managers investing more than USD 1.3 trillion in the region. Likewise, this report presents for the first time a dataset that contains sustainability information for up to 13 800 listed companies with a total of USD 113 trillion market capitalisation listed on 83 markets in 2021.

Latin America's capital market landscape. In 2021, there were 1 088 listed companies in the Latin American stock markets with a total market capitalisation of USD 1 602 billion. From 2000 to 2021, almost 700 new listings and 1 049 delistings took place in the Latin American public equity markets. Total market capitalisation to GDP in the region ranges from 3% in Costa Rica to 50% in Brazil, which is below the OECD average at 150%.

Private corporations are the most important category of equity owners in Argentina, Brazil, Chile and Peru. Distinctively, strategic individuals rank first in Mexico holding 34% of the listed equity, while in Colombia the public sector holds almost 40% of the listed equity. Non-domestic institutional investors hold a larger equity share than domestic ones in Argentina, Brazil, Chile and Mexico. The average combined holdings of the top three shareholders (ownership concentration) in listed companies rank from 56% in Mexico to 81% in Peru.

Latin American companies raised USD 25.6 billion in green, social and sustainability (GSS) corporate bonds in 2021, with more than 90% of this amount issued by non-financial companies. Chile (USD 14.8 billion) and Mexico (USD 13 billion) have had the most active markets for GSS corporate bonds from 2013 to 2022. The activity has decreased to pre-COVID levels in 2022 in the region, with only USD 1.9 billion raised via GSS bonds by non-financial companies as of October. Basic materials and utilities represent almost 30% of the raised funds in Latin America, differing from the global trend where half of the GSS bonds were issued by financial companies between 2013 and 2022. In Latin America, investment funds labelled as “ESG” reached USD 4 billion of assets under management in 2021, against USD 0.8 billion in 2020.

Sustainability disclosure. Most asset managers investing in Latin America review their portfolio companies' sustainability disclosure. For large asset managers, 47% report that they review the sustainability disclosure from all investee companies and 26% that they do so only for specific industries. While not every country requires listed companies to disclose an annual sustainability report, companies representing 83% of the region's market capitalisation disclose sustainability 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). The GRI Standards and SASB Standards are the most-often used sustainability reporting frameworks by Latin American listed companies.

Market participants in Latin America mention 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 reporting 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).

The responsibility of boards. Chile, Colombia, Costa Rica, Mexico, and Peru adhere to what some have named the “shareholder primacy” view. While different legal systems have their particularities, directors in those countries would typically need to consider only shareholders’ financial interests while complying with the applicable law and ethical standards. In Brazil, company law also establishes that directors would have to *consider* stakeholders’ interests and the social and environmental stakes of a company’s activity. In the region, only Brazil, Mexico and Peru have adopted the Business Judgement Rule or a similar safe harbour.

In Latin America, executive compensation plans have performance-based incentives in 59% of the companies by market capitalisation, and compensation policy is linked to sustainability matters in 27% of them. Additionally, 44% of the Latin American companies have a board-level committee responsible for sustainability matters, which is slightly above the European Union average at 42%.

Shareholder rights and engagement. A majority of asset managers in Latin America consider sustainability matters both when investing and engaging with companies, and when voting in shareholder meetings (89% of large asset managers when making investment decisions). Likewise, most asset managers investing in the region declared that they would consider filing or co-filing an ESG-related shareholder resolution. Either due to shareholder requests or proactively, companies that account for 58% of the region's market capitalisation have publicly disclosed GHG emissions targets, which is notably below the share in the United Kingdom at 84% and in the European Union at 81%.

Corporate governance frameworks. All surveyed Latin American countries either require or recommend the disclosure of sustainability information by listed companies. Brazil and Colombia have a greater focus on climate-related matters, whereas others require or recommend the disclosure of a great number of sustainability matters. Notably, Chile, Colombia, Costa Rica, Mexico and Peru have adopted either a requirement or a recommendation for companies to disclose verifiable metrics to allow investors to assess the credibility and progress toward meeting an announced sustainability-related goal.

Among the countries that have chosen a single sustainability accounting standard for all listed companies, Chile and Peru have decided to develop a local standard while Colombia has adopted the SASB Standards and TCFD’s Recommendations. No surveyed Latin American jurisdiction currently requires nor recommends the external assurance of sustainability information.

1 Introduction

This chapter summarises the outline of each chapter in the report and provides an overview of the respondents' profile to two original OECD surveys on corporate sustainability practices: (1) survey on sustainability practices of listed companies in Latin America and (2) survey on sustainability practices of asset managers in Latin America.

This report is the final output of a project that involved the OECD and the capital markets regulators of Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru. It presents the main trends and issues related to sustainability and corporate governance in these countries and globally. Through key policy recommendations, its objective is to support the development of the region's frameworks for disclosure, the responsibilities of company boards of directors, and shareholder rights in alignment with the G20/OECD Principles of Corporate Governance (G20/OECD Principles). The jurisdictions whose frameworks and markets are covered in this report include the seven Latin American countries mentioned above, as well as the People's Republic of China (China), France, India, Japan, Spain, the United Kingdom, and the United States. Wherever relevant, information on the European Union's regulatory frameworks is also provided.

This report presents and analyses three primary sources of information. First, two OECD original surveys with listed companies and asset managers investing in Latin America. Second, the new OECD Corporate Sustainability dataset, which compiles information on the sustainability practices of listed companies in 68 markets globally, including the seven mentioned Latin American countries and major markets in all regions. Third, an up-to-date comprehensive account of how the fourteen jurisdictions covered in this report regulate sustainability-related matters for listed companies. This first chapter informs how the surveys and dataset have been developed, as well as the representativeness of survey respondents and companies included in the dataset.

Chapter 2 provides an overview of the capital markets and the investor landscape in Latin America. The chapter then presents the shareholders of Latin American listed companies and the ownership concentration at the company level. Finally, it summarises recent developments in green, social and sustainability (GSS) corporate bond issuance and investment funds labelled as or focusing on sustainability issues.

Chapter 3 offers an overview of the main practices and preferences for disclosure and assurance of sustainability information among Latin American asset managers and companies, and in selected jurisdictions. It then considers the demand for mandatory disclosure and the adoption of a single accounting and reporting sustainability standard.

Chapter 4 focuses on the main challenges regulators and policy makers face concerning sustainability matters that companies cover in their reports. Considering different perspectives, it analyses data that may guide regulators and other organisations in prioritising which sustainability matters to concentrate their resources on.

Chapter 5 discusses the legal frameworks for the responsibility of boards of directors, including fiduciary duties, Business Judgement Rule and corporation's purpose in Latin America and in selected jurisdictions. The chapter also portrays the perceptions of asset managers and companies in Latin America about the possibility of trade-offs between shareholder value and societal or environmental benefits, as well as practices related to executive compensation plans and board committees.

Chapter 6 assesses the different forms of engagement between shareholders and companies in Latin America, including dialogue with directors and voting in shareholders' meetings. The chapter also covers the leading trends in disclosure and targets related to greenhouse gases (GHG) emissions.

Chapter 7 highlights the rules and recent developments related to corporate governance frameworks across twelve jurisdictions and the European Union. It includes the relevant regulation and key issues for sustainability disclosure, third party assurance, and proportionality.

Chapter 8 presents eight key policy recommendations to serve as an initial agenda for discussion in the region, including in the OECD-Latin America Roundtable on Corporate Governance.

This report is succinct and aimed at an audience of practitioners who are already familiar with the basic concepts related to corporate sustainability. Readers who are not versed in the main legal, economic and accounting discussions related to corporate sustainability may benefit from accessing the OECD report *Climate Change and Corporate Governance* (OECD, 2022[1]), which complements this more practice-oriented report.

Readers interested in corporate sustainability may also want to consult the *OECD Guidelines for Multinational Enterprises* (OECD, 2011[2]), which are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards.

1.1. The OECD surveys on sustainability practices in Latin America

Two OECD surveys conducted on sustainability practices in Latin America inform the analysis and key policy recommendations presented in this report:

1. Survey on sustainability practices of listed companies in Latin America.
2. Survey on sustainability practices of asset managers in Latin America.

While the following chapters present the aggregate survey results for all the seven selected Latin American countries, survey responses by country are staged in Annex C of this report.

1.1.1. Survey on Sustainability Practices of Listed Companies in Latin America

The capital markets regulators of Argentina, Chile, Colombia, Costa Rica, and Peru sent an online questionnaire hosted on an OECD webpage to all listed companies in their registries in June 2022. The questionnaire was available in English and Spanish, with a deadline to be filled by early August 2022. Likewise, the OECD shared the link to the questionnaire with listed companies in Colombia and Mexico, whose contact information was publicly available and provided by the regulator, respectively. Likewise, the following organisations have supported this project by sharing the link to the questionnaire with listed companies and asset managers associated with them:

- Argentina: Institute for Business Development of Argentina (IDEA).
- Colombia: Colombian Institute of Corporate Governance (ICGC), International Finance Corporation (IFC) and CESA's Corporate Governance Studies Centre (CEGC).
- Mexico: National College of Independent Professional Business Advisors (CNCPIE), Mexican Association of Pension Fund Administrators (AMAFORE), and Mexican Stock Exchange (BMV).

The results of this survey were complemented with the responses to a similar survey conducted by the OECD between late 2021 and early 2022 with listed companies in Brazil, whose results were presented in the report *Sustainability Policies and Practices for Corporate Governance in Brazil* (OECD, 2022[3]). In the case of Brazil, the Brazilian Association of Public Companies (ABRASCA) shared the link to the questionnaire with its associates.

The joint efforts of all the previously mentioned organisations resulted in 275 responses to the survey, which are summarised per country in Figure 1.1. The companies that answered the survey were divided into two groups for the analysis presented in this report. The first group includes companies in each country's most-often used large capitalisation index. The second group consists of all other (smaller) companies with listed equity and all unlisted companies. This segmentation allows comparing practices and perspectives in companies of similar size and capacity to comply with regulations and investors' requests.

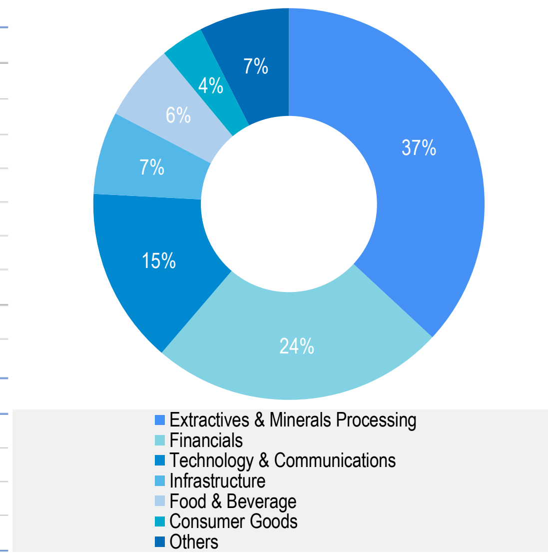
Figure 1.1. Profile of respondents to the survey on sustainability practices of listed companies in Latin America

A. General summary of respondents

Number of respondent companies	275
Companies in large capitalisation indexes	85
Companies from S&P Merval - Argentina	9
Companies from IBOVESPA – Brazil	25
Companies from S&P/CLX IPSA – Chile	13
Companies from MSCI COLCAP Index – Colombia	15
Companies from IACR- Costa Rica	1
Companies from MEXBOL Index – Mexico	16
Companies from S&P/BVL Peru General – Peru	6
Smaller companies with listed equity and unlisted companies	190

Market capitalisation of respondents (USD billion)	678
Companies in large capitalisation indexes	606
Smaller companies with listed equity and unlisted companies	72
Total market-cap large indexes in countries evaluated	1 313
Total market capitalisation in countries evaluated	1 602

B. Industry distribution, by market capitalisation



Notes:
[1] S&P MERVA, IBOVESPA, S&P/CLX IPSA, MSCI COLCAP, IACR, MEXBOL, and S&P/BVL Peru General are the most often used large-cap indexes in Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru respectively. These indexes included 221 companies in July 2022.
[2] Market capitalisation amounts are as of the end of 2021.
[3] For industry distribution, companies were classified into the eleven sectors used by SASB Standards to group companies based on shared sustainability risks and opportunities.
Source: OECD Survey on Sustainability Practices of Listed Companies in Latin America, Refinitiv.

Eighty-five respondent companies are classified into the group of large companies, and their market capitalisation totalled USD 606 billion in December 2021. This represents 44% of the total market capitalisation in the large capitalisation indexes in the seven countries. Among the remaining 190 companies, 130 have issued shares that are publicly traded, and the remaining 60 do not currently have any publicly traded equity securities (some of these have issued debt securities in public markets).

The industry distribution of respondents is broadly comparable to all companies that publicly trade their equity in the seven Latin American respondent countries. The industries financials (22%), extractives and minerals processing (22%), food and beverage (12%), infrastructure (11%) and consumer goods (10%) are the most representative industries among all listed companies in Latin America by market capitalisation. The sample of respondents has some overrepresentation of extractives and minerals processing (+15%), as well as of technology and communications (+7%), and underrepresentation of the food and beverage (-6%) and consumer goods (-6%) industries.

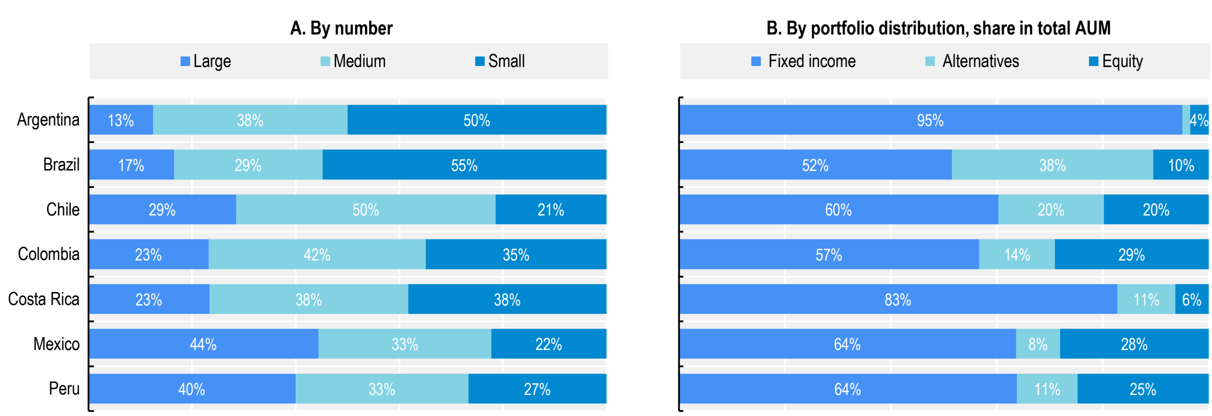
1.1.2. Survey on Sustainability Practices of Asset Managers in Latin America

The national capital markets regulators also sent an online questionnaire hosted on an OECD webpage to all asset managers in their registries in Argentina, Chile, Colombia, Costa Rica, and Peru in June 2022. The questionnaire was available in English and Spanish, with a deadline to be filled out by early August 2022. Likewise, the OECD shared the link to the questionnaire with asset managers headquartered in Colombia and Mexico, whose contact information was publicly available and provided by the regulator, respectively. The results of this survey were complemented with the results of the survey conducted by the OECD between late 2021 and early 2022 with asset managers investing in Brazil, whose results were included in the report *Sustainability Policies and Practices for Corporate Governance in Brazil* (OECD, 2022[3]). In the case of Brazil, the Brazilian Financial and Capital Markets Association (ANBIMA) shared the link to the questionnaire with its associates.

The joint efforts of the OECD and the national capital markets regulators, as well as the support of the eight abovementioned organisations from Argentina, Brazil, Colombia and Mexico, resulted in 521 responses from asset managers headquartered in the seven selected Latin American jurisdictions and 11 based abroad. Respondents declared to have USD 1 359 billion of assets under management (AUM) invested in Latin America as of the end of 2021, including fixed income, alternative investments, and equity (USD 1 329 billion of AUM for managers based in the seven Latin American countries and USD 30 billion for the non-domestic). A double counting may exist in the total value of AUM declared by respondents as some asset managers may invest in funds managed by others. Notwithstanding, the total AUM represents three-quarters of the USD 1 800 billion AUM of all investment funds managed by firms headquartered in Latin America in 2021, according to one estimate (Boston Consulting Group, 2022[4]). This demonstrates that the respondents represent a significant majority of asset managers headquartered in these jurisdictions, being Brazil the region's largest market with USD 1 000 billion worth of managed assets. Additionally, respondents had approximately USD 185 billion in equity investments as of the end of 2021, representing 12% of the total market capitalisation of companies that have their equity publicly traded in Latin America.

Asset managers who answered the survey were divided into three groups: large, medium, and small. Those with more than USD 1 billion of AUM are considered "large", while asset managers with AUM between USD 50 million and USD 1 billion of AUM are considered "medium". Those with less than USD 50 million of AUM are considered "small" asset managers. This segmentation allows comparing practices and perspectives of asset managers of similar size and capacity in terms of technology and human resources to analyse information about the companies in which they invest.

Figure 1.2. Profile of respondents to the survey on sustainability practices of asset managers investing in Latin America



Note: In the survey questionnaire, asset managers could answer or leave the questions about their AUM and portfolio distribution unanswered.
Source: OECD Survey on Sustainability Practices of Asset Managers in Latin America.

1.2. The OECD Corporate Sustainability dataset

The OECD has developed a dataset to compare the main trends and features of corporate sustainability at the global level. This dataset contains information, for instance, on whether companies disclose sustainability information, the accounting standard used in their reports, the existence of assurance by an independent third party, the existence of a committee responsible for sustainability matters, GHG emission reduction targets and executive remuneration linked to sustainability factors. It includes records for up to 13 800 listed companies with a total of USD 113 trillion market capitalisation listed on 83 markets in 2021, although the coverage may vary depending on the selected matter. The dataset also contains information on corporate green, social and sustainability (GSS) bonds issuances from 2013 to 2022 across 71 markets globally. The primary sources of information are Refinitiv and Bloomberg.

This dataset has been complemented by a Natural Language Processing (NPL) analysis of unstructured information on sustainability reports from 143 large listed companies in Argentina, Brazil, Chile, Colombia, Mexico, Peru, the United Kingdom, and the United States. The NPL analysis has been developed by Miklos Vasarhelyi from Rutgers University (United States), Ricardo Lopes Cardoso from Getulio Vargas Foundation (Brazil) and their teams, namely: Felipe Pedroso, Lanxin Jiang, Ludwig Berdejo, Meehyun Kim, Nichole Li, Steven Katz, and Yu Gu. Their analysis has made possible the collection of information on, among other issues, the level of assurance of a sustainability report and whether the assurance covers the whole (or only a part of the) sustainability report.

2 Capital market and investor landscape

This chapter describes the public equity and corporate green, social and sustainability (GSS) bonds landscape in Latin America. It presents the ownership structure of listed companies and the degree of ownership concentration at the company level. It also provides an overview of the trends in corporate GSS bond issuance and in investment funds focusing on sustainability.

Due to their long-term nature, equity markets may contribute to innovation and long-lived investments, which are prerequisites for sustainable economic growth. Access to equity financing may support corporations to direct investment towards productive and innovative activities while allowing them to meet their obligations to employees, creditors, and suppliers. From the perspective of ordinary households, public equity markets provide an opportunity to, directly or indirectly, participate in corporate value creation, as well as to have access to additional options for managing savings and planning for retirement.

2.1. Latin America public equity market

In 2021, 1 088 companies were listed in the Latin American public equity markets with a total market capitalisation of USD 1 602 billion (Table 2.1). Brazil's equity market represents half of the total market capitalisation of the region, followed by Mexico (28.3%) and Chile (9.3%). The remaining 12.4% corresponds to Colombia (5.5%), Peru (4.5%), Argentina (2.3%) and Costa Rica (0.1%). On average, companies representing 72% of market capitalisation are included in the main large capitalisation index in each country. Extractives and minerals processing is the largest industry in Colombia, Argentina, Peru and Brazil among listed companies, accounting on average for 35% of the total market capitalisation.

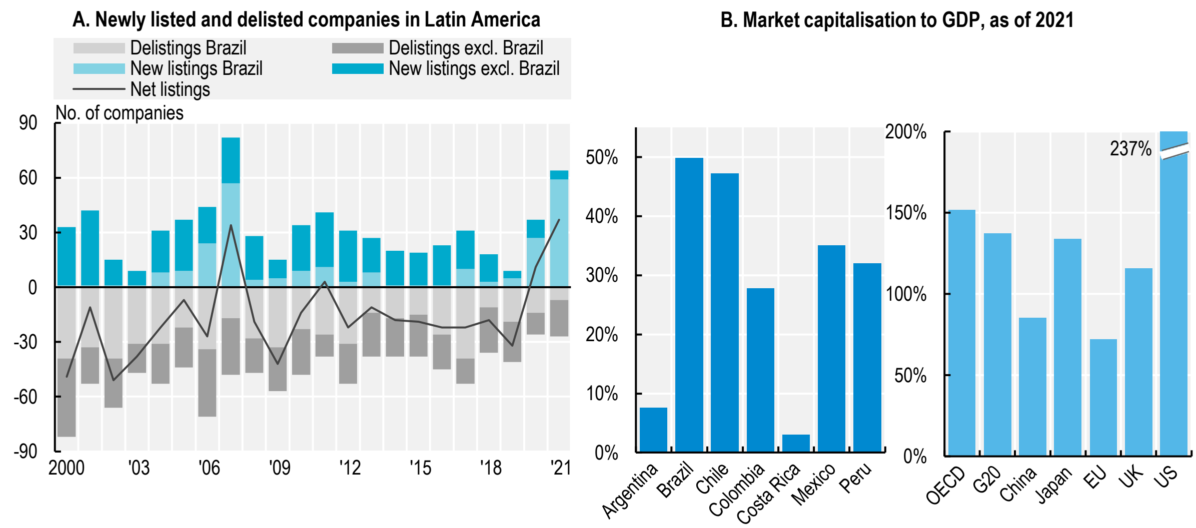
Table 2.1. Summary statistics of public equity markets in Latin America

	No. of listed companies	Market cap. (USD billion)	No. of companies in the large-cap index	Market cap. in the large-cap index (USD billion)	Main industry by market cap. – share (%)
Argentina	92	37	22	28	Extractives and minerals processing (39%)
Brazil	410	801	88	696	Extractives and minerals processing (24%)
Chile	190	150	29	105	Financials (29%)
Colombia	65	87	19	80	Extractives and minerals processing (40%)
Costa Rica	8	2	6	1	Food and beverage (53%)
Mexico	146	453	35	365	Consumer goods (21%)
Peru	177	71	22	39	Extractives and minerals processing (37%)

Note: Excluding investment funds and REITs.
Source: OECD Capital Market Series dataset, Refinitiv, Handbook Ibero American Federation of Stock Exchanges (FIAB).

Between 2000 and 2021, almost 700 new listings and 1 049 delistings took place in the Latin American public equity markets (Figure 2.1, Panel A). Net listings were only positive in 2007, 2011, 2020 and 2021, mainly driven by listings in the Brazilian equity market. In 2021, while there were 59 new listings in Brazil, only two listings occurred both in Chile and Mexico and one in Peru. Total market capitalisation to GDP in Latin America ranges from 3% in Costa Rica to 50% in Brazil, which is below the OECD average at 150% (Figure 2.1, Panel B).

Figure 2.1. Summary statistics of the public equity market in Latin America



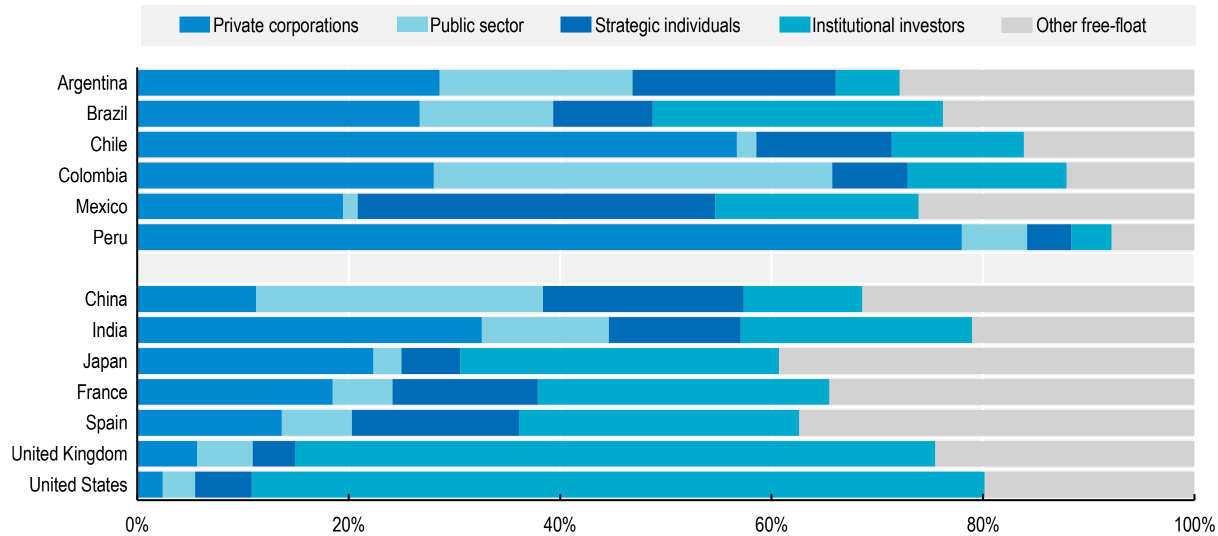
Note: Excluding investment funds and REITs.
Source: OECD Capital Market Series dataset, Refinitiv, Latin American stock exchanges and securities regulators.

