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# 2025 UPDATE TO THE GREEN AND SOCIAL LOAN PRINCIPLES

## 2025 updates to the Green and Social Loan Principles

On 26 March 2025, following their latest review, the loan market trade associations published updated versions of the Green, Social and Sustainability-Linked Loan Principles (together, the **Loan Principles**) and related guidance[1]. The changes are mostly clarificatory in nature (and more limited than in previous years[2]), but there are some noteworthy points and changes of emphasis for borrowers which use these products or may be considering doing so.

This Briefing considers some of the key changes made to the Green Loan Principles (**GLP**) and Social Loan Principles (**SLP**), and how they might impact current and future transactions. These include:

- **Clearer differentiation between mandatory requirements, recommendations and options**, reflecting feedback from External Review providers. In general, these changes (in terms of requirements that are now expressed clearly as mandatory) are reflective of current market practice, but will warrant attention from borrowers with new transactions in the pipeline and transactions coming up for refinancing.

- **Removal of grandfathering protection for pre-existing and "in flight" transactions:** The grandfathering language which appeared in previous versions of the GLP and SLP has been deleted. The practical significance of this may be quite limited, but whether the publication of the updated GLP/SLP has implications for transactions structured and originated in line with the previous versions will need to be considered on a case-by-case basis.

- **Adjustments to the Eligible Project categories:** These are largely points of detail, but the changes may be important for certain transactions. While the description of Eligible Green/Social Project categories is carefully described as indicative and high level, these categories are often the bedrock of lenders' green/social loan frameworks so the additions and deletions in these sections of both the GLP and SLP are likely to be the subject of close attention.

We have published a separate briefing on the changes to the Sustainability-Linked Loan Principles (**SLLP**), available here.

## 1. Clearer differentiation between mandatory requirements, recommendations and options

A new interpretation section clarifies that "shall" indicates a mandatory requirement and "should" indicates a recommendation. "May" and "can" denote suggestions. The language of the GLP and SLP has been reviewed and re-cast accordingly.

This change was in response to feedback from External Reviewers. While external review opinions on the alignment of green and social loans with the GLP/SLP are not mandatory, the more precise use of language should facilitate the reviewer's task of determining whether the transaction/use of proceeds is aligned with the relevant Loan Principles.

While in a number of places, "shall" replaces the previous "should", in the main this simply reflects requirements that in practice were considered mandatory in any event. The primary "shall" requirement is that the green or social project provides clear environmental/social benefits, which shall be assessed, and where feasible, quantified by the borrower, clearly a high level non-negotiable. The other "shall" requirements relate largely to reporting and information. For example, annual reporting to lenders on the use of proceeds (now elevated from "should" to "shall") has long been a standard requirement in practice.

"Should" requirements are, on the whole, recommendations that will be considered carefully in practice but may be deviated from where there are good reasons why compliance is not possible or practical. To take a couple of examples from the GLP: "*where local taxonomies for green assets exist, borrowers should consider appropriate alignment of Green Projects to the*

[1] All of the updated material is available on the LMA's Sustainable Lending microsite. Revision marked versions showing the differences between the previous and most recent versions are available. Please contact one of lawyers listed at end of briefing if you would like copies.

[2] The Loan Principles were last revised in February 2023. Please refer to our Briefing for further details.

*respective local taxonomy and identify the same to the lender group*" and "*where funds are to be used, in whole or part, for refinancing, borrowers should provide an estimate of the share of financing versus refinancing*".

## 2. Removal of grandfathering provisions

As part of the 2023 update, grandfathering language was added to each set of Loan Principles, to the effect that transactions completed prior to 9 March 2023 were exempt from following the updated Loan Principles. The intention was to clarify that for existing transactions and transactions which were "in flight" as the updated Loan Principles were published, alignment with the version of the relevant Loan Principles in force when the transaction was originated/completed was sufficient for the purposes of the relevant label.

In the latest version of each set of Loan Principles, this grandfathering protection has been removed.

In theory, the removal of the grandfathering language means that "in flight" transactions (i.e. green and/or social loans that are being negotiated/finalised but have not yet been completed) may need to be reviewed to ensure alignment with the latest GLP/SLP. The nature of the changes made to the GLP and SLP in this 2025 update may mean that any such review has limited practical impacts on transaction structures and terms. However, it is conceivable that assurances and banks' internal assessments regarding alignment with the pre-existing GLP/SLP delivered shortly before publication of the updated GLP/SLP may need to be reissued and/or re-checked to ensure they can be adjusted to confirm alignment with the latest update.

The implications of the removal of the grandfathering language for existing transactions (if any) is likely to depend on the terms of the loan in question. Sustainability-linked loans (**SLLs**) may contain a "rendezvous" or "sustainability amendment" provision that may (depending on what has been negotiated) enable the terms of the loan to be reopened if the SLLP are updated and/or the lenders believe the loan is no longer aligned with the SLLP. Such provisions are not common in green/social loans, but some will contain provisions which may be linked to alignment with the GLP/SLP or capable of trigger as a result of changes to the same. For example, the LMA's Draft Provisions for Green Loans include (as optional drafting) a declassification trigger if the Green Loan ceases to be aligned with the GLP (with the version of the GLP specified to be those that apply as at the date of the agreement)[3].

## 3. Eligible Green Projects

The GLP contain a list of eligible Green Project categories, which has been refreshed and refined with each iteration of the GLP. The project categories are described as "broad categories of eligibility" which are "*indicative only*" and "*high level*", capturing "*common types of project supported or expected to be supported by the green loan market*". Close observers will note that in this most recent update, the words "non-exhaustive" have been removed from this description of the project categories. Whether this has any significance in practice is debatable; the list of categories is still preceded by the words "*may include, but are not limited to*".

