

# Status and Problems of ESG Information Disclosure in China

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## Abstract

With the "14th Five-Year Plan" and the "Double Carbon" goal, as well as the world's attention to ecological and environmental pollution, the sustainable development of the economy has been widely concerned, and ESG, as an indicator of sustainable development, measures corporate sustainable development, fulfillment of social responsibility and future development of the enterprise in three aspects, i.e., environment (E), social responsibility (S) and corporate governance (G), from a non-financial point of view, so ESG disclosure is extremely important. Based on this, this paper elaborates on the concept of ESG, analyzes the current status of ESG disclosure, and puts forward the existing problems for reference.

## Keywords

ESG; information disclosure; sustainable development

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## 1. Introduction

ESG represents a new concept that seeks to measure a company's ability to grow in the long term, as well as its potential negative impacts, by taking into account three factors: environmental (E), social (S) and corporate governance (G). This concept not only embodies the idea of sustainable development, but also provides an important reference framework in the field of investment and financing. In 2004, the UN Global Compact published 《Who Cares Wins》, which introduced the ESG theory to the global scale for the first time and brought about a significant change to the world economy. In recent years, human ecological problems have continued to deteriorate, and extreme weather has become normalized, strongly affecting the life and survival of human beings. Ecological deterioration is a global phenomenon that is not limited by the degree of development of regions, differences in systems, or national sovereignty, and transcends social strata, and is therefore starting to become a common understanding, and the ESG report will be as important as the financial statements.

Although the development of ESG in China started late, ESG is rapidly emerging thanks to the country's large market size and volume, and the support of policies such as "carbon peak" and "carbon neutral". With the sustainable development policies launched by the Chinese government, ESG information disclosure has gained the attention of governments and all sectors of society around the world. Compared with developed countries, China is in the initial stage in this area, with better development trend, more policy support, increasing relevant research, and gradually improving the theory, but in the process of implementation, there are still challenges such as "quality" and "quantity" (Sun et al., 2023).

## 2. China's ESG Information Disclosure Standards and Rating Methods

## 2.1 Disclosure standards

At present, China has not yet established a comprehensive ESG information disclosure system, and most of the disclosure regulations focus on social responsibility. Unlike the generally accepted international ESG disclosure standards, the reference standards for ESG disclosure for companies in China include 《GB/T36001-2015》, 《CASS-CSR4.0》, 《GSRI-CHINA2.0》, 《Shenzhen Stock Exchange Self-disciplinary Supervision Guidelines for Listed Companies No. 1 Standardized Operation》 (SZSE [2022] No.726), 《Guidelines on self-regulation of listed companies on the Shanghai Stock Exchange No. 1 on standard operation》 (SZSE [2022] No.2) and 《Guidelines on reporting on environment, community and governance》 for the Hong Kong, China, exchange market. At present, China has not yet established a comprehensive ESG system, and the disclosure requirements are mostly for listed companies, state-owned enterprises and other subjects, with the disclosure content focusing on CSR or environmental protection information, and there are problems such as insufficient degree of mandatory information disclosure, too single content of information disclosure, small scope of subjects participating in disclosure, inconsistent format of disclosure content, and lack of independent verification of information disclosure reports. The disclosure requirements are mostly for listed companies, state-owned enterprises and other entities, and the disclosure content focuses on CSR or environmental protection information, with problems such as insufficient degree of mandatory disclosure, overly single content of disclosure, small scope of participating entities, inconsistent format of disclosure content, and lack of independent verification of the disclosure report. Overall, the CASS-CSR Guidelines for the Preparation of CSR Reports in China have been carefully designed to not only improve and comply with the requirements of GRI, but also to align with the international standards of ISO 26000, providing a more comprehensive and rigorous reference basis for Chinese enterprises. As a result of the revisit, we have significantly changed the content in terms of legal compliance, human rights and terminology expression. In particular, on GRI, ISO 26000, and many other related topics, the GRI Standard, ISO 26000, CASS-CSR Guidelines for the Preparation of CSR Reports in China, and the series of national standards on social responsibility all aim to help companies achieve better sustainable development in four dimensions: economic, environmental, social, and governance. These national norms take into account both economic factors and government policies, and cover the main concerns of all business stakeholders. Overall, the GRI standard and the Environmental, Social and Governance Reporting Guidelines have more quantitative indicators, CASS-CSR4.0 has a more comprehensive coverage, and the ISO 26000 standard, GB/T 36001-2015 and GSRI-CHINA2.0 are more general in their descriptions. China's future ESG disclosure standards will gradually take shape and become the basis for ESG governance practices and information disclosure by Chinese enterprises. It will become the methodological basis and action guide for ESG governance practices and information disclosure of Chinese enterprises, the logical basis for ESG investment and evaluation by investment and evaluation organizations, and the decision-making reference for governmental departments in formulating and implementing ESG-related policies and supervision.

