PRI RESPONSE

CHINESE MINISTRY OF FINANCE DRAFT CORPORATE SUSTAINABILITY DISCLOSURE STANDARD NO. 1 – CLIMATE

May 2025

To inform this paper, the following group has been consulted: Global Policy Reference Group, China Policy Reference Group.

While the policy recommendations herein have been developed to be globally applicable, the PRI recognises that the way in which policy reforms are implemented may vary by jurisdiction and according to local circumstances. Similarly, the PRI recognises that there may be circumstances where there are merits to allowing market-led initiatives to precede regulatory requirements.

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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. We welcome the opportunity to respond to the Chinese Ministry of Finance (MoF) call for feedback on its draft Corporate Sustainability Disclosure Standard No. 1 – Climate.

ABOUT THIS CONSULTATION

The Ministry of Finance (MoF) is proposing to adopt climate reporting requirements for all corporates in China, which build on its Corporate Sustainability Disclosure Standard – Basic Standard (Basic Standard). The objective is to provide investors, creditors, government authorities and other stakeholders with information on companies' climate-related risks, opportunities and impacts to facilitate their economic decision-making, resource allocation or other decisions. The proposed standards follow a voluntary approach before further implementation requirements are issued. Industry-specific requirements are under development, covering nine industries including electricity, iron and steel, coal, petroleum, fertilizer, aluminium, hydrogen, cement, and automobiles.

The proposed requirements are aligned with the climate reporting standard of the IFRS Foundation's International Sustainability Standards Board (ISSB) – IFRS S2 *Climate-related Disclosures* – with a few modifications summarised in the response. Similarly, the abovementioned Basic Standard builds on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information.*

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KEY RECOMMENDATIONS

Adoption of the ISSB-aligned climate reporting requirements will benefit investors

Decision-useful corporate sustainability disclosure[1] is a prerequisite for responsible investment. However, investors currently lack such information across their portfolios, including the most basic sustainability-related data. Therefore, the PRI supports the introduction of sustainability disclosure requirements aligned with the ISSB standards by governments.

We welcome the MoF's regional leadership in this area, with its proposed adoption of IFRS S2-aligned climate reporting requirements for all corporates in China. Alongside the IFRS S1-aligned Basic Standard, this can provide investors with the decision-useful[2] climate disclosure needed from portfolio companies, enabling them to allocate capital more efficiently – accounting for climate-related risks and opportunities and addressing climate goals.

In 2024 we published a call to action for jurisdictions to commit to adopting both ISSB standards at pace. This was issued in collaboration with the London Stock Exchange Group, UN Sustainable Stock Exchanges initiative and World Business Council for Sustainable Development – and endorsed by 121 investors, companies, stock exchanges and other organisations. As we engage with local markets on sustainability reporting, we have consistently found that investors support the adoption of both ISSB standards by international and local standard setting and policymaking bodies.

Subtractions from the standards should be minimised

We also support the MoF's proposal to retain most elements of IFRS S2 within its own standard, as alignment will provide investors with more comparable and better-quality reporting across portfolios.

However, there are two missing elements which we recommend are added in, to improve the relevance and comparability of disclosure for investors.

- Unlike this draft standard, the ISSB standards include "sources of guidance" that companies should consider when identifying sustainability-related risks and opportunities and what to disclose about these (including industry-specific information),[3] and require disclosures about how companies have used these sources of guidance. Including this within the MoF's standard would prompt companies to consider risks, opportunities and impacts – and information about these – that are potentially relevant to investors, allowing them to more effectively implement the materiality assessment and meet investor data needs. It could also improve the comparability of

[1] As set out in the PRI's Investor Data Needs framework, to be decision-useful, sustainability information must be available, accessible, verifiable, comparable across multiple dimensions, a faithful representation and relevant to investors.

[2] The ISSB standards are underpinned by the structure and concepts of accounting standards from the International Accounting Standards Board (IASB) and build on the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, among other well established voluntary sustainability reporting frameworks. They have also been endorsed by the International Organization of Securities Commissions (IOSCO), which has recommended that its member jurisdictions consider ways in which they might adopt, apply or otherwise be informed by the standards.

[3] Including the SASB Standards and CDSB Framework, among others – see the "Sources of Guidance" section within IFRS S1.

disclosure for investors by harmonising the materials considered across companies through the use of these internationally recognised frameworks.