2.2. Investors and ownership structure in Latin American public equity markets

Globally, the ownership structure of the listed companies has experienced significant changes over the past two decades, notably due to the increase in institutional ownership (OECD, 2021[5]). Nevertheless, there are significant country and regional differences for each category of investors that constitute the largest shareholders at the company level. Figure 2.2 shows the ownership distribution among different categories of owners in Latin America and in selected countries, using the categories in the report *Owners of the World's Listed Companies* (De La Cruz, Medina and Tang, 2019[6]).

In the United States and the United Kingdom, institutional investors are the largest category of owners holding 69% and 61% of the equity, respectively. In Japan, France and Spain, institutional investors rank also first among different categories of investors, with a comparatively lower share of market capitalisation. In India and in most Latin American countries, private corporations are the most prominent investors. Distinctively, strategic individuals rank first in Mexico holding 34% of the listed equity, while in Colombia the public sector holds almost 40% of the listed equity (Figure 2.2).

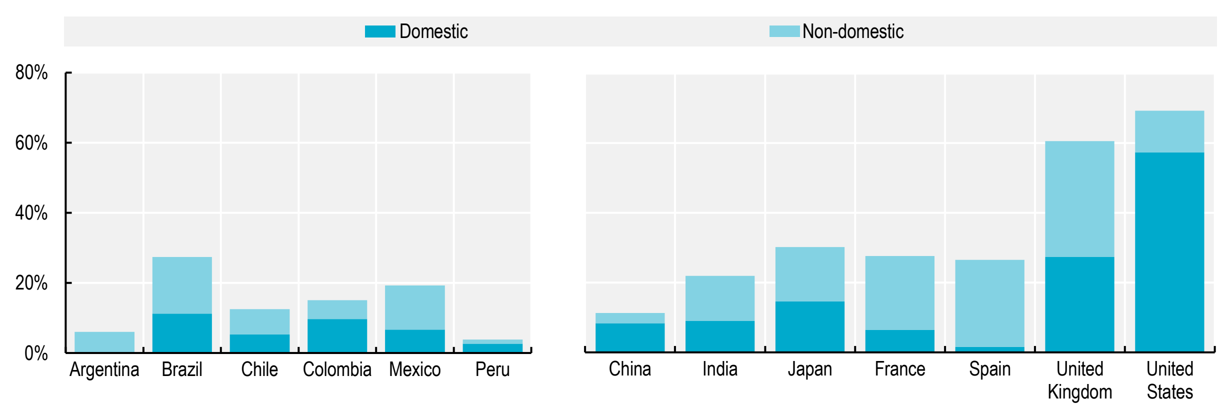
Figure 2.2. Investor holdings at country level, end-2021



Note: "Other free-float" refers to the holdings by shareholders that do not reach the threshold for mandatory disclosure of their ownership records or retail investors that are not required to do so.
Source: OECD Capital Market Series dataset, FactSet, Refinitiv, Bloomberg. See Annex B for details.

While in Latin America, institutional investors are less important owners than in the United Kingdom or the United States, they hold 27% of the listed equity in Brazil, 19% in Mexico, 15% in Colombia and 13% in Chile. Non-domestic institutional investors hold a larger equity share than domestic ones in four out of the six major Latin American markets, the exception being Colombia and Peru. Similarly, domestic institutional investors hold larger shares in listed companies only in China and in the United States among the seven non-Latin American jurisdictions analysed in this report (Figure 2.3).

Figure 2.3. Domestic and non-domestic institutional ownership in Latin America and selected countries, end-2021



Source: OECD Capital Market Series dataset, FactSet, Refinitiv, Bloomberg. See Annex B for details.

The degree of concentration and control by shareholders at the company level is relevant when regulating related party transactions, takeovers and other matters regarding the informational asymmetry between controlling and non-controlling shareholders (OECD, 2021[5]). Table 2.2 shows the average combined holdings of the largest shareholders in the listed corporate sector. In Latin America, the degree of ownership concentration is higher than in other markets. The average combined holdings of the top three investors ranks from an average of 57% in Mexico and Brazil to a 73% average in Argentina, Chile, Colombia, and Peru. In the other selected markets, the top three investors only account for an average of

45% ownership. This high concentration is partially the result of significant ownership by private corporations in company group structures.

Table 2.2. Ownership concentration at the company level in Latin America and selected countries, end-2021

	Largest shareholder	Largest 3 shareholders	Largest 5 shareholders	Largest 20 shareholders	Largest 50 shareholders
Argentina	59.1%	68.4%	69.4%	70.3%	70.5%
Brazil	41.0%	57.5%	63.0%	72.7%	75.1%
Chile	55.5%	70.3%	76.4%	84.2%	84.8%
Colombia	57.9%	71.3%	77.0%	85.7%	86.4%
Mexico	44.8%	55.9%	59.9%	65.2%	66.4%
Peru	70.7%	80.6%	84.1%	86.3%	86.3%
China	35.8%	49.4%	54.2%	61.0%	61.6%
India	37.8%	54.5%	61.6%	73.4%	74.8%
Japan	24.5%	38.0%	44.7%	59.0%	61.1%
France	40.6%	53.9%	58.9%	67.2%	69.7%
Spain	35.5%	48.4%	54.6%	64.5%	66.9%
United Kingdom	19.7%	36.3%	45.4%	64.6%	69.6%
United States	19.1%	34.1%	42.3%	62.0%	70.2%

Source: OECD Capital Market Series dataset, FactSet, Refinitiv, Bloomberg. See Annex B for details.

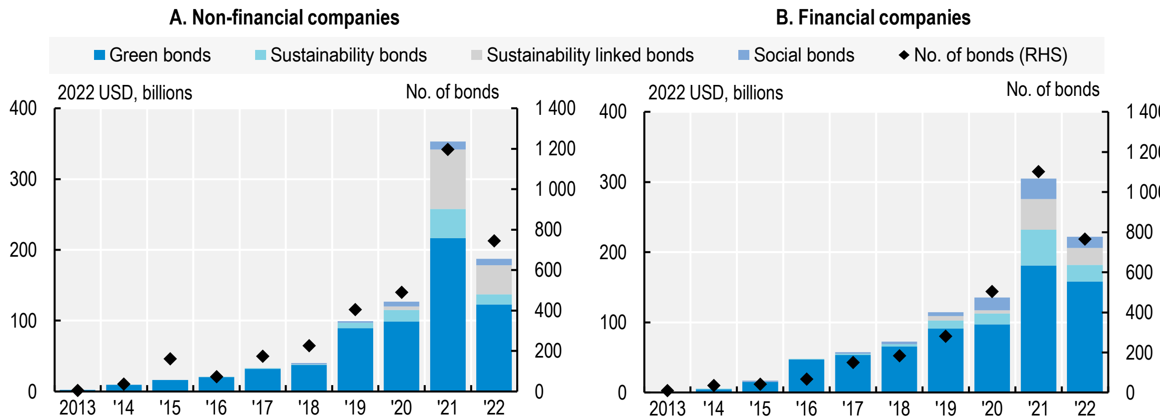
2.3. Green, Social and Sustainability (GSS) corporate bonds

Corporate bonds allow companies to diversify their financing sources due to their long-term maturity structure. Unlike ordinary bank loans that are typically used as a source of short-term working capital, bonds can be issued for a defined purpose. In 2020 and 2021, global bond issuances by non-financial companies reached record amounts of USD 3 trillion and USD 2.5 trillion, respectively (de Oliveira, Magnusson and Mulazimoglu, 2022[7]).

In recent years, companies have started to issue corporate bonds with defined sustainability objectives such as clean transportation, energy efficiency, and climate change adaptation. In 2013, the green, social and sustainability (GSS) corporate bond issuance was USD 3.2 billion globally, while in 2021 and 2022 (up to October) the total amounts were USD 658 billion and USD 410 billion, respectively (half of this total was issued by non-financial companies). Nevertheless, the amount issued in GSS corporate bonds still represents only a small fraction of total corporate bonds issuance.

GSS bonds are classified into four main categories according to the company's use of raised funds. First, "green bonds" are dedicated to environmental projects or activities, including those related to climate change mitigation and adaptation (ICMA, 2021[8]). Green bonds account for the largest share of GSS bonds, adding up to USD 217 billion in 2021 raised by non-financial companies and USD 181 billion by financial institutions (Figure 2.4). Second, "sustainability bonds" are dedicated to environmentally or socially sustainable outcomes (ICMA, 2021[9]). In 2021, 12% of the GSS bonds issued by non-financial companies were labelled sustainability bonds, and this share decreased to 8% in 2022. Third, the proceeds of "sustainability-linked bonds" do not need to be invested in projects with an expected positive environmental or social impact, yet the debtor's financing costs may increase if it does not meet specific sustainability objectives (ICMA, 2020[10]). In 2021, non-financial companies issued USD 84 billion in sustainability-linked bonds, which represents 24% of all GSS bonds issued by non-financial companies. Finally, "social bonds" are dedicated to projects that promote improved social welfare for underprivileged, low-income, marginalised, excluded, or disadvantaged populations (ICMA, 2021[11]). Non-financial companies have issued negligible amounts of social bonds, while 10% of the funds raised by financial companies via GSS bonds were in social bonds.

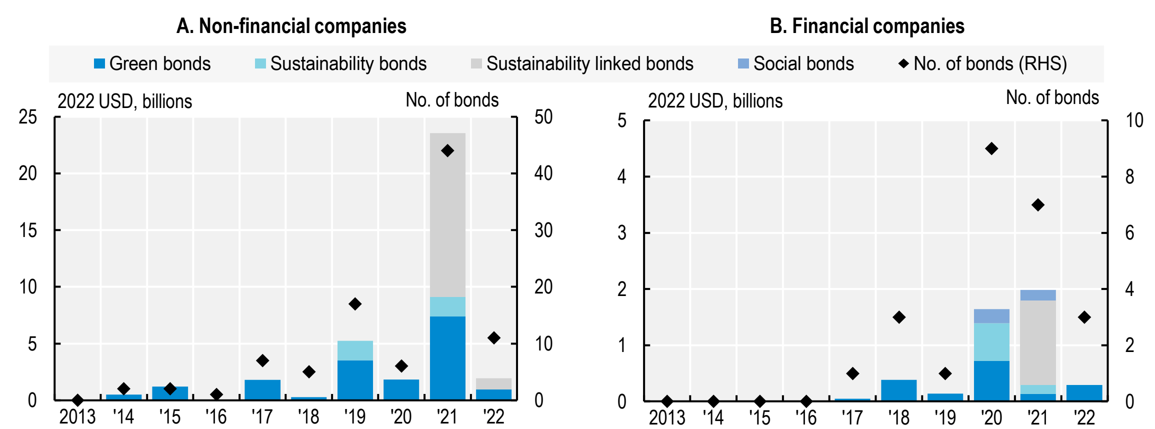
Figure 2.4. Global GSS corporate bond issuances



Note: Information for 2022 includes deals as of October 2022.
Source: OECD Corporate Sustainability dataset, Refinitiv, Bloomberg. See Annex B for details.

GSS bonds in Latin America have been mostly issued by non-financial companies. In 2021, out of the USD 25.6 billion of proceeds in GSS bonds, only USD 2 billion were raised by financial companies (Figure 2.5). Sustainability-linked bonds accounted for the largest category of GSS bonds, with raised proceeds of USD 16 billion in 2021. Despite the surge in the issuance of GSS bonds in 2021, the activity has decreased to pre-COVID levels in 2022, with only USD 1.9 billion raised via GSS bonds by non-financial companies and USD 0.3 billion by financial ones as of October.

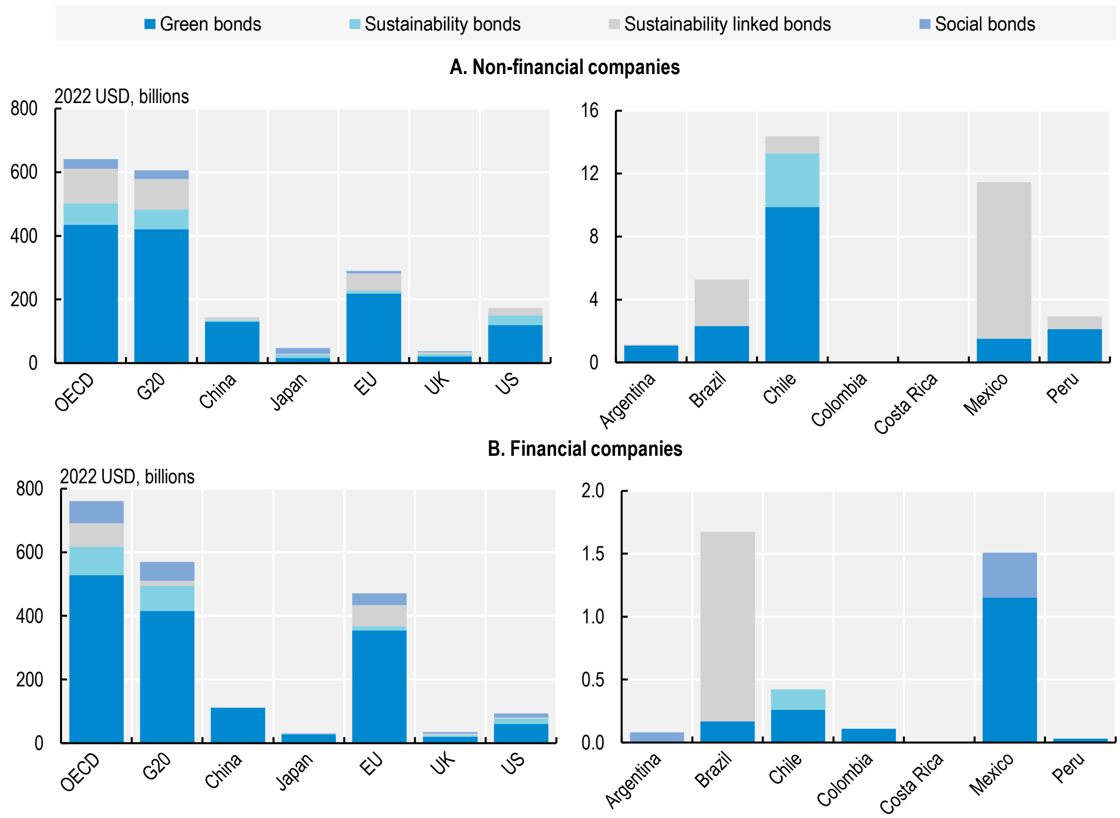
Figure 2.5. GSS corporate bond issuances in Latin America



Note: Information for 2022 includes deals as of October 2022.
Source: OECD Corporate Sustainability dataset, Refinitiv, Bloomberg. See Annex B for details.

Companies in China and the United States have been the largest issuers of GSS bonds throughout the 2013-21 period, raising USD 255 billion and USD 268 billion, respectively (Figure 2.6). The Netherlands, Germany, France, Korea, Japan, and the United Kingdom rank also among the most important issuers of GSS bonds. In Latin America, Chile (USD 14.8 billion) and Mexico (USD 13 billion) have the most active markets for GSS bonds, although in Chile green bonds are dominant against a prevalence of sustainability-linked bonds in Mexico among non-financial companies.

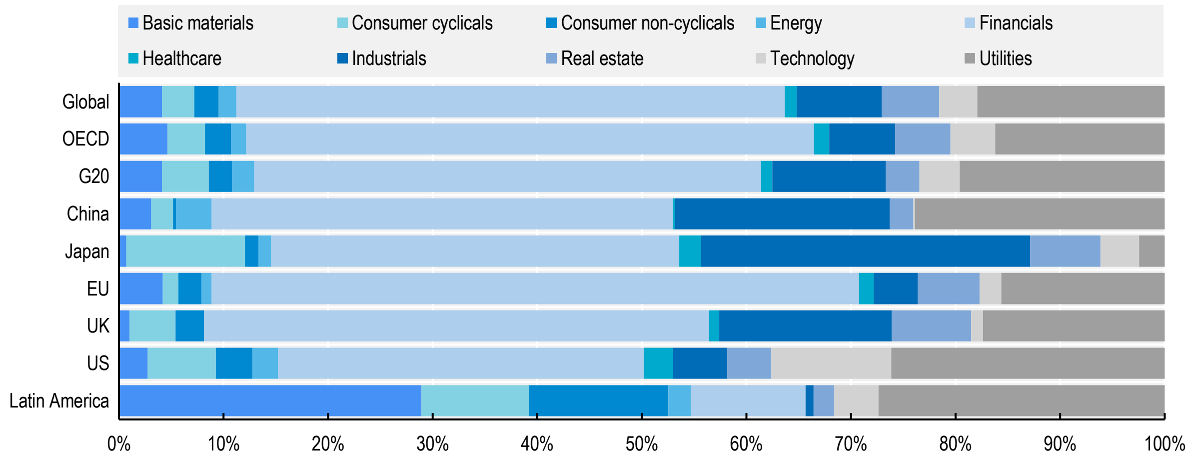
Figure 2.6. GSS corporate bonds issuances in Latin America and selected markets between 2013-22



Note: Information for 2022 includes deals as of October 2022.
Source: OECD Corporate Sustainability dataset, Refinitiv, Bloomberg. See Annex B for details.

Globally, half of the GSS bonds were issued by financial companies between 2013 and 2022. The financial sector was followed by utilities and industrials with shares of 18% and 8%, respectively, during the same period. In the United States, financials have been important issuers, but to a lesser extent with 35% of the issued GSS bonds, followed by utilities (26%) and technology (11%). The industry distribution in Latin America differs as financials only account for 11% of the raised funds via GSS bonds, while basic materials and utilities represent almost 30% of the raised funds.

Figure 2.7. Industry composition of GSS corporate bonds between 2013-22

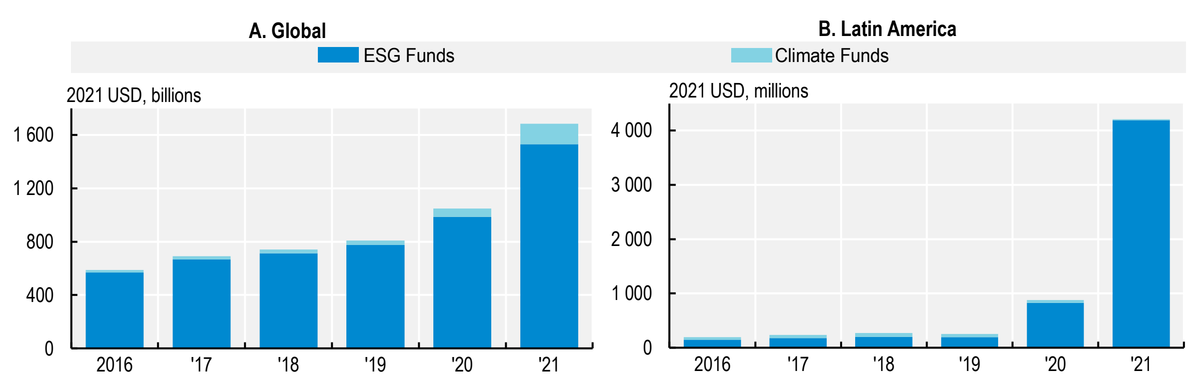


Note: Information for 2022 includes deals as of October 2022.
Source: OECD Corporate Sustainability dataset, Refinitiv, Bloomberg. See Annex B for details.

2.4. ESG and Climate Investment Funds

Since 2016, investment funds that label themselves as ESG or sustainable funds – by including "ESG", "sustainable investing" or similar terms in their names – have received increasing net inflows. In 2016, assets under management totalled USD 568 billion against USD 1 530 billion in 2021 (Figure 2.8, Panel A). With respect to climate funds, their net inflows were almost 8 times larger in 2021 with USD 154 billion when compared to 2016. In Latin America, assets under the management of ESG funds saw a significant increase in 2021, where the total AUM reached USD 4 billion, while climate funds averaged at USD 52 million over the 2016-21 period (Figure 2.8, Panel B).

Figure 2.8. Assets under management of funds labelled as or focusing on ESG



Note: Funds retrieved from Reuters Funds Screen classified as Climate Funds or ESG Funds in the case their names contain, respectively, climate or ESG relevant acronyms and words such as ESG, sustainable, responsible, ethical, green and climate (and their translation in other languages). Funds without any asset value are excluded.
Source: Refinitiv, Datastream, OECD calculations.

3 Sustainability disclosure

This chapter presents the main practices and preferences of asset managers and companies in Latin America and selected jurisdictions, focusing on disclosure and assurance of sustainability information. Market participants in Latin America point out the need to make sustainability disclosure more reliable, consistent, and comparable.

3.1. Disclosure and assurance of sustainability information

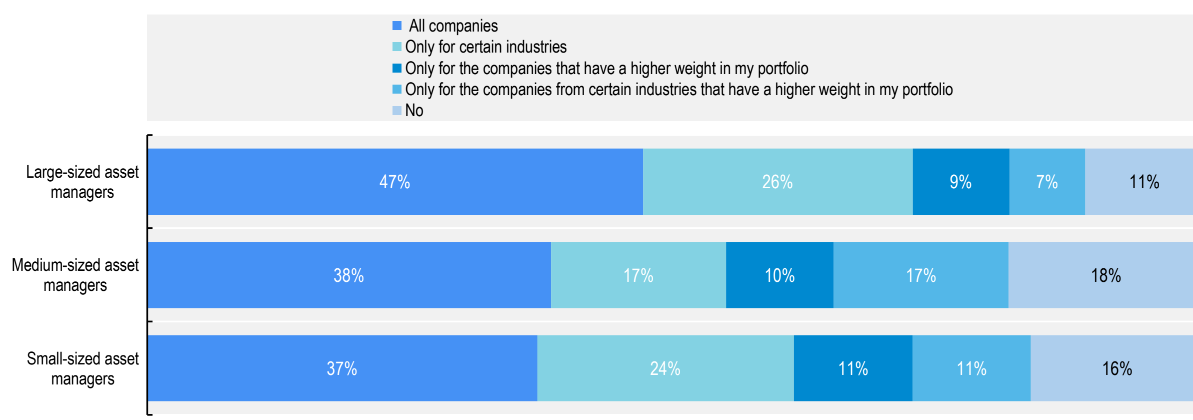
Investors and companies increasingly recognise sustainability-related matters as a relevant source of risks and opportunities. Information on a company's exposure to sustainability risks and how it manages them can be material for investors' decisions to buy or sell securities. Therefore, access to material sustainability information is crucial for market efficiency and for the protection of investors.

As detailed in Chapter 7, some regulators have mandated or recommended the disclosure of sustainability matters. However, even in jurisdictions where sustainability disclosure is not mandatory, a significant number of companies have been reporting on sustainability risks and opportunities, driven by the interest from investors in the impact of environmental and social matters on companies' financial performance. In Latin America, a majority of asset managers investing in the region, especially among the larger ones, review the sustainability disclosure of their portfolio companies (Figure 3.1).

From the companies' perspective, out of the 42 000 listed companies globally, almost 8 000 disclosed a sustainability report or an integrated report that includes sustainability issues in 2021 (Figure 3.2). These companies represent 84% of the global market capitalisation. In Latin America, while not every country requires listed companies to disclose an annual sustainability report, 330 companies totalling 83% of the region's market capitalisation disclose sustainability information.

