



# Glossary of terms

In alphabetical order

## Carbon neutral

Striking a balance between emitting and absorbing carbon from the atmosphere.<sup>1</sup>

## Carbon offsetting

A way to compensate for emissions by funding an equivalent carbon dioxide saving elsewhere.<sup>2</sup>

## Carbon sinks

Natural sites that trap carbon dioxide from the atmosphere and lock it back into the ground.<sup>3</sup>

## Certification

A borrower may have its green loan/sustainability linked loan or associated green loan/sustainability linked loan framework certified against an external green/sustainability assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties/certifiers.<sup>4</sup>

## Circular economy

While there is no single accepted definition of a circular economy, it is generally understood that the “transition to a circular economy” entails a reduced demand for natural resources, and the materials that are derived from them.<sup>5</sup>

## Climate change adaptation

Climate change adaptation involves adjusting to the actual or expected future climate. The goal is to reduce society’s vulnerability to the harmful effects of climate change (like sea-level encroachment, more intense extreme weather events or food insecurity). Adaptation also encompasses making the most of any potential beneficial opportunities associated with climate change (for example, longer growing seasons or increased yields in some regions).<sup>6</sup>

## Climate change mitigation

The goal of climate change mitigation is to avoid significant human interference with the climate system, and to stabilise greenhouse gas levels in a timeframe sufficient to allow ecosystems to adapt naturally to climate change, ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner.<sup>7</sup>

## 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.<sup>8</sup>

## Climate Financial Risk Forum (CFRF)

The CFRF is a joint initiative between the Financial Conduct Authority and the Prudential Regulation Authority. Its objective is to build capacity and share best practice across financial regulators and industry to advance financial sector responses to the financial risks from climate change.<sup>9</sup>

## Consultant review

A borrower can seek advice from consultants and/or institutions with recognised expertise in environmental sustainability or other aspects of the administration of a green/ sustainability linked loan. “Second party opinions” may also fall into this category.<sup>10</sup>

## COP

The Conference of the Parties, known as COP, is the decision-making body responsible for monitoring and reviewing the implementation of the United Nations Framework Convention on Climate Change. It brings together the 197 nations and territories – called Parties – that have signed on to the Framework Convention. The COP has met annually since 1995.<sup>11</sup>

<sup>1</sup> <https://www.europarl.europa.eu/news/en/headlines/society/20190926STO62270/what-is-carbon-neutrality-and-how-can-it-be-achieved-by-2050>

<sup>2</sup> <https://www.carbonfootprint.com/carbonoffset.html>

<sup>3</sup> <https://www.europarl.europa.eu/news/en/headlines/society/20190926STO62270/what-is-carbon-neutrality-and-how-can-it-be-achieved-by-2050>

<sup>4</sup> [https://www.lma.eu.com/application/files/6115/5266/8726/Green\\_Loan\\_Principles\\_Booklet.pdf](https://www.lma.eu.com/application/files/6115/5266/8726/Green_Loan_Principles_Booklet.pdf)

<sup>5</sup> <https://www.oecd-ilibrary.org/sites/5ab8c6da-en/index.html?itemId=/content/component/5ab8c6da-en>

<sup>6</sup> <https://climate.nasa.gov/solutions/adaptation-mitigation/>

<sup>7</sup> <https://climate.nasa.gov/solutions/adaptation-mitigation/>

<sup>8</sup> <https://unfccc.int/topics/climate-finance/the-big-picture/introduction-to-climate-finance>

<sup>9</sup> <https://www.fca.org.uk/transparency/climate-financial-risk-forum>

<sup>10</sup> [https://www.lma.eu.com/application/files/6115/5266/8726/Green\\_Loan\\_Principles\\_Booklet.pdf](https://www.lma.eu.com/application/files/6115/5266/8726/Green_Loan_Principles_Booklet.pdf)

<sup>11</sup> <https://unfccc.int/process/bodies/supreme-bodies/conference-of-the-parties-cop>

## ‘Dark green’

This term is often used to refer to projects or activities that will lower carbon emissions in the long run, such as wind energy.

