ESG IN PRIVATE DEBT ISSUANCE -

DOCUMENTATION STANDARDS TODAY AND THE ROAD AHEAD

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ESG IN DEBT ISSUNACE PROCESS - OBSERVATIONS

- ESG Data is typically absent from initial due diligence packages

- Winning a debt financing mandate is a competitive process (often among various debt providers such as private credit funds and banks) – ESG element not (yet) essential for winning

- ESG questionnaires / assessments of private debt providers are bespoke / non-standardized

- Decisive ESG benefits for borrower are not obvious / tangible
  - ➢ minimal margin reduction benefits
  - ➢ exposure to greenwashing allegation / reputational risks

ESG IN DEBT ISSUNACE DOCUMENTATION

- At initial funding only agreement to introduce ESG clauses at a later point in time

- (Later introduced) ESC clauses may have impact on

  - Margin and commitment fees (usually 100% lender consent required to modify) – ESG ratchet up to 25bps margin reduction linked to 2-3 KPIs
  - Reporting (additional reporting on agreed KPIs)
  - Events of default
  - Administrative: Sustainability Structuring Agent or ESG Coordinator

ESG IN DEBT ISSUNACE DOCUMENTATION (CONT.)

- KPI selection

  - Dependent on track-record of borrower group
  - E.g. GHG emission reduction, waste reduction, equal pay
  - Benchmark to Paris Agreement 1.5 degrees target (complex to calculate – reliance on science based external review)
  - To limited extend performance vs. industry benchmarks (e.g. real estate)

- External review and / or certification