

## Objectives and overview

- Objectives of the E&S due diligence (DD)

The aim of E&S DD is to allow the relevant decision body (e.g. Credit Committee) to make a fully informed decision about the E&S issues associated with the proposed transaction. To do so, it needs to understand:

- The materiality of E&S risks and impacts to and potential opportunities for the client and the FI (specifically regarding alignment with the FI's E&S policy and strategy);
- The E&S risk categorisation of the transaction as per the guidance provided in the section on E&S categorisation;
- The client's compliance with applicable laws, regulations, and standards as laid out in the FI's E&S management system (ESMS);
- The adequacy and implementation status of the client's ESMS;
- The client's commitment, capacity, and track record (CCTR) regarding E&S matters;
- The materiality of gaps and improvement areas identified, and resources needed to address them (typically captured in E&S Action Plans);
- The potential for engaging clients on any E&S value-add or developmental impact opportunities (refer to Value-Add section for further details);
- Whether the E&S risks and impact identified, and any proposed improvements, will have a material impact on the client's financial performance and its ability to service the loan;
- The limitations of the DD, any assumptions made, and any resulting potential unknown risks; and
- How the FI intends to monitor the transactions in its portfolio.

Ideally and where possible, a good E&S DD process is a collaborative process between the FI and its client, rather than an audit. At the end of the DD phase, the FI and the client should have developed a common understanding of the existing and potential E&S risks, any improvements needed, and the likely costs and benefits associated. Based on this, they should be able to present the Credit Committee (CC) with all the information needed to make an informed decision about the relevance, significance and nature of E&S risks, impacts, and opportunities related to the credit application and the client's commitment, ability, and/or potential to manage and address them effectively.

An overview of the activities included in the E&S DD stage is shown in the graphic below.

[Click to view diagram](#)

- [Due diligence process overview](#)

The E&S DD should not be left to the very final stage in the credit approval process. Undertaking E&S DDs too late in the credit approval process may lead to important risks and opportunities for improvement being missed due to time and capacity constraints.

At the core of E&S DD is a clear understanding of a client's operations and business plan, potential E&S risks and impacts of business operations, and the company or project management's commitment to effectively addressing these risks. It is also important to determine whether management has identified value add opportunities through better E&S management and taken steps to capitalise on those.

The FI's E&S DD generally starts with a desk review of key documentation, followed by discussions with the company's/project's senior management and site visits if needed, depending on the E&S risks associated with a transaction. Site visits may be conducted by the FI's staff and/or its advisors and will generally include visiting a representative sample of existing facilities at a minimum, including new project sites where applicable. Site visits are important to observe the on-the-ground implementation of E&S management as well as identify any additional E&S risks and impacts associated with the operation of these sites.

E&S DD differ from Environmental & Social Impact Assessments (ESIAs) as explained

under [BII Guidance: Specialist E&S Assessments](#) and summarised in the table below. While ESIA's may be provided by a client, they will be reviewed during an E&S DD process and are not intended to replace/be used in place of an E&S DD.

	ESIA	E&S DD
<b>Commissioned by</b>	The client/company Generally prepared by a qualified third party	Lenders/investors Conducted internally by the FI or via external advisors
<b>Main purpose</b>	To allow the client/company to: <ul style="list-style-type: none"> <li>- Assess the E&amp;S impacts of a project/business;</li> <li>- Generally, comply with applicable laws although it may also be required by investors/lenders even if this is not required under applicable laws; and</li> <li>- Achieve permit approval(s) (linked to the above).</li> </ul>	To allow the FI to: <ul style="list-style-type: none"> <li>- Assess the E&amp;S risks and impacts associated with a project/company/transaction;</li> <li>- Assess the appropriateness of the ESIA and management systems prepared by and, as applicable, implemented by the company; and</li> <li>- Assess the company's E&amp;S capacity, commitment and track record;</li> <li>- Assess compliance with local and international standards; and</li> <li>- Develop E&amp;S Action Plans to bring the client into compliance with the applicable E&amp;S standards (including international standards, as applicable under the FI's ESMS) and mitigate the risks the FI may be exposed to via its client's activities.</li> </ul>

In some situations, the FI may have sufficient capability to carry out E&S DD without recourse to external experts (read the ['Working with consultants'](#) section for further guidance). However, in other situations (e.g. high and some medium risk clients and projects), it will likely be necessary to commission consultants. Guidance on when and how to commission expert advice is provided in section 2.5 of this page.