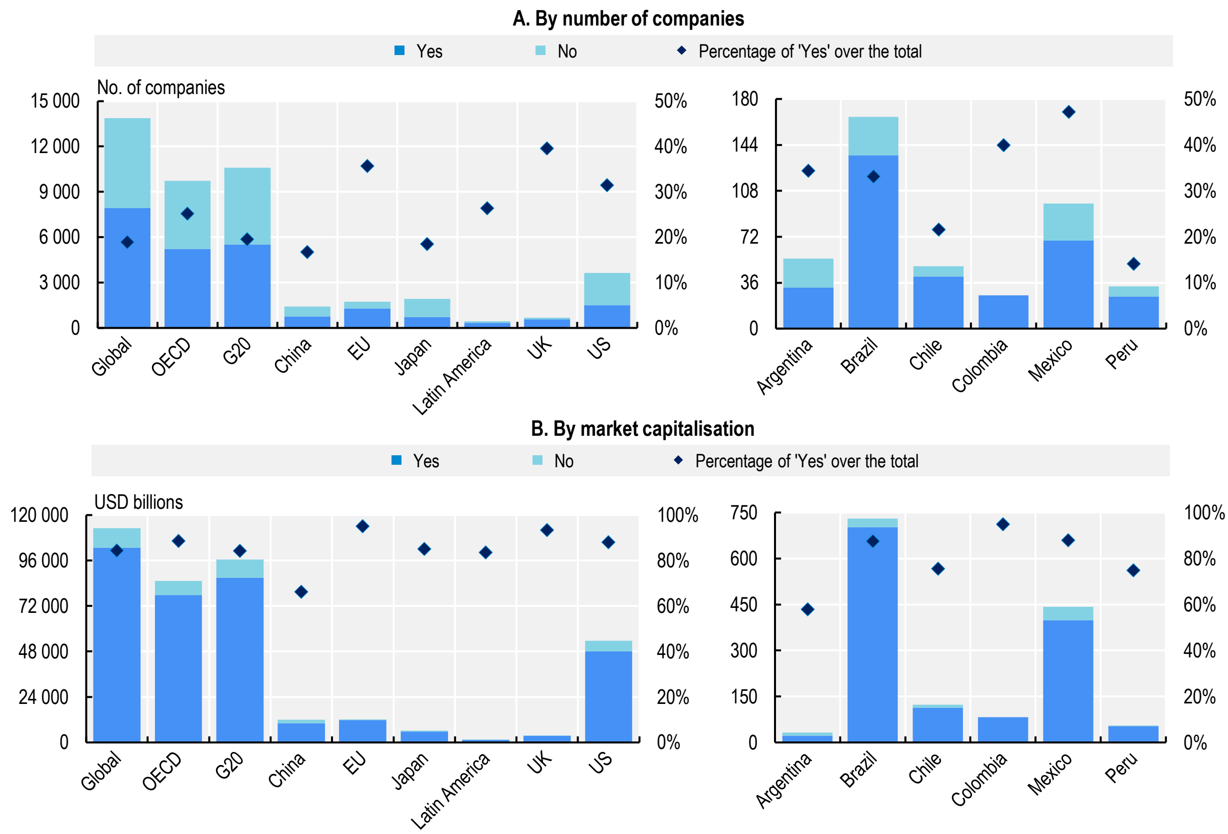
Figure 3.1. Asset managers' review of sustainability disclosure in Latin America

Question: Do you review the sustainability or ESG disclosures of your portfolio companies?



Note: In the survey questionnaire, asset managers could answer or leave this question unanswered. The shares in this figure consider only the universe of asset managers that answered the question. On average, 90% of the asset managers responded within each size category.
Source: OECD Survey on Sustainability Practices of Asset Managers in Latin America.

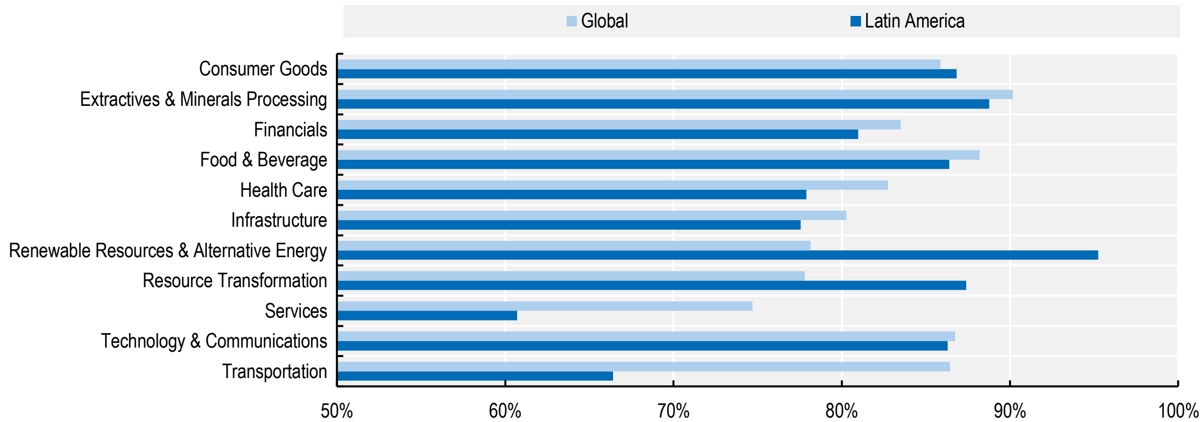
Figure 3.2. Disclosure of sustainability information by listed companies



Note: The “total” in “percentage of ‘Yes’ over the total” includes all listed companies within each category, including those for which there is no available information. For instance, in the case of the global category, the percentage is calculated over 42 019 worldwide listed companies, while in Latin America the percentage is calculated over 1 252 companies.
Source: OECD Corporate Sustainability dataset, Refinitiv, Bloomberg. See Annex B for details.

Globally, companies representing at least 75% of the total market capitalisation in each industry disclosed sustainability information in 2021. This share is the largest among extractives and minerals processing companies, and food and beverage companies, in which 90% and 88% by market capitalisation disclosed sustainability information, respectively. In Latin America, while 61% of the services industry and 66% of the transportation industry disclosed sustainability information, 89% of the extractives and minerals processing companies disclosed sustainability information in 2021 (Figure 3.3).

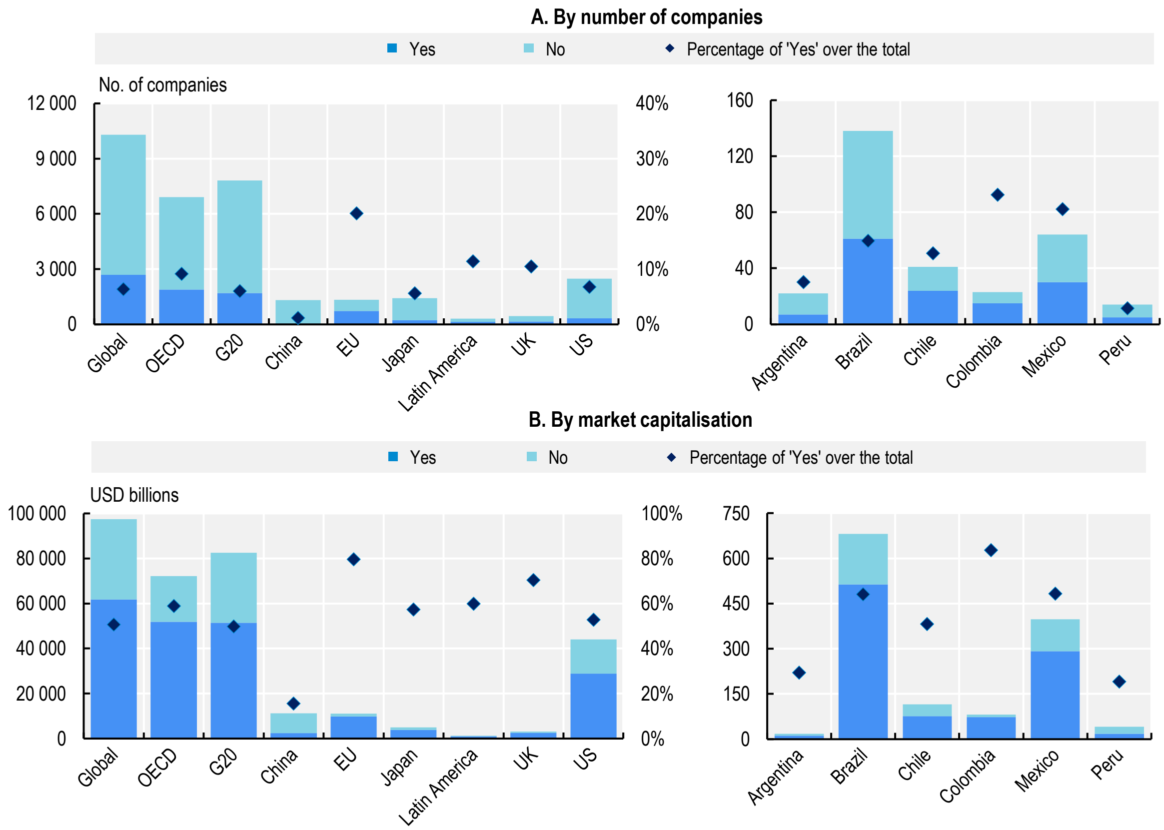
Figure 3.3. Share of companies by market capitalisation disclosing sustainability information by industry



Note: The figure displays the share of companies by market capitalisation that reported sustainability information against all companies in each industry. For instance, out of the 118 consumer goods companies in Latin America with a total market capitalisation of USD 159 billion, 28 consumer goods companies with USD 138 billion of market capitalisation report sustainability information, accounting for 87% of the total market capitalisation of the industry.
Source: OECD Corporate Sustainability dataset, Refinitiv, Bloomberg. See Annex B for details.

While the number of companies reporting sustainability information is relatively high at present, the assurance of disclosed information by an independent third party is considerably less frequent. This may reduce the confidence investors might have in the disclosed information and the possibility of comparing reports between companies. Although companies representing 84% of the world's market capitalisation disclose sustainability reports, an external service provider assures only the sustainability disclosure of companies representing 51% of market capitalisation (Figure 3.4). Among Latin American companies, 60% by market capitalisation hired a third party to conduct an external assessment of the report. Colombia (84%), Mexico (64%) and Brazil (64%) were above the regional average, while Chile (51%), Argentina (29%) and Peru (25%) were below it.

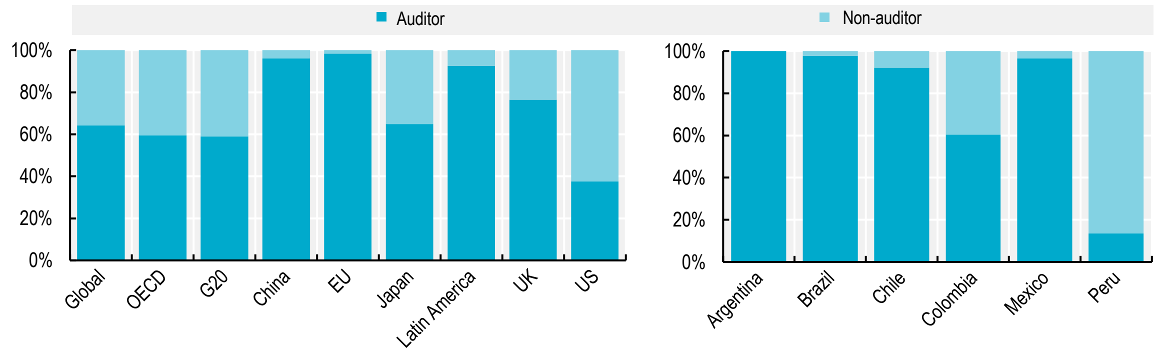
Figure 3.4. Assurance of a sustainability report by an independent third party



Note: The "total" in "percentage of 'Yes' over the total" includes all listed companies within each category, including those for which there is no available information. For instance, in the case of the global category, the percentage is calculated over 42 019 worldwide listed companies, while in Latin America the percentage is calculated over 1 252 companies. In the 357 cases globally where there was a discrepancy between Refinitiv and Bloomberg databases ("Yes" in one and "No" in the other one), it was considered that the company did not provide assurance of its sustainability report.
Source: OECD Corporate Sustainability dataset, Refinitiv, Bloomberg. See Annex B for details.

While half of the companies by market capitalisation reported to issue their sustainability reports with the assurance of an external provider, 64% of those were assured by an auditor (Figure 3.5). In the United States, the assured sustainability reports were performed in 38% of the companies by auditors and 62% by non-auditors. In China and the European Union, almost all assured reports were performed by an auditor. Likewise, in Latin America, 93% of the sustainability reports were assured by an auditor, although in Peru they only account for 13%.

Figure 3.5. Assurance of a sustainability report by auditors or non-auditors

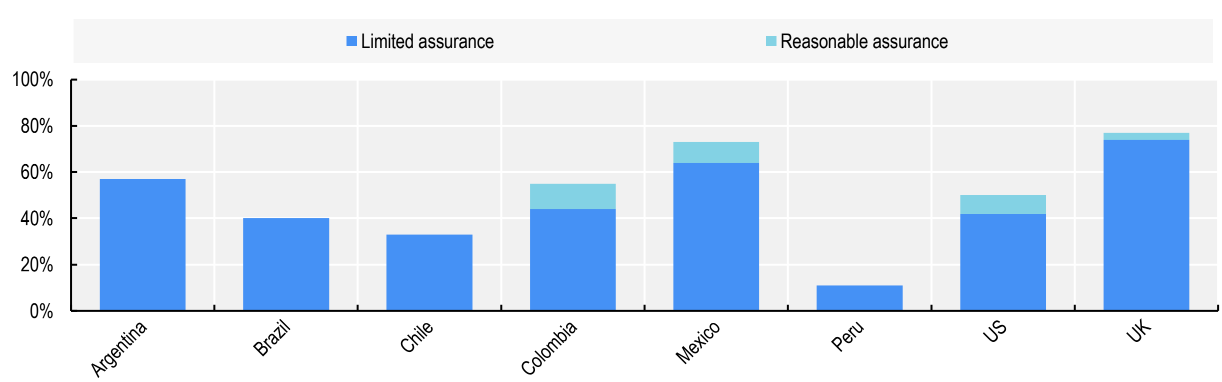


Note: Out of the 2 684 companies that reported the assurance of their sustainability report of an independent third party, 1 507 disclosed the name of the independent third party. The independent third party was classified as an auditor if the third party audited the financial statement of any of the 42 019 companies comprising the sample globally.
Source: OECD Corporate Sustainability dataset, Refinitiv, Bloomberg. See Annex B for details.

The analysis of a target sample composed of all sustainability reports from the 143 largest companies by market capitalisation included in the stock market indices of Argentina, Brazil, Chile, Colombia, Mexico, Peru, the United Kingdom, and the United States shows that in 46% of the sustainability reports the level of assurance was "limited" according to the taxonomy defined by the ISAE 3000 (Figure 3.6). In the United Kingdom, limited assurance was provided for 74% of the reports, followed by 64% in Mexico and 57% in Argentina. In Colombia, Brazil, and the United States, this share amounted to an average of 40%. In Chile and Peru, limited assurance was provided for 33% and 11% of the sustainability reports, respectively. In contrast, reasonable assurance engagement of the sustainability report is rare, with only 4% on average among the analysed sample ("reasonable" is the level required, as a rule, from the external auditing of financial reports). The analysis did not identify any reasonable assurance of sustainability reports in Argentina, Brazil, Chile, and Peru.

Figure 3.6. Level of sustainability reports assurance engagement

Question: What is the level of the assurance engagement of the sustainability report?

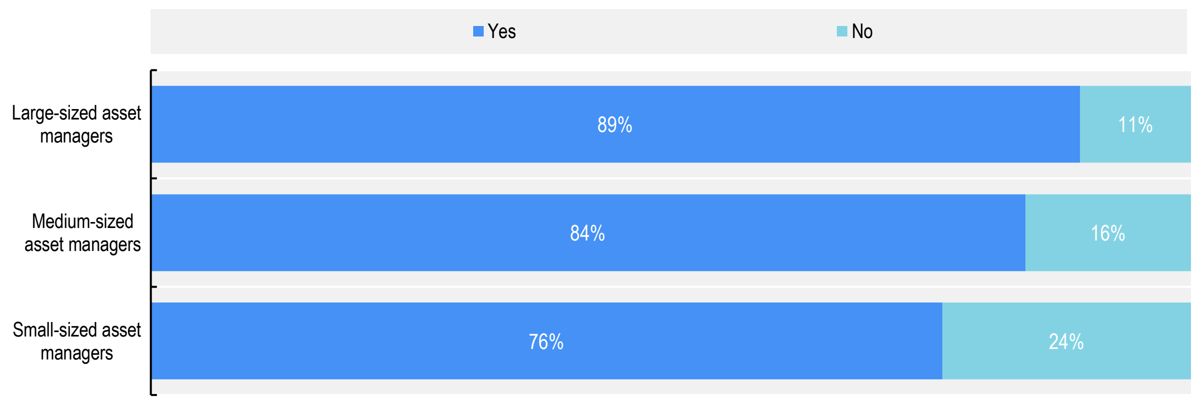


Note: The difference between 100% and the sum of limited plus reasonable assurances is either due to the technical limitations of an NPL analysis or because the assurance provider did not adopt ISAE 3000, which defines the taxonomy of "limited" and "reasonable" assurance (for instance, 27% of Mexican companies included in the sample).
Source: NPL analysis developed by Miklos Vasarhelyi, Ricardo Lopes Cardoso and their teams affiliated to, respectively, Rutgers University (United States) and Getulio Vargas Foundation (Brazil).

In Argentina, Brazil, Costa Rica, Mexico and Peru, asset managers and listed companies support mandatory regulation requiring listed companies to disclose an annual sustainability report with ESG information that is financially material[1]. There is such support among 89% of the large-sized asset managers, 84% of the medium-sized ones and 76% of the small-sized asset managers (Figure 3.7). The same holds true for the listed companies, with 92% of companies in the large-cap indexes and 86% of the remaining companies supporting mandatory sustainability disclosure (Figure 3.8).

Figure 3.7. Asset managers' support for mandatory corporate sustainability disclosure in Latin America

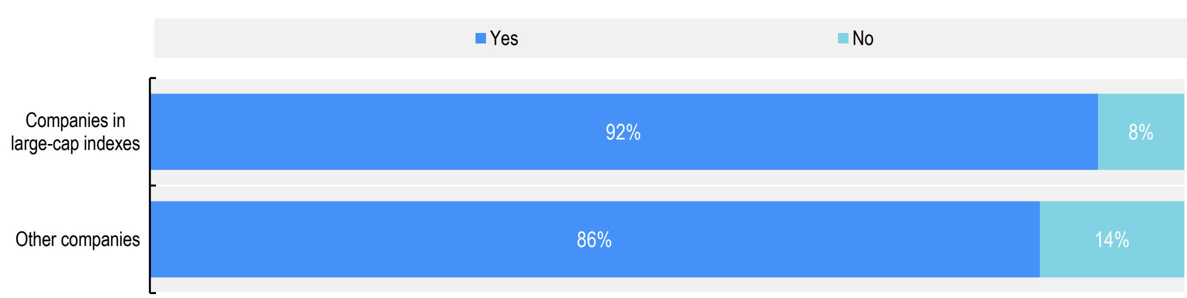
Question: Would you support a mandatory regulation requiring all listed companies in the country of your headquarters to disclose an annual sustainability report with ESG information that is financially material for them?



Note: In the survey questionnaire, this question was only presented if the respondent previously answered "no" or left the question about the existence of a mandatory regulation in their headquarters unanswered. Furthermore, asset managers could answer "yes" or "no" or leave it unanswered. The shares in this figure consider only the universe of asset managers that answered either "yes" or "no" (excluding asset managers in Chile and Colombia). On average, 87% of the asset managers responded within each size category.
Source: OECD Survey on Sustainability Practices of Asset Managers in Latin America.

Figure 3.8. Listed companies' support for mandatory corporate sustainability disclosure in Latin America

Question: Would you support a regulation obliging all listed companies in your country to disclose an annual sustainability report with ESG information that is financially material for them?



Companies in large-cap indexes: 36 respondents
Other companies: 86 respondents

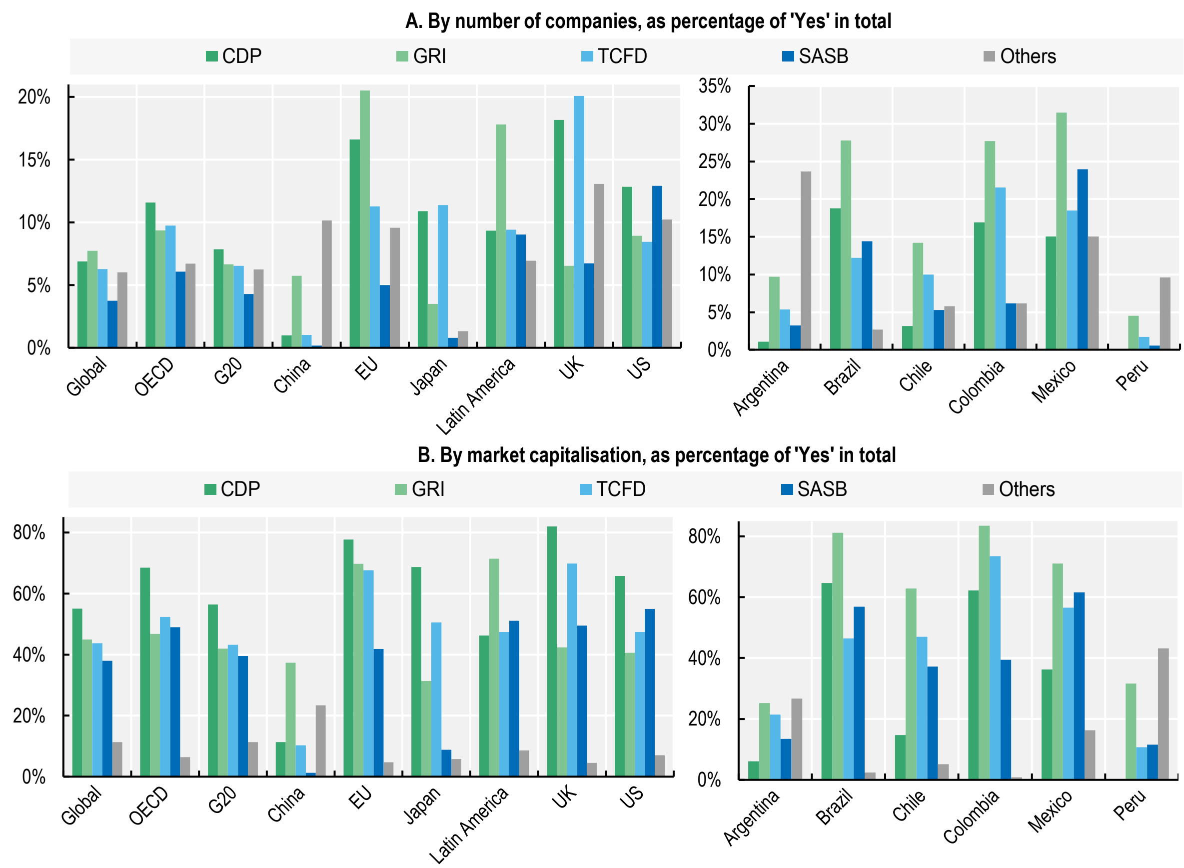
Note: In the survey questionnaire, this question was only presented if the respondent previously answered "no" or left the question about the existence of a mandatory regulation in their headquarters unanswered. Furthermore, companies could answer "yes" or "no" or leave it unanswered. The shares in this figure consider only the universe of listed companies that answered either "yes" or "no" (excluding companies listed in Chile and Colombia). On average, 70% of the companies responded within each category.
Source: OECD Survey on Sustainability Practices of Listed Companies in Latin America.

3.2. ESG accounting and reporting standards

Companies have been using different accounting standards and frameworks to disclose sustainability information[2]. Globally, the CDP's questionnaires are used by 2 891 companies representing 55% of the total market capitalisation, the GRI Standards follow with a disclosure by 3 247 companies accounting for 45% of the market capitalisation. TCFD's recommendations are used by 2 639 companies that total 44% of the market capitalisation and SASB Standards are followed by 1 572 companies that sum up 38% of market capitalisation. Nevertheless, preferences vary across jurisdictions.

In the United Kingdom and Japan, almost 300 companies (70% of market capitalisation) and 441 (51% of market capitalisation), respectively, followed fully or partially TCFD's recommendations. In the United States, 600 companies (55% of market capitalisation) used SASB Standards to disclose sustainability information. In the European Union (746 companies, 70% of market capitalisation), China (258 companies, 37% of market capitalisation), Latin America (223 companies, 71% of market capitalisation) indicated a use of GRI Standards for guidance in their public reporting (Figure 3.9).

