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PANEL 2 – THRIVING IN THE NEW NORMAL – THE GREEN BOTTOM LINE

VIDEO TRANSCRIPT

- Hello. I'm Meg Szabo, Senior Editor of Bloomberg Green and Sustainability Events. And I'm happy to be moderating our second panel, The Green Bottom Line: Measuring Sustainability to Drive Impact and Value. I'd like to welcome our panelists for this discussion. Daniel Klier, CEO of ESG Book, Zoe Knight, Managing Director and Group Head of the Center of Sustainable Finance at HSBC, and Brad Sparks, Executive Director, Accounting for Sustainability Project . Brad, I'd like to start with you. We have been living in a world of acronyms here in sustainability. SASB, TCFD and now ISSB. As someone who works with hundreds of CFOs and finance teams, what is your take on the evolution of reporting structures across different sectors and industries? Do you think the ISSB's global standardization efforts will take disclosures to the next level?

- Great. Well, Meg first, thank you for having me today. And certainly there are quite a few acronyms that people are trying to navigate and understand. You know, they, for us, what we've been doing over the last 12 months is convening more than 200 CFOs, chief accounting officers, controllers, in a series of roundtable discussions to talk specifically about the evolving reporting landscape. And from that community, there's overwhelming support for alignment and harmonization of standards that can produce globally consistent, comparable sustainability information. The IFRS Foundation, which now has established the ISSB, are really very well suited to lead this next evolution in reporting for several reasons. First, because of their role in the financial reporting arena already, they can really accelerate the adoption of global sustainability reporting standards, in particular, where it relates to investor-focused needs. Second, the ISSB is going to be closely cooperating with the International Accounting Standards Board, the IASB, which sets accounting standards, and having that connection and connectivity will be essential to really connecting sustainability with financial performance. And then finally, the ISSB is really well suited to establish a global baseline for sustainability reporting that can underpin the building blocks that are needed for standards, and set the global baseline that's needed. And that's where there's a real concern, is the potential for fragmentation, where you have different approaches coming that make it difficult for CFOs and preparers to respond in an efficient and effective manner. So, yes, ultimately I think they, the IFRS, can help in this regard.

- Great. And along those lines, Zoe, I know that you have been a longtime supporter of both TCFD and now GFANZ, along with other initiatives. Can you just share a bit about some of the external initiatives that you are involved with and HSBC involved with?

- Yeah, for sure, Megan. Echoing Brad, thanks for inviting me to join you today. So, HSBC is a keen supporter of external coalitions that are driving common ground across the ESG arena. Now, we know that we don't want fragmentation because we all want to be generating the end result. So, HSBC is a strong supporter of GFANZ, the Glasgow Financial Alliance for Net Zero. Because we know we need that common voice, HSBC's leading the transition plan for Financial Institutions Working Group, that aims to really set out the ingredients for a strong transition plan for the financial sector. Now, that plan is gonna take several components to generate. It's gonna be all about organizational structure, client engagement, using the data to be able to set metrics and targets and having an overarching governance structure that demonstrates that the whole thing is gonna be implemented effectively. So, we're hugely reliant on the works that my fellow panelists Brad and Daniel are doing in the ESG space to make that really happen effectively.

- Great. That's wonderful. And just to be clear, too, TCFD and GFANZ are also Bloomberg initiatives here, so we're very proud of those. So Daniel, to you. I know, you know, at your role at ESG Book, you have been working to try and solve the sustainability data problem and some of these standardization issues. Can you share a little bit about the tools that you've been developing and how, potentially, a CFO or maybe a CSO, could use them?

- Yeah, thank you. And thank you for having me on the panel today. So I spent my last 10 years at HSBC, so I worked very closely with Zoe, and I found myself sitting on panels almost every week, complaining about the lack of data. And so, I moved over to ESG Book about a year ago to solve that problem. And for me, I have three observations since then. First of all, our problem actually, isn't the lack of data, our problem is there's too much data, right? We live in a world where we have too much non-financial data and what we really need to do is help CFOs and chief sustainability officers and boards and CEOs to make sense of that data. Second, the only way to do this is to combine structure and unstructured data. My favorite example is always, if you wanna know the GDP of China, you don't wait for China to tell you, you count the number of containers in the port of Shanghai and the light admitted by Chinese cities. In the same way we can deal with sustainability issues if you combine structured data, so what companies disclose. And unstructured data. Anything that we know about a company in the world. Media, social media, NGO data, satellite data, we know so much more than we think. And finally, one of our problems in the ESG space at the moment is we treat it as a black box. And that creates a lack of trust, lack of transparency. And I think one of the big jobs for us is to uncover the drivers of sustainability and take apart, what is climate? What is human rights? What is diversity and inclusion? And actually go down to the substance. And so, what we created is a platform ESG Book. I have about 10,000 users on the platform at the moment. And what you can do on the platform is explore the data for about 97% of global market cap, 25,000 companies, and go down into every single data point, about 450 data points for every company in the world. Because, I think what investors, and companies want these days, is transparency of what actually is driving sustainability performance, not just a headlight number.

