LMA Sustainable Finance Insights

Greenwashing: Understanding and navigating the impacts for the loan market

March 2025

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LMA Loan Market Association

Since its foundation, the Loan Market Association **(LMA)** has supported the loan markets, with a focus on enhancing liquidity, efficiency, transparency, and sustainability. Today, with 880+ members in over 65 jurisdictions, the LMA represents an ever-growing diversity of participants in international capital markets, including institutional investors, private and public sector issuers, banks, non-banks, borrowers, technology solution platforms and market infrastructure providers, spanning the Europe, Middle East and Africa **(EMEA)**.

For more information, please visit: www.lma.eu.com

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Foreword

Our first Sustainable Finance Insights Report focusses on how market participants have responded to this changed environment and explores the impact that increased greenwashing risk is having in the loan market

Hannah Vanstone
Senior Associate Director
Lead Sustainable Finance Regulatory Affairs Officer
LMA

It is now close to 20 years since the World Bank issued the first green bond back in November 2008.[1] This inaugural green bond set in motion the foundations for today's sustainable finance market and was followed in 2014 by the first corporate green loan.[2]

The sustainable finance market has evolved rapidly since that first green bond. Indeed, it is hard to believe that when we started work on developing the Green Loan Principles **(GLP)** in 2017, alongside our newly formed Sustainability Committee, few had heard the term "green finance". The publication of the Sustainability-Linked Loan Principles (2019) **(SLLP)** and Social Loan Principles (2021) **(SLP)** represented further milestones in the development of the sustainable finance market.

Our aims at the LMA remain unchanged since the early days of the GLP, SLLP and SLP (together the **GSS Principles**) – namely protecting the integrity of the sustainable finance market enabling it to scale meaningfully to achieve maximum impact. However, what has changed is that the GSS Principles now operate in a more complex political and regulatory context, with increased market scrutiny of sustainability claims. Despite the market's significant maturation in terms of the understanding and application of sustainable finance structures, scrutiny has grown exponentially, accompanied by a rise in greenwashing allegations (although signs of decline were noted in 2024).[3] Accordingly, sustainability claims across all sectors, including in financial markets, have been placed under the spotlight.

This, our first Sustainable Finance Insights Report focusses on how market participants have responded to this changed environment and explores the impact that increased greenwashing risk is having in the loan market, particularly in relation to GSS loan instruments.

This report highlights the complexities of navigating greenwashing risk in the loan market - but also sheds light on why it is so important that we address these challenges and seek out solutions together as an industry. As the voice of the loan markets in EMEA, we have an important role to play at the LMA in providing support to our members in navigating these issues, and our ambitious workstreams in 2025 clearly reflect this goal.

[1] 10 Years of Green Bonds: Creating the Blueprint for Sustainability Across Capital Markets

[2] Sainsbury's announces first corporate 'green' loan to support its environmental commitments | Sainsbury's

[3] RepRisk | A turning tide in greenwashing? Exploring the first decline in six years

This report makes clear the broad scope of greenwashing rules, guidance and initiatives and the need for players in the wider ecosystem to ensure that they understand their role and responsibility in supporting banks, funds and corporates.

Sukhvir Basran

ESG Partner

King and Spalding LLP

I have been delighted to be part of the LMA's Sustainability Committee for several years, contributing to the development of the SLLP, SLP and GLP. I have also had the privilege of advising the LMA on both the Draft Provisions for Sustainability-linked Loans (**SLL Model Provisions**) and Draft Provisions for Green Loans (**Green Loan Model Provisions**, together with the SLL Model Provisions being the **Model Provisions**) working with the Sustainability Committee to ensure these documents align with market practice and evolving sustainability-related laws and regulations.

Greenwashing (in its many forms) is always a key issue when creating these LMA documents. So too is the overarching goal to support financial institutions, funds and corporates to mobilise capital for sustainable projects and encourage improvements in sustainability credentials.

The multi-faceted and complex nature of greenwashing underlines the need for all players in the wider ecosystem to understand their role in tackling greenwashing. Regulators and supervisory bodies in the UK, Europe and beyond have outlined the way in which third parties (such as verifiers and external counsel) can support market participants and the flow of sustainable capital.

At King & Spalding LLP **(K&S)**, we are committed to supporting our clients to navigate the fast-evolving ESG landscape. For us, playing a leading role in developing the market is core to our offering as is ensuring that our clients benefit from a multi-disciplinary and "end-to-end" approach to legal advice. This requires a deep understanding not only of relevant law and regulation but also the myriad of interrelated wider factors which impact sustainable finance and investment – this includes industry standards such as the GSS Principles, changes in policy and guidance and the wider geopolitical landscape. It also includes building relationships with third parties such as second party opinion providers, verifiers and ESG consultants.

The GSS Principles and Model Provisions provided an essential framework for GSS instruments. However, they are a starting point. In order to address greenwashing, the GSS Principles and supporting documents must be properly understood, applied, and analysed. The responsibility to ensure correct application and analysis of these documents does not rest solely with lenders and corporates, but extends to all third parties and advisors involved in structuring and verifying sustainable finance instruments.

Introduction

This report is the first of the LMA Sustainable Finance Insights Report series and has been developed with support from K&S. The LMA together with K&S held a series of roundtables and discussions towards the end of 2024 and the early part of 2025, with participation from across the banking and private credit sectors. The roundtables were subject to usual competition law rules and the Chatham House Rule.

The views of participants of those roundtables, together with views gathered from other market participants, have helped to inform Section 1 of this report. This report, informed by these discussions and broader engagement with market participants, considers the impact of the FCA's anti-greenwashing rule, together with the final non-handbook guidance on the anti-greenwashing rule, and the ESA's Final Reports on green loans, social loans and sustainability-linked loans (together **GSS**).

RECENT UK AND EU GREENWASHING-RELATED RULES AND INITIATIVES

(1) The FCA's anti-greenwashing rule (ESG 4.3.1R) **(AGR)** and the FCA's finalised non-handbook guidance on the AGR (FG24/3) **(AGR Guidance)**.

(2) The final reports (which build on progress reports from 2023) published by the European Supervisory Authorities (the European Banking Authority **(EBA)**, the European Securities and Markets Authority **(ESMA)** and the European Insurance and Occupational Pensions Authority **(EIOPA)** (together the **ESAs**)) on greenwashing in the financial sector **(Final Reports)**.

See Annex 1 for more information.

Objectives

The aim of this report is to provide market insights across the following areas:

(i) how banks and private credit fund managers are responding to the new greenwashing rules, guidance and initiatives in the UK and EU;

(ii) the extent to which the focus on greenwashing (including but not limited to these regulatory developments) is impacting the appetite for and approach to GSS products;

(iii) the steps being taken by banks and private credit fund managers to identify and address greenwashing risk; and

(iv) areas identified where uncertainty remains and where the LMA is looking to support the GSS market.

Readers should note that this report focusses on the impact of the above regulations and initiatives on the GSS market only and not on the wider sustainable finance market or on any other sustainable debt products.

In addition, at the time of publication, a number of important developments are being considered in both the UK and EU (including for example, the UK taxonomy and the proposed EU **Omnibus Package**). Due to their evolving nature, we have not sought to cover these recent developments in this report.

However, if you would like to discuss the LMA's sustainable finance regulatory work in more detail (including in relation to these recent developments), please contact Hannah Vanstone.

Executive Summary

Additional clarity: Greenwashing regulation and initiatives appear to have helped bring some degree of clarity around the scope and breadth of greenwashing.

Changes to governance, processes and systems: Robust internal governance processes and systems had already been put in place in response to market and stakeholder pressures, reputational risk and existing sustainability-related regulation. These processes and systems have not changed materially in direct response to new greenwashing rules, guidance and initiatives.

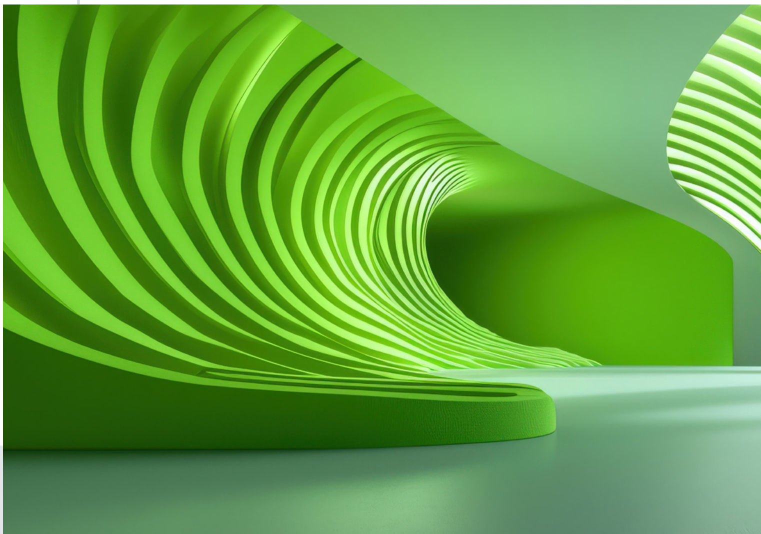
Increasing compliance burden is adversely impacting GSS origination: The rapid evolution of complex sustainability standards and regulations, combined with related usability challenges, has added significantly to the compliance burden (including administrative, assurance and regulatory compliance burden and associated costs) for borrowers and lenders alike. This is impacting the cost/benefit analysis of entering into GSS, which may already be seen by some as riskier from a greenwashing risk perspective.

Increased rigour and analysis of GSS products: The focus on greenwashing, and the clarification of the scope and breadth of the greenwashing "phenomenon", have helped to drive meaningful discussions between lenders and borrowers/sponsors around key concepts in sustainable finance, such as the materiality of key performance indicators (**KPIs**) and ambition of sustainability performance targets (**SPTs**).

Uncertainty remains: Uncertainty remains in relation to some key areas including how to 'substantiate' sustainability claims, and how to mitigate unintentional greenwashing risk resulting from the actions of actors in the wider ecosystem.

Complexity of greenwashing is a barrier to GSS origination: The multi-faceted and complex nature of greenwashing and broad reference to sustainability claims across sustainable investment value chain is a significant barrier to structuring GSS products, hampering innovation and efforts to mobilise capital towards sustainable business models and activities.

Importance of GSS origination: If care is not taken, fear of greenwashing risk in combination with other barriers could lead to a long-term decline in GSS origination and broader market disengagement from voluntary sustainability initiatives. This will, in turn, result in valuable opportunities for engagement with borrowers being missed and may divert capital flows from sustainable and transition business models and activities.



Section 1

Market reactions to greenwashing regulation, guidance and reports

Background

Lenders looking to structure GSS products are faced with an increasingly complex and uncertain landscape. Sustainability-related legislation, frameworks and standards continue to evolve and develop rapidly, placing significant demands on the resources of lenders and borrowers alike.

