1. Overview

All FI's should have documented practical procedures that set out how they operationalise their E&S policy on a day-to-day basis, from the screening to transaction approval, monitoring and reporting stages. Procedures help to ensure that a consistent approach is applied across the transaction cycle and the FI's different financial products, and to define roles and responsibilities. Above all, E&S procedures should be practical and consistent with the FI's operational procedures. Simplicity and pragmatism should be prioritised over complexity and bureaucracy.

2. Guidance and advice

Procedures and accompanying tools should be designed to ensure that E&S matters are considered throughout the transaction cycle. Ideally these procedures should be integrated within core credit/transaction operating procedures and into existing management systems, rather than in a separate system.

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- Developing robust procedures

  Procedures should cover:

  - How E&S aspects will be assessed and addressed at each stage of the transaction cycle (including tools to identify, support, guide, monitor and/or report on E&S related value-add interventions that seek to enhance client performance). As part of this, the process shall specify the standards to be applied to the different types of transactions (e.g. some transactions/clients may be assessed and required to comply with international standards and others may not);

  - Roles and responsibilities at each stage of the credit cycle;

  - Training and capacity building activities to develop relevant skills and knowledge across the organisation;

  - Approvals, oversight and performance management, including 'checks and balances';

  - How the FI will communicate/report on E&S matters to investors and other external stakeholders; and
  - External grievance mechanisms

The E&S procedures shall be integrated into or refer to the credit/transaction processes and procedures. In this respect, process flow diagrams can assist in ensuring a clear overview of how and where the E&S procedures apply to the transaction cycle and in articulating key roles and responsibilities for each of these stages. There should be a clear explanation of what needs to be achieved at each stage of the transaction cycle. Appendices containing templates to be used and adapted during the transaction cycle (i.e. screening, application and structuring, and transaction approval) and monitoring and reporting could significantly help to ensure efficient and consistent implementation of the ESMS (checklists and other tools are provided in Resources). The procedures should take into account the regulatory and investors' E&S requirements and expectations.

Above all, the aim of the E&S procedures is to help the credit/transaction team, E&S Manager, E&S Coordinator and E&S Officers to assess and manage potential E&S risks and impacts and, as appropriate, identify opportunities throughout the life of a transaction, rather than being seen as a compliance or 'tick box' exercise. A robust ESMS can help the FI identify and manage E&S opportunities for both the FI and its clients.

- Procedures for integrating E&S management into the transaction cycle

  Operating procedures should be prepared for the various activities to be performed throughout the transaction cycle, clearly highlighting roles and responsibilities. Procedures may include templates that can be adapted on a deal-by-deal basis. A good procedure manual will typically cover the points included in sections below. Procedures, as with the rest of the ESMS, can be structured in different ways. The ultimate goal is to produce something that is helpful and appropriate for the FI to manage E&S in the transaction cycle which allows for effective and timely input to decision and credit processes (recognising that effective E&S due diligence can require time and resources (which need to be factored into broader deal flow and decision making).

Screening and E&S categorisation: Robust and pragmatic procedures at screening will contribute to a more efficient due diligence process. Procedures and/or tools would typically cover: (i) identification of material breaches of the FI's E&S policy and Exclusions List; (ii) identification of key E&S issues and, as appropriate, opportunities; (iii) assigning E&S categorisation of inherent E&S risks/impact; and (iv) planning the due diligence. It is important to define the type of E&S due diligence and the E&S standards that are likely to be applied to each transaction. For example, not all the transactions will need to be assessed against international standards and/or not all the transactions will need an external E&S due diligence report prepared by a third party.

Due diligence: Significant guidance is required at this stage to the various teams involved in the due diligence process. Procedures and tools would typically cover: (i) assessment of the client's/project's E&S risks, impacts and opportunities (including in some cases those related to the client's supply chains); (ii) assessment of the client's compliance against applicable standards/requirements, including guidance on the information to be reviewed; (iii) confirmation of E&S inherent risk categorisation assigned during screening; (iv) site visits; (v) assessment of the client's commitment, capacity and track-record; (v) development of E&S Action Plans (ESAPs) and preparation of due diligence reports; and (vi) engagement of consultants (where appropriate).

