

Objectives during monitoring and reporting

E&S monitoring seeks to (i) gauge the clients' overall E&S performance (as poor performance can pose a risk to the FI), (ii) monitor clients' compliance with the E&S requirements included in the transaction legal agreement (e.g. loan agreement), (iii) provide the FI with a perspective on the portfolio and, in many instances, (iv) potentially guide the FI in strategic decisions on future portfolio composition (e.g. the FI may want to reduce exposure to certain sectors that contribute to climate change).

Effective monitoring and reporting activities are beneficial to FIs in that they help to (i) to manage E&S risks (at both transaction and portfolio levels), (ii) identify opportunities to support clients (and even other lenders) to achieve better E&S performance and risk management, and, (iii) in some cases, inform the FI's future decisions around strategy and portfolio construction in relation to E&S risks and opportunities.

It is common for FIs to focus on completing the E&S DD, but post-completion their attention to E&S aspects of the clients' activities significantly decreases. As a result, very few of the valuable insights gained during DD about how to protect, improve and/or add value to the client's businesses are put into practice. In addition to this, the FI may not be fully aware of new or emerging risks that clients may be exposed to post-completion and over the course of the transaction lifecycle. These emerging risks can come from client reorganisations, accidents, new regulation or standards, deterioration of business prospects, etc.

Furthermore, as indicated above, robust monitoring systems shall help the FI to identify and manage risks at a portfolio level and shape the FI's future strategy around E&S risk and opportunities (e.g. some FIs may want to focus on sectors/clients that are more resilient to climate change).

The FI's objectives during the monitoring and reporting phase shall include the following:

- Oversee and, where possible and appropriate, support the clients with the timely implementation of any prescribed E&S Action Plan (ESAP) items to improve E&S performance.
- Guide or assist the client in ensuring ongoing compliance with applicable standards, as stipulated in the facility agreement and in line with the FI's E&S policy.
- Stay informed and respond to new developments and/or risks relevant to the clients'

E&S performance.

- Monitor and record any serious incidents and ensure an appropriate response.
- Ideally, engage with the clients to help them ‘unlock-value’ through addressing linkages between material E&S issues and business strategy in a way that generates commercial benefit.
- Demonstrate progress against the FI’s E&S Policy and objectives and communicate this to internal and, as appropriate, external stakeholders.
- Monitor the key E&S risks the FI is exposed to on a portfolio aggregated basis (this may influence strategic decisions).
- Identify business and value-adding opportunities associated with E&S matters (e.g. climate finance, green bonds, and initiatives to support current and prospective clients manage their E&S risks better)
- Potentially, facilitate learning, transparency, and accountability between investors, FI’s, and clients.

The level of monitoring should be commensurate with the level of E&S risk exposure (and potential opportunities) associated with each 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. This may vary depending on the type of transaction (e.g. project finance, corporate debt, trade finance), its tenor (short, medium, and long term), and the specific E&S risk profile of the client. Therefore, the level of monitoring should be determined on an individual credit application basis, based on the outcomes of the screening and due diligence processes and on the processes defined in the FI’s E&S management systems. The extent of the monitoring can range from no E&S monitoring beside major incident reporting to the FI, periodic reporting from the client to the FI through completion of E&S questionnaires, periodic visits by the FI E&S team or client relationship manager during the duration of the loan, and periodic visits/monitoring by external E&S experts. It is increasingly common practice for the FIs to appoint lenders’ independent E&S advisor for transactions with high E&S risks and impacts (in some cases, FIs may appoint advisors to support the monitoring of medium E&S risk/impact transactions).

Additionally, the FI’s overall exposure to E&S risks on a portfolio basis shall influence the

level of monitoring on a portfolio-aggregated basis.

An overview of the activities of the monitoring and reporting stage is shown in the graphic illustration below.

[CLICK TO VIEW DIAGRAM](#)

Actions

2.1 Build on the relationship established with the client during due diligence

Fostering an open and trusting partnership between the FI and the client is key to managing E&S risks and building value in the client's business because it encourages fruitful discussions and enables a client to benefit from the FI's experience (and vice versa).

Fostering an open and trusted relationship

It is important not see this stage of the transaction cycle as simply an information review exercise by FIs but rather an opportunity for FIs to actively manage E&S risks and, as appropriate and possible, engage, advise, and guide clients on how to build better, more successful, and sustainable businesses.

The exact nature of the relationship will depend on the FI's capacity and approach to E&S, as well as the size and type of facility provided. However, irrespective of whether an FI is just one of many lenders into a business or whether it provides a significant amount of financing or not, it can build a reputation as a lender that understands E&S challenges and provides guidance to clients. This type of approach can help to differentiate the FI from its competitors and to attract further clients and/or support efforts to raise capital from other lenders/investors if needed.

