

# Guidance for Green, Social, and Sustainability-Linked Loans External Reviews



**Important Notice:** This guidance is intended as an overview and is not intended to be comprehensive. Whilst every care has been taken in its preparation, no representation or warranty is given by the APLMA, LMA or LSTA as to the accuracy or completeness of the contents of this guidance. Most importantly, this guidance is not designed to provide legal or other advice on any matter whatsoever.

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## Introduction

The [Green Loan Principles \(GLP\)](#), [Social Loan Principles \(SLP\)](#), and [Sustainability-Linked Loan Principles \(SLLP\)](#) (collectively the “Principles”) in certain circumstances provide for the appointment of external review provider(s) to undertake external reviews in connection with entering into and executing green, social, or sustainability-linked loans.

This Guidance for External Reviews aims to promote best practice and is based on the [ICMA 2021 Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews](#) (the “ICMA Guidelines”). It complements the Principles and takes into account similar guidance from other relevant standards bodies, regulatory commissions and trade associations. Aligning with the ICMA Guidelines as much as possible is desirable to promote consistency across debt (bond and loan) markets.

This Guidance provides voluntary guidance relating to professional and ethical standards for external reviewers, as well as to the organisation, content and disclosure for their reports. It has been developed by an experienced working group, consisting of representatives from leading financial institutions active in the global syndicated loan markets in consultation with a group of prominent external reviewers.

It is a market-based initiative and aims to provide information and transparency on the external review processes for borrowers, lenders, external reviewers and other stakeholders in the loan market. It strives to represent a consensus view from all parties involved and will be reviewed and updated periodically with feedback from the market.

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## Types of external reviews

There are a variety of ways for borrowers to obtain external input into the formulation of their green, social and sustainability-linked loans process and there are several levels and types of review that can be provided in the market. Independent external reviews may vary in scope and may address a green, social and sustainability-linked framework (relating solely to loans and/or to fixed income instruments generally); an individual green, social or sustainability-linked loan; and/or the underlying assets (in the case of specific green or social loans) and/or procedures. They are broadly grouped into the following types, with some providers offering more than one type of service, either separately or combined:

### 1. Second Party Opinion:

An institution with environmental/social/sustainability expertise that is independent from the borrower may provide a Second Party Opinion, sometimes referred to as a “consultant review”, guidance on the contents of which is set out below. The institution should be independent from the borrower’s adviser for its green, social and sustainability-linked loan framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second Party Opinion. Any circumstance that could reasonably be seen to potentially compromise the institution’s independence should be disclosed to lenders.

### 2. Verification:

A borrower can (or “is required to” in the case of a sustainability-linked loan post-signing) obtain independent verification against a designated set of use of proceeds criteria and impact metrics typically pertaining to environmental/social projects for green or social loans, or key performance indicator (KPI) performance and sustainability performance targets (SPTs) for sustainability-linked loans.

### 3. Certification:

A borrower can have (i) its green, social and sustainability-linked loan or associated green, social, and sustainability-linked loan framework or (ii) use of proceeds or KPIs and SPTs certified against a recognised external green/social/sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria and is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

### 4. Green, Social and Sustainability-Linked Loan Scoring/Rating:

A borrower can have (i) its green, social and sustainability-linked loan and/or its associated green, social and sustainability-linked loan framework or (ii) a key feature such as use of proceeds, selection of KPIs and/or calibration of the level of ambitiousness of SPTs, evaluated or assessed by third parties, such as specialised research providers, consultancy firms, assurance providers or rating agencies, according to their established scoring/rating methodology. This scoring/rating can form part of a Second Party Opinion as described above.

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### Ethical and professional standards for external reviewers

In line with the definitions above, different types of firms can provide external reviews. Some of these firms' activities are explicitly covered by professional standards and/or regulation while others are not. At a high level, all firms providing external reviews should be guided by the following five fundamental ethical and professional principles:

1. Integrity
2. Objectivity
3. Professional competence and due care
4. Confidentiality
5. Professional behaviour

Some external reviewers may already be subject to existing professional standards (e.g., professional accountants) and/or be subject to regulatory regimes, (e.g., accounting firms, accredited verifiers, regulated credit rating agencies) the elements of which already address many if not all of the aims of this voluntary Guidance. Nevertheless, there are a variety of assurance service professional standards and industry wide codes of conduct that external reviewers should look to adhere to, when relevant, when they provide services to borrowers of green, social and sustainability-linked loans. For example, external reviewers should especially consider the relevance of the [International Code of Ethics for Professional Accountants](#) paying particular attention to section 4B – Independence for Assurance Engagements other than Audit and Review Engagements; the [Attestation Standards](#) established by the American Institute of Certified Public Accountants; AA1000, [ISAE 3000 \(Revised\)](#); [Assurance Engagements Other than Audits or Reviews of Historical Financial Information](#); [IESBA Handbook of the Code of Ethics of Professional Accountants, section 291 Independence - Other Assurance Engagements](#); and the [AICPA Code of Professional Conduct \(AICPA Code\)](#). Also applicable may be the standards provided by [ISO 17021](#), [ISO 14065](#) and the [ISO 14030](#) series, as well as certification from the [Association for Responsible Investment Services \(ARISE\)](#).

