HORIZONS

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Spring 2025

Enter

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Welcome to HORIZONS

Welcome to the *first Horizons publication of 2025* – and what a start to the year it has been! It feels like I've blinked, and we're suddenly at the end of March.

This swift passage of time mirrors the remarkable growth of the sustainable finance market, which has evolved from its infancy to the dynamic phase of adolescence. It's fitting, then, that the close of 2024 and the beginning of 2025 have prompted market participants, regulators, and stakeholders to pause and reflect on how existing initiatives and frameworks can effectively support this critical stage of development. Now is the time to assess what revisions, additions, or simplifications are necessary to guide the market to maturity - ensuring it evolves into a fully-fledged, responsible adult. This includes both voluntary efforts (through market initiatives and frameworks) and mandatory actions (e.g., the EU Omnibus).

It's essential that we all actively contribute to shaping and nurturing the future of this market, and this will remain a core focus for the LMA in 2025. Already this year, we have published updated Green, Social, and Sustainability-Linked Loan Principles (Principles), along with supporting guidance. These revisions aim to strengthen the robustness of frameworks while also highlighting how borrowers can better leverage the significant work they've already done to maximise the impact of sustainability-labelled instruments.

Our ongoing work on transition and gender-lens financing is progressing, and I'm optimistic that we will have something to present to the market in the next couple of months. Looking ahead, 2025 will focus on the role of pure-play companies within the labelled market and the accessibility of labelled instruments for SMEs.

We are also in the process of establishing a Middle East Sustainability sub-chapter. While we are still defining its specific mandate, the goal is to complement the work of the overarching Sustainability Committee, as well as address the unique regional challenges and opportunities in sustainability. If you're interested in learning more or getting involved, please don't hesitate to contact me.

Lastly, from an events perspective, we will be hosting dedicated sustainability events and roundtables in Nigeria, Sweden, Norway, and Finland during Q2. If you're interested in attending or participating, please let me know.

2025 promises to be an exciting and action-packed year, and I look forward to collaborating with all of you as we continue to drive the sustainable finance agenda forward.

Gemma Lawrence-Pardew
Head of Sustainability

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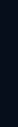
Sustainable Debt in Focus: 2024 Summary and 2025 Outlook



William Sharpe
Green & Sustainable Syndicate, Natixis CIB's Green & Sustainable Hub

Global Issuance of Sustainable Debt
Global Issuance of Sustainable Loans
Key Performance Indicator (KPI) Trends in SLLs
Sustainability-Linked Term Loan & Leveraged Loans
Private Debt
The Possibilities and Promise of 2025

As the global financial landscape continues to prioritize sustainability, sustainable debt has become a critical area of focus for investors, lenders, borrowers, and policymakers.

This market outlook provides a summary of key trends and developments in sustainable debt throughout 2024, while offering a glimpse into the possibilities and promise of 2025.

Global Issuance of Sustainable Debt

Total Sustainable Debt issuance reached $1,749b in 2024 representing a 12% increase compared to volumes of $1,547b seen in 2023. This level also exceeded 2022's total volumes of $1,683b but was short of 2021's high-water mark of $1,835b.

Global issuance of green & sustainable debt ($bn)

Source: Dealogic, Bloomberg

These results, which reflect continued buoyancy in sustainable debt markets, include Green and Sustainability-linked syndicated loan issuance as well as debt capital markets (DCM)'- GSSS bond market volumes excluding securitizations.

On the DCM side, Green Bond issuance remained the market mainstay progressing to $650b (+9%) while notable growth in Sustainability Bond issuance saw it $251b (+27%) and $169b (+8%) respectively (source: Bloomberg). Fixed income investor appetite continues to favor use-of-proceeds sustainable instruments over funding for general corporate purposes.

In the DCM side, Green Bond issuance remained the market mainstay progressing to $650b (+9%) while notable growth in Sustainability Bond issuance saw it $251b (+27%) and $169b (+8%) respectively (source: Bloomberg). Fixed income investor appetite continues to favor use-of-proceeds sustainable instruments over funding for general corporate purposes. In terms of sectors, as in previous years, Utility & Energy borrowers led the way with around $728b in issuance, followed by Real Estate, Financials and Technology.

Global Issuance of Sustainable Loans

In the GSS syndicated loan market, issuance of Sustainability-Linked Loans (SLLs), Social Loans and Green Loans neared $838b in aggregate (+21%), of which SLLs (+18%) the $1b, $162b (+31%) for Green Loans and $13b (+4%) for Social Loans (source: Dealogic), a record level for both Green Loans and Social Loans. SLL volumes are traditionally supported by a significantly larger supply base, encompassing jumbo corporate credit facilities (RCFs) required by blue-chip corporates for general corporate purposes. In terms of sector, as in previous years, Utility & Energy borrowers led the way with around $728b in issuance, followed by Real Estate, Financials and Technology.

Global Issuance of Green & Sustainability-linked Loans ($bn)

Source: Dealogic

While sustainable lending increased by 21% in 2024 compared to 2023, the overall global syndicated loan market grew by a higher rate of 37%, resulting in a lower aggregate penetration rate of 10% (proportion of SLLs and Green Loans in total syndicated loan issuance) down from 12% in 2023. Regionally, the progression was mixed, with penetration rates declining respectively from 21% to 19% in the EMEA and from 12% to 10% in North America. However, in the APAC region, total loan volumes declined while SLL and Green Loan issuance increased, boosting the penetration rate from 14% to 19%.

Global penetration rates of Green & Sustainability-linked Loans ($bn)

Source: Dealogic

In the EMEA, the decline in the SLL penetration rate since 2022 can be primarily explained by the erosion of the share of SLLs in the Investment grade RCF segment, which has steadily decreased from a level of 47% in 2021 to 29% in 2024. Several factors explain this trend including:

- greater borrower caution due to heightened concerns over greenwashing risks
- more stringent requirements from lenders in terms of the scope and ambition level of targets
- concern over potential negative publicity for not meeting targets
- SLL structures considered by some issuers to be burdensome relative to the benefits, especially for companies with sustainability policies and trajectories that are communicated separately.

EMEA Investment Grade RCF SLL Penetration Rate ($bn)

However, investment grade RCFs still represent over 50% of SLLs and many issuers remain committed to the use of this instrument which has become more robust. Also, use of SLLs by other categories including mid-cap companies has been expanding, with increased efforts being made to accommodate the specific needs of SME borrowers as well.

Separately, building on the record level of Green Loan and Social Loan issuance reached in 2024, the use-of-proceeds segment is set to continue to grow in 2025, particularly as the transition label becomes formalized, unlocking financing for hard to abate sectors key to achieving decarbonization trajectories. Social Loans currently represent a fraction of sustainable use of proceeds volumes, however current momentum and continued expansion of Social and Sustainability bond volumes suggest that this category could continue to grow.

Key Performance Indicator (KPI) Trends in SLLs

Based on Dealogic data, KPI categories were publicly disclosed in around 36% of SLLs in 2023 and 38% in 2024. Four broad themes can be distinguished:

- Carbon emissions / Energy has been the most frequently used, seen in 85% of SLLs disclosing KPIs in 2024, however this level was down slightly compared to 2023 when it stood at 91%.
- Social indicators, including gender diversity / equality, health & safety, employee training and skill enhancement, have been increasingly used by issuers and were relatively stable appearing in 42% of SLLs disclosing KPIs in 2024 compared to 43% in 2023.
- Governance, with a focus on ESG-linked executive KPIs both increased in 2024 compared to 2023, to 32% and 10% of 2024's SLLs disclosing KPIs respectively.

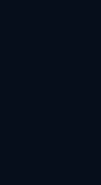
Share of Deals with KPIs disclosed (%)

Source: Dealogic

Sustainability-linked Term Loan B (Leveraged Loans)

Total European leveraged loan volumes grew to around €200b in 2024 (source: LCD), increasing by c. 180% compared to 2023. Opportunistic repricing activity, refinancings and dividend recaps comprised the bulk of volumes with new money transactions remaining muted. Although the SLL market has been growing in recent years, relative to pricing and the deal amount, the characteristics of the original transactions tended to remain in place, including EBITDA-based ratchets that were not necessarily revised or even publicized during repricing / refinancing process. This explains the relatively modest increase in mentions of SLL Term Loans issuance to $19b in 2024 from $8b in 2023, with a relatively stable penetration rate at 9% compared to 11% in 2023.

European Leveraged Loan TLB Volumes and Penetration Rate



Source: LCD

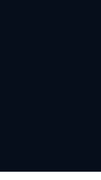
Notwithstanding, institutional TLB investors have increased their attention to sustainability considerations via the systematic use of ESG questionnaires submitted to borrowers. This has been driven by the PRI's Leveraged Loan Investment Guidance recommended by the European Leveraged Finance Association were expanded in 2024, adding questions relating to European Taxonomy alignment, decarbonization strategy and targets, biodiversity and deforestation, while querying borrowers to their adherence to CSRD and ESRS regulations. While not directly embedding these factors into TLB pricing, these actions show a redoubled focus on extra-financial transparency and risk analysis covering all European leveraged loan transactions.