## ‘Dark green’ strategies

Strategies in which green and sustainable principles and practices are fully embedded in and direct the strategy and operations of an organisation.

## Environmental, social and governance (ESG)

- **Environmental:** Environmental issues relate to the quality and functioning of the natural environment and natural systems. Environmental factors within the ESG criteria in the context of investing include, but are not limited to, the environmental footprint of a company (such as energy or water consumption) and environmental governance (such as management systems) and environmental product stewardship (such as cars with low fuel consumption).
- **Social:** Social issues relate to rights, well-being and interests of people and communities. Social factors within the ESG criteria in the context of investing include, but are not limited to, worker rights, safety, diversity, education, labour relations, supply chain standards, community relations, human rights.
- **Governance:** Governance issues relate to the management of investee entities. Governance factors within the ESG criteria in the context of investing include policies or practices by which a company is directed or controlled. These include, but are not limited to, transparency on board remuneration, independence of boards and shareholder rights.<sup>12</sup>

## Equator Principles (EPs)

The EPs provide a risk management framework, which has been adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects. The EPs are intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making. The EPs apply globally, to all industry sectors and to four financial products, namely (i) project finance advisory services, (ii) project finance, (iii) project-related corporate loans and (iv) bridge loans.<sup>13</sup>

## ESG integration

ESG integration is the analysis of all material factors in investment analysis and investment decisions, including ESG factors.<sup>14</sup>

## EU Action Plan for Financing Sustainable Growth<sup>15</sup> (the “Action Plan”)

The European Commission released the Action Plan on 7 March 2018. The Action Plan was a response to recommendations from the EU High-Level Expert Group on Sustainable Finance (see below definition), which were submitted to the Commission on 31 January 2018. The Action Plan includes three broad aims: (1) to reorient capital flows towards a more sustainable economy, (2) to mainstream sustainability into risk management and (3) to foster transparency and long-termism.<sup>16</sup>

## EU Emissions Trading System (EU ETS)

The EU ETS is a ‘cap and trade’ system, which sets a cap on the overall level of greenhouse gas emissions allowed but, within that limit, allows participants in the system to buy and sell emission allowances as they require. The aim is to help EU Member States achieve their commitments to limit or reduce greenhouse gas emissions in a cost-effective way. Established in 2005, it is the world’s first international emissions trading system.<sup>17</sup>

<sup>12</sup> <https://www.unpri.org/download?ac=1453> and [http://www.sustainablefinance.ch/en/glossary-\\_content--1--3077.html](http://www.sustainablefinance.ch/en/glossary-_content--1--3077.html)

<sup>13</sup> <https://equator-principles.com/about/>

<sup>14</sup> <https://www.unpri.org/investor-tools/what-is-esg-integration/3052.article>

<sup>15</sup> EU Commission’s ‘Action Plan: Financing Sustainable Growth’ (COM (2018) 97 Final) <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097>

<sup>16</sup> <https://www.unpri.org/sustainable-financial-system/explaining-the-eu-action-plan-for-financing-sustainable-growth/3000.article>

<sup>17</sup> [https://ec.europa.eu/clima/policies/ets\\_en](https://ec.europa.eu/clima/policies/ets_en)

## EU Green Bond

An EU Green Bond is any type of listed or unlisted bond or capital market debt instrument issued by any European or international issuer that is aligned with the EU GBS.<sup>18</sup>

## EU Green Bond Standard (EU GBS)

The EU GBS is a voluntary standard that is intended to provide a framework of core components for EU Green Bonds, thereby enhancing transparency, integrity, consistency and comparability of EU Green Bonds. The ultimate objective is to increase the flow of finance to green and sustainable projects. The TEG recommends that the EU GBS should comprise four core components: (1) alignment of Green Projects with the EU Taxonomy, (2) Green Bond Framework, (3) reporting and (4) verification by accredited verifiers.<sup>19</sup>