Standard DD checklists and templates can be useful in guiding the DD process. [Sector Profiles](#), such as the ones in this toolkit, can also help to ensure that key issues are not overlooked. However, it is important to ensure E&S checklist completion is not seen as a tick box exercise. These tools should rather be used to guide the DD team in clearly understanding the client's business or projects and how it operates.

It may be helpful to speak to other FIs to determine whether there is a common interest and ability to align the requests being made to the client.

## 2. Actions

Generally (particularly for medium to high E&S risk transactions), it is important that the FI establishes a rapport with the client's E&S team during the DD phase. This will facilitate productive discussions to identify opportunities for further engagement on areas of improvement and value creation.

Refer to [Resources](#) to see sample checklists/questions and points to be discussed and assessed during due diligence. Also consult the [Sector Profiles](#) section for guidance on key E&S aspects of each sector.

## 2.1 Define the scope of E&S DD

Findings at screening should be used to guide the scope of DD with a view to ensuring the key E&S aspects are well understood and, ultimately, managed. The aim of scoping is to define the boundaries of DD, identifying applicable E&S standards to assess the client's business or project against, and identification of competent resources/specialists to undertake the E&S DD process. Key factors to consider when scoping an E&S due diligence process are outlined below.

- [Scope of E&S due diligence: key considerations](#)

The level of E&S DD will vary depending on several factors. Key considerations when defining the E&S scope of DD include:

- **Transaction type and use of funds:** Different types of financing or use of funds may be linked to different levels of E&S risks, opportunities, and impacts depending on a number of factors, including type of transaction (term loan, credit risk transfer, SME finance, guarantee, etc.), size of transaction in relation to the total capital allocation/client funding, tenor of the facility (i.e. short, medium or long term), number of co-lenders (syndications or FIs with existing lines), and the FI's position within the capital stack in relation to other lenders. In addition to affecting the general E&S risk exposure for the FI, such considerations will also influence the level of accessibility an FI will have to engage a prospective client and the degree of leverage the FI will have in managing any key E&S risks and opportunities identified.
- **Applicable Standards:** The standards that shall be applied to the transaction will influence the level of E&S DD. The applicable E&S standards will be determined by the FI's ESMS and its investors' requirements. This includes applicable laws and regulations and, as applicable, international standards (e.g. IFC Performance Standards). In many countries, there is rapidly evolving guidance from central banks on the integration of E&S matters in the FI investment/lending decision process which shall be taken into account when developing the ESMS. Refer to Screening for further details.
- **Client or project activities (including the sector):** It will be important to obtain a good understanding of the client's business' or projects' core and ancillary services, businesses and activities when determining the level of E&S risks and impacts for a particular transaction. Key elements that will influence

the scope of the E&S DD will include:

1. The client sector and sub-sector (e.g. consideration for whether the client operations fall within a high E&S risk sector or whether the sector may have specific issues which merit specific management measures, e.g. safeguarding risks);
  2. The size of the business or project (particularly in relation to direct employees, direct contractors, and anyone working regularly on the client's premises);
  3. The stage of maturity of the client business or project (e.g. greenfield project in the conception stage, growth stage business, mature established business, etc.) and whether the client will undergo a land acquisition and construction phase (higher risks activities);
  4. Location of the project or companies activities and the company's area of influence; and
  5. The severity and extent of the E&S risks and impacts associated to the company.
- **Client company/group structure:** When financing a group of companies or providing finance at holding company level, the FI shall consider conducting DD on the corporate-level E&S management systems and performance and sample the implementation of the corporate-level ESMS as representative sample of the subsidiaries. It may be necessary to prioritise or rank these subsidiaries by risk as it may not be feasible to conduct DD on all of them (this is generally the case). If financing is targeted to a subsidiary of a larger company/group, consideration should also be given to potential reputational risks from group level or other subsidiaries.
  - **Client CCTR:** The scope of the DD can be influenced by the client's CCTR. Companies with demonstrated ongoing good track record may need a different level of DD as compared to a company with poor track record. Consult the [Assessing Commitment, Capacity and Track record \(CCTR\)](#) section for further guidance.