## 2.2 Rating methodology

ESG ratings are categorized into A, B and C and seven sub-levels, with AAA and AA corresponding to the leading level, A, BB and BBB corresponding to the average level, and B and CCC corresponding to the lagging level. ESG rating methodology is divided into three steps: establishment of criteria, information collection and scoring. Taking Sung rating as an example, in the establishment of criteria, the three major items of environment, society and governance are subdivided into 10 sub-items, and there are sub-indicators under each item. For example, under the environmental climate change sub-project, there are four assessment indicators: carbon emission, product carbon footprint, environmental impact of financial activities and vulnerability to environmental change. In information collection, rating agencies collect rating-related information through thousands of media resources, and in recent years, some agencies have introduced AI and big data analysis to further improve the accuracy and fairness of ratings. In the scoring process, the rating agency scores each sub-item from 0 to 10, with 0 being the worst and 10 being the best. The weights of each item are weighted and summarized, and the total score obtained is compared with other companies in the same industry to finally obtain the ESG rating of the listed company.

## 3. Status of ESG Information Disclosure in China

Since 2017, the concept of sustainable development and the ESG concept have been widely recognized, which has contributed to the continuous improvement and depth of China's ESG disclosure system.

In 2017, the CSRC released its annual report, which provides a comprehensive framework for ESG disclosure and establishes a solid basis for current laws and regulations.

In 2018, Articles 95 and 96 of the Code of Governance for Listed Companies, as amended by China's Securities Regulatory Commission (SRC), formed the initial framework for ESG disclosure.

In 2020, the SZSE adopted the concept of ESG information for the first time and made comprehensive revisions and improvements to the disclosure of information by listed companies. By September 2023, the number of existing regulatory documents on ESG information disclosure rules exceeded 20, as shown in Table 1. According to the relevant regulations, China's current ESG information disclosure system consists of the administrative and regulatory rules of the SFC and the self-regulatory rules of the Exchange.

Table 1 current regulatory documents relating to ESG Disclosure Rules (as of September 2023)

Regulatory authorities	The canonical file name
China Securities Regulatory Commission	Guidelines for the content and format of corporate information disclosure of publicly issued securities No. 2—The content and format of the annual report Guidelines for the content and format of corporate information disclosure of publicly issued securities No. 3—The content and format of the semi-annual report Guidelines for the content and format of corporate information disclosure of publicly issued securities No. 53—Annual Report of listed companies of Beijing Stock Exchange Guidelines for the content and format of corporate information disclosure of publicly issued securities No. 54—Interim report of listed companies of Beijing Stock Exchange Guidelines for the content and format of corporate information disclosure of publicly issued securities No. 57—Prospectus Guidelines for the management of investor relations in listed companies Non-listed public company information disclosure content and format guidelines No. 9—Annual Report of innovation layer listed company Non-listed public company information disclosure content and format guidelines No. 15—Innovation layer listed company interim report Non-listed public company information disclosure content and format guidelines No. 16—Basic layer listing company interim report Corporate governance guidelines for listed companies
Shenzhen Stock Exchange	Stock listing rules Rules for the listing of shares on the Growth Enterprise Market Guidelines on self-regulation of listed companies No. 1—Standard operation of the main board listed companies Guidelines on self-regulation of listed companies No. 2—Second Board listed companies standardized operation Guidelines on self-regulation of listed companies No. 11—Information Disclosure Assessment Self-regulatory guidelines for listed companies No. 1—Business handling GEM self-regulatory guidelines for listed companies No. 1—Business handling
Shanghai Stock Exchange	Stock listing rules The listing rules of SSE STAR MARKET Guidelines on self-regulation of listed companies No. 1—Standard operation Guidelines on self-regulation of listed companies No. 9—Evaluation of information disclosure Self-regulatory guidelines for listed companies No. 2—Business handling Guidance note No. 1 on the application of the self-regulatory rules for bonds—Corporate bonds continue to disclose information Guideline No. 2 on the application of the self-regulatory rules for listed companies on the