## EU High-Level Expert Group on Sustainable Finance

The EU Commission established the EU High-Level Expert Group on Sustainable Finance in 2016 to help develop an overarching and comprehensive EU roadmap on sustainable finance.<sup>20</sup>

## EU Taxonomy

An EU classification system which is intended to:

- Create a uniform and harmonised classification system, which determines the activities that can be regarded as environmentally sustainable for investment purposes across the EU;
- Address and avoid further market fragmentation and barriers to cross-border capital flows, as currently some Member States apply different taxonomies;

- Provide all market participants and consumers with a common understanding and a common language of which economic activities can unambiguously be considered environmentally sustainable/green;
- Provide appropriate signals and more certainty to economic actors by creating a common understanding and single system of classification while avoiding market fragmentation;
- Protect private investors by avoiding risks of greenwashing; and
- Provide the basis for further policy action in the area of sustainable finance, including standards, labels, and any potential changes to prudential rules.<sup>21</sup>

## European Green Deal

On 11 December 2019, the European Commission presented the European Green Deal, a growth strategy aiming to make Europe the first climate neutral continent by 2050. As part of the Green Deal, the Commission presented on 14 January 2020 the European Green Deal Investment Plan, which is intended to mobilise at least €1 trillion of sustainable investments over the next decade. It is also intended to provide a framework to facilitate public and private investments needed for the transition to a climate-neutral, green, competitive and inclusive economy.<sup>22</sup>

## Global Green Finance Council (GGFC)

The GGFC was created in 2017 with the objective of bringing together key global and regional financial associations and other stakeholders involved in green and sustainable finance. The GGFC was founded by the Global Financial Market Association (GFMA), the International Capital Market Association (ICMA), the European Banking Federation (EBF), the European Covered Bond Council (EMF-ECBC), the Institute of International Finance (IIF), the LMA and the World Federation of Exchanges. Other organisations are participating as observers, including CERES, the European Financial Roundtable (EFR) and InsuranceEurope.<sup>23</sup>

<sup>18</sup> [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/190618-sustainable-finance-teg-report-green-bond-standard\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-green-bond-standard_en.pdf)

<sup>19</sup> [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/190618-sustainable-finance-teg-report-green-bond-standard\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-green-bond-standard_en.pdf)

<sup>20</sup> [https://ec.europa.eu/info/publications/180131-sustainable-finance-report\\_en](https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en)

<sup>21</sup> Technical Expert Group on Sustainable Finance, 'Taxonomy pack for feedback and workshops invitations (December 2019), page 7 ([https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/sustainable-finance-taxonomy-feedback-and-workshops\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-feedback-and-workshops_en.pdf))

<sup>22</sup> [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/green-finance\\_en#high-level-expert-group-on-sustainable-finance](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/green-finance_en#high-level-expert-group-on-sustainable-finance)

<sup>23</sup> <https://www.icmagroup.org/green-social-and-sustainability-bonds/global-green-finance-council-ggfc/>

## Green Bond Principles (GBP)

The GBP are voluntary process guidelines, issued by ICMA, that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. The GBP are intended for broad use by the market and are aimed at:

- Providing issuers with guidance on the key components involved in launching a credible Green Bond;
- Aiding investors by ensuring the availability of information necessary to evaluate the environmental impact of their Green Bond investments; and
- Assisting underwriters by moving the market towards standard disclosures which will facilitate transactions.<sup>24</sup>

## Green Bonds

Green bonds enable capital-raising and investment for new and existing projects with environmental benefits.<sup>25</sup>

## Green Finance Institute<sup>26</sup> (GFI)

The GFI was launched on 2 July 2019. The GFI's overarching mission is to accelerate the domestic and global transition to a clean, resilient and environmentally sustainable economy through accelerating UK leadership in green finance. As the UK's principal forum for public and private collaboration on green finance, the GFI is intended to foster greater alignment of public and private sector initiatives, create commercial opportunities for UK finance providers, and strengthen the competitiveness of the UK financial services sector and the UK's global green finance brand.

