How Should We Think About Debt Capital Markets Today? 
ESG’s Effect On DCM

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ABSTRACT

This is the first time in history the leveraged finance (“LevFin”) market alone reached a record high of $3 trillion in 2021. This segment of the debt capital markets (“DCM”) has experienced an astounding rise. There are many factors affecting LevFin and the overall DCM today, and one of the most imperative is the application and effect of ESG principles—environmental, social and governance—in DCM. Those principles are among the ones addressed at the recent COP26 conference and are reflected in the introduction of ESG principles in DCM deals since the issuance of Italy’s Enel through its Dutch subsidiary Enel International NV. This Company issued the world’s first sustainability-linked bond in 2019 for $1.5 billion tied to the UN’s sustainable development goals, and given the introduction of ESG-linked debt issuance and sustainability language in many DCM deals.

KEY FINDINGS

• The leveraged finance markets have outperformed for the first time in history; ESG should compel us to think differently about the debt capital markets.

• Europe has been leading the way in ESG-linked debt, the US has yet to catch up, but ESG-linked debt is becoming a global phenomenon.

• ESG-linked debt has led to emerging trends in the DCM resulting in new structures, green finance growth, ESG CLOs and increasing regulations.

The US leveraged finance (“LevFin”) market alone reached a record high at $3 trillion in 2021. This is the first time in history this segment of the debt capital markets has experienced such an astounding rise in LevFin and other segments of DCM have performed well overall too (but with Asia deal volume growth lagging in 2021). There are many factors affecting LevFin and the overall DCM today, and one of the most imperative is the application and effect of ESG, (defined as addressing environmental, social, or corporate governance issues and generally as evaluating companies on how far they have achieved sustainability through the specific issues criteria), environmental, social and governance criteria in DCM. The question being contemplated is should climate change and other such ESG issues compel us to think differently about the DCM? It is a question that is tied to the recent COP26 conference as well, but more so it’s related to what’s been happening with the introduction of ESG in DCM deals since the issuance of Italy’s Enel (OTCMKTS:ENLAY) through its Dutch subsidiary Enel International NV. The Dutch subsidiary issued the world’s first sustainability-linked bond in 2019 for $1.5 billion tied to the UN’s sustainable development goals (“SDGs”). The UN’s 17 SDGs are global
goals or a set of principles created to achieve a more sustainable future. They were established in 2015 by the UN General Assembly and to be achieved by 2030. They are often used in ESG-linked debt issuances as part of sustainability language and goals. The DCM, bonds and loans, and the LevFin market, leverage loans and high yield bonds, have all been exposed to ESG now, though the notion is still nascent and developing. How ESG principles will further develop remains uncertain.

With rising investor demand for ESG-linked debt, debt issuance linked to ESG metrics has also accelerated at an unparalleled rate in 2021. The Institute of International Finance states that issuance of green, sustainability, and sustainability-linked bonds is on track to exceed $1 trillion for 2021. Sustainability and green debt sales more than doubled year on year to $680 billion. Such issuance in 2021 is already close to full year 2020 of $700 billion, as of September 2021.

ESG criteria has been heavily utilized in the LevFin market as shown by the prevalence of green bonds, sustainability-linked bonds, sustainability-linked loans, and ESG ratchet features in financings. Additionally, major private equity (“PE”) firms are adding ESG to their funding strategies. Examples of the types of debt financings that apply ESG criteria include the following:

**Green Bonds.** Green bonds are issued by governments, supranational orgs, and companies to finance environmental and climate projects exclusively. These are typically asset-linked, supported by the issuing entity’s balance sheet, and include tax incentives (most likely projects involve renewable energy, green buildings, sustainable agriculture, clean transportation and clean water).

**Sustainability-Linked Bonds (“SLBs”).** Sustainability-linked bonds allow firms to raise money for general corporate purposes. They link the coupon to the issuer’s sustainability performance, though there is no restriction on how the proceeds can be used. This distinguishes them from green bonds or social bonds, while promising investors that if they don’t meet the sustainability targets set, they will pay investors extra, thus paying a higher cost of debt.

**Sustainability-Linked Loans (“SLLs”).** Sustainability-linked loans aim to facilitate and support environmentally and socially sustainable economic activity and growth. Performance of the borrower is measured against ESG-related key performance indicators (“KPIs”), with that performance triggering certain outcomes (margin adjustment or other), not the use of proceeds or the projects financed.

