

CONSULTATION RESPONSE

PRI RESPONSE TO THE CHINA MINISTRY OF ECOLOGY AND ENVIRONMENT'S ADMINISTRATIVE MEASURE OF THE LEGAL DISCLOSURE OF ENTERPRISES' ENVIRONMENTAL INFORMATION CONSULTATION

24 October 2021

PRI Association

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**United Nations
Global Compact**

ABOUT THE PRI

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. Globally, the PRI has over 4,300 signatories (pension funds, insurers, investment managers and service providers) with approximately US \$120 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 launch of the *Plan for the Reform of the Legal Disclosure System of Environmental Information* (hereinafter Reform Plan) in May 2020, The Ministry of Ecology and Environment (MEE) has issued a consultation on *Administrative Measure of the Legal Disclosure of Enterprises' Environmental Information* (hereinafter Administrative Measures) and *Guidelines on the Format for Legal Disclosure of Enterprises' Environmental Information* (hereinafter Format Guidelines) to further implement the reforms and strengthen the environmental information disclosure of enterprises in China.

The Administrative Measures and Format Guidelines are meant to unify domestic environmental disclosure standards and requirements, strengthen the support of pollution control, as well as carbon peaking and carbon neutrality goals, and empower cross-ministry collaboration and information sharing. Listed companies and issuers subject to ecological and environmental violations are also required to disclose environmental information, which is intended to further improve regulation alignment between financial and environmental disclosures.

The PRI welcomes the opportunity to contribute with comments and suggestions to the MEE consultation on the Administrative Measures and Format Guidelines.

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

Globally, there is increased interest in environmental and climate-related issues, and a move towards increasing alignment of reporting requirements and practices for corporations and financial institutions on those issues. The European Commission, for example, has 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 and the SEC is expected to issue rulemaking on issuer Climate Disclosure by the end of 2021. The Singapore Green Finance Industry Taskforce (GFIT) has also 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 *Guidelines for Financial Institutions Environmental Information Disclosure*⁵ provide advice on the format, frequency, qualitative and quantitative environment-related information to be disclosed by financial institutions. Recently, the Ministry of Finance responded to the consultation paper on sustainability reporting issued by International Financial Reporting Standards (IFRS) Foundation, which also focuses on international alignment and collaboration.⁶ The China Securities Regulatory Commission (CSRC) has also updated periodic reporting rules⁷ for listed companies to feature a section on environmental and social information in companies' annual and semi-annual reports.

As for the environmental information disclosure regulation for enterprise, China's environmental regulatory authorities have successively issued several policy documents to establish the environmental information reporting mechanism. The *Measures for the Disclosure of Environmental Information (2007)* and *Measures for the Disclosure of Environmental Information of Enterprises and Public Institutions (2014)* set up the basis for environmental information disclosure for key pollutant emitters, and the *2015 Environmental Protection Law* clarified the legal responsibility for key pollutant discharging units. In 2021, the *Interim Regulation on the Carbon Emission System* set greenhouse gas (GHG) emission information disclosure requirements for key GHG emitters.

Building on this previous work and taking into account China's carbon peaking and carbon neutrality goal, and the Reform Plan in 2020, these Administrative Measures currently under consultation are intended to provide regulatory support for a more standardized, effective environmental information disclosure system for enterprises, and contribute to green finance regulatory reform through cross-ministry collaboration and information sharing. The Reform Plan also sets a timeline to update guidelines for listed companies and debt issuers in 2022, the current Administrative Measures propose basic information guidance, which we believe can further help financial institutions to understand enterprises' environmental information and make informed investment decisions accordingly.

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, People's Bank of China, on Singapore FinTech Festival 2020, available at <http://www.pbc.gov.cn/en/3688110/3688172/4048269/4141587/index.html>.

