An Introduction to Green Loan Frameworks

APLMA Asia Pacific Loan Market Association

LMA Loan Market Association

LSTA ADVANCING THE CORPORATE LOAN MARKET

Introduction

This note seeks to provide an introduction to green loan frameworks, as referenced in the Green Loan Principles[1] **(GLP)**, and incorporates an example framework at Appendix 1. This framework is not intended to form part of any documentation template, nor is it a mandatory requirement of the GLP.

However, a borrower may wish to produce a green loan framework to evidence alignment with the GLP, with its wider sustainability strategy, financing strategy and any public commitments.

In accordance with the GLP, borrowers are recommended to explain, to their lenders, the alignment of their green loan with the four core components of the GLP (i.e. (1) Use of Proceeds, (2) Process for Project Evaluation and Selection; (3) Management of Proceeds; and (4) Reporting) in a green loan framework and/or their legal documentation.[2]

Borrowers are also encouraged to provide information on:

- their overarching objectives, strategy, policy and/or processes relating to environmental sustainability;
- the alignment of projects with official or market-based taxonomies, related eligibility criteria (including, if applicable, exclusion criteria); and
- green principles, standards and/or certifications referenced in project selection.

This information should be included in the green loan framework (where used) and supported by links to relevant documents and/or webpages wherever possible.

The detailed information included in the framework provides to lenders and if public, other stakeholders, a good level of comfort as to the green credentials of the use of proceeds and the financing.

Usage/Format

A green loan framework can:

- sit within a corporate's wider use of proceeds framework for use in debt market transactions (bond and loan);[3]
- be a standalone document, or when it covers a specific transaction, be embedded as a schedule in the finance documents; or
- be established at group level and used by relevant borrowing subsidies/entities.

Borrowers are encouraged to make any green loan framework availably publicly.

Timing

The timing of presentation of the green loan framework will depend on whether the framework is pre-existing or whether it is being created for a specific transaction.

In case of a pre-existing green loan framework, the framework and accompanying external review (if any) can be reviewed by the lenders alongside a loan agreement as part of normal transaction timelines.

Where a framework is being created for a specific transaction, the framework should be drafted, and delivered to lenders for review as soon as possible and, in any case, prior to the transaction closing.

Structure

Whilst market participants may have their own template for the structuring of a green loan framework, which can vary quite significantly, or use the example template at Appendix 1, the following can be used to aid with layout/format:

- Introduction

  Short introduction of the borrower (including purpose, owners, structure, business areas, geographical reach, value chain positioning, etc).

- Borrower's sustainability strategy[4]
  - A summary of the borrower's overarching sustainability strategy (objectives, strategy, contribution to the United Nations Sustainable Development Goals **(SDGs)**, alignment with internationally accepted official or market-based taxonomies for sustainable activities, governance, ESG risk management, etc) with links to relevant documents and/or webpages.
  - Information on supporting standards or frameworks for a borrower's sustainability-related disclosures and reporting, with links to relevant documents and/or webpages, including but not limited to any relevant taxonomies, the Corporate Sustainability Reporting Directive, Global Reporting Initiative, Task Force on Climate-related Financial Disclosures **(TCFD)**, Task Force on Nature-related Financial Disclosures **(TNFD)**.
  - Where relevant, borrowers are encouraged to outline how they have incorporated consideration of a "just transition" into their sustainability strategy.
- Rationale for a Green Loan Framework
  - Describe the rationale for establishing a green loan framework and type of finance requested.
  - Describe alignment of the borrower's green loan with the four core components of the GLP.

1 Green_Loan_Principles_23_February_2023.pdf (lma.eu.com)
2 Guidance on Green Loan Principles (GLP Guidance), para 2.A. GLP_Guidance_23_February_2023_v.2.pdf (lma.eu.com)
3 *The green loan eligibility criteria should be aligned/identical with green bond eligibility criteria.
4 To the extent the loan is limited recourse, and the borrower is a special purpose vehicle, any strategy should look through to the sponsor or corporate group, as applicable.

