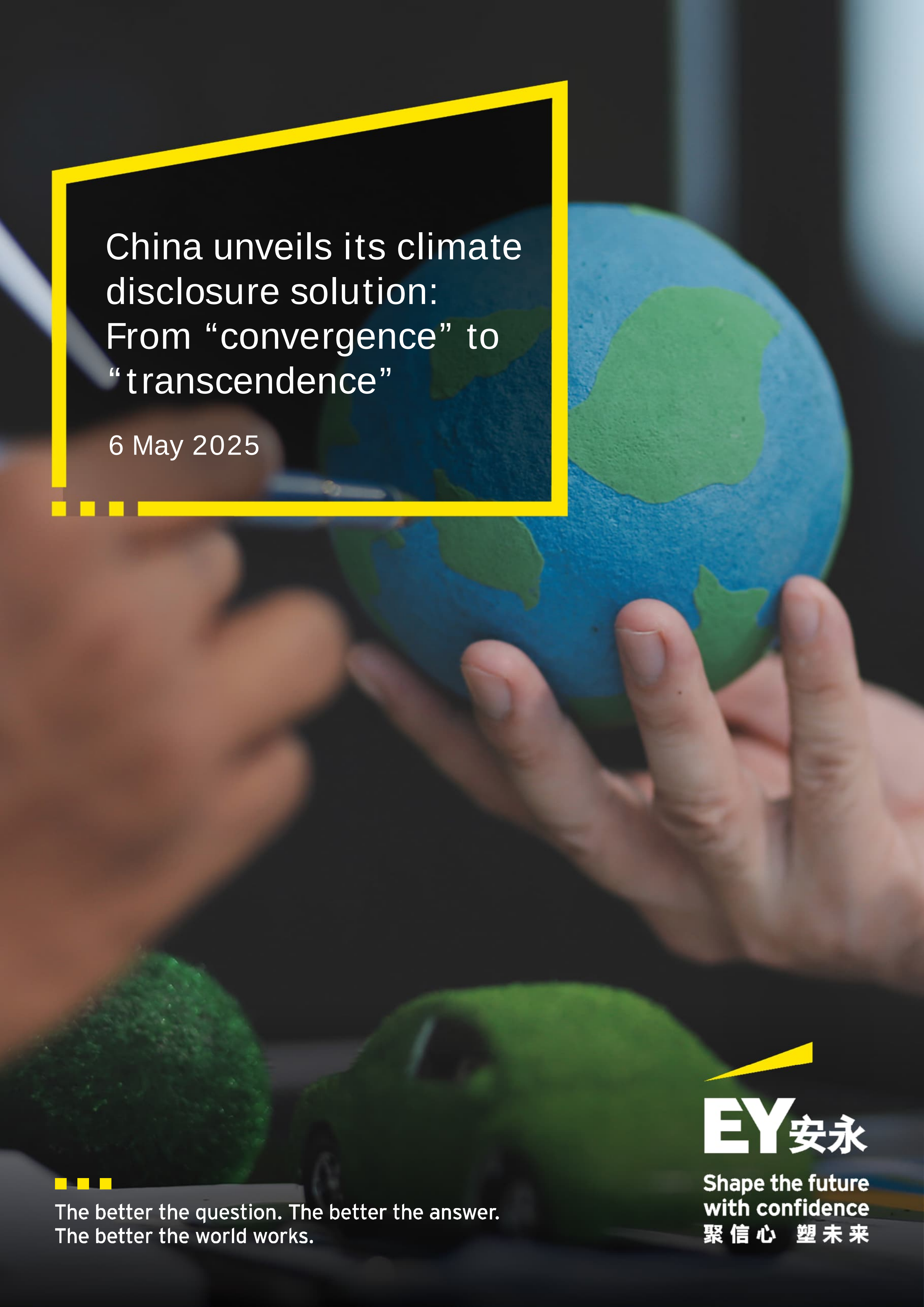

China unveils its climate disclosure solution: From “convergence” to “transcendence”

6 May 2025

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China unveils its climate disclosure solution: From “convergence” to “transcendence”

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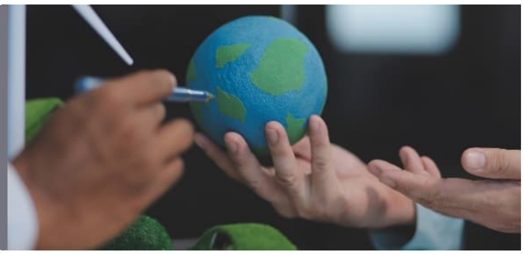

On 30 April 2025, China’s Ministry of Finance (MOF) and the Ministry of Ecology and Environment (MEE) jointly released the *Sustainability Disclosure Standards for Business Enterprises No. 1 – Climate (Trial) (Exposure Draft)* (hereinafter referred to as the *“Climate Standards (Exposure Draft)”*), a pivotal development in establishing a unified national sustainability disclosure framework. Serving as the first specific standard following the release of the *Basic Standard*, this *Climate Standards (Exposure Draft)* not only integrates international best practices, particularly drawing from the core framework of IFRS S2, but also introduces innovative adaptations tailored to China’s institutional landscape, industry characteristics and governance framework. It offers a “Chinese wisdom” to global climate disclosure efforts.

