

THE EQUATOR PRINCIPLES FREQUENTLY ASKED QUESTIONS

THE BASICS

What are the Equator Principles?

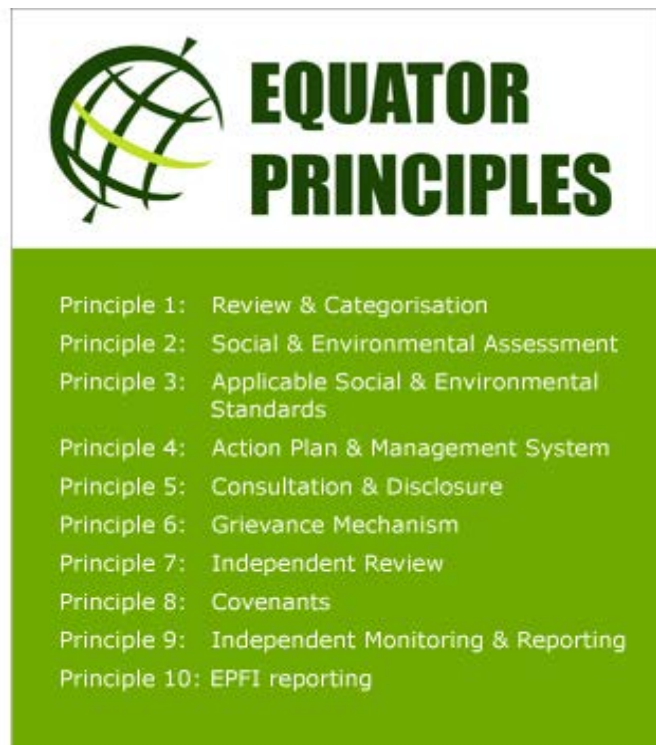
The [Equator Principles](#) (EPs) is a credit risk management framework for determining, assessing and managing environmental and social risk in Project Finance transactions. Project Finance is often used to fund the development and construction of major infrastructure and industrial projects.

The EPs are adopted by financial institutions and are applied where total project capital costs exceed US\$10 million. The EPs are primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. The EPs are based on the [International Finance Corporation Performance Standards on social and environmental sustainability](#) and on the [World Bank Group Environmental, Health, and Safety Guidelines](#) (EHS Guidelines).

Equator Principles Financial Institutions (EPFIs) commit to not providing loans to projects where the borrower will not or is unable to comply with their respective social and environmental policies and procedures.

In addition, while the EPs are not intended to be applied retroactively, EPFIs apply them to all Project Finance transactions covering expansion or upgrade of an existing facility where changes in scale or scope may create significant environmental and/or social impacts, or significantly change the nature or degree of an existing impact.

The EPs have become the industry standard for environmental and social risk management and financial institutions, clients/project sponsors, other financial institutions, and even some industry bodies refer to the EPs as good practice.



Currently 76 adopting financial institutions (74 EPFIs and 2 Associates) in 29 countries have officially adopted the EPs, covering over 70 percent of international Project Finance debt in emerging markets.

The EPs have greatly increased the attention and focus on social/community standards and responsibility, including robust standards for indigenous peoples, labour standards, and consultation with locally affected communities within the Project Finance market. They have also promoted convergence around common environmental and social standards. Multilateral development banks, including the European Bank for Reconstruction and Development, and export credit agencies through the OECD Common Approaches are increasingly drawing on the same standards as the EPs.

The EPs have also helped spur the development of other responsible environmental and social management practices in the financial sector and banking industry (for example, Carbon Principles in the US, Climate Principles worldwide) and have provided a platform for engagement with a broad range of interested stakeholders, including non-governmental organisations (NGOs), clients and industry bodies.

What is Project Finance?

Project Finance is a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure. Project Finance plays an important role in financing development throughout the world. This type of financing is usually for large, complex and expensive installations that might include, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, and telecommunications infrastructure.

