

Comparative Analysis of ESG Information Disclosures

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Abstract: ESG is a framework for the disclosure of non-financial information about companies, an investment philosophy and corporate evaluation criteria that focuses on non-financial performance. ESG ratings are a key part of ESG development, and the current number of global ESG rating agencies, with very different backgrounds and divergent ratings, makes it difficult to generate consensus on the ratings of the same subject. Therefore, on the basis of sorting out the situation of 11 famous ESG rating agencies and comparing and analyzing the ESG evaluation system of each rating agency, the study found that China's existing ESG rating system has core problems such as poor quality of information disclosure, inconsistent ESG rating results and imperfect ESG ecosystem, and accordingly put forward several suggestions for China's future ESG development.

Keywords: ESG Ratings, Information Disclosure, Rating Agencies.

1. Research Background and Significance

As the global environmental situation becomes increasingly serious, environmental and ecological issues are gradually attracting the attention of the international community, and investors are beginning to realize that the environmental performance of investment targets may have an impact on economic returns, and corporate environmental performance is gradually becoming one of the references for judging the value of investments[1]. At the same time, social issues such as the gap between rich and poor, labour and employment, food security, as well as regional and global financial crises, are forcing issues such as social responsibility and social value creation, as well as corporate governance, to be added to investment decisions[2]. The efforts put into environmental friendliness, social responsibility and corporate governance in the course of business and development have never been more visible to all.

In 1992, the United Nations Environment Programme's Financial Action Facility (UNEP FI) stated that financial institutions were expected to integrate the three elements of environment, social responsibility and governance (ESG) into their decision-making processes. 14 years later, in 2006, the ESG concept covering environmental, social and corporate governance emerged explicitly for the first time in a seminar published by the renowned investment bank Goldman Sachs. ESG is a combination of the initials of the words environmental, social responsibility and corporate governance, and it can be seen as a novel investment philosophy that takes into account not only the business performance of a company, but also its ability to govern itself and its contribution to the environment and society[2]. The ESG philosophy has a longer-term perspective than traditional investment concepts, emphasizing concepts such as sustainable investment, green finance and long-term value.

With the popularity of ESG and sustainable investment concepts, and the increasing importance attached to ESG by regulators, capital markets, companies and the public, different types of ESG rating systems have been developed. As a tool to alleviate the problem of information asymmetry

between investors and companies, ESG ratings can help investors identify the potential ESG risks and ESG values of companies and reduce the cost of investment decisions, and have been widely recognized and used by investors worldwide[3].

2. Comparative Analysis of ESG Policies and Regulations

In recent years, corporate ESG performance has gradually become the focus of regulators and investors, and laws and regulations requiring listed companies to disclose ESG information have been introduced in many economies around the world, gradually forming a complete information disclosure system, rating system and investment framework. In contrast, China's ESG development started late, the disclosure system and rating system are still under construction, and the investment philosophy needs to be strengthened. At this time, a comparative analysis of domestic and international ESG systems has certain theoretical value and practical significance for China to build an ESG system and promote sustainable development. Table 1 shows a comparative analysis of ESG regulations in major economies.

China: Disclosure framework still under construction, investment on the rise. Voluntary disclosure is the main focus, with mandatory disclosure of environmental information. Corporate ESG ratings are now improving.

US: Legislation requiring corporate boards to incorporate ESG considerations into investment decisions. Mandatory disclosure of ESG information, emphasis on board responsibility for corporate disclosure, harmonized ESG disclosure framework, full ESG rating coverage for listed companies, legislation to encourage ESG investment and expand responsible investment.

Australia: Refine ESG requirements for different market players. Implementation of the "if you don't disclose, explain why" principle. Multi-entity collaboration to promote ESG systems. Refine disclosure requirements for different market players. Promote ESG investment concepts for institutional investors.

EU: Progressively improve the quality of disclosure and grow the ESG investment market. Gradually improve

disclosure requirements and set environmental information codes to improve the quality of ESG disclosure. Improve ESG policies and regulations by using company shareholders as an

entry point. Focus on fiduciary duty holders to enhance ESG investment incentives.