### 3.1 Listed Companies Advance ESG Practices and Significantly Improve Development Quality and Efficiency

By December 27, 2023, the questionnaire survey on ESG practices conducted by the China Association of Listed Companies (CALC) showed that listed companies are increasingly aware of ESG and are actively participating in it, making positive contributions to the promotion of ESG development, and many outstanding companies and teams have emerged. According to the latest survey results, more than 80% of the chairmen of listed companies are involved in corporate ESG management, and nearly a quarter of them have also set up or appointed special committees of the board of directors to coordinate and manage ESG work. The company has taken active measures to formulate ESG development strategy, improve ESG management structure, establish ESG governance mechanism with clear authority and responsibility and coordination between top and bottom, and at the same time, optimize the talent pool, internal training and performance appraisal in order to realize the effective operation of the ESG system.

### 3.2 The proportion of ESG disclosures varies significantly by industry

As of June 17, 2023, there are 5,208 A-share listed enterprises in 2022, of which 1,758 enterprises have disclosed ESG-related reports, with a disclosure rate of 33.76%, about 4 percentage points higher than that of 29.98% in 2021, among which, three industries, banking and non-banking finance and steel, have the highest disclosure rates, at 100%, 83.91% and 68.09% respectively, as shown in Fig. 1. Among them, the disclosure rates of banking, non-banking finance and iron and steel industries are the highest, at 100%, 83.91% and 68.09% respectively, as shown in Fig. 1. This is because the Central Bank and the CBIRC have issued guidance, such as the 《 Guidelines on Green Finance for the Banking and Insurance Sector 》 and the 《 Guidelines on Disclosure of Environmental Information by Financial Institutions 》, in order to guide financial institutions to formulate a sound ESG disclosure system to further improve the level of ESG governance in China. ESG governance in China has been further upgraded. In contrast, the machinery, computer and electronics industries are the three industries with the lowest disclosure rates, at 19.9%, 22.9% and 24.8% respectively. Since machinery and other industries are resource-intensive industries, the production and operation process involve high resource consumption and carbon emissions, and under the "double carbon" goal, they do not have a strong willingness to disclose ESG information on their own, resulting in a low disclosure rate ( Sun et al., 2023).

