

# ESG Fact Sheet Industrials

# 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 sector-specific Fact Sheets. The first three were published in January 2021, followed by five in March 2021, with additional sectors to be developed later in the year. The ESG Fact Sheets reflect the input of credit analysts, corporate borrowers and ESG specialists 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 Fact Sheets 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 [EU Non-Financial Reporting Directive \(NFRD\)](#)
- The [SASB reporting guidelines](#), note that SASB is merging with the IIRC to form the Value Reporting Foundation.
- The [GRI](#) (Global Reporting Initiative)

Specifically for climate related disclosures there are multiple different frameworks but irrespective of the framework it is important to disclose the baseline that is used. Some of the organizations / frameworks are:

- The [TCFD](#) for disclosure on climate-related risks
- The [CDP](#) for disclosure on climate, forests and water
- The [CDSB](#) (Climate Disclosure Standards board)
- The [SBTi](#) for GHG emission targets
- The [TPI](#) to assess preparedness for a low carbon economy

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 advisers in their incorporation of ESG factors in the diligence and drafting process for corporate borrowers.

# ESG Fact Sheet – Industrials

## General

- What are the most material ESG risks for Industrial 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
- Disclosure of any legal processes with third parties, including (environmental) regulators, unions and/or individual employees
- Describe measures in place to monitor supply chain risks

## Environment Pillar

- Description of environmental / climate change policy
- Description of metrics used and any targets set in relation to greenhouse gas emissions (split between scope 1/2/3 if available)
- Disclosure of the following data (using quantitative data where applicable):
  - energy consumption metrics and share of non-renewable versus renewable energy
  - water consumption and emissions to water metrics
  - waste generated including hazardous waste, and waste to landfill metrics
- Disclosure of sites / operations located in or near to biodiversity-sensitive areas
- Describe any policies for the sustainable sourcing of materials
- Details of any circular economy / recycling initiatives
- Details on sustainable product development initiatives, including product carbon footprint labelling
- Disclosure of any environmental certifications for products and/or production facilities

## Social Pillar

### 1. Employees

- Disclosure of policies to protect employees from waste from hazardous materials
- Disclosure on occupational health and safety metrics, such as TRIR (Total Recordable Injury Rate) and LTIR (Lost Time Incident Rate), including historical tracking
- Information about employee turnover, well-being and satisfaction, including how this is gathered and measured
- Disclosure on diversity and inclusion statistics and targets, how these are measured, and their achievement historically, including gender pay gap information
- Disclosure about employee training programmes
- Describe policies on human rights, employee legislation and modern slavery
- Describe policies and processes in place to monitor labour standards across the supply chain

### 2. Customers and Community

- Details on how product safety is monitored, including any information on product recalls
- Details on how customer satisfaction is monitored and current performance
- Details on how relationships with local communities are managed

### 3. IT Security

- Disclosure on cybersecurity breaches and processes in place to manage network security

## Governance Pillar

- Describe how you manage compliance with applicable regulations, including competition legislation, and any other required industry practices
- Describe current board composition and main criteria when constructing the board
- Describe any targets and timeline for increasing diversity of 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
- Describe anti-corruption and anti-bribery policies and procedures, including whistle-blower policies
- Disclosure of the size of the financial control function and how this is adapted as the company grows
- Disclose information on your auditor, including how long they have been in place, process for selecting the auditors, and any audit related issues in the past
- Disclosure of your Revolving Credit Facility (RCF) and/or other material covenants including their current levels (if these can be disclosed)