See below the definition of Project Finance from the Basel Committee on Banking Supervision, International Convergence of Capital Measurement and Capital Standards ("Basel II"), November 2005.

“Project finance may take the form of financing of the construction of a new capital installation, or refinancing of an existing installation, with or without improvements. In such transactions, the lender is usually paid solely or almost exclusively out of the money generated by the contracts for the facility’s output, such as the electricity sold by a power plant. The borrower is usually an SPE (Special Purpose Entity) that is not permitted to perform any function other than developing, owning, and operating the installation. The consequence is that repayment depends primarily on the project’s cash flow and on the collateral value of the project’s assets.”

This definition is explicitly referred to in the [EP official text](#).

What are Project Finance Advisory Services?

Project Finance Advisory Services is the provision of advice on the potential financing of a development, for which one of the options may be Project Finance.

The advice may include but is not limited to competitive bid strategies, limited recourse finance, provision of equity, advantages of different types of debt, hedging techniques, contractual structuring, financial modelling, macroeconomic assumptions, intra-shareholder issues and project management.

What are the International Finance Corporation Performance Standards?

The International Finance Corporation Performance Standards define clients' roles and responsibilities for managing their projects and the requirements for receiving and retaining International Finance Corporation support. For further information go to:

<http://www.ifc.org/ifcext/policyreview.nsf/Content/2012-Edition>

What are the World Bank Group Environmental, Health, and Safety Guidelines?

The World Bank Group Environmental, Health, and Safety Guidelines are technical reference documents with general and industry-specific examples of Good International Industry Practice, as defined in International Finance Corporation's Performance Standard 3 on Resource Efficiency and Pollution Prevention. For further information go to:

<http://www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines>

Are the Equator Principles only applicable in emerging markets?

The EPs apply to all new Project Finance transactions globally with total project capital costs that exceed US\$ 10 million, and across all industry sectors.

Under EP 3 ("Applicable Social and Environmental Standards"), there is a detailed explanation of the requirements for projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database. For these projects, the Assessment will refer to the applicable International Finance Corporation Performance Standards and World Bank Group Environmental, Health, and Safety Guidelines.

EP 3 ("Applicable Social and Environmental Standards") also outlines the requirements for projects located in High-Income OECD Countries (e.g., US, Canada, Western Europe, Japan, etc).

See here for the list of OECD member countries:

http://www.oecd.org/countrieslist/0,3351,en_33873108_33844430_1_1_1_1,00.html

See here for the list of High Income countries:

<http://data.worldbank.org/about/country-classifications>

EPFIs deem that the regulatory, permitting and public comment process requirements in High-Income OECD Countries, as defined by the World Bank Development Indicators Database, generally meet or exceed the requirements of the International Finance Corporation Performance Standards and World Bank Group Environmental, Health, and Safety Guidelines.

Consequently, to avoid duplication and to streamline review of these projects, successful completion of an Assessment (or its equivalent) process under and in compliance with local or national law in High-Income OECD Countries is considered to be an acceptable substitute for the International Finance Corporation Performance Standards, World Bank Group Environmental, Health, and Safety Guidelines and further requirements as detailed in EP 4, 5 and 6.

For these projects, however, EPFIs still categorise and review projects in accordance with EP 1 and 2, and EPFIs would still require independent review and monitoring over the life of the loan for all Category A projects regardless of geography and covenanting.

The assessment process in both cases should address compliance with relevant host country laws, regulations and permits that pertain to social and environmental matters.

Are the Equator Principles applicable to all industry sectors?

Yes. The EPs apply to all new Project Finance transactions globally with total project capital costs of US\$ 10 million or more, and across all industry sectors.

How do Equator Principles Financial Institutions categorise projects?

Under the EPs, borrowers must conduct a Social and Environmental Assessment of a proposed project. EPFIs use common terminology to categorise (based on the International Finance Corporation's categorisation process) projects into high, medium and low, in terms of environmental and social risk, and apply this to all new projects globally and across all industry sectors.

