

Green Securities Research Report (2)

Listed company environmental
observation & semi-annual reports
of listed companies vary in quality
of environmental disclosure



PECC

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Green Securities Research Report 2
Listed Company Environmental Observation & Semi-annual Reports
of Listed Companies Vary in Quality of Environmental Disclosure

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Abstract

According to the analysis report of KPMG science and technology industry innovation survey 2020, influenced by COVID-19, the public has raised concerns about corporate social responsibility, and listed companies seem to pay more and more attention to the environment. For work-related to social responsibility and corporate governance (ESG), ESG is considered to be included in operation management. 86% of respondents said that the industry needs to formulate more codes and guidelines on sustainable development, which may promote the development of global ESG and arouse the attention of listed companies to social responsibility.

At present, more than 30 countries and regions around the world have established ESG information disclosure systems for listed companies. Information disclosure requirements gradually move from "encouraging disclosure" to "interpretation without disclosure" and "mandatory disclosure".

In the article "negative behavior, transaction changes and ESG risk management" published by the International Research Institute of green finance of the Central University of Finance and economics, it is demonstrated that ESG risk will have an impact on the market performance of listed companies. Based on the results of Shanghai and Shenzhen 300esg scoring data in 2019, it can be found that there are few transaction changes in the top ten industries with average ESG scores during the evaluation year. The industries with the last ten ESG average scores have had more transaction changes during the evaluation years, indicating that their poor performance in social responsibility, corporate governance, and environmental protection has hurt their market transactions in the short term.

A report published by Schneider Invest shows that environmental effects are closely related to the performance of the stock market. The report says: Taking the expected performance of the stock market as an example, the impact of rising temperature on the stock market is generally real-time and negative. Even if the possible delayed response is taken into account, the stock market in most regions still has a negative impact.

At the two sessions held this year, Zhao Haiying, member of the CPPCC National Committee and deputy general manager of CIC, and Tu Guangshao, member of the CPPCC National Committee and former general manager of CIC, submitted a proposal on "exploring and establishing Chinese standards for 'responsible investment' as soon as possible and vigorously promoting China's ESG investment practice", The proposal points out that "information disclosure is the first step and basic link in practicing responsible investment, and quantitative information disclosure is the shortboard of social responsibility information disclosure of Listed Companies in China. The disclosure guidelines should be based on the principle of step-by-step, gradually expand the coverage of information disclosure enterprises, guide enterprises to improve the quality of information disclosure, and advocate the verification of information by third-party institutions."

The core of green securities is the full disclosure of environmental information of listed companies. PECC sent letters to 69 listed companies this time to sort out the current situation of environmental disclosure of Listed Companies in China, emphasize the importance and necessity of environmental disclosure, and explore the judgment of major environmental violations. After communicating with the CSRC, Shenzhen Stock Exchange, and Shanghai Stock Exchange, PECC found that: from the perspective of regulatory authorities, the CSRC and Shenzhen Stock Exchange responded positively to PECC's letters and strictly checked the environmental disclosure standards of listed companies; The Shanghai Stock Exchange responded passively and will not check the environmental disclosure of listed companies one by one. From the perspective of listed companies themselves, 15 listed companies actively contacted PECC, and 30 listed companies responded on behalf of the Shenzhen Stock Exchange. PECC promoted * ST Shengli, Kerong environment, * ST Linzhong, and Punai to make supplementary announcements and disclosure. Punai responded positively to PECC's single fine of 50000 yuan and said it would make

supplementary disclosure; For Datang Power Generation and Guodian power, listed companies on Shanghai Stock Exchange, all key pollutant discharge units did not disclose the pollutant discharge information required by the CSRC in the 2019 semi-annual report. Kailuan shares, * ST Salt Lake, Shougang shares, these listed companies, there is a single ticket of more than 1 million yuan, but they say there is no lack of environmental disclosure. It can be seen that the semi-annual environmental disclosure of listed companies is mixed.

1. Domestic background

——Mandatory disclosure is a foregone conclusion

In fact, since 2003, China began to require listed companies with serious pollution to disclose environmental information. According to the requirements of the guiding opinions on building a green financial system (YF [2016] No. 228), the CSRC has formulated the implementation plan for environmental disclosure of listed companies, and established a system for mandatory environmental disclosure of Listed Companies in three steps: the first step is to revise the content and format standards of periodic reports of listed companies by the end of 2017, voluntary disclosure; The second step is to enforce the mandatory disclosure of environmental information by key pollutant discharge units in 2018, explain without disclosure; The third step is to require all listed companies to mandatory environmental disclosure by December 2020.

