

# Sustainability Linked Loans (SLLs)

A cost efficient way to make sustainable change



## What are Sustainability Linked Loans?

Sustainability Linked Loans are made available to:

- ◆ Support the achievement of the borrower's **environmental and social objectives**.
- ◆ Link the borrower's cost of capital to Environmental, Social and Corporate Governance (ESG)/sustainability metrics.

SLLs are similar to normal corporate loans, but are intended to follow the **Sustainability Linked Loan Principles** (SLLPs), which are voluntary recommended guidelines issued by the Loan Market Association (LMA) and other global industry bodies (LSTA, APLMA), to be applied on a deal-by-deal basis.

SLLs incentivize borrowers to achieve ambitious, pre-determined **sustainability performance targets** (SPTs) through pricing incentives.

**The borrower's sustainability performance is measured using SPTs**, which include key performance indicators, external ratings and/or equivalent metrics and which measure improvements in the borrower's sustainability profile.

In order to assess progress towards your SPT, you will need to either **engage a third party to support** or leverage an existing auditor and ideally demonstrate this through public annual reports.

## Why use Sustainability Linked Loans



**Reputation:** Gain positive reputation and brand value around ESG.



**Shareholders:** Demonstrate commitment to sustainability by integrating metrics within your financial activities.



**Cost:** SLLs offer the potential to reduce the cost of borrowing if the targets are met. Although it should be noted that poor performance can lead to increased costs.



**Growth:** Facilitate the goal of integrating sustainability into your business strategy, products and services to enable long-term growth.

## What are the key benefits?

- 1 **Familiarity:** It has a vanilla underlying loan structure.
- 2 **Flexibility:** It can be a bilateral or syndicated loan, depending on your needs and the agreement of relevant parties.

## How do Sustainability Linked Loans work?

The SLLPs set out a framework, enabling borrowers and lenders to clearly understand the characteristics of a sustainability linked loan, based around the following four core components:

Component	Description	Steps for Borrowers
1 Relationship to borrower's overall ESG strategy	Borrower should clearly communicate to its lenders its sustainability objectives, and how these align with its proposed SPTs.	Consider how sustainability objectives align with proposed SPTs.
2 Target setting – measuring the sustainability of the borrower	<ul style="list-style-type: none"> <li>◆ SPTs should be ambitious and meaningful and tied to a sustainability improvement in relation to a predetermined performance target benchmark.</li> <li>◆ Data for the benchmark should be based upon recent performance but must be meaningful over the life of the loan.</li> </ul>	Get a third party opinion to verify that chosen methodology is appropriate for the business model; or demonstrate internal expertise.
3 Reporting	<ul style="list-style-type: none"> <li>◆ Borrower should maintain and make readily available up-to-date information relating to their SPTs.</li> <li>◆ Where possible borrower should be encouraged to publically report information relating to their SPTs.</li> </ul>	Report on SPTs at least once a year, e.g. in Annual Report/ESG Report and/or directly to lender.
4 Review	<ul style="list-style-type: none"> <li>◆ Independent verification should be obtained at least once per annum.</li> </ul>	Obtain an external review of sustainability performance – by auditors, environmental consultants or ratings agencies.

## What are the common SPTs?



Renewable energy



Affordable housing



Greenhouse gas emissions



Circular economy



Water consumption



Sustainable sourcing



Energy efficiency



Biodiversity



ESG rating

## How to find out more:

Please contact your HSBC Relationship Manager to find out more about the opportunities for Sustainability Linked Loans to support your business needs or visit [business.hsbc.ca/sustainability](https://business.hsbc.ca/sustainability)

You can also see a detailed definition on Sustainability Linked Loan Principles here: [https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability\\_Linked\\_Loan\\_Principles\\_V032.pdf](https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability_Linked_Loan_Principles_V032.pdf)

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