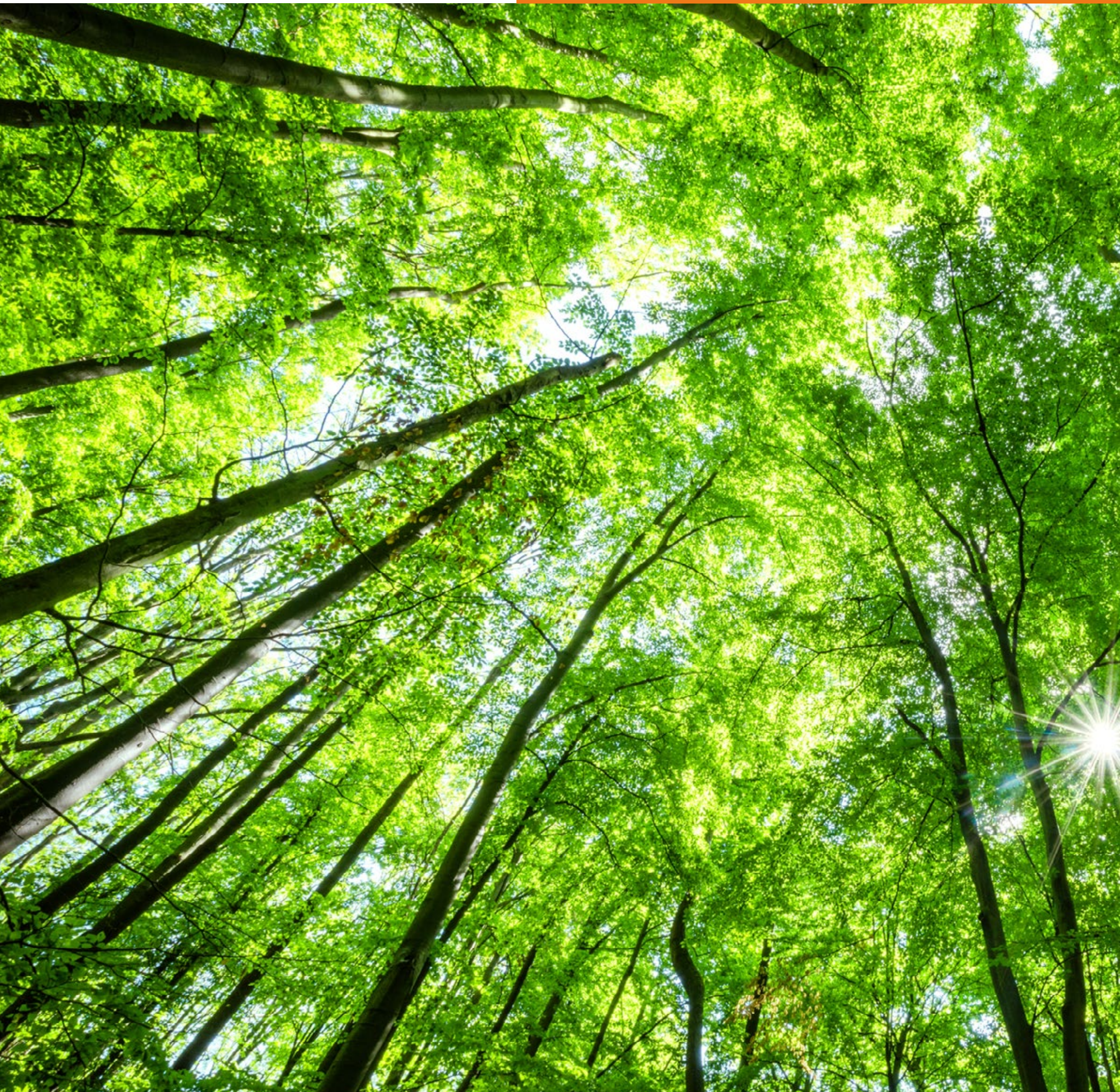
Sustainable Lending Glossary
Glossary of terms