⁵ People's Bank of China, *Guidelines for Financial Institutions Environmental Information Disclosure*, available at https://www.cfstc.org/bzqk/gk/view/bzxq.jsp?i_id=1925

⁶ Ministry of Finance, *Notice on collecting feedback for the IFRS foundation consultation paper on sustainability reporting*, available at http://kjs.mof.gov.cn/qongzuoqongzhi/202010/t20201028_3612797.htm

⁷ China Securities Regulatory Commission, *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 — Contents and Formats of Annual Reports*, available at <https://neris.csrc.gov.cn/falvfagui/rdqsHeader/mainbody?navbarId=3&secFutrsLawId=3a5979eeea68342819a3d9f5aad0af4d8&body=>

KEY RECOMMENDATIONS

The PRI welcomes the opportunity to provide comments on the Administrative Measures and Format Guidelines. A more comprehensive, mandatory disclosure standard on environmental and climate-related issues is important to provide comparable, consistent ESG data which is material to investors. In addition, we welcome the increased emphasis on cross-ministry collaboration and information sharing to help further address the current information gap between corporates and financial institutions, which can contribute to a more aligned, and efficient disclosure framework.

PRI's key recommendations to further improve the mandatory environment and climate reporting framework are:

- **Extend the scope of reporting institutions that are subject to disclosure requirements to cover all large companies, listed companies and debt issuers;**
- **Require disclosure of climate-related targets and quantitative measures, especially GHG emissions, for all listed companies, in line with China's 30-60 carbon neutrality goals and IEA's Net Zero 2050 roadmap;⁸**
- **Coordinate closely with other Chinese financial regulators, including the People's Bank of China, Ministry of Finance, and China Securities Regulatory Commission on environment and climate disclosure to create a consistent reporting framework across corporate and financial institutions;**
- **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) to further align corporates and financial institution reporting and disclosure across markets.**

⁸ IEA, Net Zero by 2050, available at <https://www.iea.org/reports/net-zero-by-2050>

DETAILED RECOMMENDATIONS ON ADMINISTRATIVE MEASURES AND FORMAT GUIDELINES

Administrative Measures, Article 6 (Scope of reporting institutions)

Administrative Measures Article 6 defines the scope of reporting institutions that are subject to the relevant reporting requirements, including five categories: key emission units; enterprises listed in the Mandatory Clean Production Audit list; listed companies that have been held criminally liable or subject to significant administrative penalties for ecological and environmental violations in the previous year; debt issuers that have been held criminally liable or subject to significant administrative penalties for ecological and environmental violations in the previous year; and other enterprises required to disclose environmental information by law and regulation.

We recommend that the MEE extend the scope of reporting institutions as follows:

- **For all large enterprises not in the lists of key emission units or the Mandatory Production Audit list, require primary environmental information disclosure,⁹ including indicators related to GHG emissions, air pollutants, water, energy, and waste.**
- **For all listed companies and debt issuers, require primary environmental information disclosure, including indicators related to GHG emissions, air pollutants, water, energy, and waste.**

Lack of reliable and comparable ESG data remains the biggest barrier for sustainable investment in China. This has been confirmed recently by the survey result of Asset Management Association of China (AMAC) *Research Report on China's Listed Companies' ESG Assessment System*,¹⁰ reporting that the lack of reliable and comparable ESG data is regarded as the biggest challenge faced by institutional investors in 2018 and remains as a key challenge for investors in 2019. Therefore, a set of standardized, mandatory reporting requirements on environmental disclosure that cover a broad scope of entities can contribute to the mandatory ESG information disclosure system Chinese financial regulators are working on.

Administrative Measures, Article 10 (Disclosure content)

We recommend that the MEE include water withdrawal and energy consumption indicators into the disclosure content.

The Administrative Measures mandate following information disclosure for targeted enterprises and include detailed requirements in the Format Guidelines: administrative information, including ecological and environmental administrative licensing (Format Guidelines, Article 8), environmental protection tax (Format Guidelines, Article 9), environmental credit evaluation (Format Guidelines, Article 10); pollutant and waste emission (Format Guidelines, Article 11-16); carbon dioxide emission (Format Guidelines, Article 17); nuclear and radiation safety (Format Guidelines, Article 18); contingency plan for ecological or environmental emergencies, or heavy pollution emergencies (Format Guidelines, Article 20-21); ecological and environmental violations (Format Guidelines, Article 22); and temporary report on significant environmental issues (Format Guidelines, Article 23).

