**ESG Opportunities in Pre-bankruptcy and Corporate Restructuring: A comparative study of the US and the EU approaches**

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This paper explores the issue of distressed credit investments and ESG opportunities in pre-bankruptcy and corporate restructuring in the United States and the European Union. It does so by identifying the different approaches taken in the European Union and the United States and thereby providing a basis for comparison.

The evaluation of environmental, social and governance (ESG) factors during corporate restructuring and in distressed credit investing seem farfetched because distressed companies should be focused on financial rather than non-financial sustainability. Yet, as part of a new and emerging trend, banks and other lenders increasingly include ESG factors in their lending and investment decisions aimed at companies in distress. Indeed, recent studies indicate that companies paying attention to ESG issues outperform as credit investments and at the same time generate valuation premiums. While the United States seems to partially lack behind in recognizing the importance of non- financial sustainability in context of corporate restructure, the European Union started to include ESG factors and sustainability more directly in their pre-bankruptcy and restructuring policies.

Any corporate restructure equates to a new start, which often requires establishing a new corporate culture and addressing negative externalities, allowing for the realignment of corporate governance and better risk management. Further, better ESG performance may reduce the cost of borrowing as ESG scores may have a material impact on spreads for high yield and unrated corporate bonds. Similarly, ESG improvements may ultimately increase valuation and thereby reduce credit spreads, and the overall cost of capital at the same time.

Corporate governance changes and improvements are typically a main focus during a restructure, allowing to recruit new executive and non-executive directors, with an opportunity to not only attract new talent, but also enhance diversity. Lenders may also require a review of business plans and financial planning, permitting them to not only account for ESG risks (business, regulatory or credit), but at the same time requiring the implementation of ESG factors to improve credit quality. Distressed credit investors may further demand the divestment of assets that may become stranded during a low carbon transition or as a result of geopolitical changes. Finally, during restructuring executive compensation may be realigned with ESG factors increasing executive buy-in and accountability. In turn, tying executive compensation to meeting ESG factors may not only significantly improve long-term corporate orientation, but also positively effect firm value as well as reputation by increasing social and environmental initiatives and innovation.

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ESG, pre-bankruptcy, restructuring, distressed credit, investment