APLMA Asia Pacific Loan Market Association
LMA Loan Market Association
LSTA ADVANCING THE CORPORATE LOAN MARKET

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Glossary of terms

In alphabetical order

Blue economy

The blue economy refers to the sustainable use of ocean resources for economic growth, improved livelihoods, and jobs while preserving the health of ocean ecosystems and water resources.[1]

Blue finance

This term refers to investments dedicated to finance or refinance activities that contribute to oceans protection and/or improved water management.[2]

Blue loan

A blue loan refers to a loan that is aligned to the Green Loan Principles and where the proceeds are exclusively dedicated to finance or refinance activities that contribute to oceans protection and/or improved water management.[3]

Blue impact

This term refers to the measurable variation in a physical, chemical, or biological variable of oceans ecosystems or water related systems as expressed by a quantitative indicator.[4]

Carbon markets

These are trading systems in which carbon credits are sold and bought. Companies or individuals can use carbon markets to compensate for their greenhouse gas emissions by purchasing carbon credits from entities that remove or reduce greenhouse gas emissions.[5]

Certification

For information on certification, please see the '*Guidance for Green, Social, and Sustainability-Linked Loans External Reviews*'.[6]

Circular economy

In a circular economy, things are made and consumed in a way that minimises our use of the world's resources, cuts waste and reduces carbon emissions. Products are kept in use for as long as possible, through repairing, recycling and redesign – so they can be used again and again the most of any potential beneficial opportunities associated with climate change (for example, longer growing seasons or increased yields in some regions).[7]

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).[8]

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.[9]

Climate finance

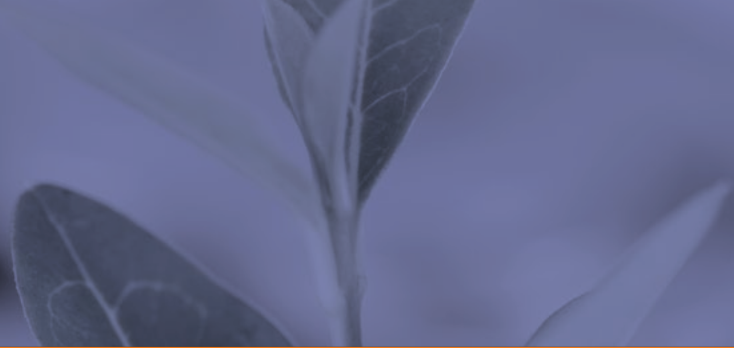
Climate finance refers to local, national or transnational financing – drawn from public, private and alternative sources of financing – that seeks to support mitigation and adaptation actions that will address climate change.[10]

Double materiality

This is a legislative concept that has been incorporated into the Corporate Sustainability Reporting Directive (**CSRD**). [11] Under the CSRD, companies are required to report not only on how sustainability issues might create financial risks for the company (financial materiality), but also on the company's own impacts on people and the environment (impact materiality).[12]

Equator Principles (EPs)

The EPs are intended to serve as a common baseline and risk management framework for financial institutions to identify, assess and manage environmental and social risks when financing 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 five financial products, namely (i) project finance advisory services, (ii) project finance, (iii) project-related corporate loans, (iv) bridge loans and (v) project-related refinance, and project-related acquisition finance.[13]



ESG incorporation

This term refers to the process of assessing, reviewing and considering ESG factors in existing investment practices through a combination of three approaches: integration, screening and thematic investing. ESG incorporation generally functions alongside, or in combination with, stewardship.[14]

ESG Integrated Disclosure Project

This project set out to advance ESG information in the credit markets by offering a streamlined, proportionate approach to ESG reporting for private companies.[15]

ESG integration

The process of including ESG factors in investment analysis and decisions to better manage risks and improve returns. It is often used in combination with screening and thematic investing.[16]

External review

For information on external review, please see the '*Guidance for Green, Social, and Sustainability-Linked Loans External Reviews*'.[17]