Private Debt

Sustainable private debt funds (i.e. private debt funds classifying themselves as Article 8, Article 9 or Impact) continued to grow in 2024.

The volume of sustainable private debt funds that closed during 2024 increased to $39b from $10b, a share of 15% in all private debt funds closed compared to 6% in 2023. Total volumes of all private debt funds closed($262b) were in line with 2023's levels.

Closed Sustainable Debt Funds by Asset Class Worldwide ($bn)



Source: PEI Group

It should be noted that a single fund, West Street Loan Partners V run by GSAM, accounted for $13b or one-third of the $39b total, without which the volume of sustainable private debt funds would have fallen by one-third to $26b in 2024. Corporate and direct lending funds accounted for the most representation at 71% of the $39b total, with the balance comprised of infrastructure funds and real estate funds. Across these categories, Article 8 funds represented around 85% of the total.

Closed Sustainable Debt Funds Penetration Rate Worldwide ($bn)

Source: PEI Group

With respect to private debt funds currently in the market actively raising capital, sustainable fund penetration rates vary considerably depending on asset class and the geography of the fund manager:

Infrastructure debt funds

37% of closed ended funds in the market worldwide are classified as sustainable, a share which stands at 76% in the EMEA. In both cases, penetration rates for funds in the market significantly exceed the historical levels for funds closed since 2020 (23% and 35% respectively) suggesting the supply of sustainable infra funds has been expanding rapidly. Moreover, the 76% penetration rate for EMEA sustainable infra debt funds in the market exceeds the 58% penetration rate for all EMEA infra funds (debt & equity) closed since 2020. Corporate & direct lending and real estate categories potential follow where the penetration rates are relatively lower for debt funds compared to all funds (debt & equity).

Corporate and direct lending funds

10% of closed ended debt funds in the market worldwide are classified as sustainable, a level which stands at 15% in the EMEA. Worldwide, this represents 1/7 of the global market. These levels are higher than the historical aggregate penetration rates for debt funds closed since 2020 (respectively 9% and 14%) although the levels are more in line than for infrastructure funds. The overall penetration rate for private equity funds (including corporate and direct lending in addition to equity-only funds) stands at 11% worldwide and 24% in the EMEA, at levels slightly higher than for debt funds.

Real estate debt funds

7% of closed ended debt funds in the market worldwide are classified as sustainable, a level which stands at 9% in the EMEA. Worldwide, this represents 1/14 of the global market. In line with both the historical level for funds closed since 2020 (8%) as well as the wider penetration rate for all funds (debt & equity, 9%) indicating relative stability. In the EMEA, the 19% penetration rate for funds in the market slightly exceeds the historical level of 17% while remaining below the wider penetration rate for all funds (debt & equity) of 30%, suggesting there a appetite for further growth in the region for sustainable debt funds.

The Possibilities and Promise of 2025

Sustainable lending in 2025 is poised to benefit from an increased focus on sectors in transition as well as social lending. However, it will also face headwinds stemming from shifts in U.S. policy that could have global implications. On a positive note, enhanced extra-financial reporting and transparency in EMEA, driven by regulation, has been underway for several years and should continue in 2025 with the implementation of Omnibus simplification agenda, which is challenging important provisions of CSRD and CS3D. Notwithstanding, EMEA investors should continue to seek assets aligned with the European Taxonomy further supporting the issuance of Green Loans. In terms of private credit, while the penetration rates of sustainable funds in certain asset classes such as infrastructure may stabilize at existing levels, others such as corporate & direct lending (including transitions) as well as in the EMEA Real Estate sector show potential for further expansion.

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Rethinking Finance: The Need for a New Economic Model to Protect Our Future

Anastasia Linn, Matt Orsagh and Steve Rocco,
Arketa Institute for Post-Growth Finance

To protect our future, we need to rethink finance.

Our work is only as good as the tools we use. If we use flawed tools, our work is compromised. This principle is true in finance and economics as well. If we use the wrong models, we can reach the wrong conclusions.

Our current understanding of economics is one such flawed tool.

Neoclassical Economics

Neoclassical economics is a broad set of theories that focuses on the allocation of resources through markets where the forces of supply and demand drive production, pricing, and consumption decisions for goods and services. It has been the default economic model for decades, first emerging at the turn of the 20th century and becoming the dominant economic paradigm following World War II. It has its flaws though, and we are increasingly feeling the consequences of those flaws today.

The fundamental flaw of neoclassical economics is that it does not adequately account for the energy and materials we use to drive our global economy.

It takes note of certain parts of the production and consumption processes but overlooks the physics of the material moving through the process or the energy (human or electric) needed at every stage. It also ignores the larger system in which all this activity takes place—the environment—which is the life support system upon which our lives and economies depend. Neoclassical economics suggests that an economy can grow more and more profitable and prosperous forever.

Neoclassical economics is what most of us learned in school and serves as the basis of most financial practice today. But it is not the only game in town. We already have an alternative that properly values our dependence on natural systems in our economics: ecological economics

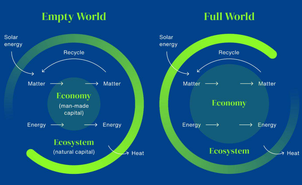
Ecological Economics

Ecological economics reminds us that "the economy" lies within society, and that both the economy and society sit within and depend upon our environment. Ecological economics emphasizes the dependency of our economy on the natural world, making clear the damage we do to ourselves by damaging our environment.

Ecological economics recognizes that an economy that grows forever simply is not possible on a finite planet, and it shifts the focus instead to ask what the optimal scale of the economy might be.

If we accept the premise that the economy is a subsystem of the biosphere, then we need to assess whether the resources needed by the economy can adequately be provided by the biosphere, and whether the waste produced by the economy can adequately be handled by the biosphere. This is the basic idea of sustainability and can be visualized as how much water you can carry in a bucket without spilling it.

When an economy is very small relative to the biosphere, the biosphere can easily provide all the resources for the economy and easily deal with the waste produced by the economy. Such a state in which the economy is very small in relation to the biosphere is an "empty world" in the language of ecological economics. This was arguably the case in centuries or maybe even decades past when neoclassical economics was established. But we don't live in an empty world anymore.

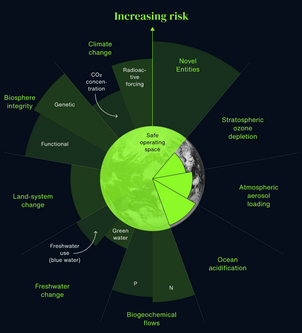


Empty World – Graphic adapted from Herman Daly and Joshua Farley's Ecological Economics: Principles and Applications (2004)

We live in a "full world", where the economy is bumping up against, and even surpassing the limits of what the biosphere can sufficiently handle. But how do we know this?

Planetary Boundaries

In 2009, the Stockholm Resilience Centre published its first Planetary Boundaries Framework. Their goal is to more clearly communicate the amount of degradation different natural processes can endure before they break down. While the model has become widespread in the intervening years, unfortunately we have seen the planetary boundaries themselves push farther and farther into the danger zone. The farther these systems move into the red, and the longer they stay there, the more difficult it becomes for human civilization to survive, let alone thrive.



Graphic adapted from Planetary boundaries
www.stockholmresilience.org/research/planetary-boundaries.html

We have pushed past six of nine planetary boundaries, meaning we live outside of a safe space for humanity in these areas. This is our collective "bucket" that is spilling over the edges due to our living beyond our ecological means. We need to move back into a safe zone in each to give ourselves the best chance of surviving, let alone thriving.

For those not familiar with the planetary boundaries[1], here is a quick introduction:

1. Climate change – Greenhouse gases in the atmosphere trap heat.
2. Novel entities – Things introduced into the environment that are disruptive to Earth's systems, mostly plastics.
3. Stratospheric Ozone Depletion – The ozone absorbs dangerous ultraviolet radiation from the sun.
4. Atmospheric Aerosol Loading – Atmospheric aerosols are particulate matter or pollution in the atmosphere.
5. Ocean acidification – If a solution becomes too acidic, it can support less life.
6. Biochemical flows – Chemical elements (mostly phosphorus and nitrogen) infringing on living systems (water, soil).
7. Freshwater use – The flow of the hydrological cycle that refreshes the water resources of the world.
8. Land system change – Changes in the landscape, such as deforestation.
9. Biosphere integrity – Diversity and health of life on Earth.

The longer we stay outside of these planetary boundaries, the harder it will get for people to provide the essentials of life to themselves and their families.

It is clear that things must change, and that includes our conceptions of the economy and of our industry—finance—as well.

1. https://www.stockholmresilience.org/research/planetary-boundaries.html

Finance Needs to Evolve

Our current financial and economic systems are built on the expectation of perpetual growth. Even a modest expectation of two percent growth globally means that the global economy would double in thirty-five years. That mandate for growth is incompatible with a "full world" in which we must move back to the safe side of our planetary boundaries.

