European Leveraged Finance Association

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London, E14 4HD
United Kingdom

26th July 2022

Re: European Leveraged Finance Association's response to the International Sustainability Standards Board Consultation Paper on General Sustainability and Climate-related disclosure requirements

Dear Board Members and Staff,

The European Leveraged Finance Association (ELFA) welcomes the opportunity to comment on the IFRS Sustainability Disclosure Standards consultation for the ISSB's Exposure Drafts, specifically the IFRS S1 on general sustainability-related disclosures, and IFRS S2 on climate-related disclosure papers. This letter outlines our initial feedback to this consultation.

ELFA is a professional trade association comprised of European leveraged finance investors from 60 institutional fixed income managers, including investment advisors, 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.

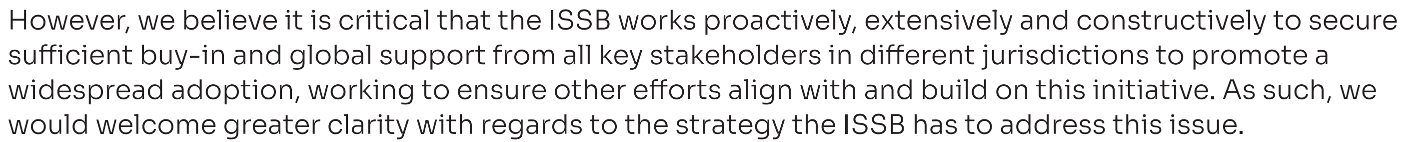
General comments on the sustainability related disclosure standards

As you are no doubt aware, the growth of environmental, social and governance (ESG) investment analysis in the leveraged finance markets is accelerating rapidly. Over the past few years, credit investors have widened and refocused their investment analysis to include more information on ESG related topics, as a response to the increasing investment relevance/materiality of such issues, increased regulation in this area, as well as increasing client demand. To this end, investors are requesting from borrowers ESG information that they consider material to their investment decisions with many relying on proprietary questionnaires to gather this information.

To foster development and growth in this area, in 2020 we worked with the UN-supported Principles for Responsible Investment (PRI) to create an initial set of tools called "ESG Fact Sheets" to support engagement between sub-investment grade corporate borrowers and investors on ESG related matters. Since then, we have hosted various ESG disclosure workshop events during which investors conveyed to key market participants – including borrowers, bankers, lawyers, credit rating agencies (CRAs) and private equity sponsors – the rationale for, and importance of, company disclosure of ESG information and data.

Nevertheless, our members continue to struggle with the availability, consistency and comparability of corporate sustainability reporting and are thus keen to support ISSB's initiative to simplify, improve and harmonise this issue. In this context we are delighted to see the ISSBs responsiveness to our critical need as investors for improved standardisation of sustainability related disclosure, to factor in sustainability in our investment decisions.

As investors in the leverage finance investment universe, we need information and ESG data on an investee companies' sustainability risk and opportunities. The current lack of transparency and standards present a meaningful barrier on efforts to incorporate a holistic view of investee companies and the quality of management in terms of their ability to manage material sustainability risks and opportunities. We welcome the positioning of reporting on sustainability related matters at same level of importance as conventional financial matters and the alignment of reporting periods accordingly. We believe the IFRS foundation is an appropriate body to oversee the establishment of such global standards.



However, we believe it is critical that the ISSB works proactively, extensively and constructively to secure sufficient buy-in and global support from all key stakeholders in different jurisdictions to promote a widespread adoption, working to ensure other efforts align with and build on this initiative. As such, we would welcome greater clarity with regards to the strategy the ISSB has to address this issue.

Whilst on the topic of strategy and timelines, we recognize the current two exposure drafts encompass climate, as well as other sustainability related matters outside of climate. It would be helpful to understand the strategy for evolving the exposure drafts and associated timelines, as well as have clarity on how to think about the relationship between the IFRS S1 and S2 and any potential future additional "thematic" disclosure draft.

For example, should IFRS S1 be considered a "master" disclosure and S2 (plus others) "supplementary"? Are there intentions to develop additional stand-alone exposure drafts for other specific sustainability topics in the way done for climate? If not, why not, as whilst we agree climate is an important sustainability risk and opportunity issue, we believe other topics may also warrant a similar level of attention (such as human rights).