Gender lens investing

This refers to the deliberate integration of gender analysis, investment analysis and decision making, where investments are made in more women- owned or led enterprises and/ or investments are made in enterprises that promote gender equality at the workplace, as well as in products or services that substantially improve the lives of women and girls, building strong, resilient economies of the future.[18]

Global Reporting Initiative (GRI)

GRI is the independent, international organization that helps businesses and other organizations to take responsibility for their impacts by providing them with the global common language to communicate those impacts.[19]

Green Asset Ratio (GAR)

The GAR is based on the EU taxonomy and is a Paris Aligned ratio that can be used to identify whether banks are financing sustainable activities, such as those consistent with the Paris agreement goals. The GAR shows the proportion of assets that are environmentally sustainable and contribute substantially to the objectives of climate change mitigation or climate change adaptation or that enable other activities to contribute substantially to those objectives.[20]

Green loan

The GLP (defined below) define green loans as any type of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) made available exclusively to finance, re-finance or guarantee, in whole or in part, new and/or existing eligible Green Projects and which are aligned to the four core components of the GLP.[21]

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**), providing a consistent methodology for use across the green loan market.[22]

Green mortgages

Under a green mortgage, a bank or mortgage lender offers a house buyer preferential terms if they can demonstrate that the property for which they are borrowing meets certain environmental standards. This could perhaps be a new build home with an existing sustainability rating, or where the borrower will commit to invest in renovating an existing building to improve its environmental performance.[23]

Green Project

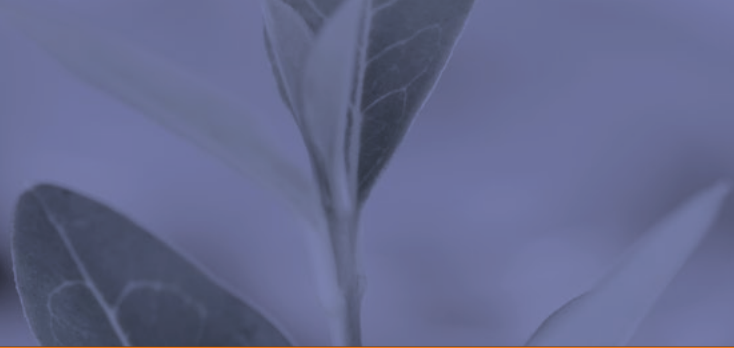
This term is used within the GLP. There is no universal definition of a "Green Project". However, a non-exhaustive, indicative list of the categories of eligibility for Green Projects under the GLP can be found in Section 1 (*Use of Proceeds*) of the GLP.[24]

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.[25]

Green hushing

This refers to the act of not making genuine sustainability claims in case they may be associated with providers pursuing misconduct.[26]



Greenwashing

Greenwashing has no single definition but may be used to refer to the practice of gaining an unfair competitive advantage by marketing a financial product as environmentally friendly, when in fact basic environmental standards have not been met.[27]

ICMA

International Capital Market Association.[28]

IFRS Sustainability Disclosure Standards

In June 2023, the International Sustainability Standards Board issued its first two IFRS® Sustainability Disclosure Standards: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.[29]

Impact investing

Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. [30]

Impact washing

This refers to the act of overstating or falsely claiming an investment's positive impact on the environment or society. [31]

Key Performance Indicators (KPIs)

A measurable value that demonstrates how effectively a company is achieving key business objectives. KPIs are critical (key) indicators of progress toward an intended result. KPIs provide a focus for strategic and operational improvement, create an analytical basis for decision making, and help focus attention on what matters most. Selection of KPIs is one of the core components under the SLLP. [32]

Materiality

Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, in the context of the entity's general purpose financial reporting.[33]

Net Zero Banking Alliance (NZBA)

Industry-led and UN-convened, the NZBA is a group of leading global banks committed to financing ambitious climate action to transition the real economy to net-zero greenhouse gas emissions by 2050.[34]

Paris Agreement

On 12 December 2015, Parties to the United Nations Framework Convention on Climate Change 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.[35]

