

PRESS RELEASE

20 January 2022

European Leveraged Finance Association publishes ESG Exclusion Checklist following market consultation

London, 20th January 2022: The European Leveraged Finance Association (ELFA) has today published its [ESG Exclusion Checklist for Business Activities](#) (the ESG Exclusion Checklist) incorporating feedback following a consultation with market participants. The ESG Exclusion Checklist is designed to streamline the negative screening and exclusion process for credit managers.

The ESG Exclusion Checklist, distributed for public consultation in November 2021, aims to increase efficiency in the leverage finance market. It is intended for arranging banks to complete at the time of a new corporate loan or bond syndication and aims to help investors to quickly determine if a corporate borrower is a suitable investment candidate based on the firm's or fund's specific ESG criteria. It is meant to be used to allow corporate borrowers to easily publish updated information to its entire lender base.

The ESG Exclusion Checklist provides information on the percent of revenue that a company derives from its business activities that might impact an investor's internal ESG guidelines. The final version of this resource has been updated from a sector perspective to include disclosures on alcohol and private prisons, as well as delving deeper into requests for disclosure on fossil fuel revenues, nuclear energy and oil exploration.

It was evident during the consultation that investors use different definitions for ESG factors and exclusions, and the ESG Exclusion Checklist has been updated to reflect this. Potential definitions have been added on areas such as controversial weapons, tobacco, fossil fuel extraction from unconventional sources, services to the gambling industry, hazardous chemicals and waste, and ozone depleting substances, among others.

During the consultation period, the ESG Exclusion Checklist was expanded to include common exclusions used by managers in the European leverage finance market, including if prospective borrowers are signatories of the UN Global Compact principles, and if they are in breach of any of the principles, and whether they are in breach of ILO Conventions, OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights (UNGPs).

Sabrina Fox, Chief Executive Officer, European Leveraged Finance Association, said: "ESG exclusions within the leverage finance market is an important tool for investors integrating ESG, but the process can be complicated, and approaches differ, making the consultation period especially valuable in our development of this resource. Different investors will have different guidelines about which sectors or business activities are included in their guidelines, and different views on definitions. It was important to strike a balance by producing a checklist that allows investors to take an immediate view of whether an issuance is in line with their exclusion guidelines while not being overly burdensome for issuers.

"We would encourage all arrangers to use the ESG Exclusion Checklist, which aims to simplify the negative screening process whilst helping to promote ESG integration into transactions. We will update the ESG Exclusion Checklist regularly as the market continues to evolve, encouraging a more efficient leverage finance market in Europe."

The ESG Exclusion Checklist is not meant to serve as a template for the exclusions that a fund or credit manager may decide to use, but rather aims to include most common exclusions used by European fund managers to equip them with the necessary information to make an assessment at the time of a loan or bond coming to market.

The ESG Exclusion Checklist was produced as a collaborative effort across ELFA's ESG Committee, Loan Investor Committee and CLO Investor Committee. ELFA will update the tool annually to ensure it remains relevant and in line with the latest market trends as ESG integration continues to evolve.

End

20 January 2022

ELFA Press Contact:

Gilly Lock / Chloe Retief

Powerscourt

+44 (0) 7711 380 007

+44 (0) 7507 785 103

elfa@powerscourt-group.com

About European Leveraged Finance Association (ELFA)

ELFA is a trade association comprised of European leveraged finance investors from over 55 institutional fixed income managers, including investment advisers, insurance companies, and pension funds. 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.