How is this guidance of value to Financial Institutions?

Financial Institutions (FIs) need to be proactive in how they respond to global changes that expose their business to E&S risks. This is to ensure that their products and services remain relevant amidst more stringent E&S regulations, changing market conditions and other stakeholder expectations. Emerging E&S risks such as climate change, data security & privacy, client protection, human rights, and modern slavery etc. are creating material and near-term risks for FIs. Furthermore, the accessibility of information through social media and other media platforms means that FIs are subject to more scrutiny by various stakeholders and being held more accountable for their actions both directly and through projects they finance.

While these issues are creating potentially new financial, operational and reputational risks for FIs, they are equally providing opportunities for them to: tackle E&S risks in transactions financed, develop products and services which result in broader developmental impact in the markets they operate in, enhance brand identity and distinguish themselves amongst their peers, and access cheaper source of funds from investors. Therefore, FIs need to be proactive and follow robust and pragmatic procedures throughout the transaction life cycle to identify and analyse E&S risks and opportunities, determine their relevance to each deal and ensure they are properly addressed (and/or enhanced) where feasible.

For FIs, the benefits of implementing the procedures described in this section include:

- Informing transaction analysis and decisions by understanding the important E&S factors, potential liabilities, costs and influence on transaction applications and downside risk, and potential opportunities for value creation;

- Minimising exposure of the FI to reputational, legal and financial risks (e.g. as a result a client’s insolvency or loss of securities due to E&S factors);

- Ensuring adequate systems are in place to assess, manage and monitor E&S performance of clients’ or projects’ in line with applicable E&S requirements;

- Forming the basis for ongoing engagement with the clients to discuss, assess and manage E&S risks and impacts;

- Identifying key priority areas for engagement around opportunities for value creation;

- Demonstrating proper consideration and management of relevant E&S factors to relevant stakeholders, particularly investors/lenders; and
- Understanding the overall key E&S risks in the FI's portfolio (including those associated with climate change).

Procedures setting out an FI's approach to integrating E&S throughout the transaction cycle and allowing the FI to understand the key E&S risks in its portfolio should be described as part of the E&S management system. These procedures should build on E&S policies and procedures and cross-reference roles and responsibilities and other relevant procedures (e.g. credit procedures and risk manuals) within the organisation, arrangements for internal reporting, and reporting to investors/lenders.

Unless stated otherwise, this section, Transaction Cycle, focuses on E&S matters as business integrity is covered under the Business Integrity section. However, this section (Transaction cycle) includes some high-level guidance on business integrity risk management.

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