# HORIZONS

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# Welcome to HORIZONS

**The lead-up to year-end often feels like a race against time, where the market channels the industriousness of Santa's elves to get everything delivered for the holidays.**

This – as always – remains particularly true in the world of sustainability. The combination of high-profile events like COP16 on biodiversity and COP29 on climate change – together with the LMA's own Sustainable Finance Conference – highlight the importance of the finance community in shaping global ambitions and delivering a green transition. Paired with the launch of fresh regulatory consultations across the UK and Europe (and, of course, not forgetting the constant push to close deals), I think we are all ready for a well-earned rest!

Working through my own to-do list, I was delighted to see the launch of our new Draft Provisions for Green Loans on 7 November. These provisions mark a pivotal step in enhancing transparency and efficiency in the green loan market, which are critical for its continued growth, integrity and impact. By providing a standardised framework, the provisions will streamline structuring, drafting, and negotiation processes, enabling market participants to concentrate instead on the substantive impact of green projects.

Significant strides have also been made in our active projects on transition finance and updates to the Green, Social and Sustainability-Linked Loan Principles. Their anticipated launch in 2025 promises to be another milestone. It's an exciting horizon to look forward to – one that will undoubtedly bolster momentum toward global sustainability goals.

As the year comes to a close, I would like to take this moment to acknowledge the invaluable contributions of our Sustainability Committee and to give my personal thanks. Your dedication, passion and hard work has been instrumental in driving the LMA's sustainability-focused initiatives and will continue to do so in 2025.

And with that, I would like to wish you all a very Merry Christmas and a wonderful end to 2024.

**Gemma Lawrence-Pardew**
Head of Sustainability

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# Insights from LSEG Data on Sustainability Strategies

**Iolanda Barbati**
EMEA Contributor Relations Manager – Loans,
LSEG Data & Analytics
iolanda.barbati@lseg.com

**Maria Christina Dikeos**
Head of Global Loans Contributions,
LSEG LPC
maria.dikeos@lseg.com


## Analysis of syndicated loans market in the context of sustainable finance constructs has significantly evolved from the methodology or considerations applied only a few short years ago.

At the outset, as sustainable loan assets ramped up, analytical focus was on the quantity of deals rather than their quality, due to the novelty of the product, which needed to lay its foundations through an initial phase of "experimentation on the field".

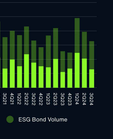
Since 2017, however, at a global level, discussions around sustainable lending among key market players have contributed to tighter criteria, meaningful aspirational performance metrics and greater transparency, all of which favor the quality of sustainable loan constructs over the quantity or size of deals. The following analysis builds on this foundation and explores data and feedback from those directly involved in the sustainable finance market.

The pipeline of global sustainable finance loans has come off highs observed during the Covid pandemic and in the two years immediately thereafter to top US$712bn by 2022. What we have seen in the first nine months of 2024 is that ESG declined, as a proportion of global issuance, from 21% and 19% of 2022 and 2023 respectively, to 16%.

Nevertheless, in 2024, the market remains steady. When looking at volume on a global level, sustainable syndicated loan increased by approximately 26% in the first nine months of 2024, reaching $580 billion compared to $459 billion during the same period last year.

This uptick is significant given the increased scrutiny over potential 'greenwashing' risks, along with various factors that impacted broader issuance, including economic headwinds, high interest rates, geopolitical tensions, and ongoing conflicts, particularly in Ukraine. Additionally, there was uncertainty surrounding the U.S. presidential election as well as concerns around potential escalation of military tension in the Middle East which risked slowing the forward calendar.

### Global Sustainable Finance Volume




Source: LSEG LPC

Against this backdrop there has nevertheless been heightened focus on enhanced verification processes for sustainability-linked loans (SLLs), which aim to boost the credibility and effectiveness of the performance targets set by borrowers.

Regulatory bodies and key market players are expected to provide new guidelines to support the growth and integrity of these financial products.

Despite the challenges, SLLs account for 70% of the total global sustainable finance loan volume, with an issuance of $407 billion, an increase of 21% compared to the first nine months of 2023, but a 13% and 3% decrease comparing to the first nine months of 2022 and 2021 respectively.

### Global Sustainable Finance Loan Volume by Segment

Source: LSEG LPC

## Regional Trends in Sustainable Finance



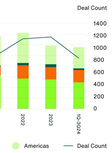
Regionally, the sustainable finance market in the syndicated loans space is experiencing diverse trends.

Asia-Pacific (APAC): The region is working to catch up on sustainable finance policies, facing the challenge of implementing green loan principles in high-emission sectors. Japan, for instance, is exploring transition bonds as a means to finance decarbonization in environmentally impactful sectors.

In US, the market has shown some degree of resiliency despite divided ESG viewpoints and concerns about disruptions and/or deprioritization in the wake of the new Republican administration following the US elections. The US is likely to pull out of the Paris Agreement again after withdrawing in 2017 when Trump won his first term.

In the wider context of drive collective and inclusive climate action on a global scale a key role is played by Cop29, the UN's annual climate conference. Held from November 11–22 in Baku, Azerbaijan, the conference delivered agreements to triple climate finance for developing countries, with a target of $300 billion annually by 2035 and a broader aim to mobilize $1.3 trillion from public and private sources. This funding is intended to support vulnerable nations in adapting to climate impacts and transitioning to greener economies. Rules for carbon trading under Article 6 of the Paris Agreement were also finalized, enabling countries to trade carbon credits with strong safeguards for environmental integrity and Indigenous rights.

### Global Sustainable Finance Loan Volume by Region




Source: LSEG LPC

Moving to Europe, the Middle East, and Africa (EMEA), we can see that the market continues to lead in the issuance of green loans and SLLs, supported by strong regulatory frameworks and increasing corporate commitments to net-zero targets. The Region recorded $251 billion for the first nine months of the year, 18% higher than the same time last year. Sustainability linked loans led issuance across market segments, with $193 billion, 24% higher than the first nine months of 2023, but 2% and 13% down when comparing to the same time during 2020 to 2022 respectively.

In the EMEA market, when compared to the previous year, there is a key distinction for 2024 to take into consideration. "It's a very particular time in the market, as we're observing distinct trends driven largely by sector-specific dynamics. In Europe, these trends vary depending on the sector and business type of the corporates or borrowers. One key observation is the differentiation between large corporates and smaller companies. The market landscape now presents a combination of sector- and size-dependent trends that were not apparent last year. Previously, the sustainability-linked loan market applied uniformly across all company sizes and sectors. This year, however, we are seeing a marked shift with clear distinctions being made. Looking ahead, while we observe a slowdown in market volumes for sustainability-linked RCFs, certain sectors and companies remain highly committed to best practices. These frontrunners are enhancing their KPIs and maintaining ambitious commitments to stakeholders. Although market volumes may decline, we anticipate a potential rise in quality, as dedicated corporates push forward with more robust and innovative sustainability practices. Additionally, the small- and medium-sized enterprise segment continues to grow rapidly, reflecting strong underlying dynamism even if less visible in terms of overall volume", explained Pascale Forde-Maurice – Head of European Corporate Sustainable Banking at Credit Agricole CIB.

In discussion with key market players, it also emerged that 2024 is also shaping up to be a pivotal year.

**"This is partly due to the significant volume of refinancing for inaugural sustainability linked revolving credit facilities (RCFs). These refinancings add another layer of complexity to market analysis, as we are not only examining new entrants but also assessing the behaviour of corporates during this refinancing phase. This dynamic is reflected in statistics, as well as in lender reactions to borrowers who choose to remove sustainability features from their strategies. Such decisions require enhanced communication and reassurance to lenders, who seek clarity on the rationale behind these changes",**

mentioned Lucie Campos Caresmel – Head of EMEA corporate, commodities and export finance distribution at Credit Agricole CIB.

In this regard, it is interesting to mention that she raised a question to the audience of the ESG panel at the LMA's inaugural European Annual Conference in Paris on 23rd October 2024: "what might be at stake with the hypothetical removal of a SLL feature? Interestingly, 30% of respondents said that the ESG communication of the Borrower likely did not need the support of the SLL product anymore, 25% responded that they might think that the incentive was insufficient, 20% said that the sourcing of the data had likely turned out to be impractical. The remainder 25% of respondents quoted the fact that the structuring of proper SLL features needed time, that the borrower might have a reputational issue looming on the horizon, or that the calibration of the KPI targets had been too ambitious."

In this context, across the EMEA market, the development of new loan types could help increase confidence among investors and borrowers. Indeed, there is a growing interest in transition loans and innovative loan types, such as blue loans and Islamic green finance initiatives, that we have seen growing in the last few years. The "Transition Loan Principles" can set up a consistent assist to navigate the challenges of this principal market. The Loan Market Association, along with the Asia Pacific Loan Market Association (ΡΜΑ) is developing these sets of principles, which are expected to go under revision till February 2025.

In reference to innovative type "blue loans, while less widespread, have seen some interesting applications, particularly among water utilities. These transactions offer unique metrics, such as cubic feet of water managed, which broaden the scope of environmental impact indicators and appeal to lenders and investors", an EMEA lender mentioned.

