Guidance on Sustainability-Linked Loan Principles

APLMA Asia Pacific Loan Market Association

LMA Loan Market Association

LSTA ADVANCING THE CORPORATE LOAN MARKET

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Table of Contents:

Interpretation of terms

The following definitions provide guidance for understanding and implementing this Guidance on Sustainability-Linked 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 organization or individual is able to act.

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

1 Introduction

The Sustainability-Linked Loan Principles (SLLP) were originally launched in 2019 and provide a framework to articulate the fundamental characteristics of a sustainability-linked loan (SLL), being a key product in encouraging borrowers to advance sustainability goals across environmental, social and/or governance (ESG) dimensions. Since inception the SLLP have undergone several revisions to reflect developments in the market.

In order to promote the development of this product, and to underpin and strengthen its integrity, the APLMA, LMA and LSTA considered it appropriate to produce Guidance on the SLLP, to provide market practitioners with clarity on their application and promote a harmonised approach.

This Guidance should be read alongside the SLLP.

Guidance is also available for the Green Loan Principles (GLP) and Social Loan Principles (SLP). These sets of Guidance are intended to highlight the differences between, and suitability of application of the SLLP, GLP and/or SLP to any particular deal.

2 Fundamentals

A. Is there a definition of SLLs?

The SLLP define an SLL as:

"…any types of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) for which the financial and/or structural+ characteristics can vary depending on whether the borrower achieves ambitious, material and quantifiable predetermined sustainability performance objectives".

This definition will be reviewed on a regular basis in light of the development and growth of the SLL product. It is recognised that definitions of "sustainable" and "sustainability" may vary depending on sector and geography[1], and borrowers should therefore be mindful of the sector and geography within which they operate when setting key performance indicators (KPIs) and sustainability performance targets (SPTs).

It should be noted that SLLs are a transitional tool, designed to support a borrower in its transition journey as it seeks to improve its sustainability performance. The label should not be confused with definitions in the relevant taxonomies, which are designed to define a specific sustainable economic activity.

B. What are the advantages of entering into an SLL?

The UNFCCC Climate Agreement, ratified in 2016 (known as the "Paris Agreement"), and the UN Sustainable Development Goals, published in 2015, have been key drivers in the development of sustainable financing solutions. As a result, borrowers are increasingly integrating sustainability into their core business strategies and aligning their funding mechanisms with their sustainability commitments. In this context, entering into an SLL offers a range of advantages for borrowers, lenders, investors and ither market participants, including:

- strengthening **values-based relationships** with stakeholders;
- enhancing **reputation and credibility** in the market;
- driving **higher ESG performance and accountability**;
- engaging internal stakeholders in the **implementation of ESG strategy and objectives**:
- encouraging lenders to **actively direct capital** towards sustainability investments;
- evidencing **alignment with regulatory trend**s and disclosure requirements in some jurisdictions;
- supporting **long-term sustainable growth and profitability;** and

[1] See ICMA's Compendium of international policy initiatives at https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds ICMA -Sustainable-finance-Compendium-of-international-policy- initiatives-best-market-practice-February-2020-200220.pdf for examples of international and national initiatives, and taxonomies.

- facilitating access to other **sustainability-linked financial products,** such as sustainability linked bonds or hedging.

  By aligning financing structures with sustainability objectives, SLLs play a critical role in fostering more resilient and responsible financial ecosystems.

C. Who can borrow an SLL?

Subject to any applicable law, regulation and credit assessment, any type of borrower can borrow an SLL, provided the borrower is able to provide the strategic elements necessary for the structure to be aligned[2] with each of the five core components of the SLLP.

Strategic elements should include material KPIs, ambitious SPTs, evidence of recent and relevant baselines essential to governing KPIs and SPTs, evidence of consideration for sector-specific risk and opportunities, and so on.

D. Are there any minimum requirements in terms of a borrower's ESG performance or exclusions in terms of business activities or practices?

The SLLP do not prescribe a minimum level of ESG performance or consider any exclusions as long as all five of the core components of the SLLP are met.

