

# China Stock Exchanges Finalised Mandatory Sustainability Reporting Requirements for Larger Listed Entities



## Introduction:

Approximately two months after the Exposure Drafts (“EDs”) were released, the Shanghai Stock Exchange, Shenzhen Stock Exchange, and Beijing Stock Exchange individually issued the listed companies self-regulatory guidance documents - *Sustainability Report (Trial)* (referred to as the “Guidelines”) on 12 April 2024, effective from 1 May 2024. The Guidelines are formulated by taking into consideration China's national conditions and incorporating valuable insights from international standards. The Guidelines utilise a set of guiding principles and a differentiated approach such as, “shall act”, “shall disclose”, “shall disclose subject to certain conditions”, to provide direction to companies on integrating the concept of sustainable development into their business development strategies and operational management activities. The Guidelines aim to foster continuous enhancements in ecological and environment protection, fulfilment of social responsibilities, improvement in corporate governance. It also seeks to promote sustainable development for both companies and the communities that companies operate in.

## Overview - Guidelines vs EDs:

Compared with the EDs, there are a total of 6 chapters and 63 articles in the Guidelines. The main structure, application of the double materiality approach, and emphasis on companies’ actions in addressing climate change remain unchanged. For example, in “responding to climate change”, disclosures include:

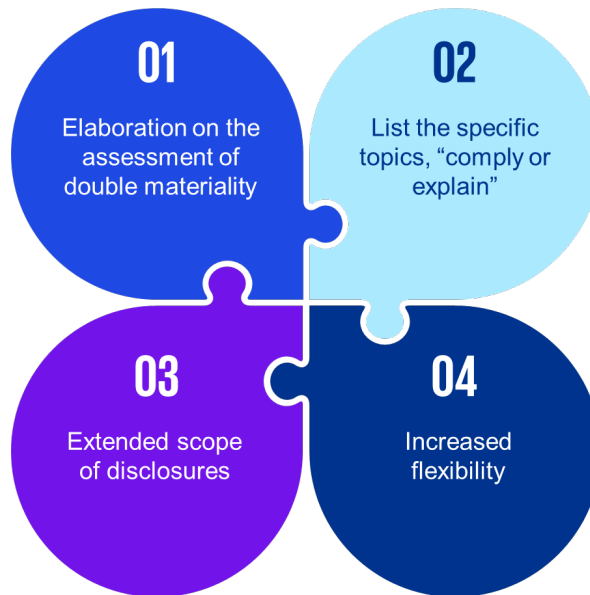
- Scope 1 and 2 greenhouse gas (“GHG”) emissions, and scope 3 emissions data encouraged for entities with the ability to provide such information;
- Relevant information on GHG emission reduction practices, such as participation in various emission reduction mechanisms, emission reduction targets, emission reduction measures (e.g. management measures, capital investment, technology development) alongside the disclosure of progress and effectiveness; and
- Encouraging the use of scenario analysis and other methods to conduct climate adaptability assessments, with the disclosure of key assumptions and processes of how the scenario analysis was performed.

The disclosures around climate change under the Guidelines **are consistent with the objectives of IFRS S2 – *Climate-related Disclosures*, which we see as promoting interoperability between the two sets of requirements.** The Guidelines fully draw on the ISSB Standards as a baseline, and modified for jurisdictional-specific and relevant disclosure requirements. There is also a high level of interoperability with GRI Standards. For report preparers, especially entities listed domestically and overseas at the same time, that would reduce the burden and cost of preparing

sustainability reports. It would also improve comparability with international peer companies, thereby enabling investors and other stakeholders in their decision-making process.

In addition, the Guidelines have provided more guidance in the following areas:

- Elaborated and clarified how the concept of double materiality is applied;
- Specified the extent of disclosure on issues which are financially material or impact material;
- Extended the disclosure content and level on certain topics, and
- Provided more flexibility on certain aspects of application, which are further discussed below.



### 1. Elaboration on the assessment of double materiality

- Clarify the time dimension for assessing materiality over the short, medium and long term;
- Replace “enterprise value” used in EDs for assessing financial materiality with business model, business operations, development strategy, financial position, operating results, cash flow, financing methods and costs. The revised description provides more clarity to entities, aids their understanding of materiality considerations, in order for relevant disclosures to be made accordingly; and
- Clarify that financial materiality is judged from two aspects: the possibility and the degree of financial impact occurring; and impact materiality is judged from three aspects: the scale (i.e. the magnitude of the impact), the range (i.e. the extent of the impact) and irremediability (the difficulty to offset or rectify the harm caused) of the impact.