Historically, in the loans sustainable finance space, across the ESG acronym, the attention has been on the E, and the blue loans offers a new perspective to look at this, but how about the S, which seems to have been left a bit aside across the years? "The "S" (social) aspect of ESG remains underexplored compared to the environmental pillar. Social loans often focus on standardized areas like social housing, healthcare, and education. However, the inclusion of social KPIs in sustainability-linked loans presents opportunities for innovation. The Corporate Sustainability Reporting Directive (CSRD) is expected to drive companies to disclose more advanced social indicators, particularly in Europe. This could expand the range of social KPIs, fostering further development in this area", mentioned Pascale Forde-Maurice – Head of European Corporate Sustainable Banking at Credit Agricole CIB.

Lastly, in this excursus across Regions, the Middle East is emerging as a significant player in the sustainable syndicated loan market, driven by strategic regional ambitions, such as Saudi Arabia's Vision 2030 and the UAE's Net Zero 2050 strategy, along with growing interest from global investors in the region's green financing initiatives.

## Looking Forward

Stricter regulations and a diverse range of loan products could foster growth as companies strive to meet ESG requirements, particularly in EMEA. Factors such as improved transparency, stricter regulatory frameworks, and increasing investor demand for ESG-aligned investments are expected to drive future growth.

In summary, while the sector faces headwinds, emerging innovations and increased regulatory guidance could keep alive the interest for the sustainable syndicated loans product, particularly during this time where the market is at a crossroads, with shifts in both scale and focus.

## Post Scriptum

The data presented in this article is reflective of news stories, press releases and lenders activities across the sustainable finance sector. If you wish to contribute for league tables purposes, please send transactions info to emea-loans@lseg.com.

For analytics and league tables queries
iolanda.barbati@lseg.com
paulina.tabaczynska@lseg.com

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# Sustainable Finance Conference Special

**Gemma Lawrence-Pardew**
Head of Sustainability, LMA

gemma.lawrence-pardew@lma.eu.com

## The 2024 LMA Flagship Sustainable Finance Conference has once again proven to be a landmark event in the sustainable finance calendar.

With 600 attendees from 30 jurisdictions, our Conference embraced a theme of exploration and resilience, aptly drawing on the rich imagery of The Odyssey.

The agenda offered a mix of inspiration and pragmatic insights, whether participants were embodying the steadfast wisdom of Penelope, the transformative vision of Circe, or navigating the challenging "Mediterranean" spaces like Odysseus, steering between Scylla and Charybdis. This diverse and metaphor-rich approach underscored the multidimensional challenges and opportunities in sustainable finance.

## How Extreme Can You Go?



A trailblazer in the intersection of sports and sustainability, Extreme E continues to leverage its electrifying off-road racing series to inspire action and innovation.

Ali Russell, Managing Director of Extreme E, highlighted the transformative impact of the series on green technology innovation, emphasising the unparalleled speed at which advancements are being made. He noted that the intense environment of Extreme E's competitive racing has catalysed progress in just one year that might otherwise take a decade in traditional research settings.

This rapid innovation stems from the series' unique demands – pushing electric vehicle performance, durability, and efficiency to new heights while operating in some of the world's most extreme environments. These breakthroughs not only enhance the sport but also hold significant potential for broader applications, driving sustainable technology forward in ways that extend far beyond the racetrack.

Its commitment to sustainability is evident in every aspect, from utilising electric (and soon-to-be hydrogen) SUVs to minimising its carbon footprint through initiatives like the RMS St. Helena, its floating paddock. But it is not just about the science – social action is equally important. Gender equality is a cornerstone of Extreme E's mission, with every team required to field both a male and a female driver. This deliberate step not only ensures equal representation but also challenges stereotypes in motorsport.

The series' focus on equitable coaching and development opportunities has yielded impressive results. Over three years, the lag time gap between male and female drivers has shrunk dramatically from 3.5 seconds to just 0.5 seconds, a testament to the impact of consistent training and the levelling of opportunities. By championing inclusivity and demonstrating the tangible benefits of teamwork, Extreme E is paving the way for a more diverse and progressive future in motorsport and beyond.

Focusing on the audience, the conversation turned to what financiers should be doing. The challenge is not a lack of interest or commitment to the cause, but rather the crucial next step: transforming that commitment into tangible investment.

While many financiers are aware of the importance of supporting projects that promote sustainability, the real test lies in translating this awareness into actionable funding. It's not just about pledging support; it's about allocating financial resources to these projects in a timely and effective manner. This requires overcoming hurdles like traditional investment cycles, risk perception, and perhaps a lack of immediate returns in the short term.

For Extreme E and similar ventures to thrive, financiers must move beyond passive endorsement and embrace the opportunity to direct capital towards initiatives that are not only socially and environmentally progressive but also present long-term value. By ensuring that investments are made swiftly and at the right scale, financiers can help drive not only the success of these initiatives but also contribute to a more inclusive future in motorsports and beyond.

## The Future of Finance: The Quest for Value Proposition

From the drive for gold to the quest for value, the Conference next tackled the multi-trillion-dollar question: is sustainability investible? This inquiry delves deep into the evolving definition of value itself. Traditionally tied to financial returns, the concept of value now faces a paradigm shift as environmental and social dimensions become integral to investment decisions.

The answer lies in broadening perspectives. Sustainability's investibility is undeniable when value is reimagined to encompass long-term environmental and social outcomes as integral to sustainable finance returns. This expanded remit not only aligns with global priorities but also drives resilience, innovation, and inclusive growth, setting the stage for a future where profitability and purpose coexist.

The investibility of sustainability is further illuminated when reframed as a question of risk – or the price – of inaction. Failing to prioritise sustainable investment risks (and forego potential opportunities; it compounds future risks.

The devastating impact of recent extreme weather events serves as a stark reminder, with billions of dollars of uninsured losses making the cost of inaction painfully clear. Events like this underscore the urgent need for proactive investment strategies that mitigate climate risks and enhance resilience.

Sustainable investment is not merely a moral imperative; it's a pragmatic approach to risk management, protecting businesses and economies from the escalating financial toll of environmental and social crises.

Facilitating sustainable investment is undoubtedly complex, with challenges such as greenwashing, evolving sustainability/transition frameworks, and a pressing need to enhance the education of market practitioners and wider stakeholders being but a few. Yet, these hurdles are not insurmountable. The financial community is actively and successfully navigating these obstacles, demonstrating resilience and ingenuity.

Collaboration among market participants, in compliance with applicable competition and anti-trust law and related regulation, is a critical driver of progress. Efforts to scale up sustainable finance include creating interoperable frameworks, improving transparency through enhanced disclosure, and leveraging innovative financial models like blended finance and credit risk insurance. These strategies are not only charting a path forward but are also recalibrating the compass to point firmly in the right direction.

## The Financial Compass: Salvaging the Supply Chain

From the quest for value to salvaging supply chains, the next session focused on the need for sustainable finance to be embedded in supply chain management.

One solution is Catapult's innovative 'sustainable supply chain finance' (SSCF) product – a structure first described in Horizons#2. The SSFC product, which will be launched in the near future, envisages a tiered approach where the lender incentivises both clients and suppliers; the sustainability performance of each supplier being measured, thereby providing greater granularity of ESG data throughout the entire supply chain.

The typical incentive structure of sustainability-linked loans is maintained, with a different price adjustment being applied to the supply chain finance payment according to the ESG performance of the supplier as assessed by third-party ESG data providers. The best ESG performers will receive a lower price adjustment to their payment, whilst the worst performers will receive a higher price adjustment.

This approach would incentivise excellent performance while offering pathways for improvement to those falling behind. In addition, it enables the corporate and institutional clients to understand the global performance of their supply chain, detect areas for development and achieve a progressive improvement in the global sustainability performance of suppliers.

With the rising costs of sustainable materials, collaboration with suppliers becomes essential to align cost structures with green product development goals. Linking key performance indicators to both client and supplier ESG metrics fosters deeper collaboration and ensures alignment with sustainability targets. Furthermore, access to detailed ESG data can influence pricing, supply chain decisions, and regulatory reporting. This data is critical given evolving global legislation demanding transparent ESG disclosures.

By embedding performance-based incentives into supply chain finance, this approach not only drives individual supplier improvements but also strengthens the sustainability performance of entire industries. This creates a pathway for achieving global ESG goals while addressing pressing regulatory and financial challenges.

## A View from Deck: Sailing through Sustainability

As with any quest, you need a compass and a bearing. Henriette Bergesen therefore stepped up to the helm to set out Odfjell's leadership in harnessing transition finance to drive the shipping industry towards a more sustainable future.

Diving into the distinction between green and transition labels – reflecting on a recent transaction regarding the installation of energy-saving technologies on existing vessels to maximise energy efficiency and reduce business costs – Henriette noted that whilst the technologies themselves can be considered 'green', the transaction itself cannot be considered fully green because the underlying ships are still burning fossil fuels.

**"A green loan should be green from day one – and it should have zero direct emissions. We are on our way to being net zero and not being reliant on fossil fuels, but we are not yet there. Our transition investments can contribute to the progress."**

This discussion surrounding the boundary between "green" and "transition" finance strikes at the heart of global discussions on sustainable development. This boundary is far from fixed, reflecting the complex and varied realities of different geographies, sectors, and entities.

From definitions to value, Henriette noted the strategic value of leveraging the "transition" label to attract investors. In the context of industries like shipping, which face complex and costly decarbonisation pathways, the transition label offers a pragmatic bridge for aligning with sustainability goals while engaging a broad investor base. There were structuring challenges in the absence of formal transition finance guidelines, including defining appropriate key eligibility criteria and reporting metrics to satisfy investor and lender scrutiny while ensuring credibility. However, these obstacles were all surmountable, when parties (financial institutions, advisors and corporates) seek to work together.

