

FUND FINANCE FRIDAY

ESG Reporting and Disclosures: Making Industry Progress

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By Leah Edelboim
Special Counsel | Fund Finance

Our focus on ESG in honor of Earth Day continues, and here we focus on reliable ESG data disclosure. There are several big projects underway to help lenders to see a greater level of consistency and depth in the ESG reporting information that borrowers produce.

Back in June of 2021, the LSTA produced an updated version of its ESG Due Diligence Questionnaire for Borrowers. The updates were largely in response to demands for better and more comprehensive quantitative data in ESG reporting. To further aid lenders in ESG transactions, last week the LSTA published an Excel version of this document. The LSTA designed this document, which has been widely adopted, to be a general and flexible document that is intended to be useful for a variety of borrowers and for a wide variety of situations. It can be used for initial discussions between a lender and a borrower as well as for reporting in a live deal. In addition, borrowers in various industries and at varying levels of sophistication with respect to ESG practices can utilize this document.

Despite very useful tools like the LSTA's questionnaire, ESG reporting remains in its infancy in many respects. Regulators, investors, and other constituents are demanding better and more and more sophisticated quantitative ESG reporting, and they want that information to be reliable and comparable. To that end, the LSTA, the Alternative Credit Counsel, and PRI have collaborated to launch an ambitious "harmonization project," which seeks to develop a comprehensive ESG reporting tool for borrowers that will be useful to lenders in a variety of transactions.

This ambitious undertaking is being touted as good for lenders, borrowers, managers and investors. The goal of this new tool is for lenders, managers and investors to receive consistent data from borrowers of all types. This more standardized reporting tool will also benefit borrowers because a standardized questionnaire will allow borrowers to focus on reporting information in a consistent format rather than having to complete similar, but still different, questionnaires in different transactions.