China Insight

ESG in China — A Step-by-step Approach in Establishing Unified ESG Disclosure Standards

For years, environmental, social and governance ("**ESG**") related matters globally have been a hot topic. Also in the People's Republic of China (the "**PRC**"), ESG considerations play an increasingly important role.

In light of the increased global focus on ESG related matters, also stakeholders in the PRC, such as investors, creditors and regulatory authorities, show a growing interest in the disclosure of ESG related information.

As a consequence, on 20 November 2024, the PRC Ministry of Finance ("**MOF**") and 8 other authorities jointly released the *Sustainability Disclosure Standards for Enterprises Basic Standards (Trial)* (the "**Trial Standards**"). The Trial Standards are based on relevant standards of the International Sustainability Standards Board ("**ISSB**") and entered into effect on 20 November 2024.

Recently, on 27 April and 17 June 2025, the MOF further released the draft *Application Guidelines for Sustainability Disclosure Standards for Enterprises — Basic Standards (Trial)* (the "**Draft Application Guidelines**") and the draft *Corporate Sustainability Disclosure Standards No. 1 — Climate (Trial)* (the "**Draft Climate Standards**") for public comments.

As of now, although the Trial Standards are effective, they are not mandatory so far. The newly released Draft Application Guidelines and the Draft Climate Standards are drafts for comments only and have not entered into effect yet. Therefore, companies are currently not yet mandatorily obliged to comply with the above standards. Nonetheless, they show a clear focus of the PRC lawmakers on ESG, and it is expected that the mentioned standards will gradually shift to become mandatory and binding standards in the foreseeable future. Please note that mandatory disclosure obligations already exist for certain companies listed on the stock exchanges according to the *Administrative Measures for Information Disclosure by Listed Companies* and the *ESG Disclosure Guidelines*.

This newsletter provides an overview on the key content of the Trial Standards and the current efforts in the PRC to establish unified ESG disclosure standards and their potential impact on companies.

1. Significance of the Trial Standards in ESG Legal Framework

Since 2020 when China announced its carbon peaking and neutrality goals, China has subsequently released numerous policies and voluntary guidelines to facilitate ESG related considerations. For example, the *Work Plan to Improve the Quality of Listed Companies Controlled by Central State-*

Owned Enterprises issued by the State-owned Assets Supervision and Administration Commission in May 2022, requires all stock listed central State-owned enterprises to improve their ESG work mechanisms and to publish ESG reports since 2023. On 12 April 2024, under the guidance of the China Security Regulation Commission (the "**CSRC**"), China's 3 main stock exchanges (i.e., the stock exchanges in Shanghai, Shenzhen and Beijing) released *ESG Disclosure Guidelines*. These guidelines feature detailed reporting topics, structures and content and apply to SSE 180, STAR 50, SZSE 100, ChiNext Index, and dual-listed firms, with mandatory ESG disclosure obligations starting from 2026 onwards. The CSRC's *Administrative Measures for Information Disclosure by Listed Companies* amended on 26 March 2025 further provide that "listed companies shall issue sustainability reports in accordance with the regulations set by stock exchanges". This shows that the ESG regulatory framework is shifting towards more structured and mandatory reporting obligations.

So far, no unified standards existed for non-listed companies. With the promulgation of the Trial Standards this has now changed. The Trial Standards incorporated fundamental principles and the main framework of the ISSB's *General Requirements for Disclosure of Sustainability-related Financial Information* ("**IFRS S1**"), while also making tailor-made adjustments to account for the PRC's specific circumstances.

2. Key Provisions of the Trial Standards and Other Drafts

a) Trial Standards

(1) Force and Implementation

Although the Trial Standards are intended to standardize sustainable reporting in the PRC, their exact scope of application is not yet defined.

The final Trial Standards have removed the wording in the draft version stating that "these Standards apply to enterprises established within the People's Republic of China that are required to conduct sustainability disclosures." The final version of the Trial Standards does not specify their scope of application. However, when releasing the Trial Standards, the MOF explicitly stated that "before the application scope and implementation requirements are formally defined, **the adoption of the Trial Standards is voluntary for enterprises**" (see 关于印发《企业可持续披露准则——基本准则（试行）》的通知). Therefore, the exact scope of application of the Trial Standards is currently still pending and so far **compliance with the Trial Standards is voluntary only**.

