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International Sustainability Standards Board
The IFRS Foundation
Columbus Building, 7 Westferry Circus,
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Dear Chair and Vice-Chair,

We congratulate the International Sustainability Standards Board (ISSB) on their progress to date in developing disclosure standards to provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities.

Here, we provide our initial reflections on the ISSB general-requirements exposure draft and climate-related exposure draft.

About Us

Founded in 2000, Cardano Group is a privately-owned, purpose-built risk and investment specialist.

We are widely recognised as a market leader in the provision of specialised services to private-sector and collective pension schemes in the United Kingdom and the Netherlands.

In January 2022, Cardano acquired ACTIAM, a sustainable investor, with 30 years' sustainability-related experience, and a dedicated team of sustainability professionals with expertise in sustainability issues, ESG data and research, and stewardship.

About the ISSB Exposure Drafts

The International Sustainability Standards Board (ISSB) published two exposure drafts in 2022:

- The *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*
- The *IFRS S2 Climate-related Disclosures*

The consultation period for these drafts closed on 29 July 2022. The ISSB will reissue an updated draft by the end of the year. The final disclosure standard will follow.

In our experience, one of the primary barriers to sustainable investment has been attaining data. We believe that the ISSB's drafts are an opportunity to address this challenge. We welcome the ISSB drafts in that, when implemented, they set an essential, universal baseline for sustainability disclosures.

Our Response to the Consultation

Q1 climate exposure draft: Objective of the Exposure Draft

When we invest, we consider two simultaneous objectives:

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1. Maximising risk and return, which includes sustainability-related risks and opportunities
2. Maximising influence and impact, which considers the real-world sustainability impact of our investments

Institutional investors increasingly share this “double-materiality” view and want to incorporate both lenses into their investment process. For us, this is about managing the systemic risks of climate change and, as the drafts are published, other environmental and social issues[1].

As such, our primary suggestion is that the draft needs to address real-world impact (or “double materiality”), not the current sole focus on enterprise value.

Q3 climate exposure draft: Identification of climate-related risks and opportunities

We welcome that the drafts further formalise the Task Force on Climate-Related Financial Disclosures (TCFD) as a global standard.

The standards are likely to be adopted by regulators following commitment by the United Kingdom and European Union via the Corporate Sustainability Reporting Directive (CSRD).

We welcome the addition of Scope 3 reporting. We agree with ISSB that:

“Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity’s carbon footprint.”

Further, the drafts include disclosures relating to executive remuneration and require target setting which we view to be fundamental components.

We suggest that the scope:

- Advances activity-based disclosures that are a feature of the EU and UK taxonomy, as well includes inventory of emissions across sales and revenues
- Incorporates more detail on supply-change disclosures. In our view, for most companies, the resilience of supply chains to sustainability issues is material.
- On remuneration, include more detail about what happens when targets are not met
- Clarifies how materiality determinations are made and provides guidance on how these assessments should be conducted
- Includes requirement to disclose reported and estimated emissions
- Moves beyond climate change to include other related environmental issues (e.g. biodiversity loss) and social issues (e.g. just transition, inequality) as soon as possible.

Q4 climate exposure draft: Targets and Transition Plans

We suggest that targets:

- Are science-based. The starting point should be the Paris Climate Agreement[2]. Any divergence from targets should be explained. Targets should select a recent baseline year
- Are required for disclosure of both (well-defined) intensity and absolute targets, rather than just specifying what type of target it is

[1] “Instrumental” legal framework for impact framing
[2] To limit warming well below 2 degrees Celsius

- Necessitate transition plans that include interim targets, actions to meet targets and capital and operating expenditure
- Are subject to the same oversight as traditional financial disclosures (as they are financially material)
- Broaden scope (for example, include disclosures on political lobbying).

Q5 climate exposure draft: Offsets

We suggest that in the case of offsets it is made clear that offsets are a last resort for net zero strategies. An overuse of offsets in transition plans will have one of two implications, either:

- The company undervalues the future price of offsets. As offsets become more expensive, the company will become less profitable
- The company will not meet its decarbonisation targets.

Both implications pose a financially material risk to portfolios.

Yours sincerely,

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