16 February 2023

Societe Generale Australia's Response to the Australian Government, Department of the Treasury's Consultation Paper on Climate-Related Financial Disclosure

Dear Sir/Madam

Thank you for your invitation. We welcome the opportunity to respond to the Department of the Treasury's (**"Treasury"**) consultation paper on *'Climate-Related Financial Disclosure'* (the **"Consultation Paper"**).

Societe Generale, as a founding member of the Net-Zero Banking Alliance (NZBA), committed in 2021 to aligning our portfolios with trajectories aiming at carbon neutrality by 2050 with the ambitious goal of limiting global warming to 1.5 C. As a further demonstration of our commitments to align with the Paris Agreement, we have set ourselves a new ambitious target towards the achievement of the United Nation's Sustainable Development Goals (SDGs) by committing to raise €300 billion in sustainable finance between 2022 and 2025 and we commend Australia's efforts to guide companies through a green transition.

We share the following high-level considerations for sustainable finance regulation as a general commentary to better frame our responses on the Consultation Paper:

- We welcome the Treasury's commitment to introduce standardized, internationally aligned reporting requirements as we believe that consistency and global alignment on disclosure frameworks and standards are crucial for effective implementation of supervisory policies.

- We welcome a phased approach to allow time for banks to establish relevant capabilities, methodologies, and obtain quality data.

- We strongly recommend that the Treasury allow foreign financial institutions operating in Australia the ability to leverage Group frameworks/processes to meet climate-related disclosure requirements.

- We acknowledge the Australian Government's ongoing efforts to develop a taxonomy and we encourage continued collaboration to ensure that it is interoperable with other jurisdictions, to avoid market fragmentation and to ensure an efficient and robust sustainable finance market.

Question 1: What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)? In particular:

1.1 What are the costs and benefits of meeting existing climate reporting expectations?

1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

- The costs of implementing these standards will be significant, given that data collection systems need to be built and maintained on an ongoing basis. New disclosure standards would also impose a regulatory burden onto businesses, and additional professional service fees will be incurred for the preparation of assurance reports and internal statements.

- However, we believe that the benefits outweigh the costs when it comes to aligning with international practice on climate-related financial disclosures. Consistency and global alignment on disclosure frameworks and standards are crucial for effective implementation of supervisory policies, facilitating seamless reporting, and enhancing comparability of disclosures across jurisdictions to boost cross-border capital flows needed for the low-carbon transition.

- Without interoperability, issuers subject to different jurisdictional requirements would need to duplicate resources to report in accordance with different standards. Investors would also not receive the comparable disclosures they need to allocate capital across different jurisdictions.

- We suggest that the Treasury consider developing complimentary government schemes to support businesses in the implementation of these standards. This could include measures such as rebates or subsidies to alleviate the cost of implementation. For example, in Singapore, the MAS' Sustainable Bond Grant Scheme reimburses up to S$100,000 of additional expenses for external assurance of eligible green, social, and sustainability-linked bonds.

- Societe Generale acknowledges and welcomes Australia's involvement in international initiatives including RBA's membership of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). Given the dynamic landscape and the need for continuous adaptation, we encourage the Treasury and the other governmental agencies of Australia to continue engaging and working closely with international bodies with the goal of issuing interoperable, global sustainability standards that national jurisdictions can use.

- In terms of international alignment, we note also that the Australian Government has committed to developing a sustainable finance taxonomy and that it will be a key priority for the Australian market this year. We support this commitment and share the view that a taxonomy is an important lever and complimentary tool to a robust climate-related financial disclosures framework.

- We encourage the Treasury to work with other regulators to develop a taxonomy that is interoperable with other jurisdictions to avoid market fragmentation and to ensure an efficient and robust sustainable finance market.

- Recognizing the complexity that improving interoperability and regime establishment by each jurisdiction represents, we would like to draw the Treasury's attention to some key aspects of taxonomy design:

    - **Common set of high-level principles**: identifying common principles is necessary to develop taxonomies that are interoperable. For example, the Do No Significant Harm ("DNSH") is a principle that banks, verifiers, investors are using more and more to analyze sustainable proceeds.

    - **Purpose and application:** Identifying clearly what is the use/purpose of the taxonomies in each region/country and what are the regulatory requirements, the enforcement timeline and to what extent the classification framework will impact the green themed financial products/service. The ecosystem of use-cases must be clarified (use of the taxonomy for standard or label for financial products, disclosure requirements, climate stress-testing, prudential and monetary policies, etc.)

    - **Political targets and objectives**: taxonomies could be considered equivalent if countries/regions are reaching the same objectives (recognizing the existence of different transition pathways). We are of the view that, one key principle for interoperability and comparability is that taxonomies are calibrated with the same ambitious high-level targets (e.g., Net Zero). However, recognizing the different transition pathways, the interim targets and pathways to those targets could be tailored to specific regions, and economies within those regions, as starting points of various countries are not the same.

