

# ESG Fact Sheet Services

# 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) has 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 briefing papers [here](#).

The ELFA aims to address the above challenges by publishing sector-specific ESG Fact Sheets. 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 believes 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 customised investor ESG due diligence.**

The ELFA expects the ESG 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 Global Reporting Initiative ([GRI](#))

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 Climate Disclosure Standards board ([CDSB](#))
- 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.

| Publication / Version no. | Date           | Change / Update to Content  |
|---------------------------|----------------|---|
| Original Publication      | September 2021 |   |
| Version 2.0               | January 2022   | Annual update to add ESG KPI table and further minor non-substantive changes. |

# ESG Fact Sheet - Services

## General

- What are the most material ESG risks for companies in the Services sector in your view and how have you determined these?
- How are you integrating the European green deal into your operations?
- How are ESG matters / considerations integrated within the business strategy?
- 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, performance on supply chain metrics and how this compares to peers<sup>1</sup>
- Details about affiliations with professional or industry standards business platforms
- Details about certifications which are linked to the E, S or G or all three

## Environment Pillar

- Description of environmental / climate change policy
- Any targets set in relation to greenhouse gas emissions (split between scope 1/2/3 if available)
- Disclosure of policies around energy management and any projects to reduce energy usage
- Disclosure of sites / operations located in or near to biodiversity-sensitive areas<sup>2</sup>
- Disclosure of policies around water consumption and waste
- Describe any policies for the sustainable sourcing
- Details of any circular economy / recycling initiatives
- Details on sustainable product development initiatives, including product carbon footprint labelling and percentage of revenues derived from sustainable products
- Describe the impact you believe you may have in reducing customer's climate impact and how this is measured
- Details on sustainable product development initiatives, including product carbon footprint labelling and percentage of revenues derived from sustainable products
- Describe the impact you believe you may have in reducing customer's climate impact and how this is measured

## Social Pillar

### 1. Employees

- Disclosure of policies to protect employees from waste from hazardous materials
- Disclosure on occupational health and safety policies and track record
- Information about employee turnover, well-being and satisfaction, (e.g., how this is gathered and measured), including for any contracted workforce. Details for attracting and retaining talent
- Information on the relationship with unions, including LTIR relating to strike action or threats
- Disclosure on diversity and inclusion statistics and targets, how these are measured, and their achievement historically
- Details about employee training programmes and employee engagement initiatives (e.g. including training hours per employee)
- 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 & Community

- Details on how product safety is monitored, including any information on product recalls or any other controversies
- Details on how customer satisfaction is monitored and current performance (e.g., complaints, Net Promoter Score (NPS)) and how this compares to peers
- Details of the internal controls in place to prevent conflicts of interest or bias in the relationship between employees and customers
- Details on how relationships with local communities are managed

### 3. Privacy & Data Security

- Policy and process for safeguarding data security and customer privacy
- Policy and process for managing customer information, including how and where it is stored
- Policy and process for dealing with cyber threats
- Disclosure of any governmental fines, reprimands, or other regulatory actions with respect to customer data

<sup>1</sup> Examples of topics to include are: i) % of supply chain (by total cost) that is subject to ESG DD; ii) % of suppliers subject to ESG DD that have seen shortcomings; iii) % of suppliers where you have identified shortcomings that you have engaged with; iv) % of ESG engagements where the level of business you do with the supplier has changed post engagement

<sup>2</sup> Biodiversity sensitive areas could include; (i) UNESCO world heritage sites, (ii) Key Biodiversity areas as mapped in <http://www.keybiodiversityareas.org/kba-data> and (iii) Natura 2000 protected areas which are mapped here: [Natura 2000 Network Viewer \(europa.eu\)](http://Natura2000NetworkViewer.europa.eu)

## Governance Pillar

- Describe how you manage compliance with applicable regulations, including competition legislation, and any other required industry practices
- Main criteria when constructing the board and if there is a specific representative for ESG issues
- 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, and if any is linked to ESG targets
- Describe anti-corruption and anti-bribery policies and procedures, including whistle-blower policies, and provide information on any past significant incidents
- Describe risk management policies, strategic planning process and business code of conduct
- Disclosure of the size of the financial control function and how this is adapted as the company grows
- Describe financial policy in relation to acquisitions, asset sales and leverage
- 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
- Disclosure of details of any ESG linked financing