For each of the above, it is important to determine how material the issue is on a case by case basis and to ensure that the level of DD assessment undertaken is commensurate with the level of risk associated with each transaction. Please refer to the [Sector Profiles](#) and [E&S Topics](#) for further information on material E&S risks and impacts.

- **Existing clients:** Whether an FI is financing existing or repeat clients will typically influence the scope of the E&S DD, especially where the FI has a good understanding of the client business or project through prior due diligence or on-going monitoring processes. In cases where there is an existing relationship with a client, the FI is likely to have a better understanding of the client's E&S culture, standards and performance (including existence of prior accidents such as fatalities, adverse media campaigns, strikes, etc.). Nevertheless, it will be important to consider any new risk exposures (e.g. higher contribution to climate change via greenhouse gas emissions) as part of the new transaction approval process, especially if the client has changed its business model, expanded operations to new jurisdictions or new markets, brought out new products or services, etc.

## 2.2 Perform a desk review

The next stage of the DD process is usually to collect and review documentation. FIs generally use E&S questionnaires (see [Resources](#) for a sample questionnaire) and documents requested from the client company or project such as existing ESIA's, E&S audits, management plans, policies and procedures. This will enable the FI to start to identify how well key risks and impacts are being managed, whether there are any concerns or gaps in relation to the FI's ESMS and business integrity requirements, and whether the company has capitalised on any E&S opportunities. This review will build upon the work started at Screening.

The amount of information to be reviewed will be mainly driven by the relevance of the E&S aspects of the investment. This table provides a summary of the information sources and documents that the FI could review.

[CLICK TO VIEW DIAGRAM](#)

There are limitations to a documentary review, so the findings should always be considered in light of insights gained through meetings/discussions with clients and, as applicable, site visits.

- [Limitations of the desk review](#)

It is important to understand a client's overall approach to and practices in managing E&S risks, rather than focusing only on the available documents. Some companies have no formal ESMS, but manage their key E&S risks relatively effectively, so all that is required is to formalise existing processes. Alternatively, advanced systems for managing E&S may be fully integrated into business operations, without existing as a documented system that would show up during a desk review. By contrast, some companies may have very robust written E&S management systems that are not effectively implemented.

- [Further considerations](#)

- Ideally, the desk review should start prior to visiting the client's sites/facilities.
- The checklists and questionnaires included in [Resources](#) and guidance under [Sector Profiles](#), should help to identify the issues that the FI should focus on. However, it is important to determine whether the client might present additional E&S risks and impacts.
- If commissioning external consultants for DD, the FI should still conduct some degree of desk review to identify the key risks and impacts and to help to define the scope of the work of the consultant.

- [Desk review: Further considerations and advice](#)

Find below some further recommendations and considerations for this stage. FIs are advised to:

- Share the FI's key E&S provisions/requirements with the client early on and offer a call to discuss as needed;

- Check the information compiled during the screening phase. In some cases, additional online research may be needed to assess past performance and reputation;
- Be clear on the required documents from the start to prevent delays;
- Agree on the communication channels and processes through which documents can be accessed in advance;
- Consider a more detailed investigation into E&S management during the site visit where client E&S documentation is limited;
- Check the dates and versions of documents when reviewing the client's management system as these can indicate how often they are reviewed, when they were first drawn up and how often they are referred to. It may be useful to ask who is responsible for a particular document;
- Keep in mind that when reviewing any ESIA's, audit findings, or reports provided by the client, it is necessary to check for the credentials of the body completing these, as well as the adequacy/sufficiency of the reports' scope (e.g. ESIA's conducted per local legislation may not fully cover social impact assessment or the FI's E&S requirements/expectations). Where possible, check the qualifications of the consultants who prepared the ESIA; and
- Check the validity and scope of any licenses and/or certificates provided. Also consider what they actually certify and how this compares to the FI's expectations (e.g. some certifications schemes simply certify that a management system exists but do not comment on the quality of that system).