Sustainable investing as we know it only incrementally addresses these problems.

Currently, sustainable investment means choosing from a menu of investments, some of which are already not compatible with staying within planetary boundaries. Such action will not result in sustainable outcomes.

The menu of investments to choose from must be compatible with planetary boundaries from the start. This would push some current business models off the menu in order to stay within planetary boundaries.

The logical conclusion is to put the integrity of our planetary boundaries first and foremost in our economic, political and cultural decision making, as these planetary systems are our life support system. If we can do this, we can design an economy that operates within planetary boundaries. If we choose not to do so, disaster will eventually force us back within them, as Earth's systems break down.

Finding a New Path

Because our current economics does not adequately consider the damage to our environment from energy use and material waste, our global society has focused on economic growth as the measure of our success as a civilization. But this focus on growth for the sake of growth puts our own life support system at risk. After a certain point, pursuing growth for the sake of growth becomes self-defeating, as it compromises our life support system, and therefore inhibits our ability to live well – or possibly live at all.

That is where we are now as a global civilization.

By recognizing the limits of our planet and accepting the reality of this "full world", we can better prepare for a post-growth economy. We can lay the foundations for a society that can thrive within our planetary budget and move towards an economy where growth will happen but is no longer a measure of economic success.

Some of our peers are already adopting this mindset. Examples of institutions adopting this post-growth model include Triodos Bank, based in the Netherlands, or Alternative Bank Schweiz, based in Switzerland. Each bank looks to serve local community needs while operating within ecological limits. Other financial firms can develop their own models that prioritize serving client needs within planetary boundaries, above growth that weakens our life support system. Finance can follow this new path, and indeed, we believe, it must.

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Decarbonising Aviation: In conversation with IBA

Jennifer Stanley
ESG Manager,
IBA

Phil Seymour
President,
IBA

Aviation is known for being a challenging sector in terms of sustainability. For companies looking to integrate sustainability into their financial strategies, where should they begin?

In this Q&A interview, Phil Seymour and Jennifer Stanley, of the world-leading aviation intelligence and advisory company IBA, discuss the challenges the aviation industry faces on its road to decarbonisation and how to tackle complex issues like Scope 3 emissions.

1. Aviation is known for being a challenging sector in terms of sustainability. For companies looking to integrate sustainability into their financial strategies, where should they begin?

Understanding their data!

In order to navigate a path to net zero, companies need to be able to benchmark their data and draw a line in the sand as to where they currently stand. Within the aviation industry, emissions is a key focus area. Understanding current emissions is essential for determining the scope and scalability of a company's sustainability strategy with a view to reaching net zero by 2050.

We've helped many companies understand their data, enabling them to plot this onto a decarbonisation curve and align it within their overall sustainability objectives. This helps support them through the first stages of their ESG reporting journey, and it is a journey.

When looking at the regulatory obligations, specifically within Europe, they are time consuming, large and complex data reporting mandates. In some cases, this can be quite overwhelming but by understanding what the data is showing, even at a basic level, companies can start to tackle all of their reporting requirements!

2. Scope 3 emissions are hard to measure but vital for understanding a company's environmental impact. Why are they essential, and how can they be integrated?

Starting with Scope 3 emissions - these are indirect Greenhouse Gas emissions that are produced through the company's upstream and downstream supply chain. Scope 3 emissions are essentially focussed on supply chain decarbonisation but are also required in regulatory frameworks such as the Corporate Sustainability Reporting Directive (CSRD).

For financiers, part of the Scope 3 emissions are the emissions of the aircraft that they are financing.

Many companies focus on their direct emissions (Scopes 1 and 2) as these are more within their control. However, Scope 3 emissions are crucial, as they are typically the largest of the three scopes and consider the entire value chain of the company. In this context, sustainable internal practices alone are not enough; companies must ensure that all parties in their supply chain are committed to sustainability.

3. Greenwashing remains a concern across industries. How big is the challenge in aviation, and how can it be addressed?

Market participants across all industries need to be cognisant of greenwashing risk, and greenwashing risk is therefore at least as important in the aviation sector as for other sectors. Given the high-emissions nature of aviation as a sector however, it is likely that environmental claims/statements in this sector will be subject to a higher level of scrutiny compared to low to no emissions sectors. As such, great care must be taken by market participants.

Market participants may look to map all relevant rules and regulations which might be applicable and to take steps to ensure compliance with these rules and regulations (such as, for example, ensuring that environmental claims are "clear, fair and not misleading"). As an industry we are calling for standardised guidelines and reporting metrics to make this easier for all market participants.

4. In your view, is sustainability being accurately reflected in financial deals and pricing? Are we seeing enough integration of environmental factors into deal structures?

According to Reuters, 2024 saw c.20% of all financial deals incorporating sustainability features within them and this is likely to have been an increase compared to 2023. The aviation market increasingly favours sustainability-linked and green-labelled financing instruments, driven by a focus on enhanced due diligence and the financing of newer, more efficient aircraft. In practice, this means that companies with access to newer aircraft are able to secure better investment terms compared to those investing in older models.

Whilst sustainability-linked loans are becoming more common place, in order to move the needle and achieve meaningful decarbonisation across the industry as a whole, we need significantly more investment in both new and innovative technologies, as well as Sustainable Aviation Fuel. With only 20% of deals currently incorporating a sustainability element, we are still far from where we need to be.

Beyond emissions, financial deals should also consider what companies are doing up and down their supply chains and incorporating this into deals. Whilst social and governance considerations are often as important as environmental factors, they currently receive less attention within the aviation industry. But I do believe that this will change in the next decade or so.

Data availability is key to unlocking pricing sustainability in financial deals - you need to know and understand the data and associated credit risk, prior to being able to price deals appropriately. With the data available at the moment, I believe that sustainability is adequately priced into financial deals.

Ideally, we need to see increased liquidity for companies that are integrating sustainability into their business strategies. However, for the industry to achieve this, companies must be compared on a like-for-like basis. This requires transparent, consistent data points, which can then serve as benchmarks for setting KPIs and SPTs under sustainability-linked loans. At IBA we have built a system that allows users to compare like-for-like metrics, such as RTK/RPK/ASK/ESK[1], as well as total intensity and total emissions. We have found that this really supports our users to have a transparent picture of airline operators within their portfolio. As an industry we require one metric to measure emissions that is globally recognised.

1. RTK (Revenue Tonne-Kilometer) – The total weight of passengers, cargo, and baggage that an airline transports, multiplied by the distance flown.

RPK (Revenue Passenger-Kilometer) – The total number of paying passengers carried, multiplied by the distance flown.

ASK (Available Seat-Kilometer) – The total number of seats available on a flight, multiplied by the distance flown (measuring airline capacity).

ESK (Equivalent Seat-Kilometer) – Similar to ASK, but based on the standard seat layout recommended by the aircraft manufacturer rather than the individual airline configuration.

5. Looking ahead to 2025, what are the key trends or risks in the market that companies should be particularly vigilant about when it comes to sustainability and finance?

Sustainability is here to stay and is becoming an increasingly important focus in reporting. Within the European Union alone, corporates and financiers must align with multiple reporting frameworks, and even with potential simplifications under the EU Omnibus proposal, ESG reporting will remain central. Consumers are becoming more knowledgeable and will continue to demand more from their financial institutions, particularly in terms of sustainability-linked and green use of proceeds instruments.

While political pressures to relax sustainability-focused regulations in the short term to stimulate growth could be mistaken for ESG fatigue, this fails to account for the economic competitiveness driven by consumer demand, especially from Gen Z, who prioritize sustainability. Political shifts, particularly in the US, may influence regulations, but the growing demand for sustainable practices will continue to drive the agenda. As sustainability becomes a key focus for the next generation, businesses will face increasing pressure to remain competitive by aligning with these values.

Focusing specifically on the aviation sector, it was encouraging to see the announcement of standards for a centralized carbon market mechanism at COP29. This development should be highly beneficial, levelling the playing field for carbon offsetting and supporting hard-to-abate sectors, including aviation, in achieving net-zero emissions by 2050. We also anticipate increased market diversification as these markets mature and as new labels, e.g. the EU flight emissions label, come into being. These developments have the potential to make financing deals easier as sustainable data points become more transparent/available.

Finally, companies must stay aware of technological advancements in aviation. While it seems unlikely that a hydrogen aircraft suitable for commercial use will be delivered this year or even within the next decade, rapid technological developments are occurring. It is crucial for companies to stay ahead of the curve in order to maintain their competitiveness.

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Sustainable Finance

Regulatory Update

Navigating the key sustainable finance regulations across EMEA

Sustainability Assembled

Regulatory and Standards Tracker

"Simplification" has been the watchword dominating regulatory headlines in 2025.

Whilst you might have thought that the previous roll-out of sustainability legislation in the EU was rapid, those changes look sedentary now when compared with the lightning-speed at which the Commission put out its first Omnibus package. The Commission has started 2025 with a bang, shifting into a new gear with its competitiveness agenda driven by President von der Leyen. Within the space of less than two weeks, the Commission moved from a proposal which was merely a square-bracketed placeholder to a full-blown proposal (with significant potential implications for sustainability reporting).