- Yeah, that's amazing. And that's a lot of data. How do you work to kinda select what those data points are?

- So, we combine two things. We have a very traditional approach. We have a large team in Delhi collect and curate data that companies publish about themselves, but then we use technology with AI, with natural language processing. We read about 30,000 news sources every day. And you recognize patterns, right? Is there a human rights violation? Is it recognized in the press and in social media once, twice, 10 times? Different sources recurring. And with that, you build patterns that actually can recognize what is happening. And the beauty of this approach is you combine something that is often backward looking, like what companies tell you is important, but it is always backward looking. What the world says about a company is normally forward looking and gives you an indication of where's a possible risk, where somebody not on track. Because if I look at the questions that I get from my clients at the moment, and that's mostly large investors in the world, is how reliable is a target? Can I trust the target? And especially when we come to climate targets, people want to know, is this just marketing? Or is this actually being delivered? And so, you need something that is more forward looking. Otherwise, we always look in the rear mirror.

- And so, since you are looking all these datas and I did just kind of ask Zoe and Brad a little bit about, you know, ISSB, TCFD, GFANZ, do you find that those initiatives are helping what you're working on at ESG Book?

- So, my attitude is, the more material you give me the better, right? And regulation is one very, very important driver to bring more substance into the public debate. We have a problem that at the moment, there are probably too many initiatives. But, regardless of that, I would say the more data we have, the better. What is missing at the moment, I think, that's where obviously, the ISSB work will be very important, is to make these initiatives substantive. TCFD is a wonderful initiative, but we now need to make it mandatory and we need to make it specific. Because at the moment, I opened the TCFD reports of two different companies in the same industry, and I get very different insights. And I think we all know that financial markets are very clever. If you give financial markets signals, they will incorporate the signals into capital allocation. But these signals need to be comparable and consistent. And so, I think over the last five years, we've built an incredible amount of attention and capacity in the industry to think about these topics. We now need to standardize it and give the data to investors to actually allocate capital in the right way.

- Yeah, absolutely. So Zoe, talking about that and kind of moving to the financial side, HSBC has set out sustainable financing targets up to a trillion by the end of this decade. How is that going? And can you talk a little bit about how you're measuring that progress as well?

- Yeah. Thanks, Meg. Just before I do, though, I'm gonna pick up on a couple of points that Daniel made, just to reinforce the importance of them. So this transparency piece is really critical because we need to now move from the commitment stage of climate, to the actual implementation and evidence side that finance is actually flowing in a way that supports emissions outcomes. And so, that's what we were trying to do with the bank when we set out our net zero ambition goal a couple of years ago. As part of that, we set these targets, as you mentioned, up to a trillion over the next decade or so. And we're well over a hundred billion of the way there so far, but we need to do more and we need to move faster. And this point about substance, in terms of how we translate the raw message of the data into an outcome, is something that both GFANZ and TCFD look at. So if you think of phase one of climate assessment within financial organizations, it was all about the risk categorization. Now, we're being asked, much more frequently, to talk about alignment of capital to emissions outcomes. We know what the pure play solutions are for climate, we know that we need to scale up power provision from renewable sources. We know that we need to scale down some of the most fossil fuel polluting sources of power, but what's really tricky right now is figuring out how to move forward in steel in a fast way, and cement in a fast way, shipping, aviation, all of those sectors that are critical to the real economy and how we operate today, but that we need to shift into, to cleaner forms of operation. So, those financing goals really provide a signal of seriousness of intent, but they also need to move faster and we need to unblock the barriers that will be helped by both policy implementation, but also by this move that we're talking about around effective use of data and how we move that forward.

- That's amazing, yeah. And you're right, I think the hardest sectors are the ones that we really need to be focused on. Brad, Daniel, I'd love to also get your take on the success metrics that matter. So Brad, maybe to you, what are you seeing as the top KPIs that financial leaders in the markets are interested in right now?

- Yeah, I mean, I think it's a range and it varies by sector, but I think what we see across multiple sectors is that CFOs are getting much more engaged in the development of KPIs. And when we think about consistent and comparable information, we really need to think about reliable information, as well. So, what CFOs today are doing are saying, okay, do we have a robust control environment that will actually provide reliable data that we can use to track our progress? And then, how are we integrating that into decisions across the organization? How are we maybe, integrating that within executive compensation plans and getting again, reliable, consistent information in a timely manner that will help meet those needs? So that's where I see, really, today's CFOs playing a key role in the development and establishment of sustainability-related KPIs.