### 2. List the specific topics, “comply or explain”

- 21 topics such as addressing climate change, pollutant emissions, ecosystem and biodiversity protection, rural revitalization, innovation drive, and employees etc. are listed in the attachment, which is helpful for entities to assure completeness;
- In combination with the text of the Guidelines, the level of disclosure required for different topics are further distinguished, namely “shall disclose”, “shall disclose subject to certain conditions” and “encouraged to disclose”:

Dimension	No.	Topic	Corresponding articles	Disclosure Level			
				Shall disclose	Shall disclose subject to certain conditions	Encouraged to disclose	
Environment	1	Addressing climate change	Articles 21 to 28	√		<p>(1) Encourage entities with the capacity and ability to use scenario analysis and other methods to conduct climate adaptability assessments, disclose key assumptions and analysis processes of scenario analysis etc</p> <p>(2) Encourage entities to employ third-party institutions to verify or assure the company's GHG emissions and other data.</p> <p>(3) Entities are encouraged to provide GHG emissions according to the following categories with respect to the relevant circumstances:</p> <p>(a) Business units or facilities;</p> <p>(b) Country or region; and</p> <p>(c) Type of source (combustion, processing, electricity, heating, refrigeration, steam, etc.).</p> <p>(4) For new technologies and R&amp;D activities, encouraged to explain the impact on the current and future financial position and operating results of the entities, as well as possible uncertainties and risks.</p>	
	2	Pollutant discharge	Article 30		√		
	3	Waste disposal	Article 31			√	
	4	Ecosystem and biodiversity conservation	Article 32			√	

	5	Environmental compliance management	Article 33	√		
	6	Energy utilization	Article 35	√		
	7	Water resources utilization	Article 36	√		
	8	Circular economy	Article 37	√		
Social	9	Rural revitalization	Article 39	√		
	10	Social contribution	Article 40	√		
	11	Innovation driven	Article 42			Encouraging disclosing entities to voluntarily disclose specific information on promoting scientific and technological innovation, strengthening the transformation and application of scientific and technological achievements, and improving technological competitiveness during the reporting period, while not involving national security or national secrets and taking into account the protection of business secrets.
	12	Science and technology ethics	Article 43		√	
	13	Supply chain security	Article 45	√		Encourage entities to disclose actions and measures to strengthen supply chain management and promote sustainable development of supply chain.
	14	Equal treatment of SMEs	Article 46		√	

	15	Safety and quality on products and services	Article 47	√		Entities in sectors such as financial, medical, power, telecommunication, public utilities industries are encouraged to disclose information about the availability of products and services (such as inclusive finance, inclusive medical care, etc.) during the reporting period.
	16	Data security and customer privacy protection	Article 48	√		
	17	Employee	Article 50	√		
Governance related to sustainable development	18	Due diligence	Article 52			Encourage entities to disclose the due diligence on identifying and responding to the negative impacts or risks related to sustainable development in the reporting period in combination with the actual situation
	19	Stakeholder communication	Article 53	√		
	20	Anti commercial bribery and anti-corruption	Article 55	√		
	21	Anti unfair competition	Article 56	√		

- The EDs initially indicated disclosures are required only for topics that are both financially material and have impact materiality. The Guidelines now clarify for topics that are only financially material, they are required to be disclosed in accordance with the core content of the four aspects of “governance, strategy, impact, risk and opportunity management, metrics and targets”. For issues that only have impact materiality, disclosure shall be made in accordance with the relevant provisions of the Guidelines on specific topics; and
- If it is identified that the issues set up in the Guidelines have neither financial materiality nor impact materiality to the company, the reasons shall be fully explained. This is a similar concept to the “comply or explain” clause in the Hong Kong Stock Exchange's ESG Reporting Guide.

### 3. Extended scope of disclosure

Article 8: In order for users to better understand the uncertainties and risks associated with estimates and forward looking information, the Guidelines require reasonable assumptions to be used when making such disclosures and to promptly disclose any material changes. Forward looking information includes GHG emission reduction targets and financial impact to an entity over the short, medium or long term.

Article 24: The following is a new addition “disclosing entities participating in carbon emissions trading shall disclose whether settlement has been completed during the reporting period and whether there are any circumstances requiring rectification or investigation by relevant departments”. This is better aligned with existing requirements such as “Carbon Emissions Trading Management Measures” issued by the Ministry of Ecology and Environment and the “Interim Provisions on Accounting Treatment for Carbon Emissions Trading” issued by the Ministry of Finance.

Article 45: The EDs only state that industrial enterprises shall disclose “strengthening supply chain risk management and ensuring supply chain safety and stability” and has now been expanded to all entities. This reflects the concern from users regarding the stability and sustainable development of Chinese enterprises and the potential vulnerability of enterprises in the global supply chain.

### 4. Increased flexibility

Article 4: In the EDs, the Sustainability Report was proposed to be disclosed together with the annual report, and now is changed to no earlier than the annual report, which to some extent reduces the time and resource pressure on listed companies to prepare sustainability reports.

Article 6: Retrospective adjustments are to be made if there is a change to how data are collected, measured or calculated. Compared to the EDs, the Guidelines now provide a relief from making retrospective adjustments if it is impracticable, with reasons provided why it is impracticable.

Article 12: Compared to the EDs, the Guidelines now allow companies who have established a holistic governance structure and internal systems to manage and oversee sustainability-related impacts, risks, and opportunities, to make consolidated disclosures for the topics specified, without the need to duplicate disclosures for individual topics, which will reduce the repetition of similar information, and also encourage the overall governance on sustainability related matters.