Against this backdrop, regulators and supervisory authorities have also increased their focus on addressing greenwashing risk by developing related rules and regulations and publishing greenwashing reports. The ESAs and FCA have stated that tackling greenwashing is a strategic priority, emphasising the need to enhance trust and confidence in the market, thereby allowing investors to make well-informed decisions and increasing the flow of capital into sustainability-related products and services.

The AGR and related AGR Guidance and the Final Reports all refer to existing legislative frameworks, relevant supervisory and enforcement powers and on-going regulatory and legislative developments as core tools which should be used by market participants to address greenwashing risks in the financial sector.

As emphasised by the FCA and the ESAs, the AGR and Final Reports are intended to build on and complement this existing legislative framework, and are not intended to supersede or replace existing legislation.

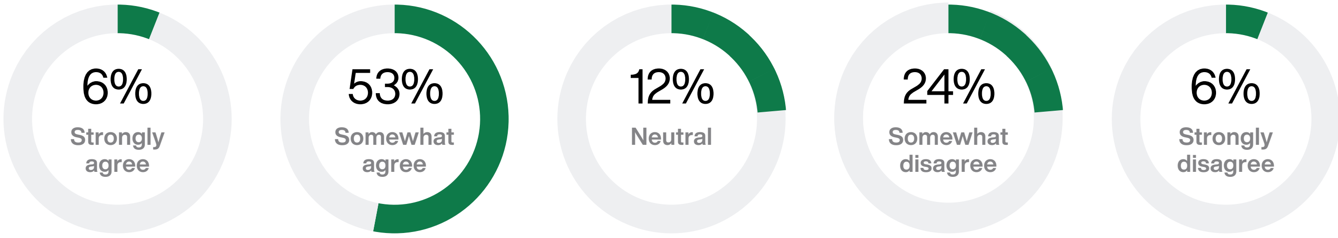
However, challenges have arisen in the application of sustainability-related legislation in the market, including, but not limited to:

- issues regarding usability of legislation;
- challenges with regards to the lack of interoperability between different pieces of legislation;
- ambiguity in respect of core legislative terms and definitions;
- challenges relating to the availability and quality of sustainability data and disclosures; and
- fast-evolving frameworks, early stages of implementation, piecemeal implementation of some measures and lack of certainty created by amendments and/or issuance of additional guidance.

The impact of this uncertain and evolving legislative framework on greenwashing risk is difficult to ascertain. However, these challenges may, at least in part, result in a perceived increase in greenwashing risk as market participants grapple with how to fulfil their obligations under this complex web of legislation and guidance. Furthermore, some parts of the market have noted the additional complexity associated with considering the interaction of recent greenwashing rules and guidance with existing legislation – thereby further increasing the perceived risk of unintentional greenwashing.

To what extent do you agree that recent regulatory interventions have clarified what is meant by greenwashing and what it involves at product and entity level?

Credit funds



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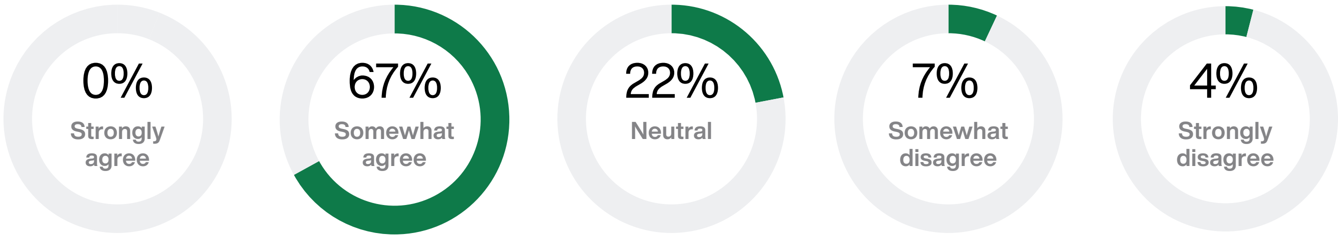


Insights

The majority of private credit fund participants (53%) and over two thirds of bank participants (67%) agreed that recent regulatory interventions focussing on greenwashing have somewhat clarified what is meant by greenwashing and how greenwashing risk can be addressed at both the product and entity level.

A number of participants at both roundtables suggested that the additional layer of dedicated greenwashing rules, regulation and guidance (including the AGR, AGR Guidance and Final Reports) on top of existing legislation has increased complexity and added to the existing compliance burden on stretched resources.

Well documented challenges (including those referenced in the Final Reports) (see above under *"Background"*) in relation to understanding and mitigating against greenwashing risk were raised at both roundtables, including:

- the fast-evolving and complex nature of the sustainable finance regulatory landscape;
- challenges around interoperability and alignment of regulatory frameworks and sustainability standards; and
- ambiguity of certain key legislative concepts.

The market was fuelled by demand from investors and borrowers, which led to the creation of early frameworks and standards that were largely voluntary and market-driven.

Some private credit firms have found that the increased global attention on greenwashing (including regulatory initiatives and action) has facilitated more effective engagement with market participants on sustainability issues. This includes, for example, the ability to balance demand for GSS products with the need for robust structures which align with market standards (such as the GSS Principles) and firms' internal standards.

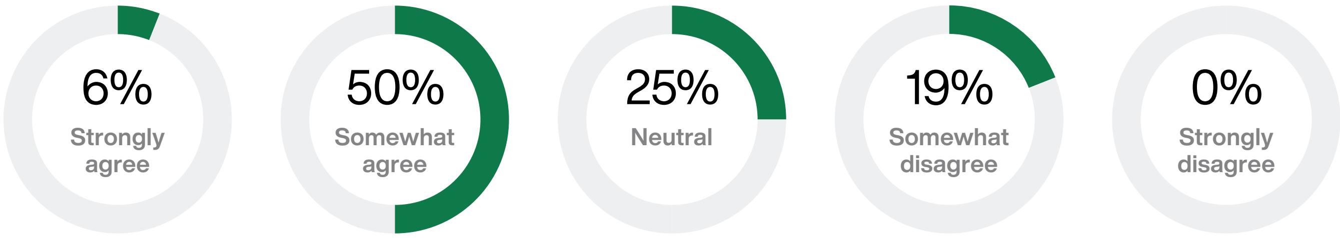
Participants of both roundtables pointed to the multi-faceted and complex nature of greenwashing risks, and challenged the expectation that dedicated greenwashing rules and guidance are capable of identifying and providing guidance on all forms of greenwashing risk across the value chain in the context of GSS and other sustainable finance products.

Key matters for market participants navigating greenwashing rules and regulations:

Unintentional Greenwashing	The complexity of identifying and addressing unintentional greenwashing risk, and potential entrenched risk based on reliance on third parties within the wider ecosystem.
Substantiating sustainability-claims	There is still some concern in the market about the lack of certainty as to the expectations of regulators and supervisory authorities regarding the substantiation of a wide range of sustainability-related claims in different circumstances.
Market Caution	Uncertainty and fear around greenwashing risk is leading to some market participants taking a more rigid, inflexible approach to GSS structuring which may be creating an additional barrier to entry to the GSS market.
KPIs	The market has responded to the need for robust KPIs aligned with industry standards. This evolution in market practice does not appear to have been taken into account in the latest greenwashing-related guidance and developments.
Commonly used terms	There is still some uncertainty regarding commonly used sustainability terms where market guidance remains fragmented across legislation and industry initiatives.
Historic communications	Specific challenges exist where there is an inability to amend historic publicity materials (i.e. those that may not be directly within the control of market participants), and it is unclear what regulators expectations are in relation to removal of historic references to sustainability terms in these materials.
Guidance and examples	Given the breadth and scope of greenwashing (as outlined in the AGR and the AGR Guidance and Final Reports,) some uncertainty remains regarding what constitutes good practice in a broad range of situations.

Has the increase in regulation targetting greenwashing risk addressed market concerns about sustainability claims by providing clearer guardrails?

Credit funds



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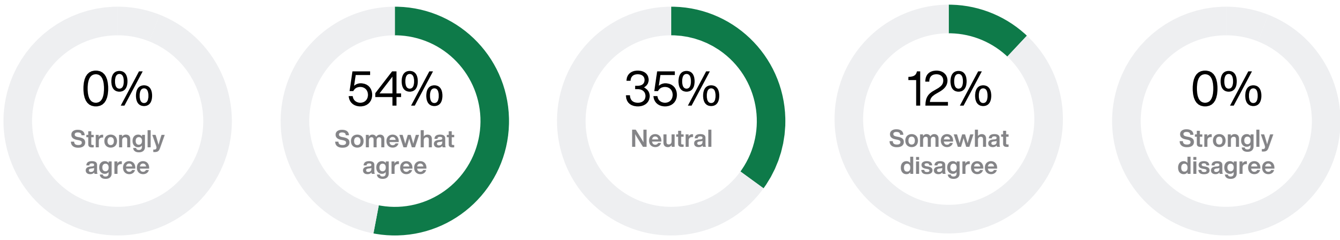
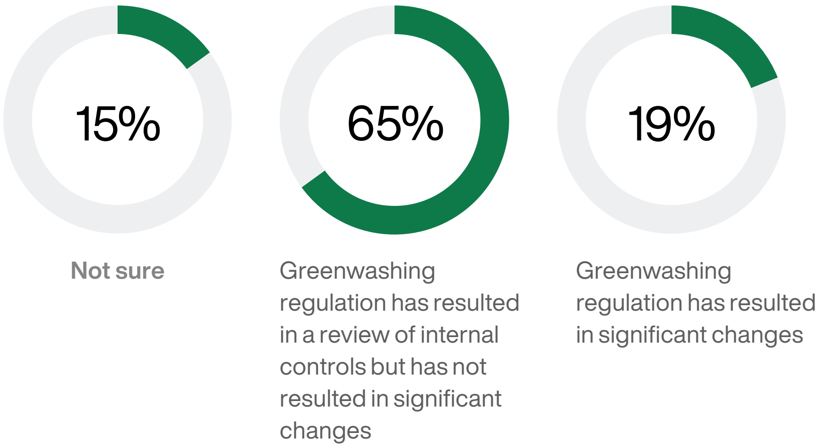


Effective governance has been emphasised as crucial to safeguard against greenwashing risks. To what extent have greenwashing regulations and initiatives resulted in additional changes to internal processes and controls?

Banks



Insights

About half of the participants of each roundtable agreed that focused greenwashing legislation and initiatives have provided clearer guardrails to some extent. However, participants of both roundtables emphasised that the need to comply with existing sustainability-related regulation had been the main driver for strengthening governance, processes and controls around GSS products.

