Guidelines on Self-Regulation of Listed Companies – Sustainability Report (Trial) of the People's Republic of China

On 12 April 2024, the Shanghai Stock Exchange (SSE), the Shenzhen Stock Exchange (SZSE) and the Beijing Stock Exchange (BSE) issued their respective Guideline on Self-Regulation of Listed Companies – Sustainability Report (Trial) (hereinafter referred to as the "Guidelines"), respectively. The Guidelines will become effective from 1 May 2024, applying to annual periods ending 31 December 2025. Early adoption for annual periods ending 31 December 2024 is encouraged.

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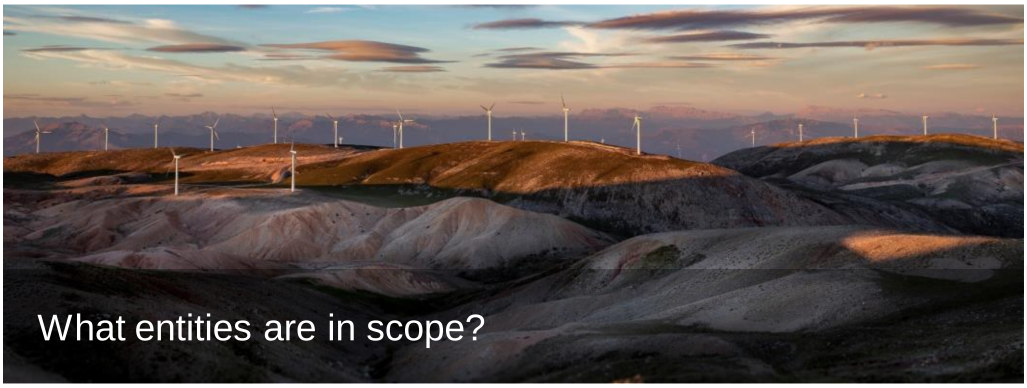
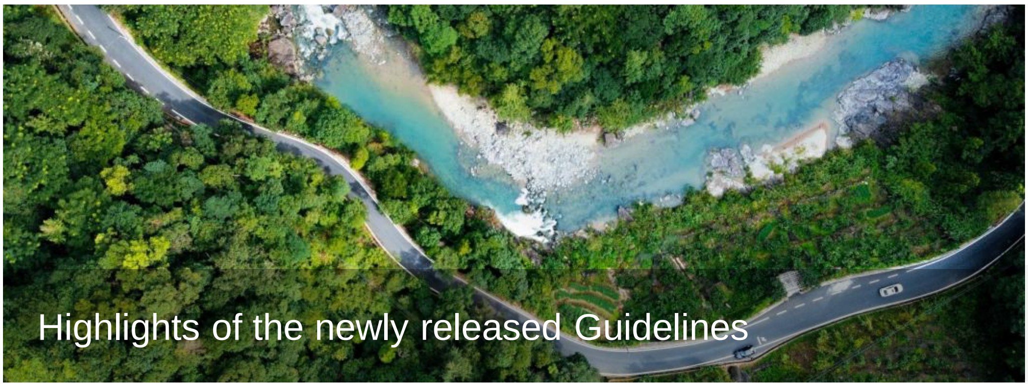




1 What entities are in scope?

Entities that fall within the scope of mandatory reporting according to the Guidelines remain the same as those proposed in the exposure drafts (Table 1). Together, there will be approximately 450 companies that fall within its scope. Other listed companies that do not fall within the scope are encouraged to disclose on a voluntary basis.

Table 1 Disclosure scope

Stock Exchange	Guidelines	Disclosure Scope
SSE	Guidelines No. 14 of Shanghai Stock Exchange for Self-Regulation of Listed Companies—Sustainability Report (Trial)	Require mandatory disclosure for any company that is a constituent of the SSE 180 Index or the STAR 50 Index or is listed simultaneously in Chinese mainland and overseas markets.
SZSE	Self-Regulatory Guidelines No. 17 for Companies Listed on Shenzhen Stock Exchange—Sustainability Report (For Trial Implementation)	Require mandatory disclosure for any company that is a constituent of the SZSE 100 Index or the ChiNext Index or is listed simultaneously in Chinese mainland and overseas markets.
BSE	Continuous Supervisory Guidelines No. 11 for Companies listed on Beijing Stock Exchange—Sustainability Report (For Trial Implementation)	Encourage voluntary disclosure for listed companies.[i]

2 Highlights of the newly released Guidelines

Double materiality

Double materiality has been adopted by the Guidelines. Chapter I General Provisions require entities to determine whether each topic in the Guidelines is expected to have financial materiality and/or impact materiality. The Guidelines clarify that financial materiality focuses on the likelihood of the occurrence and the extent of impact to the entity, while impact materiality should be based on the scale, scope and irremediability of the impact arising from the entity's decisions. How materiality assessment was conducted should also be disclosed. For any topic specified in the Guidelines that the entity believes to have neither financial materiality nor impact materiality, the entity should also disclose its reason.