In practical terms, reaching a conclusion on alignment with the GLP for any type of project that is not clearly subsumed in these categories has always involved careful thinking and debate, and the possibility of different lenders taking different views. If particular lenders have concluded that particular project or investment types are green, it follows that they might find it comforting to see that type of project or investment mentioned specifically on the list at the appropriate level. Accordingly, most of the changes to the eligible project categories are additional, and providing more colour on what is included in a particular category in this way is likely to be viewed as helpful. Examples of this include the addition of a reference to water pollution reduction in the "pollution prevention and control" category and the various new examples of what might fall under the "climate change and adaptation" heading.

The updated categories and examples also reflect how the GLP are now more up-to-date than the categories used in the ICMA Green Bond Principles, which have not been updated since June 2021. For example, the previous reference to carbon extraction as an example of projects falling under the "green technologies" heading has been adjusted to refer (more accurately) to carbon capture and green H2 is now mentioned specifically.

An important clarification has been added to this section of the GLP with regard to the role of taxonomies in determining the eligibility of projects for green lending. While taxonomies have always been referenced as a source of guidance as to what may be considered "green", an ongoing challenge for internationally active lenders (and borrowers) lies in the different taxonomies in place or in development in different parts of the world. The GLP now specifically acknowledge that where local taxonomies for green assets exist, borrowers should consider appropriate alignment of their green projects with those taxonomies. This does not mean that green projects must be taxonomy aligned - but rather a note that the taxonomy in the country/region of the project is the relevant source to refer to.

A final point to note on the use of proceeds in both the GLP and the SLP is that the meaning of supporting expenditure has been clarified to underline that such expenditure financed with a green/social loan qualifies to the extent it contributes to the development or implementation of green/social projects and activities. It has also been clarified that such supporting expenditure includes both capital and operating expenditure. The

[3] Our Briefing on the LMA's Draft Provisions for Green Loans, published in November 2024 is available here.

financing of green opex continues to be one of the more challenging areas to analyse, although there are examples of multilateral lenders providing green loans to fund R&D.

## 4. Eligible Social Projects

A number of changes have similarly been made to the list of broad, indicative project categories, in the SLP. Additionally, the SLP Guidance includes two new paragraphs in the reporting section confirming that borrowers should identify the target populations for a social impact where possible and that the target population could be the population at large, alongside some guidance on the nature of the reporting required in that instance.

The nature of the updates to the SLP in relation to social projects largely mirror those made to the GLP discussed above (including in relation to supporting opex).

## 5. Other points to note

### *Sustainability Loans*

The definition of a "green loan" in the GLP and "social loan" in the SLP has been amended to note that loans which intentionally mix eligible Green Projects and Social Projects can be referred to as "Sustainability Loans". This aligns the labelling of these mixed instruments with practice in the bond market.

### *Pure plays*

The GLP Guidance now defines "pure play" companies as companies where 90% or more of revenue/assets are dedicated to green initiatives, reflecting the view that is taken in many lender frameworks. The guidance underlines that not all loans entered into by pure play companies are automatically classified as green loans - the loans must still be aligned with the four Core Components of the GLP.

### *Blue loans/other thematic green loans*

Highlighting the increase in interest for thematic financing, the GLP Guidance makes express reference to blue loans (relating to the sustainable use and protection of water). The GLP Guidance explains that blue loans are a species of green loan if they align with the four Core Components of the GLP (and that this concept can be applied to all other thematic green loans, such as climate loans, energy efficiency loans and biodiversity loans).

### *Documentation and drafting*

The GLP Guidance has been updated to reflect the publication of draft provisions for green loans by the LMA, the APLMA and the LSTA. The APLMA's Model Provisions for Green Loans were the first to be published in June 2024, followed by the LMA's Green Loan Drafting in November 2024 and most recently, the LSTA's Drafting Guidance for Green Loans in March 2025.

The SLP Guidance notes that there is no specific drafting for social loans, but that the green loan drafting can be adapted. The relative ease of doing so is why the LMA has no current plans for the production of draft provisions for social loans.

## 6. Looking ahead

The crafting of globally applicable Loan Principles in support of a developing market requires a balance to be struck between robust guardrails on fundamental issues (and protecting against greenwashing), while allowing enough flexibility for the product to adapt to changing technologies and science, the evolving position in terms of practical levels of data and impact reporting and also (importantly), that on certain issues, there remain a range of views. This is an ongoing challenge.

There will no doubt be some parties disappointed with the scope of these updates to the GLP/SLP (and the SLLP); concerned that particular points of detail have not been added and/or that the changes do not go far enough. However, with each iteration of the Loan Principles the scaffolding supporting the integrity of the sustainable loan products becomes stronger and better understood. While the demand for further explanation and clarity from individual parties will continue, this year's review further clarifies the requirements of the Loan Principles and explains others, which is a positive step further forward.

We would also observe that in a year where a number of new reporting requirements are starting to land and/or are being adjusted (the EU Omnibus proposals, for example), it is even more important for the industry to tread carefully so as not to de-stabilise further growth in the sustainable loan market.

*For further information on the matters covered in this briefing please contact one of the lawyers below or your usual Slaughter and May contact.*

## Further information and contacts

For more information, please speak to your usual Slaughter and May contact or one of the lawyers listed below.

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