Article 40: The overview of an entity’s contributions to the public and society is not limited to funds invested, outcomes etc. but also includes number of personnel and time allocated, which indicates the inclusiveness of such activities to be carried out by entities of all sizes, profit levels and stages of development.

### Comparison between the Guidelines and other sustainability information disclosure frameworks:

On the same day, the China Association for Public Companies released three comparative analysis reports with ISSB Standards, GRI Standards and US SEC rules. **KPMG China also participated in the review work** (link: [Sustainability Information Disclosure Guidelines Comparison Series \(No. 3\): Listed Companies’ Sustainability Report Guidelines compared with the US SEC climate-related information disclosure rules \(qq.com\)](#) ).

Considering the high level of interoperability between the Guidelines and ISSB Standards and GRI Standards respectively, A+H listed companies subject to the requirements of HKEX ESG Reporting Code (issued 19 April 2024) which is aligned with ISSB Standards, and have adopted GRI Standards, will be well placed to implement the requirements of the Guidelines. With the number of reporting frameworks that companies have to report under, they should develop a comprehensive ESG disclosure manual/guidance e.g. covering data requirements, GHG accounting practices etc, based on their actual circumstances to improve the efficiency and effectiveness in practical operations.

In addition, we would like to draw your attention on the following two points in the Guidelines:

First and foremost, the Guidelines go beyond mere disclosures. They emphasize the importance of taking action in numerous instances. For instance, the Guidelines highlight that disclosing entities shall protect the legitimate rights and interests of employees in accordance with the law. This includes providing employees with healthy and safe working conditions, ensuring timely payment of salaries, and offering social security benefits. Additionally, the Guidelines stress the need to strengthen employee training and establish an effective grievance system. Furthermore, the Guidelines encourage disclosing entities to actively contribute to rural revitalization and social welfare initiatives aligned with their core business. Whilst promoting the sustainable reporting of the economy and society, it is crucial to ensure the company's healthy development and sustained return on investment. The Guidelines also state that appropriate self-regulatory measures or disciplinary sanctions will be implemented if a disclosing entity violates the provisions outlined in the Guidelines.

Secondly, the Guidelines removed the proposed transition period arrangements for the 2025 and 2026 reporting periods. Instead, it now encourages the early adoption of these Guidelines and disclosure of the 2024 Sustainability Report by listed companies in accordance with the Guidelines. More than 1,800 listed companies in the A-share market, including Star 50 companies, Shenzhen Index 100 companies, and companies listed both domestically and overseas, have disclosed relevant reports for the reporting year 2022. Therefore, the implementation of new regulations is imminent.

**KPMG China will continue to publish a series of in-depth articles on WeChat and hold seminars in the near future, to help enterprises understand and make good use of the Guidelines, enhance management through reporting, from reporting to management, jointly promote high-quality development.**

#### **Conclusion:**

As a professional services organisation with a global network, KPMG China has a professional cross-functional expert team that can assist corporate and public sector clients in planning and executing ESG plans to create long-term value. We believe that the publication of the Guidelines will greatly promote China's listed companies to better participate in global economic and trade activities, improve international competitiveness, and promote high-quality development. **Get in touch with KPMG China to explore how we can to work hand in hand with your organisations on this journey of sustainability, working together for better.**

## Related Reading:

[The three stock exchanges release Exposure Drafts on sustainability reporting, marking a milestone in the development of ESG for listed companies \(qq.com\)](#)

[KPMG China highly supports the release of sustainability reporting guidelines by the three stock exchanges and recommends that companies start preparations immediately \(qq.com\)](#)

[Sustainability Report Exposure Draft Series: The Principle of Double Materiality and Its Application \(qq.com\)](#)

[Sustainability Report Exposure Draft Series: KPMG's " Supply Chain Action " program provides compliance guidance for enterprises' sustainable supply chain development \(qq.com\)](#)

[Internal and external cultivation, promote governance through disclosure, and strengthen pollution prevention and ecosystem protection work of listed companies \(qq.com\)](#)

[Sustainability Report Exposure Draft: Topic of Circular Economy \(qq.com\)](#)

## Resource:

1. Shanghai Stock Exchange Self-Regulatory Guidelines for Listed Companies No. 14 - Sustainability Reporting (Trial), [http://www.sse.com.cn/lawandrules/sselawsrules/stocks/mainipo/c/c\\_20240412\\_5737862.shtml](http://www.sse.com.cn/lawandrules/sselawsrules/stocks/mainipo/c/c_20240412_5737862.shtml)
2. Shenzhen Stock Exchange Self-Regulatory Guidelines for Listed Companies No. 17 - Sustainability Reporting (Trial), [https://www.szse.cn/lawrules/rule/stock/supervision/currency/t20240412\\_606839.html](https://www.szse.cn/lawrules/rule/stock/supervision/currency/t20240412_606839.html)
3. Beijing Stock Exchange Guidelines for Continuous Supervision of Listed Companies No. 11 - Sustainability Reporting (Trial), [https://www.bse.cn/cxjq\\_list/200021393.html](https://www.bse.cn/cxjq_list/200021393.html)



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