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Shanghai Stock Exchange

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Re:

- **Shanghai Stock Exchange's Consultation on "Self-Regulatory Guidelines for Listed Companies on Shanghai Stock Exchange No. 14 - Sustainability Report (for Trial Implementation) (Consultation Draft)"**
- **Shenzhen Stock Exchange's Consultation on "Self-Regulatory Guidelines for Listed Companies on Shenzhen Stock Exchange No. 17 - Sustainability Report (for Trial Implementation) (Consultation Draft)"**
- **Beijing Stock Exchange's Consultation on "Guidelines on Continuous Supervision of Listed Companies on Beijing Stock Exchange No. 11 - Sustainability Report (for Trial Implementation)"**

To whom it may concern:

BlackRock¹ is pleased to have the opportunity to respond to the Shanghai Stock Exchange, Shenzhen Stock Exchange and Beijing Stock Exchange's public consultations issued on February 8, 2024, regarding the "Self-Regulatory Guidelines for Listed Companies on Shanghai Stock Exchange No. 14 - Sustainability Report (for Trial Implementation) (Consultation Draft)", "Self-Regulatory Guidelines for Listed Companies on Shenzhen Stock Exchange No. 17 - Sustainability Report (for Trial Implementation) (Consultation Draft)", and "Guidelines on Continuous Supervision of Listed Companies on Beijing Stock Exchange No. 11 - Sustainability Report (for Trial Implementation)" (collectively referred to below as "Guidelines").²

BlackRock supports a regulatory regime that increases transparency, protects investors' interests and promotes well-functioning capital markets. We are pleased to have the opportunity to participate in the public consultation on the Guidelines, and to contribute to the discussion on issues that are important to or that may impact our clients' interests.

¹ BlackRock's purpose is to help more and more people experience financial well-being. As a fiduciary to investors and a leading provider of financial technology, we help millions of people build savings that serve them throughout their lives by making investing easier and more affordable. For additional information on BlackRock, please visit www.blackrock.com/corporate.

² Unless otherwise noted, the terms used in this consultation response would have the same meaning as those used in the Guidelines.

Materiality

The Guidelines ask disclosing entities to identify whether each Guideline topic has financial or impact materiality, taking into consideration the characteristics of the industry and business in which they operate.

BlackRock Investment Stewardship (BIS) encourages companies to have sound corporate governance and business practices that support the durable, long-term financial value creation that our clients depend on to achieve their investment goals. As part of our fiduciary responsibilities as an asset manager to act in our clients' financial interests, we assess a range of risks and opportunities that can affect the long-term performance of the companies in which we invest on their behalf.

It is our view that well-managed companies will effectively evaluate and manage material sustainability-related risks and opportunities relevant to their businesses. As with all risks and opportunities in a company's business model, appropriate oversight of material sustainability considerations is a core component of having an effective governance framework, which supports durable, long-term financial value creation.

Robust disclosure allows investors to effectively evaluate companies' strategy and business practices related to material sustainability-related risks and opportunities. Long-term investors like our clients can benefit when companies demonstrate that they have a resilient business model through disclosures that cover governance, strategy, risk management, and metrics and targets, including industry-specific metrics.

To better enable disclosing entities to prepare for sustainability reporting, we encourage the Exchanges to provide implementation guidance, such as how to identify and assess materiality, taking into account international standards including the "General Requirements for Disclosure of Sustainability-related Financial Information" (IFRS S1) Appendix B, and the "Climate-related Disclosures" (IFRS S2) Appendix B. Long-term investors can benefit from reporting aligned with a global baseline set of standards with industry-specific guidance, such as in the industry-based guidance on implementing IFRS S2.³

Alignment with international standards

We note that the Guidelines references relevant content of the IFRS Standards, such as the disclosure around the four pillars of the Task Force on Climate-related Financial Disclosures (TCFD) framework. Long-term investors like BlackRock's clients can benefit from high-quality sustainability-related disclosures, and we maintain that reliable, comparable, and consistent sustainability-related disclosures by companies across jurisdictions are essential for investors who wish to integrate material sustainability-related risks and opportunities into their investment decision-making processes. We also view both the IFRS S1 and IFRS S2 as important contributions to a multi-year, multi-jurisdictional effort towards improving the availability, quality, comparability, timeliness, and interoperability of sustainability-related disclosures. We find that the two standards serve as a global baseline of sustainability disclosure standards to provide investors with comparable information to assess issuers' plans to mitigate material sustainability-related risks generally, including material climate-related risks.