Odfjell's proactive approach reflects the broader need for transformative action in shipping, a sector responsible for about 3% of global $CO_2$ emissions. By setting clear goals and aligning financial frameworks with sustainability objectives, companies like Odfjell are acting as a "compass," guiding the industry toward a greener future while ensuring long-term business resilience.

## Tinges of Green: Sirens of Transition

Much like magnetic deviation can disrupt a compass, divergent views on what constitutes an effective or acceptable transition can derail progress toward sustainability. The next session explored the challenges of navigating these differences and aligning stakeholders for collective action.

When assessing the key factors to unlocking the transition of the real economy, the LMA's trusted slide poll demonstrated a majority in the room opined greater policy action and regulatory certainty was needed to shift the dial on transition across Europe, there is currently a lack of transition-specific regulatory metrics or taxonomy to support banks' acceleration of transition finance. With the panel's discussion that banks respond quickly to clear regulatory incentives, the current uncertainty breeds market participants' hesitation.

Returning to the audience, it was asked: do we need a clear transition finance label? 83% of respondents voted in favour, with a transition label, encased in clear parameters, helping both to bridge the slight gap between the sustainability-linked instrument and the current demands of transition, and mitigate the greenwashing risk in labelling a transition loan product as 'sustainable'.

However, use of a clear transition label will not be a panacea to all the challenges in surmounting the transition of the real economy. There are multiple layers of complexity to the concept, and the panel expressed it would be a more fundamental coalescence of the market around an agreed definition and scope of transition; once these unchartered waters of agreeing an approach to a carbon lock-in, or deciding whether to use sector-specific abatement curves for benchmarking, are surpassed, then the 'nuts and bolts' of product labelling can be added to the foundations.

Transition plans are all the rage, and for good reason too; they allow entities to know where they stand relative to their transition targets, whilst also reassuring lenders by pinpointing where their investment is being directed. Though the associated teething issues of data availability will be resolved in time as more comprehensive reporting occurs under CSRD, the panel cited a need for a methodology to be developed to consistently assess the credibility of transition plans; this will require close collaboration with third-party providers and sector-specific knowledge. The importance of transition plans cannot be overstated: the 'glue' that links the ambitiousness, measurability, materiality, and transparency of an entity's transition progress.

There are some success stories that can teach us valuable lessons about how to get transition right – Japan being the most obvious. Japan has fostered the financial ecosystem to support transition, with triangular cooperation between government, banks, and their clients, to develop sector-specific transition pathways for each industry. In many regions across the world, government support – a vital component of the ecosystem, is the missing piece of the transition puzzle. One thing is certain, the finance sector cannot afford to wait for governments to get into gear, and so relationship banks and financial institutions must take the initiative.

The reputational risk of transition needs to be analysed at three distinct levels: the ecosystem, the product, and then the marketplace. Regarding the latter, rather than the asymmetry of information that exists in the sustainability-linked market, where banks effectively bet on their clients' ability to meet KPIs, banks' obligations to report to their stakeholders and regulators means transition products demand information symmetry. At a product level, Ricardo Saltudo proposed a potential solution whereby general corporate purpose transition-linked loans could be underpinned by a bucket of agreed KPIs, based on factors such as R&D or carbon intensity. The entire ecosystem could then develop around this set of agreed KPIs, which could be sector and asset based. This would allow a precise pinpointing of transitional activities, mitigating the reputational risk that starts to rear its head at the entity level.

The journey toward a sustainable global economy is undoubtedly challenging, with intricate dynamics requiring coordinated efforts across industries and regions. Yet, the opportunities are immense. By fostering a shared vision and leveraging the collective power of innovation, finance, and policy, there is a real potential to not only address urgent climate and social challenges but also redefine economic systems for the better. This is a pivotal moment to seize momentum and reshape the future for a more sustainable and inclusive global economy.

## Geopolitics of Sustainability: Ithacan to New Horizons

To round off our LMA Odyssey, David Chmiel provided a thought-provoking analysis of the geopolitics of sustainability, grounding the sustainability journey in the realities of a world shaped by shifting political landscapes, especially as we complete 2024—a pivotal year of elections across major economies.

Governments' action on climate change is hindered by a public opinion paradox, a paradox highlighted by recent surveys (Ipsos and People's Climate Vote 2024). While long-term climate concern is high – 50-60% of G7 respondents report being "very or extremely worried" – the immediate urgency among the public is lower, with only 29-30% identifying it as a pressing short-term issue. This misalignment between public perception and political action creates a cycle of inaction.

Building on this, and looking at the overall picture whilst noting geographical anomalies, the Edelman Trust Barometer 2024 reveals a growing trust gap between business and government, a dynamic that adds complexity to climate action. Public trust in business outpaces trust in government, reflecting a belief that companies may be more capable or willing to drive meaningful change. However, the Ipsos/ Climate Vote 2024 underscores public ambivalence about business efforts on climate, often calling for greater government intervention. This creates a paradoxical expectation: businesses are trusted, but governments are still seen as essential to setting the rules and frameworks for action.

On top of all this, and given the state of today's world, it is vital to acknowledge the evolving nexus between sustainability and national security, which is swiftly becoming a pivotal consideration in global energy strategies. The war in Ukraine and escalating tensions in the Middle East have exposed vulnerabilities in reliance on oil and gas, accelerating the push toward energy diversification and a renewable transition. However, this shift has also highlighted new risks, particularly in the security of energy infrastructure, evidenced by Sweden's recent veto of thirteen offshore windfarms in the Baltic Sea because of the planned infrastructure's susceptibility to attack. It is likely we will see the increasing incorporation of national security metrics into ESG frameworks; accordingly, there is a new acronym for our lexicon: Environmental National Security Social Governance (ENSSG) – an acronym likely to become common in 2025 and beyond.

## Conclusion

Our Conference stands as a powerful testament to the world's increasing dedication to sustainability. Through collaboration, innovation, and strategic navigation, the event illuminated pathways toward a more sustainable financial landscape, offering attendees both inspiration and actionable insights.

Now, the responsibility shifts to each delegate to carry forward the momentum. Equipped with the knowledge and ideas shared, it is time to transform discussions into impactful actions. By leveraging the tools, networks, and strategies explored during the conference, delegates can contribute meaningfully to building a sustainable future for all.

We look forward to highlighting the results of such action at next year's event – taking place on 5 November 2025 in London. Block that date in your diaries now!

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# In Conversation with the LSTA: Diving into the ESG IDP

**Tess Virmani**
Deputy General Counsel & EVP – Head of Policy, LSTA

tvirmani@lsta.org

**Elizabeth Yazgi**
Assistant General Counsel, LSTA

eyazgi@lsta.org

**The harmonization of ESG reporting requirements represents a critical challenge for sustainable finance and it is this challenge that the ESG Integrated Disclosure Project (IDP) seeks to address.**

In this Q&A interview, Tess Virmani and Elizabeth Yazgi of the LSTA discuss the formation and development of the IDP and why its uptake should be encouraged at a global level.

## 1. What is the ESG Integrated Disclosure Project (IDP)?

The ESG IDP is a market driven initiative dedicated to supporting private companies to make ESG focused disclosures when seeking financing. Companies seeking finance are increasingly faced with multiple requests for ESG related data aligned with different frameworks and initiatives. The ESG IDP has brought together leading investment managers, banks and credit investors to address this and create a harmonized, proportionate disclosure template that can serve as an industry standard designed by lenders. The chief objective of this work has been to ensure that the data requested can realistically be provided by businesses of various sizes, including small to medium enterprises (SMEs) (discussed further below). Use of the template will streamline the disclosure process for borrowers and enable lenders to receive consistent data from sponsored and non-sponsored borrowers across the private credit and broadly syndicated loan markets. The ESG IDP is maintained by its Secretariat (Alternative Credit Council, LSTA, and PRI) and its Executive Committee comprised of different market stakeholders.

For more information, please visit www.esgidp.org.

## 2. What is the intended use of the ESG IDP template?

The ESG IDP template has been designed as a diligence tool to assist lenders in soliciting relevant ESG information from companies to whom they might lend. Because lenders have the greatest leverage at the time of loan origination it is expected that lenders would request a completed template to be shared with them at the pre-investment stage. Importantly, however, the template can easily be completed in advance of a company coming to the loan market. Responding to ESG inquiries often requires consultation with different internal stakeholders at the company. Rather than place additional demands on company employees who are focused on closing the loan, advance completion of the template will allow for a less stressful borrower experience and a better product. Arrangers of syndicated loans are reminded that communicating this with their borrower and sponsor clients will bring efficiency to the loan transaction.

Market participants have found additional uses for the template outside of its original design, including borrower engagement, portfolio monitoring and investor reporting processes. Companies can also use the template for guidance on what ESG factors are most relevant to lenders as they look to introduce or grow their ESG reporting capacity.

## 3. What are some of the important attributes of the ESG IDP template?

### Global

The IDP template establishes a global baseline of ESG reporting requests which will advance the availability and sophistication of ESG information. The IDP template is backed by organizations from across the world.