Structure (Continued)

- Use of Proceeds:
  - Describe alignment to the eligible green project categories in the GLP, internationally accepted official or market-based taxonomies, and the related eligibility criteria (including exclusion criteria if applicable).
  - Describe alignment with the borrower's overarching sustainability strategy (and, where possible, the SDGs).
  - Provide a lookback period for the refinancing of eligible green projects and a look forward period for the allocation of proceeds towards the eligible green projects.
- Process for Project Evaluation and Selection:
  - Describe the environmental sustainability objectives of the eligible green projects.
  - Describe the governance process for evaluating and selecting eligible green projects (including the frequency of meetings, monitoring and engagement of relevant departments).
  - Describe the governance process if any eligible green project ceases to fulfil the eligibility criteria after being selected for allocation.
  - Provide any details on how perceived, actual or potential environmental and social risks associated with the eligible green projects are internally identified and managed.
- Management of Proceeds:
  - Describe how the proceeds of the green loan(s) are tracked and managed, either per loan (loan-by-loan approach) or on an aggregated basis (portfolio approach), taking care to avoid any double counting with possible current green financing instrument issuances.
  - Provide details on how the unallocated proceeds will be managed before allocation to the eligible green projects.[5]
  - Provide details on how the proceeds will be reallocated if any eligible green project ceases to fulfil the eligibility criteria.
- Reporting:[6]
  - Provide details on the annual allocation reporting, including the amount of green loan proceeds allocated to the eligible green projects, the share of financing versus re-financing, description of the projects financed, and any unallocated balance of the green loan proceeds.
  - Provide details on the annual impact reporting, including qualitative performance indicators and, where feasible, quantitative performance measures to communicate the expected and/or achieved impact of the eligible green projects, and disclosure of the key underlying methodology and/or assumptions used in the quantitative determination.
- External Review (where relevant):
  - Information on the engagement of any external review provider, including any specific conditions regarding changes or engagement with the external review provider.
  - Information on the external verification process for the underlying data used to comply with the four core components of the GLP.
  - Borrowers are encouraged, where possible, to make this external review available either on their website or in another publicly available space, or to their lenders.

This structure is envisaged to be capable of use across sectors and geographies. It is one potential structure that might be used should a borrower wish to formulate a green loan framework.

5 Market practice is to hold the net proceeds as cash or cash equivalents in line with the borrower's liquidity management practices.
6 Borrowers are encouraged, where possible, to make this external review available publicly or to their lenders.

Appendix 1

The Framework

The following tables can be used as a checklist for borrowers considering setting up their green loan frameworks.

Rationale

Topic	Content	Core to the Principles or a Recommendation?	Reference
Rationale for establishing a green loan framework	Description of the reasoning for establishing a green loan framework.	Recommendation	–
Sustainability strategy – borrower	Provide content of the borrower's overarching objectives, strategy, policy and/or processes relating to environmental sustainability. Environmental Sustainability Strategy This may include references to the high-level environmental objectives of the GLP (climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control) or alternate standards, taxonomies or nomenclatures. Transition may have positive or negative impacts for workers, communities, and surrounding environments. In light of regulatory focus on positive impact, and the overlapping nature of environment and social issues, borrowers are encouraged to make reference to social considerations within their framework, outlining how they have incorporated consideration of a "just transition" into their environmental strategy. Cross-reference can be made to any overarching strategy in this regard, to avoid duplication of work.	Recommendation	GLP Component 1 and 2
Sustainability governance – borrower	Explain the borrower's governance and responsibilities around sustainability. Corporate Governance Structure Describe the main corporate governance structure of the borrower and how sustainability is integrated into the business. Reference can be made to supporting frameworks and standards, such as International Sustainability Standards Board (ISSB) standards and the recommendations of the TCFD and TNFD. Other examples may include governance of: ▪ board accountability for sustainability: description of the board's oversight and role in assessing and managing of climate-related risks and opportunities; ▪ sustainability-related policies: sustainability-related policies and operational guidelines, implemented by trainings, audits, etc; and/or ▪ social safeguards: human rights, labour rights (including modern slavery), anti-corruption, anti-bribery.	Recommendation	GLP Component 2 GLP Guidance Para 2.F
Alignment with supporting regulations and standards	Borrowers are encouraged to provide information on any supporting regulations, standards or taxonomies to which they are aligning their borrowing, and any recognised international standards/regulations they are reporting against. These may include: ▪ supporting regulation; ▪ climate reporting standards and carbon pathway methodologies such as: TCFD; TNFD; the Science Based Targets Initiative; the United Nations' Principles for Responsible Investment; or the Transition Pathway Initiative; and ▪ ESG reporting such as: the Global Reporting Initiative; the Sustainability Accounting Standards Board/ISSB; and the Carbon Disclosure Project.	Recommendation	GLP Component 1 and 2 GLP Guidance Para 3.B.II.a