The categories are:

Category A – Projects with potential significant adverse social or environmental impacts which are diverse, irreversible or unprecedented;

Category B – Projects with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and

Category C – Projects with minimal or no social or environmental impacts.

For all projects designated as either Category “A” or “B” in non-OECD countries or non-high-income countries, borrowers must establish a Social and Environmental Management System.

For projects with significant adverse impacts on affected communities, the consultation process should be free, prior and informed.

To ensure that consultation, disclosure and community engagement continues throughout construction and operation of the project, the borrower establishes a grievance mechanism to address and resolve community concerns and complaints.

The EPs require an independent review of all Category “A” projects, and, as appropriate, for Category “B” projects as well.

Are the Equator Principles available in other languages?

Yes. The EPs are currently available in Chinese, French, Japanese, Portuguese, Russian and Spanish. Nonetheless, the official version is the English one.

Do the Equator Principles get reviewed/revised regularly?

The EPs are reviewed from time-to-time based on implementation experience, and in order to reflect ongoing learning and emerging good practice.

Equator Principles Update 2006 – EP II

In the autumn of 2004, the International Finance Corporation announced its intention to update its Environmental and Social Safeguard Policies.

During the public consultation process that accompanied the revision process, the EPFIs participated in a number of consultation meetings with the International Finance Corporation and ultimately an extension of the public consultation period was made in order to receive and fully consider all comments from stakeholders.

Parallel to the International Finance Corporation’s public consultation process, EPFIs engaged with a wide range of stakeholders directly, including NGOs, civil society, clients and industry associations, to listen and learn from their perspectives on the International Finance Corporation’s proposed changes. These engagements encompassed in part:

- a number of meetings and conference calls with a wide-selection of EPFI clients in various sectors and regions, and industry associations.

- bi-lateral meetings/conference calls (and a meeting in London) with 25 NGOs interested in the EPs.
- an EPFI meeting held with environmental practitioners from Export Credit Agencies.

In order to reflect the changes in the International Finance Corporation's new Performance Standards (which were adopted by International Finance Corporation's Board in February 2006 and came into effect on 30 April 2006) and the EPFI's implementation experience, the EPFIs embarked on an engagement and review exercise to update the EPs. The revised EPs (EP II) were subsequently released on 6 July, 2006 in London.

The revised EPs incorporated a number of significant and important changes such as a lowering of the dollar threshold from US\$ 50 million to US\$ 10 million, the inclusion of Project Finance Advisory Services in the EP scope, and the inclusion of stronger and better social standards as outlined in the International Finance Corporation Performance Standards (including enhanced consultation and covenanting requirements, labour standards and project-level grievance mechanisms). The revised EPs also led to increased transparency by requiring each EPFI to report publicly on its implementation of the EPs on an annual basis.

Equator Principles Strategic Review (October 2010 – May 2011)

In September 2009, the International Finance Corporation launched a review process¹ of their Policy and Performance Standards on Social and Environmental Sustainability (on which the EPs are based) and Policy on Disclosure of Information (sustainability framework).

Subsequently in October 2010 the EP Association launched a Strategic Review process to produce a multi-year strategic vision to ensure the EPs continue to be viewed as the "gold standard" in environmental and social risk management for Project Finance within the financial sector.

The EP Strategic Review had the following aims:

- take stock of the current state of the EPs and develop a better understanding of the challenges and successes to-date,
- identify perceived areas of strength and weakness in the current EP framework through engagement with EPFIs and other stakeholders including clients and industry, civil society, and financial sector peers,
- identify recommended action points that will lead to the successful implementation of the vision/plan, and

¹ The International Finance Corporation Review and Update process completed in August 2011 and the updated framework was officially launched on 1 January 2012 – <http://www.ifc.org/ifcext/policyreview.nsf/Content/2012-Edition>.