### **2.3 Assess the client's commitment, capacity and track record**

A client's management systems and performance may not meet the FI's requirements at this early stage. Therefore, it is essential to assess each client's willingness to address any gaps within a reasonable time frame. It is also key to ensure that the client will have the necessary financial and non-financial resources to operate in accordance with the applicable



standards and to implement any E&S Action Plans (ESAPs).

FIs must always assess clients' CCTR as they are leading indicators of their ability to achieve and maintain compliance with applicable standards and expected performance.

## 2.4 Plan and conduct site visits

Site visits are very valuable to identify and evaluate E&S impacts, risks and opportunities. They provide the FI with the opportunity to gain a range of additional insights into the client's business, to confirm or change initial E&S assessments, to assess the client' CCTR and assess compliance with applicable E&S standards. The visits may be conducted by the FI staff and/or its advisors. Not all the transactions may require a site visit. The decision to visit a client or project should be assessed on a case by case basis following the FI's ESMS. For example, site visits are generally necessary for transactions involving high E&S risks and impacts or weak CCTR.

- [Primary benefits of conducting site visits](#)

Site visits could be valuable in order to:

- **Outline expectations:** Discuss the FIs requirements and expectations relating to E&S issues in detail;
- **Understand actual risks/impacts:** Develop a first-hand understanding of a client's operations and performance, as well as E&S impacts and risks which might be material to the client's creditworthiness and its ability to pay back debt;
- **Assess the implementation of clients' ESMS and E&S performance:** Test how well clients are implementing their management systems in practice as well as management commitment to improved E&S performance (e.g. whether clients have integrated management measures into their core business operations and strategy, degree to which the company provides strategic oversight on material E&S issues/opportunities, and/or level to which it undertakes E&S performance monitoring and reporting on issues aligned with E&S strategic focus areas for the client business or project);
- **Identify opportunities:** Assess the client's willingness to drive value add through improved E&S management and look for opportunities to engage with them on such topics; and

- ***Strengthen/maintain a good relationship:*** Strengthen the relationship between the FI and the client (including with mid-level/operational staff) and agree actions in order to meet the FI's expectations.

- Planning and carrying out E&S site visits: key considerations

DD meetings and site visits should aim to deepen and confirm the information and impressions gathered during screening and the desk review. It is also the best time to understand the client's CCTR regarding E&S matters and start discussing potential improvement areas and E&S Action Plans (ESAPs) to be implemented by the client and associated resource implications in order to address shortcomings.

The clients and the sites to be visited and relevant staff to meet with during the visit should be carefully considered. It may not be possible to visit all the assets which the FI will be financing. If that's the case, FIs (or their consultants) should select sites which constitute a representative sample of the client's operations and include the sites with highest E&S risk such as sites with ongoing construction and the head office.

- Who should conduct the site visit?

This is a function of, *inter alia*, (i) the E&S risks and impacts associated with a transaction, (ii) the FI's in-house E&S capacity, and (iii) the transaction structure and dynamics (e.g. there may be a number of co-lenders the FI could rely on or a lender's E&S advisor). Each FI shall define or provide some guidance in its ESMS regarding when a site visit is necessary or highly desirable and who shall perform it. Some guidance is provided below, but the ultimate objective is to assess whether a site visit would be necessary or highly recommendable in order to inform the FI's transaction decision process from an E&S perspective and who is best placed to ensure that the site visit meets the FI's objectives from an E&S DD process perspective.

- FI team: Relationship Managers, Credit/Transaction Officers or staff assigned with E&S responsibilities.

- E&S Coordinator/Officer: At least for high and some medium risk transactions.
- Consultants: High and some medium risk transactions plus whenever in-house capacity is lacking. There are significant benefits to the FI team accompanying them on their site visits and with client engagements.

It is advisable to share the E&S findings with the company following the site visit.

Separately, site visit findings should also be discussed broadly with others in the FI team leading the transaction to check whether they confirm or contradict broader observations of the client.

