Coordinating outfit

ESG advisors are gaining traction in the securitisation market, as sustainability becomes an ever-more import consideration for investors and issuers. **Angela Sharda** investigates what the role entails.

As sustainability becomes an ever-more important consideration for securitisation investors and issuers, the role of the ESG advisor on transactions is gaining traction. Not only do they assist issuers in understanding applicable risks and regulatory frameworks, but they also help clients align with investor requirements in a number of areas.

"The ESG advisor for securitisations makes sure there is coordination between various parties – ensuring consistency with market standards and understanding investor requirements. While this is relevant for all transactions, its extent depends on how far the issuer has progressed with the implementation of their own ESG strategy," explains Emile Boustani, director of asset-backed products at Societe Generale.

The role of an ESG advisor is similar to the way in which issuers get advice from arrangers on how to market a transaction. In particular, an ESG advisor should have an in-depth understanding of the environmental, social and governance risks and implications relevant for a transaction, to help the issuer align with investor requirements in these areas.

Securitisation issuers are already confronted with a number of regulatory requirements under the Securitisation Regulation. If they choose to issue an ESG or green deal, the amount of regulation that they are directly and indirectly (via investors) faced with almost doubles. However, incorporating an ESG adviser can help them navigate through all these additional issues, especially in the case of first-time ESG securitisation issuers.

The concept of an ESG advisor is becoming increasingly popular and some market participants believe that there aren't any instances where an ESG adviser isn't required.

Rabobank claims that in its experience – which goes back to structuring the first European ▶

Margot d'Ancona Roesink, Rabobank

green securitisation in Obvion's Green Storm 2016 – for any ESG or green securitisation transaction, the sustainable debt capital markets team always works closely with colleagues from the bank's securitisation team. Margot d'Ancona Roesink, global head of sustainable capital markets at Rabobank, explains that the reasons for doing so are the ongoing changes and developments on the regulatory side.

> "THERE NEEDS TO BE A TRANSPARENT AND OBJECTIVE PROCESS FOR THE INCLUSION OF ESG CRITERIA, EITHER IN THE CHOICE OF INVESTMENTS OR IN THE ORIGINATION PROCESS"

For issuers, it is important to be informed on the latest developments, especially in the context of the EU Taxonomy. Over the past year, a great deal of ESG-related regulation has been introduced, and still more is anticipated in the coming years – which can be overwhelming for some clients.

She adds: "We assist our clients with the information that is specifically relevant for them. Not only the regulation that is currently impacting them, but also what could potentially impact them in the near future. Together with our securitisation team, we ensure that ESG or green securitisation can also be really labelled 'green'."

Providing some formal shape when crafting ESG-related KPIs for the issuer is one responsibility undertaken by an ESG advisor. Tim Conduit, partner at Allen & Overy, notes: "When trying to comply with the ICMA green bond principles, it's important to bring some experience of how this works in practice, in order to bring some focus to carry out a sustainable securitisation."

Indeed, the individual who is tasked with this role must have a high level of multi-tasking and organisational skills in order to be successful. They will also need to devise an ESG-compliant process for the issuer, consisting of a strong, dedicated team.

"There needs to be a transparent and objective process for the inclusion of ESG criteria, either in the choice of investments or in the origination process," explains Benjamin Bouchet, director of structured finance at Scope Ratings.

Another key attribute required for this role is relevant knowledge of the asset class and an in-depth understanding of how ESG and sustainability piece together. At the same time, financial institutions also need to take sustainability in a financial context seriously.

Conduit notes: "It is important for them to understand how sustainability maps onto a securitisation, but also to have good experience of where the sustainable finance market is more generally and what investors are looking for – including what reporting investors might want to receive, which might be different to typical securitisation reporting."

Ultimately, there is scope for the role of ESG advisor to become significantly more important across the securitisation market. But like most industries, there is a learning curve that needs

Tim Conduit, Allen & Overy

to be adhered to. As such, it is crucial that banks ensure that every employee understands the implications of ESG and sustainable finance, to make it an integral part of their skillset and to develop the ability to apply it to their respective area of activity.

Generally, the ESG advisor role is relevant across every asset class – albeit the sustainable securitisation market has so far been dominated by green and social RMBS bonds and to a lesser extent CMBS.

Benoit Vasseur, executive director of structured finance at Scope Ratings, points out that since 2018, the CLO space has been at the forefront of ESG criteria in its documentation. However, such activity has predominantly involved industry exclusion rather than setting a uniform framework to promote ESG within CLOs. He claims that if an ESG label is added, there is no reason for the asset class not to be categorised as Article 8 or even Article 9 funds – and, as such, attract even more investors.

Looking ahead, it is possible that some sustainable asset classes – such as green RMBS – may become more commoditised quicker than others. And for more commoditised transaction types, it may not always be necessary to have an ESG advisor.

Conduit concludes: "Arrangers have become more focused on this aspect. I think that most arrangers will, in due course, be able to provide this advice because sustainability is becoming a live question for almost every deal." ■

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