

Getting ready for Sustainability-Linked Loan assurance: A practical guide for first-time borrowers

Entering into a sustainability-linked loan (SLL) is a significant step, linking financing directly to measurable sustainability outcomes and business performance. For many organizations, it also marks the point at which sustainability commitments move from disclosure into externally verified, financially material obligations.

Independent assurance plays an important role in enhancing the accuracy, reliability and transparency of reported performance. With the right preparation, it goes beyond compliance to strengthen the credibility of your SLL and support improved business performance.

This guide is designed for organizations preparing their first sustainability-linked loan, particularly those transitioning from internal ESG tracking into externally verified commitments. In many cases, this involves ensuring that sustainability performance targets, methodologies, and supporting data can withstand external scrutiny and meet lender expectations.

ERM CVS supports first-time SLL borrowers with a practical assurance approach that upholds rigorous independent review, identifying potential issues while strengthening confidence with lenders.

What are Sustainability-Linked Loans?

A Sustainability-Linked Loan (SLL) is any loan instrument, such as a line of credit or revolving credit facility, tied to a borrower's Sustainability Performance Targets (SPTs). Their purpose is to encourage measurable improvement in ESG impact and performance.

Since the first SLL was issued in 2017, this instrument has demonstrated its potential to support decarbonisation and drive a more sustainable lending market. SLLs have since become the most popular form of sustainable finance globally.

Why SLLs matter to your organization

SLLs directly link borrowing costs to sustainability outcomes. Borrowers who meet predefined targets benefit from lower interest rates, while those who fall short may face margin adjustments. The financial incentive is real, and so is the accountability.

Key benefits include:

1

Lower interest rates when targets are achieved

2

Potential access to larger loan amounts or extended terms

3

Differentiation with ESG-focused investors and stakeholders

4

Stronger alignment between sustainability strategy and financial performance

5

Increasing support from lenders and regulators

The growth of SLLs reflects increasing demand from both lenders and borrowers for mechanisms that link sustainability performance with financial outcomes. For organizations, this provides a structured way to demonstrate progress, while lenders gain greater confidence through measurable and verifiable targets.

The SLL market at a glance

SLLs have become a central pillar of sustainable finance globally, with over 3,000 sustainability-linked loans representing a cumulative value of approximately \$2.4 trillion (source: efddata.org). Major financial institutions continue to expand sustainability-linked commitments, with banks setting multi-hundred-billion-dollar sustainable finance targets through 2030.

3,186

SLLs issued globally

\$2.4 tn

Cumulative SLL value

Since 2017

Market established

Why independent assurance matters

Assurance for SLLs focuses on two core areas: design credibility and performance accuracy. Most lenders require independent assurance, and those aligned with the Sustainability-Linked Loan Principles expect annual verification.

Independent assurance provides trusted, third-party validation that sustainability performance is being measured and reported accurately. This is critical in demonstrating that ESG KPIs are not only well-designed but also consistently achieved and supported by verifiable data.

Lenders are placing increasing emphasis on the quality and credibility of sustainability-linked frameworks. This includes clearly defined and measurable SPTs, transparent methodologies aligned with ESG disclosures, and performance data supported by robust documentation. Assurance plays a central role in providing confidence that commitments are credible and defensible.

When implemented effectively, assurance does more than validate results. It helps identify areas for improvement, strengthen data quality, and enhance overall sustainability performance, making it a key driver of long-term value.

What independent assurance adds

Category	Benefit
Credibility	Validates data against your sustainability targets, reducing the risk of greenwashing and strengthening lender confidence in your reported performance.
Transparency	Encourages borrowers to enhance reporting quality and maintain robust audit trails, making performance claims independently verifiable.
Risk management	Identifies gaps in data controls and reporting methodology early, allowing organizations to address weaknesses before they become material issues.
Framework strength	Assesses reporting systems against globally recognised standards, ensuring SPTs and KPIs are defensible and consistently applied.
Stakeholder trust	Provides lenders, investors, and other stakeholders with independent confirmation that sustainability commitments are tracked and evidenced rigorously.

What assurance covers

SLL assurance focuses on two core areas. For first-time borrowers, the emphasis is on getting the fundamentals right: clarity, consistency, and a robust audit trail.

Design credibility: Are your SPTs and KPIs clearly defined, measurable, and robust? Are baselines well-evidenced? Is the calculation methodology documented and consistently applied?

Performance accuracy: Is your reported performance complete, accurate, and supported by evidence? Are data collection, review, and sign-off processes formally documented?

Why early preparation matters

One of the most common challenges for first-time borrowers is underestimating the level of definition and documentation required. Unlike internal ESG tracking, SLL metrics must be clearly defined, consistently applied, and independently verifiable.