### Proportionate

Private companies can range from small, family run businesses to mid-size companies, to larger companies with ample resources. In addition, companies across jurisdictions may pay different levels of attention to ESG issues. The IDP template offers flexibility, and borrowers are encouraged to complete the IDP template to the extent feasible. For many companies, this might mean only the core general questions are within reach. For other companies, particularly those in highly regulated sectors, this might mean the complete set of general questions as well as the prioritized questions specific to their industry. Finally, some companies may complete the IDP template in its entirety.

### Harmonized

The IDP template represents a harmonized set of core questions commonly requested by lenders and have been identified as soliciting ESG information that is most relevant to lenders. In support of the ESG IDP template, the LSTA has retired its ESG DDQ for Borrowers. In addition, the industry specific questions included in the template are aligned with the IFRS's SASB Standards. The SASB Standards serve as the technical basis for the ISSB's industry-based disclosure standards. In addition, the ESG IDP template identifies those questions that solicit information which can be used for SFDR PAI reporting.

### Private Equity Aligned

Given the prevalence of portfolio companies that borrow in the corporate loan market, the IDP recognized the importance of fully aligning with the private equity-focused ESG reporting initiative, the ESG Data Convergence Initiative (EDCI). Private equity sponsors participating in the EDCI have agreed to track certain metrics for their portfolio companies. By adopting the EDCI metrics within the IDP template, sponsors can further capitalize on these efforts by sharing information with lenders.

### Supported

The ESG IDP has enjoyed broad support across corporate lending since its inception. Thirty asset managers and credit investors founded the ESG IDP. Today, support for the IDP has expanded to include not only the Secretariat and 21 institution Executive Committee, but also Supporting Organizations, such as the LMA, ELFA and APLMA, and the Investment Consultants Sustainability Working Group – US. In addition, investment managers representing $6+ trillion in assets stand behind the ESG IDP. Finally, data providers have rallied behind the IDP both as recognized supporters and by offering the IDP template on their platforms. Holtara is offering additional support for the IDP template by powering the macro-enabled and non-macro IDP template versions.

## 4. If a firm is interested in supporting the ESG IDP's work, is there a way to communicate that?

Certainly – any institution wishing to publicly endorse the ESG IDP may enroll as an ESG IDP Supporter on the IDP website. The firm can provide their identifying information on a short application form, which takes less than a minute. The IDP already has a significant "supporter base" comprising a coalition of market-leading asset managers, credit investors, trade associations and other institutions (these include, for instance, Credit Suisse, First Eagle, Fitch, PIMCO and Moody's, to name a few). Signing up as a supporter is a streamlined process but goes a long way in spreading awareness of the template among loan market participants. Of course, apart from becoming a public supporter, the most meaningful way to endorse the initiative is for credit providers to consistently use the template in its lendingtransactions.

## 5. Looking more broadly, what other ESG and sustainability projects is the LSTA working on?

The LSTA has engaged in several sustainability initiatives this year. Notably, we have partnered with the APLMA and LMA to advance several documentation workstreams which we are eager to deliver to the market by early 2025. The first of these is a set of updates to our existing sustainable loan frameworks, which include the Green Loan Principles, Social Loan Principles and Sustainability-Linked Loan Principles (SLLP) and related Guidance documentation. The goal of these updates, which we have undertaken in consultation with a dedicated working group of market participants, is to align the frameworks to current market practice and ensure their global applicability. As we have had active engagement with lenders and investors active in the space, we are confident that the updated forms will continue to reflect market consensus.

Secondly, we are adding to the existing pool of "framework" documents on offer with a new Guide to Transition Loans. Transition finance, which we broadly define as a means to finance investments that contribute to the global transition to a low-carbon economy without undermining other ESG objectives, is newer to U.S. markets but has gained considerable traction in Europe. Based on discussions with members, we have found that market participants have a keen appetite for transition finance, but face headwinds when trying to structure such instruments in a way that makes sense across different jurisdictions. We will aim to capture regional and sector-specific variations and reference existing regulatory frameworks and taxonomies in the new guide.

Last but not least, the LSTA is in the midst of finalizing market guidance for green loans in the form of a standardized and market-vetted "Drafting Guidance" piece as well as model engagement letter provisions for green loans, which will be modelled on and complement our existing guidance and engagement letter language for SLLs. The impetus for this project was the recent uptick in interest in green loans. Here again, the finished product will reflect the input of a committed working group of leading lenders, green loan coordinators and asset managers who have worked alongside the LSTA during this project.

Despite the politicization of ESG in the U.S., we expect that sustainable finance activity will remain robust across global markets, albeit in varying degrees and with considerable structural nuance observed across loan facility documentation. By introducing guidance on transition and green loans in tandem with the updates to our existing guidance, the LSTA aims to promote harmonization around ESG and assist market participants fulfil their ESG compliance and investment mandates. We are thrilled to be poised to launch this suite of products to market as the year comes to a close, and will continue to monitor market developments as we look ahead to 2025.

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# Sustainable Finance

## Regulatory Update

**Navigating the key sustainable finance regulations across EMEA**

Sustainability Assembled

Regulatory and Standards Tracker

## The end of the year brings an opportunity for reflection on the progress of the last twelve months – and, looking back, it is fair to say that 2024 hasn't been all smooth sailing in the world of sustainable finance.

Indeed, sustainable finance professionals worldwide have found themselves navigating through uncharted waters, with the strong winds of geopolitical events adding to already choppy seas. In the vast ocean of sustainable finance regulation, these challenges have been impossible to ignore, with political tensions leading to delays and amendments to a number of sustainability regulations over the last year.

Nonetheless it is clear that there is still a significant amount of momentum behind the regulatory direction of change in relation to sustainable finance. In the UK, the end of the year has brought a final flurry of regulatory activity with several government consultations announced, including (i) a consultation on the value case for a UK Green Taxonomy, (ii) a call for technical comments on a proposed ESG ratings regulation and (iii) a call for evidence on the UK's financial services growth and competitiveness strategy. In the EU, we also had news of a proposed omnibus agreement aimed at "simplifying" the current sustainability framework, including the Corporate Sustainability Reporting Directive, the Corporate Sustainability Due Diligence Directive and the EU Taxonomy. **Whilst recognising that there is limited detail available, we are currently seeking views on the omnibus proposal - so please do get in contact if you have any feedback you would like us to take into account.**

At the start of December, our Sustainable Finance Regulatory Committee (the **Committee**) met to discuss objectives and priorities for 2025. Priority areas identified for 2025 include transition finance, greenwashing risk, horizons scanning, corporate sustainability reporting and 'joining the dots' between regulation and market practice. I would like to thank the Committee for all their hard work this year, and look forward to working with them all over the next 12 months as part of our efforts to assist members with navigating the complex rules and regulations of sustainable finance.

And just a quick final note - work is well underway on our greenwashing insights report which we will be launching in Q1 2025, so **please do get in touch if you'd like to find out more**!

**Hannah Vanstone**
Lead Sustainable Finance Regulatory Affairs Officer
LMA

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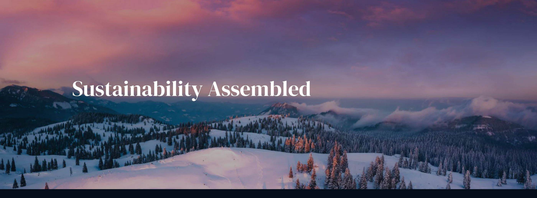
# Sustainability Assembled



**Sukhvir Basran**
ESG Partner,
King & Spalding
sbasran@kslaw.com

Regulatory and Standards Tracker

**In the final publication for 2024 of Sustainability Assembled, we take stock of the UK and EU's plans, examine the reaction to plans to "simplify" regulation and consider how market participants can improve analysis of climate-related risks.**

As we near the end of 2024, the impact of geopolitical events on global sustainability goals is being weighed up and the EU is continuing to lead the charge on developing sustainable regulation and guidance.

The good news is that end-of-year reports and updates such as the third annual "Report on disclosures of principal adverse impacts under the Sustainable Finance Disclosure Regulation" highlight positive progress, good practices and the provision of quality data. This is further bolstered by the recent report, "Progress on Corporate Climate-related Disclosures", by the IFRS Foundation which highlights the wider alignment benefits of companies using ISSB Standards.

The bad news is, according to The Climate Action Monitor 2024, there remains a significant gap in policy ambition between globally agreed temperature goals and the emissions reductions of national climate targets. According to The Global Carbon Project, carbon dioxide emissions have risen in 2024 by 0.8% from 2023, and 2024 is set breach the 1.5°C threshold under the Paris Agreement.

With the media now more likely to link incidences of extreme weather events to climate change, financial institutions and investors are also becoming more transparent on how they are responding to the need for climate-stress testing (see below).

Last but not least - just as market participants are getting (somewhat) comfortable with the complexity of EU sustainability-related regulation, Ursula von der Leyen has referred to a new "omnibus regulation" intended to "simplify" the 'Big Three' (at least), namely: the EU Taxonomy Regulation, the Corporate Sustainability Reporting Directive and the Corporate Sustainability Due Diligence Directive. Media reports suggest that the proposal has (perhaps unsurprisingly) been met with limited enthusiasm. Given the significant resources that have gone into understanding and implementing EU sustainability regulation so far, various market participants have expressed concern at the uncertainty and additional work that this potential omnibus instrument is likely to bring. As at the date of publication, there is little additional information available, but the LMA will be actively engaging on this proposal and would welcome any views you have on this matter.