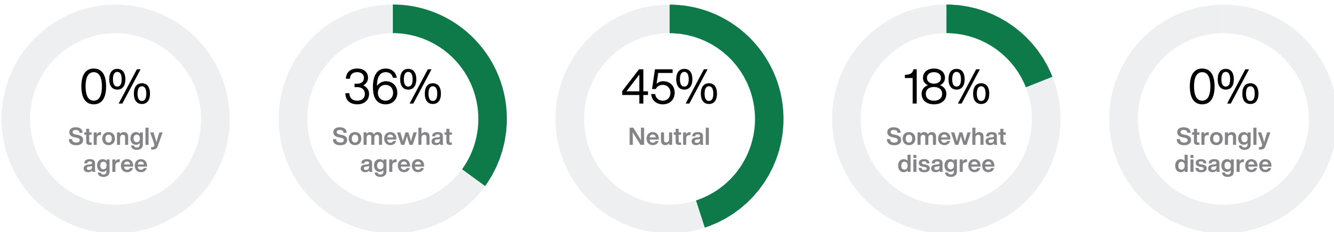
There was consensus amongst participants at both roundtables that they had taken steps to review governance and internal processes and policies in response to new greenwashing rules, although not all had made changes as a result, and many had not significantly amended their existing approaches. Of those who had made changes following a review, these included (i) taking additional steps to strengthen governance; (ii) reviewing and considering internal greenwashing guidance; and (iii) creating internal legal documentation relating to specific sustainable products.

Participants at both roundtables indicated that different interpretations of GSS Principles had led to a variation of internal standards across different institutions (sometimes within the same syndicate of lenders), as a result of narrow and inflexible interpretations being taken by some institutions due to fear of greenwashing risk.

The need to comply with existing sustainability-related laws and regulations, combined with reputational risk and other stakeholder pressures (rather than new greenwashing rules and regulations), was the main driver for firms to strengthen governance, processes and controls to address greenwashing risk and ensure the credibility of GSS products.

To what extent is guidance such as the Transition Finance Market Review's "*Guidelines for Credible Transition Finance*" been useful for the purposes of financing transitioning investments?

Credit funds



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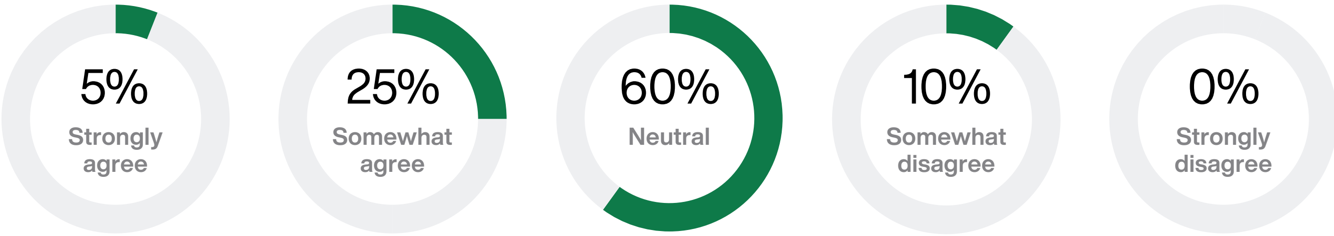


Insights

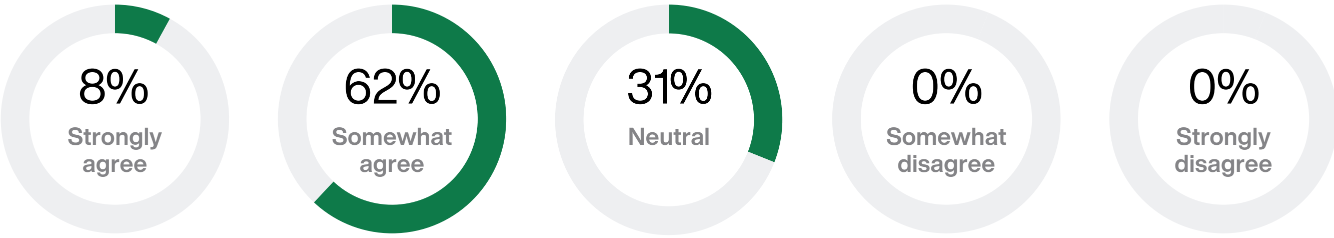
Participants varied in their opinion of how useful guidance such as the Transition Finance Market Review's "*Guidelines for Credible Transition Finance*" have been for the purposes of financing transitioning investments with the majority of participants remaining neutral. The absence of granular sectoral transition roadmaps and pathways was highlighted as a major obstacle to financing transitioning investments and, whilst the LMA is working on guidance for transition loans, participants were in general agreement that more is required from policy makers and governments to improve the flow of capital.

EBA'S FINAL REPORT: RECOMMENDATIONS TO POLICYMAKERS

"Consider establishing **sectoral transition roadmaps** and pathways in line with EU regulations and sustainability objectives as benchmark for sustainability claims and commitments, including transition finance related claims."

Have ESMA's fund naming guidelines provided greater clarity regarding the link between fund names and lending?

Credit funds only



Insights

The majority of credit fund participants were of the opinion that ESMA's guidelines on funds' names using ESG or sustainability-related terms (**ESMA Guidelines**) have somewhat clarified the link between fund names and lending. Participants noted however that the strict requirement under the ESMA Guidelines to align with the Paris Alignment Benchmark exclusions in order to use key ESG-related terms in a fund name is causing particular issues in the context of existing investment portfolios where the analysis may not have been previously required or undertaken.

Market participants expressed some frustration with the overall impact of complying with the layering, or updating of, sustainability-related regulation and guidelines, and what is perceived as a continual need to review internal procedures and controls in light of harmonisation, simplification and streamlining.

LMA Perspectives

Financial institutions have played a critical role in driving the formation and growth of the sustainable finance market, which has evolved from its infancy into a multi-trillion-dollar industry less than 20-years later. Initially, the market was fueled by demand from investors and borrowers, which led to the creation of early frameworks and standards that were largely voluntary and market-driven. Since then, the market has changed significantly - internal governance processes and business strategies have been adapted to embed sustainability as a core principle; availability and credibility of ESG data has grown exponentially; a complex web of sustainability-related regulations has developed; and both banks and non-banks have invested heavily in sustainability expertise. Alongside this, market understanding of greenwashing risk has evolved rapidly.

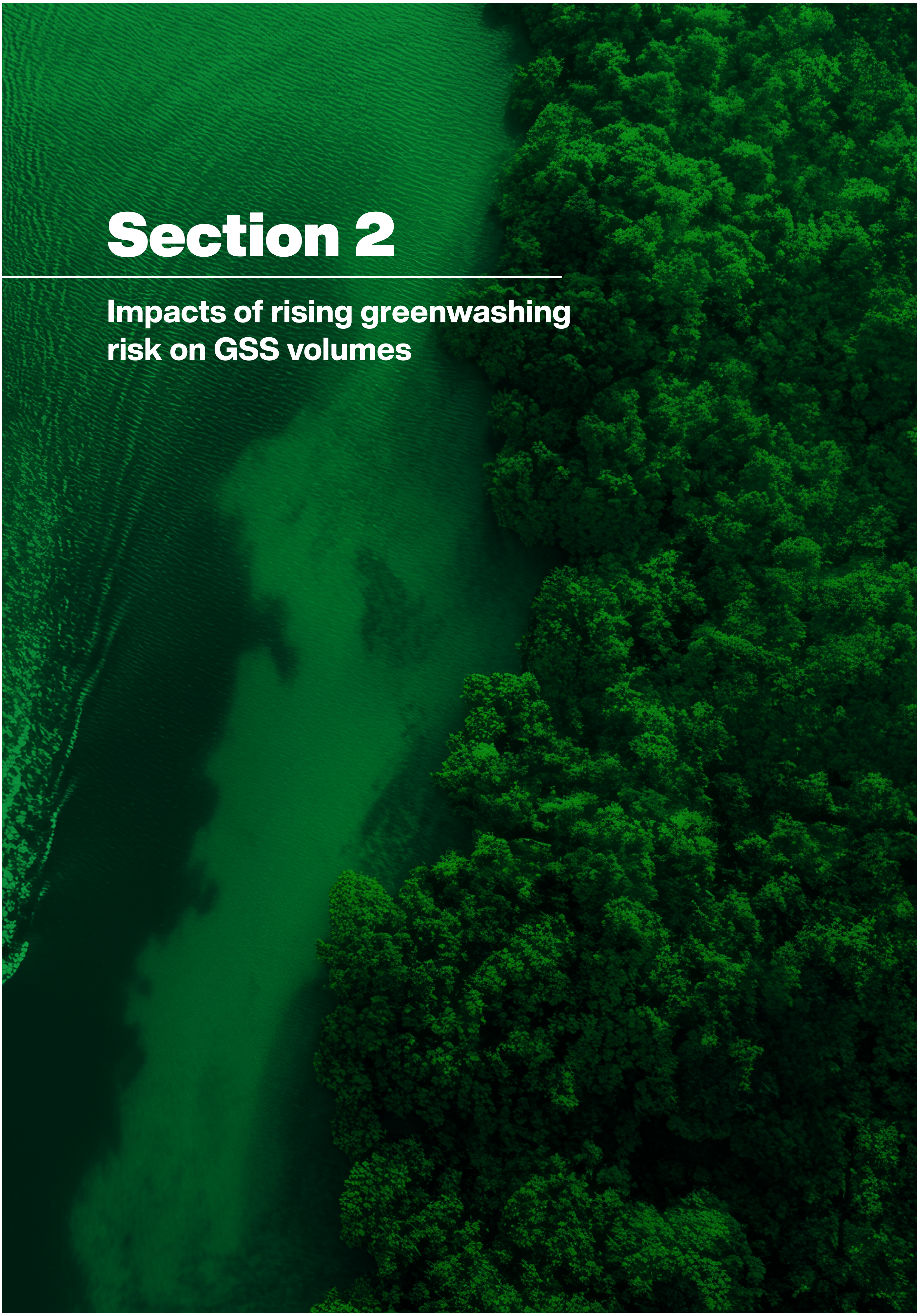
Greenwashing risk should not be seen as something new however – indeed this term was first coined back in the 1980s. The LMA was discussing greenwashing with its members long before the AGR or the Final Reports were published and, in many ways, the development of GSS Principles and Guidance (as well as the subsequent updates) have been the direct result of demand from our members to prevent arbitrage in the market which it was understood would both undermine the integrity of sustainable lending products and the achievement of the underlying goals.

The fact that market participants surveyed generally felt that recent regulatory interventions have only somewhat clarified what is meant by greenwashing, and what it involves at product and entity level, is less surprising when considered against this context. Market participants have been working hard over a number of years to identify and address greenwashing risk in relation to GSS products. This has included reviewing the criteria for selecting and determining the materiality of KPIs and the ambitiousness of SPTs under sustainability-linked loans (**SLLs**). New provisions such as declassification and publicity clauses are being carefully considered and used to ensure that loans were not being mislabelled, and these provisions are now included in our Model Provisions.