A national “climate ledger” to support the “dual carbon” strategy

The 20th National Congress of the Communist Party of China emphasized the need to accelerate green and low-carbon advancements. Climate disclosure acts as both a “ledger” and a “window” for corporate sustainability, playing a vital role in achieving the “dual carbon” goals. It helps in guiding resource allocation and mitigating environmental as well as financial risks.

The *Climate Standards (Exposure Draft)* expands upon the *Sustainability Disclosure Standards for Business Enterprises – Basic Standard (Trial)* introduced in November 2024. As China’s first climate disclosure standard that applies consistently across all sectors, it was spearheaded by the MOF in collaboration with the MEE, with strong support from the Ministry of Foreign Affairs, the National Development and Reform Commission (NDRC), the Ministry of Industry and Information Technology (MIIT), the Ministry of Commerce (MOFCOM), the People’s Bank of China (PBOC) and the China Securities Regulatory Commission (CSRC). This reflects China’s top-level institutional structure and phased roadmap for sustainable progress.

The drafting team engaged in extensive research on the disclosure capacities and challenges faced by key enterprises, carefully evaluating the applicability of IFRS S2 in the Chinese context. The final drafting principles emphasized the importance of aligning with the *Basic Standard*, converging with international standards, maintaining the separation of standard setting while also addressing practical industry needs.

Alignment with international standards: Similar frameworks, shared principle

The *Climate Standards (Exposure Draft)* comprises six chapters and 47 articles:

Chapter	Articles	Key content
General provisions	4	This section delineates the basis and intention behind the standard setting. It covers the disclosure objectives, outlines the application of proportionality, defines disclosure elements and establishes the framework for climate-related information disclosure.
Governance	5	Detailing the disclosure objectives related to governance, this section covers provisions for disclosing governance bodies or personal and management who are responsible for sustainability, how governance related information can be integrated and the necessity of third-party assurance.
Strategy	11	Focusing on the disclosure objectives concerning strategy, this section clarifies the information regarding climate-related risks and opportunities, their impact on company strategy and decision-making, current and anticipated financial impacts, climate resilience and other disclosure requirements.
Risk and opportunity management	5	This section outlines the disclosure objectives regarding risk and opportunity management. It explains how to disclose the processes related to managing climate-related risks and opportunities, along with provisions on the integration of these processes into the company's broader risk management framework.
Metrics and targets	21	Addressing general climate-related metrics, industry-specific metrics, climate-related targets and the foundation for greenhouse gas emissions accounting, among other aspects.
Supplementary provisions	1	This section specifies the authority of interpretation.

Being China's first structured climate disclosure standard, the draft closely aligns with IFRS S2 in its framework, consisting of governance, strategy, risk and opportunity management, metrics and targets. It places significant emphasis on materiality assessment, proportionality and disclosure tailored towards investors.

At the governance level, both standards underscore board responsibilities, management involvement and transparency in governance processes. For instance, Article 6 of the *Climate Standards (Exposure Draft)* and Article 6 of IFRS S2 mandate enterprises to disclose specifics like the authority, frequency and oversight mechanisms of governance bodies.

Regarding strategy and risk and opportunity disclosure, both standards require enterprises to identify physical risks, transition risks, climate-related opportunities and use scenario analysis to assess climate resilience. Articles 17 to 19 of the Chinese standards outline disclosure requirements for scenario selection, assumption establishment and input data, closely following the technical requirements of Article 22 of IFRS S2.

In terms of metrics and targets, the Chinese standards mandate the disclosure of pivotal metrics such as greenhouse gas emissions (categorized by Scope 1, 2 and 3), internal carbon pricing, carbon credit utilization and how executive pay is linked to climate performance, aligning well with Articles 29 to 36 of IFRS S2.

This approach of "convergence design" not only enhances the transparency and credibility of Chinese enterprises in global markets but also establishes a "bridge" for data alignment between Chinese and foreign regulators, rating agencies and investors.

Distinctive Chinese characteristics: Localized wisdom

While drawing from international standards, the *Climate Standards (Exposure Draft)* stands out as more than a mere replication. The drafting team explored deeply into China's institutional resources and regulatory environment, introducing a series of innovative features with distinct Chinese characteristics:

| 01 Disclosure separated from implementation and pilot initiatives encouraged to ease the burden on companies: To prevent a "one-size-fits-all" approach that could overwhelm enterprises, the *Climate Standards (Exposure Draft)* upholds the principle of "separation of standard setting and implementation". It allows companies to disclose voluntarily based on their capacities and industry specifics. It clearly outlines that implementation requirements will be separately specified, reserving sufficient space for corporate capability building. For instance, Article 16 and Article 18 of the *Climate Standard (Exposure Draft)* offers practical flexibility concerning the financial impacts of climate actions and climate scenario analysis. Moreover, Article 33 exempts enterprises from disclosing certain contract details related to Scope 2 greenhouse gas emissions that involve state secrets, are legally restricted from disclosure, or possess commercial sensitivity.

