



**14 December 2021**

**Open Response to BankTrack and Colleagues,**

We thank BankTrack and other Civil Society Organisations (collectively “CSOs”) for their open letter dated November 18 2021 and provide this response which has been reviewed by the Equator Principles Association Steering Committee.

Since the Equator Principles (“EPs”) were established in 2003 they have always been positioned as a risk management framework for determining, assessing and managing environmental and social risks in projects. This has not changed and the preamble to Equator Principles 4 (“EP4”) reiterates that the “Equator Principles are intended to serve as a common baseline and framework for financial institutions....when financing projects”. The current scope of EP4 includes five financial products and once it is established that the criteria for a relevant financial product has been met, an Equator Principles Financial Institutions (“EPFIs”) applies the requirements of the Equator Principles.

Individual EPFIs who adopt the Equator Principles commit to implement the EPs through internal environmental and social risk policies, procedures, and standards. It remains for EPFIs to set their own risk appetite policies for the projects and sectors that they will finance.

With 126 members including commercial banks, development banks and export credit agencies in 38 countries there is a wide range of operating conditions, market appetite and constraints, as well as stakeholder needs and expectations to consider across our membership. Based on these factors each EPFI will have its own strategy and business model to managing environmental and social risks as well as being subject to the laws and regulations of the various jurisdictions in which they operate. The EPs provide a foundation for our members to manage environmental and social risks in projects and there are no constraints on individual EPFIs from going further than the requirements of the EPs or using them as a basis for their overall approach to environmental and social risk management outside of projects.

The common platform and framework of the EPs helps to build capacity of those EPFIs newer to environmental and & social risk management whilst also supporting those that are more advanced on their journey.

The EP Association Steering Committee fundamentally believe this collaborative and inclusive approach for environmental and social risk practitioners is crucial to achieve the urgent and pressing challenges the world faces today.

Adopting the EPs can be an important early step in building a broader environmental and & social risk management framework in financial institutions. We continually look for ways to assist all new joiners, as well as our more established members, to meet the requirements of the EPs by providing updated guidance notes, training and opportunities to share best practice and learning amongst a global network of peers.

Our place in the ecosystem of sustainability initiatives is unique in being the only framework which applies at a project level, and as a result we play a significant role in minimising and mitigating the environmental and social risks and impacts closest to where they may occur. We are aware there are multiple other forums and commitments which EPFIs engage with that may be relevant to determining their broader approach for certain sectors and their overall risk appetite.

In response to the specific items noted in your letter:

- **Outcomes from COP 26 and Kunming.** The EP Association, and in particular the EP Association Steering Committee, are reflecting carefully on the outcomes of COP26 and the ongoing Kunming process. We are acutely aware of the Glasgow Climate Pact and the expectations on our members to support governments and the real economy in achieving these commitments whilst ensuring a just transition.
- **Exclusions from finance.** As stated above, the EPs remain a risk management framework and there is currently no intention to include any 'exclusion list'-type conditions.

EP4 includes a requirement for all Category A projects (and as appropriate Category B projects) to include consideration of relevant physical risks as defined by the Task Force on Climate-Related Financial Disclosures ("TCFD") and for all projects which are expected to produce Scope 1 and Scope 2 emissions of more than 100,000 tons of CO<sub>2</sub> equivalent annually to consider transition risks (as defined by the TCFD). In addition, EP4 requires an alternatives analysis which evaluates lower Greenhouse Gas (GHG) intensive alternatives and our members are expected to engage with clients to provide evidence of feasible and cost-effective options and why these technologies were not selected, and to encourage them to publish this alternatives analysis in the project's Environmental and Social Impact Assessment ("ESIA"). The Climate Change Risk Assessment is also expected to address the following questions:

- What are the current and anticipated climate risks of the project's operations;
- Does the client have plans and processes, policies and systems to manage these risks; and
- The project's compatibility with the host country's nationally determined contributions.

Further, a guidance note was published by the EP Association in September 2020 setting out clarifications on what a Climate Change Risk Assessment should contain for our members, consultants and project sponsors.

By following the requirements in EP4 and the supporting Annex and Guidance Notes an EPFI will have the information to support their individual decision on a particular project.

- **No false solution.** The EPs do not specifically address whether financing for carbon and biodiversity offset projects form part of the impact mitigation of a project. For projects located in Non-Designated Countries, EPFIs will apply the IFC performance standards ("IFC PS") (and associated guidance) including the current definition of no net loss contained in IFC PS 6. For projects in designated countries EPFIs will ensure the project complies with relevant host country's laws, regulations and permits. The preamble to EP4 includes support for conservation including the aim of enhancing the evidence base for research and decisions relating to biodiversity and a specific guidance note in relation to how EPFIs can do this has been published by the EP Association.
- **Respect for human and Indigenous rights.** EP4 made some significant advances in relation to human and Indigenous Rights:
  - The preamble states that EPFIs will fulfil their responsibility to respect Human Rights in line with the UNGPs by carrying out human rights due diligence.
  - Principle 5 introduced new requirements for evaluating whether Free, Prior and Informed Consent was obtained drawing on IFC Performance Standard 7 and requiring a qualified independent consultant to evaluate the consultation process with Indigenous Peoples. The EP Association has released extensive guidance notes on Evaluating Projects with



Affected Indigenous Peoples and Implementation of Human Rights Assessments under the Equator Principles. And finally, and as previously indicated, the EPA is currently undertaking further work to consider how to strengthen the EPs approach to grievance and access to remedy at the project level.

We appreciate the continued dialogue with CSOs as we all work together to address these and other pressing issues and look forward to continuing our regular engagement in 2022.

Amit Puri

Chair, Equator Principles Association