Principles for Responsible Investment

POLICY BRIEFING

ASSET OWNERS, ESG AND CARBON NEUTRALITY IN CHINA: CURRENT PRACTICES AND POLICY RECOMMENDATIONS

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To inform this briefing, the following investor group has been consulted: PRI Global Policy Reference Group. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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THE PRINCIPLES FOR RESPONSIBLE INVESTMENT

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 menu 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. More information: www.unpri.org

ABOUT THIS BRIEFING

This briefing outlines the results of research and stakeholder interviews about asset owners' responsible investment practices in China. Following a brief review of the existing policy landscape, it identifies key drivers for responsible investment and reviews some examples of existing responsible investment practices, including how asset owners are responding to China's dual carbon goals. The briefing concludes with recommendations for areas of potential policy reform to support Chinese asset owners' responsible investment activities.

The PRI would like to thank Mercer for assistance with research and analysis for this briefing.

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EXECUTIVE SUMMARY

From climate change to COVID-19, there is now widespread recognition that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios. At the same time, there is growing awareness of the role that investors can play in allocating capital and influencing investee companies to help address the most significant national and global sustainability challenges. Globally, market practice and policy frameworks to support investors in better integrating ESG issues and actively pursuing sustainability outcomes and impacts are developing rapidly.

Indicative of these trends, over 5,300 institutional investors and service providers globally, representing over USD 121 trillion of assets under management (AUM), have signed the Principles for Responsible Investment (PRI). In doing so, they have committed to incorporating ESG issues into investment analysis and decision-making processes. This total includes 138 signatories headquartered in China, of which four are asset owners.

With China's strong commitment to carbon neutrality and rapid development in green finance, responsible investment practices with Chinese characteristics are also developing rapidly. In this respect, the practices of asset owners, such as pension funds and insurance companies, which sit at the top of the investment chain and therefore influence the entire market, are particularly significant.

The research team has reviewed major Chinese asset owners' public disclosures about their sustainable investment practices and conducted targeted interviews with some of the largest asset owners and industry associations. Based on market research and interview feedback, this report highlights key market trends and practices and identifies several key challenges and barriers for future developments, as well as some recommendations for areas of potential policy reform to support Chinese asset owners' responsible investment activities.

KEY FINDINGS

Main drivers of asset owners' responsible investment practices in China include the national strategy and government policies, cross-market ESG disclosure requirements, increasing expectations from stakeholders and opportunities for alpha creation.

Existing responsible investment practices for asset owners in China include the setting of overarching policy, strategy and senior-level oversight; the development of proprietary ESG database and evaluation systems; a focus on fixed income as a priority for insurance companies; the integration of ESG issues into external manager selection; an increasing focus on stewardship and active ownership; and the development of training and market education.

Existing practices of responsible investment related to climate change mitigation and the low-carbon transition in China include explicit references to climate change in sustainable investment policies, the use of climate stress testing, setting portfolio decarbonisation targets and transition plans, engaging with investee companies on climate change and specific climate-related disclosures.

Challenges and barriers for responsible investment and climate transition in China include varying interpretations of current energy/carbon policy, lack of quality ESG and climate data, lack of standards and technical guidance, lack of expertise and lack of clear regulatory guidance on stewardship.

KEY RECOMMENDATIONS

China's regulatory landscape on sustainable investment has been developing, yet gaps still exist compared to leading regulatory practices in other markets. Informed by feedback from the interviewees, this report also outlines policy recommendations that would support and incentivise Chinese asset owners to adopt sustainable, green investment practices and promote the sustainable development of China's real economy. These include:

- Clarifying investors' duties to consider and address material sustainability-related factors, including ESG issues, into investment processes.
- Publishing detailed investment guidance on asset owners' ESG integration for all asset classes.
- Publishing detailed technical guidance for green product classification and labelling for wider asset classes.
- Updating existing evaluation and reporting standards to require investor disclosures regarding their strategies for and performance of sustainability-related factors.

To address the main challenges and barriers encountered by investors while implementing sustainable investments and a climate transition, we also need detailed facilitating policy tools to support investors' actions:

Supporting recommendations: detailed facilitating policy tools

- Introducing a mandatory, standardised corporate ESG disclosure requirement.
- Strengthening regulatory support for stewardship.
- Promoting international collaboration and investor education across markets.

