Green Loan Principles

APLMA Asia Pacific Loan Market Association

LMA Loan Market Association

LSTA ADVANCING THE CORPORATE LOAN MARKET

Interpretation of Terms

The following definitions provide guidance for understanding and implementing the Green Loan Principles:

- **"Shall":** Indicates a mandatory requirement.
- **"Should":** Indicates a recommendation.
- **"May":** Indicates an optional course of action.
- **"Can":** Indicates possibility or capability, for example, that an organisation or individual is able to act.

For all other terms, a plain English approach is adopted.

Introduction

The green loan market aims to facilitate and support the key role that credit markets can play in financing progress towards environmental sustainability.

The Green Loan Principles (GLP) aim to promote the development of the green loan product by providing a recommended framework of market standards and guidelines for use across the green loan market, whilst allowing the loan product to retain its flexibility.

The GLP are voluntary recommended guidelines, developed by an experienced working party consisting of representatives from leading financial institutions and law firms active in global loan markets. They are to be applied by market participants on a deal-by-deal basis depending on the underlying characteristics of the transaction, which recommend transparency and disclosure, and seek to support integrity in the development of the green loan market by clarifying the instances in which a loan may be categorised as "green".

The GLP seek to support borrowers in financing environmentally sound and sustainable projects that foster a net-zero emissions and/or circular economy, protect and restore the environment and biodiversity, facilitate resilient systems and adaptation to climate change, and/or provide other environmental benefits. GLP aligned loans should provide transparent green credentials alongside an investment opportunity. By having borrowers report on the use of green loan proceeds, the GLP promote a step change in transparency that facilitates the tracking of funds to environmental projects, while simultaneously aiming to improve insight into a project's estimated impact.

The GLP provide high level, non-exhaustive categories for eligible Green Projects (see Section 1 - Use of Proceeds) in recognition of the diversity of current views and of the ongoing development in the understanding of environmental issues and consequences. At the same time, the GLP allow for the use of complementary definitions, standards and taxonomies for determining the environmental sustainability of projects. The GLP encourage all participants in the market to use this foundation to develop their own robust practices, referencing a broad set of complementary criteria as relevant.

The GLP will be reviewed on a regular basis to accommodate the development and growth of the green loan market.

Green Loan Definition

Green loans are any type of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) where the proceeds or an equivalent amount shall be exclusively applied to finance, re-finance or guarantee, in whole or in part, new and/or existing eligible Green Projects and which are aligned to the four core components of the GLP.

It is understood that certain eligible Green Projects may also have social co-benefits, and that the classification of a use of proceeds loan as a green loan should be determined by the borrower[1] based on the primary objective of the underlying projects. A loan that intentionally mixes eligible Green and Social Projects can be referred to as a 'Sustainability Loan'.

Green loans shall not be considered interchangeable with loans that are not aligned with the four core components of the GLP.

Green Loan Principles – Core Components

The GLP set out a framework, enabling all market participants to clearly understand the characteristics of a green loan, based around the following four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

The GLP also seek to emphasise the required transparency, accuracy and integrity of the information that shall be disclosed and reported by borrowers to stakeholders through these core components.

1 Use of Proceeds

The fundamental determinant of a green loan is the utilisation of the loan proceeds for Green Projects (including other related and supporting expenditures, being costs that contribute to the development or implementation of green projects or activities, including R&D), which shall be appropriately described in the finance documents, and, if applicable, marketing materials for the financing and/or a green loan framework. All designated Green Projects shall provide clear environmental benefits, which shall be assessed and, where feasible, quantified by the borrower.

Where funds are to be used, in whole or part, for refinancing, borrowers should provide an estimate of the share of financing versus refinancing. Where appropriate, they should also clarify which investments or project portfolios may be refinanced, and, to the extent relevant, the expected look-back period for refinanced eligible Green Projects.

1. The term "borrower" may be used interchangeably with "client" or any other term that is more appropriate to the specifics of the transaction.

A green loan may take the form of one or more tranches of a loan facility, and may be made by way of a term loan, revolving credit facility and/or contingent facilities. Considerations for revolving credit facilities are set out in Appendix 1.