- prepare for an update of the EPs following the conclusion of the International Finance Corporation Performance Standards Review and Update process.

In May 2011 the EP Association publicly released the Executive Summary and Appendix of the Strategic Review consultant report and an associated EP Association Summary Response. The documents can be viewed at <http://www.equator-principles.com/index.php/all-ep-association-news/216-ep-strategic-review-release>

Equator Principles Update 2011 – EP III

Following the conclusion of the International Finance Corporation Performance Standards Update and Review process and the EP Strategic Review process, the EP Association launched the EP III Update process in July 2011 and initiated internal discussions on key thematic areas including:

- Scope of the EPs.
- Reporting and transparency.
- Governance issues, including membership criteria.
- Stakeholder engagement during the EP III Update process (including industry and clients, peer financial institutions, and civil society organisations).

The EP Association has set provisional dates (summarised below) for the planned activities, consultation and public comment process however these may be subject to revision or extension at any time.

- Phase I – Focused EP Association group work and internal discussion on key topics and thematic areas indentified in the Strategic Review (July – September 2011).
- Phase II – Consultation period with the EP Association members, preliminary scoping discussions with key stakeholders and initial drafting of the EP III framework (September 2011 – May 2012).
- Phase III - Launch of the formal 60 day Stakeholder Consultation and Public Comment Process (May - July 2012). *Note: the EP Association will be providing a more detailed timeline for this at a later date.*
- Phase IV - Finalisation and launch of the EP III framework (July – October 2012).

It is important to note that the EP Association will be engaging with stakeholders during every phase of the process via the Stakeholder Engagement Working Groups and commits to making

the EP III draft public (when available) for a minimum period of 60 days for review and comment.

The EP Association will aim to be open and transparent during the EP III Update process, and welcomes feedback and comments from any interested party on both process and substance.

HISTORY & CONTEXT

When were the Equator Principles created and launched?

For a number of years, banks working in the Project Finance sector had been seeking ways to assess and manage the environmental and social risks associated with such investment activities.

In October 2002, nine international banks convened in London, together with the International Finance Corporation, to discuss these issues. Four of the banks present – ABN Amro, Barclays, Citi (formerly Citigroup) and WestLB – acknowledging the general consensus amongst those present, volunteered jointly to develop a banking industry framework for addressing environmental and social risks in Project Finance that could be applied globally and across all industry sectors.

At the time, the banks soon concluded that the best, most commonly known and widely tested environmental and social policy framework in the finance sector were those established and used by the International Finance Corporation in emerging markets. These standards included International Finance Corporation’s Environmental and Social Safeguard Policies, Pollution Prevention and Abatement Guidelines (these have evolved into what is currently known as the Performance Standards) and risk categorization screening criteria.



Launch of the Equator Principles

The EPs were launched in Washington D.C. on 4 June 2003 and were initially adopted by ten global financial institutions: ABN AMRO Bank, N.V., Barclays plc, Citi, Crédit Lyonnais, Credit Suisse First Boston, HVB Group, Rabobank Group, The Royal Bank of Scotland, WestLB AG, and Westpac Banking Corporation. Subsequently there were over forty further EP adoptions during the first three year implementation period.

Equator Principles Update 2006 – EP II

In the autumn of 2004, the International Finance Corporation announced its intention to update its Environmental and Social Safeguard Policies.

During the public consultation process that accompanied the revision process, the EPFIs participated in a number of consultation meetings with the International Finance Corporation and ultimately an extension of the public consultation period was made in order to receive and fully consider all comments from stakeholders.

Parallel to the International Finance Corporation's public consultation process, EPFIs engaged with a wide range of stakeholders directly, including NGOs, civil society, clients and industry associations, to listen and learn from their perspectives on the International Finance Corporation's proposed changes. These engagements encompassed in part:

- a number of meetings and conference calls with a wide-selection of EPFI clients in various sectors and regions, and industry associations.
- bi-lateral meetings/conference calls (and a meeting in London) with 25 NGOs interested in the EPs.
- an EPFI meeting held with environmental practitioners from Export Credit Agencies.