SUSTAINABLE FINANCE IN CHINA: ASSET OWNER MARKET PRACTICE

To understand the responsible investment landscape in China, the research team has reviewed major Chinese asset owners' public disclosures about their responsible investment practices and has conducted targeted interviews with some of the largest asset owners, including a public pension fund, two sovereign wealth funds and four insurance asset management companies, which represent about RMB 24 trillion (USD 3.3 trillion) AUM in total as of December 2022. Interviews with two industry associations and one energy exchange were also conducted to supplement findings from a macro-industry viewpoint.

WHAT ARE THE MAIN DRIVERS OF ASSET OWNERS' RESPONSIBLE INVESTMENT PRACTICES IN CHINA?

With the rising development of green finance and ESG topics in China and globally, asset owners have begun to realise that responsible investment is essential to their own operations. Given their large market shares and mostly government-owned backgrounds, aligning with the carbon-neutral national strategy is the biggest driver for asset owners' responsible investment considerations, followed by cross-market disclosure requirements, stakeholder expectations and opportunities for alpha generation in the long term.

- **National strategy and government policies:** According to interviewees, China's 30–60 carbon neutrality national strategy and the regulatory trends towards achieving this national strategy are the most important driving forces for Chinese asset owners' sustainable investment practices. Chinese asset owners are responding to those policy drivers by aligning their capital to fuel the high-quality development of the real economy and the promotion of sustainable economic development.
- **Cross-market ESG disclosure requirements:** Most leading public Chinese insurance companies are dual or tri-listed companies and are therefore subject to specific ESG reporting requirements imposed by foreign stock exchanges. For example, China Pacific Insurance Company (CPIC), listed in Shanghai, Hong Kong and London, is integrating multiple reporting requirements and standards, including the Global Reporting Initiative (GRI), Sustainable Development Goals (SDGs), the 14th Five-Year Plan and reporting rules from different stock exchanges, into their internal decision-making process. Emerging developments in ESG reporting across global markets bring more disclosure responsibilities for asset owners in China. The Green Finance Guidelines for the Banking and Insurance Industry issued by China Banking and Insurance Regulatory Commission (CBIRC) in June 2022 also clarify key principles and provide solid guidance relevant to the integration of ESG concepts, including information disclosures, in this area.
- **Stakeholder expectations:** While client/beneficiary expectations on sustainable investment are still developing in the domestic market, expectations from foreign clients have provided a powerful push as China further opens to the global market. Insurance asset management

companies are increasingly faced with sustainable investment criteria in trustees and clients' manager selection and monitoring processes, and this has driven the quick adoption of sustainable investment practices in order to stay competitive. Several domestic leading insurance asset management companies, such as Ping An, Taikang Life Insurance Company (Taikang) and CPIC, have signed the PRI to show the integration of ESG issues into their strategies. As expressed by interviewees, this has effectively become a way to differentiate themselves from peers and has attracted investors and clients from around the world.

- **Alpha creation:** Although the correlation between sustainable investment and alpha generation has been less widely acknowledged in the Chinese market, many investors have recognised the possibility for ESG factors to serve as a source of alpha in the Chinese market[1]. As ESG data analysis and back-testing have improved in recent years, PRI research also showed that both best-in-class and tilting strategies using ESG scores could deliver improved risk-adjusted returns – more so in China than in other emerging markets[2]. By integrating ESG considerations into traditional financial analysis, investors are able to understand investee companies' performance more comprehensively and to better identify opportunities for financial outperformance, especially for the medium to long term. This is especially important for intergenerational investments like sovereign wealth funds and pension funds, for which stable and long-term protection of returns is crucial.

HKEx Climate-related Disclosure Requirements

Hong Kong Stock Exchange (HKEx) published guidance on climate disclosure to facilitate Task Force on Climate-related Financial Disclosures (TCFD)-aligned reporting in November 2021 and was consulting on updated reporting requirements on climate disclosure given the development of the new global sustainability reporting standards developed by the International Sustainability Standards Board (ISSB)[3]. To integrate the expected ISSB Adoption Guide, HKEx decided to postpone the implementation date of the Listing Rules amendments to 1 January 2025 to allow issuers more time to familiarise themselves with the new climate-related disclosure requirements[4].

