

Interpretation of "Study on ESG Special Report Compilation for Listed Companies Controlled by Central Enterprises"

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I. BACKGROUND OF THE "RESEARCH ON ESG SPECIAL REPORT COMPILATION FOR CENTRAL STATE-OWNED ENTERPRISE-HOLD LISTED COMPANIES"

Recently, the General Office of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) released the findings of the "Compilation Research" on Study on ESG Special Report Compilation for Listed Companies Controlled by Central Enterprises to both central enterprises and local state-owned assets. The research outcomes comprise the "Reference of ESG Indicators System for ESG Reports of Listed Companies Controlled by Central Enterprises" (央企控股上市公司 ESG 专项报告参考指标体系) as well as the "Template Reference for ESG Reports of Listed Companies Controlled by Central Enterprises." (央企控股上市公司 ESG 专项报告参考模板). These results offer guidance for promoting consistent ESG information disclosure practices among central enterprises in China. The "Compilation Research" initiative was launched by SASAC's Research Center, with the Bureau of Property Right Management and the Bureau of Social Responsibility of SASAC serving as supervisory entities. Led by the Research Center of SASAC, the project involved core participants such as China Energy Conservation and Environmental Protection Group (CECEP), China Beijing Green Exchange Co., Ltd, China International Capital Corporation Limited, and the **International Institute of Green Finance (IIGF)**. Together, they collaborated on the research of the specialized report template and the indicator system for Environmental (E), Social (S), and Governance (G) aspects. IIGF leads the research on the Governance (G) indicator system and collaborates on the transformation of the research outcomes. **This article provides an overview of the background of the "Compilation Research," elucidates its key aspects, and offers an assessment of the potential implications post-implementation.**

In recent times, with China's economy advancing towards a phase of high-quality development and a concerted effort to expedite the establishment of globally competitive businesses, the focus on attaining top-tier progress for both central and state-owned enterprises has escalated on a national scale. Considering that ESG principles offer guiding principles for enterprise advancement across environmental, societal, and governance realms, paving the way for high-quality development, the ESG concept aligns closely with the essence of high-quality development. Concurrently, ESG has emerged as an imperative mandate within the sphere of high-quality enterprise development. As the ESG concept gains increasing prominence in China, the quality and extent of ESG information disclosure have emerged as crucial benchmarks for assessing corporate competitiveness. During the development of a mandatory framework for environmental information disclosure, Hong Kong, China has already mandated ESG information disclosure for listed companies, while mainland China is gradually adopting a trend of incorporating ESG disclosure within the information shared by listed companies. Regulatory authorities and self-regulatory organizations have introduced or enhanced a range of pertinent policy guidelines, thereby objectively imposing higher criteria for ESG information disclosure by listed companies.

Starting from 2008, SASAC has been actively promoting the implementation of ESG information disclosure within central state-owned enterprises (SOEs). In that year, SASAC introduced the "Guiding Opinions on Central Enterprises Fulfilling Social Responsibilities," which proposed the concept of establishing a social responsibility reporting system.