- Great. Daniel, anything to add there?

- Yeah, maybe just three very quick observations. I think my co-panelists mentioned them. First of all, there's a clear shift from commitment to delivery. I think we're past the point where people need to make new commitments. It's all about showing progress. And that is the most critical thing for this year, we have a COP coming up in Sharm el-Sheik. It's all about measuring progress. And frankly, there isn't a lot of good data out there yet that moves from what people have committed to, especially on the GFANZ in Glasgow, to actually progress measurement. The second thing is, I think we are moving to a world that is more granular. So we are no longer in a world where we discuss brown and green. I think we all know that the world is a shade of olives. But to measure a shade of olives, we need to be more granular in how we think about different transition pathways. And the third, we're moving from exclusionary strategies to transitional strategies. All three things have in common, that we need to provide more transparency. And I think when you open the newspapers at the moment, the word greenwashing is on every page and the only way to fight greenwashing is radical transparency to build that level of trust.

- Absolutely. I think we are all, the transparency is our number one issue and I think we just hear it time and again. Moving to Davos, since that was just last week, and I think obviously, the carbonization and climate took a center stage there and brought a slew of new pledges, to your point, rather than trying to take care of the ones that we have already made. I'm curious about your takeaways from this meeting, from both business and political leaders, particularly as it relates to who is driving accountability and this transparency and standardization. Is regulation potentially one of the answers here? And I think, let's start with you, Zoe.

- Yeah, I mean, for sure we really to get more granular on the implementation point and this proof that, the science that was set out for us earlier on this year by the Intergovernmental Panel on Climate Change really pointed towards this repeated urgency of getting emissions down. And, what we need to do now is move forward from Davos into COP27 and COP28, and really demonstrate radical collaboration that is gonna unblock barriers. And what I mean by that is, we can't keep having a conversation where you need demands to take effect so that supply will come onstream. We've gotta get through that by saying, right. How do we commercialize these markets? How do we commercialize green hydrogen? How do we make it sensible for carbon capture and storage to be attached to certain activities? But at the same time, we need to be really transparent, going back to the transparency point, about scientific alignment. Is this investment today really gonna generate a 1.5 degree world in the future? Or, is it taking us on a lock-in infrastructure pathway whereby we're stuck and we blow through the carbon budget in the next two years instead of the next 8, 10, 15, 20 years further down the line? So, there's a lot of work to do and it is really that radical transparency, radical collaboration, radical corporation across different parts of society to really make this happen.

- Yeah, absolutely. And Daniel, anything that you would wanna add to that?

- Yeah, I think on this topic, there is no silver bullet. The only way to achieve it is an interplay of regulators, investors, and companies and customers, therefore. Because actually, pushing sustainability in a supply chain is often the most effective, because if a customer says I will no longer buy from you, is even more effective than great investor engagement. So I think there's no silver bullet, all three initiatives need to work together, customers, investors and regulators, but what's important that we start to align this more. And therefore, I mean, Mike Copeland has said that what's happening with the ISSB is being very closely watched, because that is the hopeful trigger to more consistent information.

- Absolutely. Yeah. And I agree completely on that. Anybody have any thoughts on, you know, what else regulators can maybe do to help encourage better implementation of the measurement and the tracking? Daniel, maybe we could start with you.

- Yeah, I give you one thing. We need to find a way to avoid the regional adoptions, right? People may like or may not like the EU taxonomy. A lot of work has gone into it, and it's probably the best thing we have at the moment on it, but we now get 35 different shades of the taxonomy. And I think we see the same with securities commissions, we see similar things with central banks, although they are a little bit better coordinated. I think it is critical that we find a common language. If you speak to CFOs today and Brad, I think, can confirm this, they are all frustrated, because they get 30 different questionnaires and that's not the way to drive sustainability.

- Yeah. absolutely.

- Yeah, just to add, I mean I think, yeah, that drive for both an effective and efficient corporate reporting system is what we need. And what we're doing right now is really encouraging the CFOs and other preparers in our network to make sure they actively engage in the ongoing consultations. So these are still open, there's consultations out there, you know, chime in and share your opinion and voice.

- Great. And then Brad, to you too, you know, as talking about CSOs, CFOs, excuse me, and that increased focus on ESG for them, you know, and broadening that role a little bit, they do really need to be familiar with these topics now and the metrics, and be able to communicate those to shareholders who are demanding, you know, this transparency that we're talking about. What are the main areas that a CFO you think should be focused on when it comes to a company's sustainability strategy?