## Green Finance Strategy

On 2 July 2019, the Department for Business, Energy and Industrial Strategy (BEIS) published the Government's 'Green Finance Strategy: Transforming finance for a greener future'. The Strategy aims to:

- Align private sector financial flows with clean, environmentally sustainable and resilient growth, supported by government action; and
- Strengthen the competitiveness of the UK financial sector.<sup>27</sup>

## Green lease

A standard form lease with additional clauses included which provide for the management and improvement of the environmental performance of the premises and/or the building by both owner and occupier(s).<sup>28</sup>

## Green loan

The Green Loan Principles define green loans as any loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects. Green loans are commonly aligned in the market with the Green Loan Principles.<sup>29</sup>

## Green Loan Principles (GLP)

A high-level framework of market standards and guidelines, published by the LMA together with the Asia Pacific Loan Market Association (APLMA) 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.<sup>30</sup>

## Green mortgages

Green mortgages typically give customers discounted mortgage rates once they have upgraded the energy rating of their home.<sup>31</sup>

<sup>24</sup> <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>25</sup> <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>26</sup> <https://www.greenfinanceinstitute.co.uk/>

<sup>27</sup> <https://www.gov.uk/government/publications/green-finance-strategy>

<sup>28</sup> [http://www.betterbuildingspartnership.co.uk/sites/default/files/media/attachment/bbp-glth-2013\\_0.pdf](http://www.betterbuildingspartnership.co.uk/sites/default/files/media/attachment/bbp-glth-2013_0.pdf)

<sup>29</sup> [https://www.lma.eu.com/application/files/1815/8866/8537/Green\\_Loan\\_Principles\\_V03.pdf](https://www.lma.eu.com/application/files/1815/8866/8537/Green_Loan_Principles_V03.pdf)

<sup>30</sup> [https://www.lma.eu.com/application/files/1815/8866/8537/Green\\_Loan\\_Principles\\_V03.pdf](https://www.lma.eu.com/application/files/1815/8866/8537/Green_Loan_Principles_V03.pdf)

<sup>31</sup> <https://www.gov.uk/government/news/homeowners-could-cut-mortgage-rates-bills-and-emissions-with-new-green-mortgages>

## Green Projects

There is no universal definition of a “Green Project”. However, a non-exhaustive list of the categories of eligibility for Green Projects under the GLP can be found at Appendix 1 of the GLP.<sup>32</sup>

## Green supporting factor

This term refers to the lowering of capital requirements for lending to the green sector to make it more financially attractive to lenders and borrowers.<sup>33</sup>

## 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 scaling up sustainable finance. The green tagging of bank assets allows for easier access to green bond markets, better tracking of green loan performance and provides greater transparency of climate risks and portfolio resilience.<sup>34</sup>

## Greenwashing

Greenwashing refers to the practice of gaining an unfair competitive advantage by marketing a financial product as environmentally friendly, when in fact it does not meet basic environmental standards.<sup>35</sup> In the context of green loans, greenwashing is a term that has been used to describe situations where a borrower or project is held out to have green credentials but where these claims are, in fact, misleading, inaccurate or inflated.<sup>36</sup>

## Key performance indicators (KPIs)

KPIs are quantifiable metrics used to measure the performance of selected indicators. KPIs are often used in the context of sustainability linked loans to measure improvements in the borrower’s sustainability profile.<sup>37</sup>

## ‘Light green’

This term is often used to refer to environmentally friendly activities or projects that won’t change the long-term outlook on their own, such as more efficient fossil-fuel infrastructure.<sup>38</sup>

## ‘Light green’ strategies

Strategies in which green and sustainability factors are not central to an organisation’s strategy and operations, but rather additions to a strategy that does not have a green and sustainable vision and purpose at its core.