**ESG Ratchets.** ESG ratchets are a form of pricing incentive. They use a margin adjustment mechanism which is built around certain criteria and the borrower’s performance will result in either an increase or reduction to the margin based on the criteria. KPI negotiations are instrumental here. Typically, ESG ratchets appear in loans to businesses that are interested in improving their ESG credentials rather than loans with a green or social purpose. Many of the

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1 Leveraged loans are loans made by banks or other financial institutions to companies who often use them to refinance their debt, fund mergers and acquisitions, or finance projects, and there has been a lot of this going on in the very recent years, driven largely by increased mergers and acquisitions activity.
KPIs used are related to environmental targets. Examples of target areas include greenhouse gas emissions reduction, renewable energy, biodiversity protection, patient outreach, waste reduction, water consumption, gender diversity, and training initiatives.

The overall market sentiment has changed with the introduction of a high volume of ESG-linked deals. The popularity of ESG-themes extends to the equity markets as well, and is reflected in the increasing rate at which issuers and lenders are engaging in such deals. It is no longer a game of just returns without a societal conscious when debt securities are being utilized with ESG criteria or it’s a way to further enhance profits, and the societal conscious is an inevitable outcome. The use of these structures, including green bond, SLBs, SLLs, and ESG ratchets have created a proliferation across the DCM, at least to the extent where such financings are becoming necessary to effect ESG criteria and vice versa. This really originated from Europe. The proliferation may not be completely widespread yet, Europe and the US are experiencing the vast majority of it (other regions such as emerging markets, Asia, and the Middle East are still undergoing ESG-linked debt financings, but are not that far behind) nevertheless, it is trending towards shaping the DCM and the LevFin markets globally.

ESG, A EUROPEAN TREND & OTHER TRENDS:

ESG in the DCM is seemingly a European trend, as ESG-linked debt’s first issues originated in Europe and so the European LevFin market is worth following as it is still quite dominant there and many standards for ESG have originated there. Recent data indicates that European leveraged loans increased by 11% to €227 billion year on year, and the high-yield bond market was up 10% to €100 billion as of year-end 2020. According to Standard & Poor’s, in the European leveraged loan market, the volume of term loans completed with margin ratchets linked to ESG criteria or with ESG-linked features dramatically increased in 2021, exceeding €18 billion by August 2021. The short list of the early issuers of ESG linked-debt in this nascent and developing ESG market include: Enel, Suzano, Novartis, Tesco, TotalEnergies, and Svenskt Stål AB (“SSAB”).

There are five key reasons or triggers that explain why ESG-linked debt has become a factor in DCM.

**Favorable pricing.** The first reason is favorable pricing on debt. Issuance of bonds with sustainability-linked pricing ratchets increased nearly 4 times, year on year in the first six months of 2021 to $160 billion, according to the Institute of International Finance. Another Enel issue, raised €3.9 billion in capital across three tranches with each bond tranche linked to greenhouse gas emissions targets, and coupons increasing by 25 basis points if Enel’s emissions exceed the agreed thresholds. This is the largest sustainability-linked issue since the origination of ESG-linked debt, with the exception of a $1.8 billion issue from Swiss pharmaceutical company Novartis. Noticeably, similar type of pricing conditions were agreed upon with the first Enel issue in 2019 (increasing by 25 basis points on a five year term bond with a 2.6% coupon if KPIs were not met) as well. Some others to take note of are France’s TotalEnergies, a multinational energy company in oil and gas, linked to climate emissions KPIs, and Swedish company SSAB, the first fossil fuel-free steel producer, linked to greenhouse gas emissions. In January 2021, the UK’s Tesco was the first business globally to set a zero-carbon goal in 2009. Its £750 million bond with a 0.375% coupon offers an 8.5-year maturity, and is linked to the Company’s
commitment to reduce greenhouse gas emissions. It is the first bond of its kind to be issued by a retailer. Lastly, Suzano, a Brazilian pulp and paper company through its’ Austrian subsidiary, Suzano Austria, initially issued $750 million in September 2020, which was 8 times oversubscribed, and then 2 months later issued a further $500 million at 3.1% for a 10-year bond issued by a Brazilian company, which achieved the lowest yield ever. This bond is tied to the UN SDG principle 13 – climate change. With this sustainability-linked bond, Suzano has committed to reducing its greenhouse gas emissions intensity by 15% by 2030. If it is not on track by 2025 to achieve this target, there will be a one-time coupon step-up of 25 basis points. The use of proceeds for this bond were used to fund parallel tender offers to purchase outstanding notes from Suzano’s subsidiaries. This is an example of an issue leading the commitment towards ESG in the DCM.