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### Organisation of external reviewers

While providing external reviews for green, social and sustainability-linked loans, external reviewers should ensure that they:

1. Have an organisational structure, working procedures, and other relevant systems for carrying out the external review.
2. Employ appropriate staff with the necessary experience and qualifications for the scope of the external review being provided.
3. If applicable, carry the appropriate professional indemnity/professional liability insurance cover.

External reviews should either include or indicate at a minimum where the following information may be available:

1. General description of the objective, scope of work, and the external reviewer's credentials.
2. The requisite credentials to evaluate (i) KPIs, SPTs and related benchmarks, baselines and strategies for sustainability-linked loans and (ii) for green or social loans (as applicable) the potential environmental, social and sustainability risks and impacts associated with the relevant Green and Social Loan Project categories.
3. Statement on independence and conflict-of-interest policy (in line with the requirement stated under "Types of External Review – Second Party Opinion" above).
4. Definitions, analytical approach, and/or methodologies used.
5. Conclusions or output of the external review report including any limitations on the external review.

For a Second Party Opinion, external reviewers should have expertise in:

1. the eligible Green, Social or Sustainability-Linked Loan Principles categories as well as any associated exclusion criteria under the relevant recognised international/national/industry guidance and/or frameworks; or
2. the selected KPIs, SPTs, benchmarks, baselines, sectors and strategies related to sustainability performance for sustainability-linked loans.

The above may also be relevant for verification, certification, or green, social or sustainability-linked loan scoring/rating, depending on the methodology and standards being applied, which should be disclosed by the external reviewer.

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## Content of external reviews

External reviews may be complete or partial. Complete reviews assess alignment of a borrower's green, social or sustainability-linked loan or associated framework with all core components of the relevant Principles. Partial reviews assess alignment of only certain limited aspects of a given green, social or sustainability-linked loan or associated framework. Timing of an external review may depend on the nature of the review and time requirements or deadlines provided in the underlying loan documentation, and publishing an external review may be constrained by business confidentiality requirements. However, any external review should be communicated and made available in an agreed timely manner to all the lenders party to the loan and, if agreed, to the public.

### 1. Second Party Opinion:

A Second Party Opinion entails an assessment of the alignment of the borrower's green, social or sustainability-linked loan or overall sustainable finance framework with the relevant Principles. For these purposes, "alignment" should refer to all core components of the relevant Principles. A Second Party Opinion can include an assessment of the borrower's overarching objectives, strategy, policy, and/or processes relating to environmental and/or social sustainability (if applicable).

For green and social loans, when appropriate, an external review is recommended. As well as including the elements above, external reviewers should also assess:

1. The environmental and/or social features of the type of projects intended for the use of proceeds.
2. The environmental and/or social benefits and impact targeted by the eligible green and/or social projects financed by the green or social loan.
3. Any potentially material environmental and/or social risks associated with the projects, (where relevant) and any process applied to identify and manage such risks.

For sustainability-linked loans, Second Party Opinions or other external reviews may be undertaken pre-signing (for example, as a condition precedent to the sustainability-linked loan) or post-signing. Pre-signing external reviews, such as a Second Party Opinion, are recommended, where appropriate, and the external reviewer should assess:

1. The relevance, materiality, robustness and reliability of selected KPIs, and how relevant it is in the context of the borrower and its sector.
2. The rationale and level of ambition of the proposed SPTs which can be by assessment against a credible benchmark,

standard, historic trajectory and/or baseline as well as by benchmarking/comparison with peers in similar or relevant sectors.

3. The relevance and reliability of selected benchmarks and baselines, the credibility of the strategy outlined to achieve them, based on scenario analyses, where relevant.

Post-signing, and separate from the verification requirement set out in the SLLP, borrowers are encouraged to seek independent and external review (such as an updated Second Party Opinion) in case of any material change to parameters/KPI methodology/SPT(s) calibration, to assess these changes. Any such independent and external review including an updated Second Party Opinion should be communicated and made available to all the lenders party to the loan and, if agreed, to the public.

### 2. Verification:

For green and social loans, verification may focus on alignment of the loan or a respective framework with internal or external standards or claims made by the borrower. Also, evaluation of the environmentally or socially sustainable features of the underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding a borrower's internal tracking method for use of proceeds, allocation of funds from green and social loan proceeds, statement of environmental and/or social impact or alignment of reporting with the relevant Principles may also be termed verification.

For sustainability-linked loans, it is a requirement of the SLLP that borrowers seek independent and external verification (for example limited or reasonable assurance or audit by a qualified external reviewer with relevant expertise, such as an auditor, environmental consultant and/or independent ratings agency) of their performance level against each SPT for each KPI, at least once a year.

### 3. Green and Social and Sustainability-Linked Loan Scoring/Rating:

The output of any external review may include a focus on environmental and/or social performance data or processes relative to the relevant Principles, or another benchmark, such as a 1.5 degree climate change scenario. Such scoring/rating is distinct from credit ratings, but may nonetheless reflect material environmental/social/sustainability risks, and may form part of a Second Party Opinion or be undertaken on a standalone basis as required by the terms of the finance documentation.

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## Disclosure for external reviews

Any external review should be communicated and made available in a timely manner to all the financial institutions party to the loan in accordance with the relevant loan documentation provisions. Where appropriate, and taking into account confidentiality and competitive considerations, borrowers should make publicly available the external review, or an appropriate summary, via their website or otherwise.