For topics that are expected to have financial materiality, information should be disclosed based on the 4-aspect disclosure framework (see below for further discussion). For topics that only have impact materiality, the entity should disclose in accordance with specific provisions contained in the Guidelines.

Using the 4-aspect disclosure framework similar to those used by other international disclosure framework or standards

Chapter II of the Guidelines define the disclosure framework and specifies that entities should analyse and disclose topics that have financial materiality in accordance with four aspects. They are (1) Governance, (2) Strategy, (3) Impacts, Risks and Opportunities Management, and (4) Metrics and Targets. Entities are encouraged to disclose the effects of sustainability-related risks and opportunities on their business models, key suppliers and other stakeholders, as well as the geographical location, facilities, or asset types predominantly affected by these risks and opportunities. Forecasts on their future impact should also be disclosed.

Topics cover a wide array of matters that span across ESG dimensions

The Guidelines cover a total of 21 different ESG topics, including 8 on environmental matters, 9 on social matters and 4 on sustainability-related governance matters (see Annex Table of the Indices of Guidelines Topics).

Annex Table of the Indices of Guidelines Topics

Dimension	No.	Topics
Environmental	1	Climate response
	2	Pollutant discharge
	3	Waste disposal
	4	Ecosystem and biodiversity protection
	5	Environmental compliance management
	6	Energy utilisation
	7	Water resources utilisation
	8	Circular economy
Social	9	Community
	10	Social contributions
	11	Innovation
	12	Ethics of science and technology
	13	Supply chain security
	14	Equal treatment of small and medium-sized entities
	15	Product and service safety and quality
	16	Data security and customer privacy
	17	Employees
Sustainability-related Governance	18	Due diligence
	19	Stakeholder engagement
	20	Anti-commercial bribery and anti-corruption
	21	Fair competition

Many social topics contain elements specific to modern China

A number of topics within the social aspect in the Guidelines display key priorities of modern China, including the concepts of “Beautiful China” and “Common Prosperity”. Within the different sections in Chapter IV Social Disclosure, disclosure requirements covering Rural Revitalisation, Innovation-Driven Development, Ethics of Science and Technology and From Suppliers, Customers to Employees have been specified.

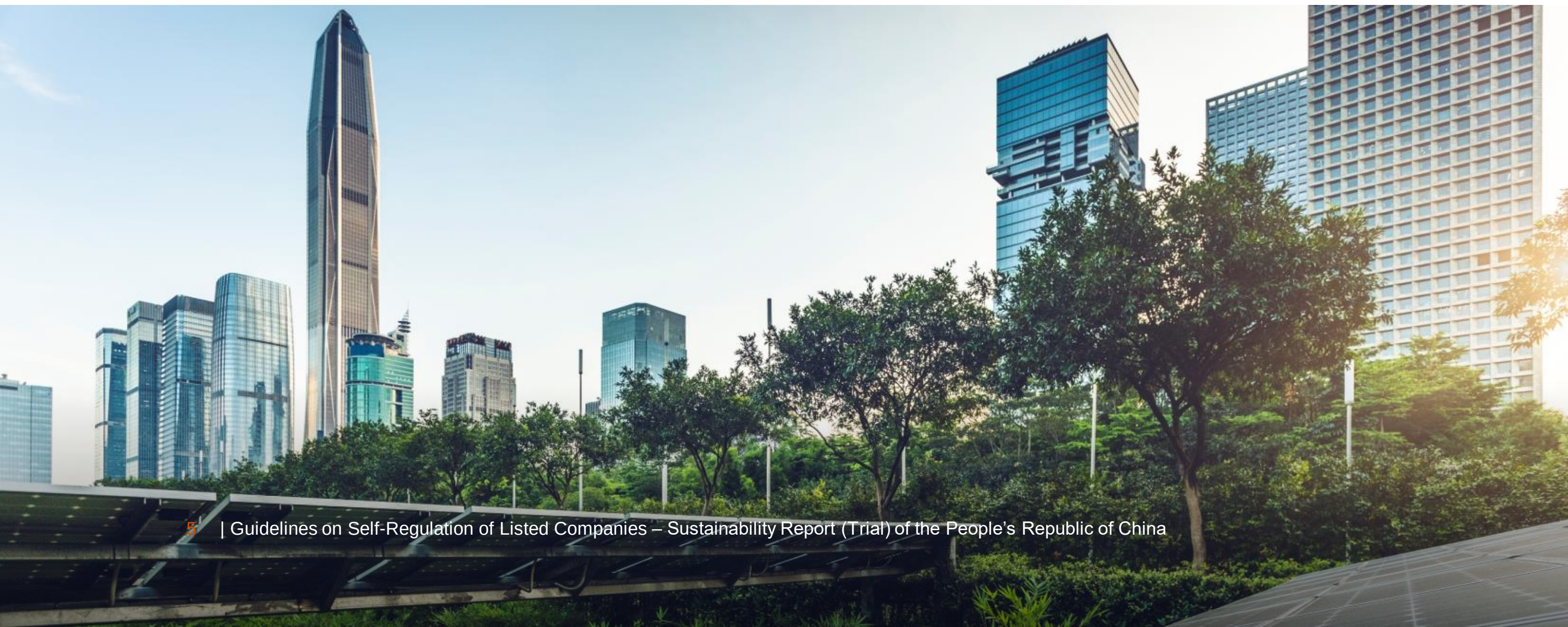
Provisions on third-party auditors or assurance providers

