

Monday 7 June 2021

Dear China Securities Regulatory Commission,

EOS at Federated Hermes welcomes the opportunity to provide our comments on this consultation on **Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 – Contents and Formats of Annual Reports and No. 3 – Contents and Formats of Semi-Annual Reports.**

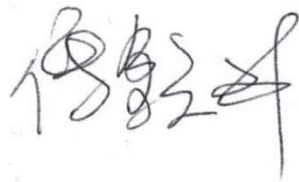
EOS at Federated Hermes is a leading stewardship service provider advising on CN¥9.57 trillion AUA<sup>1</sup>. Our engagement activities enable long-term institutional investors to be more active owners of their assets, through dialogue with companies on environmental, social and governance issues. We believe this is essential to build a global financial system that delivers improved long-term returns for investors, as well as better, more sustainable outcomes for society.

The international business of Federated Hermes is an asset manager with a difference. With CN¥3.98 trillion<sup>2</sup> in assets under management we focus on holistic returns – outcomes for our clients that go far beyond the financial and consider the impact our decisions have on society, the environment and the wider world.

The views expressed in this communication are those of EOS at Federated Hermes and do not necessarily represent the views of all clients. Our response to this consultation is explicitly supported by PNO Media (the Netherlands).

We are grateful for the opportunity to provide our views on these important subjects. Please do not hesitate to contact us if you have any questions.

Yours faithfully,



Yu-Ting Fu  
Associate, Engagement



Hannah Shoesmith  
Associate Director, Engagement

EOS at Federated Hermes

---

<sup>1</sup> \$1.5 trillion USD as of 31 March 2021

<sup>2</sup> \$625 billion USD as of 31 March 2021

**(1) Improve the chapter on Management discussion and analysis**

- 1. merge the third and fourth sections of the current annual report text into "Section III Management Discussion and Analysis" in accordance with the content and format requirements stipulated in the "Measures"**
- 2. Enhance the detail of disclosure of the industry and the business that the company engages in.**
- 3. require companies to analyse the reasons for the changes in the main financial data such as income, costs, and expenses in line with the development of the industry and business operations;**
- 4. require companies to disclose the information of the top 5 customers and suppliers.**

We welcome this proposal and believe such fundamental information should be disclosed as a matter of course. We believe that the quality of narrative reporting reflects the board's strategic thinking, its line of sight into operations and how well it oversees the company. Boards must report openly and transparently on the performance of the company and their stewardship of it over the year, acknowledging the challenges, as well as the achievements, the state of the market and the competitive landscape.

**(2) Improving the corporate governance charter**

- 1. The existing provisions related to corporate governance are scattered in various chapters. In order to highlight the corporate governance status, the relevant provisions are unified and integrated into the revised "Section IV Corporate Governance";**

We welcome a clearer and combined structure for corporate governance.

- 2. Improve the disclosure of directors and committees' duties and ensure the independence of the company's assets, personnel, finance, organization, and business from the controlling shareholder and actual controller; improve the disclosure of how to avoid horizontal competition within the group; require disclosure of the structure and implementation of the internal control mechanism that companies have at the beginning of the financial year in the report and the management of its subsidiaries; and improve the disclosure of the arrangements for differential voting rights.**

We welcome the proposal for increased disclosure of measures taken to enhance the independent oversight of the company's assets, human capital, finance, organisation, and business in companies with controlling shareholders. Ensuring sufficient levels of transparency and independence is particularly important for founder-led companies, those with executive chairs, significant shareholder representatives on the board (which we believe can be useful and justified, provided minority shareholder interests are protected) or strong management representation on the board. To achieve this, we expect a strong core of independent directors on the board, including an appointed lead independent director, to ensure that all stakeholder interests are protected, to exercise objective judgement and, if necessary, to act as agents for change.

We also expect separation of the roles of the chair and chief executive. The division of responsibilities between the chair and chief executive should be clearly established and set out in writing, unless the appointment is balanced by the presence of independent and effective non-executive directors including a lead or senior independent director with the skills and character to challenge the chair so that no one individual has overriding powers of decision.

We support the proposal to improve disclosure of board and committee meeting attendance levels and how committees deliver their duties. In addition, we expect if attendance falls short of 75% of board or committee meetings during the year, an adequate explanation and plan with remedial action should be disclosed.