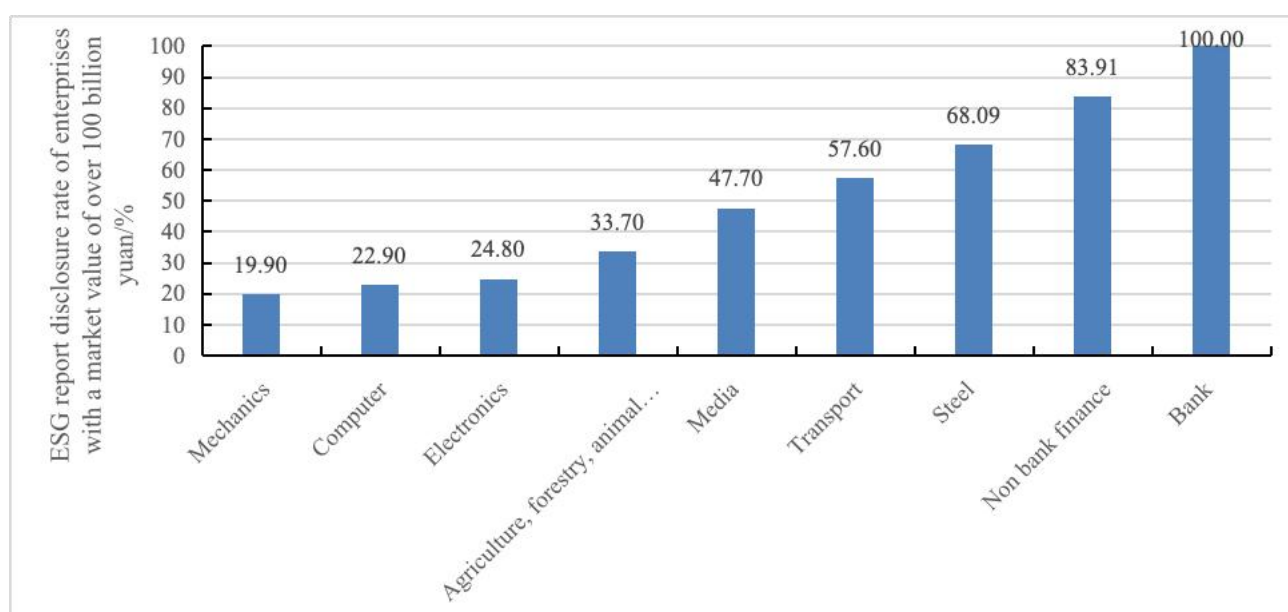


Figure 1 ESG report disclosure rate of A-share listed companies with market capitalization of over 100 billion yuan in 2022

### 3.3 Listed company disclosure rate increases

According to the 《Report on ESG Development of Listed Companies in China (2023)》 close to 1,800 A-share listed companies will publish ESG-related reports individually in 2023, with a disclosure rate of more than 35%, a significant increase compared with last year. Among them, the environmental field and climate governance are still the focus topics. Specifically, environmental management system accounts for 71.47% of listed companies' actions in the environmental field, followed by hazardous emissions and waste, accounting for 67.39% of the total.

## **4. Problems of ESG Information Disclosure in China**

### **4.1 ESG disclosure "greenwashing" by listed companies**

Disclosure of ESG information is considered to be the "second financial statement information" for enterprises to fulfill their responsibilities, but there are some enterprises that "greenwash" their "second financial statements" in order to safeguard their own image, including covering up various risks and providing false reports. However, there are some enterprises that have "greenwashed" their second financial statements in order to protect their image, including more than 10 violations such as covering up various risks and providing false reports. Reasons for "greenwashing":

#### **4.1.1 Poor transparency of data information**

One of the most important tasks of rating agencies in rating ESG information of listed companies is to collect and process the data, but there are loopholes because the data are compiled and published by the companies themselves without third-party auditing and verification. If rating agencies utilize these data for rating purposes, they will be less persuasive. Since the ESG information provided by most enterprises is only textual descriptions and lacks reliable data support, there is no guarantee of the authenticity and accuracy of the ESG information disclosed by enterprises.

#### **4.1.2 High behavioral costs of achieving "true green"**

"True Green" aims to enable enterprises to fulfill their commitments and meet relevant standards and requirements, rather than to do so through concealment or deception. Enterprises have to invest a lot of human and material resources in order to accomplish their activities, especially in achieving the national dual-carbon target, which should not be ignored, in order to reduce carbon emissions, enterprises have to invest a lot of money and manpower, and develop new technologies. This will have a significant impact on businesses. The costs can be significant, but companies must also fulfill their responsibilities to present a good image, so it is inevitable that, in the process of disclosing information, companies will "embellish" the information they disclose.