Figure 3.9. Use of sustainability standards by listed companies in 2021

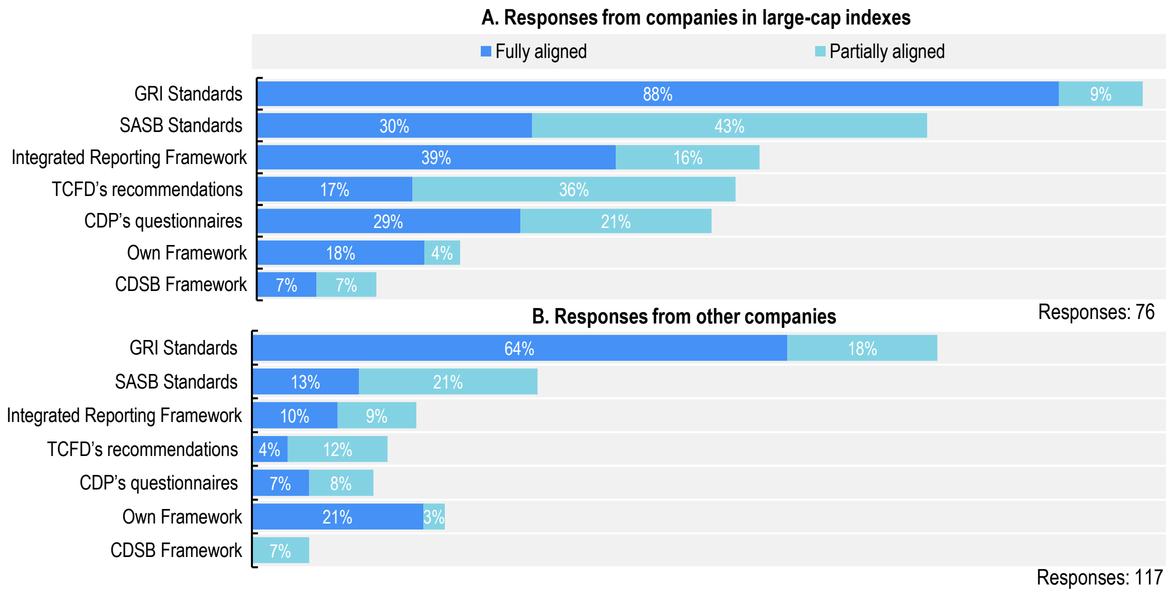


Note: The "total" in "percentage of 'Yes' over the total" includes all listed companies within each category, including those for which there is no available information. For instance, in the case of the global category, the percentage is calculated over 42 019 worldwide listed companies, while in Latin America the percentage is calculated over 1 252 companies. The sustainability disclosure can be either partially or fully compliant with a reporting standard ("Yes" refers both to full and partial compliance). Likewise, a single company can report compliance with one or more reporting standards. The category "Others" contains all companies that disclosed sustainability information (see Figure 3.2) but that did not report compliance with any specific reporting standard among the four highlighted in the figure.
Source: OECD Corporate Sustainability dataset, Refinitiv, Bloomberg. See Annex B for details.

Respondents to the OECD survey on sustainability practices of listed companies in Latin America corroborated the observed trends in Figure 3.9, where 97% of the companies in large indexes reported to be fully or partially aligned with GRI Standards, followed by SASB Standards (73%), Integrated Reporting Framework (55%), and TCFD's recommendations (53%) (Figure 3.10).

Figure 3.10. Use of sustainability standards by Latin American listed companies in 2021

Question: Is your company's annual sustainability report aligned with which ESG reporting frameworks?

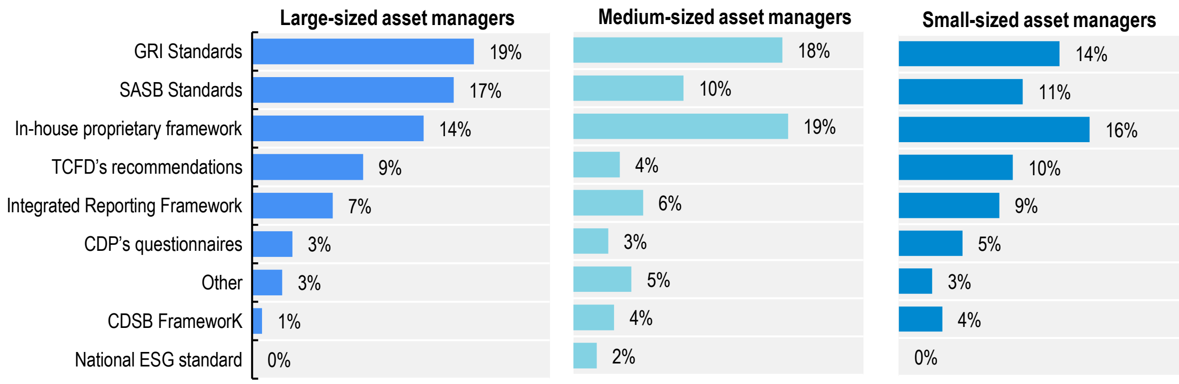


Note: Some sustainability reports followed more than one ESG reporting standard, and this is the reason why the aggregate percentages in each figure do not add up to 100%.
Source: OECD Survey on Sustainability Practices of Listed Companies in Latin America.

A survey conducted with 42 global institutional investors (with some overrepresentation of UK-based investors in the sample) managing approximately USD 29 trillion in assets under management (with two-thirds of their portfolio in equity) shows that they have clear preferences for some sustainability standards. Three-quarters of all surveyed investors indicated the TCFD's recommendations as their preferred sustainability reporting framework, followed by SASB Standards (53%) and then in-house proprietary frameworks (39%) (Morrow Sodali, 2021, p. 17[12]). For asset managers investing in Latin America, preferences are less clear, with a relatively higher preference for GRI Standards (19%) and SASB Standards (17%) in the case of large-sized asset managers and in-house proprietary frameworks for medium and small sized ones (Figure 3.11).

Figure 3.11. Preferences of sustainability reporting standards by asset managers investing in Latin America

Question: What is your first preferred ESG framework for companies to best disclose their ESG and sustainability topics?

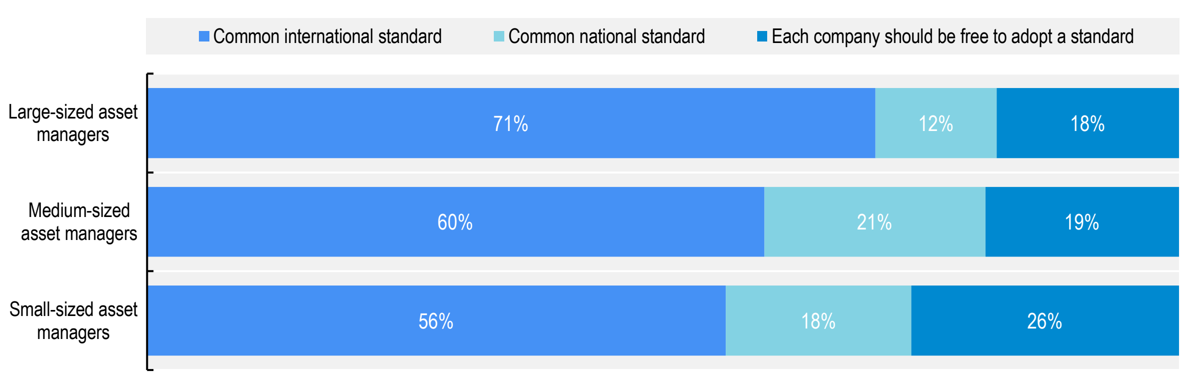


Note: In the survey questionnaire, asset managers can select their preferred ESG reporting standard. The shares in this figure consider only the universe of asset managers that provided their preferences.
Source: OECD Survey on Sustainability Practices of Asset Managers in Latin America.

As illustrated in Figure 3.9 and Figure 3.10, the freedom to choose has led listed companies to adopt different sustainability reporting standards. This freedom creates challenges and raises questions about consistent and comparable sustainability performance for investors and other stakeholders (including across time and between companies within the same sector) (Pucker, 2021[13]). The lack of consistency and comparability reduces market participants' reliability and usefulness of sustainability-related disclosure. It limits investors' ability to assess each company's value, decide how to allocate their funds, and engage with them.

Figure 3.12. Asset managers' support for the adoption of a sustainability reporting standard in Latin America

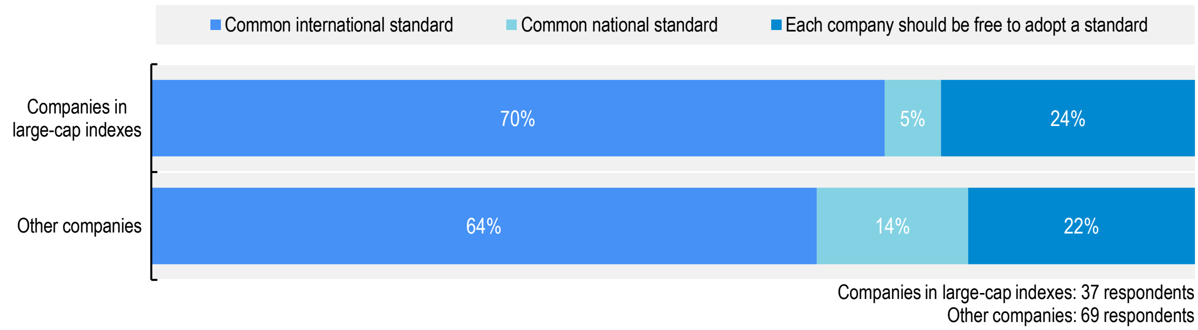
Question: Would you support the adoption of an ESG reporting standard for listed companies in the country of your headquarters that either voluntarily or compulsorily disclose an annual sustainability report?



Note: In the survey questionnaire, this question was only presented if the respondent previously answered "no" or leave the question about the existence of a reporting standard for listed companies in their headquarters unanswered. Asset managers could answer "yes" or "no" or leave it unanswered. The shares in this figure consider only the universe of asset managers that answered either "yes" or "no" (excluding asset managers in Chile and Colombia). On average, 82% of the asset managers responded within each size category.
Source: OECD Survey on Sustainability Practices of Asset Managers in Latin America.

Figure 3.13. Listed companies' support for the adoption of a sustainability reporting standard in Latin America

Question: Would you support the adoption of an ESG reporting standard for listed companies in your country that either voluntarily or compulsorily disclose an annual sustainability report?



Note: In the survey questionnaire, this question was only presented if the respondent previously answered "no" or leave the question about the existence of a reporting standard for listed companies in their headquarters unanswered. Furthermore, companies could answer "yes" or "no" or leave it unanswered. The shares in this figure consider only the universe of listed companies that answered either "yes" or "no" (excluding companies listed in Chile and Colombia). On average, 63% of the companies responded within each category.
Source: OECD Survey on Sustainability Practices of Listed Companies in Latin America.

A 2021 survey with investors representing 325 investment professionals across 43 countries who represent a combined AUM of more than USD 14 trillion found that investors are making a clear call for comparability, standardisation, and consistency in reporting. Seventy-four percent of them agreed with the statement that "my investment decision-making would be better informed if companies applied a single set of ESG reporting standards" (PwC, 2021, p. 5[14]). Only Colombia mandates the use of a common international sustainability reporting standard among the seven surveyed Latin American countries (Table 7.2). Still, as presented in Figure 3.12 and Figure 3.13 above, there is a strong support for adopting a common international sustainability reporting standard for listed companies among asset managers and companies in other countries in the region.

4 Key sustainability matters

The chapter provides evidence on which sustainability matters may be prioritised by market participants and regulators in Latin America. By contemplating investors' perspectives, shareholders' resolutions and matters considered by the boards of directors, this chapter reviews the sustainability information that could be regarded as a priority. Water and wastewater management, climate change, human capital, data security and customer privacy, and human rights and community relations stand out as the most important sustainability matters in Latin America.

Sustainability-related information can include a broad range of matters, from climate change and greenhouse gases (GHG) emissions to human rights and community relations. Understanding such different types of issues may not be easy for listed companies, investors, and capital markets regulators. They may need, therefore, to prioritise their scarce resources.

In a survey with 42 global institutional investors, 85% cited climate risk as the number one engagement priority with companies, followed by human capital management (64%) and board composition and executive remuneration (64%) (Morrow Sodali, 2021, p. 11[12]). Similarly, large asset managers investing in Latin America reported that climate change (70%) and human capital (63%) are significant matters for them, although less important than water and wastewater management (77%) (Table 4.1). Interestingly, medium and small-sized asset managers place data security and customer privacy as one of their priorities for their investment and engagement decisions.

Table 4.1. Main sustainability matters for asset managers in Latin America during the last 12 months

Question: During the last 12 months, have the following issues been incorporated into an investment decision or prompted you to engage with a company (including to vote in a shareholder's meeting)?

Sustainability issue	Large-sized asset managers	Medium-sized asset managers	Small-sized asset managers
Water & Wastewater Management	77%	57%	56%
Climate Change	70%	53%	52%
Human Capital	63%	66%	69%
Human Rights & Community Relations	63%	59%	54%
Biodiversity and Ecological Impacts	59%	59%	60%
Data Security and Customer Privacy	57%	67%	68%
Supply Chain Management	56%	56%	59%
Waste & Hazardous Materials Management	53%	53%	57%
Air Quality	38%	34%	33%
Other ESG issue	74%	47%	37%

Notes:
[1] In the survey questionnaire, asset managers, could answer "yes" or "no" or leave the question unanswered. The shares in this table consider only the universe of investors that answered “yes” or “no”, which is slightly different for each one of the sustainability issues. For instance, 470 asset managers provided an answer related to "Climate Change", while 519 answered to "Waste & Hazardous Materials Management. On average, 91% of the asset managers responded to each sustainability issue.
[2] The survey questionnaire only presented the nine sustainability issues listed in this table, which often have the same names as these issues are presented in the SASB mapping (respondents could also add "other ESG issues"). To facilitate answers and to make the results more easily comparable with other similar surveys, the OECD questionnaire merged some sustainability issues in the SASB mapping: "Climate Change" (SASB mapping has three climate-related issues); "Human Capital" (three SASB mapping issues); "Data Security and Customer Privacy" (two SASB mapping issues).
Source: OECD Survey on Sustainability Practices of Asset Managers in Latin America.

In relation to sustainability issues included in shareholding resolutions, 61 Latin American companies, among which 14 in the large-cap indexes, voted a shareholder resolution on human capital in the last 36 months. Another 41 and 38 companies reported shareholder resolutions on data security and customer privacy, and climate change, respectively (Table 4.2). This is in line with asset managers' overall preferences when making an investment decision and engaging with companies.

Table 4.2. Number of Latin American companies whose shareholder meetings voted on sustainability-related shareholder resolutions in the last 36 months

Question: In the last 36 months, has a shareholder meeting of your company voted an ESG-related shareholder resolution?

Sustainability issue	Companies in large-cap indexes	Other companies	All
Human Capital	14	47	61
Data Security and Customer Privacy	7	34	41
Climate Change	15	23	38
Human Rights & Community Relations	11	26	37
Water & Wastewater Management	4	25	29
Other ESG issue	11	17	28
Supply Chain Management	5	22	27
Biodiversity and Ecological Impacts	5	21	26
Waste & Hazardous Materials Management	4	19	23
Air Quality	4	16	20

Notes:
1 In the survey questionnaire, companies could answer “yes” or leave the question unanswered. The numbers in this table consider only the universe of companies that answered “yes”. If a company had more than one shareholder resolution on the same sustainability matter during the previous 36 months, the “yes” counts only as one in this table.
2 For information about sustainability matters included in the survey, see notes in Table 4.1.
Source: OECD Survey on Sustainability Practices of Listed Companies in Latin America.

Table 4.3. Share of companies in Latin America whose board of directors considered sustainability issues during the last 12 months

Question: During the last 12 months, did the board of directors of your company consider one of the issues listed below?

Sustainability issue	Companies in large-cap indexes	Other companies
Human Capital	95%	87%
Data Security and Customer Privacy	91%	81%
Human Rights & Community Relations	81%	67%
Climate Change	80%	56%
Supply Chain Management	65%	64%
Waste & Hazardous Materials Management	63%	52%
Biodiversity and Ecological Impacts	58%	44%
Water & Wastewater Management	55%	54%
Air Quality	34%	33%
Other ESG issue	96%	68%

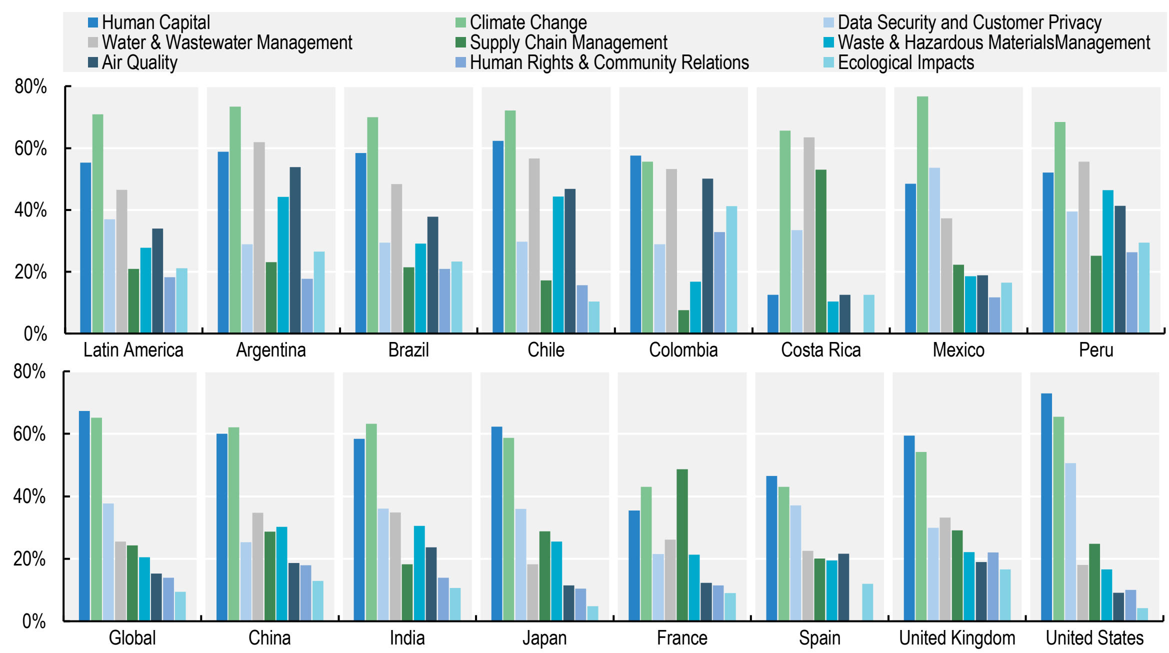
Notes:
1 In the survey questionnaire, companies could answer "yes" or "no" or leave the question unanswered. The shares in this table consider only the universe of companies that answered "yes" or "no", which is slightly different for each one of the sustainability issues. For instance, 238 companies provided an answer related to "Human Capital", while 229 answered to "Climate Change”. On average, 76% of the companies surveyed responded to each sustainability issue.
2 For information about sustainability matters included in the survey, see notes in Table 4.1.
Source: OECD Survey on Sustainability Practices of Listed Companies in Latin America.

Ninety-five percent of Latin American companies in the large-cap indexes and 87% of the remaining ones reported human capital as a sustainability issue recently considered by the board of directors. Data security and customer privacy, and human rights and community relations also rank among the most reviewed issues. Notably, while climate change was considered by 80% of the large companies' boards, only 56% of boards in the remaining companies considered the issue (Table 4.3).

An analysis of the sustainability risks that companies face according to the SASB Sustainable Industry Classification System® Taxonomy[3] ("SASB mapping") shows that globally companies that account for 67% of the total market capitalisation have human capital risks as a financially material factor (Figure 4.1). In the United States, the respective share is even more pronounced, where companies representing 73% of market capitalisation face human capital risks. Climate change risk is financially material for companies representing 65% of global market capitalisation. In Latin America, climate change risks are more relevant than in other regions, being financially material for 71% of companies by market capitalisation, ranging from 56% in Colombia to 77% in Mexico. Human capital (55%), waste and wastewater management (46%) and data security and customer privacy (37%) are also key sustainability-related risks identified as financially material in Latin America.

Companies facing "air quality" as a material risk in Latin America represent 34% of the region's market capitalisation, although globally only 15% of the companies face this risk in a financially material way. In contrast, "employee engagement, diversity and inclusion" is financially material to companies representing 38% of global market capitalisation while it accounts for only 15% in Latin America.

Figure 4.1. The share of market capitalisation by selected sustainability risk, 2021



Note: In order to facilitate the comparison of this figure with the OECD surveys presented in this report, this figure merges some sustainability issues in the SASB mapping: "Climate Change" is a merger of "energy management", "GHG emissions" and "physical impacts of climate change" in the SASB mapping; "Human Capital" merges all three sustainability issues within this dimension in the SASB mapping; "Data Security and Customer Privacy" are two different issues in the SASB mapping.
Source: OECD Capital Market Series dataset, FactSet, Refinitiv, Bloomberg, SASB mapping, OECD calculations.

Table 4.4. Selected indicators for sustainability issues where risks are likely to be financially material

Dimension	Sustainability Issues	Share of the market capitalisation of industries where the risk is material (in total market cap.)		Number of industries where the risk is material (out of a total of 77)
		Global	Latin America	
Environment	Water & Wastewater Management	26%	46%	25
	Energy Management	47%	52%	33
	GHG Emissions	27%	41%	25
	Air Quality	15%	34%	17
	Waste & Hazardous Materials Management	21%	28%	19
	Ecological Impacts	9%	21%	14
Social Capital	Data Security	38%	37%	15
	Access & Affordability	19%	27%	8
	Human Rights & Community Relations	14%	18%	6
	Product Quality & Safety	26%	15%	26
	Selling Practices & Product Labelling	19%	17%	15
	Customer Welfare	12%	12%	14
	Customer Privacy	19%	7%	6
Human Capital	Employee Health & Safety	25%	39%	12
	Employee Engagement, Diversity & Inclusion	38%	15%	27
	Labour Practices	15%	18%	12
Business Model & Innovation	Product Design & Lifecycle Management	53%	54%	37
	Supply Chain Management	24%	21%	19
	Materials Sourcing & Efficiency	27%	22%	19
	Business Model Resilience	7%	15%	7
	Physical Impacts of Climate Change	6%	6%	8
Leadership & Governance	Business Ethics	27%	31%	18
	Systemic Risk Management	17%	35%	8
	Critical Incident Risk Management	10%	18%	14
	Management of the Legal & Regulatory Environment	7%	10%	5
	Competitive Behaviour	8%	10%	11

Note: Sector classification is according to SASB mapping.
Source: OECD Capital Market Series dataset, FactSet, Refinitiv, Bloomberg, SASB mapping, OECD calculations.

Notwithstanding, the mapping of these sustainability risks cannot be treated as the market value at risk, which would depend on an individual assessment of each company's financial exposure to these risks. However, the share of market capitalisation can serve as a reference to Latin American policy makers to assess the differences in economic sectors' distribution among locally listed companies that may justify priorities when supervising and regulating their capital markets.

5 The board of directors

This chapter gives an overview of how the directors' fiduciary duties and the corporation's purpose have been understood in different jurisdictions. In most of them, the shareholder-focused paradigm has been dominant, although, in recent years, some jurisdictions have amended their legislation to highlight the importance of stakeholders' interests. Furthermore, this chapter provides evidence from asset managers and listed companies in Latin America concerning i) the flexibility in the interpretation of the director's fiduciary duties, ii) practices on executive compensation plans, and iii) existing board committees.

5.1. Legal frameworks for the responsibility of the boards

A significant portion of the academic and public debate on corporations during the last 50 years has been primarily based on two assumptions: (i) equity investors have the sole goal of maximising their financial returns relative to a risk they are willing to accept; (ii) companies' stakeholders and society at large should have their well-being properly considered in contracts and statutes (e.g., employment contracts and environmental laws). The most famous formulation of this logic was Milton Friedman's argument that "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman, 1970[15]).

More recently, there has been a shift of the general discourse in favour of broader consideration of non-financial goals. In 2019, the Business Roundtable released a statement where 181 CEOs of large US corporations declared they "shared a fundamental commitment to all [their] stakeholders", including to the delivery of value to their customers, to investing in their employees, to dealing fairly with their suppliers, to supporting communities in which they work and to generating long-term value to shareholders (Business Roundtable, 2019[16]).

Clearly, a company's commitment to all its stakeholders is not irreconcilable with its long-term profitability. After all, loyal customers, productive employees, and supportive communities are essential for a company's long-term capacity to create wealth for its shareholders. In any case, it should be noted that corporate law does not generally fully adhere to the "shareholder primacy" view, allowing companies to prioritise stakeholders' interests in some circumstances.

In **Brazil**, article 154 of the Company Law broadly establishes that directors' fiduciary duties are towards the company, and it adds that directors should also satisfy "the requirements of the public good and the social function of the Company". The same article's paragraph 4 further clarifies that "the board and senior executives may authorise the practice of *reasonable* acts of generosity that benefit employees or the community where the company operates" (emphasis added). In a related provision (art. 116), the company law also establishes that controlling shareholders have "duties and responsibilities with all other shareholders, *a company's employees and the community where it operates*, whose rights and interests the controlling shareholders should respect and fulfil" (emphasis added).

In **China**, article 147 of the Company Law establishes that "directors, supervisors and senior officers of a company shall observe laws, administrative regulations and the company's article of association, and shall assume the duty of loyalty and duty of care to the company". In the Code of Corporate Governance for Listed Companies issued by China's Securities Regulatory Commission, article 86 stipulates that, "[w]hile maintaining the listed company's development and maximising the benefits of shareholders, the company shall be concerned with the welfare, environmental protection and public interests of the community in which it resides and shall pay attention to the company's social responsibilities".