As to the future implementation plan, the MOF further stated that, taking into account the development stage and disclosure capacity of enterprises, the implementation of the Trial Standards **will not adopt a "one-size-fits-all" approach** (see 财政部会计司有关负责人就《企业可持续披露准则——基本准则（试行）》答记者问). According to the MOF, the approach shall instead be to first focus on key priorities, begin with pilot initiatives, and proceed progressively in a phased manner. The implementation shall expand from listed companies to non-listed companies, from large enterprises to small- and medium-sized enterprises, from qualitative requirements to quantitative requirements, and from voluntary disclosure to mandatory disclosure.

According to the MOF, it is aimed to introduce a unified national ESG disclosure standard system, with basic standards, specific, so far climate-related, disclosure standards and application guidelines by 2027. A full unified national ESG disclosure standard system shall then be in place in the PRC by 2030.

(2) Key Coverage and Requirements

According to the Trial Standards, ESG related disclosure standards shall consist of basic standards (i.e., the Trial Standards themselves), specific standards and application guidelines. The Trial Standards lay out core concepts, principles, methods, objectives and general requirements in this regard.

The basic standards (i.e., the Trial Standards) set out general requirements for the disclosure of sustainability information by enterprises. The formulation of the specific standards and application guidelines shall follow the basic standards. The specific standards set out detailed requirements for the disclosure of information on environmental, social, and governance sustainability topics by enterprises. The application guidelines interpret and refine the basic standards and the specific standards, provide guidance for the application of the basic standards and the specific standards in relevant industries, and specify operational provisions for addressing key and challenging issues.

Further key provisions of the Trial Standards include the following:

(a) General Provisions

Article 3 of the Trial Standards provides that the sustainability information disclosed by enterprises refers to information on risks, opportunities, and impacts related to ESG sustainability topics, including sustainability information that enterprises are required to disclose under national laws and regulations.

Sustainability risks and opportunities refer to the risks and opportunities that could reasonably be expected to affect an enterprise's prospects (e.g., its cash flow over the short, medium or long term, its access to finance, and costs of capital) arising from the interactions between the enterprise and its stakeholders throughout its value chain, the economy, the society and the environment on a particular sustainability topic.

Sustainability impacts refer to the impacts, either actual or foreseeably potential, positive or negative, on the economy, the society and the environment caused by an enterprise's activities (including related value chain activities) with regard to a particular sustainability topic.

According to Article 7 of the Trial Standards, an enterprise shall establish and improve systems for data collection, validation, analysis, utilization and reporting related to sustainability information disclosure, and improve the internal controls of sustainability information disclosures, to ensure the quality of such disclosures.

(b) Disclosure Objectives and Principles

According to Article 8 of the Trial Standards, the objective of an enterprise's disclosure of sustainability information is to provide information on material sustainability risks, opportunities, and impacts to information users, to enable them to make economic decisions, allocate resources or make other decisions. Sustainability information disclosure shall help enterprises to implement new development concepts, promote sustainable economic, social and environmental development, and foster the harmonious coexistence between humans and nature, as well as build harmonious social relationships.

Users of sustainability information include investors, creditors, government bodies and other stakeholders.

According to Article 9 of the Trial Standards, sustainable information disclosure shall follow the principle of materiality. Further, to ensure that material information is not obscured, an enterprise shall clearly distinguish between the material sustainability information it discloses and other information and consider all facts and situations to appropriately aggregate or disaggregate the sustainability information. It is commonly believed that the Trial Standards adopt a so-called double materiality principle, i.e. that materiality refers to both financial materiality and impact materiality. This appears to be a deviation from the IFRS S1 which only refers to financial materiality.

(c) Information Quality Requirements

According to Article 12 of the Trial Standards, the sustainability information disclosed by an enterprise shall be reliable and faithfully reflect material sustainability risks, opportunities, and impacts. An enterprise shall ensure that the sustainability information is complete, neutral, and accurate.

Articles 13 et. seq. of the Trial Standards further provide that the sustainability information disclosed by an enterprise shall be relevant, comparable, verifiable, understandable, and timely.

(d) Disclosure Coverage

In terms of disclosure coverage, the Trial Standards are generally in line with the IFRS S1. According to Article 18 et. seq. of the Trial Standards, the sustainability information disclosed by an enterprise shall include the following 4 core elements: governance, strategy, risk and opportunity management as well as metrics and targets.