Alignment with the 4 core components of the GLP

GLP component 1: Use of Proceeds

Topic	Content	Core to the Principles or a Recommendation?	Reference
Green projects	A description of the borrower's selected green projects, or project categories and eligibility criteria, (including other related and supporting expenditures, including R&D) should be appropriately described in a green loan framework. All designated green projects should provide clear environmental benefits. Any specific exclusions should also be included here. Borrowers should clearly communicate if selected tranches of the loan are to be used for green projects.	Core	GLP Component 1& 3 GLP Guidance Para 3.B.I.a)
Environmental benefits[7]	It is recognised that definitions of eligible green projects and categories may vary depending on the sector and geography of the borrower and/or the project. The expected impact (quantitative and/or qualitative) should be taken into account in this context.	Core	GLP Component 1 GLP Guidance Paras 2.A, 3.B.I.b) and 3.B.II.a)
Multiple projects	Description of the estimated proceeds allocation per green project category. Please note that projects can belong to one or several defined categories. A borrower may enter into loans focusing on different 'themes' using a single green loan framework that encompasses all the relevant themes or they may highlight thematic differences in their approach to any of the core components of the GLP through establishing additional frameworks. Whatever the focus of the loan or framework, it is helpful to ensure that all loan communications and documentation state clearly whether the loan is aligned with the core components of the GLP. If the allocation is unknown at origination, detail can be provided as part of the reporting requirements under core component 4 of the GLP.	Core	GLP Component 4 GLP Guidance Para 3.B.I.e)
Refinancing	Description of the estimated share of financing vs. re-financing for the green projects, when the original financing is due to mature, and where appropriate, clarify which investments or project portfolios may be refinanced, and, to the extent relevant, the expected look-back period for the refinanced green projects. If unknown at time of origination, this information can be provided as part of the reporting requirements under core component 4 of the GLP. Please note that: ▪ green projects qualify for refinancing as long as they are in use, follow the relevant eligibility criteria at the time of the refinancing and are still assessed as making a meaningful impact; and ▪ different lookback periods may apply for capital expenditure (CapEx) and operating expenditure (OpEx).	Recommendation	GLP Component 1 GLP Guidance Para 3.A.III

7 Review the International Capital Market Association's publications on Green Project Mapping (https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Project-Mapping-June-2021-100621.pdf) and Harmonised Framework for Impact Reporting (https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Handbook-Harmonised-framework-for-impact-reporting-June-2023-220623.pdf) for examples on additional detail that can be provided here.

GLP component 2: Process for Project Evaluation and Selection

Topic	Content	Core to the Principles or a Recommendation?	Reference
Evaluation and selection of green projects	Description of the governance process by which the green projects are evaluated and selected including any alignment of projects with: ▪ official or market-based taxonomies; ▪ local policies (i.e. how the project contributes to local climate objectives or policies) ▪ related eligibility criteria, including, if applicable, exclusion criteria; or ▪ any green standards or certifications. Borrowers are encouraged to make known the individual(s) responsible for this governance process. Borrowers should also clearly communicate the environmental sustainability objectives of the green projects and should describe how the selected projects fit within the borrower's overarching sustainability objectives, strategy and policy.	Core	GLP Component 2 GLP Guidance Para 2.F and 3.B.II
Associated risks	Description of the processes applied to identify and manage perceived, actual or potential environmental and social risks associated with the relevant projects. Borrowers are encouraged to have a process in place to identify mitigants to known or potential material risks of negative social and/or environmental impacts from the relevant project(s). Such mitigants may include clear and relevant trade-off analysis undertaken and monitoring required where the borrower assesses the potential risks to be meaningful.	Core	GLP Component 2 GLP Guidance Para 3.B.II.b) and c)

GLP component 3: Management of Proceeds

Topic	Content	Core to the Principles or a Recommendation?	Reference
Management of proceeds	Proceeds should be credited to a dedicated account or otherwise tracked in an appropriate manner. Borrowers should describe the governance within the company to manage the use of proceeds, including the supervision, tracking and reporting of proceeds, taking care to ensure any financing (new or existing) is not used for purposes that would lead to double counting. The proceeds of green loans can be managed per loan (loan-by-loan approach) or on an aggregated basis (portfolio approach).	Core	GLP Component 3 GLP Guidance Para 3.A.III.b) and 3.B.I.a
Unallocated proceeds	Borrowers should make known any intended types of temporary placement for the balance of unallocated proceeds.	Core	GLP Component 3 GLP Guidance Para 3.B.III.a)
External Review	The management of proceeds may be supplemented by the use of an external auditor, or other third party, to verify the internal tracking and the allocation of funds from the green loan proceeds.	Recommendation	GLP Guidance Para 3.C.I

