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BANKING BULLETIN

ESG IN THE FINANCIAL SERVICES INDUSTRY: A ROUNDTABLE DISCUSSION

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Presenters

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Introduction

- **Banking Bulletin Series**

- **ESG Roundtable Discussion**
  - ESG Basics
  - ESG in Practice and in the U.S.
  - U.S. compared to EU/UK
  - What’s next?

- **Polling Questions**

Polling Question #1

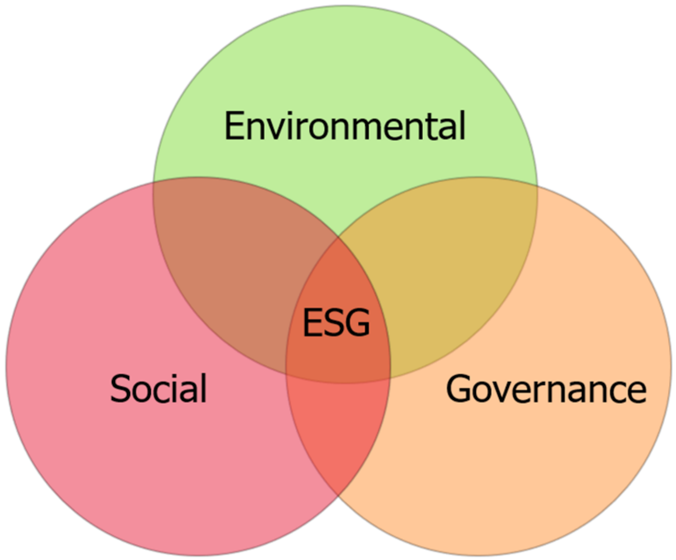
Which topic brought you to today’s webinar?

Polling Question #2

How has ESG become a part of your day-to-day?

ESG Basics

- **Why are we here?**
- **Why is ESG part of a financial services webinar series?**



ESG Basics

- **Decades of History & Related Concepts**
  - Socially Responsible Investing (SRI)
  - Corporate Social Responsibility (CSR)
  - Impact Investing

- **Misconception of an exclusive focus on "morals" or "norms"**

ESG Basics

- **Various Investing Approaches**
  - Negative screens (typically values-based)
  - **Proactive sustainability-focused analytics/perspective — "*ESG investing*"**
  - Corporate engagement and impact investing

- "Consider ESG as a **lens** through which **investors** can identify **potential investment risks** and **opportunities** in a **systemic way**"
  - *United Nations Principles for Responsible Investment*

ESG in Practice

Voluntary Frameworks and Standards

- Carbon Disclosure Project (CDP)
- Global Reporting Initiative (GRI)
- Climate Disclosure Standards Board (CDSB)
- International Integrated Reporting Council (IIRC)
- Climate Financial Risk Forum
- Principles for Responsible Investment
- Sustainable Accounting Standards Board (SASB)
- TCFD recommendations on climate-related disclosures

ESG in Practice

- Ratings agencies
- Second-party opinions
- ESG corporate policies
- Questionnaires

- Greenwashing

ESG in EU/UK compared to U.S.

- **EU/UK**
  - Mandating Disclosures
  - Regulatory Action
  - Innovating Terms

- **U.S.**
  - Financial Materiality Threshold
  - Enforcement
  - Market Participants

ESG in Practice in the U.S.

- **Historical participants** (DFIs, impact investors, mission funds)
- **Environment, Energy, Climate** (as a driver)
- **ESG & Social Funds & Frameworks**
- **Growing Investor Pressure**
- **Financial Materiality Threshold**
- **Change in Presidential Administration**

ESG in Practice in the U.S. (Biden & SEC Activity)

February 1
Appointment of Satyam Khanna as "ESG and Climate Policy Adviser at the SEC."

February 26
SEC released an ESG Funds Investor Bulletin.

March 3
SEC Division of Examinations announced 2021 examination priorities, including a greater focus on climate-related risks.

March 4
SEC established the "Climate and ESG Task Force" in the Division of Enforcement.

March 15
Acting Chair Allison Herren Lee published a request for public input on climate change disclosure with a 90-day period for the public to submit comments.

