CONSULTATION RESPONSE

PRI RESPONSE TO THE CSRC CONSULTATION ON REVISING THE STANDARDS CONCERNING THE CONTENTS AND FORMATS OF INFORMATION DISCLOSURE BY COMPANIES OFFERING SECURITIES TO THE PUBLIC NO.2 — CONTENTS AND FORMATS OF ANNUAL REPORTS (NO.2 DOCUMENT), AND NO.3 — CONTENTS AND FORMATS OF SEMI-ANNUAL REPORT (NO. 3 DOCUMENT)

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ABOUT THE PRI

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI is now a not-for-profit company with over 4,000 signatories (pension funds, insurers, investment managers and service providers) to the PRI's six principles with approximately US $100 trillion in assets under management.

The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that environmental, social and governance (ESG) factors make to investment performance, the role that investment plays in broader financial markets and the impact that those investments have on the environment and society as a whole.

The PRI works to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

ABOUT THIS CONSULTATION

Following the revision of Securities Law of the People's Republic of China (2019 Revision) and the Measures for the Administration of Information Disclosure by Listed Companies (2021 Revision), The China Securities Regulatory Commission (CSRC) published this consultation to reflect latest changes in regulations and market practices, and to provide updated reporting guidance for listed companies.

The 2021 revisions propose an update of the chapter on Corporate Governance in annual reports and add a chapter on Corporate Governance in semi-annual reports, and add a chapter on Environment and Social Responsibility. The revision of No. 2 and No. 3 documents create the foundation for a mandatory ESG disclosure framework for listed companies in China. The two documents require all listed companies report penalties associated with environment issues and encourage companies to voluntarily disclose measures and output related to carbon emission reduction. Most of the proposed environmental and social indicators are voluntary or on a comply or explain basis, and are mostly qualitative.

The PRI welcomes the opportunity to respond to the CSRC consultation on revising the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 — Contents and Formats of Annual Reports (No.2 document)*, and *No.3 — Contents and Formats of Semi-Annual Report (No. 3 document).*

This consultation response represents the view of the PRI and not necessarily the views of its signatories. More information: www.unpri.org

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INTRODUCTION

The PRI has been working on ESG disclosure in China since 2018, and we believe a mandatory and standardized ESG reporting framework would provide the Chinese market with comparable, high-quality reporting on key ESG issues. In the report *Investor Duties and ESG Integration in China*, the PRI recommended a mandatory ESG disclosure framework for companies, aligned with international disclosure standards for ESG issues. In PRI's *ESG data in China* report in 2019, we further recommended a mandatory framework including a standardised set of primary ESG disclosure indicators. Our research shows that both international and Chinese ESG disclosure practices are based on a similar set of ESG indicators. Despite this alignment of common indicators, the ESG data disclosed by companies is not standardised and not readily comparable across markets, industries and portfolios, because the disclosure metrics are not standardized.

Lack of reliable and comparable ESG data remains the biggest barrier for sustainable investment in China, according to both international and domestic investors. In May 2020, the PRI conducted an investor survey on ESG disclosure in China to gather investor feedback and update on ESG disclosure practices. The survey results show that over 90% of overseas investors believe GHG emissions, health and safety and workforce composition should be added to the ESG disclosure framework in China and 100% of Hong Kong-based investors agreed. In addition, they supported disclosure on pollutants, energy consumption, waste generation and water withdrawal.

There is increased interest on environmental and climate-related issues across the world, and a move towards alignment between reporting of financial institutions and corporations on those issues. The European Commission, for example, published a proposal for a new Corporate Sustainability Reporting Directive (CSRD), which will build policy coherence between investor and corporate disclosure obligations[1]. The U.S. Securities and Exchange Commission (SEC) issued a consultation in March, requesting public input on climate change disclosure issues and metrics[2]. The Singapore Green Finance Industry Taskforce (GFIT) issued a detailed implementation guide for environment risk management for financial institutions and is exploring technology solutions to enhance Financial Institutions' (FIs) climate-related disclosure[3]. Domestically, in line with China's goal of reaching carbon neutrality by 2060, the People's Bank of China will consider mandatory disclosure on environment-related information for FIs, and promote harmonization of green standards with international standards[4]. The Ministry of Finance responded the consultation paper on sustainability reporting issued by International Financial Reporting Standards (IFRS) Foundation, which also focuses on international alignment and collaboration[5].

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[1] European Commission, *Corporate Sustainability Reporting*, available at https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en.