GLP component 4: Reporting

Topic	Content	Core to the Principles or a Recommendation?	Reference
Frequency, duration and level of allocation reporting	The report should include a list of the green projects to which the green loan proceeds have been allocated, a brief description of the projects and the amounts allocated. Allocation reporting should be updated at least annually until the green loan is fully drawn (or until the loan maturity in the case of a revolving credit facility) and thereafter on a timely basis in the event of material developments.	Core	GLP Component 4 GLP Guidance Para 3.B.I.b) and 3.B.IV.b)
Frequency, duration and level of impact reporting	The report should include a list of the green projects to which the green loan proceeds have been allocated, and, where possible, the output, expected/ (where possible) achieved outcome and/or impact of projects financed by the proceeds of green loans. Impact reporting should be updated at least annually until the green loan is fully drawn (or until the loan maturity in the case of a revolving credit facility) and thereafter on a timely basis in the event of material developments..	Recommendation	GLP Component 4 GLP Guidance Para 3.B.I.b) and 3.B.IV.b) and e)
Format of reporting	Borrowers are encouraged to report throughout the life of the loan and make available the latest report either on their website or in another publicly available space or to their lenders, with the date as at which it was prepared. The report can be done on a loan-by-loan approach or a portfolio approach[8].	Recommendation	GLP Guidance Para 3.B.IV.b)
Reporting indicators	Description of the qualitative performance indicators and (where feasible) quantitative performance measures used to demonstrate substantial contribution to environmental objectives per project category related to the criteria. Borrowers are encouraged to provide detailed insight with clear disclosure on the scope and limitations of data presented. Borrowers with the ability to monitor achieved impacts are encouraged to include those in regular reports to those institutions participating in the loan. Borrowers are encouraged to report the impacts of the prorated share of the total project cost that they are financing, and to provide the total project cost when available, subject to confidentiality considerations. Borrowers who do so are further encouraged to provide confirmation that they have chosen to report using a pro-rata methodology. Where borrowers have used estimates to determine their share of financing of the total project cost, they should clearly state so. In circumstances where the borrower believes an alternative impact reporting methodology is appropriate, borrowers are encouraged to explain their rationale, and to provide transparency regarding the share of the project they financed as well as the share of the impacts they are reporting.	Recommendation	GLP Component 4 GLP Guidance Para 3.B.IV.a), c), d) and e)
Indicator methodology	Description of the key underlying methodology and/or assumptions used in the quantitative determination. For the calculation of indicators, where there is no single commonly used standard, borrowers may follow their own methodologies while making these available to the lenders and market participants. For the calculation of greenhouse gas emissions reduced/avoided, for instance, there are a number of calculation methodologies both within and across institutions. Borrowers should be transparent as to the assumptions and calculation methodologies applied.	Recommendation	GLP Component 4 GLP Guidance Para 3.B.IV.a)

8 A portfolio approach is recommended where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available.

Review

External Review

Topic	Content	Core to the Principles or a Recommendation?	Reference
Appointment	Where appropriate, the GLP recommend that borrowers appoint (an) external review provider(s) to assess, through pre-origination external review, the alignment of their green loan or green loan framework with the four components of the GLP.	Recommendation	GLP Review GLP Guidance Para 3.C.I
Type of external review	▪ Second Party Opinion ▪ Verification ▪ Certification	N/A	Guidance for Green, Social, and Sustainability-Linked Loans External Reviews[9] Para 2
Public disclosure	Where appropriate, and taking into account confidentiality and competitive considerations, the GLP recommend that borrowers make the external review publicly available, or an appropriate summary, via their website or otherwise.	Recommendation	GLP Review
External verification of management of proceeds	Indicate if external reviews will be provided to verify the internal tracking and allocation of green loan proceeds.	Recommendation	GLP Guidance Para 3.C.I
Refinancing	When refinancing an existing green loan, parties may wish to consider whether to obtain a new external review.	Recommendation	GLP Guidance Para 3.C.II

Self-certification

Topic	Content	Core to the Principles or a Recommendation?	Reference
Internal expertise	Where review is to be provided by self-certification of a borrower, the borrower should document thoroughly the internal expertise in place to confirm alignment of the green loan with the four core components of the GLP, including related internal processes and expertise of their staff. The documentation evidencing internal expertise should be communicated to lenders participating in the loan.	Core	GLP Review GLP Guidance Para 3.C.I
Public disclosure	Where appropriate, and taking into account confidentiality and competitive considerations, the GLP encourage borrowers to make publicly available, via their website or otherwise, the parameters on which they assess green projects, and the internal expertise they have to assess such parameters.	Recommendation	GLP Review

9 Guidance_for_Green_Social_and_Sustainability-Linked_Loans_External_Reviews.pdf (lma.eu.com)