We support the need to improve disclosure of internal controls and management of subsidiaries. We rigorously defend shareholder rights to receive good quality corporate reporting and material information on a timely basis, to propose shareholder resolutions and to vote at shareholder meetings. We expect a thorough review mechanism to be in place should any irregular activities be noted by the auditor.

We welcome disclosure of arrangements of differential voting rights. However, we still support a single share class structure, with one share one vote, and oppose any measures that deviate from this. We encourage issuers with multiple-class share structures to adopt one-share-one-vote. We are unlikely to support the issuance of shares with reduced or no voting rights, or capital raising and share buyback exercises that discriminate against minority shareholders.

**(3) Add environmental and social responsibility chapters**

**1. in order to highlight companies' work in environmental protection and social responsibility, the full text and relevant provisions of environmental protection and social responsibility have been unified and integrated into the new "chapter 5 Environmental and Social Responsibility";**

**2. require companies to publicly report any administrative sanctions due to environmental issues;**

**3. encourage companies to voluntarily disclose the measures they have taken to reduce their carbon emissions, the results of poverty alleviation, rural revitalization and other work.**

We welcome the proposal to require disclosure of environmental penalties. However, we believe that disclosure of carbon emissions, results of efforts to address poverty alleviation and rural revitalization should be made mandatory. We also believe that it should be made mandatory for companies to disclose more information about other important environmental and social responsibilities, which we elaborate on below.

- **Climate change**  
There is no mention of the goal of the Paris Agreement (to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels). Climate change is a crisis the world faces and achieving the Paris goals to prevent climate change is an urgent task for the Chinese government and businesses. We strongly support the 2015 Paris Agreement and expect companies to follow by publicly setting carbon reduction targets and adopting integrated financial reports and accounts, like the recommendation of FSB's Task Force on Climate-related Financial Disclosure (TCFD).

In 2020 President Xi announced a commitment to achieve carbon neutrality by 2060 (equivalent of the 1.5 degrees scenario), which was followed by a new 2030 target to reduce carbon emissions by 65% from 2005 levels. We expect companies to be developing their own strategies to meet the goal of the Paris Agreement, and believe this consultation should explicitly mention the Paris goals and this should be part of mandatory reporting for issuers.

- **Pollution, waste and circular economy**  
Furthermore, companies' operations and supply chains also have extensive impacts on

terrestrial, marine and freshwater biodiversity, through pollution to air, water and land; and soil erosion and loss of biodiversity. To protect valuable ecosystems and habitats, companies should prioritise eliminating deforestation from their supply chains and helping farmers transition to more regenerative forms of agriculture. Where feasible, we will expect companies to demonstrate a net positive impact on biodiversity. Another highly visible example is the urgent need to reduce plastics consumption and waste. We recommend companies in exposed sectors to develop strategies and set targets for the reduction of, and optimal and balanced use of plastics in products and packaging; to end reliance on single-use plastics wherever practicable; and to invest in developing more circular supply chains which consider the most sustainable use of plastics or alternative materials throughout their lifecycles. To tackle these challenges, we expect companies to strive for the most efficient use of resources possible, and to consider how they can introduce circular economy approaches to their business model and operations.

We also want to see companies in other sectors (not just key emission units identified by the environmental protection department) such as oil & gas, mining, industrials, chemicals, utilities, transportation, consumer goods & retail, pharmaceutical, and manufacturing to disclose information about their emissions and discharge (greenhouse gases, plastics, electronic waste and toxic materials). We expect to see more information on how companies conduct materiality assessments and manage their operations and value chains to control their pollution below harmful levels, as well as avoid excessive use of antibiotics if they are involved in rearing livestock. We expect to see these reflected in the revised standards.