Application and Structuring: Ensuring that all transaction applications are supported by appropriate due diligence documentation, including an E&S section in CC papers. This enables CC members to understand and discuss E&S matters at each meeting. Procedures and tools providing guidance on how to prepare CC papers (i.e. credit application to CC and CC minutes) should be developed.

Transaction Approval and Execution: Ensuring that appropriate E&S representations and covenants are incorporated in each loan agreement is of vital importance. It is advisable to develop a set of standard E&S terms and conditions, which could be adapted to each loan agreement based on, *inter alia*, the type of transactions, due diligence findings, materiality of E&S risks and impacts and local and international applicable standards. For example, where E&S gaps have been identified, the FI shall consider including a legally binding ESAP in the legal documentation to ensure those gaps are addressed within a reasonable timeline.

Monitoring and Reporting: FIs should not only take E&S matters into account during due diligence. Continued engagement with a client's post-loan agreement execution/post-investment/during the tenor of the loan is key to ensuring that E&S management is integrated into the client's operations and the client is operating in accordance with the E&S conditions of financing. Monitoring and reporting also help FIs measure and understand their overall portfolio performance and risks (e.g. exposure to climate change risks and emissions), set goals, and manage change more effectively. It is also the key platform for communicating the FI's E&S impact – whether positive or negative. Procedures and tools would typically cover the following:

1. **Transaction monitoring and reporting;** FIs should ensure that they have systems in place to routinely monitor and report on clients' E&S performance and compliance, with the objectives of (i) preventing any reputational, operational or credit default risk and (ii) to the extent possible, contribute to better E&S performance. The level of Client E&S monitoring should be commensurate with the level of E&S risk/impact (and potential opportunities) associated with a particular client's activities, as well as the type of financing and extent to which the FI is able to request relevant information from the client for the transaction. For further guidance and tools on client E&S monitoring, please refer to Transaction cycle – Monitoring and reporting. Key information from on-going Client E&S monitoring activities should be presented at the relevant committees (e.g. Risk Committee, E&S Committee, the board, CC). This could include any existing or new E&S risk exposures or E&S non-compliances that may present material credit, reputational risk or default event.It is helpful to align E&S monitoring and reporting activities with other forms of risk reporting (for example, credit risk reporting) where possible. FIs shall integrate E&S information into existing Management Information systems (MIS)/IT systems that support the efficient collection, analysis and communication of data.

2. **Portfolio-level reporting** The FI should develop an internal process to systematically report on the progress of its ESMS (implementation across its portfolio), as well as the ongoing E&S performance of its portfolio and clients. This may involve establishing different reporting structures with different owners, beneficiaries and reporting frequencies. This includes routine reporting on progress, exposures and risk mitigation to remain in control and create on-going engagement and awareness with the FI's board, relevant committees, key staff and, as appropriate, investors, regulators and other stakeholders (see below).Reporting at a portfolio level will include aggregated E&S data on the FI's portfolio to allow the FI to track the overall E&S risks and opportunities in its portfolio and progress against the FIs E&S objectives (e.g. FIs are increasingly

setting up objectives related to climate change and the Paris Agreement as FIs are increasingly aware of the implications that climate change may have for their business and their clients). See Resources as this contain some templates FIs may find helpful.

3. **Investor Reporting and other stakeholders.** Procedures on how to engage with and report to investors should be developed. These should include reporting on material events such as serious accidents/incidents involving/affecting the FI and, as appropriate, its clients.Some FIs have templates to guide portfolio data collation and reporting to investors and, if applicable, other stakeholders. In some cases, investors will provide a reporting template to guide FIs. The goal should be to provide adequate detail and clear communication of actual, rather than perceived, performance without resorting to a 'tick box' approach. Templates should be designed to be easily understood by those utilising them. Follow-up and feedback on the reports will also be required. Some FIs also use board and relevant committee meetings (e.g. Risk Committee, E&S Committee) to highlight progress made on E&S matters or include it on investor site visits of client operations.