

TECHONOMY NYC

Sustainable Solutions for Growth: A Conversation with Douglas Peterson

Speaker:

Douglas Peterson, CEO, S&P Global

Introduction:

Diane Brady, Founder, dB Omnimedia

(Transcription by [RA Fisher Ink](#))

Kirkpatrick: Next we have a really, really thoughtful CEO of a major New York and global company, S&P Global. Doug Peterson is somebody that I met in Davos and he was talking about such interesting stuff and somewhat unexpected for me that we stayed in touch and we've got him here today. Diane Brady, a great journalist, will interview him. Diane, please, take it away.

Brady: Thank you very much.

Peterson: Thank you.

Brady: Hi everybody. So thoughtful and provocative, that's the expectation for this. And I have to say, so welcome please, this is Doug Peterson. But I used to know S&P as sort of the money-making part of McGraw-Hill when I was part of *Business Week*. And now you're nimbler, faster, stronger. Tell us, first of all—give us up to date in terms of S&P Global, a little bit about who you are, your aspirations, your mission, what's different.

Peterson: Well thank you, and thank you David. S&P Global, as you know, is a company that provides benchmarks to different markets through our ratings, indices, information about commodity markets. And over the last five years, we went through a journey of transforming our company from a conglomerate to an operating company. But you think about what were the challenges in the markets—after the financial crisis, regulation was changing around the world and moving quickly across the entire financial sector, the incredible amount of volatility in the financial markets, and we still see that. There's questions now about what's going to happen with interest rates as central banks unwind their liquidity they pumped in the markets.

Other challenges like the massive change in technology in the markets, and what does that mean for our own company, and then things that you've been talking about are very interesting, climate change and ESG and what are those? And our company has been

responding to those as we manage our business and we've found ways that we can address some of these and I hope we can talk about some of these challenges.

Brady: I was intrigued by—you have a venture arm, and lots of companies have venture—what does it mean for you? Is it just sprinkling fairy dust out there to give money to good causes? You have the Kensho acquisition. Give us some sense as to sort of strategically what you're looking for and what it's done for you.

Peterson: It started with a realization—and this sounds so obvious but it's not necessarily obvious when you look at it inside of large corporations. It started with a realization that our data was so powerful and so embedded in the way our clients work, but we needed to have a road map for how we were going to upgrade and update our technology. So we had internal—

Brady: Through acquisitions?

Peterson: Well, we had internal incubation but we decided we were also going to be making investments in venture. So we started with a venture fund in San Francisco called Green Visor. We have an investment in a fund in Singapore, another one in Tel Aviv. And through those we started making small acquisitions, not acquisitions but 5 percent, 10 percent, no more than about \$10 million each of these investments.

Brady: Tell us about Kensho, because I think people are really curious about how you're leveraging artificial intelligence, machine learning—we'll get into blockchain later. No crypto, you know—

Peterson: Kensho is a machine learning/artificial intelligence company that has customers on Wall Street and the security community in Washington, and we made an initial investment in them in their B round of their funding. And after about six months, nine months of working with them, they were doing projects for us really as a vendor. They did a project for us to rebuild how our internal data searches, so this was how were we going to use search to be able to look at our own data, how were we going to be able to have search that can link to information about weather, about markets? And we looked at that. We had another project where they built some forward-looking credit risk indicators, things that are totally nontraditional like looking at Google searches and seeing what are you going to learn from a Google search.

Brady: So augmenting human beings around how they're assessing companies and such in the market?

Peterson: And visualization. And so about nine months ago, six months ago I said, well, we should buy these people. So we bought the company. We're now integrating it across everything we do, from ingesting data to managing data to producing new products and then to delivering it and ensuring that we can engage with the markets. So Kensho is now part of S&P Global and they continue to support external clients but we now have this engine of really brilliant Ph.D.s and physicists, mathematicians, economists who have joined our team and they've allowed us to really accelerate our AI.

