

Sustainability TechSprint 2021: TechSprint Demos

Thursday, 21 October 2021

The Badgers

Presenter: Georgina Pawson, Henry Glasford

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

Georgina Pawson

Hi. Good afternoon. We're the Badgers and we were inspired by use case four looking specifically at impact of investments and the introduction of an Impact Investing Badge to provide transparency to both the regulators and to the public. Next slide, please. So to set the scene. I have capital and I would like to invest, but I want to ensure that my funds are making a positive impact and change to the world. Most ESG funds today tend to only invest in companies who already have a good ESG score or market themselves as having ESG initiatives to drive global change. But how do I distinguish the good from the bad in order to determine which funds are having a significantly positive impact? Next slide, please.

Henry Glasford

So when I invest as an individual, I'm not going to have enough influence to be able to affect the company's policies, and I'm most likely going to struggle to make a positive change. If I invest in a fund, they collectively have a large enough share of voting rights to make an impact. The fund invests in companies, and exercises their voting rights to influence positive policy changes. We should see the ESG scores and metrics of those investee companies improving. And we can then say that that fund has had a positive impact. When a fund's investee companies demonstrate positive change over the life cycle of that fund's investment, the fund will receive a good impact score. So to calculate the impact score, we take into account the change in ESG score of the investee companies, to what extent the company has exercised their voting rights and the lifecycle of the investment. Once an impact score is established, we then determine if that fund is eligible for the impact investing badge. And if so, at what level. Next slide, please. We proposed a Bronze, Silver, Gold badge approach for funds based on their impact score. The badge rewards year on year, the funds which use their influence and voting rights to drive change in investee companies. The Badge can help to clearly identify the funds exhibiting direct impact visible via the key changes in metrics. And those metrics might be ESG scores from a provider, or they could be specific metrics captured within a disclosure regime like TCFD or SDR. The Badge could also act as an agent for change as investee companies will want to improve those scores themselves in order to attract investment. Funds could be rewarded further for participating and

disclosing these metrics. And equally enforcement action could be taken for non-disclosure if required. We'd need to put in mechanisms to avoid gaming. For example: minimum social safeguards to avoid a company being rewarded for positive environmental impact, but negative social employment practices. So a company which plants thousands of trees, but uses child labour to do so. Next slide, please.

So to encourage participation and disclosure and for funds to feel confident in sharing confidential, buy and sell information calculations could be implemented using a federated model in a similar way to open banking to share that sensitive data. This means funds could disclose the time span over which investments were made, their frequency and influence on voting and any other confidential information via a cryptographically secure, consistent and effective method. For example: in terms of reporting frequency of voting, funds could provide data where they have voted in respect of investee companies. For example: a binary yes or no for each vote to ensure that funds are not being rewarded for being silent investors. Changes in data sources could also determine whether the impact investing badge covers carbon reduction only, for example, or takes into account a wider set of sustainability metrics. Details of the Badgers, further information around ESG and the full list of accredited funds and their performance could then be shared publicly to ensure retail clients make informed decisions on the capital that they wish to invest. So we could play the video, please.

Georgina Pawson

We put together a little prototype and a demo of kind of what that would look like. So you can have a front page that would allow you to look at what the impact badge is and the different levels of that impact badge. Also can have an education piece for the public around what ESG is and the initiatives that we're kind of going for. Also can share the methodology to give that trust back into the methodology of how we're having this data and what we're doing with it in a secure way. And then as I mentioned, the full list of the accredited funds at what level, and we could also add another layer to find out their specific ESG progression and their current metrics. We have shared the QR code for this demo on our showcase. So feel free to take a look, but thank you for listening.

Francesca Hopwood Road

Thank you very much team eight, The Badgers. Judges, any questions from you. Stephen, do you want to come straight in with yours.

Stephen Ingledew

Excellent presentation. Have you considered working with social investment groups and similar organizations with your proposition?

Henry Glasford

Yeah. So I think coming to that question. We could apply this across the whole range of different ESG metrics. So we've kind of focused largely on the environmental side, but you could equally apply these principles to kind of social scores and social metrics in which case, yeah, I think we would look at looking at working with people like that.

Francesca Hopwood Road

Thank you. And Bruce, can I come to your question please?

Bruce Harrison

Thank you. Let's talk a little bit more about your methodology, and your algorithm. We're talking about a badge for a fund and if a fund holds the different securities of a hundred different firms, for example, how would you calculate that overall badge status?

Henry Glasford

Yeah, so we haven't had time to work out the exact algorithm, but the way we see it working is you look at the change in the metrics across all those different portfolio companies. And then you could take an average over that to see whether overall the portfolio is kind of moving up or down in terms of its kind of ESG scores.

Francesca Hopwood Road

Okay. Any other questions from our judges, Emily?

Emily Keaney

(Indistinct)

Francesca Hopwood Road

Did you hear that question team? Or would you like me to repeat it?

Georgina Pawson

Sorry.

Henry Glasford

No, Sorry.

Francesca Hopwood Road

What do you see as the biggest challenge to obtaining and verifying the data you would rely on?

Henry Glasford

So I think, a lot of that data is already available. So in terms of the ESG scores and metrics, the bit that will be difficult is to get that proprietary data from the funds. And there we'll be relying on the security and the confidence people have in that federated learning technology to ensure that that data is kept safe. But I think there's going to be a real incentive for people to provide that data in order to get that batch.