In addition to the proposed disclosure content above, investors also increasingly expect further operation and production data that is relevant to their investment strategies and decisions.

⁹ What we refer to as a primary environmental indicator is a datapoint that represents the key performance on a given environmental topic. Additional, specific environmental indicators can be derived from this primary environmental indicator.

¹⁰ Asset Management Association of China, *ESG Investment Thematic Survey Report (2019)*, available here: <https://www.amac.org.cn/researchstatistics/report/zgsmijihyixshzrbg/202003/P020200330707184043402.pdf>

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.

Recommended additional primary indicators

ESG topic	Primary indicators	Relevant SDG ¹¹	Relevant regulations or reporting practices
Water	<ul style="list-style-type: none"> • Total water withdrawal (m³) • Total water discharge • Total water consumption • % if water recycled 	SDG 3 – Good Health and Well-being SDG 6 – Clean Water and Sanitation SDG 11 – Sustainable Cities and Communities SDG 12 – Responsible Consumption and Production	<p>Environment Protection Law (2015)</p> <p>Directive 2014/95/EU of the European Parliament and of the Council</p> <p>HKEX - Main Board Appendix 27: KPI A 2.2</p> <p><i>Water consumption in total and intensity (e.g. per unit of production volume, per facility).</i></p>
Energy	<ul style="list-style-type: none"> • Total energy consumed (GWh) • % of renewable energy 	SDG 7 – Affordable and Clean Energy	<p>Environmental Protection Law (2015)</p> <p>Directive 2014/95/EU of the European Parliament and of the Council</p> <p>HKEX - Main Board Appendix 27: KPI A 2.1</p> <p><i>Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).</i></p>

Based on recommendation in ESG data in China report, PRI (2018)

¹¹ This can be complemented with SDG indicator-level mapping: <https://unstats.un.org/sdgs/indicators/indicators-list/>

Administrative Measures, Article 13 (Disclosure requirements for listed companies and issuers subject to disclose) and Format Guidelines, Article 24 (Ecological and environmental information for relevant investment and finance)

These Articles require listed companies and debt issuers that have been held criminally liable or subject to significant administrative penalties for ecological and environmental violations in the previous year to report on their environment related information and how the invested projects address climate change and environmental protection.

We recommend that all listed companies and issuers should disclose their environmental information, including indicators related to GHG emissions, air pollutants, water, energy, and waste.

Primary ESG indicators, including primary environmental indicators, correspond to key data points illustrating performance on the most common ESG topics. Making disclosure of basic ESG indicators mandatory for all listed companies and debt issuers will support building a reliable ESG data series, providing useful information to both Chinese and international investors to make informed investment decisions, increasing investment in green and sustainable assets, and contribute to China's 2060 carbon neutrality goal through investment and financing activities.

Format Guidelines, Article 12 (Wastewater and exhaust gas), Article 13 (Industrial solid waste and hazardous waste), and Article 14 (Toxic and harmful substances)

These Articles list reporting requirements including total amount, intensity, permitted total amount and intensity, production days, monitoring methods, etc.

In addition to the mandatory disclosure requirements for existing reporting institutions, we recommend all listed companies and debt issuers and large private enterprises provide disclosure on the below primary indicators on air pollutants and waste.

These indicators are aligned with SDGs and global recognized standards which many Chinese companies are already starting to report on, although often not in a very standardized way. According to our research on China's ESG disclosure in 2018, The average disclosure rate of wastewater discharge and reduction for CSI300 constituent stocks industries is 46.4%, while the disclosure rates of tailpipe emission and reduction, hazardous waste discharge and reduction, and solid waste discharge are 38.9%, 36.3% and 30.8%, respectively¹².

