Bloomberg Launches Data-Driven ESG Scores for the Oil & Gas Sector

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On August 11, 2020, Bloomberg launched its proprietary environmental and social scores (the "ES Scores"), starting with the oil & gas sector. The Bloomberg scores are noteworthy for their transparency and industry-specific peer comparisons, providing companies with an opportunity to analyze the scoring methodology and underlying data and therefore to better understand where they are perceived to be relatively low-performing. This may ultimately enable companies to strategically improve their environmental, social and governance ("ESG") ratings, if desired and consistent with their business objectives.

Overview of Bloomberg's ES Scores

In August 2020, Bloomberg launched its new ESG Scores initiative, which is designed to help drive growth in sustainable finance and investing by helping investors decode ESG data that is otherwise hard to compare across companies. Bloomberg differentiates the ESG scores between the ES Scores (focused on the "E" and the "S" of "ESG") and, with respect to the "G" of governance, Board Composition scores. This article focuses primarily on the ES Scores. The scores range from 0 (worst) to 10 (best), and the ES Score reports are available to any investor with a Bloomberg terminal.

Given the growing focus on ESG investing, as further discussed in our recent blog post, we anticipate that companies with higher ES Scores may attract additional investor interest from ESG-minded investors, although the extent to which a higher ESG score correlates to better stock performance has been the subject of recent debate.

While many firms, including MSCI, S&P Global, Sustainalytics and ISS, rate companies' ESG performance, a March 2020 report found that there is no single go-to rating for all investors and investors expressed strong critiques of the available ratings. Among other things, investors complained about the need for companies to improve disclosure, reporting and transparency, and all expressed a desire for better data. The report identified weaknesses even among the firms most often mentioned by investors, citing issues such as lack of transparency and incomplete analysis. Bloomberg seeks to fill this gap.

Bloomberg's Process for Developing ES Scores for the Oil & Gas Sector

Bloomberg's initial offering includes ES Scores for 252 companies in the oil & gas sector. Bloomberg chose to focus on this sector because of its role in climate change and because there is typically stronger disclosure data from these companies. Bloomberg divided the 252 oil & gas companies into six industries: (i) exploration and production (89 companies), (ii) integrated oils (30 companies), (iii) refining and marketing (41 companies), (iv) midstream (39 companies), (v) services - drilling and drilling support (16 companies), and (vi) services - oilfield services and equipment (37 companies).

After dividing the oil & gas sector by operations type, Bloomberg referred to existing ESG reporting frameworks to identify the most material sustainability issues relevant for each industry. Bloomberg's Environmental Issues for the oil & gas sector are Air Quality, Climate Exposure, Ecological Impact, Energy Management, GHG Emissions Management, Hazardous Waste Management, Wastewater Management and Water Management; its Social Issues are Community Rights & Relations, Ethics & Compliance, Labor & Employment Practices, Occupational Health & Safety Management and Operational Risk Management.

Based on its research, Bloomberg rated each Issue by industry using the Bloomberg Intelligence (BI) Issue Priority ranking. For Environmental Issues, Bloomberg used a scale from 1 (highest priority) to 8 (lowest priority) (unless a certain Issue was inapplicable); for Social Issues, Bloomberg used a scale from 1 (highest priority) to 5 (lowest priority) (also unless a certain Issue was inapplicable).

Bloomberg assigns Environmental and Social Scores to each company on a scale of 0 to 10 (where 10 is best). The ES Scores are a weighted average of scores assigned to individual issues, where the weights are determined by BI Issue Priority ranking (see Environmental & Social Scores (Oil & Gas) for further information about this methodology).

Practical Approaches to Understanding and Improving a Bloomberg ES Score

Recognizing that there will be no "one size fits all," we offer the following thoughts on practical approaches to improving a company's ES Score, should a company desire to do so:

- *Analyze Scoring Report:* Public companies in the oil & gas sector should be familiar with Bloomberg's methodology and review their specific scoring report. It is possible, if not likely, that particularly low-scoring issues for a company could become the topic of future discussion with certain ESG-minded investors and, regardless of whether a company plans to put resources into improving its ES Score, it should be familiar with its score and how it compares to peers.
- *Bolster Disclosure:* Bloomberg's methodology emphasizes disclosure and transparency as a key component of a company's ESG performance. Companies that wish to improve their ES Scores without significantly impacting operations can first address inadequate disclosure around existing programs. As a next step, companies can develop new disclosures under voluntary ESG or climate-related frameworks, such as pursuant to the Task Force on Climate-related Financial Disclosures or the Sustainability Accounting Standards Board. However, prior to providing such disclosures, companies should ensure a proper governance practice is in place to ensure accurate disclosures and be mindful of the myriad ways in which this information could be used, once it becomes public.
- *Develop or Refine Governance Policies:* Under Bloomberg's methodology, a number of Fields (i.e., the data fields for individual issues used to calculate a company's ES Score), particularly those relating to company policies, utilize a binary scoring model (i.e., the Field is scored essentially as a "yes" or "no").[1] Companies that wish to improve their ES Scores should consider developing and publishing new ESG policies that satisfy such Fields applicable to their specific industry; the preparation and implementation of such policies may help improve a company's ES Score without significantly impacting the company's operations. However, as noted above in the context of disclosures, companies should ensure that a proper governance practice exists prior to enacting new ESG policies to enable a thoughtful and thorough process for implementing these policies. Companies should also document the steps taken to implement the policies, in the event of investor and regulator concerns around "greenwashing."
- *Develop and Implement Longer-Term Strategies for Higher-Priority Areas that Sync with Business Objectives:* By focusing on certain higher-priority Issues, such as

those associated with reducing emissions or worker health and safety incidents, companies can get the most “bang for their buck” by analyzing where improvements could be easily and economically added into existing strategic plans. Absent those clear opportunities, it does not make sense for companies to simply chase higher ESG scores, but it may be worth the time for a company to consider why an Issue may have been perceived as higher value for Bloomberg and to analyze what, if any, financial or operational benefits its higher performing peers are realizing as a result. These reflections may inform future strategic plans of a company.

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1. Among these are Fields are: (i) Air Pollution Reduction Policy; (ii) Anti-Bribery Ethics Policy; (iii) Biodiversity Policy; (iv) Carbon Pricing; (v) Climate Change Opportunities Discussed; (vi) Climate Scenario Analysis; (vii) Community Engagement Policy; (viii) Emergency Response and Preparedness Policy; (ix) Emissions Reduction Initiatives; (x) Environmental Quality Management Policy; (xi) Fracturing Fluid Use Policy; (xii) GHG Emissions Reduction Policy; (xiii) Hazardous Waste Management Policy; (xiv) Health and Safety Policy; (xv) Human Rights Policy; (xvi) Indigenous Rights Policy; (xvii) Political Involvement Policy; (xviii) Risks of Climate Change Discussed; (xix) Short Service Employee Program; and (xx) Water Policy.↩

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