

General ESG Fact Sheet

For Disclosure by Leveraged Finance Borrowers

DILIGENCE

ESG SERIES

Introduction

Environmental, social and governance (ESG) factors have quickly grown to be a critical part of credit analysis in European leveraged finance. Despite the increasing focus on ESG, efforts have been fragmented as the market lacks consensus on the type of ESG disclosure that is necessary.

To foster a discussion about what ESG information investors would like companies to disclose and to build consensus, the European Leveraged Finance Association (ELFA) and the Principles for Responsible Investment (PRI) have arranged a series of workshops with sub-investment grade borrowers, investors, credit rating agencies, private equity sponsors, bankers and lawyers.

The willingness to improve ESG disclosure has been apparent on all sides but borrowers have requested more specific and consistent guidance on what investors would like to see. For further findings from the workshops, please find the related Insights Series reports here.

The ELFA and PRI aim to address the above challenges by publishing industry-level factsheets. The first three will be published in January 2021 with additional sectors to be incorporated into the initiative later in the year. The ESG Fact Sheets reflect the input of industry specific credit analysts, corporate borrowers and credit analysts who discussed the key ESG factors for each specific industry.

The ELFA and the PRI believe the ESG Fact Sheets can help align market expectations and streamline the disclosure process. They are intended to serve as a starting point for ESG discussion between issuers, the buy-side, the sell-side and third-party service providers, but are not intended to be the definitive industry ESG disclosure standard nor replace customized investor ESG due diligence.

The ELFA and the PRI expect the Factsheets to evolve over time with the benefit of your feedback. Please send any comments [here](#).

For issuers looking for further guidance around how to disclose ESG factors some of the resources that can be used are:

- The [European Non-Financial Reporting Directive \(NFRD\)](#)
- The SASB [reporting guidelines](#), note that SASB is merging with the IIRC to form the Value Reporting Foundation.
- The [TCFD](#) for disclosure on climate-related risks
- The [GRI](#) (Global Reporting Initiative)
- The [CDSB](#) (Climate Disclosure Standards board)

The ESG Fact Sheets have been published in conjunction with the “Guide for Company Advisers on ESG Disclosure in Leveraged Finance Transactions” which is designed to assist company advisors in their incorporation of ESG factors in the diligence and drafting process for corporate borrowers.

General ESG Fact Sheet

General

- What are the most material ESG issues¹ according to the company and how are these determined, tracked, recorded and monitored?
- Disclosure of any legal processes with third parties, including environmental regulators, unions, regulators and/or individual employees
- How are ESG matters / considerations integrated within the business strategy?
- What part of management compensation is related to achieving ESG targets?
- Is there a C-suite / board member with responsibility for ESG matters?
- Details on how you may have contributed to helping achieve any of the UN Sustainable Development Goals
- Describe measures in place to monitor supply chain risks

Environment Pillar

- Description of climate change policy and disclosure of climate-related risks and opportunities
- Description of targets, if any, and current metrics regarding greenhouse gas emissions
- Disclosure of other initiatives to reduce environmental impact (e.g., water use, pollution and physical waste amongst others).
- Disclosure of the following data: energy consumption and usage of renewable energy, using quantitative data where applicable
- Disclosure of performance on key environmental metrics and how this compares to peers
- Details of any circular economy / recycling initiatives you may have
- Disclosure of any environmental certifications and industry association memberships
- Details on off balance sheet environmental liabilities

Social Pillar

1. Privacy & Data Security

- Policy and process for managing customer information
- Policy and process for safeguarding data security and customer privacy
- Disclosure of any governmental fines, reprimands, or other regulatory action with respect to customer data

2. Customers & Supply Chain

- Description of customer policies including adherence with regulatory requirements
- Disclosure of performance on key customer metrics (e.g., complaints, Net Promoter Score (NPS)) and how this compares to peers
- Disclosure of performance on supply chain metrics (e.g., plant disruptions for ESG-related reasons) and how this compares to peers

3. Employees

- Information about employee well-being and satisfaction, how this is gathered and measured
- Details about employee training programmes
- Disclosure on diversity and inclusion targets, including for the board, how these are measured, and their achievement historically, including gender pay gap
- Describe policies on human rights, employee legislation and modern slavery
- Disclosure on occupational health and safety metrics, such as the Total Recordable Incident Rate (TRIR), including how this is monitored for suppliers

Governance Pillar

- Describe how you manage compliance with applicable regulations, including competition legislation, and any other required industry practices
- Describe current board composition and your main criteria when constructing the board
- Details about board members, including name, age, tenure, gender and experience, frequency of board meetings and voting mechanism used to make board decisions
- Disclosure on all control committees (e.g., Audit, Remuneration, Investment), including involvement of independent directors
- Describe risk management policies, strategic planning process and business code of conduct
- Describe anti-bribery and money laundering procedures, including whistle-blower policies, and provide information on any past significant incidents
- Disclose information on your auditors, including how long they have been in place, process for selecting the auditors, and any audit related issues in the past
- Details about affiliations with professional or industry standards business platforms
- Disclosure on Revolving Credit Facility (RCF) and/or other material covenants (if these can be disclosed)

¹Material ESG factors are those that could have a significant enough impact on a company's revenue, cashflow, growth, margins and required capital, and could influence the price of its bonds/loans.