

# PRESS RELEASE

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## Availability of quality data is greatest obstacle to private debt ESG analysis – ELFA Survey

- **ESG integration is quickly evolving in private debt markets, with significant pressure coming from end investors**
- **Data availability presents challenges to integrating ESG into credit research**

**London, 8 March 2022:** In its latest Insights Report – [ESG Integration in Private Debt: Progress amidst growing pains](#) – the European Leveraged Finance Association (ELFA) finds that while private credit managers are increasingly integrating ESG considerations into their investment processes, data availability presents significant challenges. This report is based on ELFA's ESG in Private Debt Survey and follows on from its inaugural Insights report on the [Growth of ESG in Private Debt Markets](#).

ELFA's ESG in Private Debt Survey reveals that ESG is a core factor in private credit investment processes, with ESG integration having quickly evolved in recent years. Around 50% of investors incorporate ESG considerations into more than 75% of their firm's private debt AUM, according to the research. ESG analysis is increasingly becoming an integral part of private debt managers' investment processes and decisions. For close to 95% of respondents, ESG is very important or extremely important in their credit analysis process. Ninety per cent of investors surveyed said that in the last 12 months they have passed on a deal for ESG reasons at least once.

The survey found that data availability is presenting significant challenges to integrating ESG into credit managers' investment analyses. Close to two-thirds (65%) of private debt investors state that the primary way they integrate ESG into their portfolios is through credit research. This exceeds the proportion of respondents using exclusions as their primary approach to ESG investing (23%), whilst direct engagement with borrowers as the sole method of gathering ESG information accounted for only 10% of respondents. The vast majority of respondents (87%) flagged that lack of ESG information or unsatisfactory findings could lead them to turn down opportunities. This lack of data is mostly attributed to borrowers' nascent data collection and reporting methods, with 75% of respondents highlighting insufficient company data as the primary reason that borrowers are not providing ESG information in line with their requirements.

Confusion in the face of regulatory developments is exacerbating the impact of the lack of ESG data, according to the survey. The Sustainable Finance Disclosure Regulation (SFDR) presents a range of new obligations to encourage more transparency by asset managers on their ESG investments and aims to address greenwashing. At least two thirds of respondents believe they are in scope for the SFDR, but there is significant uncertainty from private debt investors about the new regulations – nearly 30% of respondents were unsure whether their firm was in scope for SFDR, and of those not in scope, 42% did not know if their firm would nonetheless report in line with the regulation's requirements. Additionally, just over one-fifth of survey respondents reported not having access to the necessary information required for Article 8 fund reporting.

ELFA recommends reporting frameworks and standardised data reporting as key next steps to a credible analysis by investors. ELFA is working to raise awareness of its [ESG Fact Sheet](#) series, which has recently been updated to incorporate key data from SFDR, and has several other projects underway to address these issues. ELFA intends to collaborate with organisations such as the [ESG Data Convergence project](#), which seeks to establish standardisation in data reported from GPs to LPs.

**Sabrina Fox, Chief Executive Officer, European Leveraged Finance Association, said:** "Whilst increasing engagement by borrowers and private equity sponsors is encouraging, the availability of quality, standardised ESG data continues to disrupt investors' ability to conduct comprehensive ESG analyses in the European private debt market.

"We believe that increased coordination amongst private debt market participants, including investors, debt advisory firms, private equity firms, borrowers and professional trade associations, will help the market overcome some of the challenges to ESG integration in this asset class. As such, our 2022 projects will focus on several of the issues raised by the survey."

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Informed by these results, ELFA has initiated several workstreams for 2022 with a view to raising awareness of these issues, developing educational resources for borrowers and increasing the availability of quality ESG data for private debt market participants. These include:

**Adding new Chapters on ESG in Private Debt Markets and ESG litigation risk to ELFA's Guide for Company Advisers on ESG Disclosure in Leveraged Finance Transactions:** Following engagement with a wide range of market participants, including private equity sponsors, arranging banks, and law firms, during its ESG Workshop for Advisers held in January, updates to the Guide will include a chapter on ESG in Private Debt and a chapter on ESG litigation risk. Market participants are welcome to [submit suggestions](#) for these chapters to ELFA.

**Forming a Working Group for ESG Data Providers:** This year ELFA is leading a working group that will focus on bringing together ESG data providers with a view to increasing leverage finance coverage and facilitating engagement on the need for increased climate and carbon data reporting, amongst other important ESG factors. Market participants [interested in joining](#) the working group should get in touch with ELFA.

**Producing Video Glossary on Key ESG Topics for Borrowers of Private Debt:** Given that the typical private credit borrower is a smaller company with fewer resources than larger firms, ELFA is creating an ESG video glossary to explain key ESG topics and why specific ESG information is important to investors, with reference to the information requested in its [General ESG Fact Sheet](#).

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**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](http://www.elfainvestors.com).