## **2.5 Assess the need for E&S consultants. Engage consultants.**

FIs may need to engage consultants to assist them with the DD. Engaging consultants only adds value if the scope of the E&S DD is appropriately defined and the work is conducted by suitably qualified, experienced and skilled professionals.

Before engaging E&S consultants on a specific transaction, FIs shall discuss points such as scope of work, terms of reference (ToR), type of E&S advisors to be engaged, cost and which party will be covering the costs, duty of care, and overall DD process and timelines with their clients.

- When should FIs engage consultants?

There is no hard and fast rule about when an FI should bring in external support for the DD. The decision will depend on:

- Relevance of the E&S risks and impacts.
- The expertise available internally.
- The technical knowledge and skills required to properly assess the E&S aspects of the investment; and

- Time pressures for the deal team, necessitating additional resource.

Generally, it will not be necessary to hire consultants for 'Low' or most 'Medium-low' risk transactions if the FI has sufficient in-house capacity to conduct the E&S DD within the required timelines. However, where significant diverse and/or complex E&S risks and impacts have been identified, particularly if these are outside of the FI team's expertise, a consultant(s) should be engaged to assist with deal DD. For guidance on the types of report that might be needed, refer to [BII Guidance: Specialist E&S Assessments](#).

## 2.6 Prepare due diligence report

The document containing the DD findings can take different forms such as a completed DD checklist or a full E&S DD report for relevant credit applications (similar to those produced by consultants). See [Resources](#) to find some templates that may be helpful for the FI.

- [Components of a good DD report](#)

In any case, a good DD report (whether produced by the FI or a consultant) would typically:

- Be based on a representative sample of the client's activities;
- Summarise the DD process (including site visits and main documents reviewed) and acknowledge any limitations of the process;
- Clearly identify and assess the materiality of E&S risks and impacts arising from the client's current and proposed activities (this may include associated facilities as defined under IFC Performance Standards and supply chains, as appropriate) which could have an impact on the client activities;
- Assess the level of compliance/alignment with the requirements of the FI;
- Assess the strengths and weaknesses of the client's current E&S management, covering both the quality of the management team and adequacy of relevant

management systems;

- Include an Action Plan(s) designed to address risks/gaps and to protect or create value corresponding with the risks and impacts identified and the hierarchy of significance or priority. The Action Plan(s) includes clear timelines, responsibilities, completion indicators and, to the extent possible, estimated costs; and
- Conclude with a summary of key findings to feed into the Credit Committee (CC).

It is important to maintain a file record of the DD process in order to:

- Ensure that all key aspects of DD have been completed;
- Provide a record of the DD findings to inform monitoring and oversight activities if the credit application is approved; and
- Provide a basis and reference point for the E&S section of the CC Paper.

The record should include (indicative):

- A list or copies of all materials reviewed, both publicly available and from the client;
- Notes from meetings and site visits with the client;
- A statement outlining any limitations to the DD, any assumptions made, and any resulting potential unknown risks;
- Any reports commissioned such as consultant DD reports;
- A summary of the main existing and potential risks and impacts (including their materiality);
- An analysis of whether the client activities comply with the FI's E&S policy;
- A copy of the Action Plan; and

- A summary of the conclusions of the DD.

## 2.7 Develop and agree E&S Action Plans

The E&S DD may evidence some E&S shortcomings on the client's side. In such instances, a key output of the DD process are E&S Action Plan(s) ("Action Plans"), detailing any E&S improvements that are required to: (i) bring the client operations into compliance with the FIs E&S Policy/applicable requirements and standards and/or (ii) minimise or avoid exposure to material E&S risks and impacts. Although the core focus of the Action Plans is to manage key risks and impacts, it is also important to strive to use them as a means to create value for the client (where specific opportunities are identified) and to create more resilient and sustainable client businesses or projects. FIs must ensure that the client understands the Action Plan and is aware of the resources needed to achieve the objectives of the Action Plan.

When setting deadlines for completion of action plan tasks, it is important for the FI to be pragmatic around what is realistic to implement based on the client's capacity and resources. Therefore, it may be necessary to push out timelines in certain instances to accommodate unforeseen circumstances or unrealistic expectations, but in doing this, it's important not to reduce the level of E&S standards being applied.