According to the news of the CSRC on July 24, 2020, to implement the new securities law implemented on March 1, 2020, and continuously strengthen the supervision of information disclosure, the CSRC has drafted the measures for the administration of information disclosure of listed companies (Revised Draft) (Draft for comments) and is now seeking opinions from the public. The revised draft said that the responsibility of the board of directors in the disclosure of periodic reports should be further strengthened, and it was required that the contents of periodic reports should be reviewed and approved by the board of directors; Where directors, supervisors, and senior managers are required to be unable to guarantee the authenticity, accuracy, and completeness of the contents of the periodic report or have objections, they shall express their opinions and state the reasons in the written confirmation opinions, which shall be disclosed by the listed company. Where a listed

company does not disclose, directors, supervisors, and senior managers may directly apply for disclosure.

Therefore, from the state to the local, it is a foregone conclusion that all listed companies in China must disclose environmental information. According to statistics, the United States has significantly reduced the emission of pollutants by enterprises through the mandatory disclosure of the toxic substance emission list (TRI). As the representative of Chinese enterprises, listed companies need to set an example, start to examine and evaluate their environmental disclosure, and strengthen and improve their environmental disclosure.

disclosure in various provinces (municipalities / autonomous regions)

As can be seen from Figure 2-1, 69 listed companies with insufficient environmental disclosure in the 2019 semi-annual report are distributed in 19 provinces, cities, and autonomous regions, and are mainly concentrated in Beijing, Shanxi, Henan, Jiangsu, Zhejiang, and other places, which may be related to the office location of listed companies, regional industry distribution, regional central position, etc.

2.2.2 Disclosure overview

In the information disclosure of the 2019 semi-annual report of 69 listed companies, 32 family members of Shenzhen Stock Exchange and 37 family members of Shanghai Stock Exchange. Three (4.35%) listed companies did not disclose all their key pollutant discharge units; two (2.90%) listed companies did not disclose casualties and safety accidents; two companies were seized and detained without disclosure.

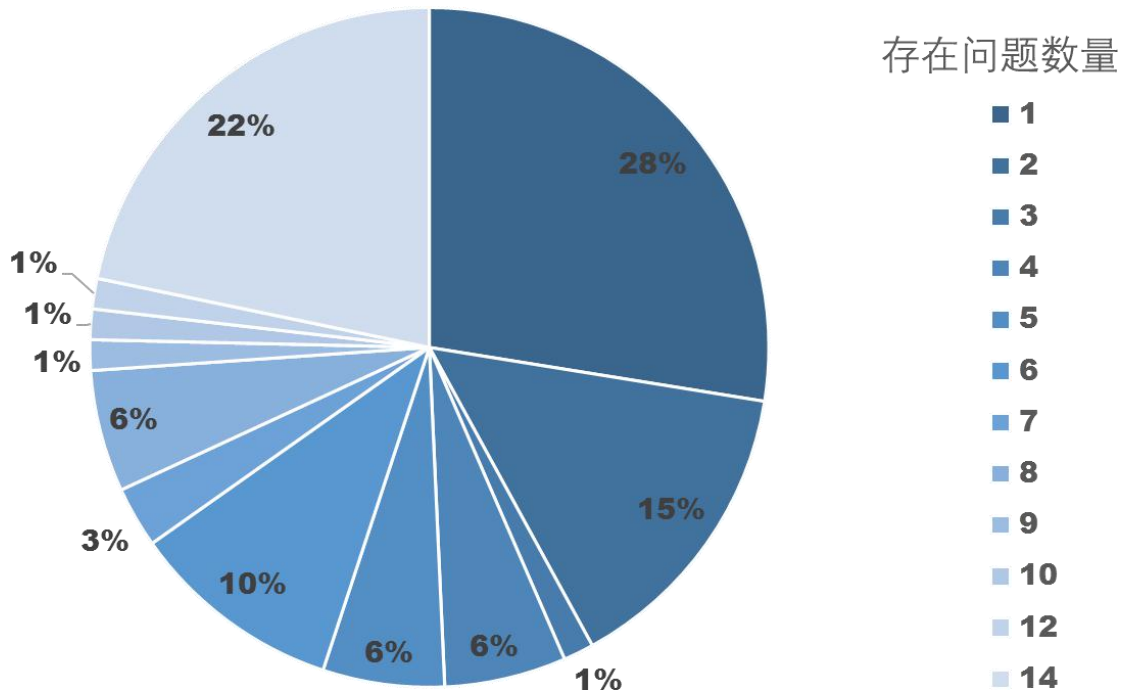


Figure 2-2 Overview of the number of undisclosed problems of Listed Companies in this study