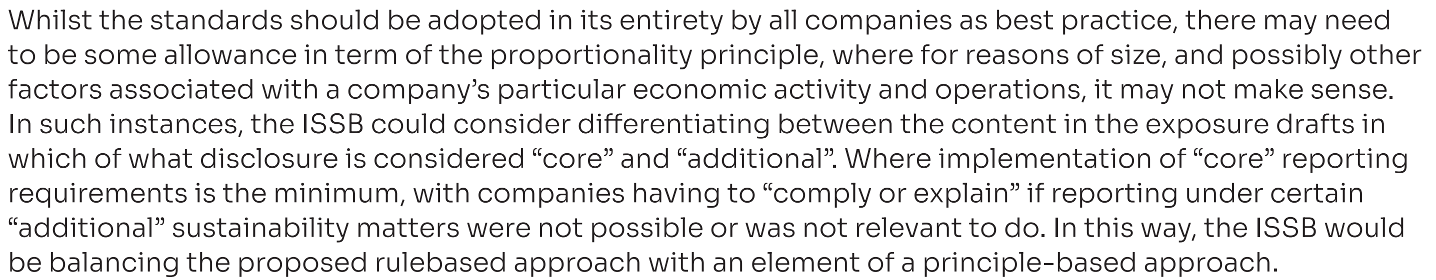
We understand a company can only claim compliance if they comply with both exposure drafts, but this would potentially seem overly strict, and there may be legitimate reasons a company may report fully under IFRS S1 but not IFRS S2. As such, it may be appropriate to review the pre-requisite conditions given we foresee that the useability of the standards is essential for the success of implementation, and it will be important that companies understand the incentives to adopt this, especially if not legally required. We further believe there is a need to make clearer what the scope of implementation is to avoid confusion and potential under reporting by companies against certain standards by claims that these do not apply to them under the pretext of "sustainability-related risks and opportunities cannot reasonably be expected to affect assessment of EV".

We would like to commend ISSB for creating the framework for a global baseline in sustainability-related disclosures, linking such risk and opportunities to drivers of enterprise value and for embracing the architecture of the TCFD framework in the design of IFRS S1 and S2. ELFA further acknowledges the commitment to use existing industry-based investment materiality orientated standards such as SASB, which is in line with how ELFA have created its industry specific ESG Fact sheets.

We would however like to raise the risk of too narrow a focus if consideration was not also extended to alignment with other relevant existing and emerging internationally recognized global sustainability reporting standards (particularly those of the Global Reporting Initiative (GRI)) which provide a useful starting point for companies to identify sustainability risks and opportunities to evaluate. Thus, whilst the initial starting point is financial materiality ("single materiality"), it may be appropriate to broaden over time to capture sustainability materiality (the 'double materiality' concept) given its potential to also impact enterprise value (albeit in a less direct and less near-term manner).

More technical work would be needed to ensure alignment, but we believe evidencing the interplay between financial and sustainability information and materiality will be critical to the ultimate value of the standards, as well be more in line with EU standard setting bodies (EFRAG, EU CSRD proposal) and the SEC in the US to ensure coherence of reported sustainability information globally. In addition to this we encourage a more balanced consideration of opportunities and risk, with especially IFRS S2 focusing on the latter, as opportunities also impact enterprise value.

As investors in the leverage finance universe, we also note certain overall concerns with regards to the extent of the proposed baseline disclosure. Our investment universe spans from very small private company lenders in private debt to larger listed issuer of high yield debt. They are at many different stages of their sustainability journey and range in terms of having limited to meaningful resources to dedicate to sustainability management and reporting.



Whilst the standards should be adopted in its entirety by all companies as best practice, there may need to be some allowance in term of the proportionality principle, where for reasons of size, and possibly other factors associated with a company's particular economic activity and operations, it may not make sense. In such instances, the ISSB could consider differentiating between the content in the exposure drafts in which of what disclosure is considered "core" and "additional". Where implementation of "core" reporting requirements is the minimum, with companies having to "comply or explain" if reporting under certain "additional" sustainability matters were not possible or was not relevant to do. In this way, the ISSB would be balancing the proposed rulebased approach with an element of a principle-based approach.