¹² PRI, *ESG data in China: recommendations for primary ESG indicators*, available here: <https://www.unpri.org/fiduciary-duty/esg-data-in-china-recommendations-for-primary-esg-indicators/4345.article>

Recommended primary indicators for air pollutants and waste

ESG topic	Primary indicators	Relevant SDG	Relevant regulations or reporting practices
Air pollutants	<ul style="list-style-type: none"> Air emissions of NO_x, SO_x, POP, VOC, HAP, PM in kg 	SDG 3 – Good Health and Well-being SDG 11 – Sustainable Cities and Communities	Environmental Protection Law (2015) HKEX - Main Board Appendix 27: KPI A 1.1 <i>The types of emissions and respective emissions data</i>
Waste (water, solid, hazardous)	<ul style="list-style-type: none"> Total waste from operations (tonnes) % of hazardous waste % of waste recycled Water emissions of Nitrogen, Phosphorus, Persistent Organic Pollutants, and Oxygen Demand (kg) 	SDG 6 – Clean Water and Sanitation SDG 12 – Responsible Consumption and Production SDG 14 – Life below Water SDG 15 – Life on Land	Environment Law (2015) Directive 2014/95/EU of the European Parliament and of the Council HKEX - Main Board Appendix 27: KPI A 1.3 <i>Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).</i>

Based on recommendation in ESG data in China report, PRI (2018)

Format Guidelines, Article 17 (Carbon dioxide emission information)

This Article requires key emitters included in the carbon emission trading mechanism to disclose a) actual CO₂ emissions for the current year and actual emissions for the previous year; and b) the information on emission quota and annual GHG emission reports.

We recommend that the MEE extend the scope of reporting institutions to all listed companies and debt issuers and large private enterprises (this could include a comply or explain mechanism for smaller enterprises). For key GHG emitters included in the carbon emission trading mechanism management, require disclosure on climate-related targets and quantitative measures, especially GHG emissions, in line with China’s 30-60 carbon neutrality goals and China’s national determined contributions (NDCs) to the Paris Agreement. Over time, this target setting requirement should be extended to all listed companies, debt issuers and large private companies.

We also recommend that information disclosure requirements include all key GHG emissions, instead of only carbon dioxide.

The GHG disclosure required in the Administrative Measure and Format Guidelines should align with the indicators proposed in the Interim Regulation on the Carbon Emission System, which set GHG emission

information disclosure requirements for key GHG emitters, including CO₂, CH₄, N₂O, HFCs, PFCs, SF₆, and CF₃.¹³

Recommended additional primary indicators for GHG emissions and targets:

ESG topic	Primary indicators	Relevant SDG	Relevant regulations or reporting practices
Greenhouse gas (GHG) emissions	<ul style="list-style-type: none"> Emissions and emissions intensity across Scopes 1, 2 and 3 Scope 3 emissions separated by upstream / downstream and GHG Split of emissions in estimated / measured / assured 	SDG 13 – Climate Action	<p>Paris Agreement</p> <p>The 13th Five-year Plan for Controlling GHG Emissions</p> <p>Task Force on Climate-Related Financial Disclosures (TCFD)¹⁴(2021)</p> <p>Guidance on Metrics, Targets and Transition Plans</p>
Targets	<ul style="list-style-type: none"> Forward-looking targets covering absolute GHG emissions as well as GHG intensities (e.g. GHG emission intensity planned in 5 and 10 years), transition risks, physical risks, climate related risks, internal carbon prices and remuneration 	SDG 13 – Climate Action	<p>TCFD (2021)</p> <p>Guidance on Metrics, Targets and Transition Plans</p>

¹³ Ministry of Ecology and Environment, *Interim Regulation on the Carbon Emission System*, available here: https://www.mee.gov.cn/xxgk/xxgk/xxgk06/202103/t20210330_826642.html

¹⁴ Task Force on Climate-Related Financial Disclosures, *Guidance on Metrics, Targets, and Transitions Plans*, available at https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf