



Construction and Research of China's ESG Information Disclosure System

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Abstract: With the rise of ESG (Environment, Social and Governance) concept in the world, ESG information disclosure has also received extensive attention. ESG information disclosure is an area to be studied in the future legal construction of capital market, especially in the process of improving the information disclosure system. It is necessary to establish a systematic ESG information disclosure system for listed companies in China. Various countries have established ESG information disclosure systems to guide enterprises to disclose, and China is also constantly exploring and improving its own systems. Currently, China has not formally released a comprehensive ESG information disclosure framework to guide enterprises to disclose non-financial information, which results in the uneven quality of ESG information disclosure at this stage, in addition to the Environmental, Social and Governance Reporting Guidelines issued by the Hong Kong Stock Exchange. There are still a few issues with the practice of disclosing ESG information. This paper reviews the development of ESG information disclosure standards at home and abroad, discusses the problems existing in ESG information disclosure in China, and puts forward corresponding suggestions, with a view to providing theoretical reference for the construction of ESG information disclosure system, and hoping to promote listed companies to actively fulfill their environmental, social and governance responsibilities, contribute to the process of improving the sustainable development ability of listed companies through institutional advantages and promoting the establishment of a healthy and sustainable financial system with controllable risks.

Keywords: ESG, Information Disclosure, System Construction

1. Introduction

Currently, China has not formally released a comprehensive ESG information disclosure framework to guide enterprises to disclose non-financial information, which results in the uneven quality of ESG information disclosure at this stage, in addition to the Environmental, Social and Governance Reporting Guidelines issued by the Hong Kong Stock Exchange. There are still a few issues with the practice of disclosing ESG information. Therefore, the system can help firms expand sustainably to some extent by structuring ESG information disclosure in accordance with China's national requirements. ESG is an acronym for Environmental, Social and Governance [1]. It is a business evaluation criteria and investment philosophy that places more emphasis on a company's environmental, social, and governance performance than on its financial performance.

The field of investing was where the idea of ESG originally appeared. The United Nations established the Principles for Responsible Investment in 2006 with the goal of assisting investors in understanding how corporate governance, the environment, and social issues affect investment value [2]. ESG has gained favor with investors on the global financial market and has established itself as the standard value idea and investment strategy in established developed markets, driven by the United Nations Organization for Responsible Investment. Disclosure of ESG information is crucial because it serves as the fundamental link in the ESG system [3].

Up until now, academics both domestically and internationally have carried out a number of fruitful investigations on ESG disclosure standards, ESG disclosure modules, and the impact of ESG information disclosure on the sustainable development of enterprises, and have produced a number of research findings. In light of this, and

against the backdrop of economic globalization, this paper further investigates the issues with domestic ESG information disclosure and the importance of its application through retrospective and prospective analysis, with the aim of illuminating and directing the Chinese government in the formulation of ESG information disclosure policies and accounting industry associations in the implementation of ESG information disclosure policies [4]. Additionally, it is anticipated that it will increase the realization of the listed firms' sustainable development objectives, help them learn from past mistakes, and raise their understanding of the value of ESG information disclosure principles.

2. Development History of International and Domestic ESG Information Disclosure Standards

2.1. International ESG Information Disclosure Standards

ESG was initially pushed internationally by non-profit organizations and the public's volunteer movement. AkteAnsvar Aktiefond, the first ethical fund in history, was established in Sweden in the 1970s. In the US, "Pikes," the first socially conscious investment fund, was created [5]. Since then, some mutual funds have gradually taken information related to environmental protection and other topics into account when making investing decisions. To encourage sustainable development, the United States Sustainable Investment Forum was founded in 1984.

ESG started the early stages of establishment around the close of the 20th century as a result of the United Nations and others starting to develop ESG-related ideas and frameworks [6]. The Intergovernmental Panel on Climate Change (IPCC) was founded in 1988 during this time, and the United Nations World Commission on Environment and Development initially introduced the idea of sustainable development in the Brundtland Report at this time. The Rio Declaration on Environment and Development, which calls for the peaceful coexistence of man and nature, was one of several statements that the United Nations endorsed during a summit in 1992 in response to the rising economic and environmental protection concerns. The Global Reporting Initiative (GRI) and the Global Compact (UNGC) were subsequently launched by the UN in 1997 and 2000, respectively. In response to the UN initiative on sustainable development, the Carbon Disclosure Project (CDP) was created with the goal of assisting municipalities and businesses in disclosing pertinent

environmental data [7].

The United Nations formally promoted the idea of ESG through the study "Who Cares Wins" in 2004 and 2006, and the "Principles of Responsible Investment (PRI)" were launched under the direction of the then-Secretary-General Annan. ESG has formally entered the development stage since 2006 [8]. Exchanges in numerous nations implemented ESG information disclosure guidelines over this time span, and a well finished system has gradually emerged. A plan to harmonize ESG disclosure standards was released in September 2020 by GRI, SASB (Sustainability Accounting Standards Board), CDP, CDSB (Climate Disclosure Standards Board), and IIRC (International Integrated Reporting Council), and other institutions or organizations have also introduced ESG evaluation standards.

2.2. Domestic ESG Information Disclosure Standards

In comparison to other nations, my nation's ESG system was founded later, developed more slowly, and has not yet been organized into a systematic structure. Under the umbrella of stakeholder engagement, we should actively learn from pertinent experience and develop an institutional system. Government agencies, financial regulators, and stock exchanges continue to dominate ESG-related regulations at the moment, with a focus on encouraging corporations to actively report ESG data and advising them on how to implement ESG principles. As many as seven normative papers linked to ESG are included, for instance, in the environmental oversight department. The "Environmental Protection Law" also made clear the obligations of "major polluters" in the publication of environmental information at the same time. Table 1 displays more representative ESG normative documents released by self-regulatory organizations and regulatory bodies as of September 2021, including documents from the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Hong Kong Stock Exchange, the China Securities Regulatory Commission, and the China Banking and Insurance Regulatory Commission.

The release of ESG reports is seen as a positive in the evaluation of listed companies, and these documents encourage qualified fund managers to invest in pension funds, green bonds, and other areas. They also strengthen the ESG requirements for listed companies and establish the fundamental framework for ESG information disclosure. In order to improve the degree of communication between listed firms and investors, it is also necessary to raise the substance of exchanges and interactions among stakeholders.

Table 1. ESG related standard documents in my country.

Years	Mechanism	File Name
2006	Shenzhen Stock Exchange	Social Responsibility Guidelines for Listed Companies
2008	Shanghai Stock Exchange	Guidelines for Environmental Information Disclosure of Listed Companies on the Shanghai Stock Exchange
2012	The Stock Exchange of Hong Kong	Environmental, Social and Governance Reporting Guidelines
2012	China Banking Regulatory Commission	Green Credit Guidelines
2016	7 departments including the People's Bank of China jointly issued	Guiding Opinions on Building a Green Financial System

Years	Mechanism	File Name
2018	China Foundation	Green Investment Guidelines (Trial)
	China Securities Regulatory Commission	Corporate Governance Guidelines for Listed Companies
	Shenzhen Stock Exchange	Measures for the Assessment of Information Disclosure Work of Listed Companies
2020	Shanghai Stock Exchange	Guideline No. 2 on the Application of Self-Regulatory Rules for Companies Listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange - Voluntary Disclosure
	Shanghai Stock Exchange	Shanghai Stock Exchange Guidelines for the Application of Corporate Bond Issuance and Listing Review Rules No. 2 - Specific Types of Corporate Bonds
	China Banking and Insurance Regulatory Commission	Guiding Opinions on Promoting the High-Quality Development of the Banking and Insurance Industry
2021	China Securities Regulatory Commission	Guidelines for Investor Relations Management of Listed Companies (Draft for Comment)

3. Problems Existing in ESG Information Disclosure in My Country

ESG information disclosure is in its infancy, the accompanying institutional framework is not faultless, and there are certain issues with the application process as a result of the late start of ESG theory and practice in my nation. The quality of corporate social responsibility reports in my nation will be examined across six aspects, including honesty, credibility, and comparability, during the 13th China International Symposium on Corporate Social Responsibility Reports in 2020. The report received an overall average score of 53.67. Among these, the reliability of the reports was rated at 30.00%, while the comparability of the reports was rated at 37.50%. This adequately exemplifies some of the problems with Chinese corporations disclosing ESG data. The following are briefly discussed in the article.

3.1. The Comparability of ESG Information Disclosure Is Poor

3.1.1. Lack of Standardized ESG Information Disclosure Standards

China has produced a number of policy documents with the goal of advising and encouraging businesses to disclose ESG information, however most of these publications focus on only one of the three E, S, and G categories, and there is a lack of content criteria, particular disclosures, and governing regulations for the disclosure of environmental, social, and governance (ESG) data by businesses [9]. There is a lack of comparison between ESG reports from different companies because of the absence of a standardized indicator system and stringent limitation mechanism. When it comes to quantitative indicator disclosure rules, there is either a lack of or inability to specify calculating methodologies. As a result, most organizations only report on soft metrics when it comes to ESG reporting.

3.1.2. The Overall ESG Information Disclosure Rate Is Not High

Despite an improving performance trend among CSI 800 businesses, the disclosure rate of quantitative ESG indicators is lower than that of qualitative ones, and the disclosure rate of voluntary ESG indicators does not even exceed 50%. The percentage of indicators with a score of 60 or more out of 100 is rather low (34.6%). These days, the vast majority of

A-share listed businesses provide environmental, social, and governance (ESG) data in line with minimal criteria and standards for domestic regulatory compliance [10]. Considering the low disclosure rate of quantitative data and the low overall score, it is clear that there is still a gap between the management practice of A-share listed companies and the international average level, and that it is necessary to further increase the awareness of self-disclosure and improve the comprehensiveness and completeness of ESG indicator disclosure and level of detail.

3.1.3. The ESG Information Disclosure System Is Not Unified

The current corporate ESG information disclosure system is not standardized, and ESG reports vary widely in terms of length, structure, and emphasis across various firms. Carbon asset management and socially responsible investing experts are in limited supply, and there is a pressing need to strengthen the role of ESG investment in corporate strategy and operations.

3.2. The Reliability of ESG Information Disclosure Is Not High

3.2.1. The Supervision of ESG Information Disclosure Is Not Strong Enough

Companies in China have considerable leeway when it comes to disclosing ESG information because our government does not enforce mandatory or even partially mandatory disclosure policies, the current system provides inadequate incentives for voluntary disclosure, and the penalties for not implementing the disclosure system or concealing important information are weak. Companies that have published ESG reports tend to provide less negative material and more qualitative data, and they often exclude quantitative markers for quantification.

3.2.2. ESG Information Disclosure Is Not Comprehensive

The extent to which my nation discloses ESG data is limited. Since the firm is doing the reporting, it "reports good news but not negative news," which is the biggest issue with self-disclosure. Negative material is seldom included by choice in ESG reports. Since my country's data collection infrastructure isn't as robust as that of other nations, unfavorable information is seldom made public in annual reports. Instead, companies are more likely to highlight good statistics and provide vague, hard-to-verify descriptions. According to the Qingyue ESG Information Transparency

Index, just 4% of listed businesses voluntarily declared their excessive emissions in their semi-annual reports, even though 471 of them were implicated in excessive emissions in the first half of 2021. The widespread practice of "reporting good news and not reporting bad news," which emphasizes the disclosure of information that is advantageous for businesses while avoiding information that is detrimental to them, leads to the unobjective disclosure of ESG information, and the authenticity of this data must be verified [11].

3.3. ESG Information Disclosure Is Less Important

3.3.1. There Are Many Written Descriptions and Few Quantitative Indicators

Too much emphasis is placed on verbal descriptions and not enough on quantitative indicators when Chinese businesses release ESG data. Companies often prioritize ESG disclosure of corporate governance information, but as this data is already included in the annual report, most ESG-related papers amount to little more than a regurgitation of the annual report. Conversely, ESG information is primarily presented in English, with very limited disclosure of quantitative indicators, and some organizations incorporate a huge number of photographs, making it challenging to identify essential topics. To give just one example, a well-known corporation in the power industry's 2019 social responsibility report is 87 pages long and contains more than 80 images but relatively little substantive data. A well-known corporation in the new energy industry produced a 101-page social responsibility report in 2020, with approximately 40 pages devoted to visuals. There is a severe lack of substantial data that is relevant to the firm that can be gleaned from it.

3.3.2. More General Descriptions, Less Specific Descriptions

The majority of corporations in my nation report ESG data with broad strokes but scant detail. When disclosing positive information, some companies may use nebulous terms like "better" or "good," but when disclosing bad information, they may use terms like "not very good," "room for improvement," "poor," and others, without providing an explanation or plan for moving forward. An insufficient level of detail in the disclosures may prevent readers from gaining access to crucial, non-financial information about the company.

4. Suggestions on Improving the Construction of My Country's ESG Information Disclosure System

4.1. Increase the Comparability of ESG Information Disclosure

4.1.1. Establish and Improve ESG Information Disclosure Standards

While China should study and formulate ESG information disclosure guidelines as soon as possible, covering the

universal topics and key indicators of disclosure, providing market entities with clear, unified, and effective disclosure norms, and promoting corporate ESG information disclosure [12], we should fully absorb and learn from international standards. Make ESG data more consistent and reliable by standardizing and enhancing it scientifically. Concurrently, it is possible to guide enterprises to disclose ESG information gradually based on the unified ESG information disclosure guidelines, so as to provide a solid information foundation for the ESG evaluation system, as the disclosure process moves from voluntary to semi-mandatory to mandatory.

4.1.2. Implement "Dual Guidance by Government and Market"

Promote ESG by putting it into reality via the "double direction of the government and the market." The government may encourage ESG norms via a "carrot and stick" strategy. One positive aspect is that environmental and socially responsible legislation has been enacted. Companies are incentivized to publish high-quality data and information and actively adopt ESG ideas through ESG (green) subsidies, tax reduction and exemption, etc. By actively pushing ESG principles in the product supply system, sales system, and circulation system, and by promoting items that satisfy ESG criteria, the market ensures that enterprises reveal high-quality ESG information.

4.2. Ensuring the Reliability of ESG Information Disclosure

4.2.1. Build a Semi-mandatory ESG Information Disclosure System

There has to be some clarification on the disclosure requirements, since the adoption of required standards for ESG information disclosure is linked to the state of the local capital market, the level of risk in the sector, the climate of responsible investing, and other variables. Since my country's capital market is still in its infancy, I believe the stock exchange should adhere to the idea of voluntary disclosure at first, before moving to a semi-mandatory ESG disclosure system after testing and marketing to boost corporate acceptability and recognition [13]. The majority of international experience has been with semi-mandatory disclosure systems, but neither a voluntary nor a completely required system can suit the needs of my country's capital market at the present time. In my nation, the voluntary disclosure of information system is still in its infancy, and its efficacy is minimal. The required ESG information disclosure system will result in greater system costs for listed firms, the benefit-to-cost ratio is too low, and the company is overwhelmed. Listed firms will have a more difficult time adjusting if they are forced to adopt a comprehensive obligatory disclosure system right once. There must be a clear progression through a hierarchy of stages in order to build the system. Required and optional disclosure of material facts has long been codified in my country's "Securities Law" and its accompanying regulations, rules, and exchange rules. In this regard, the topic and substance

have been specified in great depth. It is feasible and necessary to create a semi-mandatory ESG information disclosure system at this time, on the basis of the required disclosure system.

4.2.2. Strengthen Supervision over the Quality of Corporate ESG Information Disclosure

Since China's ESG system is typically driven by the government, main regulatory agencies, industry groups, and industry entities must boost communication and collaboration and improve supporting policies so that the impacts may be seen at the firm level. First, in the early stage of the ESG information disclosure policy, the incentive policy should be fully utilized, and the focus should be on rewarding companies with excellent ESG information disclosure, such as tax relief, green credit, PO and other preferential conditions, so as to mobilize enterprises' enthusiasm for self-disclosure of information; secondly, in the middle and late stages of policy implementation, punitive measures should be taken. Finally, the ESG information disclosure system's oversight mechanism should be enhanced. One can supervise ESG information dissemination, sanction violators, and expose criminal conduct through the media. Third-party certification of ESG information disclosure can be introduced to examine the revealed ESG information, preventing certain organizations from providing misleading information or omitting to disclose negative information, and increasing the authenticity and trustworthiness of ESG reports.

4.3. Improve the Importance of ESG Information Disclosure

4.3.1. Improve Corporate Awareness of ESG Information Disclosure

Businesses need to take the initiative to set up a standardized management system connected to the disclosure of environmental, social, and governance information. ESG information disclosure should be regarded as the internal needs of the enterprise's own development, and it should not be driven by policies. The board of directors should be responsible for the institutional arrangements and related working mechanisms of ESG information disclosure, and they should consider ESG information disclosure to be an internal need of the enterprise. Disclosure of information regarding ESG should be carried out. Every company operates in an environment fraught with environmental, social, and governance (ESG) challenges, and those companies that choose to disregard these challenges put themselves at a greater risk of being involved in an ESG-related event or scandal. Managing the environmental, social, and governance risks of businesses will surely result in an increase in the competitiveness of such businesses in light of the unpredictability of the external environment.

4.3.2. Standardize Disclosure Indicators

The materiality concept is often regarded as the most important reporting principle for ESG report disclosure. Compiling ESG reports may be challenging for businesses

for more than just one reason: determining how much of an influence a company's actions have on the economy, the environment, and society, and choosing relevant ESG themes, are all key to the reports themselves. Some businesses, in the name of full ESG disclosure, will also include a great deal of irrelevant textual material with the required numerical data. Such reporting provides almost no benefit to investors, companies, or other interested parties. Therefore, the author presents first-level indicator disclosure suggestions for specific substantive concerns in the "E," "S," and "G" dimensions in order to raise the relevance of ESG information disclosure and focus the ESG report on the most significant topics. Carbon emissions and water resource utilization are just two examples of what can fall under the "E" dimension's purview. The former's first-level indicators include things like total carbon emissions and greenhouse gas emissions, while the latter's include things like water consumption and water consumption strength, among others. A few examples of what may be found under the "S" dimension include workplace safety, employee education and development, and societal impact. Among these are the rate of work-related accidents and deaths for the indication of employee health and safety, the average yearly training time for recruitment and training, and the rate of social contributions per employee for the indicator of social contribution. Spending on poverty relief and public welfare contribution amounts are examples of first-level indicators [14]. Organizational operations and management frameworks make up the "G" dimension. Shareholders' meetings, board of directors, board of supervisors, controlling shareholders, director compensation, etc. are all examples of top-level governance structure indicators. The primary operational indicators are mostly related party transactions.

5. Conclusion

More and more companies and organizations, both at home and abroad, are paying attention to ESG as the notion of green economic growth gains traction. My country's ESG information disclosure level must be raised continually so that it may achieve sustainable and healthy business growth and catch up to the rest of the world. This paper briefly describes three significant issues with the current state of ESG disclosure in my nation. In light of these considerations, this study develops an ESG information disclosure framework with the goals of enhancing the transparency, comparability, and trustworthiness of ESG data disclosure. Enterprises and relevant government departments should work together to issue a unified ESG information disclosure framework as soon as possible in order to gradually establish a comprehensive ESG information disclosure system in my country, improve the quality of ESG information disclosure, and combine economic benefits with environmental and social benefits and corporate governance in order to achieve sustainable and healthy development of enterprises and internationalization.

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