

# Current Situation and Implications of ESG Disclosure of Chinese Enterprises

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**Abstract.** In recent years, China's economic and social development under the background of "dual carbon" is undergoing comprehensive green transformation and upgrading. The practice and performance of ESG in China has received extensive attention from all walks of life. In order to comply with the development direction, the Securities and Futures Commission (SFC) clearly requires ESG to be included in corporate information disclosure, which puts higher requirements on the management capability of listed companies, and the market has higher expectations for the ESG performance of listed companies. However, at this stage, the ability and enthusiasm of ESG information disclosure of listed companies in China still need to be further improved. This article summarizes the ESG performance and disclosure characteristics of Chinese companies based on the China Bond ESG Evaluation System and the China Bond ESG Database. The results show that the information disclosure of ESG in China has been improved in recent years, but there are still significant differences in the disclosure ratios of each company, the quantitative level of ESG data is still insufficient, and China's corporate ESG disclosure still needs to be further improved. In the future development process, this paper proposes to accelerate the formulation of ESG information disclosure standards in China, guide market players to actively expand the application of ESG assessment, and improve the indicator system of ESG supervision.

**Keywords:** ESG Disclosure; Dual Carbon; Listed Companies.

## 1. Introduction

At present, the natural environment is gradually deteriorating, resources are gradually depleted, and the concept of sustainable development has entered the public's field of vision and has become an inevitable hot topic. A new market concept that continues to gain attention from listed companies, investors and the media is ESG (Environment, Social, Governance), covering the three elements of environment, society and governance. An organization's environmental, social and governance (ESG) capabilities become an indispensable factor in evaluating a company's overall strength, which is also an important aspect of a company's sustainable development philosophy. At the same time, investors' emphasis on non-financial information has further increased the importance of ESG in investment decisions.

Although the development of ESG in China started late, China's outstanding performance in implementing ESG still has attracted widespread attention from around the world, based on the country's large market size and economic volume, as well as the goals of carbon peaking and carbon neutrality and the introduction of policies related to sustainable development policies. The disclosure of corporate ESG-related information is the basis for investors to apply ESG concepts to make green investments. Compared with foreign developed countries, ESG information disclosure of domestic enterprises in China is currently in the early stage of development, and although the development trend in recent years is better, problems still exist.

Chinese listed companies have also begun to take the initiative to meet this challenge, and ESG information disclosure will also usher in leapfrog development, but how to effectively solve the problem of ESG disclosure has also become a pressing issue. This can also begin to promote the promotion and application of ESG concepts in China and guide Chinese enterprises to better carry out ESG information disclosure.

## 2. Overview of the current status of ESG in China

With the widespread acceptance and application of ESG concepts in China's investment field, investors are gradually accepting and applying ESG concepts, so the willingness of domestic enterprises to disclose ESG information about themselves has increased significantly, and the initiative to disclose ESG information is increasing, and the content of the disclosure is gradually enriched.

However, there are also many objective conditions in the process of disclosure and practice, which also indicate that there is still much room for improvement. This paper analyses the current situation of ESG disclosure of A-share listed companies and credit bond issuers, and explores the characteristics of ESG disclosure of domestic enterprises.

### 2.1 Differences in ESG disclosure between companies

#### 2.1.1 Differences in the disclosure of ESG-related reports by enterprises in different industries

In terms of the percentage of listed companies in different industries that will make ESG disclosures in 2023, the percentage of financial companies that will make disclosures is relatively high, at more than 80%. This is because financial institutions are the most concerned entities of ESG disclosure related regimes, both domestically and abroad. In addition, the proportion of ESG information disclosure in energy-consuming industries such as iron and steel, petroleum and petrochemical, and coal is higher than average, which is also related to the mandatory policies issued by the state, and this is significantly higher than the average level of listed companies (27.87%). The disclosure proportion of industries such as education, information transmission, and software and information technology services is about 15%, which is in urgent need of improvement.

Among bond issuers, the number of companies in the eight major energy-consuming industries that made ESG disclosures accounted for a higher percentage than the average of bond issuers, with petrochemical, building materials and aviation companies accounting for more than 50 % of the disclosures. However, the share of corporate disclosures in industries such as construction and leasing and business services was only about 5 %.

#### 2.1.2 Differences in ESG disclosure among enterprises of different sizes

The main characteristics are that larger companies have a larger share of ESG disclosures, while smaller companies have a smaller share of ESG disclosures. Among A-share listed companies in 2023, the proportion of listed companies with market capitalization of 100 billion yuan or more above the standard for ESG disclosure will exceed 80 %. However, the proportion of listed companies below the standard to disclose ESG information has not reached 30%.