Now, it's certainly fair to say that the Omnibus has not been met with universal approval. What some call "simplification", others call "deregulation" – and the negotiation of the Omnibus in the Council and the European Parliament is likely bring political and ideological tensions to the surface. The European Parliament is due to vote on the "stop the clock" proposal of the Omnibus Package on 1 April 2025 and we will be closely following developments in the months ahead.

Now more than ever, it is therefore important that we work together as an industry, across jurisdictions, to seek solutions that strike the right balance for market participants; that resolve usability challenges in regulatory frameworks; and that work to effectively channel capital to deliver on global transition. To support our members in this mission in Q1, we responded to the UK's Taxonomy consultation, put out our Position Paper on the Omnibus proposal and held various discussions with regulators and members on regulatory matters.

Our recently released (and first-ever) Sustainable Finance Insights Report also seeks to find solutions – this time to the challenges of navigating greenwashing risk in the loan markets. It goes without saying that ensuring the credibility and integrity of sustainable finance structures must be a top priority for all. Nonetheless, we must find ways to ensure that perfection does not become the enemy of the good, and that market participants are able to effectively engage on sustainability issues to ensure: (i) that lending activities can be aligned to business and investments strategies, (ii) that they are able to comply with their own regulatory and reporting obligations and (iii) that they are able to assess financial risk exposures related to sustainability matters.

If you'd like to find out more about our Insights Report or how you can get involved in our sustainable finance regulatory work, please do get in contact with me.

Hannah Vanstone
Lead Sustainable Finance Regulatory Affairs Officer
LMA

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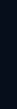
Sustainability Assembled



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Regulatory and Standards Tracker

The first quarter of 2025 has been a time of rapid change – simplification of sustainability related regulation, roll back on DEI commitments, restructuring of global initiatives and possibly even the demise of the term "ESG".

Against this backdrop, what is clear, more than ever before, is the multi-faceted and complex nature of the sustainable finance and investment sector. Effective mobilisation of sustainable finance will require an in-house team of factors including how the market responds to the geopolitical landscape, macroeconomic and shifts in market sentiment to ESG factors.

In February, the Commission published the much anticipated Eco Omnibus package of measures aimed at simplifying sustainability related legislation (**Omnibus Package**). The Commission emphasises the need for an effective strategy which fosters the role of sustainable finance in the EU economy, stating that it "*will be key to ensure that companies, investors, citizens and public administrations*". The Commission has asked co-legislators to "fast-track" specific proposals included in the Omnibus Package. It is, however, becoming clear that discussions within EU Parliament, the Council and between member states may yet delay implementation and/or amend the proposals. In addition, market response to the package of measures is mixed with significant pushback from some stakeholders.

Uncertainty (and some confusion) remains therefore as market participants and corporates consider whether, and to what extent, they should change sustainability related strategies in light of the Omnibus Package. Whether a dual approach of continuing to comply with existing legislation while also attempting to future-proofing against the Omnibus will require additional time and resource.

In the UK, in March, both the Prudential Regulatory Authority (**PRA**) and Financial Conduct Authority (**FCA**) indicated that they will no longer be progressing their DEI initiatives and the FCA published a statement in relation to sustainability regulation and UK deference. Globally, market participants have been rowing back on their ESG commitments with a number recently exiting groups such as the Glasgow Financial Alliance for Net Zero and the Net Zero Banking Alliance.

What is clear is that 2025 will be a year of significant change and uncertainty as the EU Omnibus package is considered by co-legislators and the market consider the impact on other legislation and on investment strategies, policies and portfolios.

Boosting EU Competitiveness

EU Commission's Work Programme

Following the Draghi Report (see previous publication of Marsland), the Commission published its Work Programme for 2025 (**2025 Work Programme**) setting out the Commission's ambition to "*focus competitiveness, enhance security, and bolster economic resilience*". The 2025 Work Programme "*will be increasingly focused on boosting competitiveness, enhancing security, and strengthening economic, innovation, and growth*". The 2025 Work Programme was accompanied by the Communication on Implementation and Simplification outlining the Commission's roadmap for how to achieve its objectives over the next five years.

The overarching focus of the 2025 Work Programme is on simplification (including in relation to sustainable finance reporting, sustainability due diligence and taxonomy).

Key deliverables of the 2025 Work Programme include (but are not limited to):

Sustainable Prosperity and Competitiveness	Including the newly launched Competitiveness Compass, the EU Start-up and Scale-up Strategy and the Clean Industrial Deal.
Supporting people, strengthening societies and the EU's social model	The Commission aims to strengthen social fairness by supporting people through the Union of Skills Plan on the European Pillar of Social Rights and ensuring a number of Skills to improve worker education and training.
Sustaining quality of life	This will include 10-year Green Pact to create a unified framework for sector policies and boosting the EU Biodiversity and EU the European Water Resilience Strategy.
Protecting democracy and upholding values	This will include initiatives to combat discrimination based on gender, disability, sexual orientation, or race, including a renewed LGBTQ Equality strategy and a new Anti-racism strategy.
Delivering together and preparing our Union for the future	Plans to present a new Multiannual Financial Framework proposal, including plans to simplify EU funding and enhancing financial impact.

Relevant Documents

- ESG Commission Work Programme
- Annexes
- Communication on Simplification & Implementation
- Factsheet on the 2025 Commission Work Programme
- Factsheet on the Communication on Simplification & Implementation

> **"EU companies will benefit from streamlined rules on sustainable finance reporting, sustainability due diligence and taxonomy. This will make life easier for our businesses while ensuring we stay firmly on course toward our decarbonisation goals. And more simplification is on the way."**
>
> President Ursula von der Leyen

Europe's Clean Industrial Deal: the EU's plan for competitiveness and decarbonisation to 2030

On February 26, 2025, the European Commission published its new Clean Industrial Deal. Its "business plan" to accelerate the rollout of renewable energy, deploy industrial decarbonisation and boost the competitiveness of energy-intensive industries in the European Union. The Clean Industrial Deal is part of a broader agenda to simplify and streamline EU regulations, which was anticipated by the report, "The future of European competitiveness" issued September 2024 by former European Central Bank President Mario Draghi and the resulting EU Competitiveness Compass.

The Clean Industrial Deal focuses on six key areas

- Ensuring more affordable energy in the EU
- Creating demand for clean products through lead markets
- Providing access to capital
- Securing access to raw materials and improving the circular economy
- Cultivating strategic trade relationships and deploying trade protection measures
- Fostering EU skills and jobs

For a more detailed overview of the Clean Industrial Deal and the Commission's policy priorities, see this overview.

Omnibus: Simplification or De regulation?

Carbon Border Adjustment Mechanism

As part of the February 2025 EUA simplification Omnibus package, the Commission has proposed simplifying the Carbon Border Adjustment Mechanism (**CBAM**).

The main changes proposed by the Commission to the CBAM

- Introduce a de minimis exemption so that importers of smaller volumes of goods do not have to comply with the CBAM
- Simplify some of the rules relating to authorisation of CBAM declarations and reporting of emissions
- Anticipate a full review of the CBAM (which was already contemplated) and a new legislative proposal in early 2026 to extend the scope of CBAM to include further downstream finished goods as well as other ETS sectors, amongst other things

For a brief additional overview of the proposed changes to the CBAM see the relevant sections in this overview.

CSRD and CSDDD

The Omnibus Package sets out proposals to postpone CSRD and CSDD for companies not currently in scope, as extend reporting and due diligence requirements. The Commission has asked the European Parliament and Council to fast-track the proposals however timing remains uncertain.

The Commission estimates that the above changes made to align CSRD to CSDD would remove around 80% of companies from CSRD reporting.

Key changes

What Next for the EU Taxonomy?

Omnibus EU Taxonomy

As part of the Omnibus Package, the Commission has published the Sustainable Finance Amendments to the Taxonomy Disclosures Delegated Act, Taxonomy Climate Delegated Act and Taxonomy Environmental Delegated Act.

The view of the Platform on Sustainable Finance

The draft act is open for feedback for a period of 4 weeks until the end of March with adoption of the act planned (at present) as early as the second quarter of 2025 with the aim of applying from 1 January 2026.

The main changes include:

- **Amendments to CSRD** regarding Taxonomy reporting as a derogation to Article 8 Taxonomy Regulation and proposals to amend the Taxonomy Disclosures Delegated Act to simplify reporting requirements.
- **Voluntary Taxonomy reporting** for companies within the future scope of CSRD (i.e large companies with more than 250 employees with a net turnover up to €450 million).
- **Stronger emphasis on transition finance** by introducing the ability for companies to voluntarily report on partial Taxonomy-alignment enabling them to demonstrate existing efforts as well as progress.
- **Financial materiality threshold** for Taxonomy reporting by introducing a materiality threshold for the calculation of alignment for companies with less 10% eligible activities non-materiality.
- **Reporting templates are simplified** leading to a reduction of data points by around 70%.
- **Simplification and revision of the "Do no significant harm" (DNSH)** criteria with two options included for pollution prevention and control related to the use and presence of chemicals that apply horizontally to all economic sectors and activities in the Taxonomy.
- **Adjustments to the Green Asset Ratio (GAR)** allow banks to exclude from the denominator of the GAR any exposures that relate to undertakings which are outside the future scope of the CSRD (i.e. companies with less than 1000 employees and €50m turnover).