| 02 Explicit carbon trading financial disclosures: Article 15 of the *Climate Standards (Exposure Draft)* mandates enterprises to quantitatively disclose costs, expenses and financial impacts associated with activities such as carbon emission rights trading and green power certificate acquisitions. This area, currently absent in IFRS S2, shows China's innovative exploration of integrating the "dual carbon" policy framework with financial data.

| 03 Sector-specific guidelines in development: The drafting instructions of the *Climate Standards (Exposure Draft)* affirm ongoing efforts to devise disclosure guidelines tailored to nine sectors such as electricity, steel, coal and automobiles. This initiative addresses significant variations in carbon intensity, exposure to physical risks and technological transition pathways across industries. This dual-tier system of "general + specific" guidelines aims to enhance disclosure comparability and practicality.

| 04 "Climate impact" disclosure – A China-exclusive dimension: Article 4 of the *Climate Standards (Exposure Draft)* introduces the concept of disclosing enterprises' positive or negative impacts on climate change, in addition to risks and opportunities. Unlike the focus of IFRS S2 on "how climate affects enterprises", the Chinese standards explore further on "how enterprises impact climate", fostering environmental responsibility awareness. This highlights a distinctive Chinese approach to environmental co-governance, guiding companies to embrace social responsibilities actively and enhance reputation management.

From disclosure to governance: Driving companies towards deep transition

Disclosure isn't the final step – it's where companies begin taking real green action. The *Climate Standards (Exposure Draft)* serves not merely as a disclosure mandate but as a systematic driver for corporate sustainable governance, guiding enterprises to integrate climate considerations into strategic planning, risk management and internal operations.

The standards mandate the disclosure of climate risk impacts on strategy, business models and financial outcomes. This requires enterprises to not just "report data" but to embody low-carbon transformation intentions in resource allocation, product portfolios and investment strategies. Meanwhile, processes for identifying and monitoring risks must be ingrained in the overall risk management framework to foster intra-organizational collaboration.

Disclosure requirements extend to aspects such as executive compensation tied to carbon performance, internal carbon pricing, among others, directly influencing core incentive and distribution mechanisms in corporate governance. Advanced stipulations such as Scope 3 emissions and financed emissions compel enterprises to enhance data integration and value chain management capabilities.

In essence, information disclosure is evolving into a "hard lever" propelling corporate transformation. Enterprises that effectively show their low-carbon strategy and strong governance will lead in future markets while those with inadequate disclosure and sluggish responses may risk being sidelined within the capital market.

Call for feedback: Collaborating on a set of globally influential Chinese standards

The *Climate Standards (Exposure Draft)* is currently open for public consultation, highlighting these critical issues:

Article	Issue	Specific questions
Article 4	Should the disclosure of climate-related impact information be designated as a standalone chapter?	Proposed requirements outline the disclosure of climate-related impact information. Is it deemed essential to segregate the disclosure of such information into a separate chapter? If a separate chapter is deemed necessary, kindly specify the detailed disclosure requirements for climate-related impact information.
Article 30	Should requirements regarding to referencing the Greenhouse Gas Accounting System for accounting be included?	Given the existing regulations on corporate carbon emissions accounting standards, is it advisable to include a provision stating that "until the release of the corporate carbon emissions accounting standards by relevant national bodies, enterprises can utilize the GHG Protocol for accounting purposes"?
Article 35	Should the provisions concerning financed emissions be integrated into applicable industry application guidelines?	Proposed disclosure requirements for financed emissions are on the table. Is it necessary to incorporate the clause concerning financed emissions within the industry-specific application guidelines of the Climate Standards?

The release of the *Climate Standards (Exposure Draft)* holds profound implications for domestic enterprises and the broader economic and social progress. From an enterprise standpoint, it aids in enhancing environmental risk management, driving internal low-carbon transformations and bolstering competitiveness in green financial markets. Notably, in financial operations, transparent climate information disclosure by enterprises can lower financing expenses and attract more green investments.

From a macro perspective, the *Climate Standards (Exposure Draft)* establishes a unified and standardized regulatory framework for authorities, fostering the sound expansion of green financial markets. It contributes to the realization of national "dual carbon" objectives, advancing sustainable economic and social development. While aligning with international standards through "convergence", the Chinese standards also inject "Chinese wisdom" and innovative solutions into global climate-related information disclosure standards, amplifying China's influence in international climate governance.

Looking forward, with the gradual introduction of industry-specific guidelines, the maturation of disclosure capabilities and the phased implementation of mechanisms, Chinese climate disclosure standards are positioned to become a pivotal institutional driver in shaping global environmental governance.

Amid the escalating climate crises and mounting global consensus, China shows to the world an open, responsible and action-oriented ethos in sustainable development governance, supported by a clear and pragmatic set of standards.

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