

ELFA Best Practice Guidance for the Reporting and Disclosures of CLO Transactions

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Executive Summary

The European Leveraged Finance Association is advocating for use of best practice to enhance disclosures in the reporting of CLO transactions in trustee reports. The publication identifies key data points that are essential for promoting transparency within the asset class and broadening the investor base.

To achieve this, there is a critical need for clarity and consistency in data reporting, particularly concerning data points such as Restructuring/Repayment Cash Reporting and Trading Gains and Par Flush. Although some essential data points are outlined in trustee reports, investors frequently encounter resistance in reporting practices, which undermine effective communication and hinder their ability to accurately assess the performance and creditworthiness of CLOs.

Addressing these gaps is vital for fostering greater trust and engagement among a wider range of investors. By ensuring comprehensive and detailed trustee reports, ELFA aims to enhance transparency, facilitate better investment decisions, and ultimately create a more efficient market.

Introduction

Addressing Data Transparency Gaps in CLO Trustee Reporting

ELFA's CLO Investor Committee has championed increased standardisation and enhanced transparency in the leveraged finance market since the inception of the committee in 2021. It has been observed that certain data points are omitted or are inconsistently reported in trustee reports, providing insufficient information for investors to evaluate the CLOs efficiently. Furthermore, the lack of clarity on these data points and low receptivity towards changing the existing reporting practices constrain liquidity by hindering investors' ability to accurately judge the creditworthiness and performance of the CLO.

By highlighting the data gaps, ELFA aims to drive the conversation around data disclosure, including the need to open trustee platforms that often restrict investors from accessing information they are entitled to as per the offering circular.

While certain metrics such as the cumulative percentage of par flushed over the life of the deal may already be reported, the required data exceeds what is currently provided. Additionally, indicators such as details about the trading plan and maturity amendments should also be included in these reports.

The Importance of Detailed Trustee Reports

To enhance transparency and facilitate better investment decisions, it is crucial that trustee reports provide comprehensive and detailed information. This means that trustee reports should not only include all relevant data points but also present them in a clear and consistent manner. Comprehensive reporting ensures that investors have access to all the necessary information to fully understand the performance and risks associated with their investments. Detailed information allows investors to delve deeper into specific aspects of the financial instrument, such as cash flows, credit quality, and investment strategies.

When trustee reports are thorough and meticulously detailed, they help to eliminate ambiguities and reduce the likelihood of misinterpretation. Investors can make more informed decisions when they have a complete picture of the performance of the assets they are invested in. This level of transparency builds trust between the trustees and the investors, fostering a more open and reliable investment environment.

Moreover, detailed trustee reports enable investors to compare different financial instruments more effectively. By standardising the data and ensuring consistency in reporting, investors can easily benchmark performance and identify trends across various investments. This comparability is essential for making strategic investment decisions and managing portfolios efficiently.

Description of Additional Data Points Required

ELFA recommends the inclusion of the following data points in the trustee reports (also known as the “monthly reports” and “payment date reports” with a special emphasis on data standardisation and consistency in reporting. While some of these data points may already be included in reports, they often require further granularity or uniformity in the reporting format to ensure clarity and usefulness for investors.

The table below details the key data points that ELFA recommends for inclusion in trustee reports, highlighting the critical need for standardisation and consistency in reporting. These data points are essential for offering a thorough and transparent view of the performance of CLOs. By ensuring that these data points are consistently and clearly reported, investors can gain a comprehensive understanding of the underlying assets, enabling them to make more informed and confident investment decisions. This approach not only enhances transparency but also fosters trust and reliability within the leveraged finance market.

Data point	Description	Issue to address
Trading/ investment gains and Par Flush	<ul style="list-style-type: none"> ▪ Trustee reports should explicitly show any transfers between the principal (or unused proceeds account) and the interest account in the relevant permitted period (which may be up to the first or second deal payment date in the case of a Par Flush) and whether such proceeds were transferred to the interest account in connection with a Par flush (either in the normal course or in connection with a refinancing in part) or as trading/ investment gains ▪ Trading gains statistics ▪ % of trading gains flushed during period (as a percentage of the target par amount or whatever metric is used in the relevant deal to provide the limit) ▪ Cumulative % of trading gains flushed over the life of the deal (vs limit in doc) (as a percentage of the target par amount or whatever metric is used in the relevant deal to provide the limit) ▪ Par flush ▪ % of par flush flushed during the relevant period and/or on the last refinancing in part (as a percentage of the target par amount or whatever metric is used in the relevant deal to provide the limit) ▪ Cumulative % of par flushed over the life of the deal (vs limit in doc)(as a percentage of the target par amount or whatever metric is used in the relevant deal to provide the limit) ▪ Amounts transferred during the relevant period to an Interest Reserve/Unused Proceeds Account and the balance thereof ▪ Balance of interest reserve account on closing date 	<p>Whilst there are negotiations between investors and managers regarding this point there is no explicit disclosure. Details of trading gains and par flush should all be displayed and available in a uniform format.</p>