[2] Allison Herren Lee, *Public Input Welcomed on Climate Change Disclosures* (March 15, 2021), available at https://www.sec.gov/news/public-statement/lee-climate-change-disclosures.

[3] The Association of Banks in Singapore, *Industry Guidelines*, available at https://abs.org.sg/industry-guidelines/responsible-financing.

[4] Speech of Governor Yi Gang, PBOC, on Singapore FinTech Festival 2020, available at http://www.pbc.gov.cn/en/3688110/3688172/4048269/4141587/index.html.

[5] Notice on collecting feedback for the IFRS foundation consultation paper on sustainability reporting, Ministry of Finance, available at http://kjs.mof.gov.cn/gongzuotongzhi/202010/t20201028_3612797.htm

KEY RECOMMENDATIONS

The PRI welcomes the revision of No.2 and No.3 Documents, as they set up a basis for mandatory reporting framework for ESG related information disclosure for listed companies in China. This revision is an important step forward in providing investors with comparable, standardised and investment grade ESG data to support responsible investment practices and China's transition towards climate neutrality by 2060.

PRI's key recommendations to further improve the mandatory ESG reporting framework are:

- **Introduce mandatory, standardised reporting requirements that can align with and build on global and regional standards being developed, including the work by the IFRS Foundation supported by IOSCO, and the EU Corporate Sustainability Reporting Directive (CSRD)**
- **Introduce quantitative disclosure requirements, to ensure the information provided by issuers is standardised and comparable across markets, industries and portfolios.**
- **Collaborate with the Ministry of Ecology and Environment to build on existing environmental disclosure requirements and extend the scope of reporting institutions and disclosure requirements to all listed companies (including a comply and explain mechanism for industries with low impact on environmental pollution)**
- **Require disclosure on climate-related targets and quantitative measures, especially greenhouse gas emissions, for all listed companies, in line with China's 30-60 carbon neutrality goals and IEA's Net Zero 2050 report[6].**
- **Include forward looking disclosures in line with the TCFD Recommendations, and 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) Recommendations, which aims to help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities**.
- **Coordinate closely with other Chinese financial regulators, for example with the People's Bank of China and the Ministry of Finance on climate disclosure to create a consistent reporting framework across corporate and financial institutions.**

[6] IEA, Net Zero by 2050, available at https://www.iea.org/reports/net-zero-by-2050

DETAILED RECOMMENDATIONS ON NO.2 DOCUMENT

Article 14 (Board review)

We recommend that the CSRC includes a requirement on board oversight of ESG issues in this Article, including the board's ESG management approach and strategy, as well as processes to evaluate, prioritise and manage material ESG-related issues, and an explanation of how the board reviews progress made against ESG-related goals and targets.

Article 23 (Management discussion and analysis)

Article 23 asks issuers to provide discussion and analysis on business' operating information and financial reporting data, as well as significant events. Companies are encouraged to disclose key performance indicators used for operations and management activities.

We recommend including ESG-related opportunities and risks in the management discussion and analysis. In addition, we recommend requiring discussion of climate-related risks and targets and key performance indicators used for operations and management activities.

Article 24 (Industry trends and impacts)

Article 24 asks issuers to highlight significant changes in the industry and sector and their impacts on the company. It also requests disclosure on significant impacts of newly announced laws, administrative rules, regulations and industry policies on the industry in which the company operates.

We recommend including explicitly ESG-related opportunities and risks, as well as their impacts.

Article 28 (Future development outlook)

Article 28 asks companies to disclose future development strategies, business plans, risks faced, and to provide discussion and analysis (quantitative analysis is encouraged).

The PRI welcomes CSRC's inclusion of forward-looking disclosures. The PRI recommends that the CSRC further align these requirements with the TCFD framework and metrics on key ESG issues, in order to provide information on potential future impacts of ESG issues, such as climate change, on listed companies'

We recommend that CSRC adds climate related risks, in addition to the environmental risk factors listed in Article 28 to support China's 30-60 carbon neutrality goals.

Article 30 (Board independence)

Article 30 asks disclosure on measures taken by controlling shareholders and the actual controlling party, instead of the company itself, to ensure the independence of the company's assets, personnel, finance, institutions, and business.

The requirement for controlling shareholders to ensure company independence raises concerns regarding the protection of minority shareholders' interests, because it can lead to conflict of interests, abuse of authority, and management entrenchment.

These risks can be mitigated with appropriate board oversight policies and public disclosures. As best practice according to the International Corporate Governance Network, companies should have formal board policies regarding the monitoring of related party transactions[7] and management of conflicts of interest. These policies should explain the mechanisms that are in place to avoid the misuse of company resources and protect minority shareholders' interests.