According to the standards for the content and format of information disclosure by companies offering securities to the public No. 3: content and format of the semi-annual report (revised in 2017) According to the regulations, 14 environmental-related information shall be disclosed in the semi-annual report. 28% of the listed companies did not disclose one item, that is, the administrative punishment records were not disclosed; 22% of listed companies did not disclose 14 key pollutant discharge units.

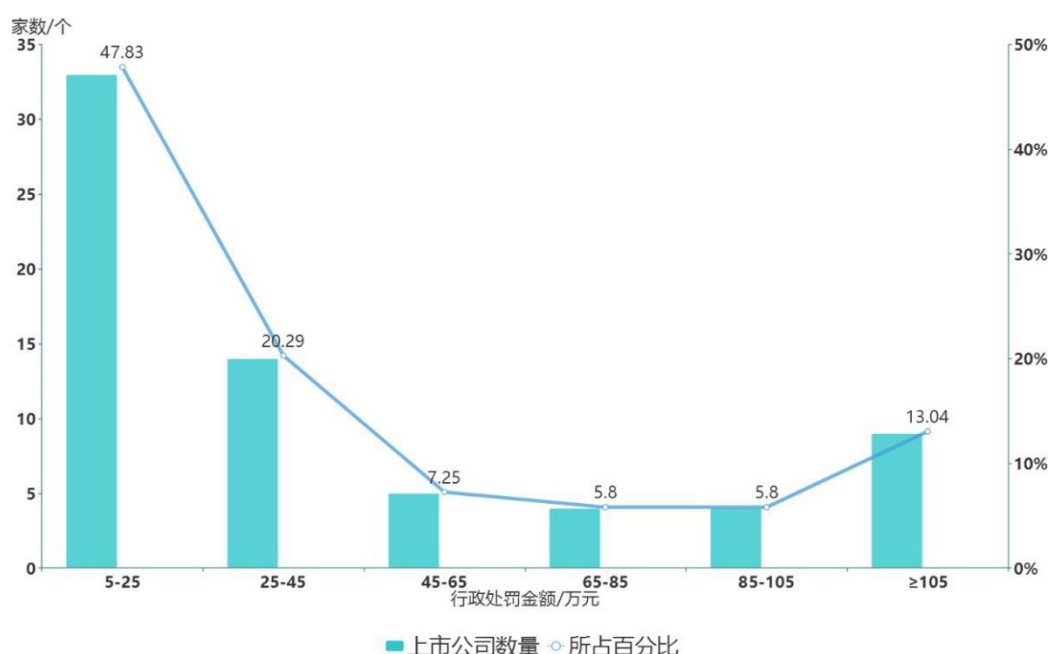


Figure 2-3 Overview of the amount of administrative punishment of Listed Companies in this study

According to the regulatory records of incomplete statistics, the number of administrative penalties of 69 listed companies, 47.83% of the listed companies has a fine of RMB 50000-250000, 20.09% of the listed companies have a fine of RMB 250000-450000, 18.85% of the listed companies have a fine of RMB 450000-1050000, and 13.04% of the listed companies have a fine of more than RMB 1050000 (inclusive).