## Network for Greening the Financial System (NGFS)

At the Paris “One Planet Summit” in December 2017, eight central banks and supervisors established the NGFS. Since then, the membership of the NGFS has grown dramatically, across the five continents. The NGFS’s purpose is to help strengthen the global response required to meet the goals of the Paris Agreement and to enhance the role of the financial system to manage risks and to mobilise capital for green and low-carbon investments in the broader context of environmentally sustainable development. To this end, the NGFS defines and promotes best practices to be implemented within and outside of the membership of the NGFS and conducts or commissions analytical work on green finance.<sup>39</sup>

## Net zero emissions

Net zero emissions are achieved when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period. Where multiple greenhouse gases are involved, the quantification of net zero emissions depends on the climate metric chosen to compare emissions of different gases (such as global warming potential, global temperature change potential, and others, as well as the chosen time horizon).<sup>40</sup>

<sup>32</sup> [https://www.lma.eu.com/application/files/1815/8866/8537/Green\\_Loan\\_Principles\\_V03.pdf](https://www.lma.eu.com/application/files/1815/8866/8537/Green_Loan_Principles_V03.pdf)

<sup>33</sup> [https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report\\_en.pdf](https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf)

<sup>34</sup> <https://unepinquiry.org/news/leading-european-banks-show-how-green-tagging-can-drive-energy-efficiency-financing/>

<sup>35</sup> <https://data.consilium.europa.eu/doc/document/ST-14970-2019-ADD-1/en/pdf>

<sup>36</sup> [https://www.lma.eu.com/application/files/7215/8866/8713/GLP\\_Guidance\\_V06.pdf](https://www.lma.eu.com/application/files/7215/8866/8713/GLP_Guidance_V06.pdf)

<sup>37</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-090620.pdf>

<sup>38</sup> <https://www.bloomberg.com/news/articles/2019-03-24/what-are-green-bonds-and-how-green-is-green-quicktake>

<sup>39</sup> <https://www.ngfs.net/en/about-us/governance/origin-and-purpose>

<sup>40</sup> <https://sciencebasedtargets.org/wp-content/uploads/2019/10/Towards-a-science-based-approach-to-climate-neutrality-in-the-corporate-sector-Draft-for-comments.pdf>

## Paris Agreement

On 12 December 2015, Parties to the United Nations Framework Convention on Climate Change (see definition below) reached an agreement to combat climate change and to accelerate and intensify the actions and investments needed for a sustainable low carbon future, known as the Paris Agreement. This includes reducing greenhouse gas emissions by 40% by 2030 compared to levels in the 1990s, and becoming carbon neutral by 2050.<sup>41</sup>

## Physical risk

Physical risk resulting from climate change can be event-driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organisations, such as direct damage to assets and indirect impacts from supply chain disruption. Organisations' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting organisations' premises, operations, supply chain, transport needs, and employee safety.<sup>42</sup>

## Portfolio decarbonisation

Portfolio decarbonisation can be achieved by withdrawing capital from particularly carbon-intensive companies, projects and technologies and by re-investing that capital into particularly carbon-efficient assets.<sup>43</sup>

## Poseidon Principles

The Poseidon Principles provide a framework for integrating climate considerations into lending decisions to promote international shipping's decarbonisation.<sup>44</sup>

## PRI

The PRI is an organisation which works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.<sup>45</sup>

## Principles for Responsible Investment

The Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.<sup>46</sup>

## Responsible investing

A strategy and practice to incorporate ESG factors in investment decisions and active ownership.<sup>47</sup>

## Science-based targets

Targets adopted by companies to reduce greenhouse gas emissions are considered "science-based" if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement – to limit global warming to well-below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C.<sup>48</sup>

