
ELFA's ESG Fact Sheet Guides European Leveraged Finance Borrowers on Best Practice for ESG Disclosure

Executive Summary

- The significant disruption resulting from the coronavirus pandemic has highlighted the importance of ESG metrics to investors' analyses of the companies to which they lend.
- In order to assist companies and their advisers in drafting ESG-related disclosure, ELFA's ESG Committee has developed an ESG Fact Sheet for public consultation.
- This initial draft has been compiled from input from credit analysts, portfolio managers, and ESG specialists, and with reference to guidance from the Principles for Responsible Investment (PRI).
- ELFA views feedback on the ESG Fact Sheet as an essential part of its successful development and implementation, in particular from borrowers who have used it in preparing and drafting their ESG disclosure, as well as from advisers and investors through their discussions with issuers.
- The topics in the ESG Fact Sheet range in scope, and focus on strategic investment-relevant ESG matters in the context of companies' long-term activities and efforts.
- This resource should be viewed in the context of the circumstances of each individual borrower, and is by no means intended to reflect a "one size fits all" approach to ESG disclosure.
- The public consultation and trial use period will close at 6pm on 3 July 2020. Comments should be sent to Sabrina Fox, Executive Adviser to ELFA (sfox@elfainvestors.com).
- After we have received feedback during this process, we intend to publish together with the PRI further enhanced and refined guidance and resources, including sector-specific guidance developed by way of the ESG Disclosure Roundtables. The Loan Market Association is also joining in this initiative.
- Investors who are interested in participating in the ESG Disclosure Roundtables should contact Carmen Nuzzo, Head of Fixed Income for the PRI (carmen.nuzzo@unpri.org). Priority registration will be given to ELFA members and PRI signatories.

The COVID-19 pandemic has materially impacted the economy and society as a whole, leaving companies fighting for survival

It is unavoidable that certain issues are put on hold in the midst of a crisis as companies and individuals address urgent concerns threatening health, safety and economic viability. The coronavirus pandemic has precipitated abrupt and unprecedented challenges to all stakeholders in all areas of the economy and society at large. As a result of government measures to contain the global spread of the COVID-19 virus, many sectors

of the economy are facing material reductions in commercial activity and significant disruptions to operations resulting from changes in supply and demand dynamics or to supply chains.

ELFA reaffirms the importance of ESG management and disclosure

With fires fought and some level of visibility on market activity achieved, we are now seeking to continue work on projects in progress prior to the lockdown. Although we are living in unprecedented times, ELFA's investor members are clear: ESG was a key topic in their investment process before March

2020 and it will remain so for the foreseeable future. In fact, because it is imperative for all stakeholders to play a part in a coordinated, economy-wide response and recovery, discussions about ESG topics arguably more important now than before.

Investors do not view the COVID-19 crisis as a reason to reduce the focus on ESG. On the contrary, the crisis highlights the importance of carefully considering all stakeholders when making important decisions. The companies that will exit the crisis the strongest will be those that manage the challenge of balancing the needs of customers, employees, suppliers, lenders and shareholders in such a way that each feel invested in the company's long-term performance as valued stakeholders in the eyes of management. It is an opportunity for corporates to create a new, more meaningful relationship with society, including by helping where they can in our recovery from the crisis and by demonstrating that their commitment to a greener future is not just a fair-weather topic.

It is also important to recognise that the COVID-19 pandemic represents not just a risk but also an opportunity for companies to do things differently in the future. Companies that demonstrate purposeful leadership by acting with intent now will be better placed to rebuild and restart as we enter what will be a new normal. Such companies are typically characterised by an ability to learn, foresee and adapt to changing markets, innovate and attract talent, and evidence a collaborative mind-set, all the while doing so in a responsible manner. Further, we firmly believe that companies that are seen to be doing the right thing, e.g. manufacturing hand gel for the healthcare sector, will gain market share as their brand is strengthened.

ELFA is launching the ESG Fact Sheet for trial use by borrowers and their advisors to use in preparing ESG disclosure during a consultation period

In order to assist companies and their advisors in drafting ESG-related disclosure that investors would like to see, ELFA's ESG committee has developed an ESG Fact Sheet that we are launching for public consultation. The resource has been informed by investor views provided in our [ESG Investor Survey](#) as well as with insights gained from ELFA's engagement with stakeholders to date, and with reference to guidance from the PRI.¹

The ESG Fact Sheet can be used for leveraged finance companies across sectors, and can also serve as a general guide on issues that investors are focused on and would expect to find in market-leading ESG disclosures. Whilst there are good examples of corporate ESG disclosure guidelines² available to the market, ELFA has developed the ESG Fact Sheet with leveraged finance borrowers in mind, recognising that often such companies are smaller in size and/or at private entities which may lack resources to provide the level of disclosure detailed in these other initiatives. As such, topics covered by the ESG Fact Sheet should be viewed in the context of the circumstances of each individual borrower, and are by no means intended to reflect a "one size fits all" approach to ESG disclosure.

