

# PRI RESPONSE

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## MINISTRY OF FINANCE CORPORATE SUSTAINABILITY DISCLOSURE STANDARDS -- BASIC STANDARDS

June 2024

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**United Nations**  
Global Compact

# 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. The PRI welcomes the opportunity to respond to the Ministry of Finance (MoF) consultation on its Corporate Sustainability Disclosure Standards – Basic Standards (Basic Standards).

# ABOUT THIS CONSULTATION

The establishment of the International Sustainability Standards Board (ISSB) and the launch of its first two standards (IFRS S1 and IFRS S2) respond to the need for a global baseline of sustainability reporting. To address this need and meet the national goals of green and high-quality development, the MoF together with nine other relevant ministries have been working to develop and promote a comprehensive corporate sustainability reporting standard, which is in line with global standards and addresses Chinese market characteristics.

The MoF issued the Basic Standards for [consultation](#) on May 7<sup>th</sup> 2024. The MoF plans to develop a unified sustainability disclosure framework that consists of the Basic Standards, Detailed Standards, and Implementation Guidelines. It aims to launch the Basic Standards and Climate-related Standards by 2027, followed by detailed implementation guidelines in 2030. The Basic Standards aim to generally align with the IFRS S1 in terms of characteristics of data quality, core content, and relevant disclosure requirements to further support the alignment of corporate sustainability reporting across jurisdictions.

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# KEY RECOMMENDATIONS

The PRI welcomes the issuance of the Basic Standards, their alignment with IFRS S1, and MoF's effort to promote the adoption of ISSB standards in China. In addition, MoF's plan to establish a unified corporate sustainability reporting framework will bring about necessary improvements to sustainability-related reporting in China.

Signatories regularly report to the PRI that the lack of comparable and more generally decision-useful corporate sustainability data<sup>1</sup> is a substantial barrier to their responsible investment practice. The planned establishment of a unified corporate sustainability reporting framework is a significant step – it will help to provide investors with the data they need (and currently lack) to inform their investment decision-making processes.

## WHY INVESTORS NEED GREATER ALIGNMENT WITH THE ISSB STANDARDS

Decision-useful corporate sustainability reporting is a prerequisite for responsible investment. Investors currently lack such information across their portfolios, including the most basic sustainability-related data.<sup>2</sup> This makes it more difficult for them to allocate capital efficiently, accounting for sustainability-related financial risks and opportunities and addressing sustainability goals.

The ISSB Standards are an opportunity to provide investors with the comparable, high-quality sustainability information they need for decision-making. Crucially, they are underpinned by the structure and concepts of accounting standards from the International Accounting Standards Board (IASB), build on the framework established by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) – and other well-established voluntary sustainability reporting initiatives – and have been endorsed by the International Organization of Securities Commissions (IOSCO).<sup>3</sup>

National and regional policymakers and standard setters have an essential role to play through the introduction of sustainability disclosure requirements aligned with the ISSB standards. The PRI is a strong advocate for the adoption of both ISSB standards by governments around the world, and recently published a [call to action](#) for jurisdictions to commit to ISSB adoption. 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 120 investors, companies, stock exchanges and other organisations.

Over 20 jurisdictions have now adopted the ISSB Standards or are currently taking steps to do so. Aligning China's reporting requirements to international standards to the fullest extent possible can help

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<sup>1</sup> 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.

<sup>2</sup> For example, FTSE Russell found that of the 4,000 large and mid-size constituents in the FTSE All World index, only 58% disclose both Scope 1 and 2 carbon emissions. Source – [Mind the gaps: Clarifying corporate carbon](#) (2022).

<sup>3</sup> IOSCO's [endorsement](#) recommends that its 130 member jurisdictions consider ways in which they might adopt, apply or otherwise be informed by the standards.

to provide investors with the comparable, high-quality information they need to consider companies' sustainability-related risks and opportunities.

## ADDITIONS TO THE BASELINE – REPORTING ON IMPACTS AND DEPENDENCIES

All investors need sustainability-related information to inform their assessment of companies' risks and opportunities, but investors also increasingly need information to assess and interpret a company's impacts and their alignment with sustainability goals and thresholds. While the ISSB Standards are expected to enable disclosure of some of this information, it is unlikely they will provide investors with all the information they need on a company's impacts and dependencies.

In this context, and in line with the IFRS Foundation's "building blocks" approach, we welcome the MoF's intention to adopt the ISSB standards while eventually supplementing this with reporting requirements that capture further information on companies' sustainability impacts.