## Scope 1, 2 & 3 emissions

Greenhouse Gas (GHG) Protocol classifies a company's GHG emissions into three 'scopes':

- Scope 1 emissions are direct emissions from owned or controlled sources.
- Scope 2 emissions are indirect emissions from the generation of purchased energy.
- Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.<sup>49</sup>

<sup>41</sup> <https://unfccc.int/process-and-meetings/the-paris-agreement/what-is-the-paris-agreement>

<sup>42</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/820284/190716\\_BEIS\\_Green\\_Finance\\_Strategy\\_Accessible\\_Final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf)

<sup>43</sup> <https://unfccc.int/news/the-portfolio-decarbonization-coalition>

<sup>44</sup> <https://www.poseidonprinciples.org/about/>

<sup>45</sup> <https://www.unpri.org/pri>

<sup>46</sup> <https://www.unpri.org/pri>

<sup>47</sup> <https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-is-responsible-investment>

<sup>48</sup> <https://sciencebasedtargets.org/what-is-a-science-based-target/>

<sup>49</sup> <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>

## Screening

Screening refers to the process of applying filters to lists of potential investments, ruling borrowers/issuers in or out of contention for investment based on an investor's preferences, values or ethics. Filters are typically based on including or certain sectors, issuers or securities based on ESG performance relative to industry peers or specific ESG criteria.<sup>50</sup>

## Social Bonds

Social Bonds are use of proceeds bonds that raise funds for new and existing projects with positive social outcomes.<sup>51</sup>

## Stranded assets

Stranded assets are now generally accepted to be fossil fuel supply and generation resources which, at some time prior to the end of their economic life (as assumed at the investment decision point), are no longer able to earn an economic return (i.e. meet the company's internal rate of return), as a result of changes associated with the transition to a low-carbon economy.<sup>52</sup>

## Sustainability Bond

Sustainability Bonds are bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both Green and Social Projects.<sup>53</sup>

## Sustainability Coordinator (or Sustainability Structuring Agent)

A finance party who assists the borrower in arranging a sustainability linked loan and, in some cases, negotiating the relevant SPTs.<sup>54</sup>

## Sustainability linked loan

Sustainability linked loans are any types of loan instruments and/or contingent facilities (such as bonding lines, disclosure lines or letters of credit) which incentivise the borrower's achievement of ambitious, predetermined sustainability performance objectives. The borrower's sustainability performance is measured using SPTs (as defined below). Sustainability linked loans are commonly aligned in the market with the Sustainability Linked Loan Principles (defined below).<sup>55</sup>

## Sustainability Linked Loan Principles (SLLP)

The SLLP are intended for broad use by the market, providing a framework within which the flexibility of the sustainability linked loan product can be maintained. The SLLP provide a high-level framework, enabling all market participants to clearly understand the characteristics of a sustainability linked loan. The SLLP will be reviewed on a regular basis in light of the development and growth of sustainability linked loans.<sup>56</sup>

## Sustainability Performance Targets (SPTs)

SPTs include KPIs, external ratings and/or equivalent metrics which measure improvements in the borrower's sustainability profile.<sup>57</sup>

## Sustainable finance

There is currently no single, agreed definition of what constitutes sustainable finance in the market. The ICMA has recently defined sustainable finance as incorporating climate, green and social finance while also adding wider considerations concerning the longer-term economic sustainability of the organisations that are being funded, as well as the role and stability of the overall financial system in which they operate. This definition draws on the G20 and EU definitions of sustainable finance.<sup>58</sup>

<sup>50</sup> <https://www.unpri.org/an-introduction-to-responsible-investment/an-introduction-to-responsible-investment-screening/5834.article>

<sup>51</sup> <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

<sup>52</sup> <https://carbontracker.org/terms/stranded-assets/>

<sup>53</sup> <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

<sup>54</sup> [https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability\\_Linked\\_Loan\\_Principles\\_V032.pdf](https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability_Linked_Loan_Principles_V032.pdf)