Next steps

The intention is that the draft Delegated Act amending the existing delegated acts under the Taxonomy Regulation will be adopted after public feedback.

Building Resilience

EBA Final Report on ESG Risk Management

Following consultations on a draft version last year, on 5 January 2025, the European Banking Authority (**EBA**) published "Guidelines on the management of ESG risks" in accordance with Article 87a(5) of Directive 2013/36/EU (CRD V) Directive) (**Guidelines**). The Guidelines set out a set of comprehensive requirements for institutions to identify, measure, manage, and monitor ESG risks, ensuring the resilience of their business models and risk profiles over time.

The Guidelines indicate the robust governance arrangements that financial institutions need to have in place and aim to support institutions' preparedness for the transition towards climate neutrality by 2050.

In particular, the Guidelines provide for:

- Minimum standards and methodologies for identifying, measuring, managing and monitoring ESG risks;
- Scope of assessments should reflect the institution's nature, complexity, and size considering the impact of ESG risks on all traditional financial categories;
- Regular materiality assessments of ESG risks depending on the size and complexity of the institution;
- Robust management approaches to mitigate ESG risks over short, medium, and long-term horizons (at least 10 years); and
- Monitoring and reporting of ESG risk metrics and indicators, with robust internal reporting systems to inform senior management and the management body.

The Guidelines also outline the content of prudential transition plans to be prepared by the management body, including specific timelines, measurable quantifiable targets, and milestones.

Institutions can expect further complementary guidance on scenario analysis related to ESG factors by the EBA in due course.

The Guidelines will apply from 11 January 2026, except for small and non-complex institutions for which the guidelines will apply at the latest from 11 January 2027.

In February, the Financial Stability Board (**FSB**) published a letter to G20 Finance Ministers and Central Bank Governors which outlined the FSB's workstreams for the year and relevance to international financial stability. This includes climate-related financial risks.

> **"The impact of climate events and developments poses risks to the financial system, and it is therefore essential to incorporate these risks into our financial stability assessments and policy frameworks."**

The EU Platform on Sustainable Finance Report

In January 2025, the EU Platform on Sustainable Finance published a report "Building tools to transition, one elements for assessing corporate transition plans" (the "**Report**"). The Report emphasises the importance of transition plans as a way to plan, ensure transparency and to raise and grant transition finance and investment.

In order for market participants to provide transition finance which is effective, the underlying investments themselves must be supported by robust transition plans and science-based targets.

The Report sets out recommendations to the Commission regarding the development and assessment of just transition plans, the core elements which can be taken into account when considering and assessing these plans and how the Commission can support the uptake of these plans in the public domain. The Report also recommends across stakeholder groups to emphasised with market participants urged to ensure that transition plans used to inform investment decisions are both credible and robust.

Key findings of the Report include:

- market participants can assess transition plans based on four core elements (aligned with the CSSD and CSRD) i.e. (i) science-based and time-bound targets; (ii) governance and governance of transition plans and implementation; and (iii) governance and oversight of transition plans and its implementation;
- use of the EU Taxonomy as well as other disclosures resulting from EU legislation to assess the strength and consistency of transition plans; and
- the need for a holistic approach for effective transition planning integrating climate mitigation and adaptation action with broader environmental and social objectives.

The Report also sets out core elements for financial market participants to consider when assessing corporate transition plans in the EU. This includes guiding principles for transition plan assessments, core elements for corporate transition plans, recommendations relating to adaptation and resilience planning, just transition considerations and DNSH to wider environmental objectives.

FCA's Adaptation Report

In January 2025, the Financial Conduct Authority (**FCA**) published its 2025 Adaptation Report (**Report**) providing an overview of climate change adaptation challenges faced by the financial services firms.

The Report focuses on the following:

- risk management adjustments that firms need to make due to climate change mitigation measures or changes to insurance and other underwriting practice and due diligence in investment decisions;
- changes made by firms to manage the exposure to physical climate risk that could affect consumers and wider market stability; and
- the importance of financial products in enabling and supporting adaptation and transition in the wider economy including although accepted to activities that support adaptation and underwriting risks.

Chapter 4 of the Report sets out adaptation risks in the banking sector which includes the direct physical impact of climate-related events on people and property and increased risks to lenders in a wide range of business models-related risks on business models, **issues impacting climate change adaptation in the financial services sector** including: (i) physical risks to property and infrastructure (including exposure to climate risks); (ii) barriers and enablers to insurance underwriting for climate risks and in consequence lending and investment; and (iii) barriers and enablers in allocating capital to adaptation.

The Report also states that firms must protect their critical infrastructure, in particular IT systems, while making sure that net-zero transition plans consider necessary adaptation.

The Report is not intended to be a comprehensive assessment, and further research is required. The FCA states that the Report does not set out regulatory expectations for firms.

The Prudential Regulation Authority PRA has also released its adaptation report.

> **"Climate adaptation relates to actions that protect us against the impacts of climate change. This includes reacting to the changes we have seen already, as well as preparing for what will happen in the future."**
>
> Definition of climate adaptation in the 3rd National Adaptation Programme.

Spotlight on DEI

The headlines in the first quarter of 2025 would lead us to believe that there has been and will continue to be a significant roll-back on DEI initiatives. Indeed, very recently, on March 27, the US Supreme Court upheld a ban on DEI in the workplace, stating it work on diversity and inclusion. In 2023, the EBA and FCA consulted on proposals to improve DEI in firms. However work is continuing and commitments are being made. In early March 2025, the Commission adopted its Roadmap for Women's Rights and presented the 2025 Report on Gender Equality. And the Fisher Review Committee published a report, sets out the results of its survey on the ethnic diversity of boards and senior management of FTSE 350 companies and large private companies.

> **"There's no reason why a woman should be paid less than a man. Or be treated differently in the workplace. Or be at risk of violence because of her gender. We know that societies where women and men are treated equally are better, fairer and more successful. So let us tap into the vast reservoir of talents and skills of everyone, men and women alike. Today's Roadmap shows our strong commitment to combine building a European Union of gender equality and women's rights."**
>
> President of the European Commission, Ursula von der Leyen

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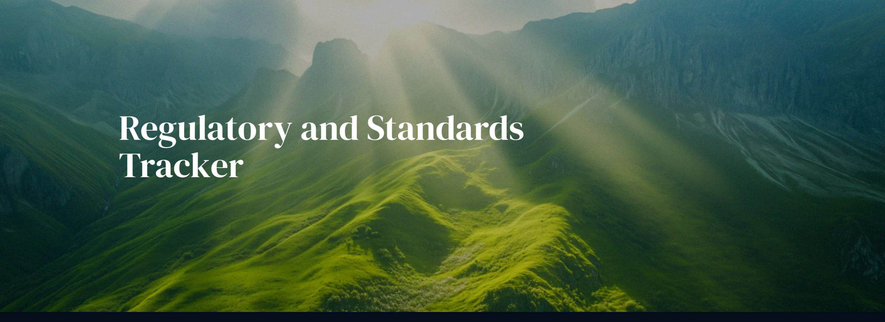

Regulatory and Standards Tracker

IFRS Guide – Applying IFRS S1 when reporting only climate-related disclosures in accordance with IFRS S2

In January 2025, the IFRS Foundation published guidance entitled – Applying IFRS S1 when reporting only climate-related disclosures in accordance with IFRS S2. The guidance aims to assist preparers to understand which requirements in IFRS S1 apply when a company discloses information relating to climate-related risks and opportunities only in accordance with IFRS S2. The guidance reflects the approach that is permitted by ISSB Standards.

FCA delays publication of policy statement on application of SDR to portfolio management

In February 2025, the FCA published a statement indicating that the FCA intends to delay the rules extending SDR to portfolio management. The aim is that any such extension delivers good outcomes for consumers, is practical for firms and also supports growth of the sector. Accordingly, the FCA intends to take time to deliver on these goals and a policy statement is therefore not expected in the second quarter of the year. The FCA intends to continue to reflect on the feedback received and will also provide an update in due course.

EBA Final Report on Guidelines on the management of ESG risks

Following the consultation in 2024, in January, the European Banking Authority published its Guidelines on the management of environmental, social and governance (ESG) risks. The guidelines set out requirements for the internal processes and ESG risk management arrangements that financial institutions should have in place to ensure the resilience of the business model and risk profile of institutions in the short, medium and long term. The guidelines will apply from 11 January 2026 except for small and non-complex institutions for which the guidelines will apply at the latest from 11 January 2027.