2.2 Discuss key points early

Typically, the first part of the transaction term will be the most active. In some instances, the client may face some initial difficulties in getting appropriate E&S management systems/practice in place, especially if many have been newly introduced. Changing the client's operations and/or culture takes time. The FI should support the client to the best extent possible.

Additionally, FIs shall consider that frequently, certain types of transactions (e.g. project

finance) present higher E&S risks/impacts during the construction phase of the financed asset/project so it is important to consider this when designing the monitoring approach to certain transactions.

- Initial interactions with clients

To manage expectations and start building a constructive relationship on E&S aspects, it is important to start drawing clients' attention to E&S requirements (especially any specific action plans, monitoring, and reporting requirements) early on in the transaction process. This includes using interactions with clients during the initial DD, the transaction structuring, and approval stages to raise pertinent issues with E&S members of their management team in order to:

- Ensure that the FI's interests and expectations around E&S are aligned with those of the client;
- Set expectations around E&S covenants and commitments to be made in the relevant legal agreements;
- Confirm expectations regarding the type and frequency of monitoring activities and the type of working relationship the FI wants to have over the transaction during the monitoring stage;
- Establish clear lines of communication, both formal and informal; and
- Review and further discuss any specific action items identified as part of the DD or negotiation process.

- Revisit and discuss DD findings

In case there are new risks or opportunities identified following the DD, changes in operational context, or new information regarding client activities, it is advisable to conduct a more granular assessment of these particular E&S matters and to discuss the findings with the client during the tenor of the loan/transaction monitoring stage.

Discuss key monitoring information

It is important to consult and agree with the client on the key E&S information which will be submitted to monitor E&S performance and compliance with the FI's E&S requirements. This would have been done prior to the transaction legal documentation execution but it may be beneficial to discuss this again with certain clients (e.g. clients associated with medium to high E&S risks) to make sure the information provided meets the FI's expectations.

As indicated previously, the level of E&S monitoring shall be commensurate to level of E&S risks and impacts associated with each transaction/client's activities.

Identifying engagement priorities and mechanisms

In instances where FI's have limited control or leverage to influence client E&S policies or procedures, often the biggest opportunity to influence E&S performance is through engagement. This includes building relationships with clients to promote a healthy dialogue and an enhanced performance on a variety of E&S issues, prioritising material E&S issues that are considered critical to the long-term success of these businesses or projects. This approach should be motivated by a clear understanding that E&S issues and opportunities can and do impact financial performance and reputational risks. Therefore, such engagements can focus on both risk management measures to protect value, as well as opportunities for the client to create value through adoption of selected E&S interventions identified. Please refer to the [E&S Topics](#) and [Sector Profiles](#) sections for a list of potential E&S engagement topics and sector-specific guidance.

The selection of a specific engagement strategy or topic should take a number of factors into account, including, but not limited to, (i) each client's E&S risk profile, ambitions, and E&S track record as this is closely linked to the risks the FI would be exposed to, (ii) the FI's leverage in a transaction, and (iii) the value/benefit/impact that can be derived by the FI (or its client) through driving and reporting on such interventions.

There are two main types of engagement that are used to start a dialogue with clients on E&S topics. These include the following:

- **Targeted engagements:** These are engagements based on the E&S topics identified during the DD or monitoring stages as being material. The engagement will consider clients' performance on relevant E&S topics (e.g. labour and working conditions, climate change risks, etc.), sectors where the issue is of high relevance, and the

potential for influence and financial exposure, with the goal of collecting more information and influencing E&S practices on these particular topics. These engagements will also include collective engagements on specific topics. For example, in the case of climate change, physical/transitional risks and opportunities within a particular sector or industry body, so as to help inform a broader group of clients on the potential risks or opportunities associated with a particular topic.

- **Reactive engagements:** These engagements are with client companies that are involved in serious breaches of international standards and/or local E&S legislation. The purpose of dialogue is to ensure that these companies effectively close and remedy identified breaches and ensure that they have addressed any management failures to avoid repeating the mismanagement in the future.

Different types of engagement/monitoring methods are explained in further detail below and could include the following:

- Short engagement sessions on E&S topics during periodic visits that the FI client Relationship Managers conduct at its client premises either for commercial purposes or loan repayment follow-up purposes.
- Formal meetings with senior management and relevant staff members, e.g. HR, HSE, etc.
- Sharing good practice examples from other clients/companies.
- Sharing relevant E&S research or reports on related topics.
- Supporting/funding a third-party specialist to carry out an assessment.
- Engagement of third parties to support the FI with the E&S monitoring (this is common in the case of high-risk project finance transactions and other medium to high risk transactions).

