TCFD public consultation:

Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans

16 July 2021

About our response

Cardano has responded to the TCFD's online questionnaire. In this document, we summarise our response.

We welcome the consultation.

Metrics, scenario analysis and target setting are integral to decision-useful climate disclosures prepared by the companies in which we invest. The proposed metrics, in particular, the cross-industry metrics, will further help us and our clients interpret the financial risks and opportunities relating to climate change.

We welcome the distinction between climate metrics and climate-related financial metrics. This is a distinction we identified in our investment beliefs and policy. The climate crisis is one of our three priority real-world impacts. We believe the way in which we invest can support (or hinder) climate goals. As such, we consider the financial risks of climate change as well as real-world impact.

When considering the "materiality" of climate change, we believe it should be over a time-frame consistent with long-term investors, such as pension funds.

We believe the TCFD should clarify that materiality can vary depending on the time horizon of the investment. The youngest members of our pension fund clients may be over 50 years away from retirement. Many of them will have families who will live into the next century. We believe it is important to disclose climate risks and opportunities that may materialise over time-frames consistent with long-term investors.

The implied warming metric has some benefits, but we believe it should be a supplementary measure.

We think the implied warming metric has some benefits – it's perhaps more intuitive than, say, financed emissions. However, we think the complexity and assumptions involved (and the opportunity for 'model arbitrage') mean it should only ever be a supplementary measure, with financed emissions (absolute and intensity) and portfolio alignment being primary measures.

We believe Taxonomies will support companies and investors understand alignment with climate goals.

We think there is more of a role here for taxonomies in understanding alignment than is currently included in the consultation document. Taxonomies are inherently 'forward-looking' measures (as 'forward-looking' metrics are embedded in the technical criteria, as per the EU Taxonomy). We also think it would help users of climate reporting to meaningfully connect risk-based and alignment frameworks and we encourage the TCFD work closely with policy makers on taxonomies.

To measure the carbon emissions of sovereign bonds, we favour a weighted carbon intensity metric per capita.

Sovereign bonds are a major asset class for pension funds. There are a number of ways to disclose a country's emissions, including by issued debt (an 'ownership' measure), GDP or per capita. We do not think issued debt is a sensible measure as 'ownership' is not a concept that applies to sovereigns. We think GDP weighted metrics, even if purchasing power adjusted, favour countries with higher GDP, whereas a ton of carbon emissions affects everyone regardless of their country's GDP.

As such, we favour a weighted carbon intensity metric per capita. We also believe there's a strong case to include the carbon emissions associated with a country's imports, minus exports. Excluding imports favours service-based economies. Given the complexity of calculation, we think imports and exports could be introduced on a phased basis.

We think that setting and disclosing a carbon price is useful when undertaking scenario analysis, in order to understand carbon price assumptions.

The most common approach to scenario analysis is to assume a carbon price and understand the relative performance of a company across transition and physical risks, and environmental opportunities, based on the carbon price.

As such, the results of the scenario materially depend on the underlying pricing assumptions.

To support users understand, and meaningfully compare, scenarios, we think that it is important to disclose a carbon price.

We believe the TCFD resources should make clear the difference between 1.5 degree and 2 degree scenarios.

The language on relevant scenarios remains unchanged since 2017 and refers to 2 degrees and 1.5 degrees interchangeably through the phrase – "2 degrees or lower".

We think the difference between 1.5 degrees and 2 degrees is not widely understood. We note recent United Nations' analysis that at 1.5 degrees, there is a 3% probability of an ice-free Arctic summer in any one year, rising to 16% at 2 degrees of warming.

We welcome Scope 3 reporting.

We see clear benefits to Scope 3 reporting at 'sector' level – and we believe this should be required for material sectors, including energy, industry and mining, transport, buildings and agriculture. We note the significant data challenges involved in Scope 3 reporting. We believe Scope 3 reporting helps investors understand the relative performance of companies within industries and the sensitivity of companies to carbon risks.

We have reviewed and support responses to this consultation prepared by the Institutional Investors Group on Climate Change (IIGCC) and the Principles for Responsible Investment (PRI).

We have undertaken a detailed set of analysis on metrics, their purpose and application, and we would be happy to discuss further with the TCFD.

We have set out our plan to address the climate crisis, here: https://www.cardano.co.uk/cardano-and-sustainability/our-plan-to-address-the-climate-crisis/.

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