Brady: And one of the things today is you're actually announcing some news around this. But to get back to what David was saying from Davos, what he was alluding to, was you had some very cool visualization of data around crude oil flows, what's happening with solar, a lot of these ESG measures. Talk about that, because it's not just something you're using internally but you're also I believe selectively partnering with others to let them use it as well.

Peterson: Well one of the biggest frustrations coming in from this last panel—one of the biggest frustrations that people have is, in your daily life, when you have this device, your iPads and things, they're so easy to use. They're integrated into your daily life, they're visual, they're easy to use. But in the workspace, you get there and you have a desktop that you still have to cut and paste and move things around. So a couple of years ago we bought a company that specialized in visualization and we started building these tools using this really rich data we already have.

And what we did at Davos is we gave data to Davos, to the World Economic Forum, to Carnegie Mellon, and then ourselves, put together these data walls and we were using energy information. We looked at global oil flows for the last 50 years. We looked at—one of the most interesting was energy transmission and energy development in the United States and we looked at all of the power generation over 50 years and the way it shifted from coal to natural gas to solar and wind and all of those trends across the economy, and then we also did projections going forward, what are going to be the costs if you don't find new ways to get clean energy.

Brady: And is this incorporated into how you're looking at companies? Because I'm reading here over 150 indices you have now that are ESG-focused. If you're in the audience, how do they use that information and are there ways that they can be leveraging that in terms of the trust, the greenness of a bond, for example, that sort of thing?

Peterson: Right. So a couple things in your question. On the first part, continuing to look at how we're developing new products and new services with all the data that we have, one of the areas is in ESG, environmental, social, and governance, and in particular in the environment space, there's not a lot of standards. There's not a lot of traditional data available or even consistent ways to provide that information. So across our company, we have many, many different products and services now we're starting to incorporate. We have a green bond evaluation tool that we issued through our rating agency. We have 150 indices that we've developed. For example, everybody knows about the Sustainable Development Goals, the SDGs from United Nations. There's 17 of those and number 6, which is about clean water. We now have one of our 150 ESG indices is a clean water index. So these are the types of things we're doing to develop ESG products and services to get that consistency.

Brady: So to bring it back to sustainable solutions for growth, it's both your own growth but the growth of other companies. One of the things that's really challenging—and we will take some questions from the audience too, but given the speed of disruption, given all the different new business models, it's a real challenge to assess the credibility of some of these models, the

trust. As you're looking at the environment, are these tools that help you measure other companies better? Do you feel it's helping you to grow more sustainably?

Peterson: Well, there are a couple things in that. When we issue product or we look at the data, we will look at our own company to see how we measure up against that. But importantly, when you talk to endowments, to foundations, to sovereign wealth funds, they're shifting very rapidly their focus to incorporate these tools. And I'll give you an example of something that we're announcing today, later today. One of the companies in our portfolio is True Cost, which measures information about carbon, water, and waste usage. And we've just developed a Sustainable Development Goal approach to—it's a true cost SDG measurement tool and it allows companies to look at all of the 17 SDGs and see how do they stack up. How do they stack up in their own sense, and how do they stack up against the industry, and how do they stack up against competitors as well as other industries. So these are the types of things that we hear from pension funds, from sovereign wealth funds. They want these kinds of tools to look at their portfolio. And we're quickly trying to provide the services and products that can meet those needs.

Brady: So I'm an entrepreneur in the audience, say, you could invest in me, you could buy me—could I partner with you? Who comes to you and why? Is it because they need the data? They've got the cool model but nothing to put in it?

Peterson: One thing that we found very typical of a lot of the fintechs and reg tech companies, which have started up, they have a small amount of capital. They've built something that's a screen or an app that looks great. It's visual, it's easy to use, it's very colorful, it's intuitive, but behind that they don't have any data. And they know that we have this data gold mine that comes from 50-plus years of information about markets, of indices, of equities, credit, fixed income. So many times a company will approach us to see if there's a way they can partner because of our data. And then beyond that, many startups also find that once you get to a certain level, you need a sales force; you need customers, you need a way to have infrastructure to be able to support markets, and so this is another reason many of the fintech companies come to us, but we're also out looking for ourselves as well.