Many lenders will take into consideration the quality of the borrower's overall ESG profile and the broader conduct of the borrower in order to evaluate the level of ambition of the chosen KPI(s) as well as to assess the likelihood of the borrower achieving the SPTs. Those borrowers that have integrated their sustainability strategy into their business strategy, and are therefore already advancing on their ESG journey, will often be better able to evidence that their chosen KPIs and SPTs meet the requirements set out in the SLLP. In any case, an SLL borrower's ESG trajectory shall evidence improvement beyond "business as usual and regulatory requirements."

In the presence of controversial sustainability issues, borrowers may be required to provide additional transparency to lenders, including additional disclosures around the strategic importance of sustainability for the business. Borrowers may also seek to align KPIs to address specific sustainability challenges, in line with the overall guidance that meaningful improvements should be made or evaluate the SLL package in light of these controversial credentials.

E. Can a borrower at the start of their transition journey borrow an SLL?

The SLLP are designed to support a borrower's transition journey, wherever they might be on that journey. SLLs are intended to be accessible to all borrowers, regardless of sector, geography or level of sustainability, provided they deliver alignment with the five core components of the SLLP. However, SLLs will be best suited to those that already have a sustainability/transition strategy in place or who have historical data tracking the borrower's own performance over time.

F. What is the difference between green/social loans and SLLs?

The fundamental determinant of a green/social loan is the utilisation of the loan proceeds for green/social projects (loans that intentionally mix eligible green and social projects can be referred to as "sustainability loans"). Whilst use of proceeds is the key determinant, the other core criteria set out in their respective principles (GLP/SLP) shall also be met, i.e. the criteria for project evaluation and selection, management of proceeds and reporting.

Under the SLLP, use of proceeds is not a determinant in its categorisation and SLLs are typically available without such restrictions (for general corporate purposes). The focus is instead on supporting a borrower in improving its sustainability performance, via the achievement of predetermined SPTs. As a result, the proceeds may be used to finance any kind of business activities that the borrower is pursuing which aligns with the overarching objective of the SLLP to promote positive environmental and social outcomes, be they project based, acquisition based and so on.

G. Can a loan follow a combination of the GLP, the SLP and/or the SLLP?

Technically, a loan can follow a combination of the GLP, the SLP and/or the SLLP.

In this instance, there would need to be a rationale to both qualify the proceeds of the loan as green and/or social and to support the underlying assets' green and/or social performance through the additional introduction of KPIs and SPTs.

H. What is greenwashing[3]? How should the market seek to identify it?

Greenwashing is a term that has often been used to describe situations where claims on sustainable credentials are misleading, inaccurate or inflated.

In the context of SLLs, greenwashing risk may arise in a number of key aspects, including: through KPIs that are not material and core to the business of the borrower; through SPTs that are not sufficiently ambitious or meaningful; or through inaccurate, insufficient or lack of monitoring, reporting, measuring, benchmarking and/or disclosing of borrower performance against SPTs. On the first two issues, the SLLP are drafted so as to give a clear framework of the processes to be followed in order to help

[2] Alignment may, but does not have to be, communicated through an SLL Framework.
[3] Also referred to as "sustainability washing" and "ESG washing".

maintain the integrity of SLLs. In particular, the SLLP set out guidelines to help ensure that targets are ambitious and meaningful to the borrower's business and are tied to a sustainability improvement in relation to a predetermined performance benchmark on a pre-defined timeline. They should apply over the life of the loan, although where required, an update of the SPTs could be permitted at a later stage via e.g. a sustainability amendments clause[4].

On the third issue, borrowers and lenders can take steps to mitigate greenwashing risk by ensuring close adherence to the core components of the SLLP for reporting (made publicly available where possible) or obtaining an external review[5] at the outset of the facility (where appropriate), with a view to being as open and transparent as possible.

All market participants shall seek to preserve the integrity of the product at all times as any accusation of greenwashing in connection with SLLs may damage the product as a whole, and may cause serious reputational risk for all participants involved and their customers. Lenders and borrowers should therefore ensure that any external communications regarding SLLs are clear, fair and not misleading and clearly explain the SPT criteria of the loan.

3 Sustainability-Linked Loan Principles

A. SLL definition

I. Types of loan

An SLL can be any type of bilateral or syndicated loan financing, e.g. term loan, revolving credit facility, Schuldschein or any other type of facility (including contingent instruments), where there is a financial and/or structural impact tied to the borrower's achievement (or not) of predetermined SPTs.

