

PRESS RELEASE

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European Leveraged Finance Association and Loan Market Association publish Best Practice Guide to Sustainability Linked Leveraged Loans

London, 28 July 2021: The European Leveraged Finance Association (ELFA) and Loan Market Association (LMA) have partnered to publish a best practice guidance to Sustainability Linked Leveraged Loans.

Leveraged loan market participants face unique opportunities to lead the way in sustainability and this guidance seeks to ensure that loan market participants in Europe incorporate ESG provisions in an effective and appropriate way as this practice gains pace. Loan market investors also recognise the threats posed by “greenwashing” and the need to promote transparency on sustainability related features of a transaction.

This Guide provides practical guidance as to the application of the Sustainability Linked Loan Principles¹ (SLLP) to “ordinary” leveraged loans which seek to incorporate any kind of ESG factor or metric (referred to in this guide as Sustainability Linked Leveraged Loans or **SLLs**²). It also sets out what borrowers, finance parties and their respective advisors should consider when looking to integrate sustainability factors into their loan agreements (e.g. ESG-linked margin ratchets). The Guide should be read in conjunction with the SLLP and Guidance on Sustainability Linked Loan Principles³.

The ELFA and LMA have addressed several areas in the guidance, summarised below:

- **Terminology:** As with all areas of industry, there is a common language evolving in relation to sustainability. For those new to sustainability, this can seem daunting and act as a barrier to entry. For that purpose, the LMA has put together a Glossary of Terms⁴ common to sustainability lending products generally.
- **Roles:** The Guide seeks to explain a number of specialised roles that have arisen when applying the SLLP to any loan transaction including ESG rating providers, ESG Consultants, Sustainability Coordinators and External Reviewers.
- **Selection of KPIs:** Pertinent ESG information should be provided to prospective lenders by the borrower in disclosure and offering materials, helping a company to demonstrate a pre-existing and meaningful commitment to ESG prior to entering the transaction. KPIs, and the associated Sustainability Performance Targets (SPTs), should then be communicated ahead of, or at the time of, marketing the deal for syndication, to allow sufficient time for the prospective syndicate to fully review and, where appropriate, challenge the proposed KPIs, and associated SPTs.
- **Reporting & verification:** Borrowers should make and keep readily available up to date information relating to their SPTs, with information provided at least once a year and externally verified.
- **Documentation:** There is currently no template wording available for use in sustainability linked loan documentation due to the varied and precedent-based nature of this market and, as such, a case-by-case approach will be required. The Guide outlines considerations for both Term Sheets and Loan facilities.

Sabrina Fox, Chief Executive Officer, European Leveraged Finance Association, commented:

“Together with the LMA, we have put together a practical guide to support a strong approach and implementation of ESG principles documentation with a solid basis in the company’s overall business. Importantly, a borrower should not rush to structure a sustainability linked loan until it is ready to do so. This Guide provides a common starting point, bringing legitimacy and helping to ensure proposals are robust and ambitious enough to guarantee the integrity of the product and limit greenwashing risks.”

Gemma Lawrence-Pardew, Director - Legal, Loan Market Association, added:

“Our Guide with the ELFA provides a transparent and standardised ESG approach from the beginning, allowing market participants to have a resilient model to follow in the leveraged finance market. This is supported by the already uniquely positioned market which offers close relationships between borrowers and lenders and investors already accustomed to performing “deep dives” into borrowers’ businesses.”

Ends

¹ https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability_Linked_Loan_Principles_V032.pdf

² SLLs are not an asset class of their own. They are leveraged loans to which the SLLP have been applied.

³ https://www.lma.eu.com/application/files/8915/9799/8238/SLLP_Guidance_V05_pages1.pdf

⁴ https://www.lma.eu.com/application/files/6016/1192/3656/LMA_Green_Lending_Glossary_V07.pdf

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Notes to Editors

*Sustainability Linked Loan Principles: https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability_Linked_Loan_Principles_V032.pdf

The ELFA and LMA Insights report on ESG-linked margin ratchets can be found [here](#).

About the ELFA

The ELFA is a trade association comprised of European leveraged finance investors from over 45 institutional fixed income managers, including investment advisors, insurance companies, and pension funds. The ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its investor community by promoting transparency and facilitating engagement among European leveraged finance market participants. For more information, please visit the ELFA website: www.elfainvestors.com.

About the LMA

The LMA's key objective is improving liquidity, efficiency and transparency in the primary and secondary syndicated loan markets in Europe, the Middle East and Africa (EMEA). By establishing sound, widely accepted market practice, the LMA seeks to promote the syndicated loan as one of the key debt products available to borrowers across the region. The LMA's membership currently stands at 730 organisations covering 65 countries, comprising commercial and investment banks, institutional investors, law firms, borrowers, service providers, rating agencies, and regulatory and governmental bodies.

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