

PRESS RELEASE

European Leveraged Finance Association Launches Insights Report: “CLO Carbon and Climate Disclosures: Methods for Enhancing Transparency”

October 9 2023, London: The European Leveraged Finance Association (ELFA) is pleased to announce the release of its latest Insights Report, “CLO Carbon and Climate Disclosures: Methods for Enhancing Transparency.” This comprehensive paper addresses the pressing need for greater transparency and integration of Environmental, Social, and Governance (ESG) factors, particularly climate disclosures, within Collateralized Loan Obligations (CLOs). The report comes at a time when investor demand for ESG integration in CLOs has seen a significant surge over the past two years.

CLO managers are increasingly incorporating ESG factors into their investment processes, including negative screening, as a response to growing investor interest and regulatory developments. Climate disclosures within CLO transactions are poised to take centre stage, further intensifying the pressure on CLO managers to obtain greenhouse gas (GHG) emissions reporting and other relevant data from borrowers. Understanding emerging sources of climate-related credit risk and addressing them through active management is becoming paramount for CLOs.

Both European and US CLO asset managers have a vested interest in enhanced data transparency at the underlying borrower level and a consistent methodology for reporting GHG emissions at the portfolio level. The approach presented in this report is adaptable for implementation by CLO managers on both sides of the Atlantic. Uniform reporting standards would streamline deal and asset manager assessments, benefiting global CLO investors.

While the report primarily focuses on CLOs, CLO managers, and CLO investors, its findings are directly relevant to any type of loan fund, fund manager, and fund investor. Climate risks, although seemingly less material for CLO investors due to diversification and risk protections, remain an important consideration. Climate risk affects reporting and portfolio construction, and managers must actively address it.

Historically, CLOs have demonstrated lower default rates compared to similarly rated corporate bonds and loans. However, market credit spread movements and credit rating migration pose risks to CLO performance. For instance, regulatory compliance costs associated with climate and air emission policies can lead to rating downgrades in sectors like automotive, impacting CLOs. Capitalising on CLO market opportunities hinges on active management, including in-depth research on individual loans, underlying borrowers, and associated credit risks.

ELFA’s CEO Sabrina Fox, commented: “This Insights Report is a vital resource for CLO stakeholders and fund managers more broadly and underscores ELFA’s commitment to promoting transparency and efficiency in the leveraged finance market. Together with recent guidance for private companies and their lenders on climate disclosure published by The Initiative Climate International (iCI), which was supported by ELFA, these resources will support increased carbon reporting. This will allow companies that can demonstrate positive momentum in reducing emissions an opportunity to secure more favourable refinancing and loan terms as part of the low-carbon transition.”

For more information and to access the full report, please click [here](#).

Ends

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.