In order to reflect the changes in the International Finance Corporation's new Performance Standards (which were adopted by International Finance Corporation's Board in February 2006 and came into effect on 30 April 2006) and the EPFI's implementation experience, the EPFIs embarked on an engagement and review exercise to update the EPs. The revised EPs (EP II) were subsequently released on 6 July, 2006 in London.

The revised EPs incorporated a number of significant and important changes such as a lowering of the dollar threshold from US\$ 50 million to US\$ 10 million, the inclusion of Project Finance Advisory Services in the EP scope, and the inclusion of stronger and better social standards as outlined in the International Finance Corporation Performance Standards (including enhanced consultation and covenanting requirements, labour standards and project-level grievance mechanisms). The revised EPs also led to increased transparency by requiring each EPFI to report publicly on its implementation of the EPs on an annual basis.

New Equator Principles Association and Governance Rules

In July 2010, the EP Association was instituted to ensure the long-term viability and ease of management of the member EPFIs and Associates.

Equator Principles Strategic Review (October 2010 – May 2011)

In September 2009, the International Finance Corporation launched a review process² of their Policy and Performance Standards on Social and Environmental Sustainability (on which the EPs are based) and Policy on Disclosure of Information (sustainability framework).

Subsequently in October 2010 the EP Association launched a Strategic Review process to produce a multi-year strategic vision to ensure the EPs continue to be viewed as the “gold standard” in environmental and social risk management for Project Finance within the financial sector.

The EP Strategic Review had the following aims:

- take stock of the current state of the EPs and develop a better understanding of the challenges and successes to-date,
- identify perceived areas of strength and weakness in the current EP framework through engagement with EPFIs and other stakeholders including clients and industry, civil society, and financial sector peers,
- identify recommended action points that will lead to the successful implementation of the vision/plan, and
- prepare for an update of the EPs following the conclusion of the International Finance Corporation Performance Standards Review and Update process.

In May 2011 the EP Association publicly released the Executive Summary and Appendix of the Strategic Review consultant report and an associated EP Association Summary Response.

The documents can be viewed at <http://www.equator-principles.com/index.php/all-ep-association-news/216-ep-strategic-review-release>

Equator Principles Update 2011 – EP III

Following the conclusion of the International Finance Corporation Performance Standards Update and Review process and the EP Strategic Review process, the EP Association launched the EP III Update process in July 2011 and initiated internal discussions on key thematic areas including:

- Scope of the EPs.
- Reporting and transparency.
- Governance issues, including membership criteria.

² The International Finance Corporation Review and Update process completed in August 2011 and the updated framework was officially launched on 1 January 2012 – <http://www.ifc.org/ifcext/policyreview.nsf/Content/2012-Edition>.

- Stakeholder engagement during the EP III Update process (including industry and clients, peer financial institutions, and civil society organisations).

The EP Association has set provisional dates (summarised below) for the planned activities, consultation and public comment process however these may be subject to revision or extension at any time.

- Phase I – Focused EP Association group work and internal discussion on key topics and thematic areas identified in the Strategic Review (July – September 2011).
- Phase II – Consultation period with the EP Association members, preliminary scoping discussions with key stakeholders and initial drafting of the EP III framework (September 2011 – May 2012).
- Phase III - Launch of the formal 60 day Stakeholder Consultation and Public Comment Process (May - July 2012). *Note: the EP Association will be providing a more detailed timeline for this at a later date.*
- Phase IV - Finalisation and launch of the EP III framework (July – October 2012).

It is important to note that the EP Association will be engaging with stakeholders during every phase of the process via the Stakeholder Engagement Working Groups and commits to making the EP III draft public (when available) for a minimum period of 60 days for review and comment.