B. Core components

I. Selection of KPIs

a) General

SLLs are an important form of specialised financing, which seek to support and encourage borrowers to attain more sustainable business models. In this way they stand apart as a transition tool.

An SLL could be made theoretically to any borrower but will be best suited to those that already have a sustainability strategy in place. The SLL will often provide a financial and/or structural benefit to a borrower for achieving the goals set out in that strategy so long as the KPIs are meaningful for the borrower's business and the SPTs are ambitious.

If the borrower fails to meet the predefined SPTs, it is expected that any previously achieved financial and/or structural benefit ceases to be awarded from that point on and a premium may be applied instead.

b) Can the sustainability strategy of a parent impact a borrower's eligibility for an SLL?

This will depend on the relationship between the parent and the borrower, and the nature and extent of any sustainability strategy. Where a sustainability strategy applies on a group wide basis, it is likely that any such strategy will cover and be relevant to the borrower as well, although care should be taken to ensure this is the case.

It should be noted that an SLL is designed to reflect or support the borrower's, or its wider group's, existing sustainability strategy, rather than being a central component of that strategy.

c) What do the SLLP mean by "material" KPIs?

The notion of materiality is multi-faceted and should not focus solely on how external ESG factors impact a company's operations or financial risks, but also consider the company's role in affecting those ESG factors.

Building on this is, materiality can be understood from different vantage points:

- an economic lens or a strategic planning exposure, i.e. the E and/or S and/or G issues captured by the chosen KPIs are the ones that have the greatest impact on the relevant activity, strategic orientation and the borrower's operational and potentially financial performance. KPIs should thereby address the most important E and/or S and/or G challenges of the borrower, its industry sector, and its regional context, should be consistent with the borrower's overarching sustainability strategy, and should reference a core, significant and relevant business activity, for which the outcomes can be influenced by the borrower's decisions and management controls; and/or
- a sustainability standpoint, where the ESG issues captured by the KPIs have the highest impact on the environment and/or

[4] See 3.B.III.b) below for explanation of a sustainability amendments clause.
[5] To include a second party opinion provider as relevant.

society whether to external stakeholders or internally.

By way of best practice, a borrower should seek to benchmark its KPIs by undertaking a materiality assessment of itself, its industry and similarly sized peers. Materiality assessments identify the most important ESG considerations for both the borrower's business and relevant stakeholders of the business, and help inform the selection of KPIs under a loan.

A growing number of organisations are performing these assessments in accordance with ESG reporting frameworks and standards. Examples of external guidance and/or tools that borrowers may reference where appropriate, include, but are not limited to: the Global Reporting Initiative, SASB[6][7], Task-Force on Climate-Related Financial Disclosures (TCFD), ICMA's Illustrative KPI Registry[8], International Integrated Reporting Council's Framework, the Accountability's Materiality Framework, International Sustainability Standards Board (ISSB), Task-Force on Nature-Related Financial Disclosures (TNFD), IFC Performance Standards and the various reports produced by the EU Sustainable Finance Platform.

d) What does providing a "clear definition of the KPI(s)" entail?

By way of example, detail of the following for each KPI would provide a clear definition for that KPI:

- an applicable scope;
- how the target is linked to the borrower's sustainability strategy e.g. how the target is linked to the borrower's ambition to become net-zero across their value chain by 2030;
- any baseline being used;
- what the KPI is being benchmarked against; and
- the calculation methodology e.g. unit of measure and clear definition of the denominator of intensity-based KPIs.

e) Can the KPIs be at project level?

Yes, the KPIs can be at a project level provided that any such KPI fulfils the requirement to be "relevant, core and material to the borrower's overall business, and of high strategic significance to the borrower's current and/or future operations".

f) Can a third party ESG rating serve as a KPI for an SLL?