**Broader Investor-Base.** Attracting a broader investor-base is the second reason that explains why ESG has become a factor in DCM. With the growth in global ESG debt activity as well, it has also been supported by the fact that ESG and sustainability-linked financings can be used for various corporate purposes and are based on specific ESG targets, leading to rising demand from diverse investors. This is in contrast to green bonds, where the use of proceeds is linked to qualifying green projects. As a result, this has opened the market to a broader number of issuers, who can raise ESG-linked finance based on their overall ESG performance rather than a limited set of green projects, and investors.

**Global Growth.** The third reason is global growth. Global growth is another key trend that is evident in ESG debt across various regions, but in some more than others. European and US issuers have accounted for the vast majority of the ESG-linked issuance, while the International Institute of Finance calculated that emerging markets only represents 15% of this activity. As of September 2021, “in Asia the pipeline for the rest of the year is strong with Japanese real estate group Mori Hills, Chinese real estate company Minmetals Land and India’s Adani Electricity Mumbai all reportedly are preparing to bring Sustainable and Green Bonds to market.” (White & Case 9/2021)

**Change In Ideology.** Changing ideology is a fourth reason for why ESG has become a factor in DCM. It is reflected in the substantial increase in issuance of ESG-linked debt among the many market segments of the DCM (and in the equity capital markets), though still mostly in Europe. Also, governmental priorities have shifted due to COVID-19, and this has brought attention to the capital markets with the use of ESG criteria and ESG-linked debt. Previously debt deals were based solely on economic reasons and creditworthiness, unlike borrower’s meeting certain KPIs related to ESG concerns, affecting pricing on the loan. This is not to say that creditworthiness is not of importance now, rather any steps to mitigate “greenwashing” are further supported as part of the change in ideology more so now. There are many regulatory parameters and standards being created to manage and guide ESG-linked debt and this in itself is altering the DCM as well, how transactions are structured, marketed and executed.

**Structuring Innovation.** Structuring innovation is a fifth reason for why ESG has become a factor in DCM. The market has produced innovative and permissive (with the use of covenant-lite term and market-flex) structuring options for implementing ESG principles as well. In the LevFin market, in particular, borrowers are insistent on improving the ESG issues but this comes with close monitoring due to “greenwashing.” “White & Case research shows that 84% of
ESG-linked debt deals have used KPIs as the benchmark for margin ratchets, with only a limited number opting for ESG scores or a blend of KPIs and ESG score metrics.” (White & Case 12/2021) There is leeway with structuring transactions, there is also heightened scrutiny, with leveraged-loan investors demanding ratings agencies to be involved. Investors also may demand third-party verification of compliance with key terms. In addition to reassessing verification, lenders are also considering ways to ensure that ESG-linked margin ratchets are high enough to motivate borrowers to make significant changes to borrower behavior. This is indicative of how lenders want to confirm that margin discounts are changing behavior in the right way, rather than investors gaming the market to take advantage of “greenium” pricing (i.e., when a bond receives favorable pricing because of environmental considerations). “Leveraged finance investors are also looking at whether ESG-linked discounts deliver value for money and are an effective tool for changing lender behavior. Rather than just considering their own costs, these investors are exploring whether increasing step-ups (the increments at which interest rate margins drop or increase as borrowers hit or miss KPIs) will have greater impact.” (White & Case 12/2021)

