LSTA Issues Additional Guidance for Social Loans and External Reviews

By Deborah P. Low | March 4, 2022

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Over the course of the last several years, interest in Environmental, Social and Governance ("***ESG***") financing has skyrocketed, leading to the growth of several financial products focused on this market, including the sustainability-linked loan ("***SLL***"), which incorporates pricing reductions upon the borrower meeting key sustainability performance targets in its operations, green loans ("***Green Loans***"), which require loan proceeds to be utilized for a specific green purpose and social loans ("***Social Loans***"), which require loan proceeds to be utilized for a specific social purpose.

Following the rise in interest in ESG financing, the Loan Syndications and Trading Association ("***LSTA***") developed guidelines for lenders to utilize in offering SLLs, Green Loans and Social Loans. Known as the Sustainability-Linked Loan Principles, the Green Loan Principles and the Social Loan Principles, respectively (collectively, the "***Principles***") the Principles identify key elements of SLLs, Green Loans and Social Loans and provide a framework to better define the recommended or required components. One such component is the engagement of an independent, external reviewer to review and verify the ESG compliance of the SLL, the Green Loan or the Social Loan, rather than relying solely on the information, representations and certifications provided by the borrower. Though the Green Loan Principles and Social Loan Principles recommend obtaining external reviews and the Sustainability-Linked Loan Principles include external review as a required element of an SLL, there remain inconsistent approaches in the market in terms of when external reviews should be utilized and the frequency, scope and content required. To provide further clarification, on March 3, 2022, the LSTA issued Guidance for Green, Social, and Sustainability-Linked Loans External Reviews (the "***Verification Guidance***") as a complement to the verification components set forth in the Principles.

At the same time, the LSTA also issued its Guidance on Social Loan Principles (the "***SL Guidance***"), for the purpose of providing further information and clarification on the Social Loan Principles and the application and use of Social Loans in the debt markets.

This alert provides a high-level summary of the additional guidance issued by the LSTA and the implications that it may have on ESG debt products.

Read the full article here.

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