[1] ESG and Alpha in China, PRI, https://www.unpri.org/policy/esg-and-alpha-in-china/5593.article
[2] ESG and Alpha in China, PRI, https://www.unpri.org/policy/esg-and-alpha-in-china/5593.article
[3] HKEX Paper on ESG, https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/April-2023-Climate-related-Disclosures/Consultation-Paper/cp202304.pdf
[4] Update on Consultation on Enhancement of Climate Disclosures under ESG Framework, HKEX, https://www.hkex.com.hk/News/Regulatory-Announcements/2023/231103news?sc_lang=en

WHAT ARE LEADING CHINESE ASSET OWNERS DOING IN RESPONSIBLE INVESTMENT?

Responsible investment is still at a nascent stage for most Chinese asset owners. However, in our research, we found that leading players already have implemented some relevant policies, strategies and practices regarding data collection, asset allocation and active ownership. They are also exploring integrating responsible investment consideration while looking for external managers. Finally, various training and market education efforts have been undertaken by market stakeholders.

- **Overarching policy, strategy and senior-level oversight:** Leading asset owners are publishing overarching sustainable investment policies for stakeholders bilingually and via multiple channels. Asset owners with multiple investment entities within the group typically ensure such policy includes succinct guiding principles that can be consistently applied across different subsidiaries and that would effectively serve as the basis for more detailed sustainable investment handbooks specific for each subsidiary.

  For example, the China Investment Corporation (CIC) published its Sustainable Investment Policy in 2021 in alignment with the national carbon neutrality strategy[5]. The policy states that, as a responsible national sovereign wealth fund, the company will integrate ESG factors throughout the entire investment process, continuously improve its sustainable investment practices and ensure firm establishment and conscious exercise of sustainable investment practice.

  Another example comes from the National Council for Social Security Fund (NCSSF). As the manager of the reserve of funds for China's social security system, the Council is establishing a sustainable investment management system that meets both the Fund's long-term value and international standards. In the National Council for Social Security Fund Industrial Investment Guidelines, the Council established goals to increase investment in ESG-themed funds and projects and to incorporate ESG factors into the due diligence and evaluation system of industrial investment. In addition, the guidelines aim to increase the quality of invested companies through practices of active shareholderism[6].

  The implementation of such policies and strategies receives senior-level oversight within institutions. Apart from the most common involvement of board members and senior management teams, Taikang has developed a top-down responsible investment governance structure that ensures oversight of practices for all insurance subsidiaries and investment management subsidiaries[7].

- **Proprietary ESG database and evaluation system:** An ESG evaluation system is the basis of sustainable investment. A few pioneering Chinese asset owners are showing ambitions to

[5] China Investment Corporation, http://www.china-inv.cn/china_inv/Media/2021-11/1002006/files/2549fd339cf54e159d8fc7e335f0d349.pdf
[6] NCCSF, 《全国社会保障基金理事会实业投资指引》, http://www.ssf.gov.cn/portal/tzyy/webinfo/2022/09/1665925793588195.htm
[7] 泰康保险集团负责任投资政策声明, https://www.taikang.com/esg/pdf/%E6%B3%B0%E5%BA%B7%E4%BF%9D%E9%99%A9%E9%9B%86%E5%9B%A2%E8%B4%9F%E8%B4%A3%E4%BB%BB%E6%8A%95%E8%B5%84%E6%94%BF%E7%AD%96%E5%A3%B0%E6%98%8E.pdf

establish their own proprietary ESG database and evaluation systems to overcome the obvious challenges of data scarcity in China and the difficulties of comparing different ESG-rating agencies. Not all Chinese investors begin with a large-scale, self-developed database; instead, many may start by integrating third-party ESG data or ratings during their own investment research or by implementing a proprietary evaluation methodology that considers only a handful of ESG topics deemed most material to financial decisions. The largest Chinese sovereign wealth funds and public pensions entrust their managers to conduct ESG evaluation.

Taikang is collaborating with the China Central Depository & Clearing Co., Ltd. (ChinaBond), to develop its own ESG rating methodology and database, which in time can be used to analyse its fixed income investments, which account for 70% of Taikang's total investments. Ping An collaborated with Xinhua News Agency's China Economic Information Service to launch an ESG evaluation system for enterprises and investors.