Data point	Description	Issue to address
Trading plan	<ul style="list-style-type: none"> ▪ Details of any trading plan entered after the reinvestment period with details on the assets within that plan (prices, maturities, notional) and how the relevant plan was used to satisfy the post RP criteria on an aggregate basis ▪ A confirmation of how the trading plan conditions were satisfied 	CLO documentation includes tests that define the extension risk of a transaction, specifically compliance with the reinvestment criteria and post reinvestment criteria through trading plans. Despite this being a crucial point well detailed in the documentation there is currently no report disclosing such information. Investors should be provided with details on how the manager actually complies with CLO tests.
Repayment/ Restructuring and Cash reporting	<ul style="list-style-type: none"> ▪ Exit prices for any assets leaving the pool in the period, including repayments and restructurings. ▪ Any assumed future repayments that are classified as cash should be displayed in the repayments section ▪ Monthly reports should show cash balances on a traded and settled basis 	Investors should be allowed to tie back to any changes in asset par from one report to another. It is important to have information about restructurings and A&Es and clarity around linkage to cash, which are not reported.
Collateral IDs	<ul style="list-style-type: none"> ▪ Better reporting of ISINs, Loans and BBG ID for all trades, repayments, and prepayments 	Current reports show different security identifiers depending on the information provided or no ID at all in some instances making it difficult for investors to assess properly the risk in the loan pools and use the data in a consistent way. Loans identifiers such as ISINs, FIGI, Loan ID should be provided for all sections in the reports including trades, prepayments and asset information.
Long Dated Obligations and Maturity Amendments	<ul style="list-style-type: none"> ▪ Detail on long dated obligations current % (as measured against the target par amount or the denominator of the relevant limit) (where not included in the reports), plus individual loan details (IDs, plus corporate actions that resulted in extended maturity, specification of the current maturity date of the relevant asset) ▪ Details on assets that had a maturity amendment and whether WAL was satisfied at the time of the maturity amendment. If not, whether it falls within the bucket for amendments where the WAL test is failing or another carve-out (limit), what is the current % usage of any carve-out limits and is there a presence of snooze drag provision and details showing voting against or in favour 	Points clearly defined in CLO documentation that can impact extension risk of a transaction such as long dated obligations and maturity amendments should be detailed in the report including loan IDs, corporate actions that resulted in extended maturity, breach or compliance with WAL limits and voting details if present (snooze drag).

Data point	Description	Issue to address
Uptier Priming Debt	<ul style="list-style-type: none"> ▪ Current % (as measured against the target par amount or the denominator of the relevant limit) (where not included in the reports), and individual loan details IDs, etc (etc. to be elaborated) ▪ Details of the corporate action that led to creation of UPD, if permitted by relevant confidentiality restrictions 	When a restructuring takes place individual loan details including details on corporate action that led to the event should be provided in the reports together with limits when specified in the documentation. This is crucial for investors to fully assess the risk in the underlying collateral pool.
Credit Improved/Risk Obligations	<ul style="list-style-type: none"> ▪ If the manager has relied on one of these categories to trade, reporting on such assets the manager classified as credit improved and credit risk/impaired obligations and, if applicable at the time of the relevant trade, how was the credit improved or risk/impaired criteria satisfied in respect of the relevant asset 	<p>In transaction documentation there are defined criteria for credit improved/risk obligations and trading might be restricted depending on whether an obligation is labelled in a defined way. However, in current reporting there is no consistency on this type of obligation across trustees.</p> <p>Given criteria are defined, the reason for the specific label should also be available to investors.</p>
Post Reinvestment Period Tests	<ul style="list-style-type: none"> ▪ If the post reinvestment period criteria contains one-touch WAL or WARF, whether the WAL/WARF tests were satisfied at the end of the reinvestment period 	As the market has evolved from the “maintained and improved” or “hard pass” tests specifically regarding reinvestments after the reinvestment period, having clarity of the outcome for “one touch” tests are important to investors. This data point should be available and easy to disclose for CLO Managers.

Conclusion:

This report highlights best practices in the reporting and disclosure of CLO transactions, focusing on key data points that should be included in trustee reports to enhance data transparency and standardisation. Emphasising uniformity in the reporting format is crucial for improving data comparability. Additionally, we address issues with specific data points such as par flush and uptier priming debt, where current practices fall short in providing investors with a clear picture. ELFA advocates for the adoption of these best practices and aims to further drive the discussion on the necessity of opening trustee platforms.

About the ELFA:

The European Leveraged Finance Association (ELFA) is a buy-side-only trade association comprised of European investors and non-bank lenders in the high-yield, leveraged loan, CLO and private debt markets. Its membership consists of more than 60 institutional fixed income managers, including investment advisors, insurance corporates, CLO managers and pension funds. ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its community by promoting transparency, improving standards and facilitating engagement among leveraged finance market participants. For more information please visit ELFA's website: www.elfainvestors.com.

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