In terms of the need for assurance / verification, whilst we recognize they can provide a level of confidence in the integrity of disclosure, again we are cognizant of the potential disproportionate cost on many companies in our investment universe. By differentiating the requirements of the standard in the way highlighted, the cost implication associated with assurance / verification could be reduced and split over the phasing-in timeline.

To promote harmonisation, we would also recommend clearer signposting to definitions and methodologies to avoid companies taking different approaches. For instance around definitions, better clarity of terms such as, but not limited to, "sustainability" (e.g. we believe in some regions, this is often framed more narrowly around environmental matters and excludes social and governance ones), "materiality" (e.g. recognition that whilst there may be some risks and opportunities common to all companies, some are context specific (e.g. linked to activity and geography) as well as being dynamic over time), and around timeframes what is considered "short", "medium" or "long term" (e.g. what one company's thinking of as the range of time to be "short" term may fall within another company's "medium" term and so on). With regards methodologies, clearer guidance would be helpful to enable comparability such as around estimates and assumptions.

In addition, we believe that clear guidelines on minimum requirements or method used for the impact / materiality assessment (i.e., what is the impact of the company's activities, and to what extent do these represent sustainability risks/opportunities) and disclosure of the criteria which the company applies in their materiality assessment would be useful. Furthermore, we would also like to ensure the scope of boundary does not lead to material exclusions of relevant sustainability information, not just at company level, but also in some instances at activity or asset level (if appropriate for materiality). We also propose risk management policies to ensure a set timeline (e.g., 3 years) for adoption of the materiality assessment, such that materiality doesn't change from year to year, and consistency and comparability is maintained.

We propose that IFRS S1 and S2 could be accompanied with practical examples to ensure greater clarity, reduce noise and judgement; and in addition, for the disclosure to clearly state where quantitative reporting is required as opposed to a minimum qualitative assessment.

Investors and issuers would like to see an analysis of the cost-benefit for implementing the IFRS S1 and S2, the likely one-off and ongoing compliance cost to reporting entities, including the impact on enterprise value for certain companies which are likely to incur a significant cost based on this, and the likely benefit to investors and other stakeholders (reference to question 16). A way to further incentivise companies to adopt the costs associated with additional disclosures could be to allow them to capitalise such costs.

Furthermore, better signposting of which data is most critical to report that is decision useful would help companies manage the data availability/quality issue, and so manage costs as well.

Specific comments with regards to IFRS S1 (general sustainability-related disclosures)

As described above we see a need to further explain the interconnection between the two (and potential additional) disclosure requirements. Depending on this it may be necessary to specify that the S1 refers to sustainability risk excluding climate. It could further be considered to classify risk and opportunities under E, S or G to facility stakeholder understanding and better engagement between companies and investors.

We would be happy to elaborate further on any of the points raised in this letter. For further information, please don't hesitate to get in touch.

Yours sincerely,

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Appendix of Member Firms

Aegon Asset Management
AlbaCore Capital
Alcentra
Allianz Global Investors
Allspring Global Investments
Amundi Asset Management
Angelo Gordon
Apollo
AXA
Bain Capital Credit
Barings Asset Management
BlackRock
Blackstone
Bluebay
Bridgepoint
Cairn Capital
Capital Four
CELF Advisors LLP, The Carlyle Group
Chenavari Investment Managers
Columbia Threadneedle Investments
CPPIB
Credit Suisse Asset Managment
CVC Credit Partners EU CLO Management LLP
Evli Fund Management
Federated Hermes
Fidelity
Five Arrows Managers
GoldenTree Asset Management
Guggenheim Partners
HPS Investment Partners UK
Insight Investment
Invesco
Janus Henderson
JPMorgan Asset Management
Kartesia
KKR
LFP Opportunity Loans/ Delff
M&G
Morgan Stanley Investment Management
Muzinich
MV Credit
Ninety One
Nuveen Investments
Oak Hill
Oaktree Capital
Palmer Square
Partners Group
Pemberton Asset Management
Permira Capital
PGIM
Pictet
Robeco Asset Management
Schroders Capital
SIG
Spire Partners LLP
Strategic Value Partners
T. Rowe Price
Tikehau
TwentyFour Asset Management
Voya Investment Management