Brady: I actually want to take some questions from the audience. Does anybody have questions? Just raise your hand.

Varkay: Yes, thank you, Madeleine Varkay. I am curious, we hear so many different types of voluntary standards, for example the SASB. How do you compare yourselves to SASB, and what's the impact then on the institutional investor community, TCFB, etcetera? Where do we have a uniformity in measurement standards and in indexes?

Peterson: It's a great question. It's something that people are really struggling with is there are no standards. You have the SASB standards. You also have the TCFD, which you talked about. That's the task force for climate-related financial disclosure. One of our executives was a member of the TCFD. What we're doing is providing the raw data so that people can use it to

measure carbon output. They can use it to measure waste to water output. They can use it to measure governance standards. They can use it to measure social standards. So we're today—we haven't set up ourselves a standard. We're not a SASB or a TCFD ourselves. We're providing the raw data, the analytics, and the tools so that people can—they can then develop their own standards. They can measure themselves. But these are very important initiatives and we're members of many of these different task forces. We try to help develop these new standards.

Brady: But as you're measuring companies—for example carbon disclosure has always been—people disclose what they want to disclose. You must hold them to standards of accountability and make sure that there's standardization across how you measure it yourselves.

Peterson: So one of the differences between financial reporting and climate reporting today, carbon reporting, is that in financial reporting, you're audited. So when you issue financial statements, your financial statements are audited, probably by one of the big four accounting firms, under very specific standards.

Today, if you produce your information about your carbon output or your water output, it's voluntary. There's not necessarily standards around how you do that, when you do that, if it's every quarter, if it's every year, if it's in your financial statements or not. But because we're now publishing this information about 12,000 companies and it's becoming the standardized information source, companies that don't have their information in there are being asked by their investors, "Why isn't your information in the True Cost database?" If you're not in the data, if you're data's not there, people wonder why isn't it there? So you're starting to see such high interest on carbon information, on climate, and other types of environmental, social, and governance information that people want to see it and then they're demanding it, which means that it's a cycle that then we can provide more and more.

Brady: Okay. Do you have other questions? Because I can immediately go to blockchain, because I am curious about blockchain. I'm not going to put you too much on the—because you've actually been doing some work in this and one of the reasons I mention it is, when I talk to fintech companies, when they look at who they want to disrupt, you're one of the companies they want to disrupt. Give me some sense as to how blockchain, how you view it internally, and when you look at the marketplace, how potent is it?

Peterson: Well blockchain, if you think about the distributed ledger technology that's behind it, and potentially smart contracts, we're thinking about it from how you can digitize or secure information or information flows, not as a trading venue, not as a cryptocurrency. But I'll give an example of one of the things we've already done. We have a partnership with the Fujairah organization. It's one of the United Arab Emirates. It's the United Arab Emirate where—most of the transshipment of oil and oil products and oil derivative products go through Fujairah.

The organization that the government has that oversees the oil flows and product flows used to get all of their information with spreadsheets, with paper documents, with phone calls, with emails. We've developed with them a secure private blockchain where all the participants in the

market now report all of their data via the blockchain to the government. And so we're a partner in that. We've developed a live, private, secure blockchain application and since we've rolled that out, the information is just pouring in from around the world from people that want to see how we can use this for the rest of the supply chain of the energy markets.

Brady: Do we have other questions in the audience?

Kirkpatrick: Okay, so Doug, one of the things that's interesting about what you're doing is you're gathering data that one might say governments ought to be gathering, right? Of course, but it's a global economy, you're doing it globally. There is no global government. This is an issue we discussed yesterday. It comes up intermittently. And I know also it just happens you're somewhat more sanguine about our government situation today than most people have been on the stage. Do you see, in effect, what you're doing as being a remedy for the fact that governments are—especially our own government—are essentially relinquishing a lot of their previous responsibility for monitoring what's going on in the environment, in the economy, and will it be a sufficient antidote?