#### **4.1.3 Serious deficiencies in the company's internal management**

In the past few years, some Chinese enterprises have experienced financial management fraud and deception because they have not established a good internal control system, or they have established some basic internal control measures, but they are only at the formal level, which facilitates deception and leads to a decline in the quality of financial reporting. ESG information has been developing rapidly, but because it has not yet formed a sound norm, standard and strict internal management system, the disclosure process of ESG information still has a high degree of uncertainty, and the possibility of "greenwashing" is very high. ESG information is developing rapidly, but because there are not yet perfect norms, standards and strict internal management systems, the disclosure process of ESG information is still characterized by a high degree of uncertainty, and there is a great possibility of "greenwashing".

#### **4.1.4 Insufficient disclosure of ESG information and lack of third-party validation**

At present, China has not yet required enterprises to fully disclose ESG information. Some enterprises have opted for selective disclosure, providing only some valuable information without fully taking into account all factors. Unlike traditional financial statement audits, ESG information currently lacks mandatory audits and is not professionally attested, either at the national level or by social institutions (CPA audits), which

compromises their reliability and authenticity. The lack of uniform disclosure standards and the lack of standards for assurance bodies to refer to make the assurance process more complex, as well as the differences in standards across industries, making it difficult to form a uniform assurance opinion (Ji,2023).

#### **4.2 Inadequacy of disclosure model and scope of disclosure**

Different disclosure modes of different types of disclosure obligors will, to a certain extent, affect the overall quality of environmental, social and governance information disclosure of listed companies. The mandatory disclosure of major environmental information is still limited to "companies belonging to key polluting enterprises announced by environmental protection departments", while the disclosure of environmental information of other listed companies is mainly in the form of voluntary and encouraging disclosure modes. The disclosure of environmental information of other listed companies mainly adopts voluntary and encouraging disclosure mode. However, there are still some outstanding problems with voluntary disclosure.

Lack of clarity in the scope of disclosure of environmental, social and governance information of listed companies will, to some extent, affect the actual quality of disclosure and reduce the degree of access to information by investors.

The 2018 revised 《Code of Governance for Listed Companies》 in the chapter of "Disclosure and Transparency" generally requires listed companies to disclose information related to the environment, social responsibility and corporate governance in accordance with the law, but does not clearly stipulate the specific content and scope of ESG information disclosure. For example, regarding the disclosure of social responsibility information, the voluntary disclosure of social responsibility information is only stipulated in the context of the fulfillment of the social responsibility of poverty alleviation, while there is a lack of detailed stipulations on the content of other social responsibilities, such as the protection of stakeholders and public welfare. The scope of voluntary disclosure of environmental, social and corporate governance information by listed companies is not clear, and in practice, non-mandatory disclosure obligations can be utilized by the Principled and ambiguous use of rules to reduce the quality of ESG disclosures and circumvent ESG responsibilities.

#### **4.3 Lack of standardized ESG disclosure standards**

Although China has successively promulgated a series of policy documents related to ESG information disclosure, such as 《Governance of Listed Companies》 and 《Measures for Disclosure of Environmental Information (for Trial Implementation)》, most of the policy documents are still in the process of trial implementation or solicitation of opinions, and only put forward limitations on a certain aspect of the environment, society, and corporate governance, and lack of relevant content specifications and disclosure guidelines, and have not integrated the disclosure of corporate ESG information at the global level; the lack of corresponding index system and restrictions, resulting in enterprises in the ESG information disclosure, often tend to use the evaluation system in their own favor, which leads to the comparison of ESG information between different enterprises is difficult to carry out. In the quantitative lack of guidance standards, relevant investors and the public is difficult to make objective and fair judgment on the ESG information disclosed by enterprises based on textual descriptions alone (Han, 2023).

### **5. Conclusion**

The above is the current situation and problems of ESG information disclosure in China. With the increasing attention paid by all sectors of the society to the ecological environmental protection, fulfillment of social responsibility and improvement of governance level of enterprises, as well as China's "Carbon Peak" and "Carbon Neutral" background, ESG information disclosure is bound to be the future development trend. The government leads and optimizes the environment of ESG Information Disclosure, instructs the enterprises to construct the ESG information disclosure system as soon as possible, and the government and enterprises make joint efforts to promote the development of ESG information disclosure in our country.

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