Finally, I would like to wish you all a very merry Christmas and a happy new year!

## Greenwashing – are we there yet?

No regulatory summary would, of course, be complete without examining the continuing efforts of policymakers, standard-setters and industry bodies (including the LMA) to address greenwashing risk across the sustainable investment value chain. Key developments this quarter include:

- the EU has adopted the proposed ESG Ratings Regulation (see below) and HM Treasury has published a response to the ESG Rating consultation, along with a draft statutory instrument for technical comments (see below);
- as the European Securities and Markets Authority's (**ESMA**) "Guidelines on funds' names using ESG or sustainability-related terms" take effect, funds are focussing on careful consideration of sustainability-related terms in fund names, ESG integration in investment processes and alignment of investments with the Climate Transition Benchmark and the Paris-aligned Benchmark. As we go into 2025, amendments to funds names and analysis of "transitioning" assets is very likely to increase (see King & Spalding's latest article on this subject here); and
- ESMA has indicated that, as part of its 2025 work programme (see below), monitoring the implementation of guidelines (such as those on fund names) and developing additional technical standards (including in relation to the regime for external reviewers and ESG ratings) will be a priority.

## What's next for the UK and EU?

### In the UK

The UK Government has made a series of announcements including: a 2035 target of reducing territorial greenhouse gas emissions by 81% compared to 1990 levels, a Global Clean Power Alliance, a Clean Industry Bonus Scheme, and a CIF Capital Market Mechanism on the London Stock Exchange. The UK Chancellor meanwhile indicated a commitment to deliver the foundations of "a robust sustainable finance framework" which include a number of consultations relating to, amongst other things, the value case for a UK Green Taxonomy, streamlined sustainability disclosures for economically significant companies and the implementation of transition plans (see below).

### In the EU

The Joint Committee of the European Supervisory Authorities (**ESAs**) has published their work programmes for 2025, with the promotion of sustainability in the EU financial system remaining a key priority for all three ESAs.

According to the ESMA 2025 Annual Work Programme, it will increase its focus on:

- implementing the sustainable finance legal and supervisory framework;
- combating greenwashing; and
- promoting transparency in sustainable investments.

As referred to above, this will include monitoring the implementation of guidelines (such as those on fund names) and developing additional technical standards (including in relation to the regime for external reviewers and ESG ratings). Market need for additional guidance and Q&As in respect of legislative texts (including, for example, under the Sustainable Finance Disclosure Regulation, the EU Taxonomy Regulation and the Corporate Sustainability Reporting Directive) will also be monitored as will developments relating to transition finance.

The European Banking Authority's (**EBA**) Work Programme 2025 includes a focus on enhancing risk-based and forward-looking financial stability for a sustainable economy which will include building out the EBA's risk monitoring framework in order to efficiently monitor ESG risks in the banking sector. These risks include transition and physical risks, market developments relating to the development of sustainable finance products; and the increase of internal and external relevant ESG risk data. Work is also intended to be undertaken to develop a regular climate stress test and guidelines on an institution's climate stress testing. The Joint Committee Annual Work Programme 2025 can be accessed here.

### Enforcement

ESMA's publication of the "European Common Enforcement Priorities statement for 2024 corporate reporting" (the **Statement**) has been met with a mixed response.

The Statement refers to: (i) materiality considerations in reporting under the European Sustainability Reporting Standards; (ii) scope and structure of sustainability statements; and (iii) disclosures relating to Article 8 of the EU Taxonomy Regulation as priority topics for ESMA.

The Statement highlights a number of key issues for each priority topic including: (i) the need to pay attention to EFRAG's Implementation Guidance on Materiality Assessment (see previous publications of Horizons); (ii) the importance of quantitative information to determine materiality; (iii) application of transitional reliefs (i.e. issuers are required to explain efforts made to obtain the information relating to their value chain etc); and (iv) for Article 8 of the Commission Delegated Regulation (EU) 2021/2178, the use of templates (without adaptation or amendment) is emphasised, as is the need to carefully consider scenarios where an activity may be eligible for multiple environmental objectives.

The Statement underlines that ESMA, together with national enforcers in the EEA, will take enforcement actions whenever material misstatements in the areas highlighted in the reports are identified.

## Climate-scenario analysis and stress testing

### Commentary

As well as the focus on greenwashing, across the market there is also now an increased emphasis on understanding the impact of climate-related risk on investment portfolios. Careful consideration and consistent use of metrics and better measurement is important, as is ensuring the alignment of investment portfolios with entity-level sustainability strategies and disclosures and product level frameworks and standards.

Regulators and standard setters are looking across the sustainable investment value chain using a wide lens - this will require a broader and deeper response to climate-risks analysis from market participants. What does this mean in practice for the loan market? Market participants will need a deep understanding of a broad range of sustainability issues, a robust grasp of available guidance and tools in the market and how to apply them and the ability to "connect the dots" across policies, investment processes, entity-level disclosures and product-level frameworks, structuring, terms and disclosures.

Below we take a look at recent developments.

### Fit-for-55 Climate Scenario Analysis

In November 2024, the ESAs, together with the European Central Bank, published the results of the "Fit-for-55 climate scenario analysis". The report assesses the resilience of the EU financial sector (specifically the EU banking, investment fund, occupational pension fund and insurance sectors) to withstand climate-related shocks and to support the green transition under conditions of stress.

The scenarios and methodology are based on the following three transition scenarios over an 8-year period assuming implementation of the Fit-for-55 package:

- **baseline scenario**: the Fit-for-55 package is implemented in an economic environment that reflects the European System of Central Banks' June 2023 forecasts with additional costs relating to the green transition.
- **first adverse scenario**: "Run-on-Brown" shocks are taken into account, wherein investors divest assets of carbon-intensive firms, thereby adversely affecting the green transition due to lack of financing available for "brown" firms.
- **second adverse scenario**: "Run-on-Brown" shocks are amplified with additional standard macro-financial stress factors taken into account.

The impact of these scenarios has been assessed on 110 banks, 2,331 insurers, 629 IORPs and around 59,000 funds (of which 22,000 in the EU), accounting for less than half of their total assets at aggregate level.

Key findings from the report are as follows:

- Estimated losses resulting from a "Run-on-Brown" scenario have a limited impact on the EU financial system with total first-round losses over the 8-year horizon between 5.2% and 6.7% of starting point exposure in each sector;
- Second-round losses are most relevant for investment funds amounting to 11.2% of starting point exposures; and
- In the second adverse scenario, depending on the sector, first round losses by banks; and insurers, occupational pension funds and investment funds stands between 10.9% and 21.5% depending on the sector.

The report emphasises that given the novelty of climate stress testing approaches, the outcomes are subject to inherent uncertainty.

The ECB's "FAQ on one-off "Fit-for-55"climate scenario analysis" can be accessed here.

The European Central Bank's Financial Stability Review for November 2024 can be accessed here.

## PRA: Thematic feedback on accounting – climate-risk

In late September 2024, the Prudential Regulation Authority (**PRA**) sent a "Dear CFO Letter" (**PRA Letter**) to banks with feedback based on a review of auditor responses to questions relating to IFRS 9 expected credit loss accounting (**ECL**), including the progress made in 2023 to develop capabilities in order to quantify the impact of climate risk on ECL.

The PRA Letter acknowledges the continued efforts of firms to expand the analysis of climate-related risk in order to identify exposures most at risk and adapt economic scenarios to incorporate climate risks. The PRA's thematic findings note that there is scope for improvement to assessments used to quantify the impact of climate-related risk drivers including (i) expanding the coverage of portfolios to take into account for example drivers potentially impacting underlying collateral, refinance risk and borrowers' ability to repay (ii) ensuring that climate risks are embedded in loan-level credit risk assessments; and (iii) considering a broader range of climate scenarios and indicators.

Annex 2 of the PRA Letter sets out the range of practices identified from the PRA's review, as well as areas of focus in the short and medium term. Key findings include:

- the fact that metrics used to assess climate related risk in loan portfolios include the costs incurred to reduce emissions and the potential impact of higher carbon prices on the ability to repay debt;
- better practice examples seen in relation to the identification of climate-related risk drivers, including expanding the scope of risk drivers considered at a product level (e.g. supply chain, litigation, and refinancing risk), including climate risk in the horizon scanning process, and consideration of the impact from potential changes in policy (e.g. EPC ratings);
- the fact that there is a need to consider the impact of refinancing risk for higher risk portfolios; and
- the development of frameworks (including scorecards) to support assessments of climate risk into counterparty or loan-level assessments are another example of better practice in the market.

The PRA Letter includes further examples of better practice. Market participants should note that, for the next round of written auditor reporting, the PRA has asked for auditors' views on a firm's progress against the areas of focus set out in the PRA Letter.