Peterson: A couple of comments. First of all, your first point about being global is critical. It's part of our business model, well beyond just what we're talking about with sustainability factors. It's part of our business model. People that are using our information and our data to make decisions, they want to know that we use the exact same standards in Tokyo, Mumbai, Sao Paulo, New York, that we apply those standards globally, we gather the data the same way, we produce the products, we process it. And so that's really critical and governments aren't going to be able to do that.

The second thing is that we see that, when you talk about, whether it's blockchain or AI or new types of ESG approach, government is not at the forefront of this. There are very few places anywhere in the world except for maybe Norway where the government is leading this kind of initiative. And so we think that we want to be on the cutting edge and the leading edge of this and we're not going to wait for the governments to make decisions about how they want to see reporting and the standards they want to set. We want to provide that global service and so we don't think that we're going to wait for the government. Clearly, if somebody like Mark Carney is going to lead a task force through the FSB to come up with—for the TCFD, we want to be part of that and we're going to accompany the governments, but we want to be there to lead.

Brady: One of the—and we don't have a lot of time left, but—oh, there's a question over there. Go ahead. Because I could ask questions all day but I was going to ask you—I do think as well, give us some sense of sort of the markets, since there's so much volatility right now. But we'll first go to the question. Go ahead, hi.

Gardner: Hi, Meghan Gardner from Alipes. My question—it's sort of a follow up from, I think it was David asking the question, I couldn't see over there. So the kind of worldview that we heard this morning from Jeffrey Sachs was basically that we can't rely on the—markets aren't great at supporting the environment, right? And so my question is, is it just fundamentally a

different worldview that markets can or cannot, and is that therefore intractable, or is there a place in the middle where markets and governments are symbiotic or in some other way. Who should own the majority of responsibility for solving those issues?

Peterson: I wasn't here this morning to hear what Jeffery Sachs had to say, but my own personal view is that markets become efficient but they need to have a structure where you have a regulator, you have oversight, you have certain parameters being set by the government. As an example, the banking system or the financial system everywhere in the globe, because they're taking people's deposits and they're taking money from consumers, are protected through a regulatory system.

Energy and greenness is something that you can achieve a lot of goals through a framework either through subsidies or tax incentives, carbon markets that the government can help set up, but then they become markets. The places where carbon markets actually work is because it's a carbon market, not because it was implied or the government is running it. So I'm not sure what Jeffery said, but I believe in markets myself. I think markets can be efficient. I think there's very important market solutions. We're providing some of them. For instance, I talked about this SDG product we're rolling out today. That's a market-based approach to get information out to—information that is needed by the markets and we're doing that as a market approach, not because the government asked us.

Brady: I sense the barbarians at the gate here to keep on the—but we do have 37 seconds—we do have 35 seconds for you to give us some insight as to what's around the corner. Any sort of last words or any thoughts in terms of what's on your radar and what you want people to take away from this?

Peterson: I would go back to where we started on technology, the theme about responsible growth and sustainability. Technology is going to change everything we do and technology is actually one of the most important answers for our energy and for sustainability. But it's something you have to embrace. You can't wait for it to happen, you can't hope it happens. And that's something we've done in our own company is to try to take technology and embed it into everything we do in a very proactive way and also challenge ourselves. It's not easy for somebody like me that's been working for almost 40 years to become a technologist overnight and so I'm having to learn myself and push myself and challenge myself. And I think that's something that all companies have to be doing, all organizations have to do, because it is going to be one of the tools that's going to help us solve responsible, sustainable long-term growth.

Brady: Great. Doug Peterson, thank you very much.

Peterson: Thank you.

Brady: Thank you everybody.

[APPLAUSE]