- **Fixed income as a priority for insurance companies:** Leading insurance companies are already researching ESG factors that are most material to investment decision-making: those that act in parallel to traditional financial metrics. Fixed income accounts for about 70% of the leading insurance companies' asset allocation. Extra effort is put into research on local fixed-income assets and on the complexity of non-standard bonds such as urban investment bonds. Similar to equities, ESG incorporation strategies like integration, screening and thematic approaches can be applied to fixed income. With rapidly growing green bond issuance globally (totalling over USD 600 billion in 2021), China has grown to be the fourth-largest green bond issuer in the world, with USD 22 billion new green bond issuance in 1H21[8]. As such, some insurance companies, like Taikang and CPIC, have placed a specific focus on these assets. The PRI also has published "An introduction to responsible investment: fixed income" to provide useful insights[9]. When it comes to screening, asset owners are more likely to apply negative screening to the majority of their fixed income assets than listed equity assets.

- **Integration of ESG factors in external manager selection:** It is becoming more common for Chinese asset owners to incorporate sustainable investment considerations in the external manager selection process. The public pension and sovereign wealth funds lead by example in this area. For instance, the NCSSF has started to select overseas developed markets to pilot ESG investment strategies. In August 2020, the NCSSF issued the "Announcement of the National Social Security Fund Council on the Selection and Appointment of Overseas Investment Managers" and selected a global responsible investment active equity product. Going forward, domestic social security fund investment managers will also be gradually required to apply ESG investment concepts and to better adhere to the philosophy of long-

[8] China after the US, Germany and France, according to Climate Bond Initiative.
[9] An introduction to responsible investment: fixed income , PRI, https://www.unpri.org/introductory-guides-to-responsible-investment/an-introduction-to-responsible-investment-fixed-income/4986.article

term value creation[10]. More recently, in November 2022, the NCSSF extended the scope for an ESG mandate to their local sustainable investment product. The Fund is currently hiring local investment managers.

- **Stewardship and active ownership:** Of multiple ESG integration approaches, stewardship has historically not received strong attention from Chinese asset owners. Only in recent years have Chinese institutional investors begun to understand their considerable influence in supporting effective corporate governance, promoting sustainable practices and driving or supporting decarbonisation strategies. They are now starting to consider stewardship, not just as a form of risk management, but also as a method to achieve measurable sustainable outcomes. Some have developed internal resources and capabilities to engage with investee companies, appointing stewardship service providers to support the work or establishing engagement policy or strategy that represents the institutions' concerns about ESG topics.

  As direct engagement with companies could be resource- and time-consuming, it poses a challenge to many asset owners in China. To this end, Ping An, as the leading example, has in place a Post-investment Management Centre to coordinate a list of core holdings to focus engagements on those that are potentially most material to its Group as a whole. When the group familiarises itself with engagement practices, standardised templates could be developed around specific topics for routine communication with investee companies and documentation to further improve the efficiency and effectiveness of the dialogues. Another example, Taikang, applies engagement to non-standard bonds. For these bonds, the investment teams need to conduct an ESG survey with the investee company for their records and for post-investment management.

- **Training and market education:** Finally, there have been ongoing training and market education efforts with scholars and professionals from external institutions in China and abroad to permit asset owners to learn the best sustainable investment practices. Organizations like the Insurance Asset Management Association of China (IAMAC) have been actively exploring opportunities to organise training courses on sustainable investment, both offline and online, to deal with geographic limitations and COVID-19 constraints.

IAMAC Responsible Investment (ESG) Professional Committee[11]

On 28 October 2021, the Responsible Investment (ESG) Professional Committee of the IAMAC was formally established. The Committee aims to gather insights through research, communications and visits; liaise with regulators to formulate relevant policies and institutional rules; improve industry ESG investment and risk management abilities and thereby promote high-quality and sustainable development of the insurance asset management industry.

[10] https://finance.eastmoney.com/a/202201062237488015.html
[11] https://www.iamac.org.cn/xhgz/202111/t20211101_7522.html

WHAT ARE ASSET OWNERS' PRACTICES OF RESPONSBILE INVESTMENT RELATED TO CLIMATE CHANGE MITIGATION AND LOW-CARBON TRANSITION?

