

Scorecard

Bloomberg ESG Scores

About Bloomberg ESG Scores

COVERAGE OF COMPANIES

15,500

LAUNCH DATE

2020

FOCUS

Environmental, Social, and Governance (ESG) scores

LINK:

<https://www.bloomberg.com/esg>

Bloomberg ESG Scores

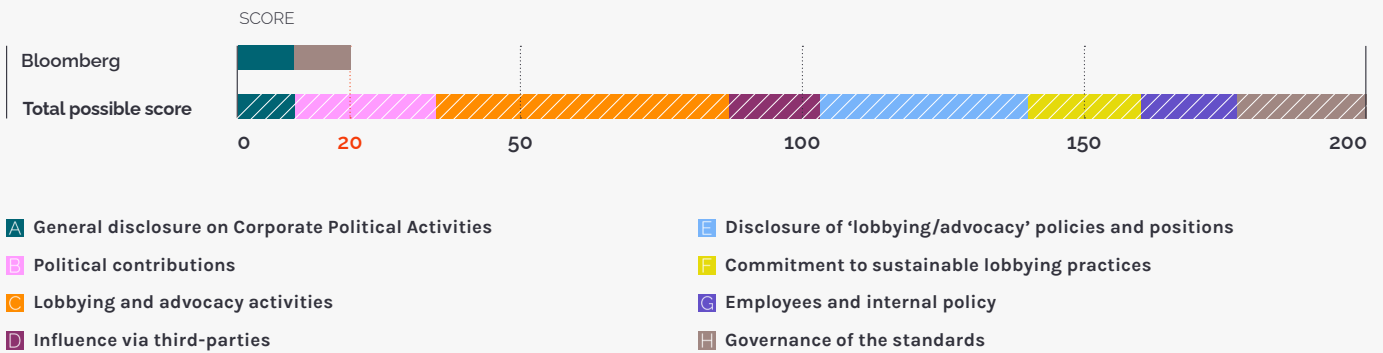
Score

Tracker Rank and Score for Bloomberg

The score is out of a total of 200 and the rank describes the standards position in the 27 standards assessed by the Tracker.

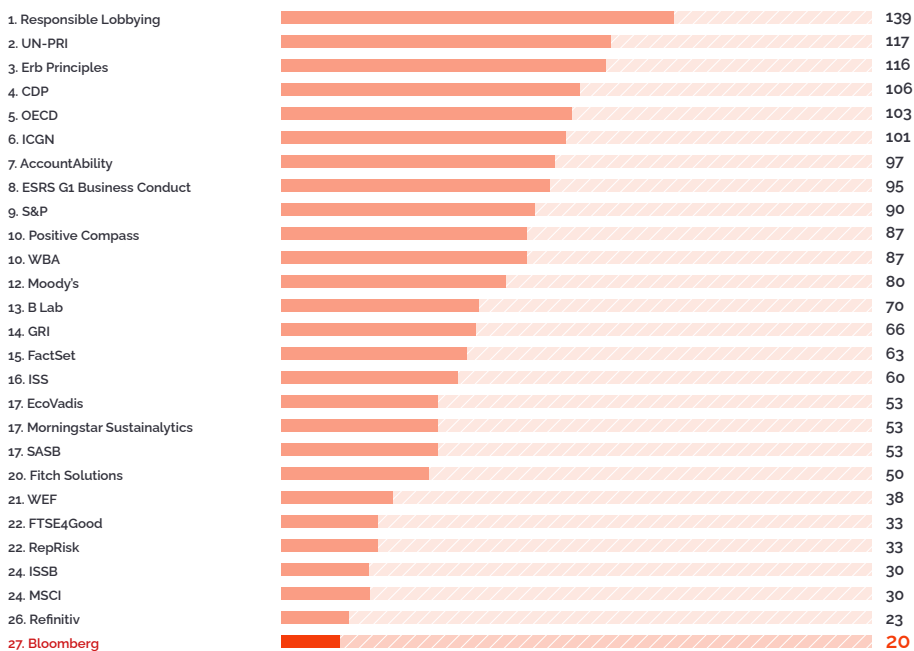


Category scores of Bloomberg



*Categories where the standard received no points do not appear in the colour-coded graph

Rank and scores for all standards



Description

Bloomberg is one of the world's largest financial data providers. The company offers a variety of proprietary scores that investors can use to assess company or government disclosure and performance on a wide range of ESG and thematic issues. Bloomberg's ESG and thematic scores are designed to be integrated into company research and portfolio construction. These scores are built on underlying data from company-produced reporting in the public domain. This information includes annual filings, proxy statements, corporate governance reports, supplemental releases, and content gleaned from company websites and news sources.