2.3 Regular monitoring: Oversight of E&S matters

Regular monitoring refers to the activities which: (i) take place on an ongoing basis while the client is in the FI's portfolio, (ii) are planned and structured, and (iii) are documented in

standard records and reports. The main objective is to monitor the client's E&S performance and compliance with the FI's E&S requirements. Additionally, and as appropriate and possible, regular monitoring provides an opportunity for FIs to provide guidance and support to some clients so that they improve their E&S performance.

There are a suite of regular monitoring activities/channels that can be used depending on the FI's and the client company's characteristics.

- [Regular meetings with the client](#)

FIs should regularly discuss E&S performance with clients, particularly those with a high level of inherent E&S risks and impacts, including the implementation of any ESAP(s). Discussions may take place at different levels, including meetings with senior management, and meetings with those responsible for E&S at the operational level.

- [Ongoing E&S monitoring of clients and E&S monitoring reports](#)

FIs shall establish a process to monitor their clients' E&S performance. This includes assessing clients' E&S compliance with the FI's E&S requirements (as defined in the FI's ESMS) and the appropriateness of the client's E&S management systems, capacity, and practice to manage E&S matters. FIs shall also assess the client's exposure to new or existing risks that were not sufficiently covered or have emerged after the initial transaction DD process. The outcome of the FI's monitoring activities with its clients shall be documented (e.g. via internal monitoring reports).

In some instances, the FI may have required a client to implement an E&S Action Plan (ESAP). In some cases, these Action Plans may need to be amended at some point during the transaction cycle (especially those with long tenors) due to issues such as unforeseen events, changes to the client business plan or underestimation of the time and resources needed to implement certain actions. FI's should closely monitor the implementation of the ESAP(s) and discuss any relevant amendments with the client as and when needed.

Regular reporting is an essential tool to monitor a client's E&S performance. The frequency, content, and format of E&S monitoring reports to be provided by the client to the FI is typically set out in the loan agreement. Good practice is to require at least annual E&S monitoring reports for clients associated with medium and high E&S

risks/impacts and shall include relevant information on the client's E&S performance, including progress against the FI's requirements, including any ESAPs which may have been required at the facility agreement execution. For low risk clients, some FIs request their clients to provide at least an annual representation confirming compliance with the applicable E&S requirements.

The frequency and level of detail of the E&S reporting shall be adjusted according to the level of E&S risks/impacts (e.g. high E&S risk clients will be required to report more frequently and with greater level of detail) and the client's E&S performance (e.g. clients with poor E&S performance shall be monitored more closely). Additionally, certain transactions may present higher E&S risks and impacts at certain stages (e.g. the E&S risks and impact at the construction stage of a project financed by the FI may be higher as compared to the E&S issues during the operational stage of the financed asset). This shall be considered when agreeing the E&S monitoring approach, frequency, and level of detail with the client (e.g. it is common for many FIs to require more frequent monitoring during the construction stage of infrastructure projects as the risks and impacts are generally higher than those present during the operational phase).

Good practice is to collect and compile the following reports during the monitoring and reporting stage of a transaction:

- 1. Quarterly/semi-annual/annual/E&S monitoring reports (submitted by clients):** This is prepared by clients and submitted to the FI, ideally following a fairly standard format, to allow for both consistency and longer-term oversight of trends in client's E&S performance, including compliance with the applicable E&S requirements. The FIs shall, as appropriate, require clients to attach the key E&S documents to the client's E&S monitoring reports (e.g. copies of important E&S approvals or, in some cases, key E&S management plans). Ideally, the FI shall be able to aggregate some of this information from its clients so that the FI can monitor overall E&S risks and opportunities across its portfolio (number of clients that are performing or underperforming, climate change metrics, etc.). For further information and sample monitoring templates see Resources. The above mentioned E&S monitoring reports should be viewed as an internal operational document that will be used to (i) track each client's E&S performance and (ii) ideally allow the FI to identify and manage key E&S issues, opportunities, and trends across its portfolio. This may influence the FI's future strategy, focus areas, and/or ESMS.