Given the top-down policy signal on carbon neutrality, Chinese asset owners are focusing on the topics of climate change and low-carbon transition and have begun to implement practices that are in line with their global peers.

Referencing Climate Change in Sustainable Investment Policy: In order to align with China's national carbon peak and neutrality goal, more institutions have released policies on specific decarbonisation targets and approaches to addressing climate change.

- **Climate stress testing:** To fully understand climate change's risks and impacts on the investment portfolio, leading asset owners need to conduct climate stress testing. However, this is a very new topic to most Chinese market players, and many have expressed difficulties in finding a standardised way to perform the analysis and are expecting clear and detailed guidelines or frameworks from policymakers or industry bodies that will aid in implementation.
- **Portfolio decarbonisation targets and transition plans:** Mainly driven by China's national carbon neutrality goal, a limited number of asset owners are in the process of setting decarbonisation targets and transition plans at the portfolio level. Transition planning involves calculating an emissions baseline with the help of academic experts or service providers, outlining the time horizon and pace for decarbonising and planning actions to optimise asset allocation or strategy design and portfolio management.
- **Engaging on climate change**: Given the limited engagement capacity among Chinese asset owners, very little engagement is conducted specifically around climate change and directly by asset owners. Ping An was the first Chinese asset owner to sign up for Climate Action 100+ in December 2019 and, until now, is the only Chinese asset owner among the 600 participating signatories globally[12].
- **Climate-related disclosures:** Chinese asset owners are also starting to acknowledge disclosures regarding climate risk management, mostly with reference to the recommendations from the TCFD. Although currently only large institutions have qualified talent and sufficient resources to track and report on climate-related performance, increasing regulations and market expectations are expected to drive more complete and high-quality disclosures in this area.

[12] ClimateAction100+ website: https://www.climateaction100.org/whos-involved/investors/?investor_topic=china

WHAT ARE THE CHALLENGES AND BARRIERS TO RESPONSIBLE INVESTMENT AND CLIMATE TRANSITION IN CHINA?

Leading asset owners in China have begun exploring and implementing their responsible investment philosophy. However, they also experience uncertainties and difficulties in implementation. Several key issues were identified as challenges or barriers for Chinese asset owners in relation to integrating responsible investment and climate transition practices into their activities:

- **Varying interpretation of current energy/carbon policy:** China's policy signals on fossil fuels are mixed, so asset owners experience some obstacles to setting clear and committed goals and timelines toward net zero as part of their strategies. China's domestic coal power programme is still expanding, and clean coal was still considered a "green industry" not long ago before its recent removal from the Green Bond Endorsed Project Catalogue (2021 version). Given these mixed signals and the continued reliance on fossil fuels for China's economic development, there is still debate over the long-term investment forecast of coal investments among Chinese asset owners.
- **Lack of quality ESG and climate data:** Due to the absence of mandatory, standardised corporate ESG disclosure rules covering all companies in China (note this area is starting to change with the latest consultations and new rules from the China Securities Regulatory Commission (CSRC) and Ministry of Ecology and Environment (MEE)), corporate ESG information used to come in various forms of incomparable reports with "more qualitative description, few quantitative indicators, more positive reports, and few negative problems", as discussed in the China ESG Development White Paper 2021[13]. Unaudited and incomparable – if not unavailable – data lowered investors' confidence in making ESG-informed decisions.
- **Lack of standards and technical guidance:** Existing technical studies and guidance introduced into the market are primarily focused on applications in the banking sector, while there are gaps in the investment space. Asset owners face difficulties in identifying industry-consistent methods for analysing portfolio ESG risks and performance, classifying ESG investment opportunities and identifying potentially "greenwashed" products.
- **Lack of expertise:** According to HSBC's Sustainable Finance and Investing Survey 2021, 43% of Chinese institutional investors said the shortage of expertise and qualified staff was the main reason holding them back from greater commitments to sustainable investment. This is more of an issue in China than in Hong Kong (27%) or Singapore (41%)[14]. Although such a challenge will not stop Chinese investors from embracing ESG issues in investment, it may frustrate or slow the pace of progress.
- **Lack of clear regulatory guidance on stewardship:** In the Chinese cultural context, companies are not accustomed to having institutional investors participating in or influencing their governance, management approaches or business operations. Especially for sovereign wealth funds like CIC, stewardship activities may be viewed by companies as government interference. Despite good intentions, investors might not find their stewardship activities effective or welcomed.