- The draft standard should also include (or at least reference) all application guidance within Appendix B of IFRS S2. This can help to ensure that companies implement the standard correctly and consistently, and thereby produce information of sufficient quality for investors.

Further, we acknowledge the following requirements within the draft standard are additions to IFRS S2 and can provide investors with additional relevant information:

- Information on innovative measures and their effectiveness in mitigating and adapting to climate change during operations, as well as the costs incurred for such measures (cf. Article 14).
- Information on capitalised costs, expensed expenditures, gains or losses related to transactions or activities such as carbon emission trading, green power certificate purchases, voluntary greenhouse gas emission (GHG) reduction projects, carbon credit purchases or renewable energy contracts (c.f. Article 15).

Additional disclosure requirements should be adopted in the future to meet the breadth of investor data needs

In line with the IFRS Foundation's "building blocks" approach, we welcome the MoF's intention to adopt the ISSB standards and eventually supplement these with requirements that capture further information on companies' sustainability impacts, and further information on sustainability issues beyond climate.

This is because investors need decision-useful reporting on a wide range of sustainability topics beyond climate where material to investment decisions. Further, while all investors need sustainability-related information on companies' risks and opportunities to assess companies, some investors also need information on a company's impacts and their alignment with sustainability goals and thresholds to assess and interpret their position. The ISSB standards are expected to enable disclosure of some of this information, but are unlikely to provide investors with all the information they need on companies' impacts and dependencies, particularly for issues beyond climate change.

To meet these needs and ensure interoperability and comparable reporting for investors, we suggest the MoF considers setting additional requirements in the future on disclosure beyond climate that build on the GRI Standards, European Sustainability Reporting Standards (which themselves build on the GRI and ISSB standards) and other voluntary standards (e.g. the TNFD framework).

RESPONSE TO CONSULTATION QUESTIONS

1. Article 4 of the Exposure Draft of the Climate Guidelines sets out principle requirements for the disclosure of information on climate-related impacts, is it necessary to regulate the disclosure of information on climate-related impacts in a separate chapter? If there is a need for a separate chapter, please set out in detail the specific requirements for disclosure of information on climate-related impacts.

This should be done in the same chapter, similar to the structure of ESRS E1 on climate change. Because climate-related impacts (e.g. GHG emissions) are widely recognised as financially material, companies do not create separate systems for governance, strategy and management of climate-related risks and opportunities when compared to climate-related impacts. Since investors require consistent disclosure that reflects the decision-making of companies, a separate section on climate-related impacts is not recommended.

2. Article 30 of the Exposure Draft of the Climate Guidelines regulates the accounting standards for carbon emissions of enterprises, is it necessary to add the requirement that "before the release of the accounting standards for carbon emissions of enterprises formulated by the relevant state departments, enterprises may refer to the GHG Protocol for accounting"?

Even though the ISSB is consulting on flexibility for companies not to calculate greenhouse gas (GHG) emissions in line with the GHG Protocol methodology, we recommend that the MoF requires companies to do so during this interim period. Because this methodology is the most widely used and recognised international standard for calculating GHG emissions, such a requirement would help to standardise emissions reporting across jurisdictions, increasing comparability for investors, in this interim period. Afterwards, investors would benefit from companies' use of carbon accounting standards that are as aligned as possible with the GHG Protocol, with any differences clearly noted to enhance comparability.

3. Article 35 of the Exposure Draft of the Climate Guidelines sets out the relevant disclosure requirements for emissions from financing, is there a need to standardize the provisions on emissions from financing in the Guidelines on the application of the Climate Guidelines to the relevant sectors?

PRI supports disclosure of information about financed emissions, per the approach in IFRS S2, to provide investors with information that is useful to assess the transition risks facing reporting entities. We note the ISSB is consulting on changes to financed emissions reporting requirements, including the exclusion of insurance, investment banking and derivatives. We recommend the MoF aligns requirements with the ISSB's final revisions to ensure a consistent approach across jurisdictions.

4. Other comments and suggestions

Please see the "Key Recommendations" section on pages 3-4.

Additionally, we encourage cross-ministerial coordination when implementing the standard. Cross-ministerial coordination is critical to avoid regulatory fragmentation and ensure consistent implementation.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of MoF further to promote the application of a sustainability disclosure in line with the global baseline in China.

Please send any questions or comments to policy@unpri.org.

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