    - **International recognition schemes in relevant jurisdictions:** providing a basis for regulators to work with in setting up regimes for the recognition of other taxonomies. For example, the EU taxonomy and associated reporting regime for financial institutions currently only considers activities/counterparties in the EU, where international sustainable project finance is essential to ensure a transition to a more sustainable global economy. As such, the recognition of non-EU exposures in line with local taxonomies with the same objective will be essential to encourage EU institutions to finance and invest in sustainable projects also outside the EU and vice-versa. Such an exercise has the potential to help regulators to identify which standards are applying in foreign countries and recognizes, if any, equivalence of those standards. Hence not only the local activities could be recognized under a taxonomy but also foreign activities. As the climate is not only a "local" question, it would also help market participants to support the transition of other countries.

    - **Transition:** accompanying the highly emitting companies towards lower emission business models and activities as well as robustly framing such a transition based on scientific evidence is essential to support the collective goal of a Net Zero economy.

Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

Question 3: To which entities should mandatory climate disclosures apply initially?

3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?

3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?

- We share the consideration for a timely, phase-based implementation of disclosure / TCFD Framework and we welcome the recommendation in the Consultation Paper for a staggered implementation of disclosure requirements to allow time for banks to establish relevant capabilities, methodologies, and obtain quality data.

- A phased approach with several step-up levels of requirements will facilitate and encourage first-step adoption of reporting. This approach is similar to the EU's Sustainable Finance Disclosure Regulation (SFDR) where implementation occurs across two phases:
    - Level 1 SFDR – companies have one year to collect relevant data to align with the disclosure obligations.
    - Level 2 SFDR – companies are required to comply with methodologies and present the information under SFDR disclosure requirements.

- To this end, we recommend allowing for a transitional implementation period whereby requirements related to strategy, governance and climate-related risk management shall come into effect 12-months from the effective date of the guidelines.

- With respect to scenario analysis, metrics and targets and disclosure, we recommend such requirements to be considered for implementation at least 12 months after the disclosure requirements are established and entered into force, and first disclosure reports have been issued.

- We would also recommend that locally incorporated foreign financial institutions and branches of foreign financial institutions operating in Australia be permitted to leverage on group or parent company's climate-related policies and procedures to meet the climate-related disclosure requirements.

- For the scope of mandatory disclosures, we encourage the Treasury to consider the approach taken by other regulators in the region. In Singapore, for example, SGX applies mandatory financial disclosures to sectors that have been identified as carbon-intensive in a phased manner, including agriculture, food and forest products, energy (mandatory reporting by FY2023), materials and buildings, transportation (mandatory reporting by FY2024).

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?

4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

- We support the view that the climate reporting requirements should be initially TCFD-aligned and able to reflect ISSB's standards. We also encourage the Treasury to consult with the industry on the proposed local adoption of ISSB's disclosure framework once it is finalized and published. This is similar to the approach currently contemplated by MAS in Singapore. In the interim, Treasury could focus on the adoption of TCFD since ASIC's regulatory guidance already recommends TCFD as a framework for climate disclosures.

- We believe that the ISSB, with its stated ambition of consolidation and harmonization of existing frameworks, is best placed to replace the fragmented global reporting landscape as a comprehensive global baseline. It is important that clarity is given by ISSB on how their new standards interact and overlap with broader sustainability disclosure frameworks, such as SASB and GRI.

Question 5: What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?

- We believe that the regulatory framework should work towards promoting greater clarity and consistency in reporting frameworks for ESG disclosures, including transparency on how metrics are calculated, weighted, and interpreted.

- We encourage the Treasury to collaborate with other regulators, where appropriate, to focus on disclosure of a common set of metrics and tools. As such, we recommend leveraging existing regulatory guidance voluntary frameworks such as the widely adopted TCFD framework which provides a good model for such mandated disclosures.

- We acknowledge that Australia's transition needs are significant with coal for example, accounting for a substantial proportion of the country's energy needs. Therefore, we suggest focusing not only on physical risks, but also urge policymakers to recognize the importance of transitional risk and the need to mitigate it through planning and establishing measurable targets to allow proper monitoring.

Question 6: Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?

- We recommend that provisions should be made for both options, with each having a minimal level of assurance required. This is the current approach adopted by SGX in Singapore, which requires all climate reporting to be issued together with annual reports (internally reviewed) unless issuers have conducted external assurance for their separate climate report.

Question 7: What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?

Question 8: What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?

- Given the difficulty of predicting what the final form of ISSB's proposal will take and considering that Australia had the 4th largest number of TCFD-supporting organizations by jurisdiction in 2021, we suggest that the Treasury take TCFD's recommendations as a reference point for materiality, which is consistent with the approach to materiality taken for other information included in annual financial filings.

- However, this also means that the TCFD is a 'single materiality' reporting framework, unlike the 'double materiality' approach proposed in the EU's CSRD which considers both whether the impact on the business is material, and whether the business's impact on the external environment is material.