³ International Sustainability Standards Board, "IFRS S2 Industry-based Guidance on implementing Climate-related Disclosures", June 2023.



The Guidelines also include disclosure guidance for other sustainability-related topics, which can include supply chain management, human capital management, technology innovation and ethics, among others. As the industry and international discussions around these topics continue to progress, we recommend the Exchanges monitor these discussions and consider adopting key elements when and where deemed necessary and applicable, so as to leverage useful international developments and standards.

Potential inclusion of more disclosing entities and a “comply or explain” approach

The Guidelines require sustainability disclosure from sample companies in certain indexes and companies that are concurrently listed overseas, while disclosures by other listed companies are encouraged (voluntary disclosure for companies listed on the Beijing Stock Exchange). We hope that the Guidelines requiring sustainability disclosure from the above companies is the first step in a phased approach to eventually requiring all listed entities to report sustainability information. We would encourage the Exchanges to disclose any planned timeline (if available) for market-wide sustainability reporting, so that other listed companies can begin participation as relevant.

For issuers that are already included in the Guidelines, or may be included in the future, and are required to make sustainability disclosures, it is our view that a flexible approach, such as a “comply or explain” approach, can better encourage more comprehensive sustainability disclosures over time, as issuers’ determinations of whether to comply or explain will inevitably change as standards and methodologies mature and become more widely adopted, as well as when reporting infrastructure becomes more well developed.

Based on our observations, there are risks associated with mandating burdensome disclosures that are beyond an issuer's capacity and resources. We are mindful that mandatory prescriptive requirements for premature and onerous disclosures could have the unintended consequence of creating a chilling effect on early adopters or diverting issuers’ efforts from mature disclosure items that are important to get right.

Furthermore, although regulating disclosure of private companies does not fall within the remit of the Exchanges, we are of the view that mandating reporting across both public and private markets can be critical to averting unintended consequences in the capital markets such as (1) the sale of physical assets to private companies to avoid disclosure, and (2) private companies being potentially disincentivized from going public, decreasing choice for public market investors. Uniform disclosures can also provide market participants with a clearer understanding of how the transition to a lower carbon economy is unfolding across the entire economy. The absence of consistent private and public market disclosure standards risks placing public companies in the position of having to step into the role of policing partners in their value chain and clients, through negotiating the implementation and monitoring of the data they need for their own disclosures, such as private companies’ greenhouse gas (GHG) emissions reporting. Indeed, the Guidelines mention that disclosing entities could disclose Scope 3 emissions if able to do so. However, it would be difficult for listed companies to disclose Scope 3 emissions if companies in their value chains have not disclosed this information already.

Liability protection

In our view, liability should be commensurate with the evolving nature of sustainability-related disclosure, to encourage rather than discourage higher quality disclosure. We encourage the Exchanges to adopt liability frameworks that provide meaningful protection from legal liability for disclosures provided in good faith while standards continue to evolve.



For example, in some jurisdictions this may be provided in the form of a safe harbor from liability. This would give companies the flexibility they need to develop their disclosures without creating a chilling effect.

Specific guidance on emissions reduction targets

We note that the Guidelines require entities to disclose information related to emissions reduction, including emissions reduction targets. However, no further guidance has been given regarding the specifics of target-setting. To understand a company's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set and any targets it is required to meet by law or regulation, investors would find it useful for companies to describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets (including how the company monitors progress against its targets over time, the use of offsets, if any, and whether or not the target has been validated by a third party). As such, we encourage the Exchanges to provide more detailed guidance regarding the target-setting of disclosing entities.

The disclosure of milestones or interim targets is valuable for investors' assessment of an issuer's preparedness and transition plan. Consistent with the IFRS standards, we are better able to assess preparedness for the low-carbon transition when companies disclose short-, medium- and long-term targets, ideally science-based where these are available for their sector, for scope 1 and 2 GHG reductions and to demonstrate how their targets are consistent with the long-term financial interests of their investors.

Without disclosure of any short- or medium-term targets, investors may struggle to assess the credibility of a transition plan and the progress made by a company along its transition pathway.

Regards,

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