- Yeah. You know, a few different aspects. First is, you know, CFOs should really recognize that there's an essential responsibility, an essential opportunity to get much more engaged with the company's sustainability strategy, because they're the really the right people that are able to enable that. That role goes much deeper than just reporting. It's actually embedding relevant social and environmental factors into management information frameworks, and the decision-making framework, and it's actually using it to help make corporate decisions. So that's first. The second aspect I would say is that, you know, CFOs should recognize that sustainability, you know, connects across the finance organization, so that maybe treasury and investor relations, thinking about sustainability-linked financing, internal audit, thinking about sustainability as part of the risk register, the controllership, thinking about that control environment for sustainability data really cuts across the finance organization when they should be thinking about this. And then they should be speaking regularly with the board, and in particular, the audit committee about the organization's sustainability reporting approach and performance. My last thought is, you know, sustainability integration within the finance department is really a greenfield opportunity for CFOs. And those that really recognize this can actually do something that's legacy defining if they think about how they can transform the company's systems and operations.

- Amazing. And what would be like maybe one top piece of advice you would give to a CFO on how they could start to integrate sustainability into their reporting?

- Yeah, the one thing we're seeing right now is the establishment of these ESG controller roles, which I think's really interesting. So when you think about the finance organization and where that should sit, these new ESG or sustainability controllers are starting to take shape, and that can really drive change.

- Great. Daniel or Zoe, anything you'd like to add, potentially, on the reporting piece for CFOs? Daniel, over to you first.

- Yeah, I think there are a few things here. The first one, this is a data problem. This is not a topic that should sit in communications or marketing, where it still often sits. So this is the responsibility of the CFO. Second, non-financial data should sit right next to financial data. So when you give your monthly and quarterly financial report to the board, there should be next to it, a non-financial report. And then third, I wouldn't worry about what the right standard is. Is it SASB, GRI, the different rating agencies? It is important to find the topics that are material for the organization and that will drive the right engagement with investors, because every organization has very different sustainability topics. So the materiality for the business and therefore the financial mortality, is critical. So, there's a risk of being confused by all these acronyms. In the end, this is common sense, getting down to what drives the non-financial, and therefore, financial performance of a company.

- Zoe, anything to add to that?

- So, yeah, just one thing on the materiality point. Because again, this is how ESG has evolved. It's by taking materiality into account. And if you're the CFO, you need to worry about whether or not your business is high-climate impact, and if so, how to address that, in terms of whether or not profitability is gonna be impacted, whether or not growth's gonna be impacted by that climate impact. And equally, are you gonna be able to deliver your products in the future, or are consumer preferences gonna change? Are your end markets gonna start demanding different products? And are you ready and anticipating that? So, the materiality threshold question is again, a really crucial one, alongside the transparency thinking and the alignment to a downward emissions curve thinking.

- Great. Yeah, absolutely. So, we are just about out of time. I always like to try and end on a positive note if we can. So a question to each of you and Zoe, we'll start with you. What are kind of the areas of growth that you're most interested in right now, most excited about? What do you think, maybe where we have the most opportunities?

- Okay, so the science is really telling us loud and clear that we need to do more on renewable power, for sure. We need to electrify as much as we can. So, transmission mechanisms, infrastructure, power decarbonization, is just one massive investment opportunity, as are the other areas like hydrogen, carbon capture and storage utilization and those topics that really will deliver a net zero world.

- Great. Daniel?

- I mean, I would love to be optimistic, but I wanna say I think we're entering a very, very challenging period, right? This year we'll have a lot of criticism around greenwashing, we have suddenly quite competing priorities, especially when we think about energy security, and frankly, this year, ESG funds and products will underperform, let's say, more conventional markets, especially markets that have an exposure to fossil fuels. So, I think it is very, very critical that this year we just stay course. We don't get distracted, because we suddenly have competing priorities that may make this debate a lot more difficult. So, I think really, really important this year to focus on continued progress on promises, otherwise I think we'll have a very different debate, so.

- Yeah. I agree with that, Brad?

- Yeah, definitely a challenging period but what excites me though, is that we're seeing the level of interest in finance and accounting communities getting involved in sustainability at unprecedented levels. And so, we look at things like our A4S Academy where we've had 300 finance leaders participate in it. And I think the finance and accounting community getting more engaged in this, will help us address some of these challenges that Daniel was referencing before.

- Yes, absolutely. Well, we will end it there. Thank you all so much for your time today. We really appreciate it. Thank you for joining us.

- Thank you.