However, the additional greenwashing rules and guidance have, to some extent, provided market participants with an additional tool for engaging in sustainability discussions with other market participants, and ensuring any GSS transactions meet the necessary level of rigour.

Given the pace of change in relation to sustainability legislation and the evolution of the market, it is unsurprising that there are still challenges that the market is grappling with. A close dialogue between market participants, regulators and legislators will be key to ensuring that these challenges can be overcome to unlock liquidity in the loan market to finance sustainable outcomes, particularly through GSS instruments.

The LMA will continue to engage with market participants through initiatives, such as the review of the GSS Principles, to ensure that market integrity continues to be upheld. In addition, through our continuing dialogue with regulators and legislators, we will look to identify areas where further clarity/guidance can assist market participants to ensure that fear of greenwashing does not stifle liquidity in the market.



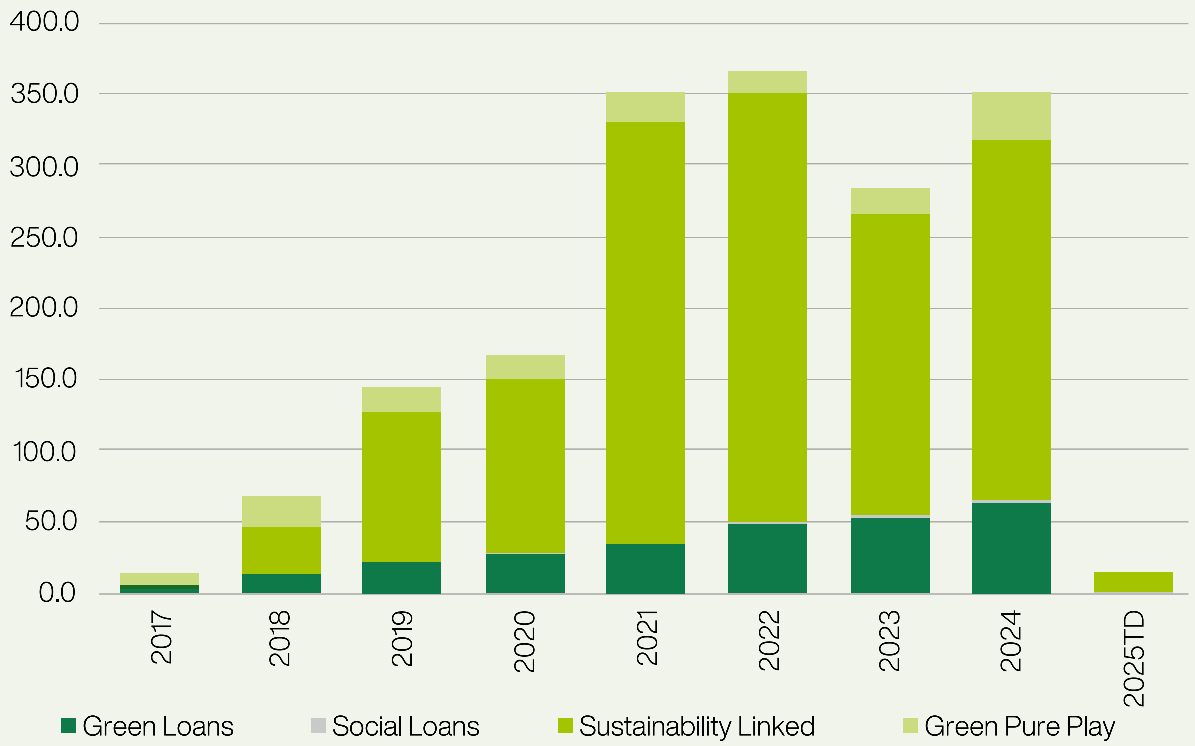
Section 2

Impacts of rising greenwashing risk on GSS volumes

Background

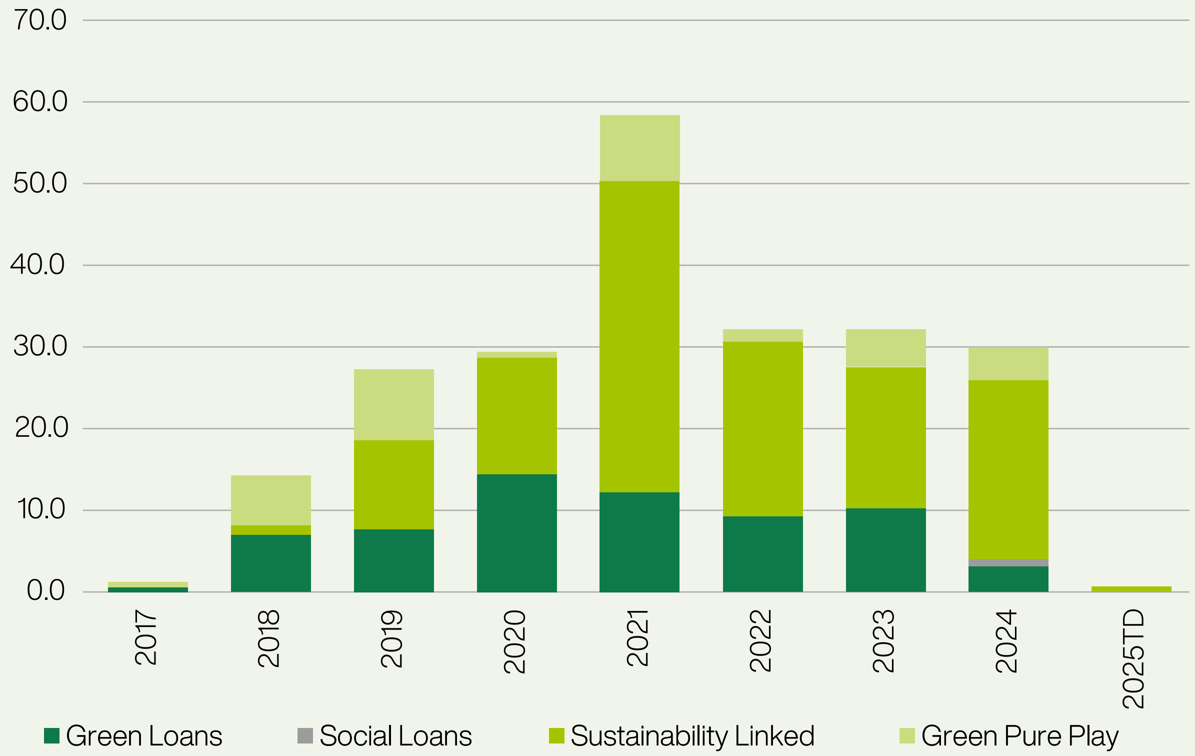
Whilst GSS markets initially grew rapidly, the market has seen a drop off in GSS volumes since their peak in 2021, following by a flattening of volumes since 2022.

European Sustainable Finance Loan Volume (US$bn)



Source: LSEG LPC
*Includes Schuldschein
data as of 21-02-25

UK Sustainable Finance Loan volume (US$bn)

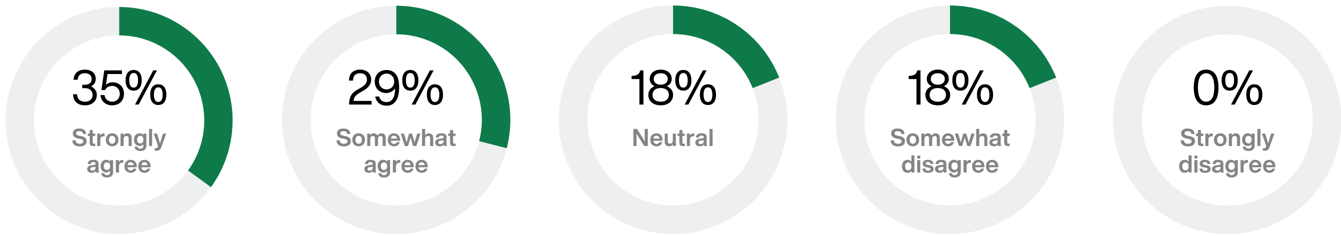


Source: LSEG LPC
*Includes Schuldschein
data as of 21-02-25

Investor demand and alignment with investment strategies, rather than regulatory pressures, are two key reasons for structuring loans as GSS. The continued demand for GSS products indicates that the demand from investors for GSS products still seems to be there in the market. However, the flattening of GSS volumes since 2022 does raise questions about what impact greenwashing risk is having on the labelled loan market now and to what extent it will impact the GSS market looking ahead.

To what extent do you think that fear of greenwashing risk is a barrier to uptake of GSS?

Credit funds



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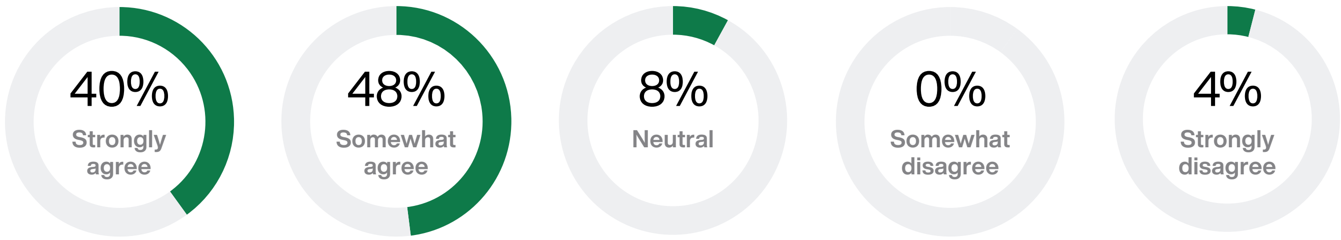


Insights

The risk of greenwashing is seen by banks and funds as an obstacle to the uptake of GSS products - 48% of bank participants and 29% of credit funds managers somewhat agreed that the fear of greenwashing risk is an barrier to the uptake of GSS products, whilst 40% of banks and 35% of credit funds managers strongly agreed with this suggestion.

Market participants referred to confusion around an emerging myriad of terms to address variations of perceived greenwashing (such as "greenhushing", "green bleaching", "blue/pink washing", "impact washing" and "SDG washing").[4] Against this backdrop, participants cited the following factors which have contributed to a levelling-off in GSS products:

- adverse publicity, reputational risks, and the risk of potential enforcement action resulting from accusations of greenwashing;
- factors such as, diversification of loans or lack of available benchmarks (which may result in proposed structures which fall short of stringent internal standards for GSS products);
- a potential mismatch of internal standards for GSS products between lenders which may result in discrepancies in external reporting and internal categorisation of the same loan across different lenders. This may be because a market participant's internal standards may be more rigid and stringent than the core components of the GSS Principles and/or those of other lenders in the syndicate; and
- costs associated with the need to engage external third parties (such as counsel, ESG consultants and verifiers) in order to ensure robust structures which comply with industry standards and recommendations (such as those set out in the Final Reports).

