STRUCTURED
FINANCE
ASSOCIATION

ESG Disclosures for Structured Products

September 2023

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SFA embarked on the SFA ESG Disclosure Initiative to establish best practices in ESG Disclosure for the Structured Finance market. The resulting Best Practices seeks to promote uniformity across data sources by drawing upon and aligning with existing ESG frameworks, where possible. The Best Practices also chart a path for future states of disclosure, identifying areas where market participants might look to develop ESG disclosures. In this version, the working groups focused on environmental disclosures, looking at relevant data that is both reliable and cost effective and promotes uniformity across data sources.

Background on SFA's ESG Disclosure Initiative

Since May 2022, SFA has convened working groups within our Environmental, Social, and Governance (ESG) Disclosures Initiative to establish best practices for the securitization industry to report and disclose decision relevant ESG metrics across asset classes. The Industry-Wide Working Group developed a principles-based approach to guide the development of best practices for securitization disclosures. Based on feedback from the 2022 SFA ESG Survey, the Auto ABS Working Group and RMBS Working Group then focused on identifying reportable environmental data metrics.

Because SFA's ESG Disclosure Initiative is comprised of issuers, investors, rating agencies, data & analytics firms, as well as other securitization transaction parties, the recommended disclosures reflect consensus-based, market-derived views on ESG disclosures. These disclosures serve as a foundational starting point for where the industry is today, and the principles guiding the development of these disclosures can serve as a framework for future development in this space. Additionally, the attached appendix for RMBS provides commentary on other potential ESG metrics that could be considered for future ESG disclosure best practices.

Industry-Wide Disclosures Principles

- Focusing on environmental disclosures, SFA and its members in the **Industry-Wide Working Group** reviewed existing environmental disclosures in both Agency and non-Agency RMBS markets and ABS markets, as well as what is included in established global environmental frameworks. (i.e., PRI, PCAF, ICMA, SASB, TCFD).

- Analyzing these benchmarks, the group determined that securitization disclosures should meet the following criteria (the "Principles"):

  - Relevant
  - Objective
  - Verifiable
  - Measurable
  - Comparable
  - Accurate

- As more data becomes available pursuant to the Principles, the Best Practices could be expanded.

Asset Class—RMBS

- SFA and its members in the **RMBS Working Group** identified two broad categories—Energy Efficiency and Physical Risk—where the market can adopt disclosure best practices in the short-term (Phase I) based upon data that is relevant and currently available in a standardized format. See below and in the Appendix, available on the SFA website, for details on these metrics and others that were considered but not included, either due to inapplicability to securitization, redundancy, or lack of objective data sources.

Topic Area	Metric/Source	How Metric Provided
Energy Efficiency	Home Energy Rating System (HERS) Score	• Recommended disclosure only if HERS rating is material criteria of a Green Bond program. • # of loans in pool with HERS rating. • Cutoff threshold for HERS rating within a Green Bond program (i.e., HERS ≤ 60 to qualify).
	Green Building Certificates (GBC)	• Recommended disclosure only if GBC is material criteria of a Green Bond program. • # of loans in pool have a certified GBC. •# of each certified GBC in a pool, if more than one GBC present. • Disclose in offering documents frequency and methodology of how GBCs are approved.
	Green Mortgage Programs	• Look to program offering documents for details, limitations, and qualifications. • Upfront and ongoing as programmatic. requirements change and pool composition changes.

- The three metrics in Phase I include the Energy Rating Score, Green Building Certificates, and Green Mortgage Programs.

- HERS ratings and GBC are primarily found in new construction, and these approaches are consistent with the current Green bond frameworks from Freddie Mac and Fannie Mae.

- Physical Risk disclosures—particularly FEMA-derived data—could be considered in Phase II.

- Timing for consideration and adoption of Phase II disclosures would be dependent upon SFA member interest, as well as market and regulatory dynamics.

Asset Class—Auto ABS

- SFA and its members in the **Auto ABS Working Group** identified one broad category—Clean Transportation—where the market can adopt a disclosure best practice in the short-term (Phase I) based upon data that is relevant and currently available in a standardized format. One disclosure metric within Clean Transportation, the Concentration of Vehicle Propulsion Systems, was found to meet the six principles and it was agreed that the market can adopt it for disclosure best practices. Additional disclosures could be considered later in Phase II.

Topic Area	Metric/Source	How Metric Provided
Clean Transportation	Concentration of vehicle propulsion systems	• Propulsion systems—Electric (EV), Hybrid, Internal Combustion (ICE), and Other—recommended to be reported for each vehicle. • Reported in the form of a pool-level stratification table in the prospectus document and agreed-upon procedures • The details regarding the exact presentation of the table would be decided by each issuer, as it is subject to their access to such data and the capability to disclose.

- There were four other potential disclosure fields identified by the working group: EPA GHG Score, EPA Average Tailpipe Emissions, EPA Vehicle Fuel Efficiency and EPA Smog Rating. Such data would be dependent on mapping to EPA data. While issuers agreed that such fields could be relevant and objective, there were concerns around the availability and accuracy of the data in the context of securitization disclosures.

- Issuers suggested that an **implementation date of January 1, 2024,** or as soon as reasonably practicable thereafter, is appropriate for the Auto ESG disclosure metric and provides time for issuers to make necessary programmatic updates. SFA notes that the disclosure metric is a best practice, and the timing may be subject to factors that impact an issuer's ability to disclose such data.

- Timing for consideration and adoption of Phase II disclosures would be dependent upon SFA member interest, as well as market and regulatory dynamics.