March 19
The ESG Subcommittee of the Asset Management Advisory Committee hosted an issuer panel at the AMAC meeting intended to help them finalize their ESG recommendations.

March 22
SEC established a Climate and ESG website, which assembles all the Commission's ESG-related activity in one place.

April 9
The SEC Division of Examinations released a Risk Alert noting observations made during recent examinations of investment advisers and funds engaged in ESG investing.

April 22-23
Biden announces U.S. will halve its greenhouse gas emissions by 2030 at Leaders Summit on Climate

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ESG in Practice in the U.S.

- **Sustainability-linked pricing adjustments in syndicated loan market**

- **LSTA/LMA/APLMA's**
  - Sustainability-Linked Loan Principles, May 2020
  - Green Loan Principles, updated February 2021
  - Social Loan Principles, April 2021
- **Focused on:**
  - Sustainability Strategies, Target Setting, Use of Proceeds, Project Evaluation and Selection, Management of Proceeds, Reporting

ESG in Practice in the U.S.

Corporate and Finance Client Questions:

- ESG Disclosures
- ESG Diligence Questionnaires
- ESG KPIs, Reporting
- Sustainability Pricing Terms
- ESG/Sustainability Covenants

ESG in Practice in the U.S.

ESG Disclosures & Diligence Questionnaires:

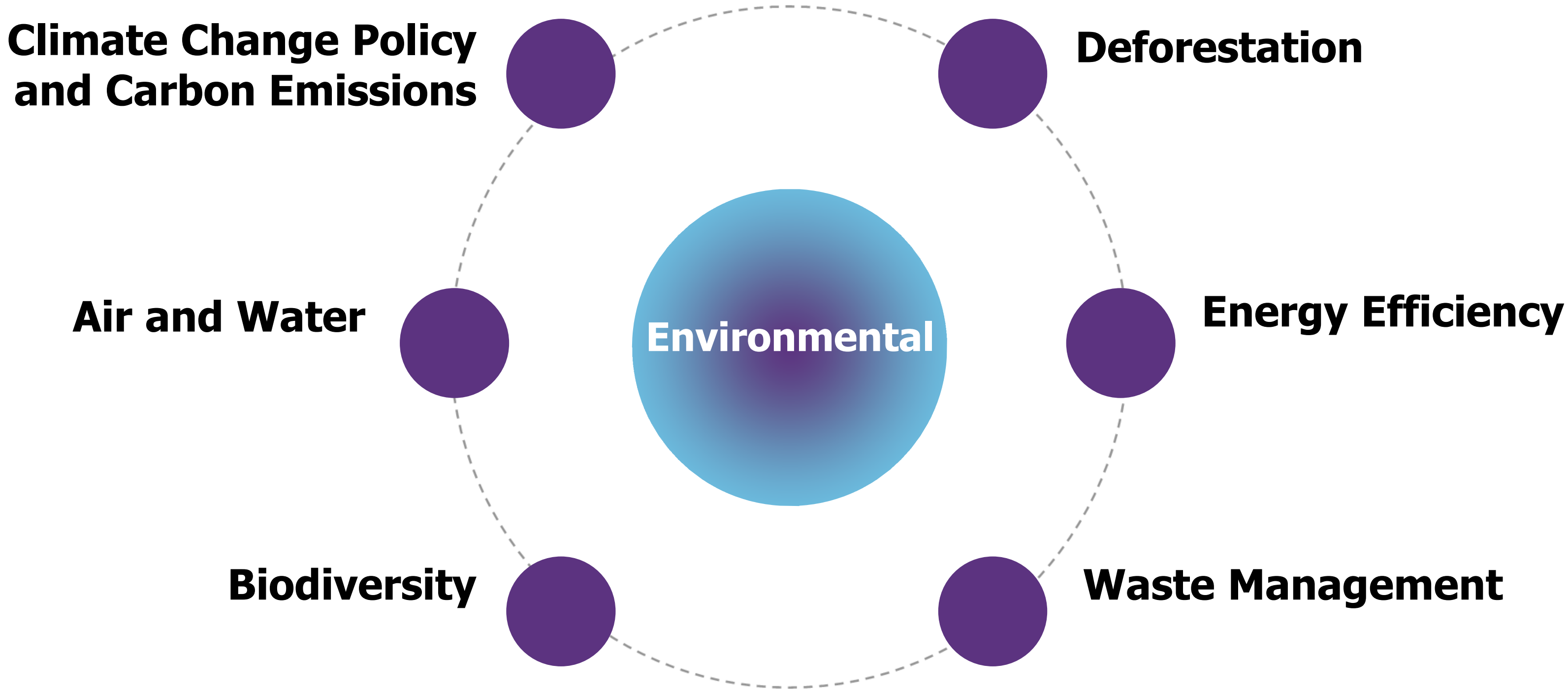
- – No market standards
- – Vary by framework (if using)
- – Vary by industry (see SASB materiality map)
- – Can involve third-party consultants/auditors
- – Can involve third-party ratings