In principle, a borrower's ESG rating as provided by an external sustainability/ESG rating agency may serve as a KPI for an SLL. Borrowers should clarify if they are using either an ESG rating as a whole, or specific E and/or S and/or G-related components of the overall rating as their target KPIs. Given diverging and evolving rating methodologies and rating scales, as well as other characteristics (e.g. subjectivity), where an ESG rating is not accompanied by other KPIs, borrowers are expected to explain why an ESG rating may be the best indicator to reflect their core business ESG challenges and disclose the kind of rating (solicited vs unsolicited). In addition, borrowers should be aware that they may hold limited direct influence on the evolution of their ESG ratings, which could also be driven by methodology changes. There may also be regulatory or licensing constraints to using ESG ratings as KPIs that the borrower should consider.

Where an external and independent ESG rating is used, the rating will not need to be verified by an additional external reviewer for the purposes of the SLLP.

g) Can "green" CapEx be used as a KPI?

An SLL in alignment with all five core components of the SLLP may include a KPI related to "green" CapEx, as a 'means oriented' KPI. This may be especially relevant for industries where targeted CapEx is an integral part of the decarbonisation/transition strategy and may be presented as a percentage of the overall CapEx.

It is nonetheless important to note that an increase in "green" CapEx does not guarantee the actual decarbonisation of a particular business model, depending on the sector.

Furthermore there is currently no globally consistent definition or market understanding of what constitutes "green" CapEx. Borrowers may, for instance, seek to use a jurisdictional reference, such as the EU Taxonomy[9]; seek external review of their green CapEx definition; and/or provide a rationale to support their definition.

II. Calibration of SPTs

SPTs (which should apply over the life of the loan) are determined and set between the borrower and the lender group for each SLL. Typically, one or a small number of lenders may assist the borrower with these sustainability metrics selection and target-setting processes and coordinate their communication to the broader lender group (the "Sustainability Coordinator")[10].

SPTs can be (i) external and set by reference to science; (ii) external and set against a borrower's ESG performance in relation to

[6] The International Sustainability Standards Board (ISSB) is developing sustainability-related disclosures that will build on existing reporting initiatives such as the SASB standards

[7] https://www.sasb.org/standards/materiality-map/. SASB's Materiality Map visually reveals how 26 general sustainability issues manifest across 77 industries.

[8] https://www.sasb.org/standards/materiality-map/. SASB's Materiality Map visually reveals how 26 general sustainability issues manifest across 77 industries.

[9] In this respect see Commission Recommendation (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023H1425

[10] See 3.C.I below for further information.

its peers; (iii) internal and bespoke to the borrower's business referencing past performance where possible; or (iv) a combination of any of these.

With respect to selection of the sustainability metrics and setting of the SPTs, the obligation to determine that the chosen metric is meaningful – meaning core to the borrower's business – and the related SPT(s) is ambitious – meaning a target that represents a true reach for the borrower – will require significant borrower input since it will have the best understanding of its own business activities.

Methodologies for selection of SPTs can include utilising:

- ambitious ESG metrics and targets included in the borrower's sustainability strategies and/or policies; and/or
- external analysis to establish sector-specific ESG criteria and best-practice performance; and/or
- verified industry metrics reported against frameworks[11], with verification or evaluation by civil society organisations[12] or external reviewers who will determine if SPTs are ambitious for the borrower and that borrower's industry, and/or align the SPTs to existing regulatory targets (such as those set out in the Paris Agreement or in other country/regional/international targets).

Notwithstanding that the borrower might have appointed a sustainability coordinator, it is critical that lenders make their own individual assessment of the alignment of the SLL with the SLLP for the particular borrower and request the information necessary to make such an assessment.

a) On what basis can borrowers ensure and lenders assess whether the SPTs are ambitious and suitably meaningful to the borrower's business?

Borrowers can use industry initiatives and standards to ensure that selected SPTs are ambitious. Such initiatives and standards include, but are not limited to, the Science Based Targets initiative, the Transition Pathway Initiative[13], RE10022[14], Kunming-Montreal Global Biodiversity Framework, UN Sustainable Development Goals and IFC Performance Standards. These help to provide an indication of a borrower's ambition relative to their industry sector and help to eliminate any perception that the SPTs represent "Business as Usual" improvements.

