

ESG Provisions in Leveraged Loans

In a recent survey on ESG provisions in leveraged finance documents, investors indicated that a questionnaire to support engagement with borrowers about provisions in Green/Sustainability/ESG linked products would be a useful tool.

In response to this feedback, we have created this ESG provisions in Leveraged Loans as part of the New Deal Disclosure Questionnaire Series.

Sustainable Performance Target (SPT)

- What are the SPTs?
- When are the SPTs assessed?
- What is the base year?
- What is the percentage change of the SPT in relation to the base year and the latest reported figures? (i.e., how much has the company achieved already vs. the SPT)
- What were the historical levels? What are the target levels by year?
- What was the firm's targets in relation to the SPT before this loan was being issued?
- Is the historical SPT data included in the IM or term sheet? If not, where can we access it?
- What is the methodology to establishing the SPT and how does it go beyond business as usual?
- What are the key strategic initiatives and investments to achieve the SPT?
- How does the SPT compare to regulation set target in the industry?
- Has (and will) the SPT been verified by a second party? If so, who is the provider?
- What are the longer-term goals related to the SPT?

Structure of the ESG margin ratchet in the loan

- When does it start to apply?
- Does the discount accumulate over time?
- What are the coupon step-ups/discounts?
- How many SPTs should be achieved or missed to trigger a move?
- If applicable, what are the material caveats or exceptions to the application of the step-up (e.g., M&A carve-outs)?

Reporting

- Is reporting required?
 - If so, what is the frequency, and will it be publicly available?
- Will on going reporting of levels linked to the SPT be verified by a third party?
- Are there any covenants related to SPT disclosure and reporting?
- What is the consequence for no disclosure/reporting? (i.e., Default, Coupon step-up)
 - Any consequence for changing or abandoning the SPT?

Other

- How will savings from a margin discount relating to the ESG margin ratchet be applied?

About the ELFA:

ELFA is a professional trade association comprised of European leveraged finance investors from over 50 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's website: www.elfainvestors.com.

Our Mission Statement:

The ELFA seeks to create a more transparent, efficient, and resilient leveraged finance market while acting as the voice of its investor community. To that end, our diverse forum of investors engages with other industry professionals in order to educate and to promote best practices and transparency.