## ESG KPIs (for the table below in Excel format [click here](#))

| Company Name             | Metric   | Units                                     | 2019 | 2020 | 2021 |
|--------------------------|--|---|------|------|------|
| <b>SFDR requirements</b> |  |   |      |      |      |
| Environmental            | Revenues   | Millions (reporting currency)             |      |      |      |
|                          | Non-renewable energy consumption   | GWh                                       |      |      |      |
|                          | Renewable energy consumption   | GWh                                       |      |      |      |
|                          | Share of non-renewable energy consumption  | % of total                                |      |      |      |
|                          | Share of non-renewable energy production   | % of total                                |      |      |      |
|                          | Energy consumption   | GWh                                       |      |      |      |
|                          | Energy consumption intensity   | GWh/1m revenues                           |      |      |      |
|                          | Non-renewable energy production  | GWh                                       |      |      |      |
|                          | Renewable energy production  | GWh                                       |      |      |      |
|                          | Emissions to water   | Tonnes                                    |      |      |      |
|                          | Hazardous waste  | Tonnes                                    |      |      |      |
|                          | Fossil Fuel exposure   | % of revenues                             |      |      |      |
|                          | Activities negatively impacting biodiversity sensitive areas                             |   |      |      |      |
| Carbon disclosures       | Gross Scope 1 GHG emissions  | metric tonnes                             |      |      |      |
|                          | Gross Scope 2 GHG emissions: location based  | metric tonnes                             |      |      |      |
|                          | Gross Scope 2 GHG emissions: market based  | metric tonnes                             |      |      |      |
|                          | Gross Scope 3 GHG emissions  | metric tonnes                             |      |      |      |
|                          | Total GHG emissions  | metric tonnes                             |      |      |      |
|                          | Carbon Offsets   | metric tonnes                             |      |      |      |
|                          | GHG intensity  | Tonnes/1M revenues                        |      |      |      |
| Social                   | Violations of UN Global Compact (UNGC) and OECD Guidelines for Multinational Enterprises | Total number                              |      |      |      |
|                          | Does the company have active policies to monitor compliance with the UNGC?               | Yes/no                                    |      |      |      |
|                          | Unadjusted gender pay gap  | Female as a % of male gross hourly salary |      |      |      |
|                          | Female board members   | Number                                    |      |      |      |
|                          | Male board members   | Number                                    |      |      |      |
|                          | Board gender diversity   | Ratio female to male                      |      |      |      |
|                          | Exposure to controversial weapons  | % of revenues                             |      |      |      |
|                          | <b>Other ESG KPIs</b>  |   |      |      |      |
|                          | Water consumption  | m3  |      |      |      |
|                          | Annual cost of CO2 credits   | millions                                  |      |      |      |
|                          | CO2 credits  | metric tonnes                             |      |      |      |
|                          | Overall Board diversity  | %   |      |      |      |
|                          | Net new hires  | Number                                    |      |      |      |
|                          | Annual employee attrition  | %   |      |      |      |
|                          | Did you conduct an employee survey?  | Yes/No                                    |      |      |      |
|                          | Employee survey participation rate   | %   |      |      |      |
|                          | Proportion of employees covered by unions  | %   |      |      |      |
|                          | Number of work related incidents   |   |      |      |      |
|                          | Number of work related fatalities  |   |      |      |      |
|                          | TRIR (Total Recordable Injury Rate)  |   |      |      |      |
|                          | LTIR (Lost Time Incident rate)   |   |      |      |      |
|                          | Waste to landfill  | m3  |      |      |      |

## Definitions

| Metric   | Definition  |
|--|---|
| Non-renewable energy consumption                             | Any energy that is not from renewable sources   |
| Renewable energy consumption                                 | "Energy from renewable sources' or 'renewable energy' means energy from renewable non-fossil sources, namely wind, solar (solar thermal and solar photovoltaic) and geothermal energy, ambient energy, tide, wave and other ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas, and biogas; "  |
| Scope 1 Emissions  | Direct emissions from owned or controlled sources   |
| Scope 2 Emissions  | Indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company   |
| Scope 3 Emissions  | All other indirect emissions that occur in a company's value chain  |
| Total GHG Emissions  | Sum of scope 1,2 and 3, all reported in metric tonnes for the whole company   |
| GHG intensity  | Carbon usage in relation to total revenues, using the reporting currency  |
| Energy consumption intensity                                 | Energy in GWh/revenues  |
| Unadjusted Gender pay gap                                    | 'Unadjusted gender pay gap' means the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees  |
| Activities negatively impacting biodiversity sensitive areas | % of footprint that is in biodiversity sensitive areas, could include; (i) UNESCO world heritage sites, (ii) Key Biodiversity areas as mapped in <a href="http://www.keybiodiversityareas.org/kba-data">http://www.keybiodiversityareas.org/kba-data</a> and (iii) Natura 2000 protected areas which are mapped here: <a href="https://ec.europa.eu/environment/nature/natura2000/data/index.en.htm">https://ec.europa.eu/environment/nature/natura2000/data/index.en.htm</a> |
| Board diversity  | % of diverse board members  |