It required eligible enterprises to regularly release reports on social responsibilities or sustainable development, disclosing their current status, strategies, and measures in fulfilling social responsibilities. Additionally, it aimed to improve methods of communication and mechanisms for engaging with social responsibilities, promptly addressing opinions and suggestions from stakeholders. In 2016, SASAC issued the "Guiding Opinions on State-owned Enterprises Better Fulfilling Social Responsibilities," outlining the general requirements and four fundamental principles for state-owned enterprises in meeting their social responsibilities. In March 2022, SASAC established the "Bureau of Social Responsibility" with the endorsement of the Central Committee, aiming to facilitate the advancement of technological innovation and the fulfillment of social responsibilities within central SOEs. On May 27, 2022, SASAC formulated and released the "Action Plan for Enhancing the Performance of Listed Companies Held by Central Enterprises," which outlined measures to enhance the performance of such companies. It proposed exploring the establishment of a robust ESG system, promoting increased ESG special report disclosures among central enterprise-held listed companies, and aiming for comprehensive coverage of relevant special report disclosures by 2023. Due to the absence of unified and authoritative ESG disclosure standard in China, numerous inconsistencies are present in the ESG special reports published by listed firms. In July 2022, the SASAC Research Center took measures to implement the SASAC's "Action Plan for Enhancing the Performance of Listed Companies Controlled by Central Enterprises," with regard to the requirement of achieving full coverage of ESG special report disclosures by 2023. Guided by the Bureau of Property Right Management and the Bureau of Social Responsibility, the research project titled "Study on ESG Special Report Compilation for Listed Companies Controlled by Central Enterprises" was initiated to standardize ESG information disclosure, improve the quality of specialized report preparation, and position central enterprise-held listed companies at the forefront of ESG initiatives in China. Following a thorough review by relevant departments, the project findings were recently disseminated by the SASAC General Office to various central enterprises and local state-owned enterprises for reference. The project outcomes encompass the "Reference of ESG Indicators System for ESG Reports of Listed Companies Controlled by Central Enterprises" (央企控股上市公司ESG专项报告参考指标体系) (referred to as the "Indicator System") and the "Template Reference for ESG Reports of Listed Companies Controlled by Central Enterprises" (央企控股上市公司ESG专项报告参考模板) (referred to as the "Report Template").

Additionally, they draw inspiration from Chinese legal frameworks including the "Company Law of the People's Republic of China," "Code of Corporate Governance for Listed Companies," "Guidelines on Social Responsibility Performance (GB/T 36002-2015)," "Social Responsibility Management Systems – Requirements with Guidance for Use (GB/T 39604-2020)," "Self-Regulation Supervision Guidelines for Listed Companies of the Shanghai Stock Exchange No.1 – Standard Operation," and "Guidelines on Social Responsibility (GB/T 36000-2015)," as well as policies and systems mandated by the Hong Kong Stock Exchange and established international standards.

Within the environmental dimension, there are 5 primary indicators, 18 secondary indicators, and 56 tertiary indicators, covering topics such as resource consumption, pollution prevention and control, and the establishment of resource and environmental management systems. Environmental data plays a vital role in environmental regulation. In the "Indicator System," most of the foundational disclosure elements under the environmental dimension consist of quantitative indicators. This highlights the "Indicator System's" emphasis on clear quantifiable and comparable requirements for companies' environmental disclosures. This approach seeks to ensure accurate, comprehensive, and systematic environmental-related statistical data, which in turn facilitates well-informed government decision-making and management. In addition to the typical disclosures concerning resource consumption, pollution prevention, and the establishment of fundamental environmental management systems, the "Indicator System" encompasses topics related to climate change and biodiversity. It is important to highlight that, given the current state of disclosure in China, the "Indicator System" categorizes the three carbon emissions indicators for Scope 1, Scope 2, and Scope 3 as "suggested disclosures." While encouraging companies to disclose this information, the extent of disclosure is left to the discretion of each company based on their specific circumstances. Simultaneously, the "Indicator System" strives to promote biodiversity. Enterprises are crucial participants in biodiversity protection, yet challenges persist in recognizing their impact on biodiversity. Thus, by incorporating biodiversity considerations into the "Indicator System," its goal is to steer enterprises towards heightened awareness of their effects on biodiversity throughout their production and operations. This includes assisting them grasp the extent and seriousness of their impact on biodiversity and implementing appropriate measures to reduce any potential adverse consequences.

