

Call for feedback on the Platform on Sustainable Finance's draft report on Social Taxonomy

Consultation Response

3 September 2021

About our response

In this document, “Cardano” or “we” respond to the consultation on *“Call for feedback on the Platform on Sustainable Finance's draft report on Social Taxonomy”* as published by the Platform on Sustainable Finance (or “Platform”) in July 2021.

Founded in 2000, the 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. Our c.350 professionals strive to deliver better and more secure financial outcomes: stability in an uncertain world.

For Cardano, sustainability areas of particular focus are:

- The climate crisis, including net zero carbon emissions by 2050 and global emissions reduction of 50% by 2030. This informs our decarbonisation targets
- Fairer society, including respect and support for human rights and to fight against human rights abuses
- Sustainable development in emerging markets

Cardano has a programme of work underway with its foundation, Cardano Development¹, to develop an impact framework, which we expect to use to guide further investments in social opportunities. We would be happy to share with the Platform once complete.

¹ See <https://www.cardanodevelopment.com/>



Cardano recognises the importance of sustainability – but also the challenges involved in ‘doing it well’. We continue to develop and evolve our policies to reflect sustainability challenges. This reflects the evolution of our thinking on sustainability and the changes underway in the financial services sector, and society more broadly.

We focus our resources where:

- we are passionate
- we are knowledgeable, and
- we can have an impact

In this document we provide feedback to the Platform in support of the development of the Social Taxonomy. We have based our feedback on our sustainability investment beliefs and policy, and our experience investing on behalf of UK and European pension funds.

For questions or comment, email:

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General Comments

We welcome the proposed Social Taxonomy and we believe the consultation paper is comprehensive.

The private sector has typically implemented a ‘do no significant harm’ approach to social issues. The paper sets out a framework for determining an approach to ‘substantial contribution’ to social issues. This is an important step forward.

To date, there has been less regulatory attention to social risks and opportunities. In our experience, it is not common practice for pension schemes to have a standalone policy on social factors, indeed, nor for most pension schemes to specifically mention social issues (other than within the context of ESG factors more broadly).

Rather, most pension schemes have focused their sustainability efforts on climate change first. This is, perhaps in part, because social risks and opportunities are more difficult, and in some cases impossible, to quantify. When it comes to social issues, there is not the same political urgency; nor is there the same consensus on the problems we’re trying to solve. Social issues are often context specific.

This, however, doesn’t lessen their importance. As such, we welcome the Social Taxonomy, and we’re encouraged by the comprehensive approach taken by the Platform on Sustainable Finance’s Social Taxonomy working group.



Approach to Disclosure

We think it's important that the data flows from companies to investors to inform investor allocations and stewardship. As such, the regulatory framework should require company disclosures in advance of investor disclosures.

We also tend to see more 'substantial contribution' opportunities in private markets, and possibly in companies with smaller workforces that may not be covered by NFRD. The regulatory framework should support companies, not currently covered by the NFRD, to disclose.

Taxonomy Design

We welcome the link to the environmental taxonomy, and in particular, the use of NACE codes. We will need to operationalise the Social Taxonomy through our existing data systems, therefore it's important that we apply the same disclosure frameworks to both the environmental and Social Taxonomy.

Conceptually, we like the vertical (product) and horizontal (process) approach and would expect a substantial contribution to apply to a product, while doing no significant harm through process. In other words, if the product makes a substantial contribution, and it is made in a way that does no significant harm, then it is 'in'.

We do, however, think there needs to be further attention to 'place-based' social issues. While human rights are universal, their salience may be specific to the geography or jurisdiction of the economic activity.

For example, there may be examples of 'neutral' products that are made in a way that makes a substantial contribution; this is likely place-based. Meeting living wage requirements in a country with weak or non-existent labour rights could make for a substantial contribution. This is less likely a substantial contribution in a country with well-established labour rights. As such, we believe we need a clear way for investors to categorise place-based economic activities.

We are less concerned that a Social Taxonomy will favour jurisdictions with stronger social regulations. As investors we're interested in direction of travel. As with the environmental taxonomy, we think it's important to remember that the taxonomy is a disclosure tool, and that, when assessing a financial product, an asset owner should review both the percentage alignment and the narrative-based disclosure.

For example, the Social Taxonomy may help companies (and their investors) to make progress towards taxonomy-alignment, even if, at time of investment, the economic activity does not meet the performance criteria.

Link to Stewardship and Engagement

We welcome the stakeholder approach set out in the consultation document. We think this should clearly link to the Shareholder Rights Directive. We believe that, as well as helping identify companies that make a substantial contribution, a Social Taxonomy will also help with stewardship objectives.



Model 1 or Model 2

With regards to model 1 or model 2 (as set out in the consultation), we think an incremental approach, starting with model 1 will help with implementation.

As the industry develops its understanding of environmental and social issues, the use of taxonomy, and the application of substantial contribution criteria, we think model 1 provides more flexibility.

Ultimately, we see advantages to a single 'sustainability' taxonomy (model 2), however, this can come at a later date, and should not, in the meantime, delay application, while both the environmental and social taxonomies are under development.

Issues

On issues, we think the consultation document is comprehensive. We welcome the inclusion of responsible lobbying, membership groups and responsible tax. With regard to healthcare, we welcome the inclusion of mental health and well-being / wellness.

