

ESG Fact Sheet Paper & Packaging

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 – Paper & Packaging

General

- What are the most material ESG risks for paper and packaging companies 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
- Describe measures in place to monitor supply chain risks
- Describe how you manage the life-cycle of a product

Environmental Pillar

- Description of climate change policy
- Description of targets, if any, and current metrics regarding greenhouse gas emissions
- Disclosure of the following data: (using quantitative data where applicable)
 - energy consumption metrics, including usage of renewable energy
 - water consumption metrics
 - waste generated, waste to landfill and waste from hazardous materials metrics
- Disclosure of forest management targets and policies, if applicable
- Description of the deforestation policy and how this is monitored, if applicable
- Details of any circular economy / recycling initiatives
- Disclosure of certified sources of key raw materials
- Disclosure of any environmental certifications
- Disclosure of post-consumption recycling targets and circular economy initiatives e.g., deposit refund schemes, share of recycled raw materials
- Disclosure of percentage of revenues derived from sustainable products

Social Pillar

1. Privacy/data security

- Policy and process for managing customer information
- Policy and process for safeguarding of security and customer privacy

2. Customers & Community

- Details of how product safety is monitored, including any information on product recalls
- Details about relationships with local communities
- Details about how customer satisfaction is monitored

3. Employees

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

Governance Pillar

- Describe how you manage compliance with applicable regulations, including competition legislation, and any other required industry practices
- Describe any targets and timeline for increasing diversity of the board
- 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 involvement of independent directors
- Disclosure of the metrics to which management remuneration is linked
- 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)