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Date: 26.05.25

Consultation on the Sustainability Disclosure Standard for Business Enterprises No. 1 – Climate (Trial) Exposure Draft

We refer to the Ministry of Finance's (MOF) invitation to comment on the exposure draft for the Sustainability Disclosure Standard for Business Enterprises No. 1 – Climate (Trial) (Climate Standard ED) and welcome the opportunity to provide feedback. This consultation represents a key milestone in China's roadmap to develop and fully implement a national unified sustainability disclosure standards system by 2030.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with USD 1.7 trillion at 31 December 2024, of which USD 40.7 billion (CNY 297.0 billion) was invested in the shares of 651 China listed companies.

As a long-term investor, we consider our returns over time to be dependent on sustainable economic, environmental and social development, as well as on well-functioning, legitimate and efficient markets. We are active investors in over 65 countries and require reliable, consistent and comparable sustainability-related financial information across global capital markets. We strongly support the ISSB as the global baseline of investor-focused standards for sustainability-related financial disclosures. The ISSB standards share the same conceptual foundations as the International Accounting Standards Board (IASB) financial reporting standards. Investors will be able to receive sustainability-related financial information that is concurrent, connected and complementary to financial statements. This is critical for us to formulate a holistic view of a company's performance and prospects over different time horizons and inform our investment decisions, risk management processes and stewardship activities.

Accordingly, we commend the MOF's ISSB-aligned proposal as a significant step towards enhancing the quality and comparability of climate-related information disclosed by Chinese reporting entities. We particularly appreciate the Whole-of- Government approach adopted by the MOF working jointly with 9 other ministries and regulators to develop and deliver the national sustainability disclosure standards system. This integrated approach will ensure that the development and the implementation of the disclosure standards will be consistent, coordinated and applicable across different government mandates and regulatory frameworks.

Please find below our responses to the consultation questions, which are intended to support further alignment of the Climate Standard ED with IFRS S2. Enhancing the global comparability of climate-related information from China listed entities will facilitates cross border capital flows to finance China's sustainable economic development.

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Q1. Article 4 of the Climate Standard ED sets out principle requirements for the disclosure of climate-related impact information. Is it necessary to regulate the disclosure of climate-related impact information in a separate chapter? If a separate chapter is needed, please list in detail the specific disclosure requirements for climate-related impact information.

A1. The Chinese national sustainability disclosure standards system is intended to support implementation of public policy objectives. The standards have to meet information needs of other users beyond primary users who are investors and creditors, as set out in Article 8 of the Basic Standard.

Whilst Article 4 of the Climate Standard ED states that climate-related impact information should not obscure the climate-related information intended for primary users, we recommend further alignment with IFRS S1 B27. Article 4 can specify that climate-impact information must be clearly identified and distinguished from climate-related financial information and explain what it means for information to be obscured. To achieve such distinction, the MOF can consider leveraging the IFRS Sustainability Disclosure Taxonomy (ISSB Taxonomy) to tag disclosures intended for primary users. As the ISSB Taxonomy is consistent with the IFRS Accounting Taxonomy, investors will be able to access a holistic digital financial reporting package from reporting entities.

We encourage the MOF to consider alignment with the European Sustainability Reporting Standard (ESRS) E1 Climate Change, once that has been revised, for disclosure requirements for climate-related impact information. The ESRS standards are interoperable with the ISSB standards, and EFRAG intends to align the ESRS language as much as possible with the ISSB standards for common disclosures during the ongoing revision and simplification process. The MOF could also refer to the GRI sustainability standards for relevant impact indicators, given the GRI standards are used by 77% of the largest 250 companies in the world¹. This will reduce the reporting burden for Chinese companies and also strengthen their positions in global supply chains and financial markets.

Q2. Article 30 of the Climate Standard Draft regulates enterprise carbon emission accounting standards. Is it necessary to add the requirement that "before the enterprise carbon emission accounting standards formulated by relevant national departments are issued, enterprises may use the Greenhouse Gas Protocol (GHG Protocol) for accounting"?

A2. It is necessary to include the GHG Protocol into Article 30 for use in the interim period so that investors receive emissions data that is comparable both within China and across jurisdictions.

We acknowledge that Article 30 is aligned with IFRS S2 (P29aii) which allows reporting entities to use greenhouse gas emissions measurement methodologies mandated by a jurisdictional authority or exchange on which the entity is listed. However, we recommend that China considers maximising alignment and interoperability of the national Carbon Emissions Statistical Accounting System currently under development with the GHG Protocol. This enhances comparability and therefore the decision usefulness of climate-related information disclosed by China listed entities.

¹ 2024 KPMG Survey of Sustainability Reporting based on the largest 100 companies in 58 countries



Q3. Article 35 of the Climate Standard Draft sets out disclosure requirements for financed emissions. Is it necessary to move the provisions on financed emissions to the relevant industry application guidelines of the Climate Standard?

A3. It is not necessary to move the provisions on financed emissions to the relevant industry application guidelines. Financed emissions are the most important scope 3 category for financial institutions and significantly outweigh scopes 1 and 2 emissions. It is consistent to maintain these provisions in the Climate Standard ED so that it provides comprehensive reporting requirements for all 3 GHG emissions scopes. The MOF may consider clarifying scope 3 reporting requirements for financial institutions in line with the ISSB Exposure Draft Amendments to GHG Emissions Disclosures for IFRS S2.


Q4. Other comments and suggestions.

A4. The MOF has initiated the development of industry guidance for 9 high emitting sectors, namely aluminium, automotive, cement, coal, fertiliser, hydrogen, petroleum, power and steel. The ISSB is in the process of enhancing the quality, international applicability and proportionality of its industry specific guidance. Later this year, the ISSB will consult on amendments to the SASB standards for 8 industries in the Extractives and Minerals Processing sector (including coal, construction materials, iron and steel, metals and mining, oil and gas) and for the Electric Utilities & Power Generators industry. As there is significant overlap between the 9 MOF sectors and these SASB industries, we would highly encourage the MOF to use the enhanced SASB standards as a basis from which to develop its industry guidance.

The SASB standards are used by 56% of the world's largest 250 companies and 67% of the largest companies in North America². Maximising alignment of the MOF industry guidance with the SASB standards, which are also used by many international investors, will maximise the comparability and decision usefulness of disclosures by China listed entities.

We thank you for considering our perspective and remain at your disposal should you wish to discuss these matters further.

Yours sincerely

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Carine Smith Ihenacho
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² 2024 KPMG Survey of Sustainability Reporting