Among bond issuers in 2023, based on the asset scale of 200 billion, the proportion of bond issuers above the standard disclosing ESG-related information is more than 50%, while the proportion of bond issuers below the standard is less than 15%. In addition, bond issuers with more than 200 billion in assets have seen the highest increase in the percentage of ESG-related disclosures over the past four years.

Firstly, larger enterprises pay more attention to their own reputation. According to the signaling theory, a good corporate image can send a good signal to the capital market and increase the value of the enterprise itself, so large enterprises are more willing to actively disclose ESG-related information and attract better investors.

Secondly, in the process of obtaining ESG information, the cost of larger enterprises accounts for the proportion of their asset scale, which is lower than that of small and medium-sized enterprises, and the cost constraint is small, which makes small and medium-sized enterprises less willing to actively disclose ESG-related information.

### **2.1.3 Differences in ESG disclosure by bond issuers' credit ratings**

Higher credit rating bond issuers have a higher level of ESG disclosure. To a certain extent, there is a trend of "the stronger the stronger", with higher credit rating companies usually carrying out ESG-related practices earlier. Because they have certain experience and information base in information disclosure, they have a stronger willingness to actively disclose and the improvement of disclosure is more obvious.

According to the implied ratings of the Chinese bond market, the proportion of bond issuers in the four grades of AAA- and above, AA+, AA, and AA- and below making ESG disclosures in 2023 will be 53.2%, 28.43%, 10.59%, and 7.66%, respectively. Compared with 2021, the percentage of the above entities making ESG disclosures in 2023 increases by 4.19, 4.58, 0.5, and 0.08 percentage points, respectively.

## **2.2 Disclosure of different ESG-related indicators varies widely and needs to be improved**

### **2.2.1 Relatively high percentage of disclosure of policy-oriented indicators**

Taking environmental performance-related indicators as an example, the indicators with good corporate disclosure are mainly focused on topics such as green strategy and planning, and carbon emissions. Under the guidance of policies related to green development, the average disclosure rate of indicators related to green strategy and planning of Chinese enterprises in 2023 was 18%, which is higher than other indicators. Although carbon emissions and other related indicators are in the initial stage of application and the overall disclosure ratio is low, under the "dual carbon" goal, enterprises are obviously more willing to disclose carbon emission information.

### **2.2.2 Higher disclosure of qualitative indicators and lower disclosure of quantitative indicators**

Compared with qualitative indicators, which only need to be described in words, the disclosure of quantitative indicators is more difficult, and the willingness of enterprises to actively disclose is weaker, and in terms of the disclosure rate and quality of ESG indicators, even though the performance of companies as a whole is on the rise, the disclosure rate of quantitative indicators is lower than that of qualitative indicators, and the disclosure rate of voluntary disclosure indicators has not reached 50%. At the same time, only 34.6 percent of the indicators scored above 60 (out of 100), and the vast majority of A-share listed companies are still disclosing ESG information in accordance with the minimum requirements and standards for domestic regulatory compliance.

The low disclosure rate of quantitative data and the overall low score indicate that there is still a gap between the management practices of A-share listed companies and the international average, and that there is a need to further enhance the awareness of self-disclosure and to improve the comprehensiveness, completeness, and level of detail in the disclosure of ESG indicators.

### **2.2.3 Inconsistency in the calibre of information disclosure for different indicators**

There are certain differences in the disclosure caliber of different indicators on the same theme by different enterprises, the disclosure system of ESG information by enterprises is not uniform, and the length, form and focus of ESG reports of different enterprises vary greatly, and there are often problems of insufficient disclosure of data, lack of timeliness, insufficient validity, and lack of rigor in the basis of report preparation.

## **2.3 A large number of ESG rating agencies with no uniform standards**

Currently, there are a large number of global ESG rating agencies with very different backgrounds, and their ratings are highly divergent, making it difficult to reach a consensus on the ratings of the same subject. Some scholars have sorted out 14 famous ESG rating agencies at home and abroad, and compared and analyzed the ESG rating systems of these agencies, and found that China's existing ESG rating system is plagued with core problems such as poor quality of information disclosure, inconsistency of ESG rating results, and imperfection of the ESG ecosystem.

From the perspective of rating data sources, China has not put forward clear requirements for ESG-related information disclosure, and a large number of enterprises have not disclosed ESG-related information, so the availability of data is relatively low; only when listed companies disclose ESG information can regulators and rating agencies carry out corresponding work.

From the perspective of the indicator setting of the evaluation system, the domestic ESG indicator system lacks sufficient ESG information disclosure system support, and lacks a set of standard, mature and widely used indicator systems led by large-scale and organized institutions. As a result, the evaluation process is not transparent, the indicators may be biased, and the evaluation methods are not objective enough.