**SUSTAINABILITY REGULATORY FRAMEWORK:**

The question raised of how we should think about the debt capital markets in connection with ESG issues affects all the market participants in the DCM (originating from affecting investment manager participants), and it also relates to the many capital markets products and structures related to ESG-linked debt financings and some others. An exhaustive and detailed list of the regulatory initiatives in the US, EU, UK, and Hong Kong is provided by Sullivan & Cromwell (2021), and the essential standards are led by the European Union to create standardization across the market. The EU’s “Sustainable Finance Disclosure Regulation” or SFDR\(^2\) which came to be in December 2019 is split into two levels, I and II; from January 2022, Level II will necessitate periodic reporting on environmental and social characteristics and sustainable investment objectives and advisory processes. This is part of the EU’s grand action plan on sustainable finance which came to be in March 2018, just before the COVID19 pandemic, with the goal of financing sustainable growth and the rules around it. Along with this is the “EU Taxonomy” regulation\(^3\) with the goal of classifying a list of environmentally sustainable economic activities which businesses and investors in the European market must follow to identify to what extent economic activities can be considered environmentally sustainable is also coming into effect. The purpose of the Taxonomy is for the EU to achieve its climate and energy targets by 2030 by directing investments towards sustainable projects and activities. Another part of the EU’s framework is the “EU Green Bond Standard”\(^4\) established out of the “European Green Deal Investment Plan”\(^5\). It promotes green capital flows to green investments since 2020 and still proposes four key requirements (taxonomy alignment, transparency, external review, and supervision) and for how companies and public authorities can use green bonds to raise funds in the capital markets to finance ambitious large-scale

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\(^4\) EU Green Bond Standard, December 2019, European Commission

\(^5\) European Green Deal Investment Plan, January 2020, European Commission
investments, while meeting tough sustainability requirements and protecting investors. The European Green Deal Investment Plan is the EU’s response to climate change and environmental issues. Another pillar and, more specifically, a pillar of the Green Deal Investment Plan is the “Sustainable Europe Investment Plan” which speaks to “a sustainable Europe requiring significant investment effort across all sectors of the economy.”

The currently proposed CSRD or “Corporate Sustainability Reporting Directive”\(^7\) may introduce more involved guidance on how large companies operating in the EU unveil sustainability risks and impact from operations. “CSRD seeks to mandate sustainability reporting and assurance through the amendment of existing EU laws, including the Transparency Directive, the Accounting Directive, and the Audit Directive.” (Lynn & Oryszczuk, 12/18/2021) It puts the EU closer to its goal of sustainability with reporting being on par with financial reporting, and will apply to all large EU companies, all listed companies, including SMEs, and the scope includes about 49,000 companies covered thus far. The scope and extent of CSRD is broader than many of the other EU regulations. How all this may result in broader implications globally is currently uncertain as well, especially, if there is a contagion effect.

In the US there are various regulatory entities and related-entities, including the SEC, Nasdaq, NYSE and others with initiatives in process related to requiring regulatory reporting measures for ESG-linked debt regarding disclosure, increasing board diversity, and disclosing ESG-metrics by companies (including the President’s Administration’s commitment through its initiatives). In relation to ESG, “one of the other important question’s facing the DCM is how the structures, documentation, practice and regulation associated with the issuance of debt securities should be amended to combat climate change and challenge other ESG concerns.” (Tobin, Nassiri, Phillips, & Phillips, 2021) According to another Standard & Poor’s report (Flitman, 2021), there is practical guidance such as “Best Practice Guide to Sustainability Linked Leveraged Loans,” from the Loan Market Association (LMA) and the European Leveraged Finance Association (ELFA) as of July 2021, (Flitman, 2021) which aims to further clarify and organize ESG-related issuance. It is believed that “these guidelines are likely to have the greatest impact on the issuance of ESG-related debt over the coming few months, and will provide best-practice guidance on the selection, disclosure, calibration and reporting of the KPIs or sustainability performance targets to which ESG margin ratchets are linked.” (Flitman, 2021)

As the range of ESG-linked financing options have expanded beyond green bonds (green loans are utilized as well, more so widely by developing countries, and with different nuances than green bonds), the question of regulatory standards is being examined more seriously. In the US, there is also an ESG Disclosure Law regarding corporate issuance of green bonds, sustainability bonds and sustainability-linked bonds or loans requiring public companies to disclose ESG metrics being proposed by the US House of Representatives as of June 2021. The opponents of this legislation believe that “the passage of the ESG Disclosure Simplification Act

\(^6\) The Sustainable Europe Investment Plan”, January 2020, European Commission

of 2021\textsuperscript{8} by the US House of Representatives in June underscores the Biden Administration’s focus on policies related to climate change, underrepresented groups and governing corporate America. Legislators indicated the action is in response to investor reports that voluntary disclosure of ESG metrics is inadequate.” (Chike-Obi, Finnegan and Taylor, 7/13/2021) Will this regulation be beneficial? The proponents of the legislation believe that “ESG bond issuers already have to track, monitor and report on the use of proceeds and progress on sustainability targets, with increasing demand for third-party verifications, so standardized reporting would enhance credibility with ESG investors.” (Chike-Obi, Finnegan and Taylor, 7/13/2021) The SEC has not yet issued the rules required by this legislation, so currently it is uncertain what the costs associated may be and whether they would exceed the estimated thresholds.