In **France**, legislation amended in 2019 establishes that "the corporation must be managed in the interest of the corporation itself while considering the social and environmental stakes of its activity" (art. 1 833, Civil Code). In the United Kingdom, Section 172 of the Companies Act provides that "a director of a company must […] promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to […] the long-term, the interests of the company's employees, […] suppliers, customers, […], the impact of the company's operations on the community and the environment […]".

In **India**, Section 166(2) of the Companies Act states that "a director of a company shall act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of the environment". A possible interpretation of the provision would be that the "good faith standard" of the first part of the provision would be a higher benchmark than the "best interest criterion" in the second part.

Therefore, the shareholders' interest would be central for directors, while they would also need to consider stakeholders' interest.

In **Delaware (United States)**, jurisprudence ranges from an identified director's duty to maximise shareholder profits (especially in some takeover cases, such as *Revlon* v. *MacAndrews & Forbes Holdings, Inc.*) to rulings that suggest that insufficient attention to stakeholders' interests may be legally actionable (e.g., *Marchand* v. *Barnhill*). Likewise, in the *Hobby Lobby* case, the US Supreme Court explained that "while it is certainly true that a central objective of for-profit corporations is to make money, modern corporate law does not require for-profit corporations to pursue profit at the expense of everything else, and many do not do so" (Fisch and Davidoff Solomon, 2021[17]).

In any case, from a pragmatic perspective, even if an executive needs to comply with a strictly defined "shareholder primacy" mandate, the Business Judgement Rule principle adopted in some legal systems and statutes authorising companies to donate money would afford the corporate executive significant discretion to consider different stakeholders' interests (Fisch and Davidoff Solomon, 2021[17]). Except for cases of conflicts of interest, it has been unlikely that an executive would be held liable in court if he or she prioritised a stakeholder interest within reasonable limits at the expense of a company's current profits. The judge would typically defer to the executive's assessment of what would be likely best for the long-term profitability of the corporation.

Among surveyed jurisdictions, as presented in Table 5.1, seven adhere to what some have named the "shareholder primacy" view (Chile, Colombia, Costa Rica, Japan, Mexico, Peru and the United States). While different legal systems have their particularities, directors in those countries would typically need to consider only shareholders' financial interests while complying with the applicable law and ethical standards. This still requires attention to non-shareholders' interests, but only to the extent that those interests may be relevant for creating long-term shareholder value.

As detailed in Table 5.1, five surveyed jurisdictions follow an approach close to the "shareholder primacy" view, but they also establish that directors would have to *consider* stakeholders' interests and the social and environmental stakes of a company's activity (Brazil, China, France, India, and the United Kingdom). *Consideration* in some cases might be interpreted as careful thought given to stakeholders' interests to the degree that is equal to or higher than well-established standards (such as those in the OECD Guidelines for Multinational Enterprises) but still falling short of what a social planner would prefer for society as a whole.

The Business Judgement Rule or a similar safe harbour has been adopted in nine of the fourteen surveyed jurisdictions (Table 5.1). The Business Judgement Rule has been either incorporated into statutory law (e.g., in Spain in 2014 – art. 226 of the Company Law) or has emerged from case law (e.g., in the US state of Delaware). The Business Judgement Rule acts as a presumption that the board of directors acted in the best interest of the company unless plaintiffs can prove negligence or bad faith. Similarly, if a director faces a conflict of interest, the court will not typically uphold the presumption.

The previous discussion on the purpose of the corporation and fiduciary duties applies to for-profit companies. In all surveyed jurisdictions, despite some differences in corporate law, a company cannot meaningfully divert from its profit-making goal without an authorisation from its shareholders. In response to the interest of some shareholders in adopting objectives other than simply maximising long-term profits, some jurisdictions have recently amended their legislation to create the corporate model of Public Benefit Corporations (or "Sociedad de Beneficio e Interés Colectivo" in Spanish). As shown in Table 5.1, this has been the case in Colombia, Delaware (United States), France, Peru and Spain and, still as a proposal, in Argentina.

In **Colombia**, since 2018, companies may convert into public benefit corporations ("BIC" in the Spanish acronym) if they adopt the goal of both making profits and acting in the interest of the community and the environment (Congreso de Colombia, 2018[18]). To use the BIC name, companies need to state in their articles of association the benefit and collective interest that they intend to promote. Likewise, a BIC company's management must annually publish a report that accounts for its i) business model, ii) corporate governance, iii) labour practices, iv) environmental practices, and v) its impact on the community. As of November 2021, 1 043 BIC companies were registered in the Colombia (Ministry of Commerce, Industry and Tourism, 2021[19]). Ninety-eight per cent of Colombian BIC companies are small and medium enterprises.

In **Delaware (United States)**, for-profit corporations may, since 2013, be incorporated as or be converted into Public Benefit Corporations (PBC), which represents a legal obligation to "be managed in a manner that balances the stockholders' pecuniary interests, the best interests of those materially affected by the corporation's conduct, and the public benefit or public benefits identified in its [articles of association]" (Delaware General Corporation Law, Chapter 1, subchapter XV). In addition to identifying one or more public benefits to be promoted by the corporation in its articles of association, PBCs also have the two following obligations: (i) in any stock certificate and every notice of a shareholders meeting, they must note they are a PBC; (ii) the board of directors should at least every two years report to shareholders on the promotion of the public benefits identified in the articles of association (these articles may also demand a third-party verification of the public interests' fulfilment). As of September 2021, 207 private PBCs incorporated in Delaware contained the words "public benefit corporation" or "PBC" in their business names, including seven listed companies with a market capitalisation ranging from approximately USD 700 million to USD 50 billion as of September 2021 (OECD, 2022, p. 27[1]).

In **France**, for-profit corporations may, since 2019, adopt social and environmental objectives in their articles of association and, therefore, register with the business name of *société à mission* (art. L.210-10, Commercial Code). There are four main conditions for a corporation to be registered with this name: (i) its articles of incorporation must specify a "purpose" ("*raison d'être*") as defined in art. 1 835 of the Civil Code; (ii) inclusion of social and environmental objectives into the articles of incorporation; (iii) establishment of a committee – with the participation of at least one employee – responsible exclusively for verifying and reporting to the annual shareholders meeting whether the company fulfils its non-financial goals; (iv) verification by an accredited independent third party of whether the company fulfilled its non-financial goals and reported to the annual shareholders meeting. If a corporation does not comply with any of those requirements or the independent third party concludes a non-financial goal was not fulfilled, public prosecutors or any interested party – which could arguably include stakeholders – may request the suppression of *société à mission* from the corporation's business name. At the end of 2021, there were 505 *sociétés à mission,* double than at the end of December 2020, which reflects the dynamism of the model in France (Observatoire des sociétés à mission, 2022, p. 3[20]). Companies with less than 50 employees still represent a dominant share among the *sociétés à mission*, with 79% from the service sector.

In **Peru**, new legislation on BIC companies was enacted in 2020 (Gobierno del Perú, 2021[21]). There are three main conditions for a corporation to be registered with the designation "BIC": i) to include in its articles of association social and environmental purposes (at least one purpose of each type); ii) to present within sixty calendar days after its registration a strategic plan with the activities that it will carry out to fulfil the purposes mentioned in its articles of association; and iii) to be annually audited by an independent third party to accredit the performance of the activities established in its strategic plan. As of June 2022, there were ten BIC companies in Peru (SUNARP, 2022[22]).

Table 5.1. Legal frameworks for the responsibility of the boards

Jurisdiction	Fiduciary duties	Business Judgement Rule	Legislation for Public Benefit Corporations (PBCs)	Controls in PBCs	Requirement to convert into a PBC
Argentina	-	No	Yes*	Management should report to shareholders every year*	-
Brazil	Shareholders and have regard to stakeholders	Yes	No	-	-
Chile	Shareholders	No	No	-	-
China	Shareholders and have regard to stakeholders	No	No	-	-
Colombia	Shareholders	No	Yes	Management should report to shareholders every year	Amend the articles of association
Costa Rica	Shareholders	No	No	-	-
France	Shareholders and have regard to stakeholders	Similar safe harbor ("faute de gestion")	Yes	Establishment of a committee and verification by an independent third party	Amend the articles of association
India	Shareholders and have regard to stakeholders	Yes	No	-	-
Japan	Shareholders	Yes	No	-	-
Mexico	Shareholders	Yes	No	-	-
Peru	Shareholders	Similar safe harbor	Yes	Elaboration of a report by an independent third party to the shareholders	Amend the articles of association
Spain	-	Yes	Yes	Verification by an independent third party	Amend the articles of association
United Kingdom (England & Wales)	Shareholders and have regard to stakeholders	Similar safe harbor	No	-	-
United States (Delaware)	Shareholders	Yes	Yes	BoD should report to shareholders every 2 years	Majority of votes in a shareholder meeting

Key: Information on jurisdictions with an asterisk (*) relates to proposals under consideration.
Notes:
[1] In **Argentina**, the company law, court decisions and legal research do not allow for a clear definition of the fiduciary duties' scope for the goals of this table.
[2] In **Chile**, the Corporations Law establishes in its article 41 the duty of the board members to use in the exercise in their functions the care and diligence that people normally use in their own businesses and shall be jointly liable of any damage caused to the corporation and the shareholders for any fraudulent or negligent actions. CMF General Rule 461 requires the disclosure of information related to: (i) how the entity takes into consideration the interests of its stakeholders; (ii) description of how, and with what frequency, environmental and social issues are reported to the board of directors, especially with respect to climate change, and whether these issues are included when discussing and adopting strategic decisions, business plans or budgets, among others.

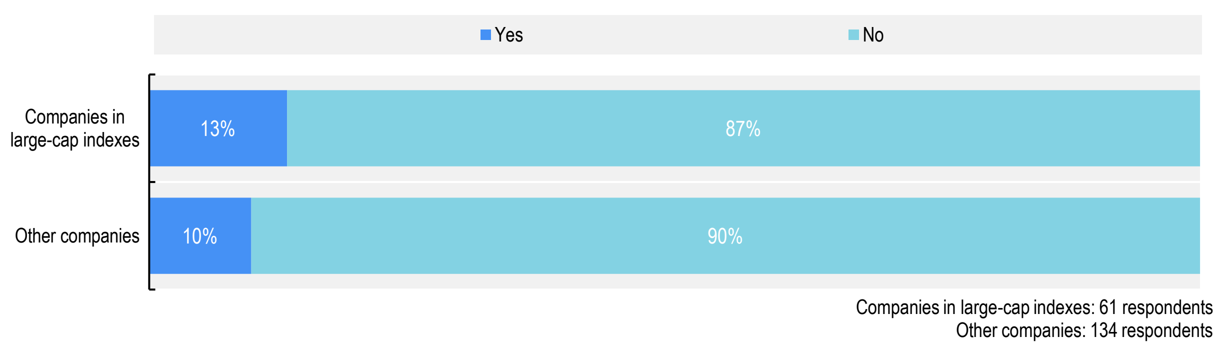
[3] In **Peru**, the "Business Judgment Rule" has not been expressly regulated. However, the first paragraph of Art. 177 of the General Law of Corporations provides that "[t]he directors respond, unlimitedly and jointly, before the corporation, shareholders and third parties for damages caused by agreements or acts contrary to the law, the statute or by those carried out with fraud, abuse of powers or gross negligence." Therefore, directors will not be liable when a party considers that their business decision should have been a different one, unless that party can prove fraud, abuse of power or gross negligence. Furthermore, article 180 of the General Law of Corporations deals with the situation where the director faces a conflict of interest, establishing that directors cannot adopt agreements that do not protect the corporation's interest but rather their own interest or the one of related third parties. Additionally, the same rule states that any director who has an interest in any matter contrary to that of the corporation must express it and refrain from participating in the deliberation and resolution of said matter. Finally, it should be noted that a 2018 draft of a new General Corporations Law published on the website of the Ministry of Justice and Human Rights expressly recognises the Business Judgment Rule, protecting the discretion of directors and senior executives for their business decisions.
[4] In **Spain**, Law 18/2022 of 28 September 2022, on the creation and growth of companies, recognises the figure of the public benefit corporations. However, it is pending regulatory development.

5.2. Practices and preferences in Latin America

As seen in Table 5.1 above, only Brazil among the seven surveyed Latin American jurisdictions has legal provisions requiring directors to *take into account* stakeholders' interests, and the social and environmental stakes of a company's activity. In Brazil, however, a company cannot meaningfully divert from its profit-making goal without the authorisation of its shareholders. In practice, only a small minority of listed companies in Latin America report that the trade-off between long-term shareholder value and societal or environmental benefits would be authorised by their articles of association (Figure 5.1).

Figure 5.1. Articles of association in Latin American listed companies – the possibility of trade-offs

Question: Do your articles of association allow a trade-off between long-term shareholder value and societal or environmental benefits?

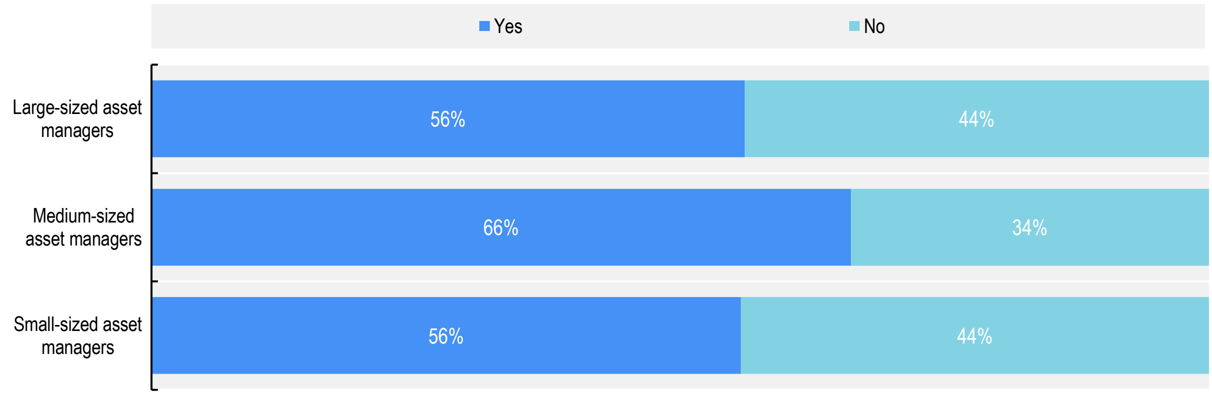


Note: In the survey questionnaire, companies could answer or leave this question unanswered. The shares in this figure consider only the universe of companies that answered the question. On average, 71% of the companies responded within each category.
Source: OECD Survey on Sustainability Practices of Listed Companies in Latin America.

Nevertheless, most asset managers investing in Latin America are willing to accept a lower rate of return in exchange for societal or environmental benefits. It should be noted, in any circumstance, that the question did not stipulate by how much lower the rate of return would be (Figure 5.2).

Figure 5.2. Asset managers investing in Latin America – willingness to trade off financial returns

Question: Would you be willing to accept a lower rate of return as an investor in a company in exchange for societal or environmental benefits?



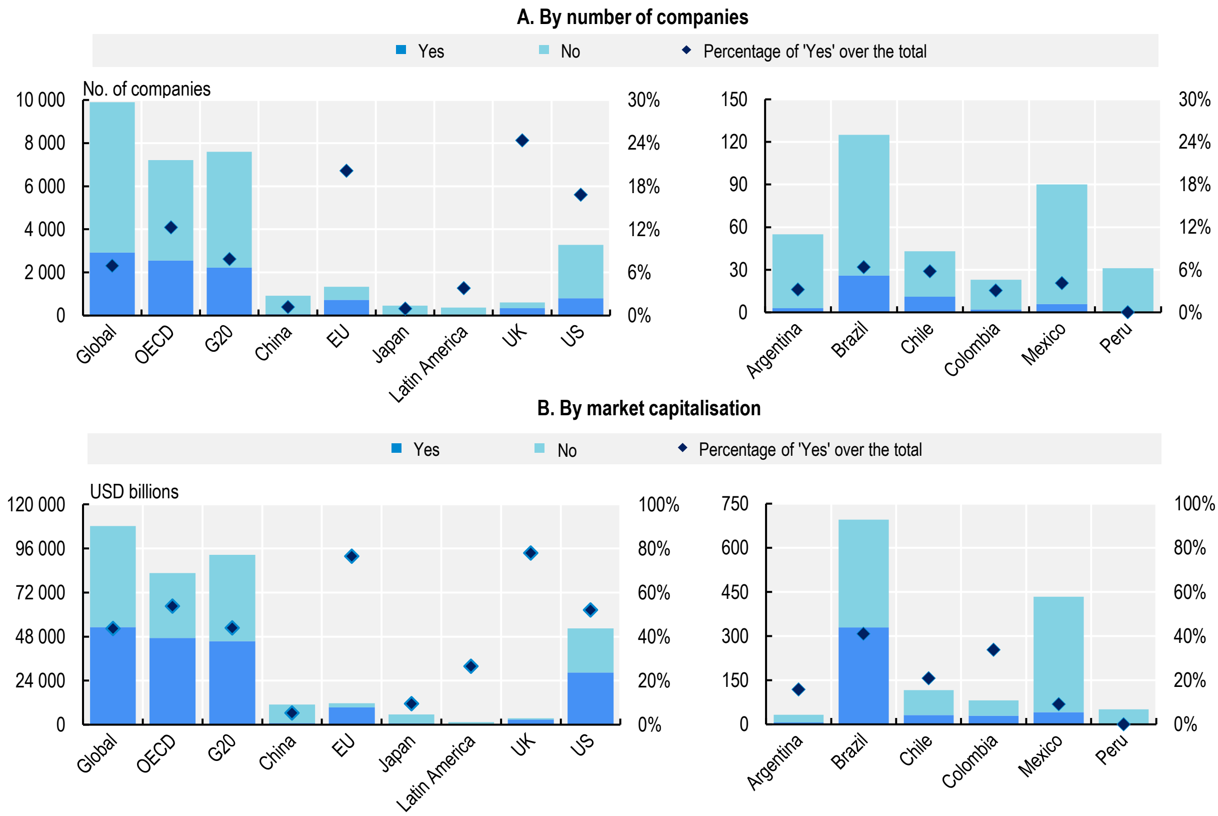
Note: In the survey questionnaire, asset managers could answer "yes" or "no" or leave it unanswered. The shares in this figure consider only the universe of asset managers that answered either "yes" or "no". On average, 78% of the asset managers responded within each size category.
Source: OECD Survey on Sustainability Practices of Asset Managers in Latin America.

Companies representing 85% of global market capitalisation have executive compensation policies linked to performance measures. Companies representing 44% of market capitalisation worldwide and 54% in OECD countries include a variable executive remuneration based on sustainability factors (Figure 5.3). Among Latin American listed companies, these percentages are lower. In the region, 59% of the companies by market capitalisation have performance-based incentives for executives, and 27% have a performance compensation policy linked to sustainability factors. Brazil and Colombia stand out with percentages higher than the average for Latin American countries.

As recommended by the G20/OECD Principles of Corporate Governance, the board of directors is typically responsible for overseeing the company's risk management. If sustainability risks are financially material for a company, they would have to be properly managed by senior executives and overseen by the board, therefore (OECD, 2020, pp. 74-75[23]), despite any more complex discussion about the purpose of the corporation. Establishing a board committee responsible for sustainability is not the only way for a company to manage its sustainability risks and a committee, if not well-structured, may even be ineffective in doing so. However, the existence of a sustainability board committee may be a proxy for the importance given by boards to sustainability risks.

Around half of the world's market capitalisation has established a committee responsible for overseeing the management of sustainability risks and opportunities reporting directly to the board. In the United States, 65% of the companies by market capitalisation have one such committee, 60% in the United Kingdom, 42% in the European Union, 21% in Japan and 13% in China. In Latin America, 44% of the companies have a board-level committee responsible for decision-making on sustainability matters, ranging from an average of 13% in Argentina, Chile, and Peru, to an average of 48% in Brazil and Mexico, up to 76% in Colombia (Figure 5.4).

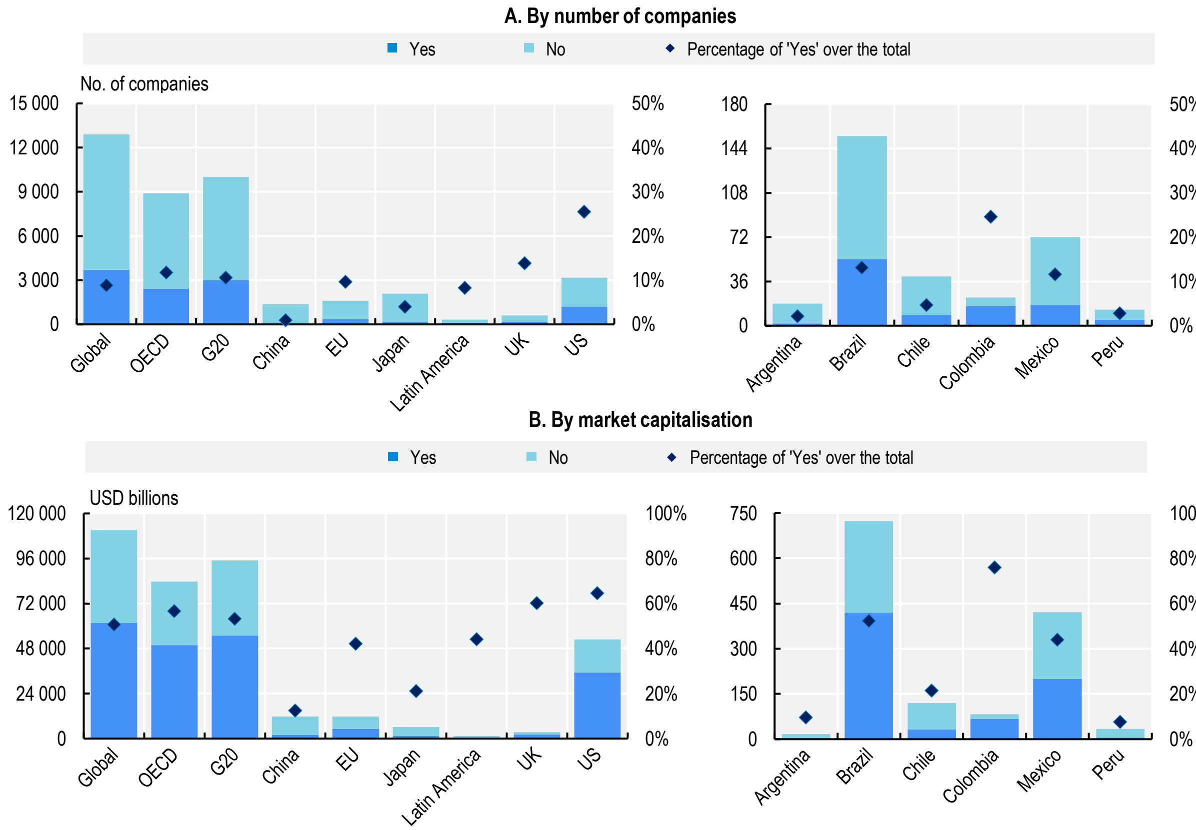
Figure 5.3. Executive compensation linked to sustainability matters



Note: The "total" in "percentage of 'Yes' over the total" includes all listed companies within each category, including those for which there is no available information. For instance, in the case of the global category, the percentage is calculated over 42 019 worldwide listed companies, while in Latin America the percentage is calculated over 1 252 companies. The compensation policy includes remuneration for the CEO, executive directors, non-board executives, and other management bodies based on "ESG or sustainability factors".
Source: OECD Corporate Sustainability dataset, Refinitiv. See Annex B for details.

In addition to the differences across countries, small and medium enterprises face challenges assessing and implementing risk management policies due to higher costs and lower leverage to implement due diligence processes (OECD, 2021[24]). For instance, in Latin America, while almost half of the region's market capitalisation has a committee responsible for overseeing sustainability risks and opportunities, when measured by the number of companies, only 8% (103) had one such committee in place.

Figure 5.4. Board committees responsible for sustainability



Note: The “total” in “percentage of ‘Yes’ over the total” includes all listed companies within each category, including those for which there is no available information. For instance, in the case of the global category, the percentage is calculated over 42 019 worldwide listed companies, while in Latin America the percentage is calculated over 1 252 companies. A company is considered to have such a committee if its responsibilities explicitly include oversight of CSR, sustainability, health and safety, and energy efficiency activities, regardless of the name of the committee. For example, a company with a “risk management committee” would be included in the category “Yes” if mentioned committee is responsible for managing sustainability risks.

Source: OECD Corporate Sustainability dataset, Bloomberg. See Annex B for details.

6 Shareholders

This chapter presents evidence from the OECD survey of asset managers investing in Latin America on their engagement methods with companies about sustainability matters, as well as managers' willingness to file a sustainability-related shareholder resolution. It also presents the number of Latin American listed companies with GHG emissions reduction targets.

