

# ESG

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## White Paper sheds light on China's ESG requirements



Rossana Chu  
Managing Partner



Jacky Chan  
Associate

The recent White Paper on ESG Practices in China summarises national policies related to environment, social and governance (ESG) applicable to the financial market.

Published jointly by China Central Depository & Clearing and the International Capital Market Association on 10 January 2023, it details implementation progress based on widely collected, company-level data. Proposals are also made to further ESG development in China.




### Data details

The statistics are based on a survey of 8,660 companies comprising 5,069 issuers of publicly offered credit bonds in China's domestic bond market, and 4,070 A-share listed companies from 2018 to 2021 (there is some overlapping between the two types).




The proportion of listed companies making ESG disclosures increased from 23.3% in 2018 to 27.9% in 2021, while the increase among bond issuers was from 15.5% to 16.4% in the same period.

Disclosure ratios in different industries vary greatly, and were much higher in the eight energy-intensive industries than other industries. In 2021, the highest ratios of bond issuers engaged in petrochemical (75%), building materials (55%) and aviation (51.9%), listed companies in steel (61.8%), paper and pulp (59.3%) and electricity (54.9%) demonstrated the highest disclosure ratios.

#### The highest ratios of bond issuers engaged in 2021

 petrochemical	75%	 building materials	55%	 aviation	51.9%
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#### The highest ratios of listed companies engaged in 2021

 steel	61.8%	 paper and pulp	59.3%	 electricity	54.9%
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Large companies disclosed ESG much more than small companies. More than half of bond issuers with assets over RMB200 billion (USD29 billion) issued ESG-related reports in 2021, compared to only 15% for issuers with assets under RMB50 billion. The disclosure ratio in 2021 was 93.8% for listed companies with a market value of more than RMB100 billion, while the ratios were 22.7% and 13.4%, respectively, for companies with a market value of RMB5-10 billion and less than RMB5 billion.

Of the 8,660 sample companies, 1,375 had set carbon emissions targets and measures in 2021, compared to 847 in 2018.

In terms of the social aspects, percentages of enterprises organising labour union activities, customer satisfaction surveys, supplier social responsibility assessments and investments in community projects continued to increase from 2018 to 2021.

By the end of 2021, there were more than 160 public ESG-related fund products, with nearly RMB400 billion in assets under management, compared to 65 products with below RMB40 billion in 2018. ESG-themed wealth management products developed rapidly and increased from 12 products in 2019 to 103 products, with outstanding volume of almost RMB100 billion, in 2021.

Since the first green bond was issued in 2016, the cumulative issuing volume of green bonds in China's domestic markets reached RMB1,729 billion by the end of 2021, with an average annual growth rate of nearly 25% over five years.

## Policy categories

China's ESG-related policies have developed rapidly and cover business entities, financial institutions and financial instruments. These policies can be divided into the following categories:

- (1) High-level guidance, which educates business entities and financial institutions on the concept of ESG;
- (2) Incentive mechanisms, which provide preferential policies for business entities and financial institutions that adopt ESG in financing, e.g., incorporating ESG in performance evaluation, tax incentives, interest discounts and local incentive policies; and
- (3) Information disclosure, which aims to improve the transparency of ESG-related practices through improving information disclosure mechanisms.

## Disclosure guidance

Policies and guidance on ESG disclosure requirements were issued by different official bodies including environmental protection bureaus, the China Securities Regulatory Commission, Shanghai and Shenzhen stock exchanges, the People's Bank of China, and the State-owned Assets Supervision and Administration Commission of the State Council.



The key requirements include:

- Bond issuers should disclose information on use of proceeds and environmental impacts;
- State-owned enterprises are expected to fulfil their social responsibilities, improve corporate governance, and issue social responsibility reports or sustainable development reports;
- Financial institutions are encouraged to actively disclose environmental risk management, environmental impacts and carbon emissions generated by business operations;
- Enterprises that may have a greater impact on the environment (e.g., pollutant discharging entities) must disclose information including pollutants, carbon emissions and compliance with ecological environment laws;
- Companies that issue securities in the securities market must disclose information on climate change, environment protection and funded projects; and
- Issuers of carbon neutral bonds have to disclose environmental information on the underlying projects, focusing on environmental impacts, calculation methods and reference points.

# White Paper recommendations

Key short-term recommendations include:

- Developing China's ESG-related standards system for corporate disclosure, financial institution investment and third-party institution evaluation, in combination with current ESG practices domestically and internationally;
- Accelerating the standardisation of ESG information disclosure is also encouraged - based on current ESG disclosure practices by Chinese enterprises - providing a uniform disclosure template to reduce enterprises' cost burden of information disclosure; and
- Fully utilising financial infrastructures in terms of their ESG-related services provided to bond issuers and listed companies, and promoting the use of ESG evaluations and the incorporation of ESG factors in financial institutions' investment decisions.

Key medium and long-term recommendations include:

- Keeping all parties including enterprises, financial institutions, third-party service institutions and scientific research institutions engaged;
- Exploring the establishment of a data co-construction and sharing mechanism;
- Improving China's ESG evaluation system and theories;
- Participating in global ESG governance and promoting the coordinated development of international sustainable finance;
- Facilitating the participation of international investors in China's sustainable finance market; and
- Leveraging the role of international sustainable finance institutions and organisations, and participating in the development of international ESG-related rules and international cooperation.

## KEY CONTACTS



Rossana Chu

Managing Partner

Rossana.Chu@eylaw.com.hk

+852 2629 1768



Jacky Chan

Associate

Jacky-CH.Chan@eylaw.com.hk

+852 2675 2167

### Contact us

**LC Lawyers LLP**

Suite 3106,

31/F One Taikoo Place,

979 King's Road,

Quarry Bay, Hong Kong

Tel: (852) 2629 3200

Fax: (852) 2956 1980

[https://www.eylaw.com.hk/en\\_hk](https://www.eylaw.com.hk/en_hk)

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