

# PRI'S RESPONSE TO THE ADMINISTRATIVE REGULATIONS ON LISTED COMPANIES INFORMATION DISCLOSURE (REVISED) CONSULTATION

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## INTRODUCTION

The United Nations-backed Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 3000 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$90 trillion in assets under management.

Responsible investment explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors in investment decision-making for the long-term health and stability of financial markets.

The PRI welcomes the opportunity to contribute comments and suggestions to the revision of the Administrative Regulation on Listed Companies' Information Disclosure.

## ABOUT THE CONSULTATION

The revised version of the Securities Law of the People's Republic came into effect on March 1<sup>st</sup>, 2020. The new Securities Law included a new chapter on information disclosure which specifies the disclosure principles, content and scopes, and liabilities, highlighting the importance disclosure has for listed companies and investors. To implement the revision of the Law and further improve the capital market regulation, China Securities Regulatory Commission (CSRC) is amending the Administrative Regulation on Listed Companies Information Disclosure (the Administrative Regulation).

Main changes in the Administrative Regulation aim to:

- Clarify the principles of information disclosure
- Emphasise the responsibilities of senior management (board of directors, board of supervisors, and executive officers)
- Revise the roles of accounting firms, and legal liabilities
- Revise the document requirements for public offering in accordance with the newly established registration system

The Administrative Regulation does not include explicit reference to environmental, social and governance (ESG) disclosures.

## PRI'S RESPONSE TO THE CONSULTATION

The PRI welcomes the increased attention to accurate, complete and timely corporate disclosures, reflecting the actual situation of issuers, to protect investors' rights and beneficiary interests. In particular, the PRI welcomes:

- the requirement for the Board to review disclosures;
- the equal access by domestic and international investors to issuers' disclosures;
- the requirement to disclose reports according to a set time frame, to include mandatory information and third-party quality control, as specified in articles 21 and 53, and
- the recommendation that issuers disclose any additional information that may help investors make value judgments and investment decisions

**Our key recommendation for the CSRC is that the Administrative Regulation specifies that issuers should disclose all financially material factors, including environmental, social, and governance (ESG) factors on a mandatory basis.**

Article 84 of the Securities Law, as well as Article 19 of Administrative Regulation on Listed Companies' Information Disclosure (2007) both mentioned "*Any information which may have a major impact on the investors' investment decisions shall be disclosed (in the periodic reports, include the annual, interim and quarterly reports.)*"

Requiring listed companies to disclose standardised ESG information will respond to that goal, improve the quality and quantity of financially material disclosures, and ultimately contribute positively to the process of capital market opening to global investors.

The PRI recommends that CSRC adds this in Chapter III, when detailing the required information to feature in issuers' disclosure documents. The PRI recommends adding the following language in article 21 and elsewhere in the Administrative Regulation as relevant:

- (ii) Key accounting data and financial indicators, **including material ESG indicators;**
- (vii) Management discussion and analysis, **including discussion of strategy, governance and risk management of material ESG issues that may affect the company's performance.**

The PRI also recommends that the CSRC includes forward looking disclosures, including on key ESG issues, to provide information on potential future impacts of ESG issues, such as climate change, on listed companies expected performance. These forward-looking analyses on future risks can be disclosed along the TCFD (Task Force on Climate-related Financial Disclosures) framework<sup>1</sup>, which aims to help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities.

### ESG disclosures and investors' expectations

ESG factors, defined as specific environmental, social or governance topics or issues, can affect corporate and investment performance. They are numerous and everchanging and include, for example: climate change, waste and pollution, health and safety, bribery and corruption<sup>2</sup>. Providing

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<sup>1</sup> <https://www.fsb-tcfd.org/>

<sup>2</sup> <https://www.unpri.org/pri/what-is-responsible-investment>

information on such issues is necessary to ensure disclosures' authenticity, accuracy and completeness, which feature as objectives of the present Administrative Regulation.

PRI's report on "ESG Data in China: Recommendations on Primary ESG Indicators"<sup>3</sup> showed that while there was broad alignment between international and Chinese corporate ESG data disclosure practices, the disclosures being provided by Chinese companies are not standardised and not readily comparable across markets, industries and portfolios. The report commented that this lack of comparability limits investors' ability to integrate ESG data into their investment decisions, and acts as a barrier to increased investment in green and sustainable assets.

Investors have common expectations on ESG reporting in most markets, although depending on the type of investor the use of ESG data may vary. Both in China and globally, investors increasingly believe that ESG factors will affect share prices in the long term.

Discussions held in China to understand what investors expect to be the most important features of the country's upcoming ESG disclosure framework found overall consensus on the key characteristics, including data comparability and standardisation and data stability over time.

The introduction of mandatory ESG disclosure requirements for listed companies would:

- Support the building of reliable ESG data series;
- Provide useful information to Chinese and international investors to make investment decisions through the provision of standardised ESG data;
- Enhance management and board oversight of performance on key ESG issues within listed companies;
- Increase investment in green and sustainable assets;
- Support international ESG disclosure standardisation efforts.

The PRI has experience of public policy on sustainable finance policies and responsible investment across multiple markets and stands ready to further support the work of the Chinese regulators on promoting financial regulations aligned with a sustainable recovery and green economies.

Any question or comments can be sent to [policy@unpri.org](mailto:policy@unpri.org).

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<sup>3</sup> <https://www.unpri.org/fiduciary-duty/esg-data-in-china-recommendations-for-primary-esg-indicators/4345.article>