The GLP explicitly recognise several broad categories of eligibility for Green Projects, which contribute to environmental objectives such as: climate change mitigation; climate change resilience and adaptation; natural resource conservation and management; biodiversity restoration, conservation and enhancement; and pollution prevention and control.

The following list of project categories, while indicative only and high-level, captures common types of projects supported, or expected to be supported by the green loan market. Green Projects include assets, investments and other related and supporting capital and/or operating expenditures such as R&D that may relate to more than one category and/or environmental objective. Three environmental objectives identified above (pollution prevention and control; biodiversity restoration, conservation and enhancement; and climate change resilience and adaptation) also serve as project categories in the list. As such, they refer to the projects that are more specifically designed to meet these environmental objectives.

The eligible Green Projects categories, listed in no specific order, may include, but are not limited to:

- **Renewable energy** (including production, storage systems, transmission, appliances and products);
- **Energy efficiency** (such as in new and refurbished buildings, district heating, smart grids, appliances and products);
- **Pollution prevention and control** (including reduction of air emissions, reduction of water pollution, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste collection and recycling and energy/ emission-efficient waste to energy);
- **Environmentally sustainable management of living natural resources and land use** (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally sustainable forestry, including afforestation or reforestation; preservation or restoration of natural landscapes; eco-tourism; and sustainable traceability mechanisms);
- **Terrestrial and aquatic biodiversity restoration, conservation and enhancement** (including for coastal, marine and watershed environments as well as urban ecosystems);
- **Clean transportation** (such as electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions);
- **Green technologies** (such as energy storage systems, carbon capture and green H2);
- **Sustainable water and wastewater management** (including sustainable infrastructure for clean and/or drinking water, smart irrigation and wastewater treatment);
- **Climate change resilience and adaptation** (including nature-based solutions, investments to make infrastructure, urban spaces and communities more resilient to impacts of climate change, as well as information support systems, such as climate observation and early warning systems, sustainable urban drainage systems and river draining and other forms of flooding mitigation);
- **Circular economy adapted products, production technologies, processes and business models** (such as the design, production and introduction of reusable, recyclable and refurbished materials, components and products; circular business models, tools, services and practices; and/or certified eco-efficient products); and
- **Green buildings** (that meet regional, national or internationally recognised standards or certifications for environmental performance).

While the GLP’s purpose is not to take a position on which green technologies, standards, certifications, claims and declarations are optimal for environmentally sustainable benefits, it is noteworthy that there are several current international and national initiatives to produce taxonomies and nomenclatures, as well as to provide mapping between them to ensure comparability. These initiatives may provide useful guidance to green loan borrowers as to what may be considered green and eligible by lenders.

Where local taxonomies for green assets exist, borrowers should consider appropriate alignment of Green Projects to the respective local taxonomy and identify the same to the lender group.

There are many institutions that provide independent analysis, advice and guidance on the quality of different green solutions and environmental practices. However, it is recognised that definitions of green and green projects may vary depending on sector and geography.

2 Process for Project evaluation and Selection

The borrower of a green loan shall clearly communicate to its lenders:

- the environmental sustainability objective(s) of the Green Projects;
- the process by which the borrower determines how the project(s) to be funded fit within the eligible Green Project categories; and
- complementary information on the processes by which the borrower identifies and manages perceived, actual or potential environmental and social risks associated with the relevant project(s).

Borrowers are encouraged to:

- position the information communicated above within the context of their overarching objectives, strategy, policy and/or processes relating to environmental sustainability;
- provide information, if relevant, on the alignment of projects with official or market-based taxonomies, related eligibility criteria, including, if applicable, exclusion criteria, and also disclose any green standards or certifications referenced in project selection; and
- 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.

3 Management of Proceeds

The net proceeds of the Green Loan, or an amount equal to these net proceeds, shall be credited to a dedicated account or otherwise tracked by the borrower in an appropriate manner, so as to maintain transparency and promote the integrity of the product.

Management of proceeds should be attested to by the borrower in a formal internal process linked to the borrower's lending and investment operations for Green Projects. The borrower should make known to the lenders any intended types and durations of temporary placement for the balance of unallocated proceeds.