Furthermore, ambition can be demonstrated when it reflects a material improvement compared to the borrower's past performance. In any case, SPTs should not be set lower than the performance historically achieved by the borrower without plausible explanation[15], or what is required (or will be during the term of the loan) by law, i.e. SPTs should go beyond regulatory requirements applicable from time to time. Comparison may also be made against any publicly available peer targets of similar size. This can be particularly useful for those targets which are not climate related.

b) Can SPTs that reflect publicly announced targets qualify as ambitious?

Provided the SPTs are set in good faith and remain relevant (so long as they apply) and ambitious throughout the life of the loan, they can be drawn from a borrower's publicly announced targets. Lenders should take care to give any SPTs the due scrutiny and attention they require to ensure they meet the requirements of the SLLP, irrespective of whether they are publicly announced or not.

Where SPTs do reflect publicly announced targets, best practice is to build mechanisms into the documentation to allow for these SPTs to be updated so that they are not less ambitious than those publicly announced from time to time.

c) Are annual SPTs per KPI for each year of the loan mandatory?

While it is recommended that borrowers set an annual SPT per KPI for each year of the loan term, this is not a mandatory requirement. In cases where a strong rationale is provided for why annual targets are not suitable, exceptions to the annual frequency of SPTs can be agreed upon between borrowers and lenders.

The ability to define meaningful annual targets largely depends on the nature of the KPI which has been selected and the maturity of the SLL. A trajectory or performance improvement pathway may be mapped out based on a number of interim targets over time, and it may be possible to define annual targets in this context. However, it is clear that for some business models and some KPIs, significant performance improvements will only be possible over an extended (multi-year) period of time, based on substantive adjustments to the business model and associated infrastructure and assets, and inclusion of annual targets may not be appropriate, particularly in the short term.

d) Setting targets based on a borrower's performance over time?

In order to allow lenders to evaluate the borrower's historical performance against the KPIs selected, where possible, those KPIs should have already been included in previous annual reports, sustainability reports or other non-financial reporting disclosures, or alternatively, borrowers should seek to provide KPI values covering at least the previous 3 years where possible.

[11] For example, the Greenhouse Gas Protocol.
[12] For example, the Science Based Targets initiative. Targets adopted by borrowers to reduce greenhouse gas emissions are considered "science-based" if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement—to limit global warming to well-below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C.
[13] An initiative assessing borrowers' preparedness for the transition to a low-carbon economy.
[14] An initiative to increase renewable energy demand and supply, with corporates committing to source 100% renewable electricity globally in the shortest possible timeline (by 2050 at the latest).
[15] For example, where a recent acquisition has changed the profile of the borrower, necessitating the setting of SPTs at a higher level than historical performance.

However, a lack of historical data beyond the baseline data should not create a barrier to potential borrowers' accessing SLLs. Where no historical data is available, parties should work together to ensure that targets selected are suitably robust, ambitious and meaningful to the borrower's business. See 3.B.II.a for further information.

e) How should differences in the sector, geography, governing laws and environmental policies be reflected when defining the ambition of SPTs?

The borrower should select KPIs and SPTs in relation to its sector(s) of operation, giving account to local context. Ambitious SPTs should be based on a combination of benchmarking approaches, such as historical and externally verified values, those selected by the borrower's peers, and industry or sector standards, or other proxies in the sector/industry.

Where feasible, targets should be set in line with official country/regional/international targets and, as much as possible, should aim to go beyond such levels. For example, climate-related targets should be set in line with 'science-based' scenarios. Sustainability priorities are likely to vary depending on the economic, social and political context of different geographies in which borrowers are domiciled or where they have the largest proportion of their activities situated. For example, environmental SPTs that may be regarded as modest in ambition in developed economies, could be deemed as highly ambitious in regions where the decarbonisation efforts are less advanced. Similarly, differences in social factors including demographics, workforce participation and gender equality where borrower activities are undertaken may mean that what is regarded as an ambitious target in one region may not be accepted as ambitious in another.

The SLLP recommend borrowers clearly communicate to lenders the references to the benchmarks selected, and how the specificities of a given sector and/or local context have been identified and addressed.

f) What happens when KPIs and/or SPTs cannot be "set before or concurrently with the origination of the loan"?

Where no KPIs and/or SPTs are set before or concurrently with the origination of the loan, the loan is not an SLL and shall not be communicated as such. Only after both KPIs and SPTs are agreed and set, and all other core components of the SLLP are met, can a loan be communicated, or referred to, as an SLL.