ESG in Practice in the U.S.

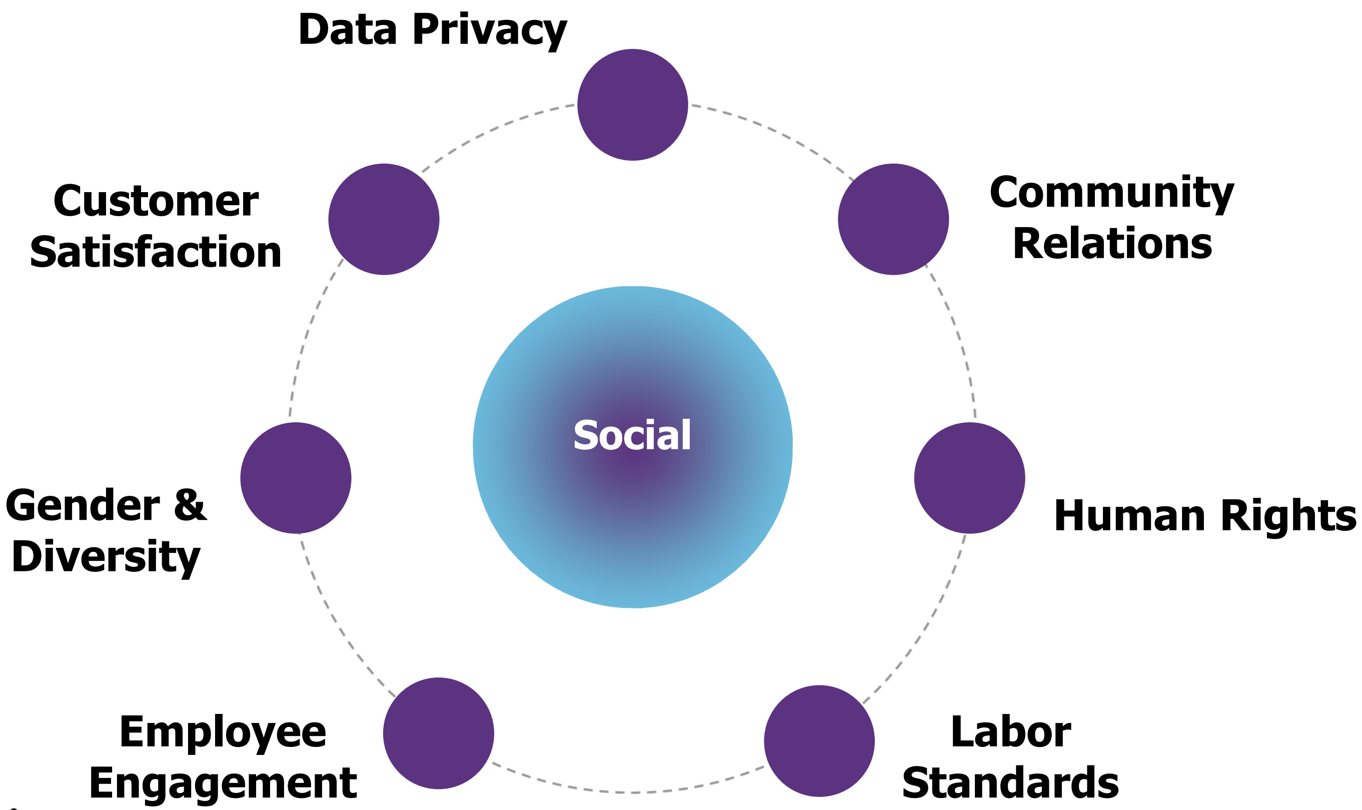
ESG KPIs, Reporting:

- No market standards, but most commonly annually
- Requires agreed-upon baseline report, score, metric
- Bespoke, industry, and business-reliant
- Inherent risk without third-party involvement

Environmental

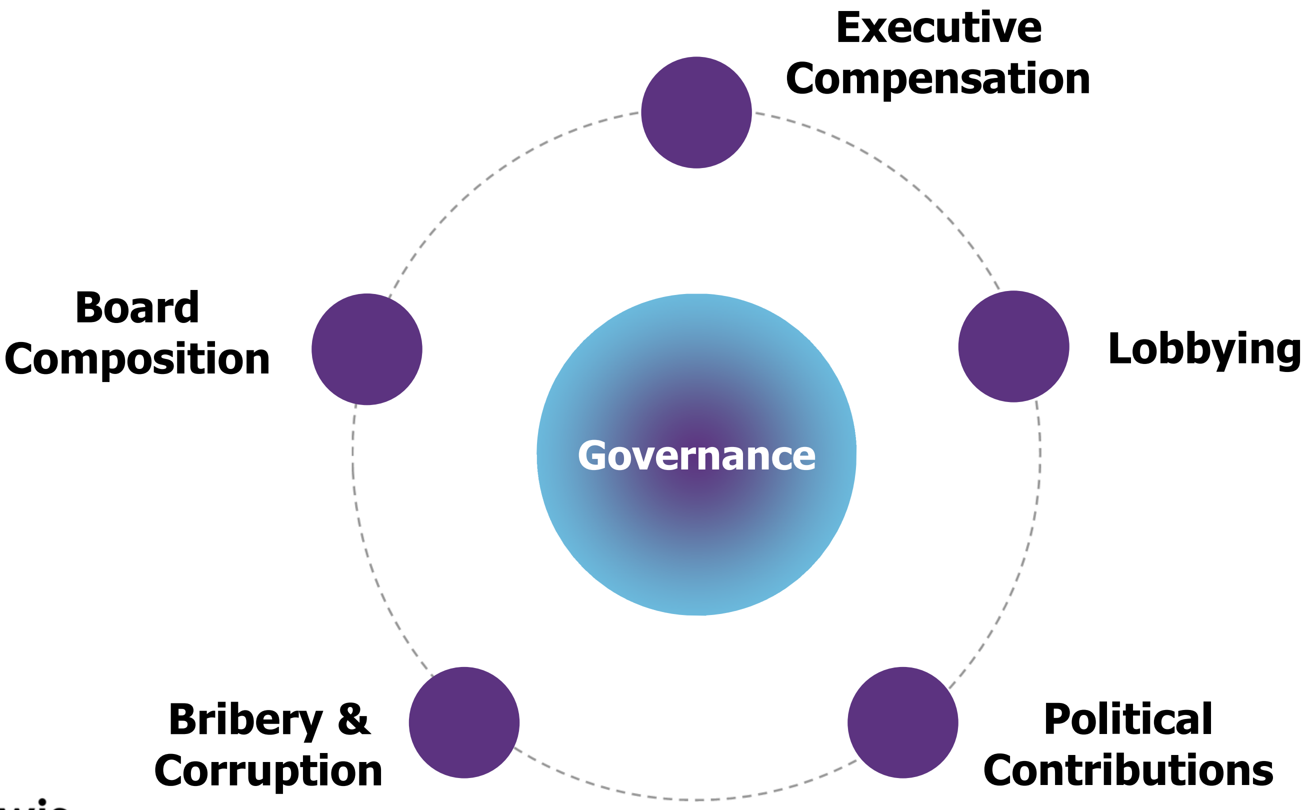


Social



Data Privacy
Community Relations
Human Rights
Labor Standards
Employee Engagement
Gender & Diversity
Customer Satisfaction
Social

Governance


Executive
Compensation
Board
Composition
Governance
Lobbying
Bribery &
Corruption
Political
Contributions

ESG in Practice in the U.S.