Entering into an SLL without a clearly defined framework can lead to delays in reporting, increased scrutiny from lenders, and challenges in evidencing performance where methodologies or data are not sufficiently robust. These issues can reduce confidence in reported outcomes and create unnecessary pressure during assurance. Preparing early helps to avoid these risks and ensures that the SLL delivers both financial and sustainability value.

SLL assurance should also be seen as part of an ongoing cycle rather than a one-off exercise, where insights from assurance can be used to strengthen frameworks and improve performance year-on-year. A one-off exercise, where insights from assurance can be used to strengthen frameworks and improve performance year-on-year.

Five practical steps to prepare for SLL assurance

1

Establish clear, practical SPT and KPI definitions Each SPT and KPI should have a clearly defined scope, an unambiguous calculation methodology, and alignment with recognised standards or existing disclosures where possible. A simple test: could an outsider calculate your SPT or KPI based on your documentation alone?

2

Make your SPTs and KPIs explainable Ambition is important, but transparency and defensibility are critical. Be ready to explain your baseline and how it was derived, why targets are set at that level, and the benchmarks or pathways you considered. Well-evidenced targets not only support assurance, they build lender confidence.

3

Keep data simple and controlled Simplicity and clarity consistently outperform overly complex KPI frameworks. Use existing systems where possible, minimise complex calculations, and document how data is collected, checked, and approved. A simple, well-governed KPI is far easier to assure than a complex one with weak controls.

4

Clarify ownership early SLLs typically span treasury, sustainability, finance, and operations. Clearly define SPT and KPI ownership, data responsibilities, and internal review and sign-off processes. This avoids confusion and delays once assurance is underway.

5

Build your evidence as you go Avoid leaving evidence collection until year-end. Maintain a clear audit trail throughout the year, save source data and calculation files, and document key decisions and approvals. This makes the assurance process significantly more efficient and lower-effort at year-end.

Selecting the right SPTs and KPIs

The choice of Sustainability Performance Targets and KPIs is one of the most consequential decisions in structuring an SLL. Targets should work with your business model, reflect material ESG risks and opportunities, and be independently verifiable. The best SPTs are not necessarily the most ambitious: they are the most credible, measurable, and relevant to your organization.

Principles for selecting strong SPTs

Strong SPTs should:

- Aligned with your material sustainability risks and strategy
- Quantifiable with a clear methodology and defined baseline
- Stretching but achievable, with a documented rationale
- Consistent with recognised frameworks such as GHG Protocol and SBTi
- Manageable within your existing data infrastructure
- Independently verifiable through available evidence

Examples of common SPT categories

Organizations across sectors use a range of SPT types. Selection should reflect the most material sustainability dimensions of your business.

SPT Category	Example KPI	Assurance consideration
Carbon emissions	Scope 1 and 2 GHG emissions intensity (tCO ₂ e per unit of output)	Requires consistent GHG Protocol-aligned methodology and boundary definition
Renewable energy	Percentage of electricity from renewable sources	Source documentation and matching to consumption records needed
Supplier sustainability	Percentage of top 200 suppliers by spend with approved SBTi targets	Requires supplier-level evidence and consistent classification of spend
Diversity and inclusion	Female employees as percentage of new hires; female senior leadership representation	Consistent HR definitions and data governance across entities required
Health and safety	Lost Time Injury rate; employee training completion rate	Clear definitions of recordable events and training scope essential
Social value	Annual social value generated from operations	Methodology must be documented; valuation approach agreed upfront

Common pitfalls and how to avoid them

With over 30 years of experience in independent assurance and verification, ERM CVS has observed consistent patterns among first-time SLL borrowers. The challenges below are all common, and all preventable with early planning and a structured approach.

Common pitfall	Why it happens	How to avoid it
SPTs and KPIs rely on informal assumptions	Targets were set without a documented calculation methodology, making them difficult to defend or replicate	Define and document the full methodology at the point of SPT design, not at year-end reporting
Data gaps identified too late in the cycle	Reporting gaps only surface during assurance, creating pressure and last-minute evidence scrambles	Build a data readiness review into the beginning of each reporting period
Misalignment with wider ESG disclosures	SLL KPIs use different definitions or boundaries than existing sustainability reports, creating inconsistency	Cross-reference SLL KPIs with existing ESG frameworks before finalising SPT definitions
Last-minute evidence gathering	Supporting documentation is assembled retrospectively, introducing errors and audit risk	Maintain a live audit trail throughout the year; save source data and calculation files as you go
Unclear ownership of ESG data	Multiple teams own parts of the data with no single accountability point, causing version control and sign-off failures	Assign named owners for each SPT and KPI before the reporting period begins



Are you ready for SLL assurance?

