

Sustainability Linked Loan Principles

20 March 2019

The LMA has, together with the Loan Syndications and Trading Association and the Asia Pacific Loan Market Association, launched the Sustainability Linked Loan Principles (SLLP).

The SLLP were developed by a working party, consisting of representatives from leading financial institutions active in the sustainable lending market, with the support of the International Capital Market Association who have been working on environmental and social impact metrics in relation to the Green Bond Principles.

The sustainability linked loan product is a dynamic and innovative product that enables lenders to incentivise improvements in the borrower's sustainability profile by aligning loan terms (for example, margins) to the borrower's performance against ambitious, pre-determined sustainability performance targets.

The SLLP provide a global framework that is intended to enable all market participants to clearly identify and understand the key characteristics of sustainability linked loans, based around the following four components:

1. Relationship to the borrower's overall CSR strategy
2. Target setting – measuring the sustainability of the borrower
3. Reporting
4. Review

Following the release of the Green Loan Principles in 2018, the SLLP represent another step in the development of widely accepted principles in the green and sustainable lending space.

Commenting on the principles, Clare Dawson, Chief Executive of the LMA, said:

"The LMA is delighted to have been a part of this ambitious global project. We hope that the release of the Sustainability Linked Loan Principles will facilitate the development of the sustainability linked loan product across global wholesale markets. The LMA will continue working with market participants and other trade bodies to encourage further growth and innovation in the sustainable and green lending markets."

Lee Shaiman, Executive Director of the LSTA, said:

"We are delighted to release this framework for sustainability linked loans as a further step in our joint global initiative. Investors are increasingly concerned with the impact of their investment decisions on the environment, sustainability linked loans offer a useful means of directly incentivizing borrowers to improve their sustainability profiles. We believe that the framework will help both borrowers and investors as they look to match investment goals and capital needs."

Andrew Ferguson, CEO of the APLMA, said:

"The APLMA is excited about this further important development for sustainable lending and delighted to be launching the SLLP's jointly with LMA and LSTA. Sustainable lending is now central to lenders' strategic planning and allocation of resources, so it is all the more important to have a common framework that helps the market move forward in a consistent and sensible manner."