

## **SFDR Policy of the Société Générale Capital Market department (“MARK”)**

### **Policy of the Société Générale Global Market department, “MARK”, on the integration of sustainability risks in the investment advice provided to clients (Article 3 (2) of SFDR)**

#### **Regulatory background**

The Regulation (EU) 2019/2088 of November 27, 2019, on sustainability-related disclosures in the financial sector (“SFDR”) entered into force on March 10, 2021.

This Regulation lays down harmonized rules for financial market participants and financial advisers on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products.

Article 3 (2) of this regulation requires financial adviser to communicate information with regard to the integration of sustainability risks within their investment advice process.

As an investment advice provider on financial instruments, MARK publishes its policy on the subject below.

#### **Definition of sustainability risks**

In article 2 (22) of the SFDR, “**sustainability risks**” are defined “*as events or conditions in the areas of the Environment, Social or Corporate Governance, whose occurrence could cause an actual or a potential material negative impact on the value of the investment*”.

#### **Examples of sustainability risks**

##### **Environmental sustainability risks:**

- ***Climate physical risks*** arise from the impact of natural hazards (e.g. hurricanes, floods, droughts) on physical assets, lead to plants’ destruction, lower firms’ productive capacity and output, and lower value of firms’ financial contracts. This, in turn, negatively affects the value of the portfolio of financial actors who hold such contracts. For instance, a firm whose productive capital is destroyed by severe floods, and has borrowed from a bank, may not be able to repay the interests and principals of the loan, affecting the recovery rate and banks’ balance sheet.
- ***Climate transition risks*** stem from a disorderly transition to a low-carbon economy, which is defined as a situation in which climate policies and regulations are implemented late with regard to the climate targets and cannot be fully anticipated by investors. In this context, high-carbon firms are expected to experience higher costs and lower revenues, giving rise to “carbon stranded

assets”. Carbon stranded assets, in turn, can lead to large adjustments in asset prices, with potential implications on economic and financial stability.

### **Social sustainability risks**

- **Social risks** arise from aspects such as non-compliance with labor law and standards, the inadequate payment of labor, the lack of assurance of industrial safety standards and health protection for employees, and the lack of assurance of product safety.

### **Governance sustainability risks**

- **Governance risks** stem from aspects such as a non-compliance situation with tax law, corruption or attempted bribery situations, inappropriate senior management compensation or the lack of proper assurance of data protection.

### **Société Générale commitment to sustainability principles and objectives**

In 2003, Société Générale joined the United Nations (UN) Global Compact. The UN Global Compact is a strategic initiative for companies that commit themselves to aligning their business activities and strategies to ten universally recognized principles on human rights, labor standards, environmental protection, and anti-corruption. As requested, the Group provides yearly a statement regarding its UN Global Compact commitment. The latest version is available [here](#).

In addition, Société Générale is founding signatory of the Principles for Responsible Banking. Launched in 2019, these are six principles designed to bring purpose, vision and ambition to sustainable finance, based on the Sustainable Development Goals. They were created through a partnership between founding banks and the United Nations. Signatory banks commit to embedding these principles across all business areas, at the strategic, portfolio and transactional levels. As committed, the Group publishes its annual self-assessment regarding the Principles for Responsible Banking on its corporate [website](#).

Further information about Société Générale’s corporate responsibility can be found in the Universal Registration Document. Please note that the 2023 edition was published on March 13<sup>th</sup>, 2023 and is available here: [\\_](#)

### **However, as of date, MARK cannot fully consider sustainability risks in the investment advice process.**

This decision results from the impossibility to currently consider these risks in a sufficiently exhaustive, standardized, and reliable manner.

This is mainly due to the current state of the regulation: corporations will progressively report on their sustainability risks through the new Corporate Sustainability Reporting

Directive (“CSRD”) standard reporting, which will be enforced only from 2024, for largest companies, to 2026 for listed SMEs.

Therefore, a reliable, real, robust, and exhaustive dataset on these risks from corporations will not be available in the short term.

The data published today by companies is not homogeneous which limits comparability between such data, as collected and distributed by various ESG data providers, and significantly hinders an effective consideration of sustainability risks in the investment advice process.

MARK will monitor the quality of available data as market and regulatory developments evolve and will reassess this position in 2024.

MARK will however consider, even if only partially, sustainability risks when providing advice on financial instruments to end-clients who have expressed sustainability preferences<sup>[1]</sup>.