- **UN Sustainable Development Goals**  
We support the UN Sustainable Development Goals (SDGs) and believe that the private sector has an important role to play in achieving them by 2030. Companies should be expected to assess the relevance of each SDG, identifying those that they can make a direct contribution to, and incorporate the most material SDGs into their strategies. We encourage companies to go beyond highlighting any SDG that the company could be connected to and to be purposeful in selecting those which it intends to make an active, direct contribution to, including through the allocation of resources and setting targets. We urge companies to report on their approach to the SDGs and to engage with its shareholders and civil society on how best to contribute to the SDGs.
- **Human Rights and Human Capital Management**  
We welcome the expectation that companies share their work to address poverty alleviation and rural revitalization. However, we believe companies should also be expected to disclose information about their overall social responsibility work, covering human rights and human capital management.

Companies must seek to address the most material social risks and opportunities through their core business strategy and value proposition, rather than through adjacent initiatives which can feature in traditional corporate social responsibility programmes. Taking a responsible and long-term approach to social, environmental, and ethical issues is critical to the creation and preservation of long-term value, and should be reflected in the company's purpose, strategy and culture.

For many companies, employees are one of their most valuable assets, yet it is often unclear from disclosure or engagement with boards how companies invest in or manage their people effectively.

We encourage companies to provide qualitative contextual information describing their approach, as well as annual disclosure of key performance indicators used to manage human capital. We expect all companies to disclose the following as a minimum for human capital management:

- The number of people employed by the issuer, broken down by full-time and part-time employees along with contingent workers who produce its products or provide its services;
- Turnover or similar workforce stability metric; and,
- Workforce diversity data, concentrating on gender and, where possible, diversity of origins across different employment bands/employee levels.

On human rights, we endorse the UN Guiding Principles (UNGPs) on Business and Human Rights and the UN Global Compact and expect companies to do the same. We expect companies to use the reporting framework of the UNGPs to disclose how they assess and manage human rights impacts related to their operations and supply chain. Companies should conduct regular human rights risk assessments and demonstrate effective human rights due diligence designed to identify, prevent, mitigate and account for how they address their impacts on human rights. They should prioritise their efforts on the salient human rights issues associated with their activities. Companies' licences to operate are increasingly affected by reputational factors, including their approach to human rights. As a minimum, we expect companies to comply with all legal requirements and to respect all internationally recognised human rights.

#### **(4) Improve the important matters chapter**

##### **1. expand the scope of disclosure of the of non-operating funds occupied by the controlling shareholders and its related parties to other related parties, and also require to disclosure of guarantee information that is non-compliant;**

We welcome expanding the scope of disclosure of the non-operating funds occupied by controlling shareholders and related parties. While companies provide information on the nature and rationale of RPTs, we recommend further disclosure on how the transactions are continuously monitored over the approval period, whether they are reviewed solely by independent directors with the related parties being absent from the board discussion, the response to any breaches and the process of reporting, should any irregularities be discovered.

We also support the requirement to disclose guarantee information that is non-compliant. We generally do not support financial guarantees provided to related entities if they are not majority-owned by the company and there is strong evidence that such a guarantee is necessary for the business to continue to operate.

##### **2. add the disclosure of companies' relationships with financial companies and the disclosure of related parties' potential business with financial companies owned by controlling companies;**

We support the proposal for enhanced disclosure of companies' relationships with financial companies. We expect RPTs, especially finance-related transactions, to include detailed disclosure on the rationale of the use of a connected party, the terms of agreement, and the audit and assurance mechanisms put in place to ensure that the transactions are conducted in a fair and transparent manner over the agreement period, not only during the initial phase. We normally do not support financing arrangements including a deposit facility by the connected party or parties of the company. However, we will consider supporting such an arrangement if a company can provide

expected outcomes of any financial guarantees or if it can convince us that the services provided are unique in nature and are not available from another third party.

**(5) Improve the chapters on share changes and shareholder situation**

**1. require companies to disclose the top 10 shareholders' current proxy voting rights, entrusted voting rights, and abstain voting rights;**

**2. for companies with controlling shareholders having a high percentage of pledged stock it is required to disclose the financing scale, uses, and repayment period, the source of repayment funds, whether there is any risk of debt repayment or liquidation;**

**3. for companies whose controlling rights have changed during the reporting period, a special explanation on the changes is required;**

We support the increased disclosure for companies with controlling shareholders having a high percentage of pledged shares. We would like to see enhanced disclosure when the pledged shares represent over 5% of voting rights. In addition to the points listed above, we would welcome greater disclosure on the price level at which significant shareholders might receive margin calls, and banks or issuers are forced to take actions due to the value of the pledged shares dropping below the agreed level.