- Elements of a good action plan
  - SMART targets (i.e. those that are Specific, Measurable, Achievable, Realistic, and Time-bound).
  - Actions that are tailored to the E&S risks and impacts to be addressed with a clear prioritisation based on materiality (e.g. high cost of correction, business risk, and reputational risk).
  - Description of the actions required to implement remedial measures. In some cases, one risk can require several actions to deliver remedial measures. Similarly, a description of the actions needed to capitalise on opportunities (e.g. attaining certification).
  - Actions that are prioritised and broken down to specific, realistic and credible tasks, rather than ambiguous statements (e.g. 'deal with waste'). The number of actions (and the timelines) should be realistic and achievable in the context of the timeline.

- Completion indicators or deliverables to accompany each action (e.g. a document, physical evidence if specific facilities/a treatment system should be built as part of the E&S Action Plan).
- Clear timeline for implementation, including indicators of completion and absolute dates (rather than ambiguous reporting periods).
- Clear allocation of responsibility (department and individual) and resources (budget or additional expert input).

## 2.8 Remarks related to the transaction legal agreement and monitoring phases

FIs need to ensure they will have sufficient leverage and oversight to ensure compliance with the FI's E&S requirements contained in legal agreements once the transaction is closed. The level of oversight and leverage that the FI will need and will be able to have will depend on several factors including the type of transaction (e.g. trade loan vs project finance vs guarantee financing, etc.), resources required for E&S management, the client's CCTR, and the leverage the FI will have over the client (based on the specific contractual provision(s) set and the type of relationship the FI has with the client).

Further information is provided in the [Monitoring and reporting section](#). Points to be considered at this stage to ensure adequate provisions are included in the legal agreements are set out below.

- [Oversight](#)
  - **Type of transaction:** Different types of transactions (e.g. term loan, credit risk transfer, SME finance, guarantee, etc.) will be exposed to different levels of E&S risks, opportunities and impact. Therefore, it is important to tailor E&S provisions contained within legal agreements to ensure that the FI is sufficiently protected against any outstanding or potential liabilities associated with its client business, project or activities.
  - **Degree of leverage:** Providing credit/debt is a competitive environment,

and the FI will have different degrees of leverage to incorporate E&S provisioning into legal agreements, depending on the type of transaction, the size of transaction in relation to the total capital allocation/other sources of client funding, the duration of investment period (i.e. short, medium or long term), the number of co-investors or sponsors, and the FI's position within the capital stack in relation to other sources of capital. It is important to take this into account when considering what specific E&S provisions to incorporate into legal agreements so as to ensure that there is a good balance between ensuring that the FI has sufficient comfort that key E&S risks and liabilities are managed, while maintaining a productive relationship with its clients and being competitive within the broader market in which it operates.

- **Access to relevant E&S information:** The FI should agree an annual monitoring template with the client, containing information on E&S performance and progress made against the Action Plan(s). This includes agreeing on selected KPIs to be tracked to monitor the client's progress during the transaction, taking key items identified as part of the E&S DD process into account and any E&S actions/objectives/engagement priorities set for the client. Additionally, the FI should have access to relevant documentation on request, including E&S audit or inspection reports (e.g. certification audits, authority inspection reports, sustainability reporting assurance programmes, etc.).
- **Access to site:** Consider how often it is desirable and feasible to visit the client head office and key operational sites, depending on both their E&S risks and accessibility.
- **Access to the client's staff:** It is important to ensure that the FI teams build a relationship with the company.
- **External support:** For transactions with high (and in some cases, medium) E&S risks and impacts, the FI shall consider whether it is necessary to an external expert to support the FI with the E&S monitoring. The FI shall agree with the client which party will bear the cost of these advisors.