Table 1. Comparative Analysis of ESG Policies and Regulations in Major Economies

Economies	Disclosure Methods	Laws and Regulations	Disclosure Focus
CHINA	Voluntary / Semi-Mandatory	Guidelines on Environmental, Social and Governance Reporting, IPO Guidelines, China Outbound Investment Environmental Risk Management Initiative, Guideline No. 2 - Voluntary Disclosure of Information for the Application of Self-Regulatory Rules for Listed Companies on the Shanghai Stock Exchange, and Assessment Measures for Information Disclosure Work of Listed Companies on Shenzhen Stock Exchange (Revised in 2020)	Information on pollution discharge, construction and operation of pollution prevention and control facilities
US	Mandatory Disclosure	Securities Act, Clean Water Act, Solid Waste Disposal Act, Resource Conservation and Recovery Act, Pollution Prevention Act, Hazardous Substances Control Act, Superfund Act	Environmental liabilities, environmental monitoring costs, impact of environmental issues on the financial position and competitive position of the company, environmental litigation pending adjudication, etc.
AUSTRALIA	Mandatory + Voluntary	Financial Services Reform Act, National Pollutant Inventory, National Greenhouse Gas and Energy Reporting Rules, ASIC Disclosure Guidelines, Antarctic Treaty Amendment Act, Australian Mining Sustainability Framework, Australian Triple Bottom Line Report, Australian Auditing Standards	Mandatory disclosure requirements focus on greenhouse gas emissions, fuel use, energy plans, corporate labour standards, etc., with voluntary disclosure for other non-financial information
EU	Semi-compulsory	EU Eco-Management and Audit System (EMAS), Environmental Management System ISO14001, EU Modernisation Directive, Aarhus Convention, Pollutant Release and Transfer Register Instrument (PRTR), EU Audit Guidance	Require large companies to disclose information on the way they address social and environmental challenges, including matters relating to the environment, society and employees, as well as respect for human rights, anti-corruption and anti-bribery enforcement

3. Introduction of ESG Rating Agencies

With the rapid development of ESG in recent years, many institutions worldwide have incorporated ESG as a consideration into their research and investment decision-making systems, and stock exchanges and regulators in many countries have also formulated relevant policies requiring listed companies to disclose ESG-related information on a voluntary or mandatory basis.

At present, the number of ESG rating agencies worldwide has exceeded 600 (only about 20 in China). Among them: internationally renowned rating agencies include KLD Research & Analytics (KLD), Morgan Stanley Capital International (MSCI), Sustainalytics, Thomson Reuters, FTSE Russell, S&P Dow Jones and Vigeo Eiris, etc.; China's renowned rating agencies include SynTao Green Finance, Harvest Fund, Runling Global (RKS), etc[4]. A brief description of a total of 11 international and domestic rating

agencies and their official website addresses are listed in Table 2.

4. Comparative Analysis of ESG Evaluation Systems

Not only are investors increasingly relying on ESG ratings to obtain third-party assessments of a company's ESG performance, but there is also a growing body of academic research that relies on ESG ratings for both qualitative and empirical analysis. As it is difficult to ensure the validity of ESG evaluation systems, the question of whether there is consistency between ESG evaluation systems becomes a matter for further consideration[5]. This section provides a comparative analysis of the mainstream ESG rating agencies based on an in-depth understanding of each rating system. Table 3 presents a comparison of ESG rating systems. (Note: √ indicates that the rating system takes this criterion into account)

Table 2. ESG Rating Agencies and the Official Websites

Rating Agency	Country	Profile	Official Website
KLD	US	An independent investment research firm providing authoritative social and sustainable investment research, advisory services and bench-marking and strategic indices for institutional investors	https://www.kldiscovery.com
MSCI	US	A global indexing company providing equity funds, income funds, hedge fund share price indices and shareholder equity portfolio analysis tools	https://www.msci.com/
Sustainalytics	Netherlands	A global leader in providing ESG performance assessment and research analysis for listed companies, focusing on individual company ESG assessments for investors	https://www.sustainalytics.com/
Thomson Reuters	Canada	A provider of business and professional intelligence information	https://www.thomsonreuters.com/en.html .
FTSE Russell	UK	A founding signatory of the UN Principles for Responsible Investment and a leading global index and data provider	https://www.ftserussell.cn/
S&P Dow Jones	US	The recognized standard in the financial and investment community, providing widely recognized credit ratings, independent analytical research, investment advice and other services, a world-class consultancy brand and authoritative international analysts	https://www.spglobal.com/spdji/zh/
Vigeo Eiris	France	A global company providing ESG research and services to investors, the public sector, private sector and not-for-profit organisations, known as a global pioneer in ESG analysis and an accredited validator by the Climate Bonds Initiative (CBI) Climate Bonds Standards Board	https://vigeo-eiris.com
SynTao Green Finance	China	A leading professional service provider of green finance and responsible investment in China, focusing on providing clients with information services on responsible investment and ESG assessment, green bond assessment and certification, green finance consulting and research and other professional services	http://www.syntaogf.com/index_CN.asp
Harvest Funds	China	One of the first ten fund management companies established in China, and one of the first public funds in China to invest in ESG research and practice ESG investment	https://jsfund.cn/
China Securities	China	An independent third-party professional services provider for all types of asset management institutions, specializing in integrated index and indexed investment services	http://www.chindices.com/
RKS	China	China's authoritative third-party CSR rating agency, dedicated to providing objective and scientific CSR rating information to responsible investors, responsible consumers and the public	http://www.rksratings.cn/