From concept to delivery: accounting for climate and nature in maintaining price stability and keeping banks safe and sound

In February, the European Central Bank published a speech by Frank Elderson (ECB Executive Board Member and Supervisory Board Vice-Chair) on climate and nature-related activities at the ECB.

New standards and guidance issued by IAASB and IESBA

In January, the International Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants launched new interoperable baseline standards and guidance for the purpose of enhancing trust and transparency and establishing expectations for ethical behaviour in sustainability reporting and assurance. ISSA 5000 and IESSA become effective on or after 15 December 2026 and early adoption is permitted and encouraged.

UK publishes national biodiversity strategy

On 26 February 2025, the Department for Environment, Food and Rural Affairs and published the UK national biodiversity strategy and action plan for 2030.

Commission and EIB plans for Sustainable Housing

The European Commission and the European Investment Bank Group are partnering with Europe's national promotional banks and international financial institutions to develop new financing opportunities for affordable and sustainable housing across Europe.

IOSCO: Work programme for 2025

On 12 March the International Organization of Securities Commissions published its work programme for 2025 which includes address risks in sustainability.

FCA statement in relation to sustainability regulation and UK defence

Plans to increase defence spending have coincided with the FCA's statement in relation to sustainability regulations and UK defence making clear that FCA rules are aimed at ensuring transparency and comparability of sustainability information leaving it to lenders and investors to determine whether to finance defence companies. The FCA refers to the internal policies of financial institutions as being the deciding factor. Nevertheless, defence-related policies are referred in in sustainability-related disclosures and reporting and often form part of investment processes including (but not limited to) screening policies.

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Sustainable Lending Glossary

In alphabetical order

A – Z
D – H
I – Z

Adaptation
Adjustment in ecological, social or economic systems in response to actual or expected climate stimuli and their effects. It refers to changes in processes, practices and structures to moderate potential damages or to benefit from opportunities associated with climate change.

Biodiversity
The variety of life on Earth, in all its forms, from genes and bacteria to entire ecosystems.

Blue economy
The term blue economy refers to the sustainable use of ocean resources for economic growth, improved livelihoods, and jobs while preserving the health of ocean ecosystems and water resources.

Blue finance
The term refers to investments dedicated to finance or influence activities that contribute to oceans protection and improved water management.[1]

Blue loan
A blue loan refers to a loan that is aligned to the Green Loan Principles and where the proceeds are exclusively applied to finance or refinance green or blue projects that contribute to oceans protection and/or improved water management.

Blue impact
This term refers to the measurable variation in a physical, chemical or biological variable of oceans ecosystems or water related systems as expressed by a quantitative indicator.[2]

Carbon markets
Are a type of market systems in which carbon credits are sold and bought. Companies in industries with high carbon emissions can compensate for their emissions and pollution by purchasing carbon credits from entities that remove or reduce greenhouse gas emissions.[3]

Certification
For information on certification, please see the External Review Guidance for Green, Social, and Sustainability-Linked Loans.[4]

Circular economy
In a circular economy, things are used and conserved in a way that minimizes their value loss and environmental impact while maintaining their value. Products are kept in use for as long as possible, through repairing, recycling and reusage – so they can be used again and again.[5]

Climate change adaptation
Climate change adaptation involves adjusting to the actual or expected future climate. The goal is to reduce the vulnerability to the harmful effects of climate change (such as climate-induced sea level rise, increased extreme weather events and increased biodiversity loss). Adaptation also encompasses making the most of any potential beneficial opportunities associated with climate change (for example, growing longer growing seasons or increased yields in some regions).[6]

Climate change mitigation
The goal of climate change mitigation is to cut and stabilize human interference with the climate system, and to stabilize greenhouse gas levels in a timeframe sufficient to allow natural ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner.[7]

Climate finance
Climate finance refers to local, national or transnational financing – drawn from public, private and alternative sources of financing – that seeks to support mitigation and adaptation actions that will address climate change.[8]

Corporate Sustainability Due Diligence Directive (COM/2022/71/final)
Aims to promote sustainable and responsible corporate behaviour and to embed human rights and environmental considerations in companies' operations and corporate governance.[9]

Corporate Sustainability Reporting Directive (CSRD)
The EU law requires all large companies and all listed companies (except listed micro-enterprises) to disclose information on what they view as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment.[10]

Double materiality
This is a regulatory concept that has been incorporated into the European Sustainability Reporting Directive (**ESRD**).[11] Under the ESRD, companies are required to report on both the risks to their business from climate change and the impact of their business activities on climate change (or the company's own impacts on people and the environment (impact materiality).[12]

Equator Principles (EPs)
The EPs are intended to serve as a common baseline and risk management framework for financial institutions to identify, assess and manage environmental and social risk in project financing activities. The EPs are intended to be implemented by financial institutions in good faith and with diligence and maintaining to support responsible risk decision-making. The EPs apply globally, to all industry sectors for four financial products, namely project finance advisory services, project finance, project-related corporate loans, bridge loans, project-related corporate refinance and project-related corporate purchase.[13]

ESG incorporation
The ESG term refers to the process of assessing, reviewing and considering ESG factors in investment decisions through a combination of three approaches: ESG integration, screening and thematic investing. ESG incorporation generally functions alongside, or in combination with, traditional.[14]

ESG Integrated Disclosure Project
Aims to provide a set of ESG information in the credit markets by offering a standardized approach and supporting the adoption of ESG reporting.

ESG Integration
The term refers to including ESG factors in investment analysis and decisions to better manage risks and improve returns. It is often used in combination with screening and thematic investing.[15]

ESG Ratings Regulation
The law aim to strengthen the reliability and comparability of ESG ratings by improving the transparency and integrity of the operations of ESG ratings providers and preventing potential conflicts of interest.[16]

European Banking Authority (EBA)
The EBA is an independent EU authority. The EBA plays a key role in safeguarding the integrity and robustness of the EU banking sector to support financial stability in the EU.[17]

EU Taxonomy
A classification system that defines criteria for economic activities that are aligned with net zero trajectory by 2050 and the broader environmental goals other than climate.[18]

External review
Is an independent external review, such as the External Review Guidance for Green, Social, and Sustainability-Linked Loans.[19]

FCA Anti Greenwashing Rule
Aims to prevent greenwashing and applies to all FCA-authorised firms who make sustainability related claims about products and services. The rule states that firms need to ensure their sustainability references are fair, clear and not misleading and consistent with the FCA sustainability profile of the product or service.[20]

FCA Sustainability Disclosure Requirements (SDR)
Is a set of measures designed to tackle greenwashing and improve trading and to make for the Sustainability Disclosure Requirements (SDR) regime, including a set of consumer-friendly investment labels. These rules are designed to ensure that firms manufacturing sustainability-focused investment products provide a clear and consistent language to communicate these impacts.[21]

Financial Conduct Authority (FCA)
The FCA is a conduct regulator for financial services in the UK. Its rules including protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers.[22]

Green bond / green investing
This refers to the deliberate integration of greater analysis, investment analysis and portfolio choice to better manage risks and returns. It is often used in combination with screening and thematic investing. Green bond refers to a bond issuance where the proceeds are applied at the workplace, as well as in products or services that substantially improve the lives of women and girls, building climate resilient economies and infrastructure.[23]

Global Reporting Initiative (GRI)
Is an independent, international organisation that helps businesses and other organisations take responsibility for their impacts by providing them with the global common language to communicate those impacts.[24]

Green Asset Ratio (GAR)
The Green Asset Ratio is based on the EU taxonomy and is a Pario aligned ratio that can be used to identify the extent to which financing sustainable economic activities is being provided by a bank. The GAR is a key performance indicator that measures how green and sustainable are the banks' lending portfolios. The GAR is a key performance indicator that measures how green and sustainable are the banks' lending portfolios. It calculates the share of climate change mitigation or climate change adaptation activities in the enable other activities to contribute substantially to these objectives.[25]

Green loan
The GLP defined loans define green loans as any type of loan instruments and/or contingent facilities, the net proceeds of which are exclusively applied to finance or refinance available economically efficient & verifiable or quantifiable, in which the lender and existing eligible Green Projects and are aligned to the four core components of the GLP.[26]

Green Loan Principles (GLP)
The GLP are voluntary market standards and guidelines, published by the LMA together with the Loan Syndications and Trading Association (LSTA) and the Loan Syndications and Trading Association (LSTA) and with the support of ICMA, providing a consistent methodology for use across the green loan market.[27]

Green mortgage
Is a type of mortgage, a bank or mortgage lender offers a focus buyer preference, under if you are interested in the properties for which the mortgage is being requested. However, a non-exhaustive indicative list of the categories of eligibility for Green Projects under the GLP can be found in Section 1 Use of Proceeds of the GLP.[28]

Green tagging
Green tagging refers to a systematic process where banks identify the environmental attributes of their loans and underlying asset collateral as a tool for enabling sustainable finance. The process of green tagging helps financial institutions to better report business, better tracking of green loan performance and provides greater transparency of climate risks and portfolio resilience.[29]