When the entity engages third party service providers to audit or assure specific information, these service providers should demonstrate independence and professionalism. Whether they meet these qualities should be clearly set out in their audit or assurance reports.

Requirements on timing and relief on comparative information

The Guidelines will first be applied to annual periods ending 31 December 2025. Sustainability reports are required to be published no later than four months after the year end but no sooner than the issuance of annual reports. This means any listed company under the scope of the Guidelines should publish its 2025 Sustainability Report before 30 April 2026. Entities, however, are allowed to early adopt the Guidelines for 2024 year ends, if they so wish. The reporting period and consolidation scope (reporting boundary) should be consistent with that of its annual report.

The Guidelines also offer reliefs on comparative information as well as those that cannot disclose year-on-year change in relevant metrics (indicators) during the first year of reporting.



3 | Significant differences on the climate-related disclosure requirements between the Guidelines and IFRS S2

The climate-related disclosure requirements contained in the Guidelines have strong resemblance to International Sustainability Standards Board's IFRS S2 Climate-related Disclosures (IFRS S2) although there are certain differences. In order to observe double materiality, an additional requirement of "impact" analysis is required by the Guideline. Other differences in climate-related disclosure requirements between the Guidelines [Chapter III, Section 1] and IFRS S2 are summarised in the table below.

	The Guidelines	IFRS S2
Assessment of climate reliance	Included as a voluntary requirement although encouraging those who have the capacity and conditions to disclose.	Explicitly requires that climate resilience be conducted and that entities should use methodologies, including climate scenario analysis, that commensurate with their circumstance.
Current and anticipated financial effects of those climate-related risks and opportunities	Only the effects of current and the up-coming reporting period are mandatory requirements. For those who are not even able to disclose qualitative information, they should disclose their action plan on achieving disclosure in the near future. Anticipated effect over short-, medium- and long-time horizons are encouraged.	Mandatory requirements (current and anticipated effect over short-, medium- and long-term) with transitional reliefs (qualitative disclosure) on initial application.

	The Guidelines	IFRS S2
GHG emissions	**Scope**	
	Scope 1 and Scope 2 emissions are mandatory while Scope 3 emissions is only encouraged.	Scope 1, Scope 2 and Scope 3 emissions are all mandatory, with certain transitional reliefs on Scope 3. Category 15 Investments within Scope 3 is mandatory for commercial banks, insurance providers and asset management companies.
	Includes 7 types of GHG. The disclosure may be categorised by geographical region, source, etc.	Includes 7 types of GHG, with Scope 1 and Scope 2 to be disaggregated by: (1) the consolidated accounting group and (2) other investees.
	Measurement Method	
	Do not specify or refer to any specific measurement method.	Requires the use of the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless other standards are required by a jurisdictional authority.
Metrics and Target	Those who participate in regulated carbon markets and uses carbon credits should disclose: • Any entity that uses carbon credits should disclose the source and amount of carbon credits used; • Any entity that participates in carbon emissions trading should disclose whether it has completed settlement and whether it has been ordered to take corrective actions or is formally being investigated by a government agency within the reporting period.	Various climate-related metrics are listed out, and users of carbon credits should disclose: • Climate-related transition risks — the amount and percentage of assets or business activities vulnerable to climate-related transition risks; • Climate-related physical risks — the amount and percentage of assets or business activities vulnerable to climate-related physical risks; • Climate-related opportunities — the amount and percentage of assets or business activities aligned with climate-related opportunities; • Capital deployment — the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities; and • Internal carbon prices. The entity's planned use of carbon credits to offset GHG emissions to achieve any net greenhouse gas emissions target.

Remarks:

i. Considering the characteristics of the developmental stage of innovative SMEs.

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