Turning back to the markets level, regulation combined with the trends effected by the utilization of ESG criteria in the DCM has led to developing ESG capital markets, and though the focus is the LevFin market for our purposes, there has also been an effect on collateralized loan obligations (“CLOs”), another segment known as ESG CLOs. They have been in the limelight significantly on the discussion of ESG and the DCM, and I will discuss them as well in relation to ESG.

**EVOLVING CAPITAL MARKETS:**

Some key developments that are occurring in ESG and capital markets in connection with the DCM today are related to new structures of ESG-linked debt, ESG CLOs, green finance growth, and regulation being introduced and used as a policy-tool for capital markets. The evolution has been taking place since the pandemic or just before, and it is important to keep in mind that it is nascent and developing, unlike socially responsible investing (SRI).

**New Structures:**

ESG linked-debt is apparent across non-investment grade and investment-grade fixed income, particularly in Europe, and there are still some new structures yet to emerge that are being discussed. Currently these include certain issuance types seen in the investment-grade segment such as Climate Resilience Bonds, Forest Bonds, Social Inclusion Bonds, or even Pandemic Bonds. Since late 2020, Credit Agricole Group (and a number of other banks in the ESG-linked debt) has engaged in an ESG strategy and executed several ESG-linked debt instruments and claim to be at the forefront with projects involving ESG-linked bond and loan structures. These have historically included sovereign green bonds, transition bonds, green convertible bonds, sustainability-linked bonds, sustainable development bonds, green loans aligned with taxonomy, social impact funds, social bonds and other ESG projects. With the creation of new structures, banks also have to be more careful of “greenwashing”, occurring often with ESG-linked debt. Issuers overstating their green credentials for better financing terms has become an increasing concern by investors and there is a demand for further transparency from borrowers. In the LevFin market (with regards to high-yield bonds, which can include SLBs, green, social or sustainable bonds, and leveraged loans, which can include ESG-linked margin ratchets), the introduction of ESG provisions linking a borrower’s performance on ESG issues are increasingly appearing and have impacted this market segment greatly. An example in

\textsuperscript{8} H.R. 1187, Disclosure Simplification Act of 2021, June 2021, US Congressional Budget Office
relation to structures is also the “coupon step-up’s” being implemented if certain Sustainable Performance Targets (“SPTs”) are not met at issuance (in a July 2021 ELFA survey 75% of respondents believed that 25 bps for step ups is not high enough), and another to mention are covenant-lite structures, devoid of maintenance covenants⁹, and with all the bells and whistles, the lender protections and borrower beneficial terms, that come along with structuring ESG-linked debt in leveraged loans (“covenant-lite loans are still a feature of leveraged loans and in 2018 the volume of such structures reached its highest levels”). (ELFA, 2021) Another provision appearing in the LevFin market, in high yield bonds are the use of “greeniums”. Some believe that if the structures are credible than greeniums are justified in SLBs and green sustainable bonds, while a smaller percentage believe they are not in SLBs.

CLOS AND ESG:

There is an emerging trend that is gaining attention in the capital markets, CLOs are focusing on ESG criteria and issues, with CLOs being the largest buyers of leveraged loans. “In an April 2021 report, Citigroup Inc. stated that 20–40% of U.S. collateralized loan obligation managers will incorporate ESG factors into new issue CLOs in 2022 and 2023, propelled by growing demand from investors.” (Joshi & Lau, 11/5/2021) To accommodate SFDR, many fund managers in Europe, Asia-Pacific, and the US in particular have altered their investment strategies to address ESG issues and others have launched new funds. “Also, about 44% of outstanding European CLOs now include the ESG criteria; the US CLOs are still lagging behind on this market segment with ESG, but they are catching up with joining this trend.” (Joshi & Lau, 11/15/2021) As the capital markets evolve further, it is also expected that ESG CLOs will focus more on sectors such as renewables, infrastructure, and clean energy – sustainable sectors.