We support the increased disclosure about top 10 shareholders' voting rights. In addition, we would like to recommend CSRC considers including the disclosure of cross shareholdings and not just the top 10 shareholders.

As far as cross shareholdings are concerned, we expect all companies to disclose the following as a minimum:

- All strategic holdings, the aggregate amount and the percentage of total share capital it owns in each company.
- The board's approach to strategic shareholdings including: what factors it considers when conducting its review; anti-competitive or anti-ethical implications concerning any of its shareholdings and what it does in these cases, how it assesses the risk and reward of shareholdings; any cases where business cannot be conducted without strategic shareholdings and the reasons; and any cases where business is improved through these shareholdings as well as the reasons.

**4. the company is required to disclose and report a series of share repurchases status.**

We support this proposal. Companies often seek authority to reissue all repurchased shares under the share reissuance mandate. While we respect the flexibility that companies require in managing their share capital, they rarely fully use the general share issuance allocation that they seek for shareholder approvals at annual general meetings (AGMs). We are concerned that buybacks may be chosen to improve the share price or other related metrics over the short-term, but are not always the best use of capital to support the creation of long-term, sustainable value. We further recommend companies to clearly disclose: whether the funds from those placings have been used as intended; the discount at which the shares were reissued; and details of the actual placements, including criteria for selecting these.



**(6) Adjusting the chapters related to bonds**

In accordance with the changes in relevant provisions of the "Measures for the Administration of Information Disclosure Concerning Corporate Debentures",

**1. expand the scope of disclosure and require companies that publicly issue enterprise bonds, corporate bonds and debt financing instruments of non-financial enterprises in the interbank bond market that they have disclose bond-related information in a special chapter;**

**2. expand the scope of disclosure of bond types, requiring companies to appropriately disclose the maturity of bonds in the annual report (as of publish date). The disclosure of bonds and company status is simplified and adjusted.**

**3. to further understand companies' ability to repay the existing bonds, companies are required to disclose the information and repayment arrangements for bonds due in the next year.**

We welcome the proposal to align these standards with the "Measures for the Administration of Information Disclosure Concerning Corporate Debentures". In addition, companies should recognise that debt investor expectations have similarly aligned expectations to long-term shareholders in relation to governance, long-term strategy, capital allocation and environmental and social matters. Debt investors now expect accountability and constructive dialogue on opportunities and risks which might enhance or impair earnings or cashflow.

**(7) Other amendments**

**1. in order to ensure brevity, if the relevant information has been disclosed in the interim reports and there is subsequent progress or change, companies may only disclose the summary of the relevant information, the disclosure index and date in the annual reports;**

**2. unify the text and abstract in the annual reports for each sector, and add new requirements for senior management, directors and supervisors to review the annual reports and provide opinions about annual reports if in disagreement. Companies should disclose their opinions.**

We support this proposal. To achieve this, we expect boards to be comprised of members with sufficient independence and strength of character to challenge management, as well as advise and support executive management teams. Directors and supervisors are appointed to ensure that all stakeholder interests are protected, to exercise objective judgement and, if necessary, to act as agents for change.

**(8) Other unlisted changes:**

**1. Enhance the disclosure if a company or company's controlling shareholders, actual controllers, directors, supervisors, and/or senior managers are investigated for crimes, subjected to criminal penalties, or are suspected of serious violations of discipline, law, or duty-related crimes, and how it is affecting them performing their duties. (article 53)**

We support increased disclosure if a company's controlling shareholders, actual controllers, directors, supervisors and/or senior managers are investigated for crimes, subjected to administrative penalties, criminal penalties, disciplinary sanctions or are suspected of serious violations of discipline, law, or duty-related crimes, and how it is affecting them performing their duties.

Given that corporate actions and related party transactions can lead to investigations into bribery and corruption, we recommend including a requirement to disclose information about a company's management of bribery and corruption risks. We would also encourage the requirement of a suitably qualified lead independent director to introduce transparency and rigour to the governance

process of companies and help set the expected cultural and behavioural tone from the top. They can also help introduce or maintain effective anti-bribery and corruption systems and controls.