Source: Collected from public information.

Table 3. Comparison of ESG evaluation systems

Indicator	KLD	MSCI	Sustainalytics	Thomson Reuters	FTSE Russell	S&P Dow Jones	Vigeo Eiris	SynTao Green Finance	Harvest Funds	China Securities	RKS
Whether to consider product safety	√	√		√			√	√	√		√
Whether financial indicators are considered		√	√	√		√	√	√	√	√	
Whether to consider controversial events	√	√	√	√			√		√		
Whether to exclude sensitive industries	√	√			√						
Whether to standardize ratings		√			√	√					
Whether to consider company initiatives to expose problems	√				√						
Whether to communicate with the company		√	√		√						
Whether to use scoring method	√	√	√	√		√	√	√	√		√
Whether to consider the risks and opportunities of ESG		√	√		√		√		√	√	√

Source: Collected from public information.

5. Conclusions and Suggestions

5.1. Conclusions

Firstly, there is a lack of unified ESG information disclosure and rating standards. ESG-related regulatory documents in China mainly focus on rules for the single dimensions of environment, social responsibility and corporate governance, and no unified ESG-related guidelines have been issued.

Secondly, the choice of the reference benchmark is arbitrary: ESG rating agencies can choose to evaluate all enterprises under a unified reference benchmark, or they can classify enterprises according to their industry characteristics and set up multiple parallel reference benchmarks, and only evaluate enterprises belonging to the same sub-category under their corresponding reference benchmark.

Thirdly, there is a certain lag in the data of ESG rating results. Restricted by the low frequency of disclosure of information such as corporate sustainability reports and ESG reports (semi-annual and annual), most ESG rating data is updated quarterly, with the most frequent update being the CSI ESG rating (monthly update). Without triggering specific events, there is a lag of 2-3 months in ESG rating data, which is doubtful for the reference role and validity of ESG investment.

Fourthly, the data of ESG rating results may be biased due to the influence of missing values. Due to the low level of data disclosure of some companies, ESG rating agencies have to use a large number of replacement values to fill in the data processing process, and the accuracy of the replacement value fitting results is very dependent on the setting of the model, which needs to be constantly debugged and optimised. Therefore, the reasonableness of the ESG rating agencies' handling of missing values remains to be examined.

5.2. Suggestions

The first is to raise the importance of the ESG system among various actors. The government sector is an important leader and layout in promoting the development of the ESG concept in China. The government needs to be aware of the feasibility and necessity of implementing the ESG concept in society, and develop and apply ESG according to the market environment and the characteristics of the economic system in a localized manner.

The second is to strengthen ESG information disclosure by companies. Firstly, the standard of information disclosure is

getting higher and higher, and mandatory disclosure will become the future trend. Secondly, ESG information disclosure must follow a sound indicator system. Internationally influential documents such as the Principles for Responsible Investment and the Sustainability Reporting Guidelines, in which indicators are selected from a number of perspectives and clear guidelines are set out, can be used as a reference for developing ESG information disclosure guidelines.

The third is to build an ESG rating system with Chinese characteristics. No concept can be developed independently of the national context, and ESG concepts are no exception, as they are influenced by policy and cultural and historical backgrounds. While promoting and popularizing ESG, it is important to focus on developing local ESG rating agencies, improving the quality of local ESG rating agencies and improving the accuracy of rating results.

The fourth is to expand the data sources of the evaluation system. Introduce more data from third-party platforms around the government and enterprises to extract data on annual report disclosures in a refined manner. Increase the intensity of supervision to ensure that the information on the data they upload is true and valid. In terms of social responsibility and corporate governance factors, anonymous questionnaires can be distributed to staff on a regular basis, and data on staff satisfaction with the company can also be obtained by selecting real reviews of the company by employees on the internet.

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