



Sustainability-related considerations in the due diligence process

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The following tables provide some examples of the questions that may be considered as part of an assessment of sustainability-related issues (and/or environmental, social and governance considerations (ESG)) during a due diligence process. The precise questions will vary according to the circumstances of the transaction and the risk profile of the acquirer and the acquiree.

STRATEGIC 	
1.	Does the target have a sustainability (or ESG) strategy or framework?
2.	To what extent does this align with the acquirer's own strategic objectives?
3.	Does the target have an enterprise risk assessment which incorporates sustainability-related considerations?
4.	Does the target operate in an industry which is regulated and what is the impact of that regulation upon its sustainability objectives?
5.	Is the target a signatory to any global, regional or national standards relevant to the management and / or reporting of sustainability-related issues, such as the UN Global Compact or Science Based Targets Initiative?
6.	What sustainability-related issues are material to the target business and its stakeholders?
7.	How has the target embedded the requisite considerations in its organisational culture?
8.	Have any claims against the target been made in respect of sustainability-related matters, including greenwashing, sexual harassment, environmental regulation breaches and human rights?
9.	What are the target's ESG ratings, if applicable, and should access to these be available?
10.	What are the applicable sustainability reporting standards and regulatory requirements (including the International Sustainability Standards Board (ISSB) standards or the European Union Corporate Sustainability Reporting Directive (CSRD), and voluntary standards such as the Global Reporting Initiative (GRI) or Taskforce for Nature-related Financial Disclosures (TNFD))?
ENVIRONMENTAL 	
1.	What resources used by the target may be subject to environmental risks? Have impact assessments been conducted?
2.	Does the target engage in appropriate environmental practices? Are these in compliance with local regulations and are they acceptable in the acquirer's jurisdiction?
3.	How does the target manage the environmental aspects of its business (including energy, land use, pollution, CO2 emissions, materials, water use and waste)?
4.	Does the target have proactive climate-change adaptation and greenhouse gas emissions reduction plans? Are these part of broader, organisation-wide transition plans?
5.	What are the target's physical and transitional climate change risks throughout its operations and assets?
6.	How does the target interact with environmental stakeholders and work to mitigate its ecological and biodiversity impacts?
7.	Has the target undertaken any certifications against environmental standards, such as ISO14001, and related standards and disclosures, such as the TNFD?
8.	To what extent are there any historic liabilities, for example through contaminated soil or on-site restoration, which may require specialist action?
9.	Are relevant business continuity planning procedures in place and, if so, do they address sustainability-related risks? What were the main lessons learned from the most recent exercise and how were they actioned?
10.	Does the target have a strategy to move, or is it in the process of moving, to a more circular or regenerative-based operating model?

SOCIAL



1. Does the target have human resources policies and procedures for its own workforce?
2. Does the target comply with human rights legislation in relevant locations and are these standards acceptable to the acquirer, such as its policies towards unsafe or abusive labour practices?
3. Does the target have appropriate whistle-blowing procedures in place and are investigative actions undertaken?
4. What is the target's commitment to and action in respect of diversity, equity and inclusion, including the extent of staff training provided in relevant areas?
5. Does the target undertake due diligence exercises in relation to its supply chain? Is it subject to any such procedures itself?
6. Does the target have commitments in relation to the living wage, for example through industry associations?
7. Does the target consider its social licence to operate in connection with the communities in which it is based and operates?
8. Does the target have overseas operations that involve a heightened transactional risk, for example in relation to indigenous people?
9. Does the target take steps to ensure product safety requirements are met to protect customers?
10. Does the target comply with relevant standards and guidelines such as the International Labour Organization (ILO) standards on forced labour?

ECONOMIC



1. Has the target conducted an assessment of its geopolitical risks in the context of sustainability-related issues?
2. Has the target conducted an economic assessment of the impact of sustainability-related issues on its operating model?
3. If such an assessment has been conducted, what level of sensitivity analysis has been conducted?
4. Do the internal reporting and performance-management processes include sustainability-related issues?
5. Do the target's accounting policies address relevant sustainability-related issues?
6. Have any external and / or internal audit findings identified issues, risks or opportunities and the extent to which recommendations have been actioned?

GOVERNANCE



1. Does the target have a governance structure for addressing sustainability-related issues with appropriately skilled individuals?
2. Does the target have sustainability (or ESG) procedures, policies and processes (such as codes of conduct covering anti-bribery, anti-corruption, etc. measures) in place?
3. Are there any management incentives in place to promote sustainability-related initiatives? How has the board been involved in understanding, developing and implementing the sustainability strategy, including requiring accountability from the target's management?
4. Does the target have audit committee, risk functions / departments and internal audit functions that consider and monitor sustainability-related risks?
5. Has the target performed a materiality assessment on its sustainability-related risks? If so, is it up to date and are there appropriate plans to review and maintain it?
6. Has the target conducted an assessment of its sustainability-related and/or ESG performance and prepared any relevant reports?
7. Have there been any instances of non-compliance and how did the target's management address these situations?
8. Does the target have any outstanding litigations related to social or environmental issues?
9. Has the target dedicated sufficient operational personnel and other resources to handle sustainability-related and/or ESG matters and how they are deployed in the organisation?
10. Does the target proactively monitor developments that might change its sustainability-related risks and opportunities?