



Frequently Asked Questions (FAQs)
On
Guidance framework on Sustainable and Sustainability
linked lending by Financial Institutions (SL Framework) dated
April 26, 2022

Disclaimer: These FAQs are not the interpretation of law but intend to provide a clarity on the concepts related to the said Framework. Any queries about the Framework may be addressed to IFSCA.

1. 'The SL Framework' is applicable to which entities in IFSC?

The SL Framework is applicable to:

- (i) IFSC Banking Units¹ (IBUs)
- (ii) Finance Company/ Unit² registered with the IFSC and undertaking the permissible core activity of lending³.

2. What is expected from the entities covered under the SL Framework?

The entities covered under the said framework are expected to develop a comprehensive Board approved policy on green⁴, social, sustainable, sustainability linked lending. Such a policy shall be aligned to any one of the principles as specified in the guidelines.

Further, based on the above policy, the IBUs and applicable FC/FUs are required to have **at least five percent of their gross loans and advances** directed towards either green or social or sustainable or sustainability linked sectors/ facilities.

3. What is the timeline within which the SL Framework shall be developed?

All IBUs and FC/FU registered and operating in the IFSC shall have in place a Board approved policy by March 31, 2023. In case an entity is registered / licensed post April 26, 2022, the Board approved policy, shall be adopted within 12 months from the date of commencement of its operations.

4. What would constitute gross loans and advances for the purpose of target computation?

All outstanding loans and advances as classified for the purpose of reporting to the Authority shall form the base for computation of the five percent target. The definition as prescribed by the home country regulator may be adopted for the purpose of computation. These shall not include non-fund based exposures, any investments made by the entity, derivatives and any other off-balance sheet items.

5. Can trade finance products be classified as eligible loans and advances under the framework?

Trade finance granted by the entity which aligns with the Board approved policy on sustainable lending and is included in the reporting as 'gross loans and advances', shall qualify as eligible lending transaction by the entity.

¹ Defined in regulation 2(1)(c) of the IFSCA (Banking Regulations), 2020.

² Defined under regulation 2(1)(e) and (f) of the IFSCA (Finance Company) Regulations, 2021.

³ As specified in regulation 5(1)(2)(a) of the IFSCA (Finance Company) Regulations, 2021.

⁴ For the purpose of the framework green, social and sustainable are used interchangeably and its meaning includes all three of the above.

6. How shall the five percent target be computed and what is the timeline and manner of reporting to the Authority w.r.t the compliance with the Framework?

The target for the next financial year, shall be computed as five percent of the loans and advances disbursed during the previous financial year and are outstanding as at the close of balance sheet date i.e. year end. This target is to be met on an annual basis, however, the progress during the year towards such lending is sought through bi-annual reporting prescribed by the Authority. The reporting in the prescribed format shall reach the Authority within 10 days of the said reporting period.

For example: If 'IBU A', has disbursed loans/advances worth USD 120 mn during the FY 22-23 and out of such amounts disbursed during the year, it has outstanding loans and advances of USD 100 mn as at March 31, 2023, then the target for F.Y. 2023-24 shall be five percent of such outstanding amount i.e. USD 5 mn.

The Reporting has to be done on a regular basis as on September 30 and March 31. Thus, the first set of reports need to be sent to the Authority latest by October 10, 2023. The half yearly reporting should also provide information on the outstanding loans and advances disbursed by the entity during the half year period.

7. Can the IBU or Finance Company follow the policy of its parent organization towards Sustainable finance broadly aligned with the SL framework?

The IBU is required to have a policy approved by the Board of the parent Bank or by their Governing Body whereas the Finance Company shall have a Board approved policy. This policy can be similar to that adopted by the parent bank, however, such a policy shall be in compliance with the SL Framework issued by the Authority in all aspects.

8. What if the entity is not able to meet the said target provided under the framework?

The IBU shall provide in writing the detailed explanation for non-compliance along with the future course of action towards meeting the target. In case the entity fails to meet the target the course of action shall be similar as for any other regulatory non-compliance.