The borrower should make every reasonable effort to set the KPIs and SPTs before (or concurrently with) origination of the loan. However, in certain circumstances, parties may agree to include the mechanics of an SLL within the documentation, with these mechanics to be switched on when the KPIs and SPTs are agreed.

In such circumstances, borrowers shall provide a clear rationale for why the KPIs and/or SPTs cannot be set pre-origination of the loan, disclose their existing sustainability strategy to the lender group and agree on a backstop date by which the KPIs and SPTs shall be agreed, which should be no more than 12 months post origination.

Parties shall ensure that the selection of the KPIs and calibration of the SPTs undergo the same scrutiny and attention as they would have had they been proposed at the outset of the transaction and it is recommended that all lender affirmative consent be required to the setting of any KPIs/SPTs. Where this is not practicable, parties may agree to a lower threshold for consent, commensurate with the size of the syndicate, nature of the amendments to be agreed (including, without limitation, whether these include potential pricing adjustments) and characteristics of the deal.

Where SPTs for the first years of the loan have been set before or concurrently with origination of the loan, but the SPTs for the latter years cannot be set because they, e.g. surpass the borrower's strategic planning, the loan can be labelled an SLL. The final SPTs can be set (in a timely manner) at a later date via e.g. a sustainability amendments clause[16]. In this scenario, should the SPTs not be set for the latter years, the loan should be declassified and no longer marketed as an SLL.

III. Loan Characteristics

a) Is there any example drafting of sustainability-linked loan clauses?

In September 2022, the APLMA published a Term Sheet (with Sustainability-Linked Loan Appendix) which was updated in July 2024.[17]

In February 2023, the LSTA published Drafting Guidance for SLLs.[18]

In May 2023, the LMA published its Draft Provisions for Sustainability-Linked Loans[19], with the accompanying Term Sheet for Draft Provisions for Sustainability-Linked Loans published in October 2023

Where applicable, parties can also refer to the APLMA, FFA, LMA and LSTA March 2024 publication A Guide to the Application of the Sustainability-Linked Loan Principles in Fund Finance[20] and ELFA and LMA 2023 Best Practice Guide to Sustainability-Linked Leveraged Loans[21].

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[16] See 3.B.III.b) below for explanation of a sustainability amendments clause.
[17] https://www.aplma.com/microsites/categories/3/pages/14/content/216. Available to members only.
[18] https://www.lsta.org/content/drafting-guidance-for-sustainability-linked-loans-feb-17-2023/. Available to members only.
[19] https://www.lma.eu.com/sustainable-lending/documents# Available to members only.
[20] A_Guide_to_the_Application_of_the_SLLP_in_Fund_Finance.pdf
[21] Best_Practice_Guide_to_Sustainability_Linked_Leveraged_Loans.pdf

b) How might the parties to an SLL account for long-term targets and changes to KPIs/SPTs? (sustainability amendments clause)

For transactions where not all KPIs/SPTs can be accurately set at the outset of the loan, or where certain KPIs/SPTs may cease to be relevant over time, the parties may need to consider amendments to the KPIs/SPTs over the life of the loan. The potential impact of changes to the borrower's core business (for example, merger, acquisition or asset dispositions) on SPTs should also be considered.

Provisions may be included in the documentation to define the precise conditions under which the borrower may be allowed or required to update KPI/SPT definitions and/or calibration so as to maintain alignment with its business and sustainability commitments over the life of the loan, for example, significant M&A activities, extraordinary/extreme events, and/or drastic change in the regulatory environment. Such provisions typically fall under a "sustainability amendments clause" and seek to address, via an amendment to the documentation, any KPI/SPT change required by virtue of a revision, adjustment, or update in methodology or scope, where parties would act in good faith to solve the situation in a set period of time.

IV. Reporting

a) Is there a standard methodology for a borrower to report on its KPIs/SPTs?

To date, there is no globally accepted methodology for reporting on SPTs. The methodology will be determined with regard to the chosen SPTs and the nature of the relevant borrower.