6.1. Shareholders' engagement

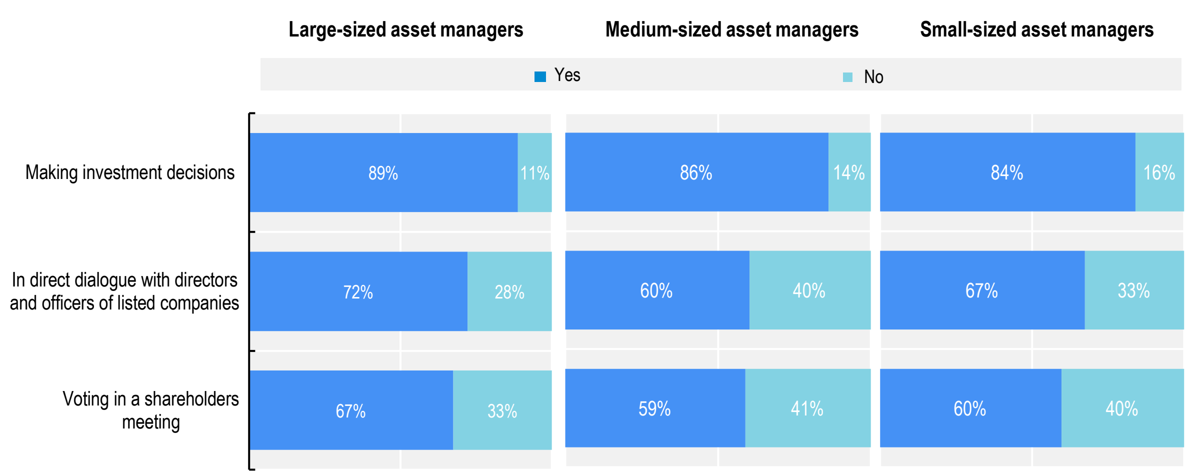
Concerning a corporation's objective and its responsiveness to sustainability trends, shareholders and other stakeholders commonly have three ways where they may influence or compel managers to incorporate sustainability risks into their business decision-making processes: i) in direct dialogue with directors and key executives, ii) in a shareholders' meeting, and iii) in courts (OECD, 2022, pp. 25-28[1]).

Direct dialogue between shareholders and management can take many forms. The initial engagement would typically occur in private meetings and correspondence, but it could escalate to public letters, proxy contests, complaints to a securities regulator and lawsuits. An individual shareholder may engage independently with a company's management, or a shareholder may choose to coordinate efforts with others. Despite differences in engagement methods, sustainability risks and opportunities are currently a great concern to asset managers investing in Latin America (Figure 6.1), impacting their decisions not only when investing but also when engaging with companies and voting in shareholder meetings.

Shareholders' proposals often focus on specific issues and demand relatively short-term action from management, such as developing a report, requiring a change in corporate policy or strategy, or changing the board's composition. However, shareholders may also propose amendments to a company's articles of association with broader and longer-term consequences. As presented in Table 4.2, there were 330 sustainability-related shareholder resolutions (38 involving climate change) among 103 Latin American listed companies from 2019 to 2021. Likewise, a large majority of asset managers investing in Latin America mentioned they would consider filing or co-filing an ESG-related shareholder resolution in the country (Figure 6.2).

Figure 6.1. Importance of sustainability risks and opportunities to asset managers

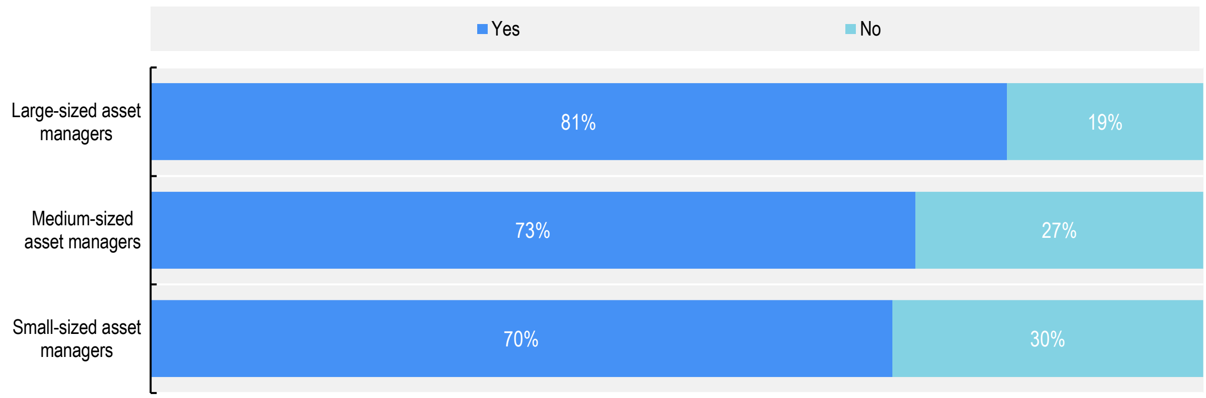
Question: Do ESG risks and opportunities affect your decisions when…:



Note: In the survey questionnaire, asset managers could answer "yes" or "no" or leave it unanswered. The shares in this figure consider only the universe of asset managers that answered either "yes" or "no", which is slightly different for each one of the forms of interaction. For instance, 89 large-sized asset managers provided an answer related to "Voting in a shareholders meeting", while only 98 of them answered with respect to the topic "Making investment decisions". Overall, on average, 90% of the asset managers responded within each size category and interaction.
Source: OECD Survey on Sustainability Practices of Asset Managers in Latin America.

Figure 6.2. Asset managers' willingness to file a sustainability -related shareholder resolution in Latin America

Question: Would you consider filing or co-filing an ESG -related shareholder resolution in the Latin American countries where your firm invests?



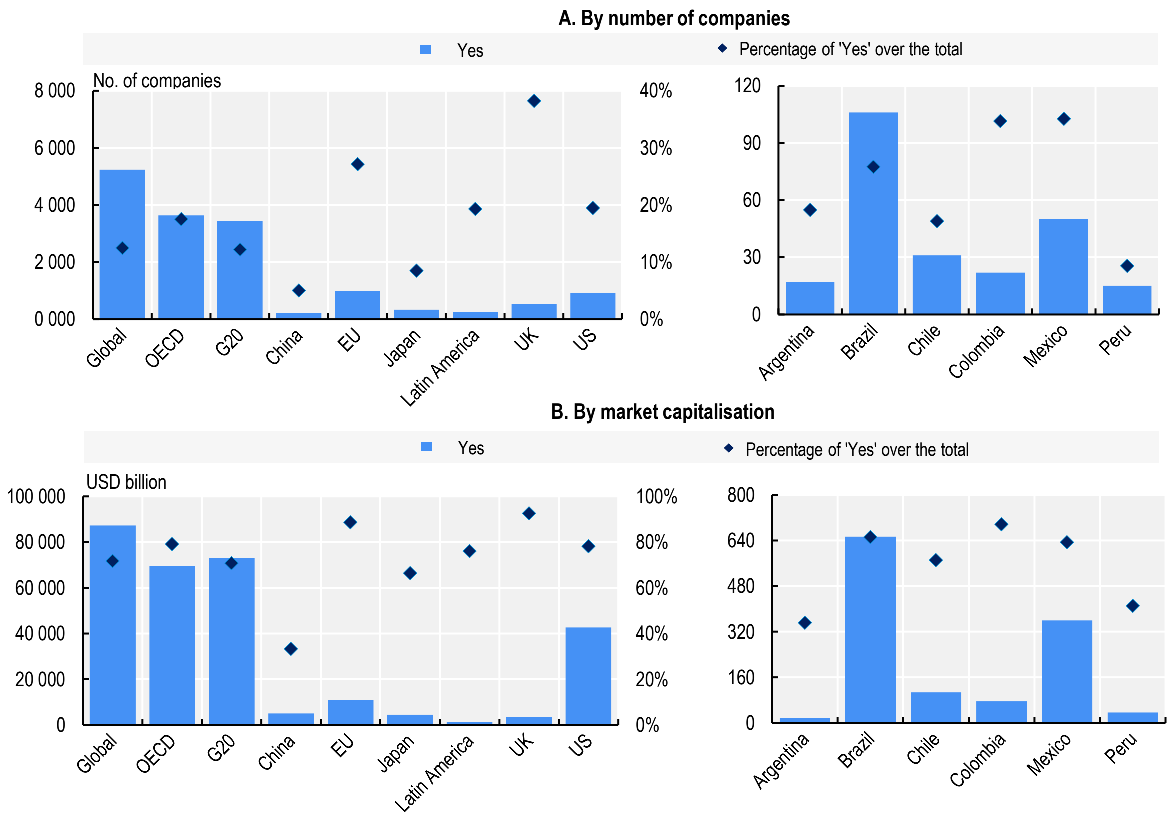
Note: In the survey questionnaire, asset managers could answer "yes" or "no" or leave it unanswered. The shares in this figure consider only the universe of asset managers that answered either "yes" or "no". On average, 73% of the asset managers responded within each size category.
Source: OECD Survey on Sustainability Practices of Asset Managers in Latin America.

6.2. Climate change risks and GHG emissions reduction

Corporate awareness and regulatory actions around climate change disclosure have accelerated in recent years. As stated in Chapter 4, the percentage of companies by market capitalisation that acknowledge the risk of climate change is high, impacting investors' decisions and shareholders' resolutions. Climate change risks are even more relevant in Latin America, being financially material for 71% of companies by market capitalisation.

In some cases, shareholders have voted for the adoption of greenhouse gases (GHG) emissions reduction targets. In some others, companies' management has pro-actively established reduction targets. Either way, a reporting system is an important first step in any effort to reduce GHG emissions. It requires an accurate measuring, reporting, and tracking system of the emissions resulting directly from the activities carried out by the company (scope 1), indirect emissions related to energy consumption (scope 2), and emissions generated in the supply chain (scope 3).

Figure 6.3. Disclosure of scope 1 & 2 GHG emissions by listed companies in 2021

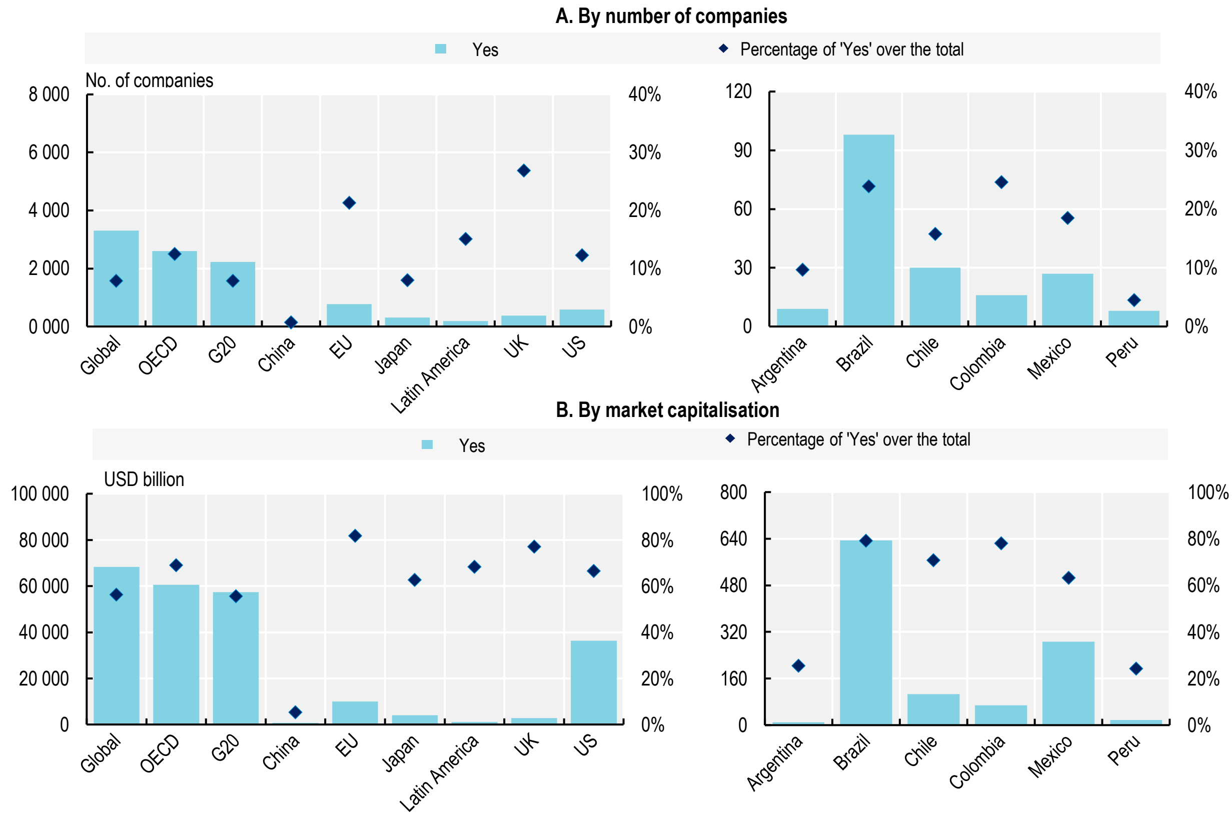


Note: The “total” in “percentage of ‘Yes’ over the total” includes all listed companies within each category, including those for which there is no available information. For instance, in the case of the global category, the percentage is calculated over 42 019 worldwide listed companies, while in Latin America the percentage is calculated over 1 252 companies. Only the companies that reported both scope 1 and scope 2 emissions are counted in the analysis.
Source: OECD Corporate Sustainability dataset, Refinitiv, Bloomberg. See Annex B for details.

Globally, 5 240 companies representing 72% of market capitalisation disclosed scope 1 and scope 2 GHG emissions in 2021. In the United Kingdom and the European Union, on average, 91% of the companies disclosed scope 1 and 2 emissions. In Latin America, 76% of companies publicly disclosed scope 1 and 2 emissions, ranging from 44% in Argentina to 87% in Colombia (Figure 6.3). Remarkably, when analysing the disclosure of scope 3 emissions, a 16 percentage points difference exists when compared to the disclosure of scope 1 and scope 2 emissions. In 2021, 3 300 companies (56% of the market capitalisation) reported scope 3 emissions. In Latin America, the gap is less visible with a difference of 8 percentage points between the two categories.

In a sample of the 143 largest companies in each market described in Chapter 3, there were no assurance engagements that covered the entirety of a sustainability report. In the United Kingdom, Brazil and Chile, however, it was possible to verify that at least half of the companies provided an assurance of their reported GHG emissions. In the United States, less than 10% of the companies in the sample declared that their GHG emissions were assured in their sustainability reports. (Table 6.1).

Figure 6.4. Disclosure of scope 3 GHG emissions by listed companies in 2021



Note: The "total" in "percentage of 'Yes' over the total" includes all listed companies within each category, including those for which there is no available information. For instance, in the case of the global category, the percentage is calculated over 42 019 worldwide listed companies, while in Latin America the percentage is calculated over 1 252 companies.
Source: OECD Corporate Sustainability dataset, Refinitiv, Bloomberg. See Annex B for details.

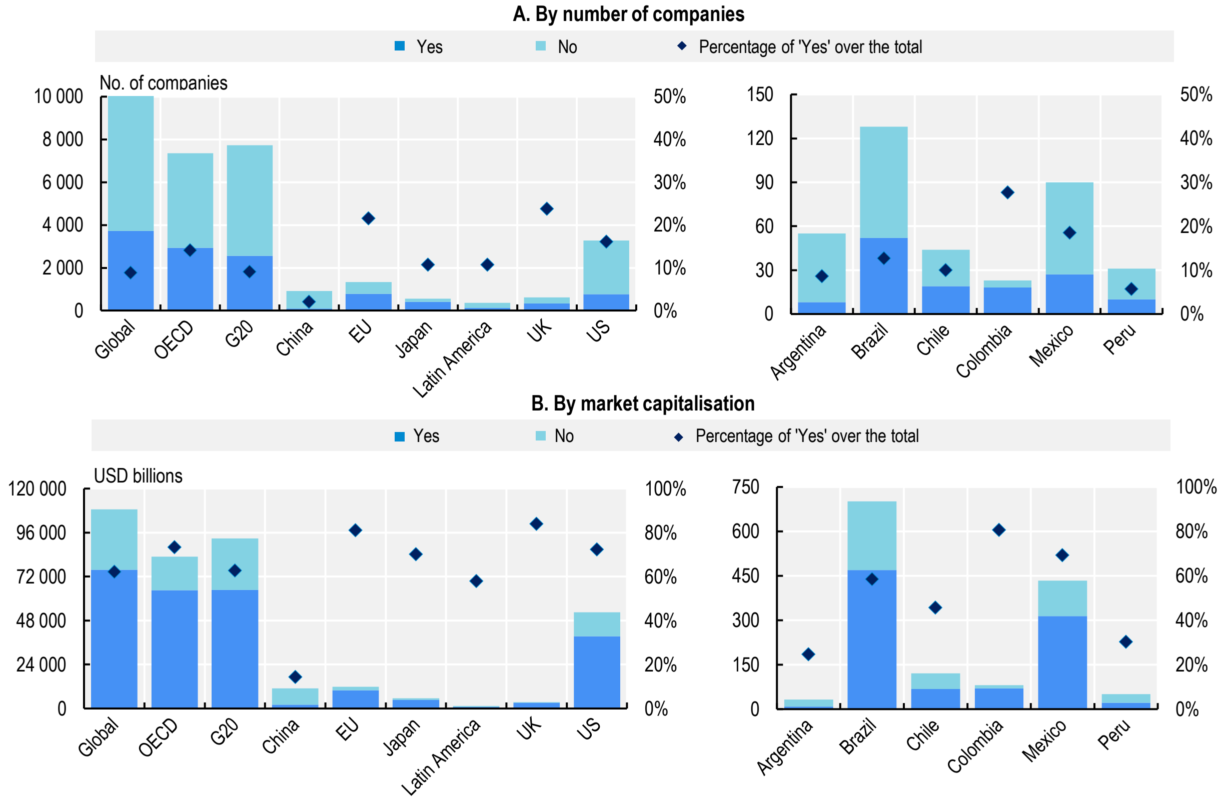
Table 6.1. Assurance engagement covering GHG emissions among the largest companies

	Share of assurance		Share of assurance
Argentina	0%	**Mexico**	0%
Brazil	50%	**Peru**	0%
Chile	50%	**UK**	56%
Colombia	25%	**US**	10%

Note: GHG emissions were considered assured if there was a mention of the GHG emissions keywords in the assurance letters, or when GHG emissions keywords indicated assurance nearby in the full sustainability reports.
Source: NPL analysis developed by Miklos Vasarhelyi, Ricardo Lopes Cardoso and their teams affiliated to, respectively, Rutgers University (United States) and Getulio Vargas Foundation (Brazil).

Globally, almost two-thirds of the companies by market capitalisation disclose a GHG emission reduction target. In the United Kingdom and the European Union, the share of companies is larger, representing 84% and 81%, respectively. In Latin America, 134 companies that account for 58% of the region's market capitalisation have publicly disclosed GHG emissions targets. Argentina (25%), Peru (30%) and Chile (46%) stand below the region's average, while Brazil (59%), Mexico (69%) and Colombia (81%) rank higher (Figure 6.5).

Figure 6.5. Disclosure of GHG emissions reduction targets by listed companies in 2021



Note: The "total" in "percentage of 'Yes' over the total" includes all listed companies within each category, including those for which there is no available information. For instance, in the case of the global category, the percentage is calculated over 42 019 worldwide listed companies, while in Latin America the percentage is calculated over 1 252 companies.
Source: OECD Corporate Sustainability dataset, Refinitiv, Bloomberg. See Annex B for details.

7 Corporate governance frameworks

This chapter highlights recent regulatory developments related to sustainability disclosure across twelve jurisdictions and the European Union. It comprises key information about sustainability reporting standards, third-party assurance, and proportionality.

In recent years, legislators, regulators, and stock exchanges worldwide have been increasingly active in developing rules and guidance for sustainability disclosure by listed companies. This chapter summarises the key provisions in regulatory frameworks across the analysed jurisdictions, including China, the European Union, India, Japan, the United Kingdom, and the United States, as well as Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru.

Sustainability information is understood for the goals of this report as environmental and social data and facts. This information would, in many cases, be non-financial (e.g., GHG emissions), even though sustainability disclosure may be relevant for investors to estimate a company's future cash flows and risk. Likewise, while sustainability disclosure may include issues relevant for corporate governance of a company (e.g., how it manages its climate related-risks), this report's focus is not on corporate governance disclosure (e.g., the number of independent directors and executives' remuneration).

It should also be noted that in most (if not all) jurisdictions covered in this report, there has traditionally been an obligation for listed companies to promptly disclose all material information about their businesses. In some cases, therefore, companies have already been obliged to disclose environmental and social matters that are financially relevant for them. The sustainability regulatory frameworks considered in this report, however, go at least one step further specifically requiring or recommending the disclosure of sustainability information.

7.1. Sustainability disclosure regulatory frameworks

All jurisdictions analysed in this report have either required or recommended the disclosure of sustainability information by listed companies. The nature and scope of their regulatory frameworks, however, vary, as shown in Table 7.1. Among the thirteen jurisdictions, four 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 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.

In relation to the scope of the sustainability matters covered, it may be challenging to compare existing frameworks. For instance, while both Argentina's and the European Union's frameworks cover a broad number of sustainability matters, the regulation in the latter is significantly more detailed than in the former. Nevertheless, a clear separation does exist between jurisdictions that have a smaller or greater focus on climate-related matters (Brazil, Colombia, the United Kingdom, and the United States), and others that encompass a greater number of sustainability matters.

A rising trend among sustainability regulatory frameworks is either a requirement or a recommendation for companies to disclose verifiable metrics to allow investors to assess the credibility and progress toward meeting an announced sustainability-related goal or target. This policy does not mean that companies would need to adopt such goals but, if they do, they will need to provide sufficient information to make directors and key executives accountable. For instance, it may mean that a company that adopts a net-zero GHG emissions commitment by 2050 would need to establish shorter-term targets, as well as adequately disclose its most recent emissions.

Table 7.1. Sustainability disclosure regulatory frameworks

Jurisdiction	Sustainability disclosure	Sustainability matters covered	Disclosure of metrics when a company sets sustainability related- goals	Key source
Argentina	C	A great number of sustainability matters	-	Corporate Governance Code
Brazil	C	A great number of sustainability matters, with a focus in climate	-	CVM Rule No. 80
Chile	B	A great number of sustainability matters	B	General Rule No. 30
China	R	A great number of sustainability matters	-	CSRC Contents and Formats of Annual Reports
Colombia	B	A great number of sustainability matters, with a focus in climate-related matters	B	External Circular No. 31
Costa Rica	R	A great number of sustainability matters	R	Guidelines to disclose ESG information for issuing companies
European Union	B	A great number of sustainability matters	B	Corporate Sustainability Reporting Directive (CSRD)
India	R	A great number of sustainability matters	-	Circular on Business Responsibility and Sustainability Reporting (BRSR) by listed entities
Japan	B*	A great number of sustainability matters	B*	Proposed Revisions of the Cabinet Office Ordinance (in Japanese)
Mexico	B	Some sustainability matters	B	Circular of Issuers – Annex H and N
Peru	C	A great number of sustainability matters, with a focus on GHG, water, energy, and solid waste	B	Resolution No. 018-2020-SMV/02
United Kingdom	C	Climate-related matters	R	FCA's Climate-related Disclosure Regime
United States	B*	Climate-related matters*	B*	SEC Climate-Related Disclosures Proposal

Key: B = binding / requirement by the law, regulations or listing rule; C = comply or explain; R = recommendation by guidelines, codes, or principles; "- " = absence of a specific requirement or recommendation. Information on jurisdictions with an asterisk (*) relates to proposals under consideration.

Notes:

[1] In **Argentina**, the national corporate governance code briefly mentions the need for the company to disclose sustainability information on its website, as well as to provide relevant corporate social responsibility information to its shareholders. The code follows an "apply or not, explain" approach, which means that the company must explain either how it implements the recommendation or why it does not do so. In addition, CNV's public offering rules establish that prospectuses must include a description of the company's environmental or sustainability policies and, in the event that the company does not have such policies, it must provide an explanation why.

[2] In **Brazil**, the comply or explain sustainability disclosure rule covers an open number of sustainability issues. Still, there are specific provisions asking companies to disclose climate related-financially material information and GHG emissions (or explain why they do not disclose information on these specific matters). In addition, disclosure on some particular sustainability issues, such as the workforce composition according to gender and race, is binding.

[3] In **Chile**, Financial Market Commission (CMF)'s General Rule No. 30 was modified in November 2021 to require corporate governance and sustainability disclosure in the annual report of the issuers of publicly offered securities. Article 10 of the Securities Market Law was modified in June 2022 to establish that entities registered in the Securities Registry carried by the CMF should provide information to the general public regarding their environmental and climate change impact, including the identification, evaluation and management of the related risks, as well as corresponding metrics. This provision is in addition to what article 9 establishes: an obligation of the issuers of publicly offered securities to disclose truthfully, sufficiently, and promptly all material information about their businesses.