### KEY RECOMMENDATIONS:

- **Aim for the adoption of the Basic Standards and climate-related disclosure standards as soon as practicable** to provide investors with urgently needed sustainability and climate-related data.
- **Include the IFRS S1 sources of guidance within the Basic Standards**, to help companies effectively identify material issues and related disclosures, and to improve the consistency of reporting.
- **Include or reference the IFRS S1 Application Guidance within the Basic Standards**, to ensure correct and consistent implementation by companies.
- **Ensure that forthcoming impact reporting requirements build on established sustainability initiatives like the European Sustainability Reporting Standards and the TNFD framework**, to ensure interoperability with other jurisdictions and decision-useful information for investors.
- **Require sustainability reporting to be published annually and included as part of general-purpose financial reports**, to improve the timeliness and relevance of disclosures.
- **Clarify the link and interoperability of the planned unified corporate sustainability reporting standards with existing reporting standards that** apply to listed companies and issuers (such as stock exchanges' sustainability disclosure guidelines), and other reporting requirements on environmental or climate aspects. This will provide more clarity and certainties for both the reporting entities, and investors as the information users.
- **Require the disclosure of industry-based metrics, as is done in IFRS S1**, to provide investors with comparable disclosures on material industry-specific risks and opportunities.

## PRI'S PAST POSITIONS ON CORPORATE SUSTAINABILITY-RELATED DISCLOSURE IN CHINA

The PRI has been working on ESG disclosure in China since 2018, and we believe a mandatory and standardised ESG reporting framework would provide the Chinese market with comparable and more generally decision-useful reporting on key ESG issues. The above recommendations broadly align with our previous reports and submissions on corporate sustainability disclosures in mainland China and Hong Kong SAR:

- PRI report: [ESG data in China: recommendations for primary ESG indicators](#) (June 2019)
- PRI policy briefing: [ESG Disclosure in China - Key considerations on policy design](#) (December 2019)
- PRI policy briefing: [ESG disclosure investor survey](#) (September 2020)
- PRI's response to [Consultation on the CSRC Listed Companies Information Disclosure regulation](#) (August 2020)
- PRI's response to [CSRC consultation on the Guidelines on Investor Relations Management of Listed Companies](#) (March 2021)
- PRI's response to [CSRC consultation on periodic reporting rules for listed companies](#) (June 2021)
- PRI's response to [MEE consultation on enterprise environmental disclosure](#) (October 2021)
- PRI report: [Investing for a just transition: Proposals for a just transition disclosure framework in China](#) (August 2022)
- PRI's response to [HKEX consultation paper on enhancement of climate-related disclosures under the ESG framework](#) (July 2023)
- PRI's response to [China stock exchanges' sustainability disclosure guidelines](#) (February 2024)

# DETAILED RECOMMENDATIONS

## AIM FOR THE ADOPTION OF THE BASIC STANDARDS AND CLIMATE-RELATED DISCLOSURE STANDARDS AS SOON AS PRACTICABLE

### **PRI recommendations:**

PRI strongly welcomes the strong level of alignment of the Basic Standards with IFRS S1.

However, we suggest that the MoF consider faster adoption of IFRS S1 and IFRS S2 in its issuance of sustainability and climate disclosure standards, for the following reasons:

- Investors need comparable, high-quality, and timely sustainability and climate-related data to make investment decisions. Regulatory adoption of IFRS S1 and IFRS S2 is needed to elicit this data from companies.
- ISSB Standards build on well-established sustainability reporting initiatives such as the recommendations of the TCFD, enhancing market readiness for adoption.
- Many jurisdictions have already adopted ISSB standards – including Brazil, the EU and Turkey – and many more are in the process of doing so. As such, timely adoption of the ISSB standards is necessary to ensure interoperability and comparability of data for investors.

## INCLUDE THE IFRS S1 “SOURCES OF GUIDANCE” IN THE BASIC STANDARDS

### **PRI recommendation:**

IFRS S1 includes “sources of guidance” that companies should consider when identifying sustainability-related risks and opportunities and what to report about these, and requires disclosures about how companies have used these sources of guidance (c.f. paragraphs 54-59).

We suggest that this is also included within the MoF’s Basic Standards. This 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 would also improve the consistency of reporting for investors.

