

Comparing sustainable debt products and standards

Refers to standards as published on 1 February 2021.

Standard	Green Bond Principles (GBP)	Green Loan Principles (GLP)	Sustainability-Linked Bond Principles (SBLP)	Sustainability-Linked Loan Principles (SLLP)	Poseidon Principles (PP)	Responsible Ship Recycling Principles (RSRS)	Equator Principles (EPs)
Aim	Create voluntary guidelines on the key components involved in launching a credible “green bond”.	Create voluntary guidelines to ensure consistency in which loans can be recognized as “green.”	Create voluntary guidelines to ensure consistency in which bonds facilitate and support environmentally and socially sustainable activity and growth.	Create voluntary guidelines to ensure consistency in which loans facilitate and support environmentally and socially sustainable activity and growth.	Create a voluntary framework for assessing and disclosing climate alignment of the shipping portfolios of financial institutions which are signatories (Signatories) to the PPs.	To promote voluntary principles for shipping finance banks to address the social and environmental risks involved in ship recycling.	Create a common framework for financial institutions which are signatories (EPFIs) to identify, assess and manage environmental and social risks when financing projects.
Sector	Not restricted to any specific sector	Not restricted to any specific sector	Not restricted to any specific sector	Not restricted to any specific sector	Shipping	Shipping	Any project, i.e. a development (in any sector) at an identified location or locations.
Description	Four stage set of criteria applied to “green bonds”, where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible “Green Projects”.	Four stage set of criteria applied to loan instruments made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible “Green Projects”.	Five stage set of criteria applied to bond instruments which incentivise the issuer’s achievement of material environmental, social and/or governance key performance indicators (KPIs). For each KPI, one or more sustainability performance targets (SPTs) are set.	Four stage set of criteria applied to loan instruments and/or contingent facilities which incentivise the borrower’s achievement of ambitious, sustainability performance targets (SPTs).	Principles under which Signatories gather information on the carbon intensity of vessels in their portfolios and to try to integrate climate considerations into lending decisions.	Principles which endorse banks to include requirements in their loan documentation to try to ensure that they are not involved with financing unsustainable ship recycling.	10 Principles which EPFIs commit to implementing through internal environmental and social policies, procedures and standards for financing projects..
Purpose/ Restrictions on use of proceeds	Proceeds must be used for “Green Projects” that provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer. A non-exhaustive list includes: <ul style="list-style-type: none"> energy efficiency, pollution prevention and control, clean transportation, climate change adaption and renewable energy. 	Proceeds must be used for “Green Projects” that provide clear environmental benefits, which will be assessed, and where feasible, quantified, measured and reported by the borrower. A non-exhaustive list includes: <ul style="list-style-type: none"> energy efficiency, pollution prevention and control, clean transportation, climate change adaption and renewable energy. 	No required use of proceeds specified. KPIs are instead linked to issuer’s wider sustainability / ESG objectives.	No required use of proceeds specified. Targets are instead linked to borrower’s wider sustainability / ESG strategy.	No required use of proceeds specified.	No required use of proceeds specified.	Not explicit but in practice proceeds will be used for project-related purposes. EPs are applicable to project finance, and project-related corporate loans, refinance and acquisition finance, as well as bridge loans and project finance advisory services, if the requisite criteria and financial thresholds are met. Also applicable to project upgrades or expansion.
Structuring/ selection requirements	Issuer to clearly communicate to investors: <ul style="list-style-type: none"> its environmental sustainability objectives; process and criteria (including exclusion criteria) by which its projects have been determined eligible as green projects, and how it will identify and manage potentially material any associated environmental and social risks. 	Borrower to clearly communicate to its lenders: <ul style="list-style-type: none"> its environmental sustainability objectives, process and criteria (including exclusion criteria) by which its projects have been determined eligible as green projects, and how it will identify and manage any associated material environmental risks. 	The issuer’s sustainability performance measured against KPIs that can be external or internal. The process for calibration of one or more SPT(s) per KPI is key to the structuring of SLBs as these allow measurement of progress towards achieving the KPIs. Recommended that issuers appoint external review provider(s) to confirm alignment with five core components of the SLBP (such as a Second Party Opinion).	SPTs to be set by lenders against borrower’s recent performance, possibly with assistance of “Sustainability Structuring Agent”. Borrowers may be encouraged to seek a third party opinion re their SPTs as a condition precedent to the loan. Where no third-party opinion is sought, borrower should have the internal expertise to verify its methodologies.	The Secretariat of the PPs sets decarbonisation trajectories for different types of vessels which align with the International Maritime Organisation’s GHG emissions reduction targets. The Signatories then compare the actual carbon intensity of their portfolio against the model decarbonisation trajectory.	The RSRS suggest a number of provisions to be included in documentations: <ul style="list-style-type: none"> covenants requiring all new/existing vessels to have an inventory of hazardous materials (IHM) a covenant that ship recycling will take place responsibly. There are options for this requirement to apply fleet-wide, rather than just in relation to the financed vessel. 	Projects are categorised based on the magnitude of potential environmental and social risks and impacts. EPs requirements are scaled to the risks identified. Project categories are: Category A – Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented; Category B – Projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; Category C – Projects with minimal or no adverse environmental and social risks and/or impacts.