In 2020, the company launched an ESG score product which is now available for more than 15,500 companies across multiple industries.² Bloomberg's inhouse ESG data complements partnerships across many different data providers on ESG and climate-linked investment index construction available through the terminal. Bloomberg analysts collate data and then standardise company-reported ESG data and claim to ensure their approach covers 80% or more of a company's operations and workforce.³ Bloomberg then uses a combination of internal and external data to build ESG scores and then offers these as raw company-scores or as inputs for bespoke investment products for a range of partners.⁴

Bloomberg ESG Scores are built based on the proprietary Bloomberg ESG Classification System (BECS), which, according to the company, is purpose-built for ESG analysis. BECS peer groups include companies that share similar business models, supply chains, products and services, clients and risks, and are therefore exposed to similar ESG issues. BECS is built using different Bloomberg Industry Classification System (BICS) categories which Bloomberg argues create more granular or cross-cutting peer groups most relevant to ESG scoring.⁵ This approach is similar to the Global Industry Classification System (GICS) used by MSCI and S&P to define their ESG data gathering and index development.

Bloomberg ESG scores measure a company's management of financially material ESG issues. Bloomberg defines financial materiality as "the issues that can have a negative or positive impact on a company's financial performance, such as revenue streams, operating costs, cost of capital, asset value and liabilities."⁶ As the frameworks used to develop Bloomberg's ESG Scores do not assign weightings to the issues that they identify as important, Bloomberg uses a three-part assessment to determine issue priorities, based on (a) probability: each Issue is assigned a ranking of high, medium, or low to represent the probability of the Issue (cost/opportunity) materialising; (b) magnitude: each issue is assigned a ranking of high, medium, or low to represent the magnitude or potential severity of the financial cost or opportunity; and (c) timing: each issue is assigned a classification of short-term, medium-term, or long-term. Short-term suggests that the financial impact can occur within 2 years. Medium-term indicates that the financial impact is more likely to occur in 2-5 years, and long-term in 5+ years. The financial impact of medium- and long-term Issues may be more dependent on physical and regulatory changes.

Bloomberg's ESG Scores measure a company's management of financially material industry-specific environmental and social (ES) issues and opportunities, as well as governance (G) policies and practices, with adjustments for country-specific rules and regulations. The ESG scores are based on publicly available, company-disclosed data, not on surveys, estimates or analyst opinions. The methodology for the scores and underlying data are completely transparent, which means users can view the source of the data and analyse how it is driving each score.⁷ According to Bloomberg, the scores draw on major sustainability report-

ing frameworks used by public companies around the world to highlight the most material sustainability issues, such as: the Sustainability Accounting Standards Board, Task Force on Climate-related Financial Disclosures (TCFD), the Global Reporting Initiative and CDP.

Industry-specific materiality approach. While developing inputs for the Environmental and Social Scores methodology, Bloomberg Intelligence analysts conduct industry-specific assessments of sustainability issues, prioritising and ranking the sets of issues using proprietary and external sources. Scores range between 0-10, with higher scores indicating better management of material issues.

For the Governance scores, which touch on lobbying issues for selected industries, Bloomberg combines in-house proprietary research with guidance provided by third-party corporate governance frameworks and practitioners. According to Bloomberg, this includes work by the Investor Stewardship Group,⁸ the Organisation for Economic Co-operation (OECD)'s evolving standards on lobbying and other corporate governance issues,⁹ the International Corporate Governance Network,¹⁰ the Council of Institutional Investors,¹¹ various national Corporate Governance Codes and local listing rules. This wide assessment of governance standards suggests that Bloomberg scores should have a robust approach to corporate political activities and other forms of lobbying.

Data on corporate political activities is built into the composition of Bloomberg ES Scores only for the following sectors: Oil & Gas, Electric Utilities, Aerospace & Defense, Metals & Mining and Chemicals. The data field is named 'Political Involvement Policy', and tracks whether or not a company is disclosing its management approach to political involvement, including lobbying activities, government relations and political contributions. Yet given the materiality of corporate political engagement and other forms of lobbying across major industries, there should be scope to expand this analysis.

Summary tables in each Industry Guide describe key Issues and show transparency into 'Issue Priorities.'¹² Details are also provided on the availability of associated quantitative data, as well as additional transparency to explain the assignment of Issue Summary information about disclosure is also included in each Issue section. According to Bloomberg, "the best scores should come from transparency and decision-useful sustainability disclosures, as well as from good sustainability performance. If only one aspect is good, the scores are capped." In our dialogues with the Bloomberg ESG Scores team, it was not clear how this approach is applied to corporate political activities and other forms of lobbying that are currently captured by Bloomberg.

Score summary

The Bloomberg methodology scores 20 out of a possible 200 points, reflecting limited or absent consideration of corporate political activities in the methodology used across their ESG Scores. The score improved by 10 points in the previous edition of the Tracker, based on new information shared by Bloomberg. Corporate political activities and other forms of lobbying are not well covered in the Governance Pillar.¹³ According to Bloomberg, data on corporate political activities feeds into the composition of Bloomberg ESG Scores only for the following five industries: Oil & Gas, Electric Utilities, Aerospace & Defense, Metals & Mining and Chemicals. This limited and partial industry coverage weakens the Tracker score.