- **Governance**. This aims to enable primary information users to know the governance structure, control measures and procedures adopted to manage and supervise sustainability risks and opportunities.

- **Strategy**. This aims to enable primary information users to know the strategy for managing sustainability risks and opportunities and the potential outcomes.

- **Risk and Opportunity Management**. This aims to enable primary information users to understand the processes an enterprise uses to identify, assess, prioritize, and monitor sustainability risks and opportunities (including whether and how these processes are integrated into the enterprise’s overall risk management process), as well as to assess the enterprise’s overall risk profile and its overall risk management process.

- **Metrics and Targets**. This aims to enable primary information users to understand an enterprise’s performance in relation to its sustainability risks and opportunities, including the progress towards any targets the enterprise has set and any targets it is required to meet by national laws, regulations, and strategic plans.

The Trial Standards also list which kind of information companies should provide in respect of the above four core elements.

(e) Other Disclosure Requirements

Chapter V of the Trial Standards outlines the reporting timelines, details on comparative information, compliance statements, judgments and uncertainties, and the correction of errors, etc. In particular, an enterprise shall report its sustainability information disclosures at the same time as its financial statements, and shall generally disclose sustainability information on an annual basis. An enterprise is generally exempted from disclosing State secrets, information prohibited from disclosure by laws and regulations, information about intellectual property or innovation results, and information about a sustainability opportunity that is commercially sensitive. The reasons for the exemptions must be fully explained.

b) Draft Climate Standards and Draft Application Guidelines

According to the intended time schedule, the basic standards (i.e., the Trial Standards), the specific, so far climate-related, disclosure standards and the application guidelines shall be introduced before 2027. On 27 April and 17 June 2025, the draft versions of the latter two instruments have been released.

(1) Draft Climate Standards

The Draft Climate Standards are based on the basic framework of the Trial Standards and are in line with the Trial Standards regarding the purpose, disclosure objectives, key terms and definitions, etc.

The Draft Climate Standards also align with the ISSB's *Climate-related Disclosures* (IFRS S2) concerning the disclosure of climate-related risk and opportunity information. However, the Draft Climate Standards also take into account the PRC's relevant laws, regulations and corporate realities regarding the disclosure of climate-related information, greenhouse gas emission accounting standards, and the impact of carbon emissions trading on financial statements.

In addition, the MOF has already begun drafting application guidelines for 9 key sectors, i.e. power, steel, coal, petroleum, fertilizers, aluminum, hydrogen, cement and automotive, which are planned to be released in due course after the final climate standards are officially issued. Currently, similar to the Trial Standards, the implementation scope and requirements of the Draft Climate Standards are yet to be defined.

(2) Draft Application Guidelines

To facilitate the guiding role and operability of the Trial Standards, the MOF further released the Draft Application Guidelines, which are similar to the accompanying documents of IFRS S1.

The Draft Application Guidelines provide for clarifications on 9 items of the Trial Standards, including the value chain, reporting entity, correlation of information, primary users of sustainability information, the principle of materiality, the principle of proportionality, the current and expected financial impacts of ESG related risks, opportunities and impacts, the resilience of strategy and business models to sustainability risks and disclosure of sustainability impact information.

3. Conclusion

The Trial Standards and the above mentioned two drafts, which are still to be enacted, show that ESG related considerations and sustainability information disclosure obligations have come more into the focus of the PRC lawmakers.

Due to the fact that the Trial Standards have been drafted largely in line with the ISSB standards, they should provide for global comparability.

Robust and credible ESG reporting may empower companies to achieve enhanced investor relations, greater access to green financing opportunities and a strengthened corporate reputation. On the other side, this also will likely increase administrative efforts for companies. Especially small and medium sized companies may find the costs and complexities of ESG compliance rather burdensome.

While the PRC clearly proceeds in developing ESG disclosure standards, their implementation remains cautious. So far, the PRC is taking a step-by-step approach, with mandatory disclosures gradually rolling out for specific companies and sectors. Although the Trial Standards are so far not mandatory, it is likely that in the near future, all companies in the PRC, including foreign-invested enterprises, will face mandatory ESG disclosure obligations. To ensure that companies are well-positioned, businesses should act early by elevating ESG to a strategic level, building robust ESG related organizational structures and strengthening their internal capabilities to be well prepared for the time when compliance with ESG reporting will become mandatory.

CMS, China will continue to closely observe further developments in this area, and provide timely updates.

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