Borrowers shall report on their SPTs at least once per annum and are encouraged to provide details of any underlying methodology and/or assumptions (where known). In addition, they should confirm that there has been no change in the calculation methodology. If there has been a change, parties may wish to reconvene to understand that change and its impact. Borrowers may make their reporting methodology available upon the achievement of the SPTs or on agreed reporting dates (typically 120 – 180 days after fiscal year-end), either directly to the lenders or as part of their overall corporate sustainability reporting. Public reporting is encouraged.

It should be noted that several sustainability reporting methodologies exist in the market today.

V. Verification

a) When might external review take place?

External reviewers can be appointed pre-signing or post-signing.

Pre-signing, where appropriate, a borrower should seek an external opinion or KPI/SPT assessment to:

- confirm the alignment of their SLL with the core components of the SLLP;
- assess the meaningfulness, credibility and ambition on the selected SPT(s); and/or
- put the SPT(s) in the wider ESG picture to ensure that SPT achievement is not overshadowed by negative effects of other practices by the borrower.

The need for an external opinion or KPI/SPT assessment is to be considered on a deal-by-deal basis, and the responsibilities of an external reviewer are likely to vary depending on the nature of the transaction, the scope of the external review and the in-house expertise of the borrower.

Post-signing:

- in case of any material change to parameters/ KPI methodology/ SPT(s) calibration, borrowers are encouraged to ask external reviewers to assess any of these changes; and
- borrowers are required to seek independent verification for any date/period relevant to assessing SPT performance leading to a potential adjustment of the SLL financial and/or structural characteristics. Where information has already been verified as part of a borrower's (public) annual reporting or regulatory submission, it need not be verified again for the purposes of these SLLP.

b) What will the verification report cover?

Amongst other things, the verification report should describe:

- the level and type of verification, for example whether a limited or reasonable assurance, or other, engagement has been conducted and the standards applied;
- a description of the procedures conducted by the practitioner and any inherent limitations;
- a description of the subject matter of verification and the criteria, such as sustainability standards used to assess conformance; and
- confirmation of the practitioners' independence and conformance with quality management systems.

c) Verification of the performance against the SPTs is required under the SLLP. How will this affect the legal documentation?

The verification of each SPT should occur for any date/period relevant for assessing SPT performance that may lead to an adjustment of the loan's financial and/or structural characteristics. Measurement dates, form and delivery of reporting will be defined within the loan documentation.

d) Does a new third-party report need to be issued if the maturity of the loan is extended?

For loan transactions where an external review is sought at origination, parties will negotiate on a case-by-case basis whether the relevant third-party report needs to be reissued with each borrowing or loan extension, being mindful that the previously set SPTs may have been achieved prior to the loan extension.

C. Parties

I. Sustainability coordinator

One or more of the lenders/loan arrangers may serve as the sustainability coordinator[22] to assist with providing market colour regarding the KPIs and SPTs to the borrower, and to facilitate the dialogue between the borrower and the lender group in regard to substantiating the choice of KPIs and SPTs and assisting the borrower in answering the ESG-related questions the prospective lender group might have.

It is important that this role is clearly defined at the outset of a transaction and roles and responsibilities are clearly established. Though a lender may be the sustainability coordinator, it does not assume fiduciary or any other duties to the rest of the syndicate or confirm that the documentation meets the SLLP on behalf of other lenders. Each lender shall therefore satisfy themselves as to the borrower's KPIs, SPTs and other credentials irrespective of whether a sustainability coordinator is appointed on a transaction.

See the APLMAs Sustainability Coordinator Mandate Letter[23], LMA's An Introduction to the Sustainability Coordinator Role[24] and Sustainability Coordinator Letter[25] and the LSTA's Sustainability Structuring Agent Engagement Letter Inserts[26] for more information.

[22] This role may be referred to as a Sustainability Coordinator or Sustainability Structuring Agent.
[23] https://www.aplma.com/microsites/categories/3/pages/14/content/215
[24] https://www.lma.eu.com/application/files/3416/5763/4761/Introduction_to_Sustainability_Coordinator_Role.pdf
[25] https://www.lma.eu.com/sustainable-lending/documents
[26] https://www.lsta.org/content/sustainability-structuring-agent-engagement-agreement-inserts-feb-17-2023/