EVERSHEDS SUTHERLAND

Shining a light on green loans and sustainability linked loans

Overview of the key features

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Part 1 - Green Loans - Overview of the key features

Notwithstanding that pandemic loans and supports have dominated the loan market so far in 2020, green and sustainability linked loans have increased in importance and are likely to continue to do so over the coming years. As green loans and sustainable finance evolve and increase in popularity, Eversheds Sutherland has prepared a practical overview of these innovative products.

In this the first of our two part briefing, we examine the '*Green Loan Principles*' and the accompanying '*Guidance on the Green Loan Principles*' as published by the Loan Market Association and highlight some of the key aspects and qualifying criteria. In Part 2 of our briefing we will look at the Loan Market Association's equivalent principles and guidance with respect to Sustainability Linked Loans.

Green Loans	
What is a green loan?	A green loan is any type of loan instrument made available exclusively to finance or refinance a new or existing "green project".
Is there consistency in the market's approach to documenting green loans?	Although voluntary in nature and intended as a starting point in negotiations, the Green Loan Principles have by and large provided the template against which many lenders have documented their green loans.

What are the core components of a green loan?	To satisfy the Green Loan Principles, green loans must comply with the following four components:
	1. **Use of Proceeds**: The Green Loan Principles set out a non-exhaustive list of 10 categories of green projects including renewable energy, energy efficiency and pollution prevention and control. A key component of a green loan is the utilisation of the loan for a "green project". Eligible green projects include: a. renewable energy; b. clean transportation; c. energy efficiency; d. sustainable water and wastewater management; e. pollution prevention and control; f. climate change adaptation; g. environmentally sustainable management of living natural resources and land use; h. eco-efficient and/or circular economy adapted products, production technologies and processes; i. terrestrial and aquatic biodiversity conservation; and j. green buildings.
	2. **Process for Project Evaluation of Selection**: A green project should be consistent with the sustainability strategy of a borrower and a lender's lending criteria and policies. A borrower should clearly communicate to its lender: a. its environmental sustainability objectives; b. how the borrower determines that its project is a "green project"; and c. the related eligibility criteria.
	3. **Management of Proceeds**: The proceeds of a green loan should be credited to a dedicated account or tracked by a borrower in an appropriate manner.
	4. **Reporting**: A borrower should maintain records of the use of proceeds, including: a. a list of the "green projects" to which the proceeds have been allocated and the basis on which they have been designated as a "green project"; b. a brief description of the green project; c. the amount allocated; and d. the expected environmental impact. An external review of the above information is recommended but not required.

Should any additional representations and warranties be included in the facility agreement?	A borrower should be under an obligation to represent the accuracy of any reporting.
Should any additional information undertakings/covenants be included in the facility agreement?	Information undertakings/covenants relevant to the "green project" should be clearly identifiable in the facility agreement.
Should any additional events of default be included in the facility agreement?	A borrower and a lender should consider whether or not a failure to apply the proceeds of a green loan towards a "green project" will trigger an event of default under a facility agreement.
What is the key difference between a green loan and a sustainability linked loan?	The key difference between a green loan and a sustainability linked loan is the use of proceeds. Sustainability linked loans can be used for general corporate purposes whilst the proceeds of a green loan must be used for a specific "green project". The Loan Market Association has published the '*Sustainability Linked Loan Principles'* and '*Guidance on the Sustainability Linked Loan Principles*' which we will focus on in Part 2 - Sustainability Linked Loans – Overview of the key features.

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