INVESTORS *for*
PARIS COMPLIANCE

Lee Shaiman, Executive Director
Loan Syndications & Trading Association
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Sent via email: lshaiman@lsta.org and connect@lsta.org

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Dear Mr. Shaiman:

We are writing to request that the LSTA update the Sustainability-Linked Loan Principles to stop the greenwashing associated with this product that is undermining its credibility and ultimately undermining its very purpose.

We are a shareholder advocacy organization in Canada. We recently filed a shareholder proposal with Royal Bank of Canada regarding examples of its "sustainable financing" going to projects that were in fact *increasing* emissions. In engagement with the bank, it claimed to be faithfully following the guidelines laid down by LSTA. Unfortunately, it was correct, thereby exposing the gaps in the Principles.

The problem in brief is that there is nothing to stop sustainability linked loans (SLLs) going into activities that are *increasing* greenhouse gas emissions during the climate crisis – the opposite result of that intended.

As the current version of the Principles itself states:

> *The credibility of the sustainability-linked loan market will rest on the selection of the KPI(s). It is important to the success of this instrument to avoid the proliferation of KPIs that are not credible.*

Unfortunately, the guidance that follows is overly vague and leaves open a glaring loophole: there is nothing to preclude SLLs from going to recipients that are increasing their Scope 3 emissions, and because this is not a use-of-proceeds instrument, this means the resulting capital flows can be used to expand emissions.

A real-world example shows how this works. In early 2021 the oil pipeline company Enbridge received a SLL from Royal Bank of Canada. We don't know the terms of that agreement, but a subsequent sustainability linked bond (SLB) later in the year sheds some light. The SLB was predicated in part on Enbridge meeting intensity-based targets for its Scope 1 and 2 emissions, which was likely similar to the terms of the SLL.

During this time, Enbridge was completing the expansion of the Line 3 oil sands pipeline through Minnesota. This project had the Scope 3 emissions equivalent of adding 50 new coal fired power plants. Because the SLL is not a use of proceeds instrument, the revenue from that deal allowed the company to work this project, and because the KPIs only measured Scope 1 and 2 intensity, it met the terms of the agreement even though there was a massive new amount of absolute emissions delivered to the atmosphere.

It's important to note that Line 3 was also vociferously opposed by local Indigenous peoples in court and in protests that resulted in hundreds of arrests. Enbridge funded local police enforcement in this regard,

meaning that the proceeds of the SLL may have also been used to jail people standing up for their traditional rights.

As this example shows, there is a glaring loophole within SLL guidance that must be fixed if these instruments are to be credible. *At a minimum, guidance needs to be updated such that companies increasing their absolute emissions - including Scope 3 - are not eligible for SLLs*. And, if SLLs are to be Paris compliant, then their absolute emissions must actually be declining rapidly in line with climate science.

We have also written to Canada's financial regulator, the Office of the Superintendent of Financial Institutions, to outline these concerns and to ask that it consider its own guidance in this regard in order to uphold public trust in Canada's financial institutions. Ultimately, if the private sector cannot be seen to be moving to end greenwashing, then regulators will need to step in.

We urge you to update the Principles as soon as possible. The credibility of the enterprise depends on it.

Yours sincerely,

Matt Price
Director of Corporate Engagement