[4] In **Mexico**, the regulatory framework broadly establishes that public offer prospectuses and annual reports must include relevant sustainability information focusing on environmental matters. Specifically, with respect to environment related-information, the regulation requires disclosure of climate risks that may affect the company, the material impact of laws related to this matter on its business, and whether the company has policies, certificates or projects related to environmental matters. The disclosure of social matters must be done in the annual reports and is specifically related to the number of unionised employees, the relationship with unions and the number of temporary workers.

7.2. Sustainability disclosure standards and assurance

An important policy question for jurisdictions developing their sustainability disclosure framework is to either choose an individual accounting standard or allow companies the freedom to report sustainability information within the framework that they understand to be the most adequate. The adoption of a single accounting standard facilitates the comparability of sustainability information from different companies, while this policy option may hinder the development of new standards that might address the needs of particular business sectors.

Table 7.2. Sustainability disclosure standards and assurance

Jurisdiction	Disclosure standard			Primary users		Level of assurance		Independent assurance
	Freedom to choose	Single						
		Local	Global	Investors	Multiple stakeholder	Limited	Reasonable	
Argentina	●	-	-	-	-	-	-	-
Brazil	●	-	-	-	-	-	-	-
Chile	-	●	-	●	-	-	-	-
China	-	●	-	-	-	-	-	-
Colombia	-	-	TCFD+ SASB	●	-	-	-	-
Costa Rica	●	-	-	-	-	-	-	-
European Union	-	●	-	-	●	●	-	By registered auditors
India	●	-	-	-	●	-	-	-
Japan	-	-	TCFD	●	-	-	-	-
Mexico	●	-	-	●	-	-	-	-
Peru	-	●	-	●	-	-	-	-
United Kingdom	-	-	TCFD	●	-	-	-	-
United States	-	●*	-	●	-	-	●*	Either by registered auditors or non-auditors*

Key: "●" marks the regulatory option followed in the jurisdiction, but please refer to the previous table to see whether it is a requirement, a comply or explain provision, or a recommendation; "-" = absence of a specific requirement or recommendation; "●*" identifies proposals under consideration.

Notes:

[1] In **Chile**, regulation has set a local standard based on international frameworks (GRI, TCFD, Integrated Reporting), which is complemented by the requirement to disclose SASB metrics.

[2] In the **European Union**, the European Commission has the duty to assess, by no later than 1 October 2028, whether reasonable assurance is feasible for auditors and for reporting companies. If it is considered to be feasible, the Commission will have the authority to require a "reasonable" level of assurance.

[3] In the **United States**, the proposed climate-related disclosures are similar to those that many companies already provide based on accepted disclosure frameworks, such as the Task Force on Climate-Related Financial Disclosures and the Greenhouse Gas Protocol. The proposed requirement for assurance would be restricted to GHG emissions scope 1 and scope 2. As proposed, a limited level of assurance would be required initially, and eventually the requirement would be scaled up to reasonable assurance.

Among the thirteen surveyed jurisdictions, five allow companies the freedom to choose (four Latin American countries and India). Among those 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[4].

Accounting standards provide only the framework for companies to report information publicly, but their executives will typically need to decide what pieces of information to effectively disclose. An important reference in such assessment is who would be the primary users of corporate disclosure. Traditionally, accounting standards for financial reports have considered investors and creditors to be the primary users of corporate disclosure, which typically means that only information relevant to their investment or voting decisions would need to be reported.

In seven surveyed jurisdictions, investors are considered to be the primary users of sustainability disclosure, while in the European Union and India not only investors but also stakeholders are among the primary users. In these two jurisdictions, a piece of information may need to be disclosed, for instance, if relevant for either employees or customers, even if the information is not reasonably expected to affect an investor's decision to trade a company's securities or how to vote in a shareholder meeting. In Argentina, Brazil and Costa Rica, however, it is not clear who would be the primary users of sustainability disclosure, which may be explained by the fact that such disclosure is not mandatory in any of these three countries and, therefore, companies may more freely decide how much sustainability information to disclose.

The assurance of sustainability disclosure by an independent third party – just like external auditing of financial reports – may enhance investors' confidence in the information disclosed and the possibility to compare sustainability reports between companies. Only the European Union currently requires assurance of sustainability information, and the United States is considering establishing such a requirement. They only differ in two aspects. First, the level of assurance that would be required: a more limited one in the European Union and, after a phase-in period, a reasonable level in the United States for scope 1 and scope 2 GHG emissions (reasonable is the level typically expected from external auditing of financial reports). Second, these two jurisdictions vary on whether the assurance service provider would need to be a registered auditor (the case in the European Union) or not (the proposal in the United States).

7.3. Flexibility and proportionality in sustainability disclosure

The disclosure of sustainability information evidently represents a cost for companies, which may be relatively fixed regardless of their size. In the case of smaller companies, therefore, the costs of accounting and reporting on sustainability information may not be justified by the benefits a company will have in attracting more funding for a possibly smaller cost. This is the reason why some policy makers have been flexible in relation to a company's size when requiring or recommending sustainability disclosure (six surveyed jurisdictions as presented in Table 2.1)[5]. As shown in the notes to the table below, size categories include references to, among others, the number of employees, revenues, market capitalisation and total assets, without a clear preference for a specific benchmark.

The cost of disclosing sustainability information will also add to some other considerable costs a company incurs when going public. If the corporate governance framework is well-designed, it is expected that any costs will be more than offset by the benefits for a company of being public. However, companies may choose to stay private if the short-term costs of listing their shares are considerably higher than the immediate benefits of raising funds publicly. This may explain why sustainability disclosure provisions in the United Kingdom provide an exemption for high growth listing segments. The policy adopted in China and in the European Union of requiring sustainability disclosure from both listed and large non-listed companies also has the consequence of keeping public markets attractive for a greater number of companies.

Another relevant consideration for policy makers when considering new requirements or recommendations for sustainability disclosure is the capacity of market participants to promptly conform to such a regulation. Companies and their service providers, as well as regulators themselves, may face a learning curve in their understanding of sustainability matters and might need time to develop adequate processes and good practices. With this consideration, six surveyed jurisdictions are considering or have already adopted phase-in periods for sustainability disclosure requirements or recommendations. Such a policy may allow market participants to learn from the experience of larger companies, making it easier for smaller companies to access better guidance and to comply with the regulation in the future.

Table 7.3. Flexibility and proportionality in sustainability disclosure

Jurisdiction	Phase-in of disclosure requirements		Flexibility for SMEs	Coverage of companies
	Yes / No	Year		
Argentina	-	-	Yes	All listed companies
Brazil	No	-	No	All listed companies
Chile	Yes	2023 - 2025	No	All listed companies and certain financial institutions
China	-	-	-	Both listed and non-listed companies
Colombia	Yes	2024	Yes	All listed companies
Costa Rica	-	-	-	All listed companies
European Union	Yes	2025 - 2029	Yes	Both listed and non-listed companies, including some non-European companies
India	Yes	2021 - 2023	Yes	Top 1 000 listed entities (by market capitalisation)
Japan*	No	-	-	All listed companies
Mexico	-	-	No	All listed companies
Peru	No	-	Yes	All listed companies
United Kingdom	Yes	2023	No	Premium and Standard Market listed issuers
United States*	Yes	3 years	Yes	All public reporting companies

Key: Information on jurisdictions with an asterisk (*) after their name relates to proposals under consideration.

Notes:

[1] In **Argentina**, while small and medium enterprises (by the number of employees and revenues) do not necessarily need to report on how they are aligned with the Corporate Governance Code, they can and are encouraged to do so.

[2] The information above for **Brazil** is focused on securities regulation, but in September 2021, the Central Bank of Brazil (BCB) announced mandatory disclosure aligned with the TCFD's recommendation for financial institutions. In the first phase, the rule will require the disclosure of qualitative aspects of governance, strategy, and risk management, and in the second phase, quantitative information will also be required.

[3] In **Chile**, sustainability disclosure requirements will be applicable, after 2025, to all issuers of publicly offered securities (including all listed companies), as well as to other entities supervised by Financial Market Commission (CMF), including banks, insurance companies, general fund administrators, stock exchanges, and financial market infrastructures. These requirements will come gradually into force in accordance with the type of entity and its size in terms of consolidated assets, between 2022 and 2024, starting with the largest entities.

[4] In **Colombia**, while disclosure in line with TCFD and SASB Standards are mandatory for group A companies (those included in the large market capitalisation index and those with assets larger than ~ USD 860 million or with revenues larger than ~ USD 430 million, or with more than 1 000 employees), companies in group B (autonomous trusts, private equity and collective investment funds) must disclose an explanation of the sustainability and responsible investment practices implemented by the firm. Companies in group D (issuers under temporary registration and pension bonds issuers) must follow a comply or explain approach regarding their TCFD and SASB-aligned disclosure. For companies in group C (companies not included in groups A, B or D), TCFD and SASB-aligned disclosure is optional. The companies do not need to explain if they do not disclose a sustainability report.

[5] In **Costa Rica**, the disclosure of sustainability information by listed companies is only recommended by the capital markets regulator, so there is no phase-in requirement or specific consideration for small and medium enterprises.

[6] In the **European Union**, the application of the Corporate Sustainability Reporting Directive (CSRD) approved in November 2022 will take place in four stages: (i) reporting in 2025 for companies already subject to the 2014 Non-Financial Reporting Directive (NFRD); (ii) reporting in 2026 for large companies that are not currently subject to the NFRD; (iii) reporting in 2027 for listed SMEs; (iv) reporting in 2029 for third-country undertakings with net turnover above 150 million EUR in the European Union if they have at least one subsidiary or branch in the EU exceeding certain thresholds.

[7] In **Peru**, companies listed in the alternative listing segment for small and medium enterprises do not need to disclose sustainability information nor (if it is the case) explain why they do not disclose such information.

[8] In the **United Kingdom**, certain UK registered companies (UK Department for Business, Energy and Industrial Strategy, 2022[25])and Limited Liability Partnerships (LLPs) (UK Department for Business, Energy and Industrial Strategy, 2022[26]) are also required to publish climate-related disclosures based on TCFD recommendations. These requirements are different to those for listed companies.
[9] In the **United States**, the proposed phase-in would vary depending on the size of the company (the larger the company, the shorter the period to start disclosing climate-related information) and depending on the nature of the disclosure (certain disclosures, such as GHG emissions reporting, have a longer phase in). The flexibility for SMEs ("non-accelerated filers") would also be related to external assurance requirements (smaller companies will not need to provide assurance).

8 Key policy recommendations

This chapter provides eight key policy recommendations around sustainability disclosure, shareholder rights and the responsibilities of the board addressed to regulators and policy makers in the seven major Latin American markets.

This report presents the main trends and issues related to sustainability and corporate governance in seven major Latin American countries and globally. The main goal is to provide useful information for policy makers, regulators, and market participants to assess whether their national corporate governance frameworks adequately respond to investors' and companies' demands related to sustainability.

Capital markets are less developed in Latin America than in other regions. For instance, while Brazil and Chile have market capitalisation to GDP ratios close to 50%, OECD and G20 economies stage an average ratio of close to 150% (Figure 2.1). 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 green, social and sustainability (GSS) bonds have been the focus of some sustainability-related initiatives in Latin America, the relative importance of these debt securities is low. For instance, whereas non-financial corporations issued less than USD 15 billion in GSS bonds in either Chile or Mexico between 2013 and 2022 (Figure 2.6), the market capitalisation in these countries was USD 150 billion and USD 453 billion, respectively, in 2021 (Table 2.1). The evidence presented in this report shows a strong demand for corporate sustainability disclosure from asset managers investing not only in GSS bonds but in all types of securities, including equity. Companies have been responding to this demand, and probably the most relevant gap is the adoption of a single sustainability accounting standard accepted by both local and non-domestic investors.

This chapter introduces eight key policy recommendations to serve as an initial agenda for discussion in the region, including in the OECD-Latin America Roundtable on Corporate Governance, as well as in other fora. The effective implementation of the recommendations in this chapter would demand a more detailed analysis of all relevant policies in a jurisdiction, as well as a more nuanced understanding of specific capital market practices and needs. Importantly, the review of the G20/OECD Principles has not yet been finalised, and its new version is expected to contain new guidance on corporate sustainability and resilience.

The eight key policy recommendations can be classified into two categories: (i) sustainability disclosure; and (ii) shareholder rights and the responsibilities of the board.

8.1. Sustainability disclosure

1. Argentina and Mexico may consider the development of more detailed regulation on sustainability disclosure to enhance their consistency, comparability, and reliability.

As presented in Figure 3.2, Latin American companies representing 83% of the region's market capitalisation already disclose sustainability reports (the relevant share is somewhat lower in Argentina with 58% and higher in Colombia with 95%). Notably, companies representing 76% of market capitalisation in the region report their scopes 1 and 2 GHG emissions (Figure 6.3). While requiring sustainability disclosure may not necessarily be the best policy at present in all markets, the fact that more than four-fifths of Latin American listed companies would support mandatory sustainability disclosure is revealing of market trends (Figure 3.8). A relatively high number of board committees responsible for sustainability in the region (44% of the companies by market capitalisation have such a committee), as shown in Figure 5.4, is also a proxy of companies' interest in improving their management and disclosure of sustainability risks and opportunities.

From the investors' perspective, there is also a clear demand for high-quality sustainability information in Latin America. The assets under the management of ESG or Climate Funds have been increasing globally, but especially in the region since 2020 (more than USD 4 billion in 2021, as presented in Figure 2.8). More important, even among small sized asset managers, more than 80% reported that sustainability matters affect their decision when making investments (Figure 6.1). Indeed, less than 20% of asset managers investing in the region declared that they do not review the sustainability disclosure of their portfolio companies (Figure 3.1). This may explain why more than three quarters of asset managers investing in Latin America would support mandatory corporate sustainability disclosure (Figure 3.7).

2. Argentina, Brazil, Chile, Costa Rica, Mexico, and Peru may contemplate the adoption of a high-quality and internationally accepted sustainability disclosure standard that facilitates the comparability of disclosure across markets.

Non-domestic institutional investors are an important source of funding for listed companies in Latin America. For instance, non-domestic institutional investors hold a larger equity share than domestic institutional investors in Argentina, Brazil, Chile, and Mexico (Figure 2.3). The use of a local disclosure standard or the freedom for companies to choose different standards may be a barrier for the increase of non-domestic investments.

Different sustainability accounting and reporting standards are currently in use in Latin America. As presented in Figure 3.9, GRI Standards and SASB Standards are among the most often used, but some other frameworks are also a reference for a non-negligible number of listed companies. At the same time, asset managers investing in the region indicate a relatively clear preference for GRI Standards, SASB Standards and TCFD's recommendations with a negligible top priority for other standards (Figure 3.11). Notably, asset managers investing in Latin America strongly support the adoption of a common international sustainability disclosure standard for listed companies (71% among large-sized asset managers, as shown in Figure 3.12), so as a majority of companies also do (70% of large listed companies, as presented in Figure 3.13). In the region, Colombia's financial markets regulator has already adopted SASB Standards as the mandatory sustainability reporting standard, in addition to TCFD's recommendations for climate-related disclosure (Table 7.2).

Specifically, in the cases of Argentina, Brazil and Costa Rica, the adoption of a specific sustainability disclosure standard would also involve the clarification of who are the primary users of sustainability information. Particularly, the SASB Standards and TCFD's recommendations, as well as the soon-to-be-enacted IFRS Sustainability Standards, have investors as their primary users, while the GRI Standards are aimed at a larger main audience of investors and multiple stakeholders (see Annex A for more information on these standards).

3. All Latin American countries should consider requiring or recommending annual assurance attestations by an independent, competent and qualified assurance service provider to deliver an external and objective assessment of a company's sustainability disclosure.

Sustainability disclosures reviewed by an independent assurance service provider may enhance investors' confidence in the information disclosed and the possibility to compare sustainability reports between companies. The frequent use of executive compensation linked to sustainability matters also adds a potential conflict of interest for executives responsible for accounting and reporting sustainability information (Figure 5.3).

In Latin America, companies representing 60% of market capitalisation already hire a third party to review their sustainability information, which is above the global average, but there are significant differences between countries (Figure 3.4). For instance, companies representing 84% of market capitalisation in

Colombia provide third party assurance, while companies representing only 25% of market capitalisation in Peru do so.

4. Mexico may assess whether to embrace more flexibility in its sustainability disclosure requirements in relation to the size of listed companies, especially if developing more detailed regulation on sustainability disclosure.

The disclosure of sustainability information represents a cost for companies, which may be relatively fixed regardless of their size. In the case of smaller companies, therefore, the costs of accounting and reporting on sustainability information may not be compensated by the benefits a company will have in attracting more funding from sustainability focused investors. This is probably the reason why the support for mandatory sustainability disclosure in Latin America is lower among smaller companies (Figure 3.8).

5. Argentina, Chile, Costa Rica, and Mexico may consider prioritising, in their regulatory activities, the most salient sustainability matters in their respective markets. All Latin American regulators may prioritise their supervisory activities in a similar way.

Companies and their service providers, as well as regulators themselves, may encounter a learning path in their understanding of sustainability matters and might need time to develop adequate processes and good practices. This may justify prioritising disclosure requirements of some of the most relevant sustainability matters or phasing in other requirements such as for assurance. In Latin America, the key sustainability matters currently are water and wastewater management, climate change, human capital, data security and customer privacy, and human rights and community relations (see Table 4.1 for the perspective of asset managers, Table 4.2 and Table 4.3 for the practices in companies, and Table 4.4 and Figure 4.1 to view how industry distribution may be relevant for such a prioritisation).

8.2. Shareholder rights and the responsibilities of the board

6. All Latin American countries may choose to provide guidance on the fiduciary duties of the board of directors, and how boards may consider stakeholders' interests.

Chile, Colombia, Costa Rica, Mexico, and Peru have adopted a "shareholder primacy" view of the fiduciary duties of directors. Directors in those countries would typically need to consider only shareholders' financial interests while complying with the applicable law and ethical standards. In the case of Brazil, the company law arguably adheres to an "enlightened shareholder value" approach where directors would have to consider stakeholders' interests, but the absence of court precedents brings uncertainty on how to best interpret directors' fiduciary duties.

While the debate on "shareholder primacy" has been mostly restricted to the academia, listed companies face changing expectations from shareholders. For instance, 56% of the large-sized asset managers investing in Latin America would be willing to accept a lower rate of return as an investor in a company in exchange for societal or environmental benefits (Figure 5.2). Moreover, 13% of large companies in the region reported that their articles of association would allow a trade-off between long-term shareholder value and societal or environmental benefits, which would go even further than what an "enlightened shareholder value" approach would permit (Figure 5.1).

7. Argentina, Chile, Colombia, and Costa Rica may consider the adoption of the Business Judgement Rule – or of a similar safe harbour – either in statutory law or in a reinterpretation of existing legal provisions.

Protecting board members and management against litigation, if they made a business decision diligently, with procedural due care, on a duly informed basis and without any conflicts of interest, will better enable them to assume the risk of a decision that is expected to benefit the company, but which could eventually be unsuccessful. Such a safe harbour would apply even if there were clear short-term costs and uncertain long-term cash inflows, as long as managers diligently assessed whether the decision could be reasonably expected to contribute to the long-term success and performance of the company. The Business Judgement Rule is widely adopted in developed capital markets, as well as in Brazil, India and Mexico (Table 5.1), and it may be especially important for board decisions considering long-term social and environmental trends.

Nevertheless, cautious in the adoption of the Business Judgement Rule would be warranted in Latin America. The combined holdings of the top three shareholders at the company level ranks from an average of 57% in Brazil and Mexico to a 73% average in Argentina, Chile, Colombia, and Peru (Table 2.2). Such a degree of ownership concentration may give rise to a number of conflicts of interest for directors who might be themselves controlling shareholders or be closely affiliated with a substantial shareholder. If most directors approving a transaction are interested parties, the court should not uphold the presumption in the Business Judgement Rule and the board members would need to demonstrate that the transaction is fair to the company.

8. Argentina and Brazil may consider requiring listed companies to disclose verifiable metrics to allow investors to assess the credibility and progress toward meeting voluntarily adopted sustainability-related goals or targets.

In Latin America, 58% of companies by market capitalisation have a publicly disclosed GHG emissions reduction target (Figure 6.5). Likewise, more than 70% of asset managers of all sizes investing in the region would consider filing an ESG-related shareholder resolution, which may include establishing long term sustainability-related targets or goals (Figure 6.2).

Sustainability-related goals, such as net-zero GHG emissions targets, can strongly affect an investor's assessment of the value, timing and certainty of a company's future cash flows. Both from a market efficiency and investor protection perspective, if a company publicly sets a sustainability-related goal or target, policymakers may decide to require sufficient disclosure of consistent and verifiable metrics. This would allow investors to assess the credibility of the announced goal and management's progress toward meeting it. The disclosure may include, for instance, the definition of interim targets when a long-term goal is announced and annual consistent disclosure of relevant sustainability metrics.

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Annex A. Climate-related and other ESG reporting frameworks and standards

Table A.1. Frameworks and standards

Institution	System	Level of detail	Materiality[1]	Audience	Issues
FSB's TCFD	TCFD recommendations	Principles-based[2]	Financially material	Investors, lenders and insurance underwriters	Climate-related issues
IFRS Foundation – International Sustainability Standards Board (ISSB)[3]	IFRS Sustainability Standards[2]	Detailed information	Financially material	Investors	Initial focus on climate-related issues, but with a plan to cover a great number of ESG issues
Value Reporting Foundation – SASB Standards Board[4]	SASB Standards	Detailed information	Financially material	Investors	A great number of ESG issues, with subset of standards in each of 77 industries
Value Reporting Foundation – Integrated Reporting Framework Board[4]	< I.R.> Framework	Principles-based	Financially material	Investors	A great number of ESG issues
Global Sustainability Standards Board (GSSB)	GRI Standards	Detailed information	Double materiality	Multiple stakeholders	A great number of ESG issues, with a plan to have a subset of standards in each of 40 sectors
GHG Protocol	GHG Protocol Corporate Standards	Detailed information	–[5]	–[5]	GHG emissions[4]
CDP (previously "Carbon Disclosure Project")	CDP questionnaires[5]	Detailed information	–[6]	Investors and customers	Climate change, forests and water security[5]
Climate Disclosure Standards Board (CDSB)[7]	CDSB Framework	Principles-based	Financially material and relevant[8]	Investors	Climate and other environmental information

Notes:

[1] Corporate disclosure is "financially material" if it could reasonably be expected to influence an investor or a lender's analysis of a company's future cash flows. A "double materiality" concept incorporates what is financially material, but it also includes within its scope information that would be relevant to multiple stakeholders' understanding of a company's effect on the environment, on people or society (e.g. for consumers and employees).

[2] While TCFD's recommendations (TCFD, 2017[27]) are indeed principles-based, the Task Force has published a number of documents providing detailed guidance on how to better comply with its recommendations, such as the report "Guidance on Scenario Analysis for Non-Financial Companies" (TCFD, 2020[28]). To some extent, therefore, this set of recommendations and guidance documents on how companies may disclose financially material information, preferably in mainstream financial filings, would together demand "detailed information" according to the classification in the third column of this table.

[3] IFRS Foundation announced in November 2021 the formation of the International Sustainability Standards Board ("ISSB"), which now sits alongside the International Accounting Standards Board ("IASB"), to set IFRS Sustainability Disclosure Standards. In the same opportunity, IFRS Foundation committed to consolidating with the Value Reporting Foundation Board and CDSB by June 2022. IFRS Foundation's recently amended constitution provides that IFRS Sustainability Disclosure Standards "are intended to result in the provision of high-quality, transparent and comparable information […] in sustainability disclosures that is useful to investors and other participants in the world's capital markets in making economic decisions" (item 2.a).

[4] SASB Standards Board and Integrated Reporting Framework Board ("< I.R.> Framework Board") merged in June 2021 into a new organisation called Value Reporting Foundation Board ("VRF"). In July 2022, the VRF consolidated into the IFRS Foundation.

[5] GHG Protocol's corporate accounting and reporting standard provide requirements and guidance for companies preparing a corporate-level GHG emissions inventory. It does not adopt a materiality concept, and other ESG reporting frameworks and standards will typically either require or allow GHG emissions to be disclosed according to GHG Protocol's standard. In this standard, GHG emissions are classified under three categories: scope 1 (direct emissions from a company's own operations); scope 2 (emissions from purchased or acquired electricity, steam, heat and cooling); scope 3 (the entire chain emissions impact from the goods the company purchases to the products it sells).

[6] CDP's questionnaires would not be considered a reporting framework or standard in the traditional sense, but the institution offers a widely used system for companies to answer to any of the following questionnaires: Climate Change; Forests; Water Security. The questionnaires are meant to be disclosed to (i) investors or to (ii) customers interested in assessing the environmental impact of their supply chain. Corporate management is not supposed to make a materiality assessment of the information to disclose, because CDP offers a set of questions by economic sector and companies have strong incentives to answer all of them in order to receive better scorings calculated by CDP's system. Questionnaires are shortened only for companies with an annual revenue of less than EUR/USD 250 million and corporates answering the questionnaire for the first time.
[7] In January 2022, the CDSB consolidated into the IFRS Foundation.
[8] According to the CDSB Framework, environmental information should be disclosed if financially material or relevant. "Relevant" in this context would be information that might be financially material at some point, while the link between the information and future cash flows is not evident. In either case, GHG emissions shall be reported in all cases regardless of management's assessment of their materiality or relevance (CDSB, 2019[29]).
Source: Standards, frameworks and websites of the institutions visited in July and November 2021, as well as in January and July 2022; OECD elaboration.