Organizations preparing for SLL assurance should assess whether their framework is sufficiently robust to support external verification. This includes ensuring that KPIs and SPTs are fully documented with clear methodologies, that underlying data can be independently validated, and that a consistent audit trail exists to support reported performance. It also requires clear ownership across teams, with defined responsibilities for data collection, validation, and reporting.

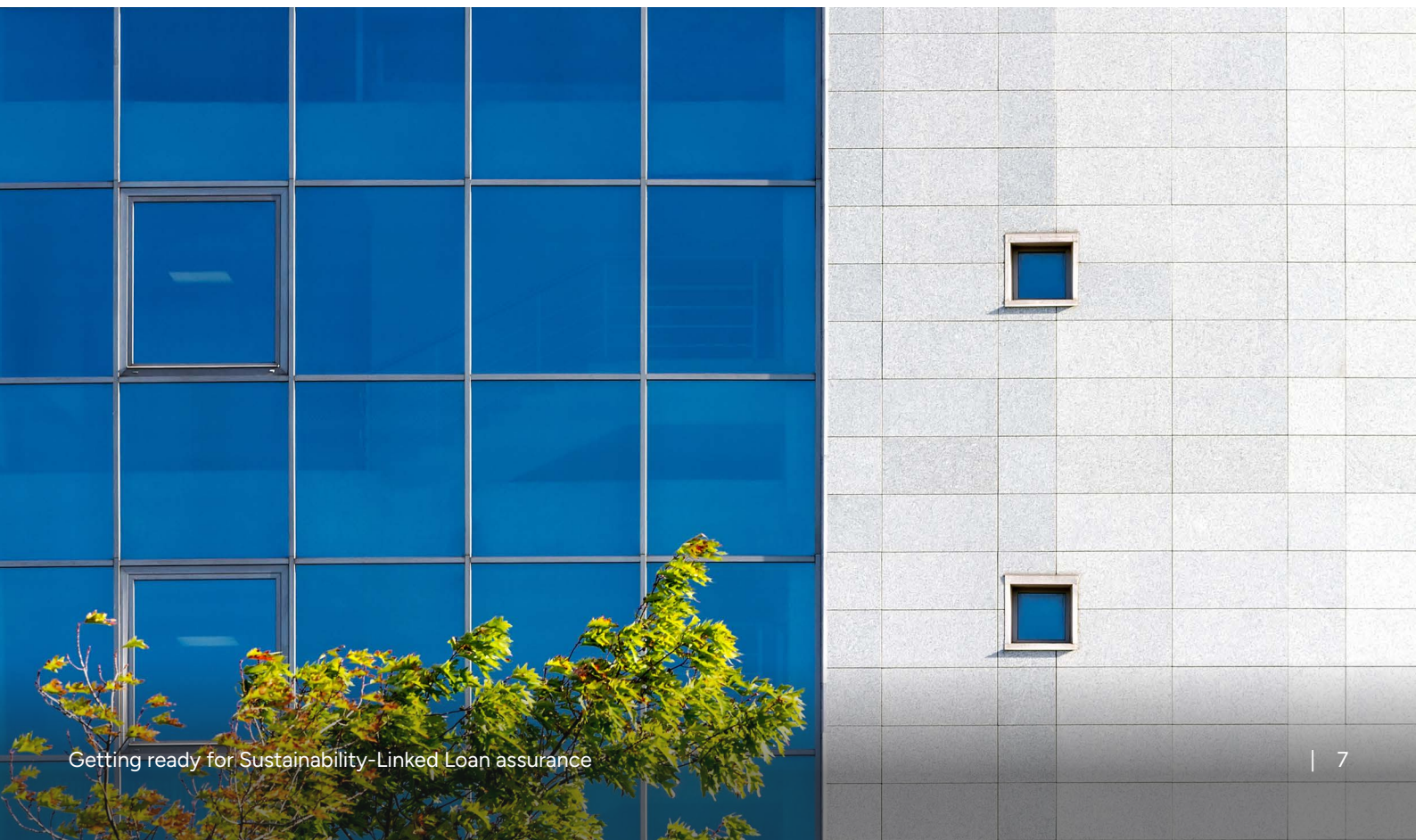
Despite shifts in policy and market conditions, financial institutions continue to advance sustainability-linked finance. Several trends will shape SLL assurance expectations over the coming years:

- Expanding SPT scope: biodiversity, nature, and water are emerging as material metrics alongside GHG emissions
- Increased regulator scrutiny of greenwashing in sustainable finance instruments
- Stricter lender expectations around assurance quality and assurer independence
- Greater alignment between SLL KPIs and formal ESG disclosure frameworks
- Growing emphasis on value-chain and supplier sustainability performance
- Digital data infrastructure becoming a baseline expectation for verifiable reporting

What to expect from the assurance process

A typical SLL assurance engagement involves an initial review of SPTs and KPIs, followed by an assessment of data, methodologies, and controls. This allows for the identification of any gaps and provides an opportunity to address them before independent verification. The process concludes with formal assurance and reporting aligned with lender expectations.