2.2.3 Reply overview

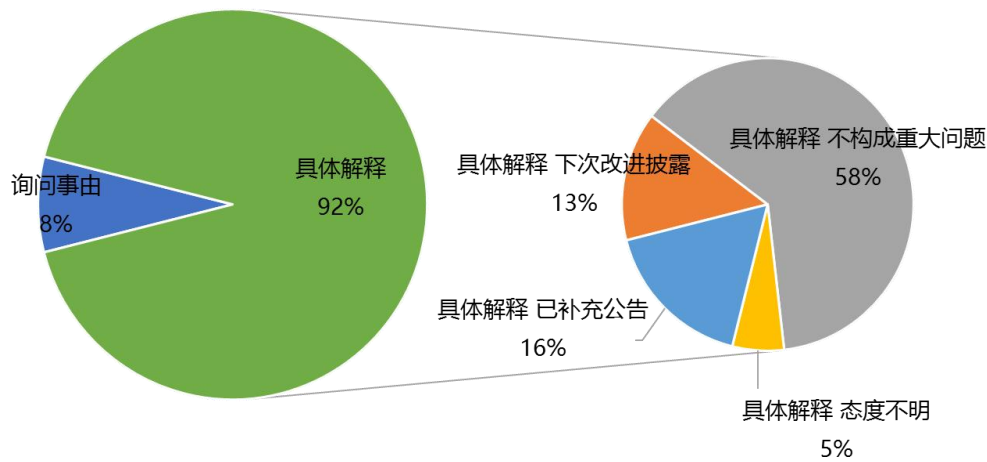


Figure 2-4 Responses of Listed Companies in this study

As of July 24, 2020, a total of 15 listed companies have actively contacted Lvse Jiangnan. Among the 32 listed companies in Shenzhen, the Shenzhen Stock Exchange replied on behalf of 30 listed companies. 8% of the listed companies did not make an obvious explanation, only asked about the reasons for the letter sent by Lvse Jiangnan; 92% of listed companies made specific explanations for the reasons for the nondisclosure of environmental information. Among them, 58% of listed companies believe that the undisclosed environmental information does not constitute a major problem, so it does not need to be disclosed; 16% of the listed companies indicated in the reply that they had made supplementary announcement and disclosure; 13% of listed companies will improve the disclosure in the next periodic report; 5% of the listed companies did not involve the environmental supervision records of the key pollutant discharge unit in their reply, and did not make a statement on whether the environmental information was fully disclosed.

3. Status discussion

3.1 The disclosure status is mixed

3.1.1 Several listed companies choose to supplement the announcement

In this letter, Shengli precision called PECC, Explains that the administrative punishment of the subsidiary was temporarily disclosed on cninfo.com in the form of an announcement on June 1, 2019 (Announcement No.: 2019-052). Meanwhile, the company acknowledges the lack of environmental disclosure except for administrative punishment and will correct it in future environmental disclosure. PECC believes that the company takes the initiative to disclose a fine of 400000 yuan in the form of an announcement, and explains the rectification measures and impact on the company to investors. Shengli precision's positive attitude is socially responsible It is worth learning. In addition, Yangfan's new material has also fully disclosed the administrative penalty of RMB 85000 in the "section V important information" and "ten penalties and rectification" of its 2019 semi-annual report.

At the same time, Kerong environment, * ST Linzhong, and Punai think their disclosure is insufficient, so they make supplementary disclosure in the form of announcement. PECC only counted 4 regulatory records in its letter to * ST Linzhong, but the supplementary announcement of * ST Linzhong completely disclosed the administrative punishment records of key pollutant discharge units in the half-year of 2019. The administrative penalty of the key pollutant discharge unit of Punai Co., Ltd. was 50000 yuan, but it was disclosed in a supplementary announcement, which is worth learning by all listed companies.

In reply to PECC, Sansheng explained that its administrative punishment records had been fully disclosed in the 2019 annual report, so they were not disclosed in the 2019 semi-annual report.

By querying the environmental database on IPE's official website, we can see that the cumulative fine of the above-listed companies does not exceed 700000 yuan,

and the single fine is at least 20000 yuan and at most 550000 yuan. However, other listed companies belonging to the Shenzhen stock exchange with a fine of much more than 550000 yuan reply that the fine amount is small, which does not constitute a major environmental problem, so it does not need to be disclosed.

3.1.2 High fines were concealed

Datang Power Generation, Guodian power, and Kailuan shares of companies listed on Shanghai Stock Exchange; Shenzhen Stock Exchange * ST Salt Lake, Xinye textile, Shougang, these listed companies, the cumulative amount of administrative punishment exceeds 1 million yuan. Some listed companies still have accidents of seizure and safety death, but they have not been disclosed in the 2019 semi-annual report, and they all believe that their amount of administrative punishment is small and does not need to be disclosed.