[4] See IOSCO's report on Supervisory Practices to Address Greenwashing published in December 2023.

Joining the Dots

In response to member requests to provide consistent documentation standards for use in the market, we developed the Model Provisions. Our role at the LMA is to support market practice, rather than seeking to shape it. However, in developing the SLL Model Provisions, we identified key provisions which should be considered on each transaction, even if they were not necessarily included on each and every deal.

Declassification and Publicity provisions are included in both sets of Model Provisions. Additionally, the SLLs contain **Sustainability Amendment Event** provisions. These provisions can help provide lenders with more comfort around greenwashing risk by helping to set clear guardrails around when the SLL label can no longer be used in relation to a particular loan.

There remains significant divergence in the market as to what the **Publicity** clause should include and therefore the current drafting included in the Model Provisions includes a description reflecting the consensus, noting that market participants may enhance the protection afforded by these terms should they wish to do so.

We will continue to keep the Model Provisions under review and will be reviewing the SLL Model Provisions in 2025 to ensure that these are aligned to the SLLP and provide a useful starting point for parties seeking to negotiate SLLs, and that they include provisions aimed at tackling greenwashing risk so as to reduce market friction on these points.

The FCA and ESAs have referred to industry guidelines to address greenwashing risk when labelling and classifying bonds and loans. Is it clear how the GSS Principles and Guidance can be used to address greenwashing risk?

Background

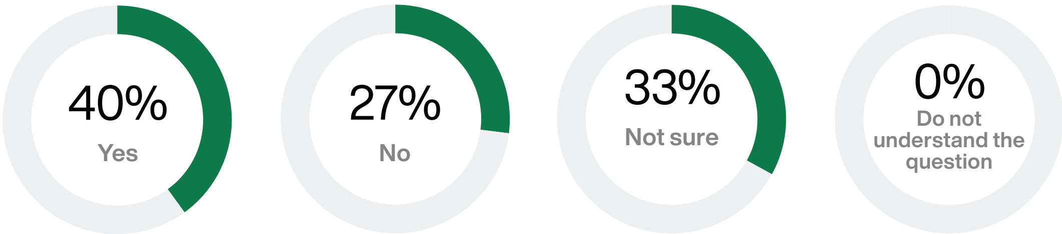
In the AGR Guidance and the Final Reports, reference is made to industry standards including the use of frameworks for GSS products as a way to substantiate sustainability claims. The AGR Guidance includes an example of good practice which refers to a sustainability-linked bond framework and how the fund manager complies with such frameworks, suggesting that firms may wish to consider whether relevant industry guidance or standards can provide additional useful guidance.

The EBA's Final Report also recommends that institutions should consider leveraging industry best practice or market guidance in order to mitigate greenwashing risk specifically referring to the GSS Principles and Guidance. In particular, the EBA has emphasised the need for financial institutions to design GSS structures carefully, ensuring that they *"apply rigor and closely engage with counterparties in designing sustainability-linked products"*.

Respondents to the ESA's survey in 2022 referred to market guidance and/or standards as the most relevant tool to mitigate greenwashing risk at the product level although concerns were also raised in respect of the credibility of "self-regulation initiatives" such as materiality and ambition.

Regulators have referred to loan labels and indicated that a deeper understanding and application of relevant standards is required in order to structure and label loans as GSS.

Credit funds



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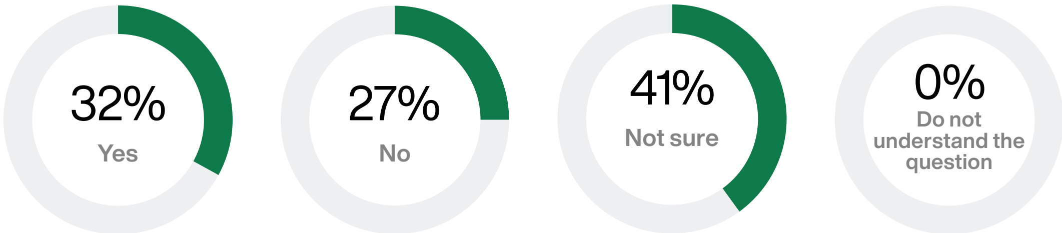
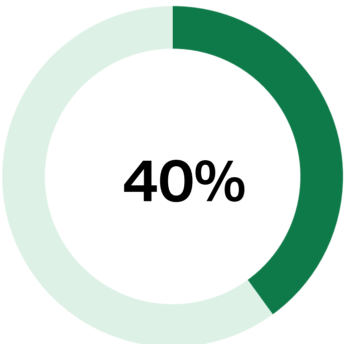


Insights

Private credit funds were divided when asked whether it is now clear how the GSS Principles and Guidance can be used to address greenwashing risk. Just over a quarter of participants indicated that they were not clear how the GSS Principles and Guidance could be used, whilst



indicated that they were aware of how industry standards could be used. A third of participants were not sure.

Participants of both roundtables however agreed that the terms of GSS products are now being negotiated more heavily rather than being accepted, resulting in stronger terms and more robust analysis. Some participants indicated that publication of the SLL Model Provisions had also strengthened their position in requesting rendez vous terms.

Discussion at the private credit roundtable also focussed on how the GSS Principles can be used in order to ensure alignment of disclosures at entity level, for example with the approach to structuring loan products for the purposes of investments and fund financing.

Participants also discussed the need to "show workings" and use relevant analysis consistently across the sustainable value chain including in the context of considering and analysing data and information for the purposes of complying with the core components of the GSS Principles.

LMA Perspectives

As indicated in the FCA's 2023 letter [5], amendments to the SLLP and the issuance of the SLL Model Provisions have had a role in helping to directly address greenwashing risks in the SLL market, and thereby have an important role to play in ensuring trust and integrity in the GSS market.

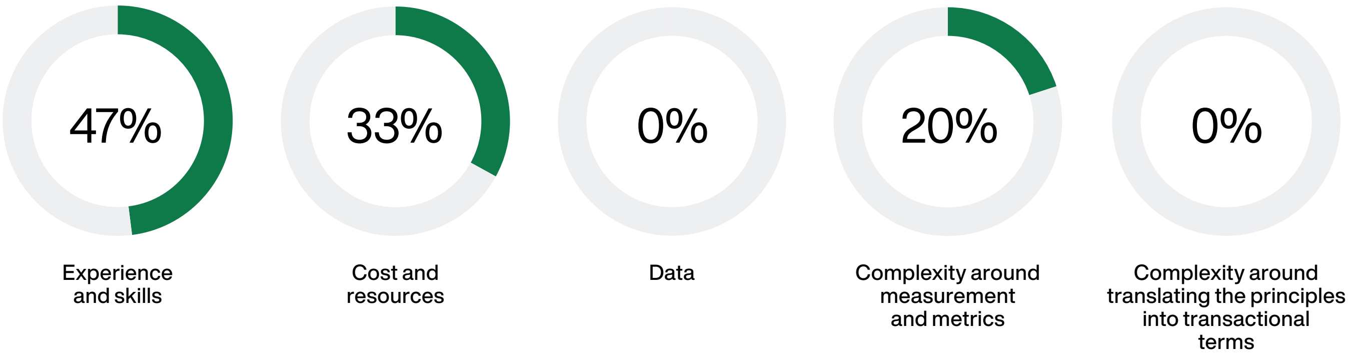
Through a collaborative market-led approach, the GSS Principles provide a robust framework of market standards and guidelines for GSS products. As such, the GSS Principles can help by providing consistent standards against which market participants can seek to benchmark or substantiate their sustainability claims.

However, it must be noted that the GSS Principles and Guidance are intended to provide high-level guidance and, as such, are not intended to account for the complexities and nuances of individual transactions.

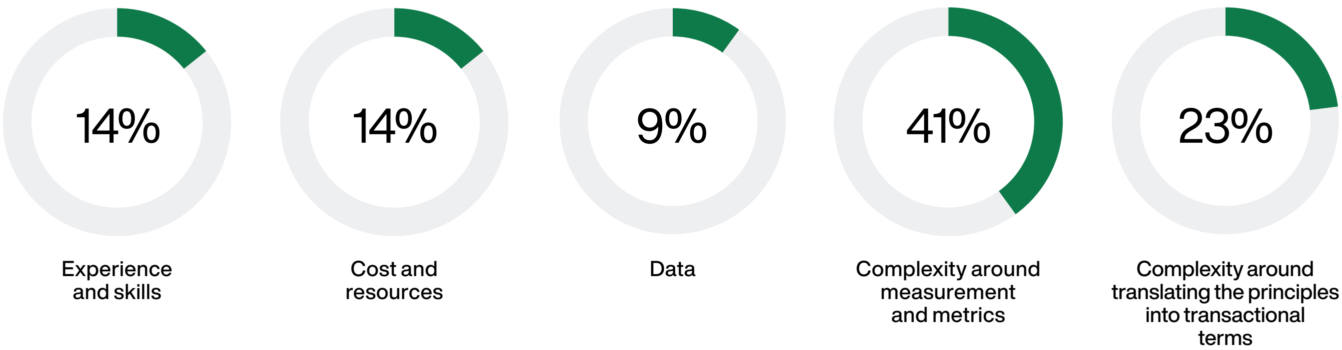
In addition, in order to comply with the core components of the GSS Principles (such as ensuring that a KPI is material for example), the requirements set out in the GSS Principles need to be assessed and analysed in the specific context of each individual transaction. Therefore, internal, and in some cases external (for example, in the case of SLLs, verifiers), sustainability expertise is required to make the assessments effective in mitigating against greenwashing risk.

What are the main barriers to structuring GSS Products?

Credit funds



Banks



[5] https://www.fca.org.uk/publication/correspondence/sll-letter-june-2023.pdf

Insights

Bank participants indicated that complexity around measurement and metrics (41%) was the most significant barrier to GSS origination, whilst credit funds (47%) referred to the need to improve experience and skills. Interestingly, credit fund participants did not consider complexity around translating GSS Principles into transaction terms as a barrier at all whilst 23% of bank participants considered this to be a barrier to the structuring of GSS.

Discussion at both roundtables pointed to the need for better understanding of GSS products across the wider ecosystem with all actors (including external counsel, ESG consultants and verifiers) ensuring that they have a robust understanding of the relevant GSS products in order to mitigate greenwashing risk for lenders.