2. **Reports on unforeseen events, incidents or accidents:** FIs should have mechanisms in place to monitor and manage major/significant unforeseen E&S events or incidents. For more information on common types of major incidents/unforeseen events, refer to manage unforeseen events section below: These include, but are not limited to, any event, condition, or situation that:
- Causes significant disruption, delay, or interference for a client’s business or project (this includes strikes and protests);
 - Exposes the client business or project to material financial risk or penalties;
 - Creates an unsafe environment for either internal or external stakeholders (or both);
 - Involves fatal accidents involving workers and/or members of the public (as a result of the client’s activities);
 - Involves events that have generated or are likely to generate major adverse impacts on the environment, biodiversity and/or communities; and
 - Attracts negative media attention or a negative profile for the client.

In order to ensure that FIs are informed about such events, they shall include specific legal provision in the facility documentation requiring the clients to report such events within a prescribed time period (typically between three to five days after the incident occurrence or the date on which the client becomes aware of it). The clients shall be required to provide a report including information on what happened and what investigation has taken place, including a root cause analysis and what actions have been taken to remedy the situation, as relevant. A root cause analysis helps to identify and effectively address the causes of an incident and allows for the implementation of effective risk control measures to better mitigate risks going forward.

The FI should conduct a high-level review of any major incident reports received, based on available information, to assess the cause of the incident and what should be done going forward to mitigate recurrence of such incident. Thereafter, the information should be disseminated internally with relevant stakeholders such as Client Relationship Managers, credit teams, and risk, as well as any investors in the FI that may have required the FI to report these

incidents to the investors.

As best practice, FIs should maintain a register of major incidents that have been reported across its portfolio to monitor any reoccurrences/repeat incidents or trends across the portfolio and manage these accordingly.

- [Review other useful information](#)

Additionally, as part of the monitoring process, the FI shall consider reviewing the following:

Public reporting by companies for external stakeholders: Depending on the size and nature of the company's and the company's interaction with stakeholders, it may be appropriate to disclose relevant E&S information to its stakeholders (e.g. via sustainability reports and integrated reporting).

Media searches: Media searches conducted by the FI on a client company and the region (if the FI is not local) to identify any relevant changes to the operating context or brewing disquiet among stakeholders.

Financial performance data: Internal engagement between the FI's E&S and credit teams is useful to understand clients' on-going financial performance, as financial/commercial issues affecting the client that result in loan repayment delays could in turn lead to poor E&S performance/issues (including collective dismissals) and exposure to associated risks and/or impacts.

- [Conducting site visits](#)

Site visits are usually undertaken during the monitoring phase for selected clients presenting medium to high E&S risk/impacts. The frequency and scope of the site visits is driven by a number of factors, including but not limited to materiality of E&S risks and a client's performance. Site visits may be conducted by the FI and/or by the FI's external E&S advisors. Site visits are very helpful in determining how well E&S

matters are being managed and validate information provided by a client. Site visits may also be undertaken in other circumstances to address more specific issues, for example:

- In response to an accident or incident, concerns raised by stakeholders, media reports, or enquiries, or action by law enforcement authorities;
- When the client's inherent E&S risks/impacts materially change (e.g. when the company executes an acquisition or major development/extension in operations is being considered); and/or
- When a client is clearly underperforming from an E&S perspective and this can lead to significant risks for the client and/or the FI.

- [Engaging consultants](#)

Depending on the level of the E&S risks/impacts and the capacity and expertise within the FI team, external consultants may be engaged during monitoring to provide additional capacity or advise on complex/technical E&S areas where the FI may not have internal resources/ competencies. As at DD phase, there are significant benefits to someone from the FI accompanying such consultants. Experts may be engaged to conduct regular audits, to do one-off spot checks or evaluations, or to advise the client on specific areas. Refer to [BII Guidance: Working with consultants for further guidance](#).

- [Portfolio-level monitoring and reporting](#)

All E&S monitoring information gathered from clients will be used to generate internal FI E&S reports on a client by client basis and, ideally, on a portfolio-level to assess overall E&S risks and opportunities in the FI's portfolio. These reports shall be discussed with the relevant FI senior management committees (e.g. E&S manager or necessary authority could escalate the issue at the next Management Risk Committee or Board Risk Committee depending on the severity of the issue and impact) and, potentially, the board.

Additionally, regular internal portfolio review meetings involving the relevant FI teams (transaction officers, E&S teams, risk/compliance teams, etc.) can enable insights to be shared, priorities for closer monitoring agreed, and collaboration where a client is not making adequate progress (e.g. a partner could escalate the issue at the next executive management meeting).

Some of the information gathered by the FI and the conclusions reached by assessing that information may be used for the preparation of publicly available reports (including annual sustainability/integrated reporting and public disclosures). The purpose of such reporting would be to showcase E&S achievements and keep stakeholders up to date with progress against set objectives and commitments made by the FI. Furthermore, the FI may use this information for the preparation of reports to be submitted to central banks/regulators as E&S reporting is increasingly becoming a requirement in some geographies. Refer to [FI E&S Management Systems](#) section.