Under the social dimension, there are 4 primary indicators, 14 secondary indicators, and 43 tertiary indicators, covering areas such as employee rights, product and service management, and social contributions. Considering the multifunctional role of state-owned central enterprises in the national economy and their characteristics of strong industrial attributes, large scale, broad industry involvement, diverse business segments, and extensive stakeholder chains, the development of social dimension indicators in the "Indicator System" not only considers China's unique characteristics but also integrates the distinctive features of state-owned central enterprises. On one hand, employees are among the most critical stakeholders of enterprises and constitute a crucial aspect of social responsibility. The integration of capital and diverse production elements with employee labor is indispensable for the creation of end products and services. The tertiary indicators under the employee rights dimension in the "Indicator System" primarily emphasize fundamental disclosures,

II. KEY FOCUS OF THE "STUDY ON ESG SPECIAL REPORT COMPILATION FOR LISTED COMPANIES CONTROLLED BY CENTRAL ENTERPRISES"

The "Indicator System" comprises 14 main categories, 45 secondary indicators, and 132 tertiary indicators, providing a comprehensive assessment of the performance of listed companies controlled by central enterprises across environmental, social, and governance aspects associated with green operations, social responsibility, and sustainable development. The "Indicator System" encompasses significant practices of listed companies under central enterprise control within the domains of environment, society, and governance. It deconstructs indicator content into specific systems, frameworks, management, and practices. The tertiary indicators are presented through a combination of quantitative and qualitative approaches. The majority of indicators within the "Indicator System" are rooted in the United Nations Sustainable Development Goals (SDGs) and China's experiences with high-quality development.

underscoring the significance of protecting the lawful rights and interests of employees. This highlights the importance of adopting a "people-centered" approach, ensuring respect and equality, fostering harmonious labor-management relationships, and achieving mutual success. On the other hand, the "Indicator System" incorporates various suggested disclosure indicators within the context of social contributions, including aspects like tax payment status and responses to national strategies. These indicators cover economic development and the enhancement of people's well-being, which can be perceived as a crucial path towards modernizing China's state-owned enterprise-driven social governance. The responsibilities of state-owned enterprises in economic development and improving people's livelihoods are emphasized through a focus on innovative development, coordinated growth, and the equitable allocation of social resources. Consequently, indicators that drive innovative development via technological innovation, industry transformation centered around core responsibilities, fiscal contributions as a financial pillar, community co-building as a cornerstone of grassroots governance, and regional collaborative development to prevent regional polarization are essential elements. It's noteworthy that, to assess the contributions made by enterprises to facilitate equal, complete, and convenient involvement and inclusion of disabled and elderly individuals into social life, there is an indicator related to the establishment of barrier-free environments within the context of social contributions. The "Barrier-free Environment Living Bill of the People's Republic of China," passed in June 2023, serves as an intrinsic requirement to safeguard the rights of disabled and elderly individuals and promote the development and progress of human rights within the country. It acts as a guarantee to enhance the quality of barrier-free environment construction and foster the sharing of economic and social developmental achievements among all members of society. Hence, the accomplishments of enterprises in advancing barrier-free environment construction, as demonstrated through their ESG disclosures, will emerge as a noteworthy practice in addressing contemporary societal concerns.

Under the governance dimension, there are 5 primary indicators, 13 secondary indicators, and 33 tertiary indicators, encompassing information related to listed companies' governance strategies and organizational structures, transparency of information disclosure, compliant operations, and risk management. Corporate governance is a central element of contemporary corporate structures. Strong, well-structured, and efficient corporate governance forms a solid basis for businesses to create reliable self-regulation methods, foster favorable market perceptions, earn public trust, and achieve healthy and sustainable growth. Consequently, the governance framework encompasses a significant array of essential information to be disclosed. By revealing the rules and frameworks that govern their governance, companies demonstrate their operational effectiveness, potential risks, and commitment to sustainable growth to both internal and external stakeholders, which encompasses investors. As state-owned enterprises constitute a significant material and political foundation of socialism with Chinese characteristics, in the new development stage and facing new situations, tasks, and demands, it is an essential requirement for high-quality development of state-owned enterprises to be guided by high-quality Party building. Party building leadership is a distinctive advantage of state-owned enterprises, and its role as a fundamental disclosure element within governance strategy is highly necessary. Furthermore, due to the growing information needs of investors and other relevant stakeholders of listed companies, traditional financial statements are no longer