## Further reading

Bank of England report on climate-related risks and the regulatory capital frameworks | Bank of England

Letter from Victoria Saporta "Thematic feedback from the 2022/2023 round of written auditor reporting" | Bank of England

Enhancing banks' and insurers' approaches to managing the financial risks from climate change | Bank of England

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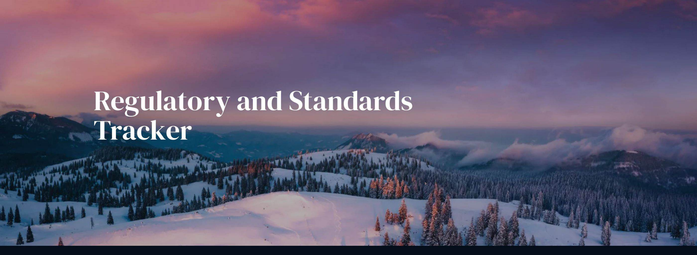

# Regulatory and Standards Tracker

## ESG ratings regulation

On 19th November 2024, the EU Council adopted the proposed ESG Ratings Regulation. The regulation will be published in the EU's Official Journal and enter into force 20 days later, and will start applying 18 months after its entry into force.

Further information about the regulation can be found in previous publications of Horizons.

## CSRD: final FAQs published in Official Journal

On 13 November 2024, the European Commission published the final version of a set of Frequently Asked Questions (**FAQs**) relating to the requirements of the Corporate Sustainability Reporting Directive (**CSRD**). The FAQs also provide clarification in respect of certain provisions of the Sustainable Finance Disclosure Regulation (**SFDR**).

See previous publications of Horizons for further information.

## EU Taxonomy: FAQs

On 29 November 2024, the Commission published a set of frequently asked questions (FAQs) to support the implementation of the EU Taxonomy focussing on the technical screening criteria for new activities included in the Taxonomy Climate and Environmental Delegated Acts. The FAQs form part of the Commission's "simplification" agenda and efforts to reduce the administrative burden on companies.

## UK: FCA publishes SDR precontractual disclosure examples

The UK Financial Conduct Authority (**FCA**) has published a document setting out examples of how market participants can meet the pre-contractual disclosure requirement of SDR labels and investment labels. The examples are based on the FCA's experience and are not intended to be exhaustive.

## UK: National Energy System Operator

The National Energy System Operator, strategic adviser to the government and Ofgem has published its Clean Power 2030 report outlining how to achieve clean power by 2030. The UK Government and Ofgem will review the two pathways set out in the report with the intention of publishing a Clean Power Action Plan.

## IAASB publishes ISSA 5000

The International Auditing and Assurance Standards Board (**IAASB**) has published the International Standard on Sustainability Assurance 5000, providing a framework for third parties (including verifiers) carrying out limited and reasonable assurance engagements in respect of sustainability reports. The standard aims to align with double materiality assessments used for the European Sustainability Reporting Standards.

## Eurosif: recommendations for EU policymakers

On 20 November 2024, Eurosif published a regulatory roadmap setting out recommendations for EU policymakers.

## FRC: annual review of corporate governance reporting

On 26 November 2024, the Financial Reporting Council (**FRC**) published its annual review of corporate governance reporting highlighting examples of good reporting and areas for improvement.

## NGFS: adaptation and reporting on greening of financial system

On 14 November 2024, the Network for Greening the Financial System (**NGFS**) announced the publication of two documents: a conceptual note on adaptation and a synthesis report on the greening of the financial system.

## UK Green Taxonomy consultation

HM Treasury has launched a consultation to gather the views on the value case for a UK Green Taxonomy as part of the UK's wider sustainable finance framework.

The consultation closes on 6 February 2025. **Please note that the LMA is intending to respond to this consultation so please do get in contact with the LMA if you would like to feed into their consultation response.**

## TNFD consultations

The Taskforce on Nature-related Financial Disclosures (**TNFD**) has published two discussion papers for feedback:

1. A Discussion paper on nature transition plans (open for feedback until 1 February 2025) and
2. A roadmap for upgrading market access to decision-useful nature related data (open for feedback until 17 January 2025).

## GFANZ: Nature in net-zero transition plans consultation

The Glasgow Financial Alliance for Net Zero (**GFANZ**) has published a supplemental consultation paper on Nature in Net Zero Transition Plans.

The consultation paper sets out the role that nature plays in the context of net-zero transition plans and builds on a technical review of other relevant standards.

## FRC consultation on investor Stewardship

The Financial Reporting Council has launched a consultation on its proposed updates to the UK Stewardship Code. The consultation closes on 19 February 2025.

## UK: FCA publishes consultation paper proposing minor amendments to the anti-greenwashing rule and the SDR

On 6 December 2024, the FCA published a consultation paper setting out proposed changes to the anti-greenwashing rule by removing a more limited definition of "communicate" and clarifying the link between the anti-greenwashing rule and other requirements for "fair, clear and not misleading" communication. In addition, the FCA is proposing to clarify a number of SDR requirements around distributors, feed fund disclosures, pre-contractual disclosures and annual reports.

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# Sustainable Lending Glossary

**In alphabetical order**

A-Z
D-I-R
S-Z

**Adaptation**
Adjustment in ecological, social or economic systems in response to actual or expected climate stimuli and their effects. It refers to changes in processes, practices and structures to moderate potential damages or to benefit from opportunities offered by climate change.

**Biodiversity**
The variety of life on Earth, in all its forms, from genes and bacteria to entire ecosystems.

**Blue economy**
The term 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.

**Blue finance**
The term refers to investments dedicated to finance or influence activities that contribute to oceans protection and improved water management.[1]

**Blue loan**
A blue loan refers to a loan that is aligned to the Green Loan Principles and where the proceeds are exclusively applied to finance or refinance green or blue projects or to support a project portfolio under another arrangement.

**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.[2]

**Carbon markets**
Are a type of market systems in which carbon credits are sold and bought. Companies in industrial sectors can purchase carbon credits to compensate for their emissions of greenhouse gas by purchasing carbon credits from entities that remove or reduce greenhouse gas emissions.[3]

**Certification**
The information on certification, please see the External Review Guidance for Green, Social, and Sustainability-Linked Loans.[4]

**Circular economy**
In a circular economy, things are used and reused for as long as possible, extracting the maximum benefit from them while they are in use, then recovering and regenerating products and materials at the end of their life. Although recycling, reclaiming and reuse – in a way we are used again and again.

**Climate change adaptation**
Climate change adaptation involves adjusting to the actual or expected future climate. The goal is to reduce our vulnerability to the harmful effects of climate change (like climate change-induced sea-level rise, increased extreme weather events and increased disease prevalence). Adaptation also encompasses making the most of any potential beneficial opportunities associated with climate change (for example, lengthening growing seasons or increased yields in some regions).[5]

**Climate change mitigation**
The goal of climate change mitigation is to cut and stabilize human interference with the climate system, and to stabilize greenhouse gas levels in a timeframe sufficient to allow natural ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner.[6]

**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.

**Corporate Sustainability Due Diligence Directive (COM(2022)71205)**
Aims to promote sustainable and responsible corporate behaviour and to embed human rights and environmental considerations in companies' operations and corporate governance.[7]

**Corporate Sustainability Reporting Directive (CSRD)**
The EU law requires all large companies and all listed companies (except listed micro-enterprises) to disclose information on what they view as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment.[8]

**Double materiality**
This is a regulatorian concept that has been incorporated into the European Sustainability Reporting Directive (**CSRD**).[9] Under the CSRD, companies are required to report on their risks and opportunities arising from social and environmental issues (**materiality perspective**) and on the company's own impacts on people and the environment (**impact materiality**).[10]

**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 risk when financing projects. The EPs are intended to be implemented by financial institutions in good faith and diligence and neither to support nor facilitate risk decision-making. The EPs apply globally, to all industry sectors for financial products, advisory services and credit, including project finance, project-related corporate loans, bridge loans, project and project-related refinance and project-related corporate loans.[11]

**ESG Incorporation**
ESG Incorporation is the process of assessing, reviewing and considering ESG factors in investment decisions and portfolio construction of their investments.[12]
Integration, screening and thematic investing. ESG Incorporation generally functions alongside, or in combination with, materiality.[13]

**ESG Integrated Disclosure Project**
Aims to provide a set of ESG information in the credit markets by offering a standardized approach and adequate ESG reporting for borrowers.[14]

**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.[15]

**ESG Ratings Regulation**
The rules aim to strengthen the reliability and comparability of ESG ratings by improving the transparency and integrity of the operations of ESG ratings providers and preventing potential conflicts of interest.[16]

**European Banking Authority (EBA)**
The EBA is an independent EU authority. The EBA plays a key role in safeguarding the integrity and robustness of the EU banking sector to support financial stability in the EU.[17]

**EU Taxonomy**
A classification system that defines criteria for economic activities that are aligned with net zero trajectory by 2050 and the broader environmental goals other than climate.[18]

**External review**
Is an independent external review, please see the External Review Guidance for Green, Social, and Sustainability-Linked Loans.[19]

**FCA Anti Greenwashing Rule**
Ensures that sustainability claims made by or about financial services and products are fair, clear and not misleading.[20]

**FCA Anti Greenwashing Rule**
The rule ensures that firms need to ensure that sustainability claims and information are fair, clear and not misleading. The rule states that firms need to ensure that sustainability references are fair, clear and not misleading and that any sustainability-focused products of the firm deliver on expectations.

