

Discussion paper on ESG KPIs for Auto-loans/leases ABS

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Introduction

In the context of growing demands from asset owners to evaluate their ESG footprint and greater regulatory scrutiny (such as SFDR), ICMA's AMIC has set up an ad hoc working group to discuss ESG transparency of Asset-Backed Securities.

As a first step the working group (composed of buy-side firms) has issued a [statement](#) laying down current challenges for this specific asset class and the buy-side.

Next steps are to identify key performance indicators for three sub asset classes (auto-loans, RMBS and CLOs), which could then be embraced by market participants and/or regulators.

This draft discussion paper is focusing on ESG KPIs for auto-loans/leases ABS and attempts to reflect the conversation held by the working group on 29 March 2021.

Current challenge for auto-loans

In the EU and the UK, we are slowly starting to see some improvements with environmental reporting for auto-loans thanks to securitisation regulations. Regulation (EU) 2017/2402 indeed requires originators and sponsors to disclose the available data on the environmental impact of assets underlying STS securitisations. However, it does not require environmental data to be made available for all deals but simply for it to be published if it is readily available. The information published under ESMA's template and/or data loan tapes are therefore inconsistent from one deal to another.

Where the vehicle model is disclosed it is impractical for investors to assess the relevant environmental information on hundreds or thousands of vehicles when such data are typically only partially available from multiple different sources in multiple different data formats, particularly when such analysis needs to be completed pre-issuance in a short period of time.

Another challenge is that, when environmental information is disclosed, it is often done on an aggregate basis and not on a loan by loan basis, which makes it harder for investors to understand the actual environmental impact of their assets and portfolio

Disclosure on social and governance aspects is not standardised making it difficult for investors to satisfy criteria for ESG funds and mandates.

The lack of standardisation also makes it hard for issuers to know what information should be provided.

The European Parliament and the Council proposal to introduce broader ESG indicators for all securitised markets is in our view a great opportunity to address the shortfalls mentioned above.

Anticipating the formal adoption of mandate given to the EBA (in coordination with ESMA & EIOPA) to develop a report on sustainable disclosure requirements for securitised assets by 1 November 2021, AMIC members have reflected on a list of most needed KPIs for auto-loans/leases.

ESG KPIs for auto-loans/leases ABS

• Environmental aspects

Regarding environmental aspects, many data points are of interest to the buy-side but in the short-term we recommend starting with the most basic yet crucial information, which is the average CO₂ emissions of vehicles and the breakdown between the petrol, diesel, hybrid, fuel cell, other zero-emission and electric vehicles. Ideally, average well-to-wheel CO₂ emissions of vehicles should be provided given that asset managers are expected to report on scope 1, 2 and 3 GHG emissions and the carbon footprint of all asset classes (including ABS) starting in 2023 (c.f. SFDR RTS). Lastly, car manufacturers and asset managers are supposed to report against the EU taxonomy starting in 2022. Originators should therefore be in a position to indicate whether vehicles are taxonomy aligned or not.

As car manufacturers are already shifting massively towards EVs, having a KPI allowing clear distinction between EVs will very soon become essential. One of the clear environmental challenges associated with EV production is that it is commodity/mining intensive. The mining processes used to extract lithium typically require using significant amounts of water. Two other components, cobalt and nickel, have respectively raised human rights and environmental concerns. In that context, having information on the average recyclability of vehicles and battery pack would be very helpful.

• Social aspects

Some information on borrowers' profiles is currently provided via data tapes (income, deposit, employment status, APR). This may eventually be helpful to determinate if auto-loans ABS promote access to mobility.

Now considering vehicles and potential adverse impacts on society, communication of the average safety score of the fleet (e.g., NCAP, Euro NCAP) would be valuable to investors and should be readily available information.

To further appraise social impacts, asset managers may have to refer to the CSR reports of car manufacturers, which hopefully will be further improved and standardised when NFRD is reviewed. Transactions originated and serviced by unlisted originator-servicers (where no CSR report is published) should populate the relevant KPIs identified under the NFRD (and soon CSRD).

• Governance aspects

No transaction specific Governance KPIs were identified for auto-loans/leases ABS. Portfolio managers will have to refer to the originators' practices and policies to appraise any risk or opportunity related to governance matters.

But originators should at least report against the governance KPIs identified under the SFDR (until NFRD is reviewed):

- Compliance and process to control compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises
- Unadjusted gender pay gap
- Board gender diversity

Transactions originated & serviced by unlisted originator-servicers should also populate relevant parts of [AFME Securitisation ESG Due Diligence Questionnaire](#).

Summary table: recommended ESG KPIs for auto-loans/leases ABS

Environment	Social	Governance
Average Co2 emissions of vehicles	Average safety score of vehicles	No transaction specific Governance KPIs were identified for auto-loans/leases ABS. But originators should at least report against the governance KPIs identified under the SFDR (until NFRD is reviewed): ○ Compliance and process to control compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises ○ Unadjusted gender pay gap ○ Board gender diversity Transactions originated & serviced by unlisted originator-servicers should also populate relevant parts of AFME Securitisation ESG Due Diligence Questionnaire.
Average well-to-wheel CO2 emissions of vehicles		
% petrol, diesel, hybrid, fuel cell, other zero-emission and electric		
Taxonomy alignment of vehicle/loan		
% recyclability of vehicles or batteries if EV		

KPI's highlighted in 'bold' should be considered as necessary/mandatory. Other KPIs are desired/optional.

Key underlying concepts to consider:

- KPIs need to work across jurisdictions;
- Reporting against the environmental KPIs needs to be done on a loan by loan basis, reporting for social & governance KPIs can be either on an aggregate basis or loan by loan (depending on the KPI);
- Information to be reported and centralised by the European Data Warehouse;
- The information needs to be updated on a regular basis (quarterly basis) to consider potential pool replenishment;
- The information should be made available pre-issuance to inform investment decision-making process.

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