The data field ‘Political Involvement Policy’ for selected industries tracks whether or not a company is disclosing its management approach for political involvement, including lobbying activities, government relations and political contributions. The ESG scoring process draws on Bloomberg ESG data and as well as third party information from MSCI, SASB and others. According to Bloomberg’s email description of their methodology, “where reported, this includes data fields such as the amount of political contributions, whether a company has disclosed a management approach to involvement in political activities, including lobbying, government relations and political contributions, the number of shareholder proposals related to lobbying activities appearing on company proxy statements, etc.” But the detailed indicators are not accessible to users, and the methodology for integrating this information into an ESG score was not provided to the Tracker research team.

Themes included in the Governance Pillar Score are weighted based on Theme Priority. Bloomberg Intelligence conducts an assessment of corporate governance issues, prioritising and ranking themes using proprietary and external sources, including: (a) internal discussions and interviews with Bloomberg Intelligence analysts; (b) analysis and news by Bloomberg Intelligence and Bloomberg Law and Government that highlight financial impacts related to key governance risks (e.g., litigation, fines, shareholder actions, employee turnover); (c) Bloomberg analyses of numerous corporate governance codes from different countries; and (d) academic/scientific studies that point to the highlighted factors. Given the comprehensive nature of the Bloomberg research process and incorporation of third party data, the lack of more consistent or complete coverage on corporate political activities should be addressable.

According to Bloomberg, this data may not be used for a number of reasons, including the fact that “Bloomberg ESG Scores rely solely on company-reported data in the public domain, and such disclosures around corporate political activities remain limited and inconsistent.” Additionally, Bloomberg ESG Scores “are driven by an industry-specific perspective on the financial materiality of ESG issues, and the directionality of the financial materiality of corporate political activities is not always well established.” Bloomberg’s answers to the Tracker questions indicate a low-level of maturity in their assessment and weak transparency on the integration of corporate political activities in their ESG scoring methodology when compared with peers.

Opportunities for improvement

Given the absence of a consistent approach to incorporating corporate political activities into their ESG data gathering and scoring process, Bloomberg analysts would benefit from reviewing the 8 Tracker assessment categories in detail. As Bloomberg clients in the institutional investment community and the approximately 350,000 users of Bloomberg terminals seek to develop better understanding and awareness of financially material lobbying activities by companies and sovereigns, more complete information in this area would benefit the whole market. Following a review of the Tracker categories and the peers who perform better than Bloomberg, the team could determine an approach to more fully integrating this important set of ESG-related risk and opportunity factors into their underlying ESG scores and into the index construction process, explaining their updated approach to clients.

Endnotes

- 1 <https://hr.bloombergdria.com/data/files/Pitanja%20i%20odgovori%20o%20Bloomberg%20ESG%20Scoreu.pdf>
- 2 'Bloomberg Launches Proprietary ESG Scores' (2020): <https://www.bloomberg.com/company/press/bloomberg-launches-proprietary-esg-scores/>
- 3 <https://assets.bbhub.io/professional/sites/10/Environmental-Social-Scores-Fact-Sheet1.pdf>
- 4 <https://www.bloomberg.com/professional/product/indices/bloomberg-esg-and-climate-indices/>
- 5 See 'Bloomberg ESG Scores: Quantitative and transparent scores on material ESG factors' Overview for Terminal users.
- 6 <https://hr.bloombergdria.com/data/files/Pitanja%20i%20odgovori%20o%20Bloomberg%20ESG%20Scoreu.pdf>
- 7 See 'Environmental, Social and Governance (ESG) Scores: Methodology and Field Information'
- 8 'Bloomberg ESG Scores Overview & FAQ' <https://hr.bloombergdria.com/data/files/Pitanja%20i%20odgovori%20o%20Bloomberg%20ESG%20Scoreu.pdf>, at p.16.
- 9 See most recently, the OECD's May 2024 'Recommendation of the Council on Transparency and Integrity in Lobbying and Influence: <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0379>
- 10 'ICGN Global Governance Principles' <https://www.icgn.org/sites/default/files/2021-11/ICGN%20Global%20Governance%20Principles%202021.pdf>
- 11 'CII Advocacy Priorities' <https://www.cii.org/content.asp?contentid=366>
- 12 'Bloomberg ESG Scores Overview & FAQ' <https://hr.bloombergdria.com/data/files/Pitanja%20i%20odgovori%20o%20Bloomberg%20ESG%20Scoreu.pdf>
- 13 The Governance Pillar of the Bloomberg ESG scoring process covers four themes: Board Composition, Executive Compensation, Shareholder Rights, and Audit.

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