Sustainability Pricing Terms:

- Exist in syndicated market, more common in EU
- Follow one- or two-way ratchet occurring annually
- Similar to leverage ratio pricing ratchets (but separate)
- Two approaches:
  (1) Tied to KPI Target(s)
  (2) Tied to third-party ESG Ratings

ESG in Practice in the U.S.

ESG/Sustainability Covenants:

- No market standards
- Typically not defaults (rely on pricing instead)
- Space for innovation (e.g., use of proceeds)
- Consider looking to impact investors

Roundtable Discussion

What's Next?

What is the potential impact in the U.S. market?

Biography

Matthew E. Schernecke
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Matthew Edward Schernecke advises direct lenders, mezzanine investment funds, and venture capital investors in a variety of debt and investment transactions with borrowers of all sizes, types, and structures. Matthew also counsels private equity clients and corporate borrowers on domestic and cross-border acquisition financings, out-of-court restructurings and workouts, bankruptcy matters, ESG and impact investment financings, and real estate financings. Matthew leads transactions spanning diverse industries, including financial services, real estate, retail, life sciences, healthcare, technology, food and beverage, hospitality, film and music entertainment, media, and telecommunications.

Matthew advises clients of all kinds on the financing aspects of sustainable investments with a broader social impact. He has broad knowledge and experience structuring and negotiating loan documents to embed and track social impact through ESG-oriented covenants and impact investment financing transactions.

Matthew serves as the New York office local practice group leader for the finance practice. He also serves as a leading member of the Morgan Lewis CARES Act Loan Program Task Force, working with this cross-practice team, composed of 40-plus lawyers, to advise hundreds of clients and colleagues on all aspects of COVID-19-related federal loan programs, namely the Main Street Lending Program, on which Matthew co-authored market-leading publications, and the Paycheck Protection Program. Matt has also been sought after by top-tier organizations to speak on market practice during the COVID-19 pandemic, including the Loan Syndications and Trading Association (LSTA) and the American Bar Association (ABA).

Biography

Miranda Lindl O’Connell
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Miranda Lindl O’Connell represents fund of funds, private foundations, social entrepreneurs, pension plans and other institutional investors in private investment fund transactions. Miranda counsels clients regarding the investment in and secondary sale of interests in private investment funds of a variety of structures including private equity funds, co-investment funds, venture funds, captive funds, separate accounts and other customized private finance options. She advises social entrepreneurs, private foundations, and charities on a range of social impact investments including program-related investments, mission-related investments, and innovative investment vehicles and structures including social impact funds and debt and equity investments. Miranda currently serves as deputy office managing partner of the firm's San Francisco office.

Miranda also counsels clients in the structuring, formation, and governance of US domestic and international private investment funds. She represents clients in the formation of funds of funds, funds sponsored by 501(c)(3) entities, corporate governance funds, venture funds, real estate funds, co-investment funds, and private equity funds.

The American Bar Association presented Miranda with its Outstanding Volunteer in Public Service Award for her work at the Homeless Advocacy Project.

While in law school, Miranda served as an extern for Judge John T. Noonan of the US Court of Appeals for the Ninth Circuit. Prior to law school, she worked as the race director for the San Francisco Marathon.

Biography

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John Hreno provides counsel to institutional investors, direct lenders, and large financial institutions on a diverse range of debt transactions, including private placements, venture debt transactions, first and second lien financings, project finance transactions, mezzanine financings, and asset-based facilities. John also advises corporate clients on real estate financings, acquisition financings, factoring arrangements, and working capital facilities. John's experience includes ESG and impact investment financing transactions as well, including structuring and negotiating loan documents to embed and track social impact.