sufficient to meet these demands. The disclosure of non-financial data has gained increasing significance. Within the framework of transparency outlined in the "Indicator System" for information dissemination, in addition to requirements concerning financial information disclosure, corresponding recommendations have been advanced concerning the disclosure of non-financial data. Listed companies are encouraged to ensure the timeliness and quality of non-financial information disclosure. At the same time, the "Indicator System" also requires listed companies to disclose elements of risk management, encompassing risk identification, control, and monitoring. For proficient risk management, listed companies need to identify and assess risk factors, develop suitable strategies to minimize the likelihood of risk occurrence, and mitigate the adverse impacts of such incidents. Additionally, listed companies can establish a risk classification and control system based on the identification of risk hazards. This involves allocating duties for executing control measures based on the level of risk. This approach ensures the practical and rational implementation of risk control measures.

The "Report Template" consists of two major sections: the report cover and the report content. The report content includes an ESG-focused report featuring 10 main sections, 26 subsections, and two reference index tables. This template serves as a guide for creating ESG-specific reports. The "Report Template" encompasses information related to central state-owned enterprises (SOEs) that are publicly listed, including basic company information, ESG management, ESG risks and opportunities, stakeholder communication, substantive issue assessment, environmental indicators, social indicators, governance indicators, index references, and third-party evaluation reports. The "Report Template" covers information related to publicly listed central state-owned enterprises (SOEs), including basic company information, ESG management, ESG-related risks and opportunities, engagement with stakeholders, evaluation of significant issues, environmental, social, and governance indicators, index references, and third-party evaluation reports. The framework is disassembled into categories such as "Strategy," "Architecture," "Risk Management," and "Indicators and Objectives," presented using both main and subordinate headings. Under each main heading, the "Report Template" offers comprehensive explanations within the subheadings, assisting central state-owned enterprises (SOEs) in comprehending the information to be disclosed within each section. Notably, the ESG Management segment is divided into four subsections, covering ESG Vision, ESG Development Strategy and Action Plan, ESG Governance Framework, and additional details. Prior to formulating an ESG development strategy and action plan, central SOEs that hold controlling stakes in listed companies conduct thorough research to collect ESG concerns relevant to the company. Subsequently, they assess the significance of each ESG concern and define strategic goals and measurable benchmarks centered around these matters, culminating in the creation of an actionable implementation plan. Simultaneously, it is essential to periodically update the ESG strategy in response to evolving business needs, policy changes, and implementation challenges, ensuring its ongoing efficacy. In cases where central SOEs with majority holdings in publicly listed companies have yet issued an ESG vision and associated management framework, they have the option to describe the relevant efforts already undertaken by the company and provide a comprehensive outline of a specific implementation blueprint for formulating the ESG strategy. This outline should encompass a schedule, pivotal milestones, accountable individuals, and other information.

The section on third-party evaluation reports aims to encourage central SOEs with controlling stakes in listed companies to collaborate with external expert entities for the validation and appraisal of the specialized ESG report. These evaluations result in the issuance of evaluation reports, enhancing the credibility of disclosed ESG information. The involvement of external parties in evaluating the ESG information disclosure report facilitates the establishment of a transparent platform for information exchange and ensures a compliant operational context by validating accuracy, reliability, and transparency. As such, third-party evaluation reports play a pivotal role for ensuring the quality of disclosed ESG reporting and act as a safeguard to validate the disclosure quality of a company's ESG report.