The analysis required to structure GSS products, as well as the cost of verification and second party opinions (**SPOs**) was cited as a barrier to entry by both banks (14%) and credit funds (33%), with particular emphasis on mid-market private credit deals. Challenges with obtaining verification and SPOs were also cited as key issues in addressing greenwashing risk with participants referring to the risks of unintentional greenwashing.

The risk of accusations of greenwashing in a fast-evolving regulatory environment and the absence of meaningful economic incentives has led some participants to align with the GSS Principles but without formally attaching a label.

LMA Perspectives

Outside of greenwashing risk, it is clear that there are still a number of barriers that need to be addressed to increase liquidity in the GSS market, including market experience and expertise, costs and resources, data and complexity (both in terms of measurement and metrics and in terms of translating the GSS Principles into transactional terms).

We have identified a need to address in particular the barriers to entry to the GSS market for SMEs and we will be looking to address this through guidance which we hope to release in 2025.

The LMA is also looking to include the use of consistent standards language throughout the next version of the GSS Principles to streamline the verification process for SPO providers and/or verifiers.

What are the main reasons for structuring GSS's?

Credit funds

- 7% Regulatory compliance and consistency
- 47% Investor demand
- 27% Alignment with investment strategy
- 7% Potential financial benefits
- 13% Competitive advantage

Banks

- 4% Regulatory compliance and consistency
- 4% Investor demand
- 54% Alignment with investment strategy
- 4% Potential financial benefits
- 4% Competitive advantage
- 31% Other
- 0% Don't know

What would encourage greater use of GSS products?

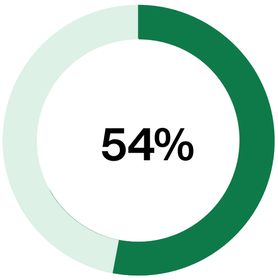
Credit funds

8%	Clearer understanding of how sustainable loan products can mitigate greenwashing risk
17%	Clearer understanding of how sustainable loan products can be used to access greater liquidity
8%	A clear framework for credible transition finance
0%	The ability to use data and information collected for regulatory compliance for structuring sustainable loan products
0%	Greater efficiency and transparency around verification
67%	Economic incentives

Banks

26%	Clearer understanding of how sustainable loan products can mitigate greenwashing risk
17%	Clearer understanding of how sustainable loan products can be used to access greater liquidity
13%	A clear framework for credible transition finance
4%	The ability to use data and information collected for regulatory compliance for structuring sustainable loan products
4%	Greater efficiency and transparency around verification
35%	Economic incentives

Insights



More than half of bank participants (54%) pointed to alignment with investment strategy as being the main driver of GSS products compared to investor demand being the main driver for credit funds (47%). Both groups pointed to economic incentives as being the most significant factor to encourage greater use of GSS structures, although this was more important for credit fund participants (67%) compared to banks (35%). Bank participants also indicated that: (i) a deeper understanding of how GSS products can mitigate greenwashing risk (26%); (ii) how GSS products can provide access to greater liquidity (17%); and (iii) consensus on a clear framework for credible transition finance (13%), would also encourage the use of GSS structures.

Credit fund participants discussed the need to ensure alignment with the disclosures under the Regulation (EU) 2019/2088 on sustainability-related disclosure in the financial services sector (**SFDR**), investment processes and the structuring of relevant loans. Again, greater understanding of how information and data collated for the purposes of regulatory compliance can be used to structure GSS products and address greenwashing risk is important.

For the reasons outlined above, lender sentiment and engagement towards GSS products has also shifted considerably over the last two years:

- resulting in potential differences in approach in the same syndicate group - borrowers may therefore find their ability to structure these loans (regardless of the availability of relevant information and data) is dependent on engagement by a few lenders or alignment with lenders' investment strategy or entity-level targets;
- despite flattening GSS volumes, private credit firms reported increased engagement from investors, borrowers and private equity sponsors on ESG issues and GSS structures. This is primarily resulting from enhanced ESG due diligence and analysis (including into underlying assets and investments) and improvements in the provision of data and information from borrowers and sponsors - the proliferation of useful data resulting from sustainable disclosure and reporting (including CSRD, ISSB) is seen as an important enabling factor; and
- banks are also now considering how to position themselves within the market in order to diversify funding bases/increase liquidity.

Participants of both roundtables pointed to the need to address wider systemic issues relating to rationale and incentives for GSS structures as well as allocation of capital toward transitioning projects and investments. Participants discussed the rationale and use of GSS products and how a better understanding of the way in which these products can be used may go some way to addressing some of the issues around SPOs, verification and potentially greenwashing. This is particularly the case in the context of SLLs where borrowers and sponsors may be keen to ensure that they meet all SPTs for fear of adverse publicity and media attention.

LMA Perspectives

A clearer understanding of how the GSS Principles can be used to mitigate greenwashing risk could help to unlock greater liquidity in the GSS market. The LMA is committed to supporting the continued development of GSS products and will therefore be working with our members over the course of 2025 to promote GSS instruments and to highlight their role in mitigating greenwashing risks.

The need for a clear framework for credible transition finance was highlighted in the final report of the Transition Finance Market Review and we are supportive of the newly formed Transition Finance Council in the UK. We are also working to identify the missing policy frameworks required to help promote the development of the transition finance market in the UK, such as the development of sectoral decarbonisation pathways and roadmaps.

In addition to the above, there is work for the LMA and market participants to do in the current environment to ensure that the benefits of GSS instruments are clearly communicated to borrowers and other market participants. GSS products provide a hugely important opportunity for lenders to engage with customers on sustainability issues, to seek to understand transition strategies and to provide expertise to assist borrowers on their sustainability journeys. If we are unable to communicate the benefits clearly to borrowers of GSS instruments, we risk a long-term drop off in these types of loans and the potential loss of this important opportunity for engagement.

As above, there are clear barriers to uptake we need to address as an industry, including challenges around the costs of verification and expertise in the market which may require targeted action to ensure the potential of the market can be unlocked.

Conclusion

In the past twelve months or so, sustainable finance appears to have lost some of its initial shine. After a period of rapid expansion, the GSS labelled market seems to be flatlining (and SLLs have actually fallen) following a peak of USD350bn in Europe and USD58bn in 2021.[6] A range of interrelated factors have contributed to this trend but amongst these appears to be the fear of greenwashing-related risk.

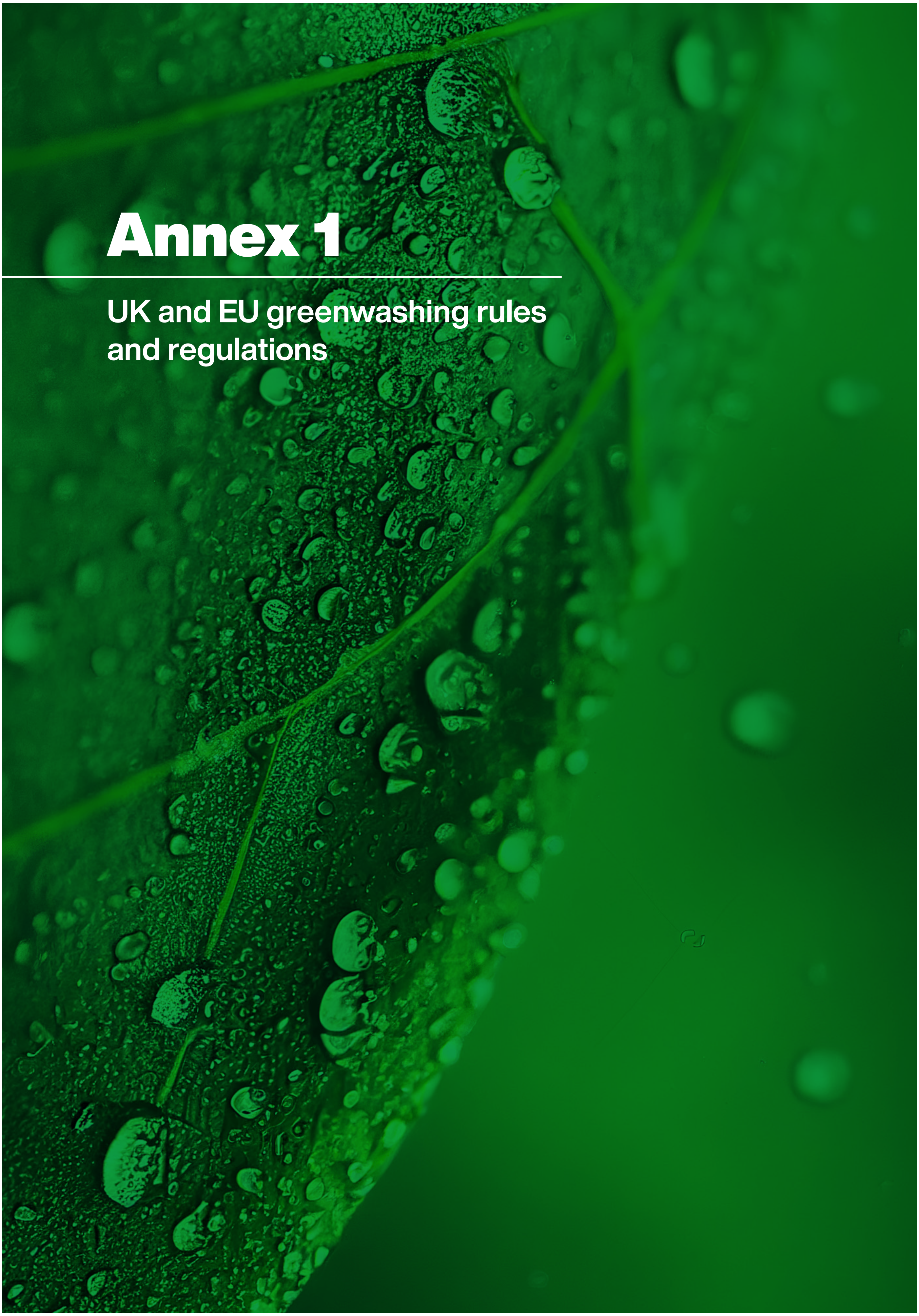
As outlined in this report, recent greenwashing rules, guidance and initiatives have quickly developed across the UK and the EU in response to concerns about consumers and investors being misled by sustainability claims. Whilst these developments have provided some clarity, they have also raised additional questions.

Unsurprisingly, greenwashing risk remains a key concern for the market and appears to be creating a barrier to GSS issuance. This is amplified in a challenging political and economic climate, especially when coupled with the limited economic incentives offered under GSS structures. In addition, there are areas where new greenwashing rules and regulations have left some uncertain as to how far liability for unintentional greenwashing may extend which, again, may be directly contributing to the levelling-off in GSS volumes.