Therefore, we recommend that companies have in place and disclose the measures taken to guarantee that controlling shareholders will not have undue influence on company assets, personnel, finance, institutions, and business. We also recommend that these measures should be overseen by the board.

Article 33 (Information on directors, supervisors, and executive management)

We recommend including the following quantitative and qualitative disclosures:

- **% of women on the Board**
- **Anti-corruption and bribery:**
  Effective whistleblowing mechanisms are a key feature of good governance and anti-corruption systems, as well as being reflective of a healthy corporate culture centred on trust and responsiveness. The PRI recently published a report[8] providing guidance on how investors can assess and engage with investee companies to improve corporate whistleblowing practices. For indicators:
    - **Companies should establish and disclose information on whistleblowing frameworks that allow employees to report misconduct and concerns without fear of retaliation.**
    - **Companies should have and disclose a whistleblowing policy.**
    - **Companies should disclose board oversight and responsibilities for the whistleblowing framework.**
    - **We would also encourage companies to report on the number and types of reports made.**

Article 42 (Main environment information)

We recommend mandating disclosure on

Greenhouse gas (GHG) emissions:

- **emission scope (scope 1, scope 2, and the most relevant scope 3 emission for the sector and the company); scope 3 separated by upstream/downstream; also separated by GHG; split of emissions in estimated/measured/assured; and the degree of alignment of the company's business model with a Paris-compliant 1.5°C scenario. The standard should**

[7] International Corporate Governance Network, Related Party Transactions: How to Ensure Adequate Protection of Minority Shareholder Rights (June 2018), available at https://www.icgn.org/related-party-transactions-how-ensure-adequate-protection-minority-shareholder-rights.

[8] Principles of Responsible Investment, Whistleblowing: Why and How to Engage with your Investee Companies (December 9, 2020), available at https://www.unpri.org/governance-issues/whistleblowing-why-and-how-to-engage-with-your-investee-companies/6862.article.

also include the requirement for forward-looking targets covering absolute GHG emissions as well as GHG-intensities (e.g. GHG emission intensity planned in 5 and 10 years).

Air pollutants:

- **Air emissions of NOx, SOx, POP, VOC, HAP, PM in kg**

Water:

- **Total water withdrawal (m^3)**
- **Total water discharge**
- **Total water consumption**
- **% if water recycled**

Energy:

- **Total energy consumed (GWh)**
- **% of renewable energy**

Waste (water, solid, hazardous):

- **Total waste from operations (tonnes)**
- **% of hazardous waste**
- **% of waste recycled**
- **Water emissions of Nitrogen, Phosphorus, Persistent Organic Pollutants, and Oxygen Demand (kg)**

These disclosures should be on a comply and explain basis for all listed companies.

Article 43 (Social responsibilities)

Article 43 encourages companies to disclose their work related to social responsibilities, including but not limited to: the purpose and philosophy of the company in fulfilling its social responsibility, the protection of the rights and interests of shareholders and creditors, the protection of the rights and interests of employees, the protection of the rights and interests of suppliers, customers and consumers, environmental protection and sustainable development, public relations, social public welfare undertakings and other aspects.

We recommend the CSRC further clarifying disclosure standards regarding the rights and interests of suppliers, customers, and consumers, for instance on specific supplier procurement management systems and mechanisms, as well as consumer rights protection mechanisms.

In addition, we recommend that the CSRC further clarify and distinguish the definitions and scopes of "social responsibilities", "poverty alleviation", and "rural revitalization" to address the issue of reporting duplication on those topics.

We recommend including information disclosure requirements on:

Workforce

- **Workforce composition by gender**
- **Training hours per employee**
- **Wages paid**

Health and safety

- **Injury rate (TRIR)**
- **Fatality rate (for direct and contract employees)**

Article 44 (Poverty alleviation and rural revitalization)

Article 44 encourages companies to disclose work related to poverty alleviation and rural revitalization.

We recommend CSRC further clarify and distinguish the definitions and scopes of "social responsibilities", "poverty alleviation", and "rural revitalization" to address the issue of reporting duplication on those topics.

In addition, we recommend the CSRC include quantitative metrics on poverty alleviation and rural revitalization to facilitate comparability across companies.

Article 69 (Existing bonds)

We recommend the CSRC include disclosure requirements on existing green bonds and their use of proceeds, and whether they meet the requirements in the latest version of Green-Bond Endorsed Catalogue.