Highlights of 2024 (1/2)

- **CSRD Directive**

One of the extended claims in relation to the various aspects of sustainability performance of the corporates has always been the standardization of the info, methodologies, reports.

With the gradual transposition of the Corporate Sustainability Reporting Directive (CSRD) into the national legal systems of the various Member States, the CSRD will kick-in. In the case of Spain, its transposition into Spanish law did not take place in 2024 and is likely to occur in 2025. With CSRD, numerous companies above a certain size will have to report on many metrics on a more standardized basis. Organizations should be transparent about how they tackle on different ESG aspects, and this extends to both the range of indicators that companies need to report on, and the depth of information required over the entire value chain. This would definitely require additional quality controls on the data points and an independent third-party assurance.

As part of our continuous dialogue with companies for the mobilization of sustainability-linked financial instruments, we are finding a general concern on how the KPIs included in the financings could be potentially impacted by the new reporting rules.

Having said that, it would be reasonable to expect the banking community to adopt a constructive approach to the eventual need to reconfigure the indicator or its targeted values, following LMA principles, as we all agree on the benefits of seeking a more robust sustainability reporting ecosystem.

- **Anti-Greenwashing regulations on the horizon**

Contributing to the ongoing development of regulations, evolving standards, and recommendations within the sustainability space, the UK's FCA introduced its anti-greenwashing rule, effective as of 31st May 2024. This follows a similar EU directive on empowering consumers passed earlier in the year, while Canada is also in the process of passing new regulations on the matter.

FCA's anti-greenwashing rule~~s~~ requires firms to ensure that any reference to the sustainability characteristics of a product or service is consistent, fair, clear and not misleading. Similarly, the UE directive on empowering consumers introduces specific rules to tackle unfair commercial practices leading to greenwashing and social washing.

- **Sustainability-linked loan market**

Labeling sustainability-linked financing granted to high emission companies and sectors has certainly become more scrutinized, raising concerns over the materiality of the KPIs and the ambition of the SPTs.

To mitigate potential greenwashing accusations, lenders often prefer to get second party opinions to assess the whole sustainability mechanism and the alignment of the financing with market standards such as LMA, making sure that KPIs are material and SPTs ambitious. On top of that, it is not uncommon that sustainability coordinators and underwriters seek comfort by including relevant legal disclaimers.

As the Sustainability-Linked Loan market matures, we are also witnessing an increase in deals underperforming against their SPTs, reflecting the growing challenge of meeting more ambitious sustainability targets.

Highlights of 2024 (2/2)

- **ICMA's new guidelines on Green, Social and Sustainability-linked Bonds Principles**

  By the end of June 2024, ICMA released new materials and further guidelines to support the referred Bond Principles. The new developments would create both a new financing opportunity in the debt capital markets while also aiming to support the integrity of sustainability-linked financing. The novelties refer essentially to 3 differentiated areas:

  i. Guidance for Green Enabling Projects: a great number of green enabling projects, vital to the value chain of green projects, are not themselves explicitly considered green but remain critical to these eligible green projects. A Green Enabling Project must meet specific criteria (including being a crucial part of a Green Project's value chain without causing carbon lock-in) and adhere to certain transparency necessities in order to be effectively considered as linked with environmental benefits;

  ii. Guidelines for Sustainability-Linked Loans financing Bonds (SLLBs): These guidelines have been developed in collaboration with the Loan Market Association (LMA) and aim to improve the transparency and credibility of the SLLB market. They define a dedicated bond instrument designed for issuers wishing to finance or refinance a portfolio of eligible sustainability-linked loans (SLLs) aligned with the LMA's Sustainability-Linked Loan Principles (SLLP). SLLBs should serve as a driver to enhance the robustness of sustainability-linked loan structures in the market over the longer-term; and

  iii. The Principles have also released further roadmaps on the following topics:

     - An update of the Sustainability-Linked Bond Principles with clarifications to support KPI selection and a new SLB disclosure data checklist.
     - An expansion of the SLB KPIs Registry related to environmental themes (biodiversity, circular economy/raw materials and water) as well as additional KPIs for sovereign issuers.
     - A new annex of the Impact Reporting Handbook covering potential environmental and/or social risks associated with eligible project categories for green bonds.