Green Finance Growth:

Green finance is any structured financial activity that’s been created to ensure a better environmental outcome, including an array of loans, debt mechanisms and investments that are used to encourage the development of green projects or minimize the impact on the climate of more regular projects, or a combination of both. It is widespread through the use of green bonds in the US and globally (the US, China and France are credited to be the three biggest issuers of green bonds). The imminent green bond market could be worth $2.3 trillion by 2023. Green bonds are obviously not the only debt instruments contributing to this growth, but the ones thriving tremendously. Particularly in the fixed income market, green finance products are attracting international interest as well. The idea is that funding sustainable development since the Pandemic has become a higher priority for the public sector, and for the corporate sector along the way as a result of the global agenda. However, given the UN’s SDGs, green financing has always had a key role to play in meeting its goals and thus the DCM can be an instrumental market access to meet these goals. The green bond’s “use of proceeds” is the key feature defining it and projects have included renewable energy, energy efficiency, natural resources, pollution prevention, and some others.

⁹ Covenants by an Obligor to comply with one or more financial covenants during each reporting period; requires the borrower to maintain a certain level of activity.
Regulation as a Policy-Tool for Capital Markets:

It’s become routine and will be more so that regulation plays a crucial role in shaping capital markets and its market participants with ESG and ESG-linked debt. With the abundance of regulatory initiatives in process regarding ESG and ESG-linked debt and other areas of the financial markets, and with the establishment of standards from the EU and other entities, issuance and execution of various ESG-linked debt will be dictated by these initiatives in process. The current administration has a set agenda as well related to the environment/climate change and other ESG-related goals, and on the markets level regulation is being implemented and presented as a policy tool to achieve its’ goals which coincide with ESG criteria and the debt capital markets. However, given President Biden’s current approval ratings, things could change if the current administration is no longer in power, but will the agenda for ESG really change drastically with all stakeholders recognizing the principles tied to ESG are important and instrumental in furthering the DCM activity with investors? In the US the ESG Disclosure bill which is being evaluated and its outcome may be an indicator; in the EU the amount of capital that can be mobilized towards ESG and climate change may be an indicator or if further laws are enacted on this topic.

In looking at one other element of regulation, Tobin and et al, makes the point that “there are some investors who accept that climate change and ESG issues do not represent a financial risk (or impact creditworthiness) for some issuers”, but I suggest there is always an element of financial risk inherent in the debt securities transaction occurring and a borrower and lender relationship being present, despite the issuers and goals of mitigating ESG concerns. I do agree that disclosure as usual is a good risk mitigating factor in documentation as it relates to ESG-linked debt, issuers and any challenges that may be evident. It should also be noted that the LSTA has issued many reviews of the regulatory environment as it relates to ESG-linked debt. Overall, the capital markets are now affected with immense regulatory nuances as it relates to the ESG effect on the DCM.

CONCLUSION:

So far, my research on this subject has produced subjective viewpoints, but with historical synopsis from the varying ESG and ESG-linked debt experts. Some of the undeniable facts remain that ESG criteria is becoming a rapidly growing phenomenon in the DCM and other areas of the financial markets, evidenced by the issuance numbers, trends, regulatory requirements and much more. It is changing the way traditional DCM issues were structured, marketed, and executed in the various segments of the DCM. I agree that the COVID 19 pandemic has shifted governmental priorities, but I believe that ESG’s arrival is timely in the capital markets, though it may have occurred regardless due to the market dynamics, the trends in capital markets, and eventual evolution from SRI or the UN’s SDGs, maybe just not as quickly as it is occurring now and with not so much attention. The regulatory framework is a byproduct of the ESG criteria (except when you think about the EU’s Green Deal Investment Plan) originating from the EU’s sustainable finance package to the US’s regulatory initiatives and regulatory developments to prevent the climate challenges and curb others we are facing today and ahead. So how should we think about DCM today? ESG-linked debt presents attractive outcomes for borrowers, lenders, and all stakeholders involved with inherent societal results tied to ESG criteria which have been positive and beneficial thus far. Hopefully, there is
no compromise on earning significantly less, or lower returns due to shifting priorities to apply and promote the ESG criteria in the DCM. It should be balanced with all stakeholders’ interests for the ESG movement to last.

Exhibit 1 - Data through August 31, 2021 from LCD - “The step-up in ESG-linked issuance reflects a general increase in activity across non-investment-grade capital markets this year. In the leveraged loan market, the total issuance volume stood at €95.59 billion to the end of August — well above €47.35 billion recorded in the same period in 2020, and highest tally for the first eight months of a year since 2007.”
Global issuance of SSLs surpassed SLBs as of YTD 2021 as they come with no restrictions on how the proceeds can be used and have been typically utilized in a broader range of sectors.

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