Where a green loan takes the form of one or more tranches of a loan facility, each tranche applicable to the Green Project(s) shall be clearly labelled, with net proceeds, or an amount equivalent to the net proceeds, of the green tranche(s) credited to a separate account or otherwise tracked by the borrower in an appropriate manner. For the avoidance of doubt, a facility cannot be labelled as green if it includes a green and non-green tranche; the green label applies only to the tranche(s) aligned to the four core components of the GLP.

The proceeds of green loans can be managed per loan (loan-by-loan approach) or on an aggregated basis for multiple green loans (portfolio approach).

4 Reporting

Borrowers shall make and keep readily available up-to-date information on the use of proceeds, such information to be renewed annually until the green loan is fully allocated (or until the loan maturity in the case of a revolving credit facility), and on a timely basis in the event of material developments. This annual report shall include a list of the Green Projects to which the green loan proceeds have been allocated and a brief description of the projects, the amounts allocated and their expected and, where feasible, achieved impact. Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the information can be presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories). Information need only be provided to those institutions participating in the loan, but borrowers should make this information public where feasible.

Transparency is of particular value in communicating the expected and/or achieved impact of projects. The GLP recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures (for example, energy capacity, electricity generation, greenhouse gas emissions reduced/avoided, etc.) and disclosure of the key underlying methodology and/or assumptions used in the quantitative determination. Borrowers with the ability to monitor achieved impacts should include those in regular reports to those institutions participating in the loan.

Review

Where appropriate, borrowers should appoint an external review provider(s) to assess the alignment of their green loan (or green loan programme) and/or green loan/finance framework with the four core components of the GLP, particularly where the borrower is unable to demonstrate satisfactorily that it has the internal expertise and resource to confirm alignment with the GLP.

Alternatively, given that the loan market is traditionally a relationship-driven market and therefore lenders are likely to have a broad working knowledge of the borrower and its activities, self-certification by a borrower, which has demonstrated or developed the internal expertise to confirm alignment of the green loan with the key features of the GLP, can be sufficient.

Borrowers should document thoroughly such expertise, including the related internal processes and expertise of their staff. This documentation should be communicated to all financial institutions participating in the loan as agreed between parties in the relevant legal documentation. When appropriate, and taking into account confidentiality and competitive considerations, borrowers should 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.

There are a variety of ways for borrowers to obtain outside input to their green loan process and there are several types of review that can be provided to the market. Where applicable, borrowers should consult the Guidelines for Green, Social and Sustainability-Linked Loans External Reviews[2] (Guidelines for External Reviews) for recommendations and explanations on the different types of reviews.

Where used external review providers shall disclose their credentials and relevant expertise and communicate clearly the scope of the review(s) conducted. Where applicable, any external review shall be communicated and made available in a timely manner to all the financial institutions party to the loan in accordance with the relevant legal documentation. Where appropriate, and taking into account confidentiality and competitive considerations, borrowers should make the external review publicly available, or an appropriate summary, via their website or otherwise.

Appendix 1

Application to Revolving Credit Facilities

The GLP were drafted such that they can be applied to a wide variety of loan instruments, including term loans, contingent facilities and/or revolving credit facilities.

One of the fundamental determinants of a green loan is the utilisation of the loan proceeds, which shall be appropriately described in the finance documents and, if applicable, marketing materials. The use of proceeds component of a term loan is often easily identifiable. Revolving credit facilities, however, may not identify in similar detail such green use of proceeds in the legal documentation, but in any case proceeds shall be utilised for eligible Green Project(s) throughout the lifetime of the revolving credit facility.

The parties to any proposed green loan taking the form of a revolving credit facility should determine how best to evidence the flow of funds to an agreed upon Green Project or Green Projects when applying the GLP to such a loan. A revolving credit facility may include a specific green tranche but, where not possible, a borrower may seek to report to the lenders the use of any revolving borrowings and/or identify Green Projects supported by the revolving credit facility.

Lenders should monitor and track the sustainability information provided by the borrower during the life of the loan, mindful of the need to preserve the integrity of the green loan product. In the absence of sufficient internal expertise at the lender to monitor the loan, external review is strongly recommended. Revolving credit facilities for general corporate purposes shall not be categorised as "green" without satisfying the four core components listed in the GLP.

2. https://www.lma.eu.com/application/files/8317/0611/1386/External_Review_Guidance_January_2024.pdf