Green washing
This refers to the act of not making genuine sustainability claims in case they may be associated with problem pursuing misrepresent.[30]

Greenwashing
Greenwashing is its single definition but may be used to refer to the practice of giving an unfair competitive advantage to companies that talk about protect or environmentally friendly, when in fact basic environmental standards have not been met.[31]

Global Reporting Initiative Biodiversity Standards
The GRI 101: Biodiversity set sets reporting requirements on the topic of biodiversity. It requires organizations to report on how they have been sector or geographic location that wants to report on its impacts related to this topic.[32]

ICMA
International Capital Market Association.[33]

ESG Sustainability Disclosure Standards
The ESG Sustainability Disclosure Standards Standards Board issued its first ESG Sustainability Disclosure Standard (**SASB**) in 2018. General Requirements for Sustainability-related Financial Information and ESG 52 Climate-related Disclosures.[34]

Impact Investing
Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.[35]

Impact washing
Refers to the act of overstating or falsely claiming an investment's positive impact on its environment or society.[36]

[1] https://www.iucn.org/news/ocean-and-polar/202203/what-is-blue-finance
[2] https://www.iucn.org/news/ocean-and-polar/202203/what-is-blue-finance
[3] https://www.investopedia.com/terms/c/carbonmarket.asp
[4] https://www.icmagroup.org/assets/documents/Sustainable-finance/External-Review-Guidance-for-Green-Social-and-Sustainability-Linked-Loans-June-2021-280621.pdf
[5] https://www.ellenmacarthurfoundation.com/topics/circular-economy-introduction/overview
[6] https://www.epa.gov/climatechange/basics-climate-change-adaptation
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[34] https://www.icmagroup.org/sustainable-finance/introduction-to-sustainable-finance/
[35] https://www.icmagroup.org/sustainable-finance/introduction-to-sustainable-finance/
[36] https://www.icmagroup.org/sustainable-finance/introduction-to-sustainable-finance/

In alphabetical order

A – Z
D – H
I – Z

Key Performance Indicators (KPIs)
Are a quantitative tool that measures how effectively a company is achieving key business objectives. KPIs are critical data indicators of progress toward an intended result. KPIs provide a focus for strategic and operational improvement, create an analytical basis for decision making, and help focus attention on what matters most. Selection of KPIs is one of the core components under the GLP.[1]

Screening (Negative/ Exclusion Criteria)
This framework was adopted during the Fifteenth meeting of the Conference of the Parties (COP15) to the United Nations Convention on Biological Diversity (CBD). It set out an ambitious pathway to halt and reverse the global erosion of biodiversity from with nature by 2030. Among the Framework's key elements are 4 goals for 2050 and 23 targets for 2030.[2]

Materiality
Is a concept or an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, in the context of the entity's general purpose financial reporting.[3]

Natural Capital
The world's stocks of natural assets which include geology, soil, air, water and living things.[4]

Net Zero Banking Alliance (NZBA)
Is a framework for banks to align with the Paris Agreement.[5]

Principal adverse impact (PAI)
A PAI is any impact of investment decisions or advice that results in a negative effect on sustainability factors, relating to environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.[6] PAI indicators are a key reporting requirement under the Sustainable Finance Disclosure Regulation.[7]

Portfolio decarbonisation
Portfolio decarbonisation can be achieved by withdrawing capital from particularly carbon-intensive companies, products and technologies and by investing in capital carbon intensity-certified assets.[8]

Principal Investments
Are the firm's own business investments for assessing and disclosing the climate alignment of ship finance portfolios and mitigating climate considerations in lending decisions to promote international shipping's decarbonisation.[9]

Principles for Responsible Investment (PRI)
These are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.[10]

Responsible investing
A strategy and practice to incorporate ESG factors in investment decisions and active ownership.[11]

[1] https://www.kpi.org/kpi-glossary/
[2] https://www.iucn.org/news/biodiversity-conservation-and-climate-change/202112/what-is-the-kunming-montreal-global-biodiversity-framework-and-why-it-matters
[3] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11
[4] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11
[5] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11
[6] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11
[7] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11
[8] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11
[9] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11
[10] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11
[11] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11

In alphabetical order

A – Z
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SASB Materiality Map®
The SASB Materiality Map is an evidence-based framework that identifies sustainability issues that are most likely to affect financial performance across industries and industry-specific business models, strategies, and risks.[1]

Screening This refers to the process of applying filters to lists of potential investments, using benchmarks/values in all or combination for investment based on an investor's preferences, values or ethics. Filters are typically based on exclusion of sectors, or inclusion of companies based on ESG performance relative to industry peers or specific ESG criteria.[2]

Social bonds
Social bonds are any type of loan instruments and/or contingent facilities (such as bonding lines guarantee facility and letter of credit) made available exclusively to finance, re-finance or guarantee, in whole or in part, new and/or existing eligible Social Projects, and which are aligned to the four core components of the GLP.[3]

Social Loan Principles (SLP)
The SLP are voluntary market standards and guidelines, published by the LMA together with the ICMA and the LSTA, providing a consistent methodology for use across the social loan market. The four core components of the SLP are (1) Use of proceeds, (2) Process for Project Evaluation and Selection, (3) Management of proceeds and (4) Reporting.[4]

Socially responsible investing
This term refers to an investment strategy that considers not only the financial returns from an investment but also its impact on environmental, ethical or social change.[5]

SPO
Sustainability Performance Targets, as referred to within the Sustainability-Linked Loan Principles.[6]

Stewardship
This term refers to the use of influence by institutional investors to maximise overall long-term returns, including the value of their investments, social and environmental assets, on which returns and share and beneficiary interests depend.[7]

Stranded assets
Stranded assets are now generally accepted to be fossil fuel supply and generation assets, which, at some time prior to the end of their economic life, will become at risk of being devalued ahead of schedule, prior to no longer able to earn an economic return (i.e. have to be written down or written off) as a result of changes associated with the transition to a low-carbon economy.[8]

Sustainability coordinator
See the LSMA's "Introduction to the sustainability coordination role" for more information.[9]

Sustainability-linked loan (SLL)
SLLs are any types of loan instruments and/or contingent facilities (such as bonding lines, guarantee facility and letter of credit) which are made available to borrowers to raise sustainability or sustainability-linked purposes within their overall portfolio predetermined sustainability performance objectives and should be aligned to the SLP defined below.

Sustainability-Linked Loan Principles (SLLP)
The SLLP are voluntary market standards and guidelines, providing a framework within the broad market to support the sustainable finance market and which can be utilized. The SLLP provide a high-level framework, enabling all market participants to clearly understand the broad market expectations for sustainability-linked loans, and facilitate the sustainable finance flows in the development and growth of sustainability linked loans.[10]

Sustainable finance
There is currently no single, agreed definition of what constitutes sustainable finance in the market. The EBA has defined sustainable finance as incorporating environmental, social and governance factors into financial decision-making, to improve the long-term economic sustainability of the organisations that are being funded, as well as the risk and stability of the overall financial system in which they operate. This definition is based on the GSA and its definitions of sustainable finance.[11]

Sustainable Finance Disclosure Regulation (SFDR)
The main purpose of the SFDR framework is to enable investors and consumers to make informed decisions about investing in funds that promote environmental or social characteristics or have sustainable investment as their objective, and to deter investors from being misled by greenwashing practices.[12]

The FSB Task Force on Climate-related Financial Disclosures (TCFD)
The TCFD was established in 2015 with the goal of developing voluntary, consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing decision-useful information.[13]

The Glasgow Financial Alliance for Net Zero (GFANZ)
GFANZ is a global coalition of leading financial institutions committed to accelerating the decarbonisation of the economy.[14]

Thematic investing
An approach which focuses on ESG trends rather than specific companies or sectors, enabling investors to access emerging ESG risks and opportunities in the market.[15]

The United Nations Environment Programme Finance Initiative (UNEP FI)
UNEP FI is a partnership between the United Nations Environment Program and the global finance sector to mobilize private capital flows for sustainable development. UNEP FI works with over 200 banks, insurers and investors that collectively manage over 100 supporting institutions to understand the impact of their business models and global which detailing positive impacts. UNEP FI aims to inspire, inform and enable financial institutions to improve their ESG performance, and to demonstrate leadership and drive change. By leveraging the UN's role, UNEP FI convenes financial institutions. The UNEP FI was founded in 1992 in the wake of the Rio Earth Summit.[16]

The Taskforce on Nature-related Financial Disclosures (TNFD)
TNFD has developed a set of disclosure recommendations and guidance for organizations to assess, address, and disclose nature-related dependencies, impacts, risks and opportunities.[17]

The Transition Plan Taskforce (TPT)
The TPT was announced at COP26 in Glasgow and launched in April 2022 to establish the gold standard for transition plans. The TPT has engaged globally with financial institutions, non-financial companies, policymakers, regulators and civil society to develop a framework.[18]

UN Sustainable Development Goals (SDGs)
The 17 SDGs were set in 2015 as part of UN Resolution 70/1, the 2030 Agenda for Sustainable Development. The SDGs are intended to provide a blueprint to achieve a better and more sustainable future for all. They are aimed at addressing the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace and justice. The SDGs are intended to be achieved by 2030.[19]

Voluntary Carbon Markets
This term refers to markets where carbon credits are purchased, usually by organizations, for voluntary use rather than to comply with legally binding emissions reduction obligations.[20]

[1] https://www.sasb.org/standards/materiality-map/
[2] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11
[3] https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-social-and-sustainability-bond-principles-June-2021-FINAL-2021-100621.pdf
[4] https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-social-and-sustainability-bond-principles-June-2021-FINAL-2021-100621.pdf
[5] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11
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[10] https://www.lsta.org/content/sustainability-linked-loan-principles/
[11] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11
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[20] https://www.ecb.europa.eu/pub/pdf/other/ecb.climatechangeandfinancialstability.en.pdf#nt11

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Key changes include

CSRD

Stop the clock
Delay by two years the reporting requirements for large companies that have not yet started implementing the CSRD and listed SMEs (i.e., wave 2 and 3) in 2026 and 2027.

