

Sustainability TechSprint 2021: TechSprint Demos

Thursday, 21 October 2021

Team name: Open ESG

Presenter: Kieran McBride, Sahana Prabhakar

Judges: Francesca Hopwood Road (Chair)

- Bruce Harrison; Managing Director, BlackRock
- Elena Strbac; Global Head, Data Innovation, Standard Chartered
- Emily Keaney; Director of Legislative Reform, Information Commissioner's Office
- Emily Pierce; Assistant Director, International Affairs, U.S. Securities and Exchange Commission
- Jayne Wickins; UK Banking Director, Microsoft
- Stephen Ingledew; FinTech Scotland Executive Chair
- Satoshi Ikeda; Chief Sustainable Finance Officer, Japan Financial Services Agency

Kieran McBride

Hello. So our team Open ESG, possibly like some of you weren't ESG data experts when we began this sprint. So the first thing that we did was there was some rapid discoveries. We spoke to people like the information commissioner's office. We spoke to ESG data experts because we wanted to explore the problem space and really understand, you know, what is it that we're trying to tackle? So we found that ESG data often sits in closed box environments with commercial organizations. It's generally possibly quite unstructured and non-standardized, non-comparable therefore across industries. It makes it very hard to verify because there's no standard agreement consensus around what we should be verifying to begin with. Next slide please. Next slide please. So our idea it's, essentially like a credit score, but for ESG, the hook is that it's where this data sits. So it should be an FCA owned ESG open data platform, providing a credit score based on a widely available or public data. This incentivizes companies to interact with the platform and improve their score to build clean new verified data profiles from the ground up. So we thought about this in terms of behaviour change. So benefits of participation would be access to perhaps an FCA accredited network, access to trusted community for standardizing, improving, leading ESG data modeling, which is quite nascent. Access to FCA accredited badge that would improve company image and inspire trust. Next slide please. So as you can see, we collaborated over the three days and prototyped quite an extensive user journey, but also how the FCA would interact and govern this platform. Next slide, please. This is a very simple overview of that flow. So you would have your ESG score provided by the FCA that would incentivize you to come in and connect your own data. We would then expect third-party technologies to verify that data along with human consultative approach. This would improve your score and you could track and index it over time. And by a good participation and behaviour, would then give you the access to new markets perhaps and develop best practice and data modelling. Next slide. So we suggest starting small with carbon data. Carbon is quite a unilaterally accepted way of measuring ESG. Certainly to begin with, to start building new data sets. Sahana.

Sahana Prabhakar

Thanks Kieran. So we decided to come up with something called a carbon score, and we

started looking at the data, both that is provided by the FCA as well as what's available in the public domain. And we quickly realized that the data is non-standard, it's patchy. So it's a difficult starting point. So what we decided is for the carbon score, we'll use various different parameters to arrive at it. One is the emissions data, which of course is split across scope 1, 2, 3. Also the revenue impact that the company has on the economy. We wouldn't want to depend on one data source. We want to use multiple different data sources to come up with these deductions. And we also use synthetic data points to come up with the validation of the data, which would eventually help us arrive at this score, which would also provide trends on whether the company has done better or worse than when it was previously calculated. So next slide please.

Kieran McBride

So verifying the data is obviously a key point. We believe that there are existing technology solutions out there that could be good at doing this audit trail, you know, blockchain technologies, et cetera, but also as we say, consultants coming in and looking at not just the quantitative data, but qualitative data. Next slide. So qualitative data is very important. Everybody has a plan for net zero. This is a great point for the FCA to come in with objective third parties and analyse those plans and say, okay, what is the real world impact? Start humanizing some of these plans and saying what's the most actionable step you can take. And how can we add that into your scoring? Next slide please. So finally, you'd have a badge of excellence that would give you all these access and change behaviour within industry, because ultimately we work in a free market capitalist economy, and we're asking people to measure businesses differently. You need to create a community of trust that wants to move forward together. Next slide. Finally exporting the data, standardization across the industry is non-existent right now. As I say, people are very, very, there's lots of data, but they don't know what to do with it. So exporting the data, clean new data sets and allowing us to create standards across industry will create a virtuous circle and interaction with the platform. Thank you.

Francesca Hopwood Road

Thank you very much indeed, team number nine. Any questions from our judges? Oh, I can see that Emily Keaney and Jayne are both furiously typing. So maybe Emily, if we have resolved your volume issues, maybe we can come straight to you.

Emily Keaney

I seem to be able to unmute myself now. So hopefully that's working.

Francesca Hopwood Road

We can hear you. We can hear you. The floor is yours.

Emily Keaney

I was just wondering this, the proposal to use independent consultants to validate the qualitative data. How would you build trust that they were independent experts, particularly when their proposals or suggestions were contested or controversial?

Kieran McBride

Sure. I think this would have to come from a kind of trusted network. So they'd have to be vetted in the first, they couldn't be an open, a completely open platform, as to who the consultants are. When the VW emissions leak was several years ago, there was a very, it was a citizen led socially minded organization, which actually, you know, verified that hang on a minute, this is false data. So I think you, you would need a trusted community. So it couldn't be a free for all feeling, commercially incentivized. Hey, any consultant come in here, get a bit of work and do this. It's about building a trusted community across the board really, and being transparent.

Francesca Hopwood Road

Thank you. Jayne, can I come to you for your question?

Jayne Wickins

Yes. Thank you. So recognizing the ambition to get there and the transition needed between now and then, where would you start?

Kieran McBride

Can I answer this Sahana or were you?

Sahana Prabhakar

Yeah. Go for it.

Kieran McBride

So I think, again, you'd have to have a kind of a beta pilot, a small number of people who can verify the system. I mean, we're talking about a full on service and a platform here. So you would need to get people who have the data and who are already highly respected in the industry to start building out, and prove, you know, prove the concept before you could open it to the wider world. So start small, start small with data. It starts with a small number of people.