Navigating sustainable finance markets

With September 2023 confirmed by the Met Office as the hottest on record in the UK, the importance of reducing greenhouse gas emissions and transitioning to a Net Zero economy has been reiterated. As the financial services sector will continue to play a key part in the transition, how do recent, current and expected changes and developments in the sustainable finance market impact businesses?

Recent market developments

According to Refinitiv's latest Sustainable Finance review, global sustainable lending has witnessed a decline since the start of the year, as H1 2023 saw total lending drop by 20% against H1 2022. This is reflective of a continued tight lending market, due to rising interest rates and market turmoil.

Despite this, sustainable finance looks set to remain a key priority for both the public and private sector, as new developments continue to help drive financing.

In May, the UK Government held its first Net Zero Council, established to support business across all sectors with achieving Net Zero. In June, the FCA announced its intention to adopt the recently published International Sustainability Standards Board's (ISSB) sustainability-related reporting standards, to support the development of a global baseline of sustainability-reporting standards. In August the UK Government published further guidance on the framework to create UK Sustainability Disclosure Standards which are expected to come into play in 2024. The outcome of London Action Climate Week in July saw representatives from the public and private sector emphasise the significance of strong policy in enabling further investment.

Spotlight on sustainability linked loans

A recent study undertaken by Grant Thornton highlighted that despite the macroeconomic downturn, borrowers remain motivated to focus on their ESG strategies, with sustainable finance forming an integral part of this process. Sustainability Linked Loans (SLLs) continue to be a popular loan product in sustainable financing. In May, the LMA published draft provisions for SLLs to help drive market standardisation of documentary terms. Standardised documentary terms are a first since the LMA SLL principles were launched in 2019.

The LMA is expected to review the provisions over the next 12 months, to allow for any market practice developments. HSBC welcomes the standardisation of SLL terms as we believe this will improve speed and efficiency in transacting SLLs.

SLLs in the mid-market

Although SLLs were originally most prevalent amongst large corporates, they are becoming increasingly embedded in the mid-market. The Grant Thornton survey of 10,000 mid-market firms (employee headcount of 50-500) across 28 economies found that as of H1 2022, 25% of firms either already had an SLL in place or were engaged in discussions with a lender, and 31% said they would consider a SLL when undertaking a new debt raise or refinance. As SLLs help to support environmentally and socially sustainable economic activities, they can help mid-market businesses maintain focus on their ESG strategy.

Market outlook

COP 28: scheduled for the end of the year in the UAE, the UN Climate Change Conference (COP 28) will see the undertaking of the first global stock-take of the progress made against the 2015 Paris Agreement. The president of the summit has announced that the summit will focus on four key pillars; fast-tracking the transition to a low-CO_2 world; fixing climate finance; focusing on people, lives and livelihoods; and full inclusivity.

Scope 3 emissions: also known as 'value chain emissions', often form the largest part of a company's total emissions, as they include all the emissions a company is indirectly responsible for, up and down their supply chain. Reporting on Scope 3 emissions can be complicated, however increased regulation of this area is expected following the ISSB's recent guidance on Scope 3 emissions disclosures. It's expected that this global standard will set an important precedent for regional regulatory bodies and institutions.

The Science Based Targets Network: has released the first science based targets for nature, aiming to set the global standard for ambitious and measurable corporate action. The latest research indicates that more than half of global GDP is moderately or highly dependent on nature, demonstrating the importance of aligning KPIs to ambitious SBTi targets.

Closing thoughts

Despite the recent market volatility, we are seeing, and can expect to continue to see, further regulatory changes as the market develops. We anticipate that this will improve overall market conditions, as visibility and transparency remain key to enabling confidence in the sustainable finance market. Today, we finance a number of industries that significantly contribute to greenhouse gas emissions. We have a strategy to help our customers to reduce their emissions and to reduce our own. For more information, visit hsbc.com/sustainability.

Rob King

Head of Commercial Banking Sustainability, HSBC UK

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