- [Influence/leverage](#)

The leverage and influence the FI has with respect to E&S is no different from that on other matters. The FI can use the same skills and the same level of rigour to ensure operational improvements in E&S as in other areas where it is seeking to manage risks or capitalise on opportunities. In addition to including the necessary legal provision in the transaction legal agreement, the FI should aim to build a good relationship with the client whereby they value and trust the FI's advice. Building a good relationship is frequently the single most effective way to influence the client to embrace any changes the FI is proposing and the advice provided by FIs is frequently seen as valuable by clients. This is much easier if the FI is able to select client businesses whose vision and plans for the company are aligned with its own.

### 3. Outputs

Key outputs of the DD stage

- A record of the DD process.
- A report/document containing DD findings, including key E&S risks and impacts, view on the client's CCTR, and any gaps against applicable standards.
- Where appropriate, an E&S Action Plan agreed with client to address any gaps and/or materialise E&S opportunities.
- A summary of the key DD findings for the Credit Committee paper.
- Identification of potential issues for the legal agreement drafting and execution.
- [Summary of DD conclusions for the Credit Committee/transaction approval body](#)

The summary of the DD should enable the FI and its CC to understand the following points/questions (indicative):

- The materiality of E&S risks to the client's business (i.e. are they financially

or otherwise significant and could they be avoided or mitigated?).

- Does the client comply with applicable laws, regulations, international standards and guidelines on key E&S issues as laid out in the FI's E&S Policy and per the investor requirements?
- Is the client's management system sufficiently well developed and implemented to manage E&S matters, or does it need to be improved?
- Does the assessment of the client's CCTR indicate they are willing and able to undertake any necessary improvements?
- Is an Action Plan required? Where there are gaps, how can these be addressed and what resources will be required to address them? It should highlight steps that should or must be taken as a condition precedent to investment or as commitments to be fulfilled during the monitoring stage.
- How do the proposed E&S improvements fit with the client's business plan and the FI's view of the client's likely future profitability (improvements may require capital/staff time and may generate future efficiency or revenue benefits)?
- Were there any limitations to the DD and any resulting potential unknown risks.
- How does the Fi intend to maintain influence and oversight on E&S matters going forward?
- Are there potential reputational risks to the FI and its investors?

This summary can also be used as the E&S input to the credit documentation. The DD report can be attached to this summary for further detail, as well as the E&S Action Plan (where relevant).

An example template for an E&S CC summary is provided under [Resources](#).

Please note that this is merely a guide to the types of issues that may be presented to the Credit Committee, however in some cases a short

summary/paragraph outlining the DD findings in the transaction paper may be enough.

- [Business Integrity due diligence](#)

Financial crime due diligence must be conducted when onboarding any new customer or for a new transaction e.g. cash deposit, provision of a loan or project finance. As a minimum, this should include ensuring adequate checks are performed to understand and verify the customer and/or parties to a transaction identity(ies) (confirm who they say they are). For example, for a simple wire transfer the identity of the payor (giver) and payee (recipient)). Checks performed on the parties and payments also typically include sanctions checks against international sanctions watchlists (like the United Nations or the US OFAC lists) and sometimes adverse media checks to understand if an individual or entity has a chequered criminal history e.g. been fined or investigated for bribery or money-laundering. It is essential for the FI facilitating transactions to fully understand where funds are being directed to or received from to help and to understand the purpose of the request and if makes sense, as to prevent money laundering and terrorist financing.

The level of financial crime due diligence performed on transactions will vary dependent on the transaction type and party(ies) involved e.g. cash deposit, mortgage/loan, acquisition or project finance, trade finance, bond underwrite, equity, securitisation etc. In some cases, like a trade finance Letter of Credit transaction, a significant amount of due diligence is required covering parties to the transaction alongside understanding the risks of countries and goods and transport vessels involved. Similarly, enhanced due diligence is typically required (including source of wealth and funds checks) on Politically Exposed Persons (PEPs) and high net worth individuals, and external financial crime intelligence reports are often required for parties which present a heightened financial crime risk e.g. allegations of bribery or terrorist financing identified at earlier stages of due diligence. Like for E&S, transactions presenting heightened financial crime risk should be reviewed by a specialist team and where necessary discussed and approved at a senior committee - for business integrity - a financial crime or reputational risk committee. Guidance on identifying and managing BI risk and due diligence is provided in the [Business Integrity section](#).