**FCA Sustainability Disclosure Requirements (SDR)**
Is a set of rules and guidelines for asset managers and investment ratting out to rules for the Sustainability Disclosure Requirements (SDR) regime, including a set of consumer-friendly investment labels. These rules are designed to ensure that investment products fulfil their description in order to increase trust and the ease of decision-making for consumers.[21]

**Financial Conduct Authority (FCA)**
The FCA regulates the conduct of 51,000 firms in the UK. Its rules includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers.[22]

**Green bank investing**
This refers to the deliberate integration of greater analysis, investment analysis and investment decision-making processes to ensure that the impact of climate and environmental factors are taken into account in investment decisions and portfolio quality at the workplace, as well as in products or services that substantially improve the lives of people and help to protect the environment against degradation.[23]

**Global Reporting Initiative (GRI)**
Is an independent, international organization that helps businesses and other organizations take responsibility for their impacts by providing them with the global common language to communicate those impacts.[24]

**Green Asset Ratio (GAR)**
The Green Asset Ratio is based on the EU taxonomy and is a Paris-aligned ratio that can be used to identify the extent to which the financing outstanding of banks is in line with the EU taxonomy. The GAR is a forward-looking performance measure that assesses credit risk and environmentally sustainable and climate-conducive to the alignment of climate change mitigation or climate change adaptation of the enable other provider to contribute substantially to those objectives.[25]

**Green loan**
The GLP defined lenders green loans as any type of loan instruments and/or contingent facility such as a credit line, that are made available exclusively to finance or refinance available exclusively to finance or refinance a greenfield, brownfield or other existing eligible Green Projects and which are aligned to the four core components of the GLP.[26]

**Green Loan Principles (GLP)**
The GLP are voluntary market standards and guidelines, published by the LSTA (Loan Syndications and Trading Association), the LMA (Loan Market Association) 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.[27]

**Green mortgagee**
Is a green mortgage, a bank or mortgage lender offers a focus buyer preference, that it gives an advantage that the prospects for which the property is considered green. 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.[28]

**Green logging**
Green logging 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 process of green logging provides a standardized method, round number, basis points of green loan performance and provides greater transparency of climate risks and portfolio resilience.[29]

**Green building**
This refers to the act of not making genuine sustainability claims in case they may be associated with greenhouse gas/carbon emissions.[30]

**Greenwashing**
Greenwashing is its single definition but may be used to refer to the practice of giving an unfair competitive advantage to products that are marketed as environmentally friendly, when in fact basic environmental standards have not been met.[31]

**Global Reporting Initiative Biodiversity Standards**
The GRI 101: Biodiversity set sets reporting requirements on the topic of biodiversity. The standard aims to ensure that organizations report the same or geographic location that wants to report on its impacts related to this topic.[32]

**ICMA**
International Capital Market Association.[33]

**ESG Sustainability Disclosure Standards**
The ESG Sustainability Disclosure Standards Standards Board issued its first ESG Sustainability Disclosure Standard (**SASB**) in 2018. The Standard focuses on financial SASB materiality-related Financial Information and ESG-52 Climate-related Disclosures.[34]

**Impact Investing**
Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.[35]

**Impact washing**
This refers to the act of overstating or falsely claiming an investment's positive impact on the environment or society.[36]

[1] https://www.fao.org/fishery/en/terms?page=1&keywords=blue+finance
[2] https://www.ecosystemmarketplace.com/glossary/#blue-impact
[3] https://www.investopedia.com/terms/c/carbonmarket.asp
[4] https://www.icmagroup.org/assets/documents/Sustainable-finance/External-Review-Guidance-for-Green-Social-and-Sustainability-Linked-Loans-June-2021-280621.pdf
[5] https://www.epa.gov/climatechange/glossary.html
[6] https://www.epa.gov/climatechange/glossary.html
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[36] https://www.ecgi.global/sites/default/files/codes/documents/corporate-sustainability-reporting-directive-proposal.pdf

**In alphabetical order**

A-Z
D-I-R
S-Z

**Key Performance Indicators (KPIs)**
Are a quantifiable measure that demonstrate how effectively a company is achieving key business objectives. KPIs are critical daily 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 GLP.[1]

**Screening (Material Global Exclusion Criteria)**
This framework was adopted during the fifteenth meeting of the Conference of the Parties (COP 15) to the United Nations Convention on Biological Diversity (CBD). It set out an ambitious pathway to halt and reverse the global erosion of biodiversity beginning with nature by 2030. Among the Framework's key elements are 4 goals for 2050 and 23 targets for 2030.[2]

**Materiality**
Is the quality of 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.[3]

**Natural Capital**
The world's stocks of natural assets which include geology, soil, air and living things.[4]

**Net Zero Banking Alliance (NZBA)**
Is a collaborative framework for banks to achieve a portfolio of lending and investing activities consistent with achieving the net zero by 2050 greenhouse gas emissions by 2050.[5]

**Paris Agreement**
Is a treaty of 2015. Parties to the United Nations Framework Convention on Climate Change (see definition below) reaffirm an agreement to combat climate change and to accelerate and intensify the actions and investments needed for a sustainable low carbon future in order to achieve the ultimate aim of the UNFCCC, to stabilize greenhouse emissions by 60% by 2050 compared to levels in the 1990s, and becoming carbon neutral by 2050.[6]

**Platform on Sustainable Finance**
The Platform on sustainable Finance is an advisory body to the European Commission on sustainable finance. The platform is composed of 57 members and 71 observers. The platform consists of 57 members and 71 observers of with expertise in sustainability but from different sectors.[7]

**Principal adverse impact (PAI)**
A PAI is any impact of investment decisions or advice that results in a negative effect on sustainability factors, relating to environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.[8] PAI statements are a key reporting requirement under the Sustainable Finance Disclosure Regulation.[9]

**Portfolio decarbonization**
Portfolio decarbonization can be achieved by withdrawing capital from particularly carbon-intensive companies, products and technologies and by investing in capital carbon intensively carbon efficient assets.[10]

**Principle of Materiality**
Is a principle that includes the framework for assessing and disclosing the climate alignment of ship finance portfolios and mitigating climate considerations in lending decisions to promote international shipping decarbonization.[11]

**Principles for Responsible Investment (PRI)**
These are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.[12]

**Responsible investing**
A strategy and practice to incorporate ESG factors in investment decisions and active ownership.[13]

[1] https://www.fao.org/terms/en/terms/page/1?keywords=blue+finance
[2] https://www.epa.gov/glossary/
[3] https://www.ecgi.global/sites/default/files/codes/documents/corporate-sustainability-reporting-directive-proposal.pdf#:~:text=
[4] https://www.epa.gov/climatechange/glossary.html
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**In alphabetical order**

A-Z
D-I-R
S-Z

**SASB Materiality Map®**
The SASB Materiality Map® is a framework that identifies sustainability issues that are most likely to impact the financial performance of companies in 77 industries. It provides sectors an industry and company level begin about differential materiality and sectors.[1]

**Screening**
This refers to the process of applying filters to lists of potential investments, ruling businesses/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 or activities based on ESG performance relative to industry peers or specific ESG criteria.[2]

**Social bonds**
Social bonds are any type of bond instruments and/or contingent facilities such as banking loans guarantee have a wide range of credit-trade 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 GLP.[3]

**Social Loan Principles (SLP)**
The SLP are a set of voluntary market standards and guidelines, published by the LSTA, LMA and the APLMA and the ICMA, providing a consistent methodology for use across the social loan market. The four core components of the SLP are (1) Use of Proceeds, (2) Process for Project Evaluation and Selection, (3) Management of Proceeds and (4) Reporting.[4]

**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.[5]

**SPTs**
Sustainability-Performance Targets, as referred to within the Sustainability-Linked Loan Principles.[6]

**Stewardship**
This term refers to the use of influence by institutional investors to maximise overall long-term returns, including the value of their investments, social and environmental assets, on which returns and client and beneficiary interests depend.[7]

**Stranded assets**
Stranded assets are now generally accepted to be fossil fuel supply and generation assets, which, at some time prior to the end of their economic life, are assessed as being no longer economically viable, yet no longer able to earn an economic return (i.e. have stranded). Stranded assets can also be at a result of changes associated with the transition to a low carbon economy.[8]

**Sustainability coordinator**
See the LSMA's "Introduction to the sustainability coordination role" for more information.[9]

**Sustainability-linked loan (SLL)**
SLLs are any types of loan instruments and/or contingent facilities (such as banking facilities and credit lines) that are made available to support borrower's sustainability or ESG objectives on prospective basis and which promote improvements in their predetermined sustainability performance objectives and should be aligned to the SLP defined below.

