

27 February 2023

The Secretariat, The Transition Plan Taskforce (**TPT**)

By email: secretariat@transitiontaskforce.net

Dear Sir or Madam,

Transition Plan Taskforce - Consultation Survey

The Loan Market Association (**LMA**) welcomes this opportunity to respond to the consultation survey on the TPT Disclosure Framework and TPT Implementation Guidance (the **Consultation**).

Loan Market Association

The LMA is the trade body for the European, Middle Eastern and African syndicated loan markets. Its aim is to encourage liquidity in both the primary and secondary loan markets by promoting efficiency and transparency, as well as by developing standards of documentation and codes of market practice, which are widely used and adopted.

Membership of the LMA currently stands at over 800 organisations across over 65 countries and consists of banks, non-bank investors, borrowers, law firms, rating agencies and service providers.

Scope of LMA feedback

The LMA has not aimed to provide detailed feedback on the Consultation on the basis that the LMA is neither a transition plan (**TP**) preparer, nor is it a direct user of TPs. However, given the important role that the loan market has to play in financing the decarbonisation of the UK economy, the LMA has set out some high-level comments below in response to the Consultation for your consideration.

Comments on the Consultation

The LMA recognises the potential of TPs to drive and accelerate decarbonisation efforts across different sectors of the economy and welcomes the TPT's efforts to develop a 'gold standard' for private sector TPs, building on the existing ecosystem of guidance frameworks in this space.

There are six key points that the LMA wishes the TPT to consider when finalising the TPT Disclosure Framework and TPT Implementation Guidance:

1. risks of paper decarbonisation;
2. potential impacts for small and medium enterprises (**SMEs**);
3. verification/assurance requirements;
4. the data challenge;
5. broader sustainability considerations; and
6. need for regulatory certainty.

1. Risks of paper decarbonisation

The LMA welcomes the TPT's recommendation that entities consider a strategic and rounded approach to the design, development and disclosure of TPs. It is important to recognise that many companies are currently in hard-to-abate sectors and will require significant investment and realignment in order to meet net zero targets.

Transition pathways across different sectors, particularly hard-to-abate sectors, will not always be linear. It is, nevertheless, vital that capital can be provided by financial institutions to finance credible decarbonisation efforts in these sectors if net zero targets are to be achieved. The LMA welcomes the TPT's acknowledgement of the potential risks of 'paper decarbonisation' if efforts are focused on net zero targets

alone. Accordingly, the LMA recommends that any regulatory framework developed around TPs should take into account the risk of paper decarbonisation, and should seek to support financial institutions looking to continue to finance those entities with robust, non-linear transition pathways.

This support would also aid companies in meeting the 'Financial Planning' criteria under the TPT Disclosure Framework, as companies in hard-to-abate sectors could currently struggle to detail 'planned sources of funding' to implement their TP strategies given the ever-shrinking investor appetite for such entities in the absence of clear TPs and regulatory support.

2. Potential impacts for SMEs

The LMA understands that the Financial Conduct Authority (**FCA**) intends to require the preparation of TPs by asset managers, FCA-regulated asset owners and listed companies.

As you may be aware, the LMA was involved in the development of the Sustainability-Linked Loan Principles,¹ which provide a high-level framework of standards for sustainability-linked loans (**SLLs**). SLLs are any types of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) for which the economic characteristics can vary depending on whether the borrower achieves ambitious, material and quantifiable predetermined sustainability performance objectives. Most importantly SLLs are a transitional tool, designed to support a borrower in its transition journey as it seeks to improve its sustainability performance.

One of the significant challenges for lenders in relation to SLLs is that they need to ensure that any sustainability performance targets (**SPTs**) are ambitious and go beyond a business as usual approach. Whilst lenders have developed significant sustainability expertise, and the LMA believes that a market-led approach is already driving ambitious SPTs, TPs are likely to be helpful in providing transition pathways which SPTs can be aligned to – or indeed improved upon.

However, whilst asset managers, FCA-regulated asset owners and listed companies are likely to have sufficient levels of resourcing to deal with the additional disclosure requirements in connection with the preparation of TPs, the LMA is aware that many SMEs are not similarly resourced. As such, the LMA would advise caution in relation to any future extension of the scope of TP requirements as this may inadvertently divert SME resource away from implementing decarbonisation plans to disclosure requirements. If SMEs are to be required to provide information to feed in to the TPs of those entities captured by the TP regime, including for Scope 2 and Scope 3 emissions data, the LMA recommends that additional education and support will be required for these entities.

3. Verification/assurance requirements

The LMA welcomes the confirmation that there are no plans to mandate external assurance of sustainability information. The LMA understands that market participants are currently experiencing some difficulties in obtaining verification or assurance of certain sustainability information, including, but not limited to, Scope 3 emissions data, and, therefore, any additional requirement to obtain external assurance or verification of TPs could cause practical issues for the market. The LMA does, however, welcome the TPT's efforts to set out what they would expect to see disclosed where assurance or verification of TPs, sustainability reporting or sustainability information is obtained.

4. The data challenge

For in-scope companies, it is important that there is a recognition of the fact that obtaining accurate emissions data remains challenging, particularly with regards to Scope 3 emissions. This may limit the

¹ Add footnote here once published.

ability of companies to put together accurate decarbonisation pathways in their TPs as they may, for example, be reliant on proxy data for Scope 3 emissions. Allowances therefore need to be made for adjustments to TPs if and when more accurate emissions data becomes available in the future.

Furthermore, it is vital to recognise that sustainability disclosures can add significantly to the reporting burden for companies of all sizes. The LMA therefore recommends that the TPT should ensure that, where possible, corporate sustainability reporting requirements feed into the TPT framework so as to minimise the duplication of effort across corporate sustainability reporting and TP disclosure, and so as to limit the overall reporting burden for companies.

5. Broader sustainability considerations

Whilst the LMA understands the urgency of action to tackle the climate emergency, it is also concerned that action in this area should not lead to the neglect of wider sustainability objectives, including biodiversity and social objectives. The LMA therefore welcomes the additional guidance that has been provided for companies in the TPT Implementation Guidance around 'analysing interdependencies'.

6. Need for regulatory certainty

To support companies in the preparation of their TPs, greater clarity is needed around the UK Government's Green Finance Strategy and how this will support and catalyse the green transition in the UK economy. In particular, it is vital that the UK Government looks to publish the UK Green Taxonomy as soon as possible to provide certainty for those looking to invest in sustainable activities, and to enable companies to adapt their TPs accordingly.

In addition, it is strongly recommended that the UK Government should recognise the important role that finance has to play in catalysing the green transition, in particular through the use of innovative financial instruments such as green loans and SLLs. The UK Government should also work closely alongside regulators and financial institutions to ensure that sector-specific guidance on sustainability disclosures is developed to ensure that disclosures meet the needs of end users in relation to the preparation of their TPs.

The LMA would be pleased to discuss any aspect of the above with you in more detail. If you would like to arrange a meeting, or if the LMA can be of any further assistance, please do not hesitate to contact either Gemma Lawrence-Pardew or Hannah Vanstone by email at gemma.lawrence-pardew@lma.eu.com or hannah.vanstone@lma.eu.com or by telephone on +44 (0) 207 006 1372 or +44 (0) 207 006 2034.

Yours sincerely,



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