John represents borrowers and lenders through the life cycle of domestic and cross-border investment transactions across a variety of industries, including technology, financial services, media and telecommunications, life sciences, energy, and real estate. John also has experience counseling clients through out-of-court restructurings and workouts.

Prior to joining Morgan Lewis, John led a regional policy analysis group focused on fostering public health-public safety partnerships at the NY-NJ High Intensity Drug Trafficking Area federal program administered by the United States Office of National Drug Control Policy. John's previous experience also includes short-term projects with the Chief Justice of the Supreme Court of Ghana, the Inter-American Development Bank, and Zimbabwe Lawyers for Human Rights.

Our Global Reach

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Middle East
North America

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Dallas
Dubai
Frankfurt
Hartford
Hong Kong*
Houston
London
Los Angeles
Miami
Moscow
New York
Nur-Sultan
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Tokyo
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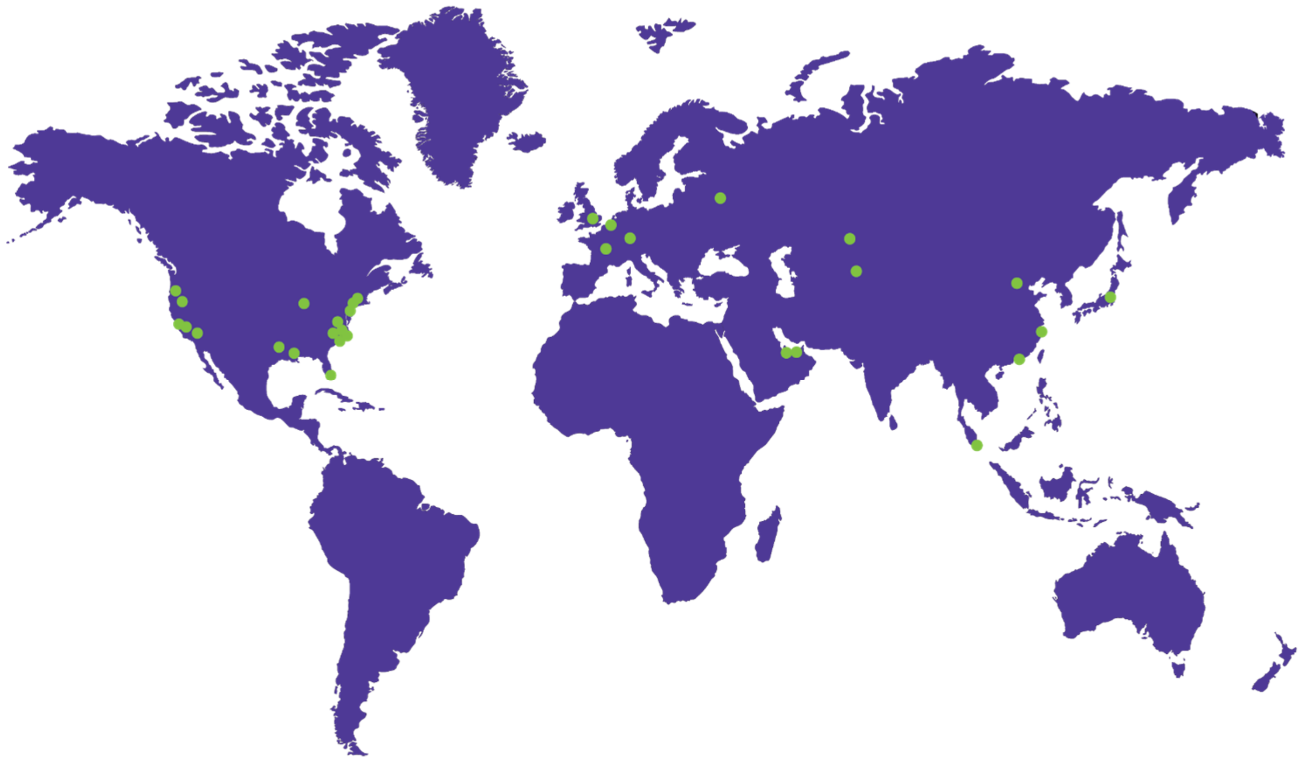
Wilmington



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