



# Sustainability – Linked Loans Financing Bonds – Guidelines Published

24 July 2024

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The Loan Market Association (the “**LMA**”) and the International Capital Market Association (the “**ICMA**”) have recently provided welcome guidance on sustainability-linked loans financing bonds (“**SLLBs**” and each an “**SLLB**”). On 25 June 2024, the LMA and ICMA published [guidelines in relation to this type of bond instrument](#) (the “**Guidelines**”).

## What is the relevance of the Guidelines?

The LMA and ICMA have published the Guidelines to encourage and promote the use of SLLBs in the market. The Guidelines provide detail and insights into core principles regarding the issuance and management of SLLBs. SLLBs are for issuers who want to finance or re-finance a portfolio of sustainability-linked loans (the “**SLLs**”), aligned with the [sustainability-linked loan principles](#) (the “**SLLPs**”) published by the LMA and other industry bodies in February 2023. SLLs look to support a borrower in improving its sustainability performance. SLLs are any types of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) for which the economic characteristics can vary depending on whether the borrower achieves ambitious, material and quantifiable predetermined sustainability performance objectives.

The Guidelines define SLLBs as any type of bond instrument (i) where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, a portfolio of new and / or existing eligible SLLs aligned with the SLLPs; and (ii) which are aligned with the four components detailed in the Guidelines.

## Who should be interested in the Guidelines?

The Guidelines are aimed at current and prospective issuers (including financial institutions) of SLLBs aligned with the SLLPs. The Guidelines are not mandatory. They are voluntary guidelines, created to give guidance to those who wish to issue SLLBs by providing a clear pathway in which to issue this type of instrument. Providing clear guidelines offers issuers an incentive to issue SLLBs and to help issuers get to a net zero environment, social and governance score. Investors, arrangers, underwriters, external reviewers and other stakeholders in SLLB transactions will also be interested in the content of the Guidelines.

## What do the Guidelines provide for?

The Guidelines contain four core components which SLLBs should align with. The core components are (1) Use of Proceeds, (2) Process for SLLs Evaluation and Selection, (3) Management of Proceeds and (4) Reporting.

- 1. Use of Proceeds** – It is essential issuers are transparent and provide detailed information showing that the allocation of the bonds are going towards SLLs. The Guidelines allow for the reality that many details of a portfolio of SLLs may need to remain confidential. They encourage issuers, in this situation, to disclose the eligibility criteria that they will use to select the SLLs for the portfolio. It is advised that issuers use the SLLPs when selecting eligible SLLs for the portfolio. The Guidelines provide detailed examples of approaches issuers can take in order to align with this component.
- 2. Process for SLLs Evaluation and Selection** – Issuers of SLLBs must ensure investors are provided with clear and attainable information regarding the issuer’s process for evaluating and selecting the SLLs for the portfolio. The Guidelines outline that issuers should inform their investors of the governance structure in place to evaluate and monitor the activity involved in selecting the eligible loans.
- 3. Management of Proceeds** – The Guidelines state that the net proceeds of the SLLB or an amount equivalent to these net proceeds should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer appropriately, and attested to by the issuer in a formal internal process linked to the issuer’s lending and investment operations for eligible SLLs. As long as the SLLB is outstanding, the balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible SLLs made during that period.
- 4. Reporting** – The Guidelines state that it is vital that the issuer supplies transparent and credible information on the eligible portfolio of SLLs. This information should be renewed annually during the lifetime of the SLLB, including reports on where the proceeds have been allocated. The issuer’s management of proceeds of the portfolio should be supplemented by use of an external auditor or third party to track the allocation of funds and ensure there is a credible internal tracking procedure in place.

The Guidelines recommend that issuers explain the alignment of their SLLB with these four core components in an SLLB framework and/or in their legal documentation. The Guidelines provide for clear guidance on issuing SLLBs by focusing on the process to be followed in order to achieve a credible portfolio of SLLs in line with the Guidelines and the SLLPs.

### **What happens next?**

The area of sustainable finance is continuously growing and evolving. We have written previously about developments in the [green bond market](#) and the [ESG loan market](#).

The use of current market-based green bond and social bond principles, such as [ICMA’s Green Bond Principles](#) and [ICMA’s Social Bond Principles](#), is prevalent in the bonds market. An unknown at this point is the likely breadth of adoption by issuers of the SLLB standards outlined in the Guidelines. We anticipate that adoption will be driven by factors such as investor appetite, reputational considerations, pricing impacts and the financial costs involved in meeting the new standard. The similarities between the SLLB standards and the current market-based green bond and social bond principles will assist current and prospective issuers of SLLBs in that regard. The LMA is also working on an FAQ document to support the Guidelines.

We are continuing to keep a close eye on developments in this area and will publish further updates as matters progress. For further information on the Guidelines and / or in relation to SLLBs and sustainable finance more generally please contact [Alan Bunbury](#), [William Foot](#), [David O'Mahony](#) or your usual Matheson contact.

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