

# PRESS RELEASE

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## European Leveraged Finance Association Supports Engagement on ESG Provisions in Leveraged Loans and High Yield Bonds with New Disclosure Questionnaires

- **Questionnaires created in response to investor needs for greater transparency on ESG provisions in deal documentation**

**London, 15 November 2021:** The European Leveraged Finance Association (ELFA) is today publishing new questionnaires on ESG provisions in both [leveraged loans](#) and [high yield bonds](#) in response to demand from investors for greater transparency on the key aspects of these terms. The tools form part of ELFA's New Deal Disclosure Questionnaire Series.

Following engagement with investors in a collaborative effort between ELFA's ESG Committee and Disclosure & Transparency Committee, the need need for resources to support stronger engagement between borrowers and lenders on ESG provisions in fixed income instruments was clear.

In a recent ELFA [survey](#) on ESG provisions in leveraged finance documents, 96% of respondents agreed that a standardised questionnaire would support discussions with borrowers about provisions in green, sustainability and ESG-linked products. In response to this feedback, and following engagement with members and the wider industry, ELFA created the new questionnaires – one for leveraged loans and one for high yield bonds.

**Sabrina Fox, Chief Executive Officer, European Leveraged Finance Association, commented:** “The nature of a borrower's ESG provisions has become a key aspect of credit analysis in European leveraged finance deals. Provisions are still largely bespoke, and the market lacks consensus on the format of disclosure. The ESG Provisions in High Yield Bonds Questionnaire and ESG Provisions in Leveraged Loans Questionnaire are part of our New Deal Disclosure Questionnaire Series. The questionnaires are designed to support investor diligence and engagement with borrowers, addressing the risk of greenwashing reflected in such provisions.”

Each questionnaire outlines key topics under three main pillars – Sustainable Performance Targets (SPTs), Reporting, and the structure of ESG provisions in bonds or the structure of the ESG margin ratchet in loans.

- **SPTs:** questions include details of what these are, timings for assessment, the base year, strategic initiatives to achieve the SPT, how it compares to regulation set targets, second-party verification and the longer-term goals related to the SPT.
- **Reporting:** questions cover whether this is required and the frequency, covenants related to SPT disclosure and reporting and the consequences for no disclosure or reporting.
- **Structure of the ESG provision in the bond:** for high yield bonds, questions focus on the coupon step up, timings, and whether this is material, if the bond is callable pre-SPT date and the related cost, and how many SPTs trigger a move.
- **Structure of the ESG margin ratchet in the loan:** for leveraged loans, questions focus on when the margin ratchet applies, if the discount accumulates over time, what the coupon step-ups/discounts are and how many SPTs should be achieved or missed to trigger a move. An additional section also inquires about how savings from a margin discount relating to the ESG margin ratchet will be applied.

The New Deal Disclosure Questionnaire Series aims to help align market expectations about the topics that investors expect to cover with borrowers and their advisers during the roadshow. The questionnaires are intended to serve as a starting point for important discussions between borrowers and investors regarding provisions, but are not intended to replace either customised investor ESG due diligence or analysis of the material ESG risks that a company faces, which ELFA's [ESG Fact Sheets](#) are designed to facilitate.

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**About ELFA**

ELFA is a trade association comprised of European leveraged finance investors from over 50 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. For more information, please visit the ELFA website: [www.elfainvestors.com](http://www.elfainvestors.com).