## INCLUDE OR REFERENCE IFRS S1 APPLICATION GUIDANCE

### **PRI recommendation:**

The Basic Standard does not include the application guidance within Appendix B of IFRS S1. This should be included or at least referenced, as it can help to ensure that companies implement the standard correctly and consistently, and thereby produce information of sufficient quality for investors.

## CLARIFY REPORTING REQUIREMENTS FOR IMPACT-RELATED DISCLOSURE IN THE BASIC STANDARDS.

**Article 20** *Unless otherwise specified in other specific standards, to meet the information needs of primary users, the sustainability information disclosed by an entity shall include the following four core elements:*

- (a) Governance: The governance structure, control measures and procedures the entity uses to manage and oversee sustainability risks and opportunities.*
- (b) Strategy: The planning programming, strategy, and approach the entity uses to manage sustainability risks and opportunities.*
- (c) Risk and Opportunity Management: The processes the entity uses to identify, assess, prioritize, and monitor sustainability risks and opportunities.*
- (d) Metrics and Targets: The metrics the entities uses to measure the performance of managing sustainability risks and opportunities, targets the entity has set and is required to meet by national laws or regulations, and progress towards those targets.*

**Article 26** *To meet the information needs of information users, in addition to this standard, an entity shall disclose material sustainability impact information that is not covered by Articles 20 to Article 25 in accordance with specific standards and application guidance.*

*Sustainability impact information disclosed by an entity shall not obscure the sustainability risks and opportunities information disclosed by the entity.*

### **PRI recommendations:**

PRI welcomes the alignment of the four core elements of the Basic Standards with the four pillars of the ISSB standards.

The PRI also welcomes the adoption of the ISSB definition of materiality, combined with the requirement to report on material sustainability risks, opportunities and impacts. This approach will allow for interoperability and reporting that meets the breadth of investor data needs.

Article 20 applies to all sustainability information an entity shall disclose. According to Article 11, the Basic Standards have defined two types of material sustainability information: sustainability risks and opportunities; and sustainability impacts. Based on the Explanation notes, the four core element framework only applies to information regarding material sustainability risks and opportunities. We suggest the Basic Standards also clarify this in Article 20 and Article 26 to provide clearer guidance and instructions for corporate and information users, and to avoid unnecessary confusion.

For disclosure requirements on impact-related issues in Article 26, we suggest MoF consider setting requirements that build on the European Sustainability Reporting Standards (which themselves build on the GRI Standards) and other voluntary standards (e.g. the TNFD framework) – both in their content and use of a similar four-pillar structure. This would help to ensure interoperability with other jurisdictions and provide investors with the impact-related information they need.

## INCLUDE SUSTAINABILITY-REPORTING AS PART OF GENERAL-PURPOSE FINANCIAL REPORTS

**Article 32** *An entity shall provide the sustainability information required by the Sustainability Disclosure Standards for Business Enterprises as a separate sustainability development report.*

*The sustainability development report shall have a clear structure and language and may be published simultaneously with the financial statements of the entity or to be published by the specific date required by certain regulatory departments. An entity shall publish a sustainability development report by posting it on its official website or in other ways.*

*The information required by this standard may be cross-referenced from other reports issued by an entity (such as related financial statements). If the required information is incorporated by cross-reference, the entity shall disclose the source report of that information.*

### **PRI recommendation:**

We suggest that MoF require sustainability disclosures to be included within general-purpose financial reports, as is required under IFRS S1. Further, investors would benefit from annual sustainability reporting from all companies, which is also required under IFRS S1. These changes would improve the timeliness of reporting and allow investors to consider sustainability information alongside the financial statements to which they relate.

## REQUIRE THE DISCLOSURE OF INDUSTRY-SPECIFIC METRICS

### **PRI recommendation:**

Unlike the ISSB standards, the Basic Standard does not require the disclosure of industry-specific information. While sector-neutral metrics offer a crucial baseline of information, industry-based metrics are an additionally important element of sustainability reporting that enables the disclosure of comparable information on material industry-specific risks. Provisions relating to industry-based metrics in IFRS S1 and S2 enables entities to apply their own materiality assessment, to identify metrics that are relevant and represent their risk exposure and management most appropriately. As such, PRI recommends that ISSB provisions to consider industry-specific metrics are included in the Basic Standard.

*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 the MoF and Chinese regulators further to improve sustainability-related financial disclosure in China.*

*Please send any questions or comments to [policy@unpri.org](mailto:policy@unpri.org).*

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