**Sustainability-Linked Loan Principles (SLLP)**
The SLLP are voluntary market standards and guidelines providing a framework within the broader lending market to facilitate the loan syndication process. The Sustainability-Linked Loan Principles (SLLP) provide a high-level framework, enabling all market participants to clearly understand the process and the expectations for a Sustainability-Linked Loan (SLL) and to support flexible in light of the development and growth of sustainability linked loans.[10]

**Sustainable finance**
There is currently no single, agreed definition of what constitutes sustainable finance in the market. The EBA has defined sustainable finance as incorporating environmental, social and governance factors into financial decision-making to improve the long-term economic sustainability of the organisations that are being funded, as well as the risk and yield of the overall portfolio of financial capital in which they operate. This definition draws on the G20 and EU definitions of sustainable finance.[11]

**Sustainable Finance Disclosures Regulation (SFDR)**
The main purpose of the SFDR framework is to enable investors and consumers to understand the sustainability risks and impacts of the financial products they consider investing in or purchasing. The SFDR also aims to prevent greenwashing and to support sound governance (ESG) metrics and broad-scope product.[12]

**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, banks, and investors in providing decision-useful information. The TCFD's work has been endorsed by the participants of the G20 and the Paris Agreement.[13]

**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.[14]

**Thermal mapping**
An approach which focuses on ESG trends rather than specific companies or sectors, enabling investors to access broader data that can emerge on a sector level.[15]

**The United Nations Environment Programme Finance Initiative (UNEP FI)**
UNEP FI is a partnership between the United Nations Environment Programme and the global finance sector to mobilize private sector finance for sustainable development. UNEP FI works with over 200 banks, insurers and investors that work with the UN to understand how sustainability impacts and influences financial markets and how to manage risk and spread wider benefits, promoting positive impacts. UNEP FI aims to inspire, inform and enable financial institutions to improve their practices to sustainability, underpinned by the global commitments, for leveraging the UN's role, UNEP's expertise and the financial sector. The UNEP FI was founded in 1992 in the wake of the Rio Earth Summit.[16]

**The Taskforce on Nature-related Financial Disclosures (TNFD)**
TNFD has developed a set of disclosure recommendations and guidance for businesses and financial institutions to assess, address, manage, and disclose nature-related risks and opportunities.[17]

**The Transition Plan Taskforce (TPT)**
The TPT was announced at COP26 in Glasgow and launched in April 2022 to establish the gold standard for transition plans. The TPT has engaged globally with financial institutions, non-financial companies, policymakers, regulators, investors and civil society to develop a framework.[18]

**UN Sustainable Development Goals (SDGs)**
The 17 SDGs were set in 2015 by the 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 we face, including those related to poverty, inequality, climate change, environmental degradation, peace and justice. The SDGs are intended to be achieved by 2030.[19]

**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.[20]

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[2] https://www.ecgi.global/sites/default/files/codes/documents/corporate-sustainability-reporting-directive-proposal.pdf#:~:text=
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Lord Malcolm Hamilton*
Senior Advisor, ESG Integration (ESGI)

Lucas Bergkamp LLB LLM
Senior Advisor, ESG Integration (ESGI) | Partnership Tax Law Specialist, Partner, Corporate Tax Law, Netherlands
Telephone: +44 (0)20 3880 6117 | Email: lucas@esgi.co.uk | Website: www.esgi.co.uk

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# Projects

The Green, Social and Sustainability-Linked Loan Principles create the foundations upon which this market can thrive and we continue to work to produce greater clarity, transparency and granularity around these Principles to drive forward sustainable lending liquidity.

**This quarter has seen the following activity:**

| Q2 Publications | WIP |
| --- | --- |
| Mandate Letter for SLL Sustainability Coordinator | Model Provisions for Use of Proceeds Transactions |
| Guidelines for Sustainability-Linked Loans Financing Bond | Transition Task Force |
| | Annual Review of the Green, Social and Sustainability-Linked Loan Principles |

**Regulatory Submissions**

| Q2 Publications | WIP |
| --- | --- |
| Transition Finance Market Review Call for Evidence, where we expressed the view that in order to meet climate goals, there is still a vital need to transition various hard-to-abate sectors and that transition finance will be essential to enable this transition to take place. | |

Resources

# Regulatory Submissions

## Q4 2023

European Commission's Targeted Consultation on the Sustainable Finance Disclosures Regulation (SFDR), where we stressed, among other things, the need for further clarity around certain key concepts under the SFDR as well as a need for greater interoperability across global reporting regimes

## Q1 2024

UK Financial Conduct Authority's consultation on its anti-greenwashing rule guidance, where we requested, among other things, clearer guidance on market best practice to ensure that market participants understand the correct processes to follow to avoid inadvertent greenwashing.

# ESRS enter into force

In December 2023, a first set of sector agnostic ESRS was published in the Official Journal of the EU. The ESRS are intended to apply to all companies falling under the scope of Corporate Sustainability Reporting Directive (CSRD) regardless of the sector that they apply to.

An LMA summary regulatory alert relating to this can be accessed here.

# European Financial Reporting Advisory Group (EFRAG) publishes ESRS Implementation Guidance (ESRS IG)

In December 2023, EFRAG released the first three draft ESRS Implementation Guidance (ESRS IG) documents to provide implementation support for organisations preparing their first statements according to ESRS. The following guidance has been made available:

- Draft EFRAG IG 1 - Materiality assessment implementation guidance: describes the reporting requirements on the materiality assessment and includes FAQs on the double materiality assessment and interoperability with other standards;
- Draft EFRAG IG 2 Value chain implementation guidance: describes the reporting requirements on the value chain within the materiality statement (setting out, relevant metrics and targets), considers the reporting boundary of the group for sustainability reporting and includes FAQs to provide further information and includes a 'value chain map' summarising certain value chain implications; and
- Draft EFRAG IG 3 Detailed ESRS datapoints implementation guidance: contains detailed ESRS data points as an excel spreadsheet along with an explanatory note. EFRAG indicates that IG 3 can be used to perform a data gap analysis.

The ESRS IG documents are non-authoritative and are intended to support ESRS. In the event of any inconsistency, the ESRS shall prevail.

# ESRS: Two year delay to sector-specific and general standards for non-EU companies

Earlier this year, European Parliament and Council negotiators agreed to a two-year delay with respect to the adoption of sector-specific sustainability reporting standards and those for non-EU companies. The delay is aimed at reducing the administrative burden on companies whilst also allowing European Financial Reporting Advisory Group (EFRAG) additional time to develop the relevant European Sustainability Reporting Standards (ESRS).

The two-year delay for these specific standards affects the extent of reporting for relevant companies but does not affect the existing staggered reporting timelines under Corporate Sustainability Reporting Directive (CSRD). Companies are still required to report on time against the sector-agnostic ESRS (see above).

Sector-specific reporting by companies is considered an important source of information for investors, particularly in the context of "high-risk" sectors such as oil, gas, and mining. The EC will therefore publish sector-specific sustainability reporting standards in eight areas as soon as they are available and before the deadline of June 2026. It is unclear at present which eight sectors the EC will prioritise.

The agreement on the delay needs to be formally adopted by the Council and the European Parliament before it can enter into force (see EU press release).

# CSRD and ESRS: Background

On 5 January 2023, the Corporate Sustainability Reporting Directive (**CSRD**) entered into force and from 1 January 2024, CSRD and the European Sustainability Reporting Standards (**ESRS**) will apply to the first group of companies (large EU listed companies, public interest entities and groups as well as large non-EU issuers and groups) for reports published in 2025.

The European Financial Reporting Advisory Group (**EFRAG**) is developing the ESRS, the reporting standards which set out the information that companies will need to disclose and report on in accordance with CSRD. Below, we summarise the most significant developments relating to CSRD and ESRS.

# GRI publishes updated Biodiversity Standard

GRI 101 is intended to reflect internationally agreed best practice and also align with new developments to ESG standards and law and regulation including international goals such as the Kunming-Montreal Global Biodiversity Framework, the Taskforce on Nature-related Financial Disclosures disclosure and ESRS E4 Biodiversity and ecosystems.

# Key updates include

### IFRS Sustainability Disclosure Standards

- the Government is aiming to make ISSB-endorsed reporting standards (UK SRS) available in Q1 2025 following assessment of IFRS S1 and S2 by the UK Technical Advisory Committee
- following positive endorsement and a consultation process, the FCA can use the UK SRS to introduce sustainability-related reporting requirements for regulated UK-listed firms
- a decision regarding future requirements is expected in Q2 2025 at which point, the Government will also consider exemptions from pre-existing requirements under the Companies Act 2006. Any changes would be effective no earlier than accounting periods beginning or after 1 January 2026.

### Transition Plan Disclosures

Given the overlap between IFRS 2 and the TPT Disclosure Framework, the FCA will consult in 2025 on enhancing its expectations on transition plan disclosures with reference to the TPT Disclosure Framework. The Government will also consult in Q2 2024 on how the UK's largest companies ought to disclose their transition plans.

### SDR and investment labels

The Government has announced its intention to issue a consultation in Q3 2024 on whether to extend the scope of SDR to include funds under the Overseas Funds Regime (OFR). On 1 May 2024, HM Treasury and the FCA jointly published a roadmap for the implementation of OFR.

### Green Taxonomy

The UK Government will continue to develop the proposed UK Green Taxonomy and will consult on its design in due course. The consultation will seek feedback on the overarching framework and once finalised, there will be a testing period for voluntary disclosures and use for at least two reporting years before exploring mandating disclosures. A decision as to whether to introduce mandatory disclosures against the Taxonomy has not yet been taken and is reserved until such a time that the consultation is complete.

# Key Documents

Report

Key Takeaways

Synopsis and User-guide

# Supplementary Materials

Supplementary Materials 1

Supplementary Materials 2

Dependencies Analysis

# Background: Sustainability Disclosure Requirements (SDR) and investment labels (PS23/16)

The SDR and investment labels regime (PS23/16) were published by the FCA on 28 November 2023 and comprise of a package of measures to assist consumers to navigate the market for sustainable investment products. As part of these package of measures, the FCA introduced an anti-greenwashing rule, naming and marketing rules for investment, four labels to assist consumers in understanding differences between investment products and detailed information in the form of pre-contractual, on-going product level and entity-level disclosures.

The SDR applies on a staggered basis: the anti-greenwashing rule took effect from 31 May 2024 and managers of UK-based investment funds have been able to use the investment labels since 31 July 2024.