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Management of proceeds	Net proceeds, or an amount equal to these net proceeds, should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner, and attested to by the issuer in a formal internal process linked to the issuer's lending and investment operations for Green Projects. The GBP recommend that an issuer's management of proceeds be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the Green Bond proceeds (see External Review section).	Proceeds should be credited to a dedicated account or otherwise tracked by the borrower in an appropriate manner, so as to maintain transparency and promote the integrity of the product. Where a green loan takes the form of one or more tranches of a loan facility, each green tranche(s) must be clearly designated credited to a separate account or tracked by the borrower in an appropriate manner. Borrowers are encouraged to establish an internal governance process to track the allocation of funds towards Green Projects.	None required, as the Principles are not based on a "use of proceeds" model.	None required, as the Principles are not based on a "use of proceeds" model.	None specified.	None specified.	None specified in EPs but in practice disbursements will be used to finance or refinance, or acquire the underlying project and project accounts structure likely to be required.
Ongoing Reporting	Use of proceeds information to be renewed annually until fully allocated and in the event of material developments. Where confidentiality or practicality requires, information can be presented in generic terms or on an aggregated portfolio basis. Impact reporting is encouraged.	Use of proceeds information (brief description and expected impact) to be renewed annually until fully drawn and in the event of material developments thereafter. Information need only be provided to participating lenders.	Reporting should be published regularly, at least annually, and in any case for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the bond's financial and/or structural characteristics.	Information relating to SPTs (such as any external ESG rating) should, where possible, be provided to lenders at least annually. Borrowers are encouraged to publicly report information relating to SPTs.	Signatories are required to report on the relative carbon intensity of their portfolios annually. To do this, they need to receive information about the vessels from their borrowers. The PPs have provided suggested covenants to include in loan agreements to facilitate the Signatories receiving the necessary information.	No reporting requirements, but the covenants requiring maintenance of IHM and responsible recycling are on-going.	Level of reporting depends on project categorisation. This may include environmental and social impact assessment, Independent Environmental and Social Consultant report, Human Rights risk and impacts assessment, climate change risks assessment, as well as ongoing monitoring and reporting.
Review / Verification	External review is recommended to confirm alignment of the bonds with the Green Bond Principles, but is not required.	External review is recommended "where appropriate" but not required.	Mandatory requirement to have independent and external verification of performance level against each SPT for each KPI by an external reviewer at least once a year, and in any case for any date/period relevant for assessing the SPT performance.	External review to be negotiated on transaction-by-transaction basis, but encouraged where SPT information is not made publicly available. For publicly traded companies, it may be sufficient for lenders to rely on the borrower's public disclosures.	The information about the vessels is required to be verified by an external organisation. The PPs express a preference for the calculations of the relative carbon intensity of the Signatories' portfolio to be carried out by the same external providers, however there is an option for Signatories to do this themselves.	Not required.	For category A and B projects, an independent review will be carried out by an Independent Environmental and Social Consultant of the assessment process to assist due diligence and determine compliance with the EPs. Independent monitoring and reporting is required for category A projects and may be required for category B projects.
Impact on pricing?	None prescribed.	None prescribed, but some lenders may offer a margin ratchet.	Yes, this is a key component of the product. The issuer's performance against pre-determined SPTs is rewarded by the bond characteristics, for example a coupon variation.	Yes, this is a key component of the product. The borrower's performance against pre-determined SPTs is rewarded by the loan terms, for example a reduction in margin.	None prescribed.	None prescribed.	None prescribed.
Consequences of breach	Bondholders may have to establish misrepresentation or rely on the market to help maintain issuer discipline.	The de-categorisation of the loan as a 'green loan' is typical, so the parties no longer represent the product as "green", and Guidance issued in May 2020 directs the parties to "give due consideration" whether an event of default should be triggered.	The Principles expressly contemplate a coupon variation when the issuer reaches (or not) a pre-determined SPT threshold. Variation may be one or two ways in practice.	The Principles expressly contemplate a margin reduction when the borrower satisfies a pre-determined SPT threshold and vice-versa. A one-way or two-way margin ratchet may be employed in practice.	If a borrower fails to provide information about the vessels which the Signatories require to carry out the necessary calculations, this will be a breach of the covenants included in the loan agreement, which could potentially give rise to an acceleration of the loan, but this would be very unlikely in practice. From a Signatory's perspective, if its portfolio does not meet the decarbonisation trajectory set by the PPs, there will not be any form of breach, but instead this failure will be publicly recorded/available on the PPs website.	Breach of the covenants included in the loan agreement by the borrower could potentially give rise to an acceleration of the loan, but this would be very unlikely in practice.	The EPFI will work with the client on remedial actions to bring the project back into compliance. If the client fails to re-establish compliance within an agreed grace period, the EPFI reserves the right to exercise remedies, including calling an event of default, as considered appropriate.

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