Annex B. Methodology for data collection and classification

Corporate sustainability data

This firm-level dataset contains records for up to 13 800 listed companies with a total of USD 113 trillion market capitalisation listed on 83 markets in 2021, although the coverage may vary depending on the selected issue. The main data sources, Refinitiv and Bloomberg, were controlled against each other to ensure consistency. The disclosed data contains information on sustainability reporting and the used accounting standards, the external assurance of sustainability reporting, the presence of a sustainability committee reporting directly to the board, GHG emission reduction targets, and executive remuneration linked to sustainability factors and targets. Sustainability disclosure by trusts, funds or special purpose acquisition companies was excluded from the sample under analysis.

Green, Social and Sustainability (GSS) corporate bonds data

Green, social and sustainability (GSS) bonds are mainly collected from Refinitiv and Bloomberg. This dataset contains deal-level information of more than 6 500 bonds issued by both financial and non-financial companies from 71 countries since 2013. This dataset provides a detailed set of information for each GSS bond issue, including the identity, nationality and industry of the issuer; the type, interest rate structure, maturity date and rating category of the bond, the amount of and use of proceeds obtained from the issue. The issuance amounts, initially collected in USD, were adjusted by 2022 US Consumer Price Index (CPI). The different data sources are checked against each other to ensure consistency and the bonds are classified into four different categories, namely green bonds, social bonds, sustainability bonds and sustainability-linked bonds. GSS bonds issued by agencies, governments, treasuries, central banks, universities, or other supra-national entities are excluded from this analysis.

Ownership data

The main source of information is the FactSet Ownership database. This dataset covers companies with a market capitalisation of more than USD 50 million and accounts for all positions equal to or larger than 0.1% of the issued shares. Data are collected as of end of 2021 in current USD, thus no currency nor inflation adjustment is needed. The data are complemented and verified using Refinitiv and Bloomberg. Market information for each company is collected from Refinitiv. The dataset includes the records of owners for 29 453 companies listed on 92 markets covering 98% of the world market capitalisation. For each of the countries/regions presented, the information corresponds to all listed companies in those countries/regions with available information.

The information for all the owners reported as of the end of 2021 is collected for each company. Some companies have up to 5 000 records in their list of owners. Each record contains the name of the institution, the percentage of outstanding shares owned, the investor type classification, the origin country of the investor, the ultimate parent name, among other things.

The table below presents the five categories of owners defined and used in this report. Different types of investors are grouped into these five categories of owners. In many cases, when the ultimate owner is identified as a Government, a Province or a City and the direct owner was not identified as such, ownership records are reclassified as public sector. For example, public pension funds that are regulated under public sector law are classified as government, and sovereign wealth funds (SWFs) are also included in that same category.

Table B.1. Categories of owners defined and used in the report

Investor category	Categories of owners	
	Investor type	
Private corporations and holding companies	Business Association	Operating Division
	Employee Stock Ownership Plan	Private Company
	Holding Company	Public Company
	Joint Venture	Subsidiary
	Non-profit organisation	
Public sector	Government	Regional Governments
	Sovereign Wealth Manager	Public Pension Funds
Strategic individuals and family members	Individual (Strategic Owners)	Family Office
Institutional investors	Bank Investment Division	Mutual Fund Manager
	Broker	Other
	College/University	Pension Fund
	Foundation/Endowment Manager	Pension Fund Manager
	Fund of Funds Manager	Private Banking/Wealth Management
	Fund of Hedge Funds Manager	Private Equity Fund/Alternative Inv.
	Hedge Fund	Real Estate Manager
	Hedge Fund Manager	Research Firm
	Insurance Company	Stock Borrowing/Lending
	Investment Adviser	Trust/Trustee
	Market Maker	Umbrella Fund
	Mutual Fund-Closed End	Venture Capital/Private Equity
Other free-float including retail investors	Shares in the hands of investors that are not required to disclose their holdings. It includes the direct holdings of retail investors who are not required to disclose their ownership and institutional investors that did not exceed the required thresholds for public disclosure of their holdings.	

Annex C. Survey results

OECD Survey on sustainability practices of listed companies in Latin America

Table C.1. Industry distribution, by market capitalisation

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Total
Extractives & Minerals Processing	36%	49%	29%	47%	13%	79%	**37%**
Financials	45%	26%	41%	29%	15%	17%	**24%**
Technology & Communications	7%	8%	1%	0%	35%	0%	**15%**
Infrastructure	4%	8%	7%	19%	2%	2%	**7%**
Food & Beverage	6%	0%	10%	5%	16%	0%	**6%**
Consumer Goods	0%	3%	1%	0%	7%	0%	**4%**
Services	0%	0%	1%	0%	7%	0%	**2%**
Resource Transformation	1%	1%	0%	0%	5%	3%	**2%**
Health Care	0%	4%	0%	0%	0%	0%	**2%**
Transportation	0%	1%	10%	0%	1%	0%	**2%**
Renewable Resources & Alternative Energy	0%	0%	0%	0%	0%	0%	**0%**

Table C.2. Listed companies' support for mandatory corporate sustainability disclosure in Latin America

Question: Would you support a regulation obliging all listed companies in your country to disclose an annual sustainability report with ESG information that is financially material for them?

Companies in large cap indexes						
	Argentina	**Brazil**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Yes	75%	96%	100%	88%	-	**92%**
No	25%	4%	0%	13%	-	**8%**
Other companies						
	Argentina	**Brazil**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Yes	76%	80%	100%	100%	100%	**86%**
No	24%	20%	0%	0%	0%	**14%**

Table C.3. Use of sustainability standards by Latin American listed companies in 2021

Question: Is your company's annual sustainability report aligned with which ESG reporting frameworks?

		Argentina	Brazil	Chile	Colombia	Costa Rica	Mexico	Peru	Total
Companies in large cap indexes									
GRI Standards	Fully aligned	75%	100%	82%	100%	100%	77%	67%	**88%**
	Partially aligned	25%	0%	9%	0%	0%	23%	17%	**9%**
SASB Standards	Fully aligned	13%	27%	36%	40%	0%	46%	0%	**30%**
	Partially aligned	38%	41%	64%	33%	0%	54%	33%	**43%**
TCFD's recommendations	Fully aligned	13%	23%	0%	27%	0%	23%	0%	**17%**
	Partially aligned	13%	23%	64%	47%	0%	46%	17%	**36%**
Integrated Reporting Framework	Fully aligned	63%	45%	36%	40%	0%	38%	0%	**39%**
	Partially aligned	0%	27%	9%	13%	0%	8%	33%	**16%**
CDP's questionnaires	Fully aligned	13%	50%	0%	33%	0%	38%	0%	**29%**
	Partially aligned	13%	23%	27%	20%	0%	31%	0%	**21%**
Own Framework	Fully aligned	13%	23%	18%	13%	0%	15%	33%	**18%**
	Partially aligned	13%	0%	9%	7%	0%	0%	0%	**4%**
CDSB Framework	Fully aligned	0%	5%	0%	13%	0%	8%	17%	**7%**
	Partially aligned	0%	9%	9%	0%	0%	15%	0%	**7%**
Other companies									
		Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
GRI Standards	Fully aligned	56%	71%	57%	62%	40%	79%	56%	**64%**
	Partially aligned	22%	13%	21%	22%	60%	5%	11%	**18%**
SASB Standards	Fully aligned	11%	4%	21%	5%	0%	32%	22%	**13%**
	Partially aligned	11%	29%	43%	8%	20%	32%	11%	**21%**
TCFD's recommendations	Fully aligned	11%	0%	0%	0%	0%	16%	11%	**4%**
	Partially aligned	0%	0%	14%	14%	20%	32%	0%	**12%**
Integrated Reporting Framework	Fully aligned	0%	4%	14%	5%	0%	37%	0%	**10%**
	Partially aligned	0%	8%	14%	11%	20%	11%	0%	**9%**
CDP's questionnaires	Fully aligned	0%	13%	0%	3%	0%	21%	0%	**7%**
	Partially aligned	0%	4%	0%	8%	20%	21%	0%	**8%**
Own Framework	Fully aligned	0%	25%	7%	24%	20%	37%	0%	**21%**
	Partially aligned	0%	8%	0%	0%	20%	0%	0%	**3%**
CDSB Framework	Fully aligned	0%	0%	0%	0%	0%	0%	0%	**0%**
	Partially aligned	0%	0%	0%	5%	20%	26%	0%	**7%**

Table C.4. Listed companies' support for the adoption of a sustainability reporting standard in Latin America

Question: Would you support the adoption of an ESG reporting standard for listed companies in your country that either voluntarily or compulsorily disclose an annual sustainability report?

Companies in large cap indexes						
	Argentina	Brazil	Costa Rica	Mexico	Peru	Total
Common international standard	60%	78%	100%	50%	-	**70%**
Common national standard	0%	4%	0%	13%	-	**5%**
Each company should be free to adopt a standard	40%	17%	0%	38%	-	**24%**
Other companies						
	Argentina	Brazil	Costa Rica	Mexico	Peru	Total
Common international standard	69%	58%	50%	82%	60%	**64%**
Common national standard	8%	17%	50%	0%	20%	**14%**
Each company should be free to adopt a standard	23%	25%	0%	18%	20%	**22%**

Table C.5. Number of Latin American companies whose shareholder meetings voted on sustainability-related shareholder resolutions in the last 36 months

Question: In the last 36 months, has a shareholder meeting of your company voted an ESG-related shareholder resolution?

Companies in large cap indexes								
	Argentina	Brazil	Chile	Colombia	Costa Rica	Mexico	Peru	Total
Human Capital	2	3	1	5	1	1	1	**14**
Data Security and Customer Privacy	1	1	1	2	1	1	0	**7**
Climate Change	1	3	2	3	1	4	1	**15**
Human Rights & Community Relations	2	1	2	3	1	1	1	**11**
Water & Wastewater Management	0	0	1	1	1	1	0	**4**
Other ESG issue	1	3	3	4	0	0	0	**11**
Supply Chain Management	0	0	1	2	1	1	0	**5**
Biodiversity and Ecological Impacts	0	1	0	3	1	0	0	**5**
Waste & Hazardous Materials Management	1	0	1	1	1	0	0	**4**
Air Quality	0	0	1	1	1	1	0	**4**
Other companies								
	Argentina	Brazil	Chile	Colombia	Costa Rica	Mexico	Peru	Total
Human Capital	3	3	3	26	1	8	3	**47**
Data Security and Customer Privacy	2	3	3	16	1	6	3	**34**
Climate Change	2	2	1	13	0	2	3	**23**
Human Rights & Community Relations	2	1	2	14	1	4	2	**26**

Water & Wastewater Management	4	3	2	10	0	3	3	**25**
Other ESG issue	3	0	2	8	1	2	1	**17**
Supply Chain Management	2	3	1	10	0	3	3	**22**
Biodiversity and Ecological Impacts	2	4	2	8	0	2	3	**21**
Waste & Hazardous Materials Management	4	2	3	7	0	2	1	**19**
Air Quality	3	1	0	8	0	2	2	**16**

Table C.6. Share of companies whose board of directors considered sustainability issues during the last 12 months

Question: During the last 12 months, did the board of directors of your company consider one of the issues listed below?

Companies in large cap indexes								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Human Capital	80%	96%	85%	100%	100%	100%	100%	**95%**
Data Security and Customer Privacy	86%	87%	85%	92%	100%	100%	100%	**91%**
Human Rights & Community Relations	83%	82%	69%	100%	100%	64%	100%	**81%**
Climate Change	80%	80%	69%	100%	100%	71%	75%	**80%**
Supply Chain Management	25%	62%	50%	73%	100%	73%	100%	**65%**
Waste & Hazardous Materials Management	60%	55%	62%	82%	100%	57%	75%	**63%**
Biodiversity and Ecological Impacts	75%	60%	22%	73%	100%	62%	50%	**58%**
Water & Wastewater Management	50%	52%	50%	64%	100%	46%	75%	**55%**
Air Quality	40%	25%	25%	30%	100%	43%	50%	**34%**
Other ESG issue	-	90%	100%	100%	100%	100%	100%	**96%**
Other companies								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Human Capital	86%	88%	89%	92%	83%	79%	79%	**87%**
Data Security and Customer Privacy	63%	91%	75%	84%	83%	80%	71%	**81%**
Human Rights & Community Relations	60%	62%	80%	69%	83%	74%	46%	**67%**
Climate Change	44%	49%	47%	65%	60%	68%	54%	**56%**
Supply Chain Management	58%	65%	74%	72%	60%	47%	57%	**64%**
Waste & Hazardous Materials Management	58%	50%	53%	52%	67%	42%	57%	**52%**
Biodiversity and Ecological Impacts	41%	55%	53%	40%	60%	22%	46%	**44%**
Water & Wastewater Management	59%	53%	50%	52%	40%	58%	57%	**54%**
Air Quality	47%	22%	22%	43%	60%	17%	33%	**33%**
Other ESG issue	-	50%	71%	82%	50%	100%	50%	**68%**

Table C.7. Articles of association in Latin American listed companies – the possibility of trade-offs

Question: Do your articles of association allow a trade-off between long-term shareholder value and societal or environmental benefits?

	Argentina	Brazil	Chile	Colombia	Costa Rica	Mexico	Peru	Total
Companies in large cap indexes								
Yes	0%	5%	10%	38%	100%	20%	-	**13%**
No	100%	95%	90%	63%	0%	80%	-	**87%**
Other companies								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Yes	6%	6%	7%	8%	0%	11%	40%	**10%**
No	94%	94%	93%	92%	100%	89%	60%	**90%**

OECD Survey on sustainability practices of asset managers in Latin America

Table C.8. Asset managers' review of sustainability disclosure in Latin America

Question: Do you review the sustainability or ESG disclosures of your portfolio companies?

	Argentina	Brazil	Chile	Colombia	Costa Rica	Mexico	Peru	Total
Large sized asset managers								
All companies	0%	59%	38%	20%	36%	25%	33%	**47%**
Only for certain industries	0%	29%	0%	40%	9%	50%	17%	**26%**
Only for the companies that have a higher weight in my portfolio	0%	3%	38%	20%	0%	25%	17%	**9%**
Only for the companies from certain industries that have a higher weight in my portfolio	0%	5%	13%	10%	9%	0%	17%	**7%**
No	100%	3%	13%	10%	45%	0%	17%	**11%**
Medium sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
All companies	17%	49%	15%	24%	19%	0%	40%	**38%**
Only for certain industries	0%	21%	8%	12%	6%	33%	20%	**17%**
Only for the companies that have a higher weight in my portfolio	17%	8%	8%	12%	13%	33%	20%	**10%**
Only for the companies from certain industries that have a higher weight in my portfolio	17%	16%	0%	29%	19%	0%	20%	**17%**
No	50%	5%	69%	24%	44%	33%	0%	**18%**
Small sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
All companies	0%	43%	0%	36%	0%	0%	0%	**37%**
Only for certain industries	0%	25%	60%	9%	23%	0%	33%	**24%**
Only for the companies that have a higher weight in my portfolio	33%	11%	0%	9%	0%	50%	0%	**11%**

Only for the companies from certain industries that have a higher weight in my portfolio	50%	10%	20%	18%	0%	0%	0%	**11%**
No	17%	10%	20%	27%	77%	50%	67%	**16%**

Table C.9. Asset managers' support for mandatory corporate sustainability disclosure in Latin America

Question: Would you support a mandatory regulation requiring all listed companies in the country of your headquarters to disclose an annual sustainability report with ESG information that is financially material for them?

Large sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Yes	0%	88%	-	100%	100%	100%	100%	**90%**
No	100%	12%	-	0%	0%	0%	0%	**10%**
Medium sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Yes	100%	82%	86%	100%	100%	100%	50%	**85%**
No	0%	18%	14%	0%	0%	0%	50%	**15%**
Small sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Yes	83%	75%	0%	86%	79%	100%	-	**76%**
No	17%	25%	100%	14%	21%	0%	-	**24%**

Table C.10. Preferences of sustainability reporting standards by asset managers in Latin America

Question: What are your first preferred ESG frameworks for companies to best disclose their ESG and sustainability topics?

Large sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
GRI Standards	0%	18%	25%	30%	18%	0%	17%	**19%**
SASB Standards	0%	16%	38%	20%	0%	50%	17%	**17%**
In-house proprietary framework	0%	18%	13%	10%	9%	0%	0%	**14%**
TCFD's recommendations	0%	9%	0%	0%	18%	25%	17%	**9%**
Integrated Reporting Framework	0%	6%	0%	10%	9%	0%	17%	**7%**
CDP's questionnaires	0%	5%	0%	0%	0%	0%	0%	**3%**
Other	0%	4%	0%	0%	0%	0%	0%	**3%**
CDSB Framework	0%	1%	0%	0%	0%	0%	0%	**1%**
National ESG standard	0%	0%	0%	0%	0%	0%	0%	**0%**
No preference	100%	22%	25%	30%	45%	25%	33%	**27%**
Medium sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
GRI Standards	17%	16%	8%	33%	29%	0%	20%	**18%**
SASB Standards	0%	13%	0%	6%	0%	0%	0%	**10%**
In-house proprietary framework	0%	19%	25%	22%	18%	0%	0%	**19%**

TCFD's recommendations	0%	3%	0%	6%	0%	0%	60%	**4%**
Integrated Reporting Framework	17%	7%	8%	0%	0%	0%	0%	**6%**
CDP's questionnaires	0%	4%	0%	0%	0%	0%	0%	**3%**
Other	17%	4%	0%	0%	12%	0%	20%	**5%**
CDSB Framework	0%	5%	0%	0%	0%	0%	0%	**4%**
National ESG standard	0%	0%	0%	6%	12%	33%	0%	**2%**
No preference	50%	28%	58%	28%	29%	67%	0%	**31%**
Small sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
GRI Standards	33%	12%	17%	36%	20%	0%	33%	**14%**
SASB Standards	0%	10%	50%	21%	0%	0%	0%	**11%**
In-house proprietary framework	0%	17%	17%	0%	13%	50%	33%	**16%**
TCFD's recommendations	0%	11%	0%	14%	0%	0%	0%	**10%**
Integrated Reporting Framework	0%	9%	0%	0%	13%	50%	0%	**9%**
CDP's questionnaires	0%	6%	0%	0%	0%	0%	0%	**5%**
Other	0%	3%	0%	0%	0%	0%	0%	**3%**
CDSB Framework	0%	4%	0%	0%	0%	0%	0%	**4%**
National ESG standard	0%	0%	0%	0%	0%	0%	0%	**0%**
No preference	67%	27%	17%	29%	53%	0%	33%	**29%**

Table C.11. Asset managers support for the adoption of a sustainability reporting standard in Latin America

Question: Would you support the adoption of an ESG reporting standard for listed companies in the country of your headquarters that either voluntarily or compulsorily disclose an annual sustainability report?

Large sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Common international standard	-	71%	67%	60%	56%	100%	100%	**70%**
Common national standard	-	9%	0%	40%	33%	0%	0%	**13%**
Each company should be free to adopt a standard	-	20%	33%	0%	11%	0%	0%	**17%**
Medium sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Common international standard	25%	60%	67%	75%	73%	-	50%	**61%**
Common national standard	50%	19%	0%	13%	27%	-	50%	**20%**
Each company should be free to adopt a standard	25%	21%	33%	13%	0%	-	0%	**19%**
Small sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Common international standard	40%	58%	100%	75%	30%	100%	-	**57%**
Common national standard	40%	16%	0%	13%	40%	0%	-	**18%**
Each company should be free to adopt a standard	20%	26%	0%	13%	30%	0%	-	**25%**

Table C.12. Asset managers investing in Latin America – willingness to trade off financial returns

Question: Would you be willing to accept a lower rate of return as an investor in a company in exchange for societal or environmental benefits?

Large sized asset managers								
	Argentina	Brazil	Chile	Colombia	Costa Rica	Mexico	Peru	Total
Yes	-	62%	57%	63%	55%	0%	40%	**56%**
No	-	38%	43%	38%	45%	100%	60%	**44%**
Medium sized asset managers								
	Argentina	Brazil	Chile	Colombia	Costa Rica	Mexico	Peru	Total
Yes	80%	55%	60%	79%	88%	100%	100%	**66%**
No	20%	45%	40%	21%	12%	0%	0%	**34%**
Small sized asset managers								
	Argentina	Brazil	Chile	Colombia	Costa Rica	Mexico	Peru	Total
Yes	60%	55%	50%	55%	60%	100%	100%	**56%**
No	40%	45%	50%	45%	40%	0%	0%	**44%**

Table C.13. Sustainability risks and opportunities affect your decision when

Question: Do ESG risks and opportunities affect your decisions when…:

Large sized asset managers									
		Argentina	Brazil	Chile	Colombia	Costa Rica	Mexico	Peru	Total
Voting in a shareholders meeting	Yes	50%	93%	100%	89%	70%	75%	80%	**89%**
	No	50%	7%	0%	11%	30%	25%	20%	**11%**
In direct dialogue with directors and officers of listed companies	Yes	0%	82%	75%	67%	56%	33%	25%	**72%**
	No	100%	18%	25%	33%	44%	67%	75%	**28%**
Making investment decisions	Yes	0%	79%	67%	50%	40%	50%	50%	**67%**
	No	100%	21%	33%	50%	60%	50%	50%	**33%**
Medium sized asset managers									
		Argentina	Brazil	Chile	Colombia	Costa Rica	Mexico	Peru	Total
Voting in a shareholders meeting	Yes	83%	93%	86%	56%	73%	50%	100%	**86%**
	No	17%	7%	14%	44%	27%	50%	0%	**14%**
In direct dialogue with directors and officers of listed companies	Yes	75%	66%	38%	47%	43%	50%	50%	**60%**
	No	25%	34%	63%	53%	57%	50%	50%	**40%**
Making investment decisions	Yes	33%	67%	38%	50%	29%	0%	100%	**59%**
	No	67%	33%	63%	50%	71%	100%	0%	**41%**
Small sized asset managers									
		Argentina	Brazil	Chile	Colombia	Costa Rica	Mexico	Peru	Total
Voting in a shareholders meeting	Yes	83%	87%	60%	73%	67%	0%	75%	84%
	No	17%	13%	40%	27%	33%	100%	25%	16%

Large sized asset managers									
		Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
In direct dialogue with directors and officers of listed companies	Yes	40%	70%	80%	64%	30%	50%	75%	67%
	No	60%	30%	20%	36%	70%	50%	25%	33%
Making investment decisions	Yes	33%	64%	60%	33%	22%	0%	75%	60%
	No	67%	36%	40%	67%	78%	100%	25%	40%

Table C.14. Asset managers' willingness to file a sustainability-related shareholder resolution in Latin America

Question: Would you consider filing or co-filing an ESG-related shareholder resolution in the Latin American countries where your firm invests?

Large sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Yes	-	80%	100%	70%	86%	67%	100%	**81%**
No	-	20%	0%	30%	14%	33%	0%	**19%**
Medium sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Yes	50%	72%	56%	86%	73%	100%	75%	**73%**
No	50%	28%	44%	14%	27%	0%	25%	**27%**
Small sized asset managers								
	Argentina	**Brazil**	**Chile**	**Colombia**	**Costa Rica**	**Mexico**	**Peru**	**Total**
Yes	60%	70%	100%	50%	78%	100%	100%	**70%**
No	40%	30%	0%	50%	22%	0%	0%	**30%**

Notes

[1] In Chile and Colombia, detailed sustainability disclosure is already required (Table 7.1).

[2] See Annex A for a summary of the main characteristics of the most used standards.

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[4] For more information on SASB Standards and TCFD's recommendations, see the report *Climate Change and Corporate Governance* (OECD, 2022, pp. 15-18[1]).

[5] The use of a recommendation instead of a requirement to disclose sustainability information evidently allows – at least from a legal point of view – smaller companies not to disclose such an information (Table 7.1). However, depending on market practices, a recommendation – especially if companies need to explain why they do not comply with it – may in practice force most companies to disclose sustainability information. This may be the reason why Argentina and Peru have adopted exceptions for smaller companies in relation to the need to – if this is the case – explain why they do not disclose sustainability information.

Corporate Governance

Sustainability Policies and Practices for Corporate Governance in Latin America

This report serves to support the development of Latin America's legal and regulatory frameworks for sustainability disclosure, the responsibilities of company boards and shareholder rights. The report presents the results of two OECD surveys on sustainability practices of listed companies and asset managers in the region. It also draws upon an OECD dataset on the current trends and features of corporate sustainability at the global level.

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