

Sustainability Linked Loan Assessment

Responsible investment and Green Finance have been growing rapidly in the global market. To cope with the trends, Hong Kong Quality Assurance Agency (HKQAA) has been providing assessment and rating services on listed companies' sustainability performance for the Hang Seng Corporate Sustainability Index Series since 2014. In keeping with the development of the national Green Finance policy and being supported by the Hong Kong SAR Government, HKQAA has also taken the lead to develop the Green Finance Certification Scheme to provide third-party conformity assessments for Green Finance issuers since 2016.

Foster Sustainable Finance Development in the Region

In order to promote a common understanding of sustainable finance in the industry, HKQAA has established communication and cooperation platforms in the region, such as organising the Green Finance Forum for the Belt and Road and the Greater Bay Area, publishing a research report on "Sustainable Financing in China's Greater Bay Area – Opportunities for Growth" and the book of "Green Finance in Hong Kong". We strive to foster the development of sustainable finance projects for the Belt and Road and the Greater Bay Area, and establish strategic partnerships with international and regional organisations to explore opportunities and promote sustainability in the region.



In line with Loan Market Trends to Launch Assessment Service

In recent years, sustainability has become one of the key forces driving organisations towards a prolonged success. The Loan Market Association, Asia Pacific Loan Market Association and the Loan Syndications and Trading Association jointly published Sustainability Linked Loan Principles ("SLLP") in 2019. Core components consist of the relationship to organisation's overall CSR strategy, target setting – measuring the sustainability of the organisation, reporting as well as review. The parties aim at facilitating and supporting environmentally and socially sustainable economic activity and growth¹.

By making use of the key elements of the **SLLP**, HKQAA, as an independent and qualified external reviewer, developed the **Sustainability Linked Loan Assessment** to evaluate and validate organisation's sustainability performance against predetermined sustainability performance targets (SPTs), which include key performance indicators and/or equivalent metrics.

Benefits:

- 👉 To incentivise organisation's achievement of predetermined sustainability performance objectives
- 👉 Demonstrate borrowers' effort in improving and promoting sustainability environments
- 👉 Enhance the credibility and stakeholder confidence on sustainability linked loans via independent, impartial third-party conformity assessments; and a genuine commitment to sustainable development are moving beyond simple 'green washing'
- 👉 The use of debt for improving the sustainability profile of the borrowers may result in secondary financial benefits such as lower operating costs
- 👉 Enable companies better communicate their sustainability strategy to relevant stakeholders

Types of Assessment:

Pre-issuance Stage Assessment	Post-issuance Stage Assessment
<ul style="list-style-type: none">• For borrowers seeking assessment before issuing sustainability linked loans• Requires validation of the relevance of SPTs and the adequacy of data collection methodology• A third party opinion report is issued	<ul style="list-style-type: none">• For borrowers seeking assessment after issuing sustainability linked loans• Requires verification of the continuous implementation and effectiveness of the predetermined SPTs/KPIs• A KPI verification statement is issued

Common Categories of SPTs¹:

- Energy efficiency
- Greenhouse gas emissions
- Renewable energy
- Water consumption
- Circular economy
- Sustainable farming and food
- Affordable housing
- Sustainable sourcing
- Biodiversity
- Global ESG assessment

Reference: ¹ Sustainability Linked Loan Principles, Loan Market Association

(https://www.lma.eu.com/application/files/8015/5307/4231/LMA_Sustainability_Linked_Loan_Principles.pdf)

"If there is any inconsistency or ambiguity between the English version and the Chinese version, the English version shall prevail.

英文本与中文本如有歧义或歧义，概以英文本为准。

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Hong Kong Quality Assurance Agency

HKQAA is a non-profit organisation established by Hong Kong Government in 1989. As one of the leading conformity assessment organisations in the Asia-Pacific region, HKQAA is committed to providing a wide range of certification and assessment services. Through knowledge sharing and technology transfer, HKQAA helps enterprises enhance management performance and competitiveness.

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