III. SIGNIFICANCE OF THE "STUDY ON ESG SPECIAL REPORT COMPILATION FOR LISTED COMPANIES CONTROLLED BY CENTRAL ENTERPRISES"

The **"Compilation Study"** serves as a notable model for introducing cohesive ESG information disclosure guidelines across China. Currently, the standards for disclosing ESG information reports among listed companies in China differ, presenting significant obstacles in conducting ESG evaluations. By enhancing top-level design and strengthening policy coordination to mitigate obstacles in the construction of the ESG evaluation system, the establishment of a unified set of disclosure guidelines becomes particularly important. Through elevating overarching planning and strengthening policy coordination to address challenges in establishing the ESG evaluation framework, the establishment of a coherent set of disclosure guidelines becomes particularly important. **Considering the central SOEs' substantial experience and prolonged engagement in fulfilling social responsibilities, the purpose of "The Compilation Study" is to take the lead in implementing standardized ESG information disclosure practices.** This action aims to establish an exemplary precedent and encourage greater consistency among other private enterprises in China as they prepare ESG information disclosure reports. "The Compilation Study" is poised to result in a cohesive structure for ESG reports released by centrally-owned SOEs listed on the stock market, guaranteeing the proficient revelation of crucial information. This will facilitate both cross-sectional benchmarking and vertical comparability of ESG specialized reports issued by central SOEs listed companies. In the future, the implementation and input obtained through the execution of "The Compilation Study" within central SOEs listed companies could serve as a reference point in the strategic planning of ESG information disclosure. This process will facilitate the creation of consistent and obligatory corporate standards and specifications for ESG information disclosure. Consequently, it will provide greater clarity to the path of developing unified and standardized ESG information disclosure standards in China, ultimately leading to the realization of standardized and measurable ESG information disclosure outcomes in the country.

As a specialized think tank in green finance, the International Institute of Green Finance (IIGF) has engaged in a range of services nationwide. These encompass consultation regarding environmental information disclosure for financial institutions, environmental stress testing, the enhancement of ESG capabilities for enterprises, research on sustainable development, preparation of ESG specialized reports, and provision of ESG training. These services offer comprehensive support for ESG and sustainable development initiatives across listed companies, private enterprises, bond issuers, financial institutions, and their projects.

Furthermore, the institute has assumed a pioneering role and actively engaged in development of multiple ESG standards. In 2017, leveraging a foundation of a green assessment framework, IIGF autonomously introduced and formulated an indigenous "ESG assessment system" tailored to China's conditions. This systematic approach provides a comprehensive evaluation of enterprises' ESG performance, encompassing both qualitative and quantitative benchmarks across three key dimensions: environmental protection, social responsibility, and corporate governance, inclusive of assessments of adverse conduct and associated risks. Utilizing its proprietary ESG assessment methodology, IIGF has successfully created a preeminent Chinese enterprise ESG database on a global scale. This comprehensive database encompasses diverse enterprises, encompassing A-share listed companies, Hong Kong-listed companies, and non-publicly listed entities issuing bonds. Furthermore, IIGF has partnered with numerous listed companies to support their efforts in improving their ESG ratings on both global and domestic scales. Based on a strong foundation of theoretical research and practical requirements, IIGF has taken a prominent role in addressing crucial aspects concerning the establishment of China's green finance system. Their involvement in crafting reports about green finance and providing consultations on ESG policies has garnered approval and support from senior leaders on several instances. These reports offer expert perspectives and intellectual support for the improvement and formulation of policies at both the central and local government levels. Moving forward, IIGF will maintain its comprehensive collaboration with the Research Center of SASAC, ensuring close coordination among diverse stakeholders to effectively progress the execution of the "Compilation Study on ESG Special Report Preparation for Centrally-Owned Enterprises' Listed Companies." At the same time, IIGF will pay careful attention to the recommendations and viewpoints presented by centrally-owned SOEs listed companies. It will also conduct a sequence of investigations into ESG information disclosure, assisting these enterprises in enhancing their alignment with SASAC's standardized ESG information disclosure criteria. These efforts are aimed at achieving the objectives of the project at a high standard.



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