In this situation, adequate financial instruments - which consider sustainability preferences - will be advised to these end-clients. These financial instruments will apply, at the level of the product’s underlying instrument at least, a set of minimum criteria:

- activity-based exclusions (controversial weapons and thermal coal) and norm-based exclusions (exclusion of companies in breach of one or several of the United Nations’ Global Compact principles);
- selection of the remaining underlying instrument’s components based on an Environmental, Social or Governance (ESG) rating: securities issued by issuers, which have received the bottom ESG ratings in the investment universe (known as “best-in-universe” approach) or by industry (“known as best-in-class” approach) are excluded<sup>[2]</sup>;
- and: overall ESG exclusion and selection filters leading to a minimum of 20% reduction of the initial investment universe.

Please note that “ESG” standards are not static and activity-based exclusions may evolve overtime.

## **Policy of the Société Générale Global Market department, “MARK”, on the consideration of Principal Adverse Impacts on sustainability factors as a financial adviser (Article 4 (5) of SFDR)**

### **Regulatory background**

Article 4 (5) of SFDR requires financial advisers to publish on their websites information as to whether, taking due account of their size, the nature and scale of their activities and the types of financial products they advise on, they consider in their investment advice the Principal Adverse Impacts on sustainability factors.

As an investment advice provider on financial instruments, MARK publishes its policy on the subject below.

### **Definition of sustainability factors and Principal Adverse Impacts**

As per article 2 (24) of the SFDR “**sustainability factors**” mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

**Principal adverse impacts** refer to the negative consequences of investments and underlying assets on sustainability factors. They are defined via indicators in the Appendix of the Commission Delegated Regulation 2022/1288 of 6 April 2022 (SFDR RTS Appendix 1).

### **Examples of Principal Adverse Impacts**

#### **Climate and other environment-related indicators (non-exhaustive list)**

- GHG emission, Carbon footprint, Exposure to companies active in the fossil fuel sector, Activities negatively affecting biodiversity-sensitive area, Emissions to water, Hazardous waste and radioactive waste ratio

#### **Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters**

- Violation of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises, Unadjusted gender pay gap, Exposure to controversial weapons (anti-personal mines, cluster munitions, chemical weapons and biological weapons)

### **MARK will partially consider Principal Adverse Impacts on sustainability factors in the investment advice process.**

MARK will consider several Principal Adverse Impacts when providing advice on financial instruments to end-clients who have expressed sustainability preferences<sup>[3]</sup>.

In this situation, adequate financial instruments - which consider sustainability preferences - will be advised to these end-clients. These financial instruments will apply,

at the level of the product's underlying instrument at least, a set of minimum criteria, including the consideration of several Principal Adverse Impacts:

- activity-based exclusions (controversial weapons (**PAI SFDR RTS 14**) and thermal coal) and norm-based exclusions (exclusion of companies in breach of one or several of the United Nations' Global Compact principles (**PAI SFDR RTS 10 and 11**));
- selection of the remaining underlying instrument's components based on an Environmental, Social or Governance (ESG) rating: securities issued by issuers, which have received the bottom ESG ratings in the investment universe (known as "best-in-universe" approach) or by industry ("known as best-in-class" approach) are excluded<sup>[4]</sup>;
- and: overall ESG exclusion and selection filters leading to a minimum of 20% reduction of the initial investment universe.

Please note that "ESG" standards are not static and activity-based exclusions, including the consideration of principal adverse impacts, may evolve overtime.

## **Policy of the Société Générale Capital Market department, “MARK”, on the integration of sustainability risks in the remuneration policy as a financial adviser (Article 5 (1) of SFDR)**

### **Regulatory background**

Article 5 (1) of SFDR requires financial adviser to include in their remuneration policies information on how those policies are consistent with the integration of sustainability risks and shall publish that information on their websites.

As an investment advice provider on financial instruments, MARK publishes its policy on the subject below.

### **Statement on the integration of sustainability risks in the remuneration policy as a financial adviser**

The consideration of sustainability risks is a part of the performance-based determination of variable remuneration within MARK, for staff who provide investment advice.

Furthermore, during the objective setting campaign, MARK obliges these staff:

- to adhere to the sustainability principles stipulated the Société Générale Code of conduct;
- to complete e-learnings made available on sustainability by relevant departments of the Group Société Générale.

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<sup>[1]</sup>As per the first article of the Commission Delegated Directive (EU) 2021/1269 of 21 April 2021 amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors into the product governance obligations (“MIFiD II ESG Directive”).

<sup>[2]</sup> Please note that this is a relative approach, and not one that selects “good” ESG ratings in absolute terms.

<sup>[3]</sup>As per the first article of the Commission Delegated Directive (EU) 2021/1269 of 21 April 2021 amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors into the product governance obligations (“MIFiD II ESG Directive”).

<sup>[4]</sup> Please note that this is a relative approach, and not one that selects “good” ESG ratings in absolute terms.