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[13] Caixin Insight, China ESG 30 Forum, <China ESG Development White Paper 2021>
[14] HSBC Sustainable Financing and Investing Survey – Asia Report, September 2021

POLICY RECOMMENDATIONS

China's regulatory landscape for sustainable investment has been developing, yet gaps still exist compared to leading regulatory practices in other markets. Informed by feedback from interviewees, this section outlines policy recommendations that would support and incentivise Chinese asset owners to adopt sustainable, green investment practices and would promote the sustainable development of China's real economy.

Key recommendations: regulation of ESG incorporation and disclosures for asset owners in China

- Clarifying investors' duties to consider and address material sustainability-related factors, including ESG issues, into investment processes and to exercise stewardship.
- Publishing detailed investment guidance on asset owners' ESG integration for all asset classes.
- Publishing detailed technical guidance on green product classification and labelling for wider asset classes.
- Updating existing evaluation and reporting standards to require investor disclosures regarding their strategies for and performance of sustainability-related factors.

To address the main challenges and barriers encountered by investors while implementing sustainable investments and a climate transition, we also need detailed facilitating policy tools to support investors' actions:

Supporting recommendations: detailed facilitating policy tools

- Introducing a mandatory, standardised corporate ESG disclosure requirement.
- Strengthening regulatory support for stewardship.
- Promoting international collaboration and investor education across markets.

KEY RECOMMENDATIONS: REGULATION OF ESG INCORPORATION AND DISCLOSURES FOR ASSET OWNERS

- **Clarifying investors' duties to consider and address material sustainability-related factors, including ESG issues, into investment processes and to exercise stewardship.**

  Relevant regulatory bodies (e.g. the Ministry of Human Resources and Social Security of China (MOHRSS) and Ministry of Finance (MOF)) and the National Financial Regulatory Administration (NFRA) could publish regulations for pension funds and insurers, respectively, to ensure material ESG issues are systematically and explicitly integrated into their investment decision-making practices. Such regulation would help align asset owners' duties with the national strategy and wider economic development policies and distil expectations for pension trustees and their investment managers.

In June 2022, CBIRC issued the Green Finance Guidelines for Banking and Insurance Sectors[15], which require banking and insurance institutions to identify and address ESG risks during operation and improve their own ESG performance. The guidelines include high-level ESG requirements in governance, policy and strategy, investment decision-making, internal management and disclosure, and supervision, which established a good basis for ESG investor regulation in China. Such overarching requirements are also needed for non-insurance asset owners to clarify their roles and duties when facing ESG issues.

- **Publishing detailed technical guidance on asset owners' ESG integration for all asset classes.**

  Interviewees expressed strong interest in technical guidance and standardised methodologies for ESG integration, risk management, portfolio climate stress-testing and carbon accounting. The CSRC and industry associations, such as the Asset Management Association of China (AMAC) and IAMAC, could publish sustainable investment guidance that articulates how institutional investors and investment managers should systematically integrate material ESG issues into their analyses and decision-making practices. Guidance focusing on listed equities and fixed income would be most helpful, as these are the main class of assets allocated by sovereign wealth funds, pensions and insurers.

- **Publishing detailed technical guidance on green product classification and labelling for wider asset classes.**

  To direct capital towards sustainable and green finance products and ensure the integrity of those products, regulators could standardise taxonomies for green finance and ESG integration. A similar approach to the classification of green "projects" through the unification of the Green Bond Endorsed Project Catalogue (2021 version) should be adopted when designing green and sustainable labelling for investment products.

  Interviewees expressed appreciation for the EU's Sustainable Finance Disclosures Regulation (SFDR). Considering that sustainable investment in China is still developing, existing products are mainly screening- and thematic-based, without comprehensive ESG integration. Providing a consistent set of definitions and classification systems for ESG products, as well as a disclosure methodology, would enhance transparency around the products and could avoid possible "greenwashing" of products.