Datang Power Generation and Guodian power did not disclose the emission information required by the CSRC in the 2019 semi-annual report. Kailuan Co., Ltd. has a single ticket of more than 1 million yuan, * ST Salt Lake has a single ticket of more than 1 million yuan many times, but it said in its reply: "after self-inspection, the lack of environmental supervision record of Salt Lake magnesium industry has been eliminated <http://permit.mep.gov.cn/permitExt/outside/default.jsp> The website has been made public. The website has been disclosed in the annual report and semi-annual report, and there is no lack of environmental disclosure." Lvse Jiangnan looked through the website and found no relevant regulatory records. Shougang's key pollutant discharge units were fined up to 1.3 million yuan each time. In the reply, it said: "environmental information and environmental violations that meet the disclosure standards have been disclosed in the relevant periodic reports according to the requirements of the rules." Its 2019 semi-annual report said that "the company has no punishment and rectification

3.1.3 The administrative penalty has been revoked but there is

no way to know

Satellite Petrochemical said in its reply: "there are no matters that should be disclosed but not disclosed, and Pinghu Municipal People's government has revoked the administrative punishment on Pinghu petrochemical." Due to the limitation of public access to information, PECC failed to learn that the Ping Huan Jing Zi [2019] No. 11 fine of RMB 235000 has been revoked by the local government. Therefore, it is suggested that listed companies and subsidiaries can make public remarks on relevant platforms to eliminate barriers to information exchange. For example, the azure enterprise app contains the regulatory records of 2554 listed companies and 7120386 enterprises. The platform includes a comment function for enterprises to make comments immediately.

3.2 Regulatory response status

3.2.1 Shanghai stock exchange followed up passively

On June 18, 2020, PECC also sent a letter on the lack of environmental disclosure in the semi-annual report of listed companies to the CSRC, Shenzhen Stock Exchange, and Shanghai Stock Exchange. The letter shows that it has been signed.

On June 20, 2020, Shenzhen Stock Exchange called PECC to ask for the detailed rules and began to send the replies of various listed companies by e-mail on July 3. However, we have not received a reply from the Shanghai Stock Exchange.

On the afternoon of July 20, 2020, PECC reported to the CSRC that Shanghai Stock Exchange had not accepted the environmental disclosure of Listed Companies in the Shanghai stock market for a long time. On the morning of July 21, 2020, Shanghai Stock Exchange called PECC, reply that "It is known in this letter that information disclosure verification is the work of Shanghai Stock Exchange and will not be investigated separately. If you want to understand the information disclosure punishment of Listed Companies in Shanghai Stock Exchange, you can turn to the website of the Shanghai Stock Exchange later. For the environmental disclosure of 37 listed companies, one enterprise will not carry out a specific discussion, and no

specific reply will be made. This reply is strictly by the measures for the administration of letters, visits, and reports of the Shanghai Stock Exchange, if you are not satisfied with the results of this reply, you can complain about it. "

For the "acceptance of different enterprises and one discussion" of the Shanghai Stock Exchange, PECC reviewed the administrative measures for letters, visits, and reports of Shanghai Stock Exchange, 1 and did not find the basis for this reply. However, it is found that the management measures indicate that:

"Chapter III proposal of complaint reporting matters Article 8 the exchange accepts the following complaint reporting matters: (5) matters related to the information disclosure of Listed Companies in Shanghai stock market;

Chapter IV acceptance of complaint reporting matters Article 24 If the office can reply on the spot whether it is accepted or not after receiving the complaint reporting matters, it shall reply on the spot; If it is unable to reply on the spot, it shall record it and inform the complainant in writing or by telephone within 15 days from the date of receiving the complaint report, except that the complainant's name (name) and contact information are unclear or false, or it is explicitly required that no reply is required;

Chapter V handling and supervision of complaint reporting matters Article 32 The complaint reporting staff of the office shall register the complaint reporting matters one by one and handle them in the following ways: (2) the complaint request with clear facts shall be investigated and verified by relevant laws, administrative regulations, rules, the business rules of the exchange and the actual situation; "

3.2.2 Shenzhen Stock Exchange responded positively

On June 18, 2020, PECC sent a letter to Shenzhen Stock Exchange. On June 22, Shenzhen Stock Exchange called PECC to actively consult the details and began to check the details of environmental disclosure of 31 Listed Companies in Shenzhen. As of July 24, 2020, PECC had received the environmental disclosure investigation of 30 listed companies in turn. Only China international shipping container (Group) Co., Ltd. had not replied. PECC had contacted the company many times, but the company

said that it had submitted the reply statement to Shenzhen Stock Exchange.