Over time, this process becomes iterative, enabling organizations to strengthen performance, improve data quality, and enhance the overall value of their SLL framework.



How ERM CVS can support

ERM CVS brings deep global experience in sustainability and assurance, supporting organizations across sectors with a practical and collaborative approach.

Our services include:

Service	What we deliver
SPT and KPI design review	We review your SPT and KPI framework upfront, helping you strengthen definitions, identify documentation gaps, and reduce assurance friction before the reporting cycle begins.
Data and control gap assessment	We assess your data infrastructure, governance, and evidence trail early, allowing you to address weaknesses with time to resolve them rather than under year-end pressure.
Readiness reviews	For first-time borrowers, we offer a structured readiness review ahead of the first reporting cycle, identifying exactly where your framework is strong and where preparation is needed.
Independent assurance	We deliver efficient, pragmatic annual assurance aligned with lender expectations and the SLLP, providing a clear opinion on design credibility and performance accuracy.

Engaging an assurance provider early in the process can significantly improve outcomes. This is particularly valuable when designing SPTs and KPIs, aligning metrics with ESG disclosures, preparing for the first reporting cycle, or addressing gaps in data and governance. Early engagement helps ensure that your framework is robust from the outset and reduces pressure during assurance.

What sets ERM CVS apart



Deep sustainability expertise:
Our assurance professionals bring genuine environmental and sustainability knowledge to every engagement, going beyond procedural compliance to deliver meaningful insight.



Practical and accessible:
We understand the challenges faced by first-time borrowers and structure our support to be clear and efficient, without compromising the rigour, independence, and quality of our assurance.



Credible assurance delivery
recognised by lenders, investors, and regulators

Why partner with ERM CVS?

Assurance with sustainability impact

ERM CVS provides independent assurance services grounded in deep environmental and sustainability expertise. Founded in 1996 in response to rising expectations for stronger organizational environmental accountability, we bring that same purpose and rigor to every sustainability-linked loan (SLL) engagement.

We partner with clients to deliver tailored second- and third-party verification and assurance services, from gap assessments and assurance readiness through to pre-assurance, limited, and reasonable assurance. Our work is conducted in accordance with ISAE 3000, ISAE 3410, ISSA 5000, and relevant ISO standards.

We work with global organizations across sectors, delivering assurance engagements from single site to fully integrated, multi-standard programs. Our approach is recognized by regulators, investors, lenders, and standard setters as a mark of credibility, transparency, and trust.

How we deliver value beyond assurance

Assurance is only the starting point. ERM CVS helps organizations use the assurance process to strengthen reporting maturity, enhance data governance, and build credible, scalable sustainability performance frameworks that support future financing and stakeholder confidence.

We combine multidisciplinary expertise with deep regulatory insight to:



Navigate complex and evolving ESG and disclosure requirements, providing clear, actionable insight



Strengthen governance, controls, and frameworks to meet compliance and stakeholder expectations



Improve the quality, consistency, and decision-usefulness of sustainability data and disclosures



Build confidence across the value chain in the credibility of ESG processes and performance

Our approach translates assurance into insight, helping organizations reduce risk, enhance performance, and demonstrate measurable value and ROI.

Global expertise, trusted credibility

Independent, science-based insight: Objective, data-driven assurance that strengthens disclosures and performance

Global reach, local delivery: Over 30 years of experience supporting complex, multi-site engagements across sectors

Trusted by standard setters: Recognized credibility enabling us to help interpret and apply evolving international frameworks

Get in touch

If you are preparing for your first Sustainability-Linked Loan, or want to assess your SLL assurance readiness, ERM CVS is ready to support. Contact us to discuss how we can help you prepare, strengthen your KPIs, and deliver a confident, credible, and efficient assurance process aligned with lender expectations.

Find out more at ermcvs.com

Contact us to book a free consultation at post@ermcvs.com



ERM CVS

ERM CVS is an accredited UKAS certification body and ANAB accredited validation and verification body. We operate in accordance with recognized international assurance standards and are a certified training provider for ISO management systems.