<sup>55</sup> [https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability\\_Linked\\_Loan\\_Principles\\_V032.pdf](https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability_Linked_Loan_Principles_V032.pdf)

<sup>56</sup> [https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability\\_Linked\\_Loan\\_Principles\\_V032.pdf](https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability_Linked_Loan_Principles_V032.pdf)

<sup>57</sup> [https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability\\_Linked\\_Loan\\_Principles\\_V032.pdf](https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability_Linked_Loan_Principles_V032.pdf)

<sup>58</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Sustainable-Finance-High-Level-Definitions-May-2020-110520v4.pdf>

## 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 in providing information to investors, lenders, insurers, and other stakeholders.<sup>59</sup>

## The Technical Expert Group on Sustainable Finance (TEG)

The TEG was set up by the European Commission to assist with developing:

- An EU classification system – the EU Taxonomy (see above definition) – to determine whether an activity is environmentally sustainable;
- An EU Green Bond Standard;
- Methodologies for EU climate benchmarks and disclosures for benchmarks; and
- Guidance to improve corporate disclosure of climate-related information.<sup>60</sup>

## The Energy and Ecological Transition for the Climate (TEEC) label

The TEEC label was established by the French State in order to ensure that investment funds contribute to financing energy and ecological transition. It is awarded on the basis of stringent specifications and represents a benchmark for investors wishing to participate in financing the green economy.<sup>61</sup>

## Transition risk

Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organisations.<sup>62</sup>

## UN Sustainable Development Goals (SDGs)

The 17 SDGs were set in 2015 as part of UN Resolution 70/1,<sup>63</sup> 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 faced by society, including those related to poverty, inequality, climate change, environmental degradation, peace and justice. The SDGs are intended to be achieved by 2030.<sup>64</sup>

## The United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a partnership between the UN Environment Programme (UNEP) and the global financial sector to mobilise private sector finance for sustainable development. UNEP FI works with more than 300 members – banks, insurers, and investors – and over 100 supporting institutions – to help create a financial sector that serves people and planet while delivering positive impacts. UNEP FI aims to inspire, inform and enable financial institutions to improve people’s quality of life without compromising that of future generations. By leveraging the UN’s role, UNEP FI accelerates sustainable finance.<sup>65</sup>

## The United Nations Framework Convention on Climate Change (UNFCCC)

The UNFCCC is an international environmental treaty which opened for signature at the Earth Summit in Rio de Janeiro in 1992. It entered into force on 21 March 1994 and, as of [insert publication date], has been ratified by 197 countries – known as Parties.<sup>66</sup> The UNFCCC objective is “the stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.”<sup>67</sup>

<sup>56</sup> <https://www.unepfi.org/climate-change/tcfd/#:~:text=The%20Task%20Force%20on%20Climate,in%20providing%20information%20to%20stakeholders.>

<sup>57</sup> [https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group\\_en](https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en)

<sup>58</sup> <https://www.ecologique-solidaire.gouv.fr/sites/default/files/The%20Energy%20and%20Ecological%20Transition%20for%20the%20Climate%20Label.pdf>

<sup>59</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/820284/190716\\_BEIS\\_Green\\_Finance\\_Strategy\\_Accessible\\_Final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf)

<sup>60</sup> [https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A\\_RES\\_70\\_1\\_E.pdf](https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_70_1_E.pdf)

<sup>61</sup> <https://www.un.org/sustainabledevelopment/>

<sup>62</sup> <https://www.unepfi.org/about/>

<sup>63</sup> <https://unfccc.int/process-and-meetings/the-convention/what-is-the-united-nations-framework-convention-on-climate-change>

<sup>64</sup> [https://unfccc.int/files/essential\\_background/background\\_publications\\_htmlpdf/application/pdf/conveng.pdf](https://unfccc.int/files/essential_background/background_publications_htmlpdf/application/pdf/conveng.pdf)