

30 May 2025

Accounting Regulatory Department
Ministry of Finance
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Subject: Response to the “Sustainability Disclosure Standard for Business Enterprises No. 1 - Climate Standard (Trial) (Exposure Draft)”

Dear Sir or Madam,

We are pleased to have the opportunity to comment on the “Sustainability Disclosure Standard for Business Enterprises No. 1–Climate Standard (Trial) (Exposure Draft)” (“Exposure Draft”), published by the Ministry of Finance and the Ministry of Ecology and Environment on 30 April 2025.

The Asian Corporate Governance Association (ACGA) is a non-profit membership organisation chartered under the laws of Hong Kong and founded in 1999. We conduct research on corporate governance and ESG in 12 markets in Asia-Pacific, and advocate at the regulatory and corporate level across the region to improve standards and practices. Our operations are supported by a network of 100 organisations, of which 80% are institutional investors with global assets under management (AUM) exceeding US\$40 trillion. These investors are also significant participants in China’s capital markets.

High-Level Comments

We support the substantial convergence of the Exposure Draft with IFRS S2. Global investors are looking to jurisdictions in Asia-Pacific to adopt both IFRS S1 and S2 as soon as possible. They increasingly seek reliable, comparable and timely information on companies’ sustainability risks, opportunities, strategies and performance, as well as the potential impact these factors may have on their financial positions. Alignment with ISSB standards will enable international investors to compare the sustainability risks, opportunities and initiatives of Chinese companies with those of their regional and international peers. It would also encourage Chinese companies to ensure data integrity and comprehensiveness through effective board oversight on sustainability reporting, thereby enhancing the quality and rigour of their reporting.

We believe that this Exposure Draft, together with the “Corporate Sustainability Disclosure Standards – Basic Standards (Trial)” released in December 2024, marks an important step towards establishing China’s own ESG disclosure framework – one that is aligned with international standards while accommodating Chinese characteristics.

Specific Comments

Our specific comments are as follows:

Governance

Article 6 states that “enterprises shall disclose information about the governance body(s) or individual(s) responsible for oversight of climate-related risks and opportunities...” However, the term “governance body” (治理机构 zhili jigou) lacks specificity and does not sufficiently emphasise the board’s critical role in overseeing climate-related risks and opportunities. We recommend adding an explanatory note to explicitly identify the

board, a board committee, or an equivalent body as the governance body(s), consistent with the original note in paragraph 6(a) of IFRS S2.

ACGA believes that boards must be fit for purpose to address complex climate issues. In December 2022, ACGA co-published a report with CLSA on climate governance in Asia, titled “Down to Earth: Climate Governance Case Studies in Asia Pacific”, which assessed examples of climate governance at leading Asian companies.¹ We found that climate expertise on boards was generally lacking, with management typically taking the lead. This raises concerns about the value boards contribute to managing climate-related risks and opportunities, as well as their ability to serve as an effective check-and-balance mechanism.

We understand that implementation guidelines will be developed at a later stage for companies in nine industries, including power, steel, coal and automotive. ACGA recommends that guidance on climate governance be provided to companies across all industries. This would encourage meaningful disclosures regarding the “governance processes, controls and procedures” used to manage climate-related risks and opportunities. Some initial questions that companies could consider in this regard include:

- What value does the board add with respect to climate strategy?
- What specific decisions has the board made that management could not have made?
- How is the nomination process being updated to ensure that the board possesses the appropriate skills and competencies?
- What steps will the company take to enhance directors’ understanding of the key physical or transition risks?
- If the board adds climate strategy to the remit of an existing committee, such as the audit or risk committee, how does it ensure that these committees are not overburdened?

Internal Audit

Article 9 encourages companies to utilise internal audit to oversee climate-related risks and opportunities. While we commend this emphasis on internal audit’s role in climate governance, it is equally critical to underscore the reporting line between internal audit and the board. Our CG Watch 2023 survey, in the Listed Companies category, examined internal audit operations, with particular attention to the relationship between the internal audit function and the audit committee. Among the 15 large A-share companies in China we surveyed, only one provided limited information on how its internal audit function interacts with the audit committee. Explicitly incorporating this reporting line into Article 9 would bolster the effectiveness of internal audit and thereby enhance the board’s oversight capabilities in climate governance.

Assurance

Article 9 also encourages companies to seek independent assurance for their climate disclosures. We understand that assurance is still in the early stages of adoption in China. As of the end of April 2025, approximately 200 A-share issuers had their 2024 ESG reports assured, representing 8.1% of 2468 issuers that had disclosed such reports by that time, according to the Shanghai Securities News.² Therefore, the current approach of encouraging, rather than mandating, assurance strikes a reasonable balance between aligning with international best practices and accounting for the diverse levels of corporate development in China.

Given the increasing focus on assurance among global investors, we recommend gradually strengthening the assurance requirement over time through a phased-in approach—for example, starting with larger issuers, such as central SOEs and in particular companies operating in hard-to-abate sectors such as those referenced in Section III (IV) of the Attachment 2 (Explanation of Drafting). The State-owned Assets Supervision and Administration Commission (SASAC) has required these SOEs to serve as “role models in the capital markets” with regard to ESG

¹ <https://www.acga-asia.org/thematic-research-detail.php?id=464>

² <https://finance.sina.com.cn/roll/2025-05-17/doc-inewvfqq5553368.shtml>

disclosure.³ Yet, the proportion of central SOEs obtaining assurance for their ESG reports remains low. As of the end of June 2023, while 78.3% of listed central SOEs had published an ESG report, only 8.8% of them had their reports assured, according to a research report published by the Asset Management Association of China (AMAC).

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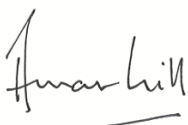
Standards and measurements

With regard to Question 2 in the Explanation of Drafting, we note that Article 30 requires disclosure of methodologies used in calculating GHG emissions. To enable better comparability and use by investors and other stakeholders, convergence around standards applied in calculations, where practicable, is encouraged. The GHG Protocol is currently the leading international methodology for emissions calculations.

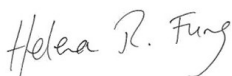
Separately, with regard to Scope 3 calculations (Articles 28 and 34), the materiality principle should apply to the categories selected for disclosure. Companies should explain which categories are material to their business and why these are being disclosed, as well as the methodologies used in calculation and the basis for selection.

Thank you for your attention. We would be pleased to answer any questions you may have.

Yours faithfully,



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³ <http://www.sasac.gov.cn/n2588035/n2588320/n2588335/c32377016/content.html>

⁴ <https://www.amac.org.cn/hyyj/sy/202405/P020240520608316664981.pdf>