The topics in the ESG Fact Sheet range in scope, and focus on strategic investment-relevant ESG matters in the context of companies' long-term activities and efforts. As a result, it is focused on these long-term topics rather than companies' immediate response to the COVID-19 crisis. ELFA

¹ The PRI began development of a questionnaire that was used for their Paris ESG in credit risk and ratings workshop in December 2019, which brought together analysts and issuers (available in the appendix of the briefing report: <https://www.unpri.org/credit-ratings/bringing-credit-analysts-and-issuers-together-paris-workshop/5596.article>).

² For example, resources provided by the [Sustainability Accounting Standards Board \(SASB\)](#) and the [Global Reporting Initiative \(GRI\)](#).

recently published its [COVID-19 Reporting Best Practice Guide](#) ahead of the 1Q reporting season with key COVID-19-related questions investors are seeking to discuss with management. We would therefore recommend that corporates, banks, sponsors and other stakeholders wishing to access the market also consider these in addition to the ESG topics covered in the ESG Fact Sheet.

Governance considerations

The value of a well-functioning, experienced board and senior management is demonstrated clearly in a crisis. The presence of an effective management team in this context is critical to the creation of a culture and environment where short term change and long-term interests are effectively balanced to ensure the viability of the business.

Engagement by management with the full range of stakeholders is key. Investors will seek to understand how businesses are being managed to ensure financial sustainability in the short term, whilst also with an appropriate look through to how such responses could impact the long-term prospects of the company.

Social considerations

Workers are likely to be the stakeholders most impacted by corporate reaction to the COVID-19 pandemic, bringing the social side of ESG to the top of the agenda, while six months ago environmental considerations were arguably a stronger focus. Investors will expect companies to demonstrate an effective and responsible approach to managing the workforce (not just in these turbulent times), making short term adjustments to existing policies and practices in order to prioritise employee health and wellbeing, whilst retaining talent and maintaining a loyal and engaged workforce.

The topics in the ESG Fact Sheet do not directly address the COVID-19 impact on the social fabric of a company, but instead focus on the evergreen topics that investors analyse within a company's social track record. These issues can be read together with ELFA's COVID-19 Reporting Best Practice Guide, as this focuses more on near-term issues relating to the effects of and response to the pandemic.

Environmental considerations

Investors' focus on environmental issues has not diminished as a result of the outbreak of COVID-19 – on the contrary, these issues are as important as they have ever been. The ESG Fact Sheet therefore includes the key topics that ELFA's members wish to see reflected in companies' disclosure. Given the substantial impact of COVID-19 on employees, customers, and suppliers, one might see this as a singular focus for investors. However, for an organisation to be sustainable long-term, protecting the environment remains a critical piece of the puzzle and the current crisis should not be seen as a reason to step back from commitments and improvement already initiated.

ELFA and the PRI plan to reschedule the ESG Disclosure Roundtables to engage key stakeholders on the ESG Fact Sheet and sector-specific guidance

The ESG Fact Sheet trial and consultation has been launched as a precursor to our ESG Disclosure Roundtable events, held in partnership with the PRI, to gain feedback on the resource from key stakeholders. After we have received feedback during the consultation and trial period, which will close on 3 July at 6pm, we intend to publish together with the PRI further enhanced and refined guidance and resources, including sector-specific

guidance developed by way of the ESG Disclosure Roundtables. ELFA and the PRI are currently exploring virtual formats for the event in order to progress the initiative whilst also complying with governmental guidance on the spread of COVID-19. In the meantime, we encourage borrowers, their advisors and investors to pilot the use of the ESG Fact Sheet and share their experiences with us.

Next steps and how to provide feedback on the ESG Fact Sheet

We view feedback on the ESG Fact Sheet as an essential part of its successful development and implementation, in particular from those borrowers who used it in preparing and drafting their ESG disclosure, as well as from advisers and investors through their discussions with issuers.

Please send your feedback to: Sabrina Fox, Executive Adviser to ELFA by 6pm on 3 July 2020.

We will continue to provide updates on the ESG Disclosure Roundtables as details are confirmed. If you have any questions, or would like more information on the events, please contact Sabrina Fox.

About the European Leveraged Finance Association

The European Leveraged Finance Association (ELFA) is a professional trade association comprised of European leveraged finance investors from over 30 institutional fixed income managers, including investment advisors, insurance companies, and pension funds. ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its investor community by promoting transparency and facilitating engagement among European leveraged finance market participants. For more information please visit the ELFA website: www.elfainvestors.com.

Our Mission Statement:

ELFA seeks to create a more transparent, efficient, and resilient leveraged finance market while acting as the voice of its investor community. To that end, our diverse forum of investors engages with other industry professionals in order to educate and to promote best practices and transparency.