

ESG Fact Sheet

Debt Collectors



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.

ESG Fact Sheet - Debt Collectors

General

- What are the most material ESG risks for debt collectors in your view and how have you determined these?
- What part of management's compensation is related to achieving ESG targets?
- Details on how you may have contributed to helping achieve any of the UN Sustainable Development Goals, including digital inclusion
- Describe measures in place to conduct to monitor supply chain risks within the environmental and social factors

Environment Pillar

- Description of climate change policy
- Description of targets, if any, regarding carbon / greenhouse gas emissions
- Disclosure of the following data: energy consumption and usage of renewable energy, using quantitative data where applicable
- Details of any circular economy / recycling initiatives
- Disclosure of any environmental certifications

Social Pillar

1. Privacy/data security

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

2. Fair customer treatment and regulation

- Provide a qualitative review of your collection process, including information about points of contact with the customer (debtor)
- Disclosure on customer complaints, including how many have been upheld by the regulator
- Details about how customer (debtor) satisfaction is monitored including NPS score
- Customer policies including adherence with regulatory requirements
- Describe controls in place for treatment of vulnerable customers (debtors)
- Details about employee training programmes, and in particular how these programmes support fair customer treatment

3. Employees

- Information about employee well-being and satisfaction, how this is gathered and measured
- Disclosure on diversity and inclusion targets, how these are measured, and their achievement historically
- Describe policies on human rights, employee legislation and modern slavery
- Describe anti-bribery and money laundering procedures, including whistle-blower policies

Governance Pillar

- Estimated Remaining Collections (ERC) disclosure, please see Appendix for details
- Disclosure on financial metrics specific to debt collectors please see Annex for details
- Describe how compliance with applicable regulations, including competition legislation, and any other required industry practices is managed
- Describe current board composition and your main criteria when constructing the board
- Disclosure on all control committees (e.g., Audit, Remuneration, Investment), including impact of independent directors
- Disclosure of the metrics which management remuneration is linked to
- 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
- Disclosure on your approach to portfolio purchases, acquisitions, disposals and use of proceeds from a governance perspective
- Disclosure on Revolving Credit Facility (RCF) and/or other material covenants (if these can be disclosed)

Annex

ESG Disclosure Topics

Topic	Explanation
Vintage by geography	Collections (to date and in period) and ERC broken down by portfolio vintage and geography
Static pool data	Collections performance vs previously set expectations broken down by portfolio vintage
Calculations	Explanations as to how ERC and other KPIs are calculated
Definitions	Explanations of what the KPIs mean
Macro assumptions used	Key macroeconomic inputs assumed in calculating ERC

Financially Material Metrics

Topic	Explanation
Cost to collect	Direct costs incurred in collection activities divided by total collections
Replacement capex	Portfolio purchases required to keep ERC flat
IRRs and GMMS, including comparability with historical levels	Returns realised to date on previously purchased portfolios. Returns underwritten for portfolios purchased in the period
Changes in definitions	Explanation of any changes in KPI definitions
Macro assumptions used	Key macroeconomic inputs assumed in calculating IRRs and GMMS