

Sustainability TechSprint 2021: TechSprint Demos

Thursday, 21 October 2021

Rebuilding Climate Trust

Presenter: Thomas O'Neill

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

Thomas O'Neill

Good afternoon, everyone. The financial sector has a unique power and opportunity to change the world and climate change. To be part of the solution. Next slide please. However, we currently have a problem with the ESG data that can drive the change. The ESG products being sold are broadly not delivering on the impact they claim. And we did not see this as a greenwashing issue, but a fundamental flaw in the theory of change. Next slide please. In response, we present to you the Climate Impact Label. A label that's given after analysing critical data that is available, but broadly not integrated in how we analyse climate impact. This new approach can help the market in rebuilding climate trust. Intellectually, we do not believe just owning a company has a relationship to actually impacting the real world. Our focus is on where the evidence suggests investors have the most impact. And this is through their direct financing - bonds and loans, and their company engagement activities. Next slide please. Our method is based, firstly, on querying whether the entity is setting relevant and ambitious targets. Then identifying, rectifying, and justifying their climate impact. This means looking across the portfolio and identifying what are the activities they are involved in that affect the climate the most. To be verified and to be labeled with such, there must also be transparency about the investors actions and their impacts. And by definition, they must not be clearly opposing progress on climate. Next slide, please. For our prototype, our team aggregated the best in class information from a group of leading think tanks. We analyzed the portfolios of two investors and the bond financing going to coal and tar production. And in comparison, going to renewable energy companies. This sample allows for real world climate cost benefit analysis. We looked also at the investor's equity holdings and identified whether companies they own, and have responsibility for, are undermining climate legislation or if future vehicle production will be electric. Next slide please. Using Python and SQL, we made a set of queries to generate company's metrics on the data. Next slide. As a proof of concept, the investors investigated and the output shown would feed back into each aspect of the label's framework to ensure the investor's actions and impacts actually met their targets. This gave us unique insights into the portfolio i.e., how much financing goes into industries that have a negative climate impact against their green investments - which would inform whether they would get a green or red label. Similarly, looking across the managers equity portfolio, the political

lobbying data here tells us that on average, most industrial companies that they owned are still opposing climate change legislation. These are issues that that need to be addressed. Next slide. Alarming, despite this, across the group of investors studied, the majority had not even publicly disclosed that they engaged with companies around climate lobbying. Next slide, please. The findings from the proof of concept have demonstrated why the Climate Impact Label is a unique tool and innovation. The label considered meaningful metrics that best indicate whether the investor is having a positive real-world impact, and appropriately accounting for it. The label is designed as a quality stamp so that consumers can clearly compare climate impacts, although this prototype and methodology could be applied equally across ESG. Thank you, next slide. And I'm finished.

Francesca Hopwood Road

Thank you Rebuilding Climate Trust. So, to our judges. Stephen, I think I can see that you are prepping a question. Perhaps I can hand over to you.

Stephen Ingledew

Okay, thanks Francesca. Yes, just on that last point, how would you engage consumers with this tool, this innovation?

Thomas O'Neill

Well, firstly, we'd have to prototype it. And I think in the course of two days, we've produced a pretty good model for what that could look like. In terms of engaging consumers, I think the best way would probably be to join up with an entity that already had access to a lot of consumers - so a financial institution which would be willing to experiment with us, say a friendly asset manager. That'd be my approach.

Francesca Hopwood Road

Okay, thank you. Any more questions from our judges? I can't see anymore. I feel like a bit like a, an auctioneer, going once, going twice - no more? Okay, thank you very much. Rebuilding climate trust.