- We note that under the TCFD's current recommendations, assurance is voluntary, and issuers may select certain areas of TCFD disclosures to gain assurance. However, we suggest that the Treasury make it mandatory for issuers to subject its sustainability reporting process to internal review by the internal audit function. Stricter assurance requirements from independent providers can be gradually introduced as the reporting landscape in Australia develops. In the meantime, we suggest that an accompanying guide to the climate reporting to provide more guidance, share best practices and case studies would be helpful in guiding the disclosure and assurance process.

Question 9: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

Question 11: What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?

- We believe that current methodologies for calculating and disclosing Scope 3 emissions are not sufficiently mature to require mandatory disclosure by all issuers. We note as well that under current TCFD recommendations, issuers are encouraged to only consider disclosing Scope 3 emissions if they are a material source of climate risk.
- With regards to emissions reporting, we suggest that the Treasury adopt a phased approach that is initially TCFD-aligned with the ability to reflect ISSB's standards in the future once they announce relief provisions to help companies apply the Scope 3 requirements.
- While carbon credits can be an important tool for offsetting hard-to-abate emissions, such as in cement or steel production, entities must prioritize decarbonisation of their business models. Hence, regarding disclosure of information around the use of offsets, we recommend the Treasury to consider guidance provided by the GHG Protocol and SBTI, particularly that emissions offsets cannot be counted as reductions towards meeting stated science-based net-zero targets – issuers should only account for reductions that occur within their operations and value chains.

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

13.1 How and by whom might any data gaps be addressed?

13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

- Common issues that seem to arise across various jurisdictions in climate-related financial disclosures are mainly poor data availability and inadequacy of available methodologies.
- Specific initiatives to address these challenges in the region include, but not limited to:

- MAS – Project Greenprint, led by the government in partnership with financial institutions and the fintech industry. In Project Greenprint, MAS will partner the industry to develop digital utilities that facilitate the efficient flow of trusted ESG data, to support financial institutions and businesses in mobilising capital to sustainable projects, monitoring commitments and measuring impact. Developing a common disclosure portal to help streamline the process for reporting against multiple standards.
- HKMA - GSF Data Source Repository, to support the financial sector in locating data sources for climate risk management and other GSF-related analysis and research. The repository contains various Government data sources relevant to the assessment of physical risks in Hong Kong, including historical data on catastrophe damages, district level micro-climate conditions (such as tropical cyclones, flooding, landslides, and storm surges) as well as geographic data and a co-ordinates transformation tool.

Question 14: Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?

- For GHG emissions, particularly Scope 3 calculations, we recommend following the guidance from the GHG Protocol to report a description of the methodologies and assumptions used to calculate emissions.

- Should the Treasury choose not to mandate the choice of GHG emissions disclosure methodology to allow disclosures that best suit the reporting entity's portfolio and financing activities, companies should still disclose the methodology as part of its filing.

- Regarding scenario analysis, we note that there is a lack of publicly available reference scenarios to leverage for the development of climate scenarios focusing on shorter term risks. We suggest that the Treasury consider scenarios such as those suggested by NGFS or IEA and adapt those pathways to local circumstances.

Question 15: How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?

- Given the challenges of data availability and quality for Scope 3 reporting and for information based on uncertainties or assumptions, we recommend that these disclosures should not be subjected to the Corporations Act's reasonable grounds but disclosed on a best-efforts basis.

Question 16: Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements and how should these interactions be addressed?

- Under the Australian Modern Slavery Act 2018 (the "Act"), entities based, or operating, in Australia, which have an annual consolidated revenue of more than $100 million, are required to report annually on the risks of modern slavery in their operations and supply chains, and actions to address those risks.

- Societe Generale is obligated to report under the Act and we do not believe that climate risks and negative biodiversity impact are within the scope of the Modern Slavery and Human Trafficking Statement, therefore there is limited overlap.

Question 17: While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?

- We broadly support having flexibility to accommodate the dynamic materiality of sustainability topics in common aspects to climate reporting.

Question 18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?

- We agree with the Treasury's view that digital reporting can help unlock other technological efficiencies upstream and alleviate some of the implementation challenges issuers may face.

- However, the qualitative and evolving nature of data/information on aspects such as transition risks, climate-related opportunities, and climate resilience to name a few, could prove problematic in terms of digital reporting.

Question 19: Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

- We share the view that the financial reporting landscape will continue to evolve and appreciate the Treasury's foresight to ensure that the legislative, governance and standard-setting arrangements for financial reporting in Australia can flexibly respond to emerging issues to support the integrity, attractiveness, and competitiveness of the Australian market.

- When exploring the question of optimal structure design to improve the effectiveness and efficiency of the financial reporting system, the NGFS' Guide for Supervisors is a valuable resource for guidance on operational models that supervisors can adopt.

Societe Generale thanks the Treasury for the opportunity to provide feedback and for considering our comments.

We believe that collaborating with other global regulators on topics like climate risk integration, sharing climate risk data, alignment of reporting frameworks and standards, capacity building and awareness raising, and development of a green taxonomy would be instrumental for the future policy and regulatory development in Australia.