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What's the best route to reduce costs, increase flows
and further improve the quality of ESG data from
corporate reporter to end-user?

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Presented by:
Responsible Investor &
Thomson Reuters



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Recorded on September 28th, 2016

The 2016 Carrots & Sticks report identifies almost 400 sustainability regulations, guidelines, codes-of-conduct, frameworks and other reporting instruments across 64 countries. How accurate is this data? How are corporations coping with the pressure and cost of reporting? How can asset managers make sense of what it means? And will data vendors turn to AI to collect and deliver this googlesque volume of data?

The expert panel included:

- **Cornis van der Lugt**, Senior Research Fellow, Centre for Corporate Governance, Stellenbosch University Business School, South Africa
- **Hendrik Bartel**, CEO, TruValue Labs Inc.
- **Trevor Allen**, Product Sales Specialist, BNP Paribas Securities Services
- **André Chanavat**, Senior Product Manager, Thomson Reuters

It was moderated by: **Daniel Brooksbank**, Editor at Responsible Investor.



Daniel Brooksbank,
Editor,
Responsible Investor



André Chanavat,
Senior Product Manager,
Thomson Reuters



Cornis T. van der Lugt,
Senior Research Fellow,
Centre for Corporate Governance, Stellenbosch University Business School



Trevor Allen,
Product Sales Specialist,
BNP Paribas Securities Services



Hendrik Bartel,
CEO,
TrueValue Labs Inc.



“The proliferation of Fintech innovation has the potential to transform virtually every aspect of our nation’s financial markets” – Securities and Exchange Commission.

In a wide-ranging event, the possibility was explored of environmental, social and governance data becoming not just data – but intelligence and, eventually, knowledge.

Stellenbosch University’s Cornis van der Lugt kicked off the session, explaining how the Carrots & Sticks report is backed by KPMG, Stellenbosch itself, the Global Reporting Initiative (GRI) and the UN Environment Programme (UNEP).

The 2016 report identifies almost 400 sustainability regulations, guidelines, codes-of-conduct, frameworks and other reporting instruments across 64 countries.

The growth in disclosure requirements was being driven not just by stock exchanges but also financial regulatory authorities: central banks, banking commissions, the Institute of Directors and the like. Interestingly, for-profit exchanges tend to be more active in demanding ESG disclosure, in contrast to not-for-profit exchanges or governmental institutions.

The presentation looked at three disclosure research initiatives: the G&A Institute; GRI & RobecoSAM; and SASB, the Sustainability Accounting Standards Board. He highlighted elements of overlap between the various frameworks. For example, there are differences in how they assess the materiality of banks’ paper usage. He argued that stock exchanges and regulators “have a specific role to play” in ESG information disclosure. Guidance from the institutions was helpful, van der Lugt said, to bring more consistency in how these issues are “framed and measured and disclosed”.

Asked if there is too much data, van der Lugt said: “There is necessarily information overload and that brings us back to the question of materiality. I think the whole movement for reporting integration and integration, as well as between different types of accounting – I always refer to financial accounting and sustainability accounting – all of this makes the link and focuses on what some would call financial materiality. In some cases it’s not easy to quantify the financial consequences because we don’t have the right regulations in place.

“There is not an obvious market price for many externalities – so the regulators are selling us short here in not leveling the playing field to a

market context where the market sends the right price signals, because we don’t have the right regulations in place.” He cited the “painstakingly slow” pace of climate regulation as an example.

TruValue Labs’ Hendrik Bartel explained how his three-year-old company, based in San Francisco – specialises in mining “massive amounts of unstructured data” as well as structured data to “uncover” ESG information. The product is available on the Thomson Reuters Eikon platform and currently covers more than 8,500 listed companies – up from 500 companies a little over a year ago.

The system uses some 75,000 sources – “we’re very source agnostic” Bartel said. These range from newspapers, watchdog organisations, specialist publications, trade magazines and NGOs. “ESG data can be quite subjective,” Bartel said, “so we’re trying to be as objective as possible.”

He made the point that the data is created in real time. To illustrate what high density ESG data looks like, Bartel cited VW as “the cataclysmic ESG event of the past year” – and added his firm’s clients are building “alpha models” with the data. As for the artificial intelligence vs. the human factor debate, Bartel explained TruValue employs supervised learning AI, where the AI learns the context through “deep learning” rather than just key word look-up. The models take account of market developments and “update themselves”. Bartel said: “We don’t have enough humans in our company to look after 8,500 companies or more than that.”

BNP Paribas’ Trevor Allen pointed out how ESG runs through the firm. On the banking side there is green bond financing and issuance while on the asset management side of the business there’s both SRI and ESG thematic funds and exchange traded funds (ETFs). On the securities services side there’s ESG reporting and thematic indices.

He described the securities services arm’s ESG reporting package and increasing engagement with clients -- and helping them increase the engagement with the companies they invest in and BNP Paribas’ aim to be a “climate custodian”. For reporting, Allen said they have taken the lead from France’s new Article 173 regulation, which covers climate reporting by investors. “There is going to be a lot of need for transparency.” He saw the custodian as increasingly being at the centre of all the data being transferred: whether it be data from clients and market vendors or accounting data. “We can centralise all this – which gets us into the ‘big data’ case”.