2.4 Manage unforeseen events

The FI must have a mechanism to respond appropriately and swiftly to serious accidents, incidents or events, material legal breaches, or other changes in the client's circumstances and to ensure that lessons are learned and applied in future (to this or other transactions). Serious incidents may need to be reported to various bodies (e.g. credit, risk, reputational and other types of internal committees, investors, and communication teams). These include any event, condition or situation which:

- Causes significant disruption, delay or interference for a client's business or project;
- Exposes the client business or project to material financial risk or penalties;
- Creates an unsafe environment for either internal or external stakeholders (or both);
and
- Attracts negative media attention or a negative profile for the client.

These types of events can be cross cutting across many different sectors and E&S risk and impact areas. Some examples include work-related fatalities, large community protest and

strikes, security incidents involving customers or staff, data security breaches, human rights breaches or accusations, communities organising themselves around a land acquisition or resettlement issue, gender based violence, safeguarding violations/issues, etc.

Broad categories of different types of unforeseen events are described in further detail below:

- [Serious accidents](#)

As indicated previously, the FI should ensure that a system through which clients promptly notify the FI of any serious accidents (see examples above) is in place. Subsequently, and within a defined time period (typically set out in the facility agreement), the client should submit an investigation report to the FI. The FI should check that the client has implemented measures to avoid repetition of the event. In most cases, such accidents should be reported to investors by the FI and to other parties by the client (e.g. regulators).

Investigating and creating formal reports on serious incidents gives FIs an insight into the types of issue at the client and an opportunity to address root causes. It can also provide relevant information on the adequacy of the client's E&S management system. Template for serious accident reporting is provided in the [Resources](#) section.

- [Non-compliance with the FI's requirements](#)

It is important to check each client's ongoing compliance with the E&S requirements (which shall include compliance with applicable E&S laws) stipulated in the transaction agreement. Where an instance of material non-compliance with the FI's requirements is identified (e.g. related to the ESAP or against regulatory requirements) the FI and the client shall agree on a Corrective Action Plan (CAP) to bring the company into compliance within a reasonable timeframe.

Similar to the development of an ESAP based on the findings of the DD phase, the CAP may follow a similar format and highlight the key areas of non-compliance to be addressed, the recommended remedial actions, time frame, responsibility, and resources to be applied. External experts may be commissioned by the FI to assess and confirm successful implementation of the CAP. Template for developing ESAPs, which can also be adopted to for CAP is provided in the [Resources](#) section.

- [Grievance mechanism/stakeholder complaints](#)

Maintaining good stakeholder relations is also critical to maintaining a client's license to operate. Poor stakeholder relations can result in a range of problems and costs. FIs should emphasise to clients that it is essential to alert them to any significant stakeholder-related issues (e.g. social protests and relevant grievances) and the status of relationships with key stakeholders, such as local communities. Clients should, as appropriate, have a grievance mechanism and a stakeholder engagement plan in place.

- [Departure of key E&S professionals](#)

In some instances, such as transactions with high E&S risks and impacts, FIs should consider requiring the client to promptly notify the departure of key E&S personnel and ensure the company hires another professional(s) to ensure adequate E&S management. The role is a key one and so it is important to identify the reasons behind the departure.

- [Changes to the business](#)

If significant changes occur in the client business (e.g. acquisitions or expansion involving material E&S risks or poor overall financial performance as this can lead to budget cuts on key E&S matters and to staff retrenchment), the FI may need to commission an independent and targeted E&S assessment or monitoring visit. This exercise could serve to assess a client's capacity to manage the changes and their implications, including the need to upgrade existing management systems.

- [Negative media](#)

Critical or concerning media articles about a client company should be discussed immediately with the client. Their veracity should be checked and if concerns they identify prove to be real or to have significant potential to damage the client. If proved to be true, the client and FI should agree on a course of action to address them.

Outputs

Key results of good E&S management during the monitoring and reporting stages are:

- Ideally, better E&S performance of the FI's clients;
- Good E&S risk management by the FI at both portfolio and transaction levels;
- Ongoing and appropriate oversight of each client's E&S performance (level of E&S monitoring commensurate to the level of E&S risks and impacts associated with the client/transaction);
- Ongoing clients' compliance with FIs E&S policies and related standards;
- Responsive and effective management of unforeseen events (e.g. serious accidents);
- Good stakeholder relations, including clients and investors; and
- Records to demonstrate good E&S monitoring procedures, performance, and compliance with the FI's policies.