Nonetheless, market participants appear to be unified as to the potential benefits of GSS instruments, where structured correctly. The underlying drivers for these innovative products have not changed and, indeed, are amplified by the pace of change on the global stage. In an era where the UK and Europe have re-aligned focus on competitiveness and growth, sustainable finance products present an opportunity to work with borrowers to identify opportunities to align new and existing business activities with transition to the industries that will be key to future global competitiveness. This point of engagement is something that risks being missed if innovation in the GSS market is lost due to fear of greenwashing – and indeed this is an area where perfection risks becoming the enemy of the good.

Market participants need to work together with regulators and policy makers to find the solutions to ensuring that GSS products retain their integrity whilst offering the flexibility needed by borrowers. At the LMA, we are working hard in this area to build an open dialogue with regulators and to fill gaps where they exist in market standards, such as our upcoming guidance for transition loans, updates to the GSS Principles, and capacity building through thought-leadership.

[6] LSEG LPC.



Annex 1

UK and EU greenwashing rules and regulations

UK - The FCA's Anti-Greenwashing Rule and Guidance

The FCA and ESAs have emphasised that greenwashing is and will remain a regulatory and strategic priority. In the UK, Europe and beyond, regulators are emphasizing the need to:

- **improve transparency of the sustainability characteristics of products and services;**
- **allow investors and consumers to make better informed decisions;**
- **increase trust and confidence in sustainability-related claims; and**
- **increase capital flows to sustainable products and services.**

The FCA and ESAs have taken different approaches to addressing greenwashing risk, however there are many similarities.

In January 2025, AFME published a briefing considering UK and EU regulatory approaches to greenwashing; and IOSCO published a comparative guide to greenwashing covering additional jurisdictions.

In November 2023, the FCA published a Policy Statement with final rules on Sustainability Disclosure Requirements **(SDR)** and investment labels (PS23/16). The AGR is part of this package of measures and, along with the AGR Guidance came into force on 31 May 2024.

The AGR [7] requires all FCA-authorised firms to ensure that any reference to the sustainability characteristics of a product or service is:

- consistent with the sustainability characteristics of that product or service; and
- fair, clear and not misleading.

The AGR and the AGR Guidance apply whenever a firm communicates with clients in the UK in relation to a product or service or communicates a financial promotion to, or approves a financial promotion for communication to, a person in the UK. The rule applies to sustainability-claims made by a firm to existing clients as well as to other businesses. Firms remain subject to other rules and expectations regarding firm-level claims and these should be taken into account as part of the overall "representative-picture".

The AGR Guidance [8] remains principles based, so that firms can apply it across all sectors *"taking account of the nature of their audience"* and in the context of their business and specific sustainability-related claims being made.

[7] Environmental, Social and Governance Sourcebook (ESG 4.3.1R)

[8] The LMA's response to the AGR Consultation can be found here.

EXISTING GREENWASHING REQUIREMENTS IN THE UK

The AGR Guidance refers to existing greenwashing requirements and guidance that applies to most firms requiring that any information communicated is "fair, clear and not misleading". This includes Principles for Business (PRIN) and Conduct of Business Sourcebook (COBS) 4.2.

The AGR Guidance clarifies that the AGR is *"intended to complement and be consistent with these rules. It is not a substitute for, and is not intended to override, any other rules in the Handbook where firms may be subject to fair, clear and not misleading rules in specific circumstances".* [9]

The AGR Guidance also refers to other legislation and guidance that applies to sustainability-related claims including guidance by the Competition and Market Authority and Advertising Standards Authority.

The AGR provides the FCA with a specific requirement on which it can challenge firms if it considers they are making misleading sustainability-related claims.

AGR GUIDANCE: EXAMPLE 7 (GOOD PRACTICE)

The AGR Guidance includes examples including those illustrating good practice. Example 7 of the AGR Rule refers to a fund investing in sustainability-linked bonds (SLBs). The following has been included as good practice:

- the marketing material "highlights" how the fund manager selects only those SLBs that meet the criteria "in line with market standards for best practice"
- supporting evidence includes:

(i) naming the SLB framework used to assess potential investments referred to in marketing materials;

(ii) setting out the qualities for SLBs to comply with the SLB framework (in this case clear, measurable and ambitious performance indicators and SPTs aligned with a company's transition plan and routine reporting which is independently verified).

The AGR and AGR Guidance do not refer to a single definition of "sustainability" stating that "sustainability characteristics" refers to environmental or social characteristics with governance seen as an *"enabler of environmental and/or social outcomes".* The rule applies with respect to references which could be present in a range of communications including (but not limited to) *"statements, assertions, strategies, targets, policies, information and images relating to a product or service".*

Market feedback to the FCA's guidance consultation (GC23/13) included requests for further clarification regarding the FCA's expectations of supporting evidence, reliance on data and information from third parties, the level of substantiation required from firms and the use of industry sustainability-related standards. In chapter 3 of the AGR Guidance, the FCA has indicated that firms will need to consider whether it is appropriate to rely on data and information provided by third parties to substantiate sustainability-claims and also consider the type of evidence that would be appropriate to ensure that claims are fair, clear and not misleading, clear and not misleading which will itself depend on the nature of the product as well as the claims being made.

The AGR Guidance states that sustainability-claims should be:

Correct and capable of being substantiated: Claims need to be factually correct and supported with *"robust and credible evidence".* Firms should carefully consider the appropriateness of supporting evidence and regularly review claims and supporting evidence, ensuring compliance with the AGR on an ongoing basis.

Clear and presented in a way can be understood: Claims should be transparent and straightforward and any terminology should be useful to, and capable of being understood by, the intended recipients ensuring sufficient detail and consistency of message between language and images.

[9] The FCA has included guidance in the relevant sourcebooks to remind firms of the AGR when they comply with other obligations.

Complete – they should not omit or hide important information: Claims should be presented in a balanced way and account for the entire life cycle of the product or service and "the limitations of any information, data or metrics" should also be prominently set out along with any conditions which apply for the claims to be true.

Comparisons should be fair and meaningful: Comparisons to previous versions of a product or service, or to those of a competitor, should allow recipients to make informed decisions about the products or services and be substantiated with appropriate evidence.

The AGR Guidance is intended to be kept under review and the FCA will consider adding further sector-specific examples.

ESAs – Greenwashing Reports

In June 2024, the three ESAs published their Final Reports to the European Commission on greenwashing in the financial sector. The Final Reports build on the Progress Reports published by the ESAs in response to the request for input from the European Commission on the phenomenon of greenwashing.

The Final Reports provide guidance to firms under the remit of each ESA and apply at both entity and product level covering the social and governance aspects of greenwashing as well as environmental-related claims.

In the Final Reports, the ESAs share a common understanding of greenwashing, identify high-risk areas exposed to greenwashing and set out remedial actions to support firms to prevent and mitigate greenwashing.

GREENWASHING IN THE EXISTING EU REGULATORY FRAMEWORK

In the Final Reports, the ESAs make clear that at present, there is no intention for the greenwashing guidance to be enshrined into legislation. Instead, reference is made to the way in which greenwashing is already addressed in the existing EU regulatory framework. ESMA's Final Report sets out the detail of specific legal provisions included in existing EU regulation which aim to address greenwashing risk and are relevant to the supervision of greenwashing.

These provisions include EU rules such as the "clear, fair and not misleading" rules set out in MiFID and the UCITS Directive and greenwashing is also addressed in sustainability-related regulation such as SFDR, the EU Taxonomy and CSRD.

ESA's common understanding and core characteristics of Greenwashing

In the Progress Reports, **the ESAs shared a common understanding of greenwashing** (reiterated in the Final Reports) based on existing references to greenwashing in relevant EU legislation. The common understanding is intended to provide a shared reference point to market participants as well as inform supervision, enforcement activities and future regulatory interventions.

Greenwashing should be referred to as **"practice whereby sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants."**

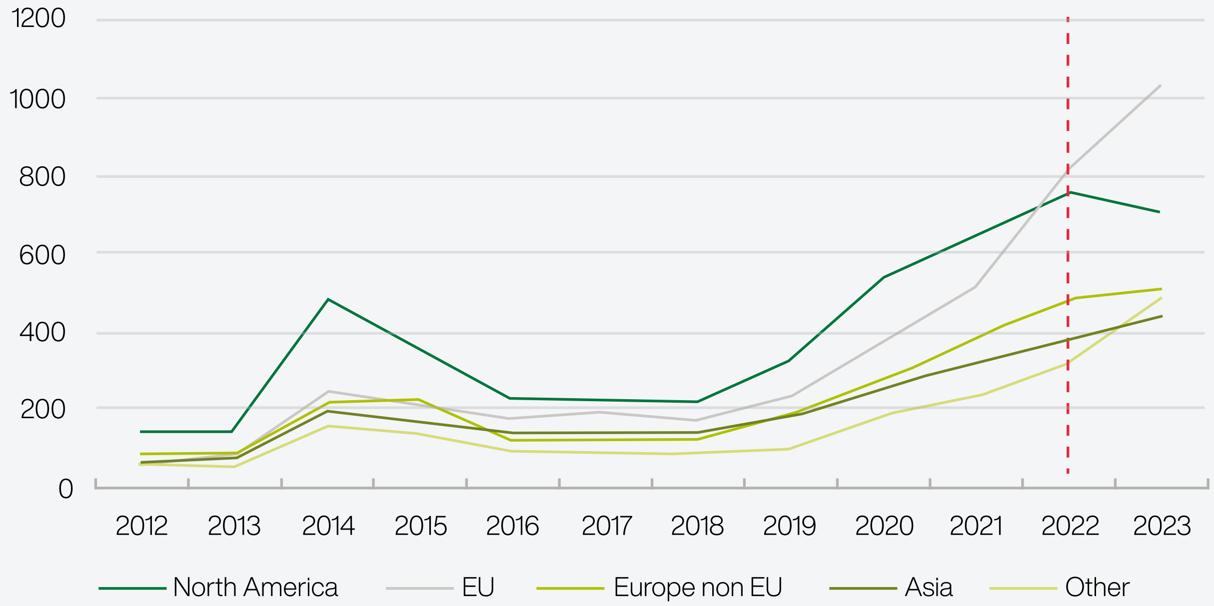
The Progress Reports also set out the following core characteristics that market participants can use in order to identify the potential scope of greenwashing:

- greenwashing can occur at any stage of the sustainable investment value chain **(SIVC)** or the business cycle of products or services when sustainability-related statements, declarations, actions or communications are made;
- sustainability-related statements, declarations or communications can be misleading by way of omission of information or the actual provision of information;
- greenwashing is a type of misconduct which may or may not result in a direct claim but in misleading actions;
- sustainability-related misleading claims can occur and be spread intentionally or unintentionally;
- greenwashing can occur at the financial level, at the financial product level or at the financial service level including advice;
- greenwashing can be triggered by the entity to which the sustainability communications relate, by the entity responsible for the product, by the entity providing advice or third parties (e.g. ESG rating providers or verifiers); and
- greenwashing may or may not result in immediate damage to investors.