Platform on Sustainable Finance

The Platform on Sustainable Finance is an advisory body to the European Commission for topics regarding its sustainable finance policies, particularly the EU taxonomy. The platform consists of 57 members and 11 observers all with expertise on sustainability, but from different industries. [36]

Principal Adverse Impact (PAI)

A PAI is any impact of investment decisions or advice that results in a negative effect on sustainability factors, such as environmental, social and employee concerns, respect for human rights, anti-corruption, and anti-bribery matters.[37] PAI disclosures are a key reporting requirement under the Sustainable Finance Disclosure Regulation.[38]

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.[39]

Poseidon Principles

The Poseidon Principles establish a framework for assessing and disclosing the climate alignment of ship finance portfolios and integrating climate considerations into lending decisions to promote international shipping's decarbonisation.[40]

Principles for Responsible Investment

These are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.[41]

Responsible investing

A strategy and practice to incorporate ESG factors in investment decisions and active ownership.[42]

SASB Materiality Map®

The SASB Materiality Map® is an interactive tool that identifies sustainability issues that are likely to affect the financial condition or operating performance of companies within an industry and compares disclosure topics across different industries and sectors.[43]

Screening

This 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 excluding certain sectors, issuers or securities based on ESG performance relative to industry peers or specific ESG criteria.[44]

Social loans

Social loans are any type of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) made available exclusively to finance, re-finance or guarantee, in whole or in part, new and/or existing eligible Social Projects, and which are aligned to the four core components of the SLP.[45]

Social Loan Principles (SLP)

A high-level framework of market standards and guidelines, published by the LMA together with the APLMA and the LSTA, providing a consistent methodology for use across the social loan market. The four core components of the SLP are: (i) Use of Proceeds; (ii) Process for Project Evaluation and Selection; (iii) Management of Proceeds and (iv) Reporting.[46]

Socially responsible investing

This term refers to an investment strategy that considers not only the financial returns from an investment but also its impact on environmental, ethical or social change.[47]

SPTs

Sustainability Performance Targets, as referred to within the Sustainability-Linked Loan Principles.[48]

Stewardship

The term refers to the use of influence by institutional investors to maximise overall long-term value, including the value of common economic, social and environmental assets, on which returns and client and beneficiary interests depend.[49]

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.[50]

Sustainability coordinator

See the LMA's '*Introduction to the sustainability coordinator role'* for more information.[51]

Sustainability-Linked Loan (SLL)

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 and should be aligned to the SLLP (defined below).

Sustainability-Linked Loan Principles (SLLP)

The SLLP are intended for broad use by the market, providing a framework within which the flexibility of the SLL 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 SLL.[52]

Sustainable finance

There is currently no single, agreed definition of what constitutes sustainable finance in the market. The ICMA has 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.[53]

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.[54]

The Glasgow Financial Alliance for Net Zero (GFANZ)

GFANZ is a global coalition of leading financial institutions committed to accelerating the decarbonization of the economy.[55]

Thematic investing

An approach which focuses on ESG trends rather than specific companies or sectors, enabling investors to access structural shifts that can change an entire industry.[56]

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. The UNEP FI was launched in 1992 in the wake of the Rio Earth Summit.[57]

The Taskforce on Nature-related Financial Disclosures (TNFD)

TNFD has developed a set of disclosure recommendations and guidance for organisations to report and act on evolving nature-related dependencies, impacts, risks and opportunities.[58]

UN Sustainable Development Goals (SDGs)

The 17 SDGs were set in 2015 as part of UN Resolution 70/1, 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.[59]

Voluntary carbon markets

This term refers to markets where carbon credits are purchased, usually by organisations, for voluntary use rather than to comply with legally binding emissions reduction obligations.[60]

1. https://www.icmagroup.org/assets/documents/Sustainable-finance/Learning-resources/IFC-Blue-Finance-Guidance-Document_January-2022-270122.pdf
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3. As above.
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