Promote Kerong environment, * ST Linzhong, Punai shares, and Yangfan new materials to make supplementary disclosure in the form of announcement. In addition, the Shenzhen Stock Exchange gave * ST Linzhong oral warning for failing to disclose the environmental protection administrative punishment and other matters of its subsidiaries in time; For Punai shares, remind it to standardize its operation, effectively improve the quality of information disclosure, and effectively do a good job in investor relations management.

3.3 How to identify major environmental issues

Generally speaking, whether the problem is serious or not is often measured by property loss and casualties. There is no clear definition of major violations in the field of environmental protection in China's current laws and regulations.

In the answers to some questions on initial business issued by the CSRC, it is pointed out that: (1) "major illegal act" refers to the act that the issuer and its controlling shareholders and actual controllers are subject to criminal punishment or serious administrative punishment in violation of national laws and administrative regulations. The following factors should be considered in identifying major illegal acts:

1) The existence of criminal crimes such as corruption, bribery, misappropriation of property, misappropriation of property, or destruction of the order of the socialist market economy shall, in principle, be recognized as major violations. 2) An illegal act subject to an administrative penalty of more than a fine may not be recognized as a major illegal act if one of the following circumstances occurs and the intermediary institution issues a clear verification conclusion: ① the illegal act is significantly minor and the amount of fine is small; ② The relevant punishment basis does not determine that the act is serious; ③ The competent authority shall prove that the act is not a major violation of the law. However, the above circumstances shall not apply if the illegal act leads to serious environmental pollution, heavy casualties, adverse

social impact, etc., and is imposed with an administrative penalty of more than a fine.

Article 78 of the supplementary provisions of Chapter VIII of the measures for environmental administrative punishment (2010) [definition of large amount of fine] states: "the" large amount "fine and confiscation referred to in Article 48 of these Measures refer to RMB 5000 or more for citizens and RMB for legal persons or other organizations (or equivalent value) more than 50000 yuan. "PECC believes that this article has made a corresponding judgment on the amount and degree of fines in the field of environmental protection, which can be used for reference.

During the communication with the listing, they put forward different views:

From the perspective of 58% of the listed companies that do not believe that the undisclosed environmental information does not constitute a major problem, the vast majority of listed companies, based on subjective judgment, believe that the administrative punishment of their key pollutant discharge units does not belong to a major environmental violation problem, and some believe that whether the Environmental Violation problem will be disclosed will be considered when the general fine amount reaches 1 million yuan.

A listed company belonging to Shanghai Stock Exchange believes that it should refer to Article 11.12 of the Listing Rules of Shanghai Stock Exchange The provisions of Article 5 and article 9.2 disclose environmental violations, that is, the net profit related to the transaction object (such as equity) in the latest accounting year accounts for more than 10% of the audited net profit of the listed company in the latest accounting year, and the absolute amount exceeds 1 million yuan.

A listed company belonging to Shenzhen Stock Exchange believes that major environmental violations should be judged in accordance with the provisions of the ecological environment department. Coincidentally, a listed company located in Shandong Province provided PECC with a local ecological environment bureau's determination that the company's environmental administrative punishment did not constitute a major environmental violation. PECC then applied to the ecological environment bureau to disclose the judgment basis. The Ecological Environment Bureau replied to the ten major environmental violations in accordance with the

provisions on the procedures for environmental administrative law enforcement of the Department of ecological environment of Shandong Province (for Trial Implementation) and the five major ecological environmental violations in accordance with the provisions on the procedures for administrative law enforcement of ecological environment of Weifang City (for Trial Implementation).

3.4 Environmental risk or tax risk

The subsidiaries of listed companies will enjoy certain tax preferences due to environmental friendliness. However, according to the memorandum on cooperation on joint punishment of dishonest production and operation units and their relevant personnel in the field of environmental protection, the measures for the administration of the recognition of high-tech enterprises, and the notice on printing and distributing the catalog of value-added tax preferences for products and services with comprehensive utilization of resources, etc, Environmental violations and penalties directly affect the enjoyment of tax preference, especially for the enjoyment of value-added tax preference: penalties for environmental violations such as exceeding the standard (except warnings or fines below 10000 yuan per time) will be recovered, and no reduction or exemption can be applied for within 3 years.

4. Recommendation

- 1) Categories of major environmental violations
- 2) We will improve the principle of fairness in information disclosure
- 3) Establish linkage between relevant regulatory departments
- 4) Accelerating the construction of ESG system in China
- 5) Carry out investor education and training

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