EBA Final Report

The EBA report focuses mainly on the banking sector and also covers investment firms and payment providers. The EBA Final Report refers to a *"clear increase in the total number of potential cases of greenwashing across all sectors including EU banks from 2012 to 2023."*

Figure 1. Total alleged incidents of misleading communication on ESG related topics by geographic location (2012-2023)



Source: RepRiSk ESG Data Science, www.reprisk.com

The EBA report starts that institutions should take *"all necessary steps"* to ensure that sustainability-related claims are fair, clear and not misleading including:

- ensuring that sustainability claims are accurate, have been substantiated, are up to date and regularly reviewed;
- ensuring that sustainability claims are representative of the profile of a product or an organisation's overall profile;
- presenting sustainability information in a clear manner which is understandable to the target audience;
- reviewing and updating governance arrangements and internal processes in order to safeguard against greenwashing;
- taking a proactive approach towards data challenges; and
- considering the extent to which external verification and alignment with market guidance can support the credibility of green and sustainable products and/or targets.

As well as substantiating forward-looking sustainability commitments at entity level, the EBA emphasises the need for institutions to take additional steps **at product level** including:

- establish and report clear criteria, definitions and indicators for products and services labelled as green, social or sustainability-linked; and
- apply rigour and closely engage with counterparties when designing sustainability-linked products, particularly sustainability-linked loans.

ESMA: Progress Report and Final Report

ESMA's report focuses primarily on issuers, investment managers, benchmark administrators, and investment service providers and assesses the areas of the SIVC which are most exposed to the risk of greenwashing. Relevant key findings from the report include the following:

Misleading claims may relate to all key aspects of the sustainability profile of a product or an entity including, for example, ESG-related governance and resources; ESG strategy, policies and credentials; performance metrics and targets; and sustainability impact;

The report emphasises the multi-faceted and interrelated nature of the drivers of greenwashing and interlinkages across the SIVC highlighting the due diligence responsibilities of each market participant across the SIVC as well as the challenges faced by market participants across the SIVC in implementing effective changes to governance and internal controls and systems (including digital solutions);

Well documented challenges regarding (i) the availability of quality sustainability-related data and information and (ii) challenges implementing regulation, which continues to evolve and develop according to changes in the geopolitical landscape and stakeholder sentiment and demand, are outlined as is the need to improve the effectiveness and consistency of sustainability legislation;

As for the FCA's AGR and the EBA Final Report, ESMA also refers to the role and responsibility of market participants across the SIVC to substantiate sustainability claims, avoid *"cherry picking, ambiguity, empty claims...and misleading use of ESG terminology"*;

ESMA refers to the claims, documents and areas that are most exposed to greenwashing risk which include (but are not limited to):

- marketing materials, labels and voluntary reporting;
- forward-looking information and pledges of issues; in this regard enhanced transparency of supporting analysis (including any underlying assumptions and parameters) is necessary to provide the information (including in respect of the ambition and credibility of relevant commitments) required to make well informed investment decisions;
- in relation to investment managers, sustainability claims about (i) the fund; (ii) the manager's engagement with investee companies; (iii) ESG strategy, policies and credentials; (iv) ESG governance; (v) sustainability impact and (vi) fund names; and
- benchmarks and data provided by issuers and ESG data providers.

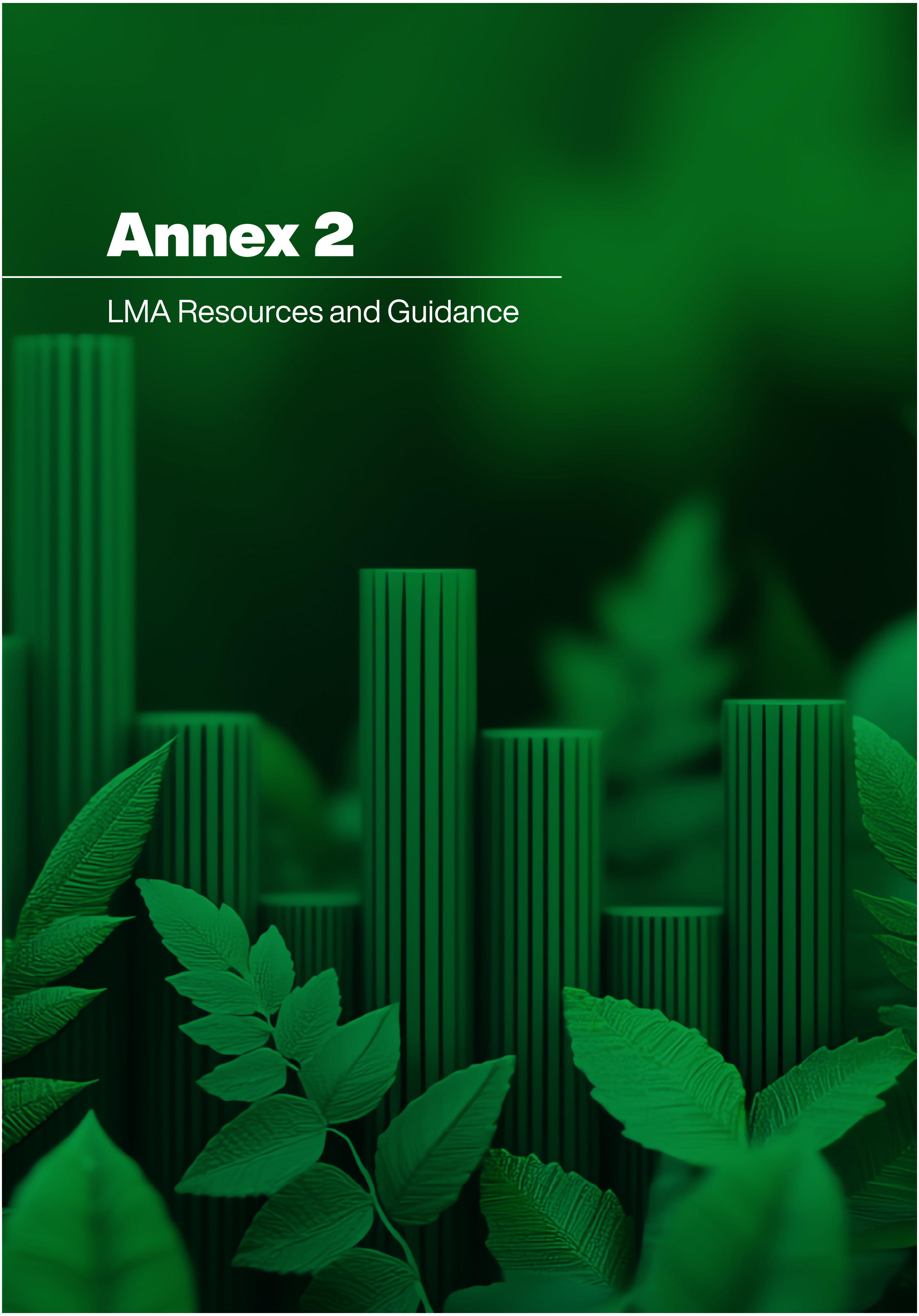
In setting out potential remediation actions, ESMA refers to action which can be taken across the wider ecosystem and SIVC including the need to reinforce the sustainability regulatory framework (including clarification of key concepts and additional work on transition finance), transparency on ESG data methodologies, clarifications on the use and calculation of estimates, external verification and auditing.

ESMA will continue to review suggested remediation action presented in ESMA's report as greenwashing risk evolves over time in line with developments in market practice and to relevant regulation.

The EBA and ESMA Final Reports set out a number of recommended processes including those that relate to governance and internal processes (including IT systems), ESG data challenges, the use of third parties (including verifiers) and action that can be taken at entity and product level.

Annex 2

LMA Resources and Guidance



Role of the LMA

The LMA's role in sustainable finance has been to support the development and ongoing evolution of this market from its infancy to scaling investment opportunities whilst safeguarding the integrity of the market - particularly for labelled loan instruments.

Collaborative work with our Sustainability Committee and Sustainable Finance Regulatory Committee (both working parties consisting of representatives from banks and non-bank financial institutions, service providers and law firms active in the global loan market), other industry associations, and continued dialogue with regulators and stakeholders in the wider ecosystem has resulted in principles for sustainable loan products as well as guidance on specific issues and challenges faced by our members.

Since 2017, alongside the APLMA and the LSTA, in response to the evolution of the sustainable finance market and in response to market practice and demand, the LMA has published the GSS Principles and Guidance. As the market has continued to develop and scale, in collaboration with our Sustainability Committee, the LMA has published draft provisions for SLLs and green loans as well as additional guidance for sustainability coordinators and external reviewers.

The GSS Principles aim to promote the development, integrity and transparency of the sustainable loan product by providing a recommended framework of market standards and guidelines for use across the sustainable loan market, and clarifying the instances in which market participants may consider classifying a loan as "green", "social" and/or "sustainability-linked".

The GSS Principles are regularly updated to accommodate the development and growth of the sustainable loan market and align with a rapidly evolving market. The integrity and robustness of these sustainable finance products is carefully considered when making any updates to the GSS Principles and Guidance, and all changes go through an extensive review process.

The GSS Principles help set guardrails for the structuring and issuance of GSS instruments. The GSS Principles are not intended to be detailed enough to cover all circumstances (nor do we believe they should ever be given the need for flexibility in the market in order to avoid stifling it). As such, a case-by-case analysis will always be required by market participants to establish the nature of greenwashing risk and how to best address this.

Abbreviations

Abbreviations	
AGR	The FCA's anti-greenwashing rule (ESG 4.31R)
AGR Guidance	The final non-handbook guidance on the anti-greenwashing rule (FG24/3)
APLMA	Asia Pacific Loan Market Association
CSRD	Corporate Sustainability Reporting Directive
EBA	The European Banking Authority
EC	European Commission
EIOPA	European Insurance and Occupational Pensions Authority
ESG	Environmental, social and governance
ESMA	The European Securities and Markets Authority
FCA	Financial Conduct Authority
Final Reports	The final greenwashing reports published by the European Supervisory Authorities
GLP	Green Loan Principles
GSS Principles	The Green Loan Principles, Social Loan Principles and Sustainability-Linked Loan Principles
GSS	Green loans, social loans and sustainability-linked loans
KPIs	Key performance indicators
SLL	Sustainability-linked loans
SLP	Social Loan Principles
SLLP	Sustainability-Linked Loan Principles
SPTs	Sustainability performance targets
TFMR	Transition Finance Market Review

Please see the LMA's Sustainable Lending Glossary (which can be found in the LMA's quarterly Horizons publication) for further defined terms and information.

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