

PRESS RELEASE

European Leveraged Finance Association reviews the continuing evolution of sustainability provisions in private debt agreements in its latest Insights report

London, 16th February 2023: The European Leveraged Finance Association (“ELFA”) today publishes its Insights report on the evolution of sustainability provisions in the private debt market.

Alongside summarising key developments in the European market, the report examines the development of ESG-linked loans and in particular sustainability-linked loans in the European leveraged loans market and compares the approaches of large-cap syndicated leveraged deals to private debt deals.

It also provides an analysis of the challenges faced by direct lenders in providing sustainability-linked loans and considers alternative ESG loan structures. The report summarises the key characteristics of sustainability-linked loans and the development of key contractual terms, and considers how direct lenders can mitigate the risk of sustainability washing in alternative loan structures.

ESG integration in private debt deals is comparatively nascent compared to the broadly syndicated market, but increased regulatory and investor demand have made it a top priority for the private debt market. Whilst comprehensive ESG data for this market is less readily available than for other asset classes, according to Debtwire, as of the first nine months of 2022, “ESG-linked private debt” accounted for at least 25.4 per cent of all private debt market transactions in Europe.¹

ELFA has charted the evolution of this trend in the private debt market in a series of reports published during 2021 and 2022 and most recently added a new chapter entitled “ESG in the Private Debt Markets” to the second edition of the Guide for Company Advisors to ESG Disclosure in Leveraged Finance Transactions.²

The Loan Market Association is currently in the process of updating the Sustainability Linked Loan Principles (SLLP) with revised versions expected to be published in later in 2023. Following publication of the revised SLLP by the LMA, ELFA intends to publish an update to this Insights report.

Sabrina Fox, CEO at ELFA, commented: “This comprehensive Insights report will support private debt market participants as ESG provisions and integration more broadly continue to evolve. The European leveraged finance market continues to see an increase in the integration of ESG factors in loan products, and our Insights reports on the topic can be useful for all sector participants to stay up to date with key developments.”

End

¹This is comparable to last year's data. See ESG ratchets become the new normal but mechanism suffers teething issues - Mid Market Chatter at <https://www.debtwire.com/intelligence/view/inteloms-sw27hs>

² <https://elfainvestors.com/publications/elfa-insights/?date=March+2022>, <https://elfainvestors.com/publications/elfa-insights/?date=October+2021> and <https://elfainvestors.com/publications/elfa-diligence/>

About ELFA

ELFA is a trade association comprised of European leveraged finance investors from over 60 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 ELFA's website: www.elfainvestors.com.