Reduce scope of reporting companies
Reporting requirements would only apply to large undertakings with more than 1,000 employees (existing balance sheet and turnover tests are unaffected). Listed SMEs would no longer be in scope of CSRD. Ultimate non-EU parent undertakings will be in scope of CSRD if they generate a net turnover of more than €450m (on a consolidated basis) and they have either a large EU subsidiary or an EU branch generating a net turnover of more than €50 million.

"Value chain cap"
The Commission proposes to adopt a voluntary reporting standard based on the Voluntary reporting standard for SMEs developed by EFRAG (**VSME**) for companies no longer in scope of CSRD. The standard is intended to operate as a "SME shield" limiting the information that companies and financial institutions in scope of CSRD can request from companies within their value chain which are not in scope of CSRD.

Taxonomy reporting
Taxonomy reporting would become optional and potentially more flexible (see below) in certain circumstances.

Revisions to European Sustainability Reporting Standards (ESRS)
The Commission intends to adopt a delegated act revising the ESRS substantially reducing the number of data points, clarifying provisions and improving consistency with other legislation. The proposals will also remove: (i) the empowerment for the Commission to adopt sector-specific standards; and (ii) the possibility for the Commission to propose moving from a limited assurance to a reasonable assurance requirement.

CS3D

Stop the clock
Postponing the transposition deadline and first phase of application of CS3D by one year.

Indirect business partners
Companies would no longer have to conduct in-depth assessments of adverse impacts at the level of indirect business partners. Such assessments would only be required in cases where the company has plausible information suggesting that adverse impacts have arisen or may arise there. The requirement to map value chains to identify areas where adverse impacts are most likely to occur and to be the most severe is required.

Transition plans
Companies in scope of CSRD will need to adopt a transition plan however the requirement to put the plan into effect has now been replaced with the need to include details of implementation action.

Periodic assessments and updates
Under the proposals the need for monitoring would move from one year to 5 years. Assessment and updating of implementation measures is required whenever there are reasonable grounds to believe that the measures are no longer adequate or effective.

Trickle-down effect
Limit the information that companies within scope of CS3D may request from SMEs and small midcap business partners to information specified VSME, unless the additional information is required to carry out mapping exercises and the relevant information is not available in any other reasonable way.

Civil Liability
Deletion of existing harmonised EU conditions for civil liability as well as the obligation for Member States regarding representative actions by trade unions or NGOs, leaving national law to define civil liability. Member States will be required to ensure that in circumstances where a company is held liable for damages as a result of failure to comply with CS3D, full compensation but not punitive damages apply.

Termination
Removal of the obligation to terminate business relationships, but retain the option to suspend.

Financial Services
The review clause on inclusion of financial services in the scope of CS3D will be deleted.

Penalties/fines
The Commission will set new guidelines for payment of penalties and fines removing reference to 5% of net worldwide turnover.

What is the view of the Platform on Sustainable Finance?

Platform on Sustainable Finance: Simplification of the EU Taxonomy

On 5 February 2025 (prior to publication of the Omnibus Package), the Platform on Sustainable Finance (**Platform**) published a report - Simplifying the EU Taxonomy to Foster Sustainable Finance ((**Report**) - which builds on previous work by the Platform including the Compendium of Market Practices published in January 2024 (see previous Horizon publications).

The Report refers to the EU's plans for a package of measures aimed at refinement and simplification of the EU Taxonomy in order to increase its effectiveness. The Report sets out specific recommendations to reduce the reporting burden for non-financial companies and simplify reporting for financial institutions by using estimates, proxies, a streamlined DNSH assessment approach and the introduction of a materiality concept. The Report also emphasises the importance of improving interoperability between the EU Taxonomy and other Taxonomies internationally in order to enhance the flow of capital.

The following four core proposals are included for simplifying taxonomy reporting:

1. **Reduce corporate reporting burden** by one-third by: (i) making the OpEx KPI voluntary disclosure, other than for R&D, in line with the Accounting Directive; (ii) introduce a materiality threshold for reporting the Turnover, OpEx, CapEx KPIs and the combined KPIs of financial companies; (iii) improve alignment with financial reporting; and(iv) simplifying reporting templates and reducing data points;
2. **Simplify GAR to encourage green and transition lending** by (i) creating symmetry with similar numerator and denominator composition; (ii) simplifying retail exposure reporting and focusing on substantial contribution; (iii) allowing for the use of estimates and proxies for reporting along with safe harbours to protect against greenwashing; and (iv) applying the materiality principle to the combined KPI for financial undertakings, excluding immaterial business areas;
3. **Provide a practical approach to DNSH criteria** by (i) providing for a lighter compliance assessment process; (ii) reviewing the DNSH criteria as part of the Omnibus; and (iii) introducing a temporary "comply or explain" approach for DNSH assessment of the Turnover KPI; and
4. **Help SMEs access sustainable finance** by (i) adopting a streamlined and voluntary approach exposures to unlisted SMEs; and (ii) adopt a simplified approach to the Taxonomy for listed SMEs.

Projects

The Green, Social and Sustainability-Linked Loan Principles create the foundations upon which this market can thrive and we continue to work to produce greater clarity, transparency and granularity around these Principles to drive forward sustainable lending liquidity.

This quarter has seen the following activity:

Q2 Publications	WIP
Mandate Letter for SLL Sustainability Coordinator	Model Provisions for Use of Proceeds Transactions
Guidelines for Sustainability-Linked Loans Financing Bond	Transition Task Force
	Annual Review of the Green, Social and Sustainability-Linked Loan Principles

Regulatory Submissions

Q2 Publications	WIP
Transition Finance Market Review Call for Evidence, where we expressed the view that in order to meet climate goals, there is still a vital need to transition various hard-to-abate sectors and that transition finance will be essential to enable this transition to take place.	

Resources

Regulatory Submissions

Q4 2023

European Commission's Targeted Consultation on the Sustainable Finance Disclosures Regulation (SFDR), where we stressed, among other things, the need for further clarity around certain key concepts under the SFDR as well as a need for greater interoperability across global reporting regimes

Q1 2024

UK Financial Conduct Authority's consultation on its anti-greenwashing rule guidance, where we requested, among other things, clearer guidance on market best practice to ensure that market participants understand the correct processes to follow to avoid inadvertent greenwashing.

Key updates include

IFRS Sustainability Disclosure Standards

- the Government is aiming to make ISSB-endorsed reporting standards (UK SRS) available in Q1 2025 following assessment of IFRS S1 and S2 by the UK Technical Advisory Committee
- following positive endorsement and a consultation process, the FCA can use the UK SRS to introduce sustainability-related reporting requirements for regulated UK-listed firms
- a decision regarding future requirements is expected in Q2 2025 at which point, the Government will also consider exemptions from pre-existing requirements under the Companies Act 2006. Any changes would be effective no earlier than accounting periods beginning or after 1 January 2026.

Transition Plan Disclosures

Given the overlap between IFRS 2 and the TPT Disclosure Framework, the FCA will consult in 2025 on enhancing its expectations on transition plan disclosures with reference to the TPT Disclosure Framework. The Government will also consult in Q2 2024 on how the UK's largest companies ought to disclose their transition plans.

SDR and investment labels

The Government has announced its intention to issue a consultation in Q3 2024 on whether to extend the scope of SDR to include funds under the Overseas Funds Regime (OFR). On 1 May 2024, HM Treasury and the FCA jointly published a roadmap for the implementation of OFR.

Green Taxonomy

The UK Government will continue to develop the proposed UK Green Taxonomy and will consult on its design in due course. The consultation will seek feedback on the overarching framework and once finalised, there will be a testing period for voluntary disclosures and use for at least two reporting years before exploring mandating disclosures. A decision as to whether to introduce mandatory disclosures against the Taxonomy has not yet been taken and is reserved until such a time that the consultation is complete.

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