- **Updating existing evaluation and reporting standards to require investor disclosures regarding their strategies for and performance of sustainability-related factors.**

  Relevant regulatory bodies could also require pension funds and insurers to report on how they implement these requirements, similar to the requirement for UK pension schemes to publish an "implementation statement" on ESG factors. Just across the border in Hong Kong, the Mandatory Provident Fund Authority – which is in charge of supervising the provision of

[15] Green Finance Guidelines for Banking and Insurance Sectors, CBIRC: http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1054663&itemId=928

MPF schemes – has introduced a set of sustainable investing principles and requirements for trustees to report them at least annually. Reporting requirements could also provide more detailed guidance for asset owners to use to evaluate relevant performance.

Chinese regulations for insurance asset management companies have begun to address ESG issues in reporting. In the Interim Measures for Regulatory Rating of Insurance Asset Management Companies issued by the CBIRC, the regulator first includes ESG-related topics in the rating mechanisms for insurance asset management companies. The scoring system evaluates such companies on topics including corporate governance, internal control and management quality. In addition to the main rating components, additional credits are allocated to institutions that engage in green/ESG investment[16]. However, the market still needs more direct requirements for insurance companies' own ESG performance, as well as requirements for a wider range of asset owners.

SUPPORTING RECOMMENDATIONS

The above key recommendations outline a basis for enhancing the policy environment for asset owners' responsible investment considerations in China. However, to successfully implement those considerations, investors also need more detailed regulations to help them obtain the data they need, guide their active ownership activities and work collaboratively. Regulatory support for corporate disclosure, stewardship and international collaboration is a key tool to ensure effective implementation.

- **Introducing a mandatory, standardised corporate ESG disclosure requirement.**

  Consistent, reliable and comparable corporate ESG data is the foundation for ESG integration in investment decisions but is currently lacking in China, as noted by many interviewees. The CSRC and stock exchanges (Shanghai/Shenzhen/Beijing) should issue mandatory, standardised reporting requirements for *all* companies to disclose performance of financially material ESG factors as part of their listing requirements. These requirements should align with global standards, including specific and well-defined indicators; include disclosure of climate-related targets and quantitative measures, in line with the TCFD recommendations; and follow the latest developments of IFRS ISSB.

  The CSRC and stock exchanges should also coordinate with other ministries and financial regulators to create a consistent reporting framework across corporate and financial institutions. This includes working with the MEE to unify domestic environmental disclosure standards and to extend the scope of reporting institutions to cover all large companies, listed companies and debt issuers.

- **Strengthening regulatory support for stewardship.**

  Financial regulators, particularly the NFRA, MOF and MOHRSS, may consider clarifying that asset owners, such as insurance companies and public and private pension schemes, should

[16] Interim Measures for Regulatory Rating of Insurance Asset Management Companies, CBIRC: http://www.cbirc.gov.cn/cn/view/pages/govermentDetail.html?docId=958449&itemId=879&generaltype=1

fulfil their statutory and contractual obligations to beneficiaries by managing assets, including the investor rights (such as voting rights) associated with those assets. If assets are managed externally by asset managers who hold exclusive voting rights, asset owners remain responsible and accountable to their beneficiaries, who must be confident that investor rights, including voting rights, are being managed in their best interests. In this case, financial regulators may consider requiring asset owners to ensure this through the careful selection and monitoring of asset managers and to disclose to their beneficiaries or the general public any policies and procedures established for this purpose and the outcomes achieved[17].

- **Promoting international collaboration and investor education across markets.**

  To bridge the current gaps in professional knowledge, industrial associations, including the IAMAC and AMAC, should continue to promote ESG issues in investor education and should support the development of appropriate professional education, tools, training and certification standards for the investment industry. They should also collaborate with leading industry associations in this area to provide insights on the best local and global industry practices. Relevant to this end, the PRI Academy was established as the education arm of the PRI and provides practical and applied online responsible investment training and has educated over 12,000 investment professionals since 2014. In addition, the CFA Institute's ESG Certificate is quickly becoming a much-prized certification in the competition for ESG talent.

[17] Unlocking the Potential of Shareholder Voting in China, PRI, https://www.unpri.org/stewardship-in-china/policy-briefing-unlocking-the-potential-of-shareholder-voting-in-china/11411.article