### **3. Suggestions for enhancing ESG information disclosure by domestic enterprises**

Overall, Chinese companies have a relatively low rate of ESG disclosure, this is related to the fact that ESG practices in China are still in their infancy, and the standards of ESG disclosure by Chinese companies need to be further improved.

On the one hand, at present, China has not established and improved ESG information disclosure standards, and lacks corresponding institutional references., making it more difficult to disclose information of listed companies in China.

On the other hand, China's mandatory ESG information disclosure for enterprises is low, and the willingness of companies to actively disclose is relatively weak. In order to improve the status and level of ESG information disclosure of Chinese enterprises and optimize the ESG governance situation in China, this paper puts forward some policy suggestions.

#### **3.1 Establishment of China-compliant information disclosure standards and provision of institutional safeguards**

It is necessary to clearly stipulate the basic indicators of ESG information disclosure, and establish unified information disclosure standards and systematic evaluation systems. High-quality disclosure underpins the ability of socially responsible investing to fit into mainstream investment frameworks. It is important to emphasize that, while ESG disclosure and evaluation standards need to be considered in the context of China's actual situation, the disclosure framework should not set aside the standards that have been widely adopted globally.

Supervisory authorities, including industry associations, should play a guiding role in constructing an information disclosure and evaluation system with Chinese characteristics, taking into account the actual situation in China while fully respecting the results that have been developed abroad.

At the policy level, a unified indicator framework is introduced, which clarifies the most basic content that enterprises should disclose, provides boundaries and scopes for market application entities as reference in terms of framework standards and classifications, and then gradually formulates ESG information disclosure standards for different industries. Specifically, we can start with relatively mature industries, set up models, and spread them out comprehensively, and gradually move to full mandatory disclosure. It not only ensures the pertinence of the information disclosed by listed companies, but also better meets the information needs of the enterprise itself and other stakeholders.

#### **3.2 Government actively guides enterprises to expand the application of ESG evaluation**

Administrative measures remain the most direct and effective way to promote ESG disclosure by compelling listed companies to meet minimum ESG disclosure standards. It helps the investor to effectively grasp and judge the actual situation of the company. Gradually guide enterprises to take the initiative to strengthen the management of ESG information disclosure, especially non-mandatory disclosure, which can be restrained and guided by the "hand of the market" and administrative means of market investors, the industry, and relevant management departments. Especially in the context of

the registration system, the disclosure policies required by the regulators will be crucial in driving the development of ESG investments.

It is recommended that management guide market participants to actively expand the application of ESG valuation to promote the sustainable development of ESG investment and financing. ESG valuation is based on the disclosure of corporate ESG information, and the promotion of the application of ESG valuation can effectively incentivize corporations to improve their disclosure of ESG information. At present, the application of ESG evaluation results by market participants is still at an early stage. We should continue to promote the wide application of ESG evaluation results in practice by enterprises and financial institutions, and explore the contribution of ESG factors to investment risks and returns, so as to achieve the sustainable development of ESG investment and financing.

### **3.3 Emphasis on disclosure of non-financial information and strengthening of supervision and management**

Enterprises need to pay more attention to the disclosure of non-financial information, and the disclosure strategy is in line with market disclosure to meet the needs of investors. For investors, the role of non-financial information in measuring the actual level of a listed company is crucial. It will be able to reflect the company's strategy and financial reports, and disclose the corresponding ESG information based on data integrity, reliability and comparability, which will be more helpful to show the intangible value and upside potential of the company. Further strengthen supervision and management. Regarding the unqualified disclosure of ESG information, irregular data, or failure to disclose what should be disclosed, etc. the regulatory authorities should manage them in accordance with the law.

## **4. Conclusions and recommendations**

Currently, ESG has limited social awareness and market influence. Most companies internally disclose only general information based on policy requirements and focus on disclosures that create a favorable corporate image. Different enterprises choose different reference indicators, which makes the disclosure content different and lack comparability. With the introduction of continuously improving policies, the requirements for ESG information disclosure will also become more standardized and stringent.

All in all, the domestic information disclosure environment has improved to a certain extent, and the development of domestic ESG investment has also accelerated. With the dual role of the "dual carbon" goal and regulatory policies, enterprises will continue to pay more attention to ESG information disclosure. In order to improve the competitiveness of their own enterprises in the capital market, listed companies must do a good job in ESG information disclosure. It is conceivable that the disclosure rate of ESG reports of listed companies will continue to increase in the future, which can have a more far-reaching impact on enterprises in the process of development in adjusting investment decisions, reducing investment risks, and optimizing resource allocation.

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