So securities services would no longer just be about safe-keeping of the assets but rather an analysis of what those assets are – so clients can explain to their stakeholders what is going on in their portfolios, to help inform their decisions.

Custodians now have the technology to parse through massive amounts of data “at a very quick rate” and the ability to break things down on a “very granular level”. It all helps clients to avoid being unwittingly invested in controversial companies such as armaments.

“I consider Thomson Reuters to be one of the biggest ‘fintechs’ out there, globally” – the words of André Chanavat. He told the audience: “In our ESG content operations we have over 150 trained content specialists, sourcing data from companies’ corporate sustainability reports, annual reports, regulatory filings and so on.”

The aim, he said, is to counter the “scattered” nature of ESG data and standardise it, scrubbing the data in the process. He mentioned ‘cobots’ - collaborative robots – where the machine works with the worker: “We use semi-automation.”

Asked whether users were actually looking at this data, Chanavat said there has been a “substantial uptick” in usage -- not just on the buy-side (asset managers) but also the sell-side (investment banks), as well as a huge take-up at universities that are looking at the data very keenly. There was also interest from corporations too.

Demand by asset managers was being driven by more detailed mandates and the need for differentiation. Corporations, on the other hand, want to be able to benchmark themselves against their peers.

“It’s only when you have a process of aligning accounting and reporting systems that these people start to talk to each other – and then that data will become interesting to investors as well.”

Moving to a lively audience Q&A session, the initial questions focused on data quality and the balance between unstructured and structured ESG data. Bartel explained how data such as the number of women on boards could be blended with less quantitative information in a complementary way. Van der Lugt said: “It’s going beyond data and onto intelligence.” He says using the Integrated Reporting framework, you quickly realise that people within companies who collect data “aren’t talking to each other”. “It’s only when you have a process of aligning accounting and reporting systems that these people start to talk to each other – and then that data will become interesting to investors as well.

“Because that integrated report is meant to speak to the providers of financial capital.” We need to move, he argued, from ‘big data’ to ‘material data’. He summed it up: “We can have masses of data without making wise decisions.”

“We have customers that clearly do see that materiality that we are providing,” said Chanavat. Allen added that his firm can provide various different views to help clients “zone in” on what they want to use to actively engage with companies: “It’s about our clients using the data that’s most important for them.”

Questioning them moved, almost inevitably, to whether there is a predictive power in ESG data.

Bartel brought up corporate governance, where issues can become crystallised and which the data can pick up: “Then I do think we can see some predictability there.

Van der Lugt, reflected that there was always going to be fraud or corruption such as the Enron case. But an issue for him was the fragmentation of standards, both ESG and ‘conventional’: “So I think our ability to predict performance is undermined by these different communities of expertise operating in isolation.”

The other shortcoming was the time-frame of decision-making. Chanavat spoke of the challenge of separating the signal from the noise while Bartel agreed “we are all drowning in data” so the way forward is to move from data to intelligence to the human area of forward-looking knowledge. “So from data, to intelligence, to knowledge, that’s the ladder we’re climbing up.”

For Allen, the jury was still out about predictive power of ESG data, but as for risk “we can start to home in on some of the signals there”. BNP Paribas’ own R&D is looking at this right now. Bartel made the point it’s not always about the negatives such as controversies, it was also a way of capturing the positives within a corporation.

The session next turned to social issues – the ‘S’ in ESG. Said Bartel: “We’ve taught the algorithm to really think like an analyst there.” In his view, ‘S’ would become a quantifiable metric in three to five years – using satellite data, for example, to build really accurate ‘S’ models. “That’s where it gets really exciting and there will be a lot more transparency coming down the line extremely quickly.”

Van de Lugt said a lot of people reckon governance is the key factor, which is to say if

“We are all drowning in data so the way forward is to move from data to intelligence to the human area of forward-looking knowledge.”



you get the governance right “then the ‘E’ and the ‘S’ will fall into place automatically”. You can assess human capital within companies but the challenge is the external one; how do you measure the socio-economic impact of a company more broadly.

To this point, Chanavat said: “We’ve been quantifying social metrics since 2002 and the social pillar is one of our biggest pillars of all our metrics.” But the externality factor is a “bit trickier”. Allen spoke of looking to the UN’s global norms; the ‘S’ was going to be a way for companies to differentiate themselves.

Van der Lugt pointed out that the reason senior executives buy into sustainability is mostly to do with ‘reputation’ – which is the most subjective to measure. He said: “So this highlights the shortcomings of this quantitative analysis. What keeps many senior managers and board members awake at night is reputation.”

So there was a real issue for investors and social scientists to grapple with issues of trust and reputation.

The session concluded with a question about how do you square short-term noise with long-term investment. Bartel said: “The long-term is made up of multiple short-term horizons. When does short-term become long-term? I think that magic number might be five years or so.” Van der Lugt related a conversation with an asset manager, who told him they aren’t comfortable with fewer quarterly reports; they weren’t comfortable going 12 months without getting an update. The last word went to Chanavat, who said it you’re not measuring it, you’re not managing it.

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This webinar was viewed live by more than 300 individuals representing 200+ institutions globally and has since been viewed on demand by a further 250+ individuals.

To learn more about Thomson Reuters ESG data please visit financial.thomsonreuters.com/esg

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