

Talking points from the Environmental Finance Green Bonds Asia Forum

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David Nelson and Kate Hodson recently attended the second annual Green Bonds Asia conference in Hong Kong. Here David reviews the key talking points from the forum.

The panel on sustainable loans was a fascinating discussion on the current market and upcoming developments for green loans and sustainability linked loans, primarily in Asia but also in Europe and North America.

Green loans (**GLs**) require the loan proceeds to be used for one or more specified green projects. In contrast, sustainability linked loans (**SLLs**) provide the borrower with flexibility as to use of proceeds but with a margin reduction, where the borrower meets certain specified environmental or sustainability criteria. It was noted that, to date, the criteria in SLLs have tended to focus on environmental considerations.

It was encouraging to hear that, whilst Europe still comprises over 70 per cent. of the global market for such loans, Asia-Pacific continues to grow and has been the second biggest market in 2019 to date, accounting for 16% (by value) of GLs and SLLs globally.

Further good news from the panel is that the total value of loans made in this space has increased in all three regions over the last 12 months and borrowers making use of them are from an increasingly diverse cross section of industries. Especially in Europe and North America, this growth has been led by SLLs, which open up the market to borrowers who do not have a readily identifiable green asset, but are keen to raise financing in a ESG-conscious way. In Asia-Pacific, the panel noted the market for 2019 so far has been more evenly split, with SLLs taking a 46 per cent. market share.

The Sustainability-Linked Loan Principles that were published by the Loan Market Association and Asia Pacific Loan Market Association (together the **LMA**) and the Loan Syndications & Trading Association (the **LSTA**) together in March this year are expected to support continued growth in SLL numbers. The LMA and LSTA published its green loan principles back in March 2018.

The panel noted that the growth has been client driven, with green strategy becoming increasingly core to the overall strategy of many corporate borrowers.

The guidance currently being prepared by the LMA and LSTA, including a set of 'frequently asked questions', is hoped to further encourage interest in GLs and SLLs.

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