The EP Association will aim to be open and transparent during the EP III Update process, and welcomes feedback and comments from any interested party on both process and substance.

Timeline of Key Events

October 2002	London meeting convened with the International Finance Corporation to discuss environmental and social risk issues in Project Finance.
4 June 2003	Launch of first EPs in Washington, DC and adoption by the first ten financial institutions.
October 2003	Mizuho (Japan), first Asian financial institution, adopts the EPs.
May 2004	EKF (The Netherlands), first export credit agency, adopts the EPs.

4 June, 2004	First anniversary of EPs - The EPs extends to 25 adopting financial institutions located in 14 countries.
June 2004	Unibanco, the first emerging market and South American financial institution, adopt the EPs.
November 2005	Nedbank (South Africa), the first African bank, adopts the EPs.
Sept 2004 - Feb 2006	EPFIs participate in the International Finance Corporation's Environmental and Social Safeguard Policy Update process. EPFIs consult with NGOs, civil society, clients and industry associations on the International Finance Corporation's proposed changes.
February 2006	The International Finance Corporation's Board approves new environmental and social Performance Standards with an effective date of 30 April 2006.
Feb – Jun 2006	EPFIs conduct an engagement and review process with NGOs, civil society, export credit agencies, industry associations and clients on the revision of the EPs (EP II) which incorporates the changes in the International Finance Corporation's Performance Standards.
6 July, 2006	Launch of EP II in London - 40 institutions re-adopt the EPs thereby underscoring global application of environmental and social risk management.
April 2007	The International Finance Corporation updates its Environmental Health and Safety Guidelines, which EPFIs incorporate into the EPs.
December 2007	EPFIs publish details of their informal management structure (the original EP Steering Committee), working groups and the paper “Guidance to EPFIs on Equator Principles Implementation Reporting” on the EP website.
April 2008	The EP Secretariat is established.
May 2008	EPFIs celebrate the 5th anniversary of the EPs in Washington, DC

September 2008	Itau-Unibanco S/A, a Brazilian financial institution and one of the largest emerging markets banks in the world, is announced as the new EP Steering Committee Chair.
October 2008	Industrial Bank, the first domestic Chinese financial institution, adopts the EPs.
August 2009	EPFIs publish the paper <u>"Guidance to EPFIs on Incorporating Environmental and Social Considerations into Loan Documentation"</u> on the EP website.
October 2009	EPFIs participate in the International Finance Corporation's Sustainability Policy and Performance Standards review and update process.
February 2010	Standard Bank (South Africa), is announced as the first African institution to sit on the EP Steering Committee.
March 2010	Citi is announced as the new EP Steering Committee Chair.
July 2010	Formal establishment of the EP Association and launch of the EP Association Governance Rules.
October 2010	The EP Association announces the commencement of the EP Strategic Review.
May 2011	The EP Association releases a Summary Response to the Strategic Review consultant's report of findings and recommendations. The EP Association launches new website and logo. The International Finance Corporation's Board approves the updated Sustainability Policy and Performance Standards with an effective date of 1 January 2012.
July 2011	The EP Association announces the commencement of the EP III Update process.

1 January 2012	<p>The newly revised International Finance Corporation Performance Standards become effective.</p> <p>EP Association members apply newly revised Performance Standards – the EP Association Steering Committee issue guidance on implementation http://www.equator-principles.com/index.php/all-ep-association-news/254-revised-ps</p>
May 2012	ING is announced as the new EP Association Steering Committee Chair.

What is the origin of the name “Equator Principles”?

The initial founders of the EPs wanted the adoption of the EPs to be a globally applicable (to financial institutions in the northern and southern hemispheres) and the equator seemed to represent that balance perfectly – hence the name, Equator Principles.

Have the Equator Principles changed the Project Finance industry?

The development and application of the EPs has been a huge step forward for the finance industry, in terms of having a common framework and language pertaining to environmental and social issues in the Project Finance industry based on an external and respected benchmark, namely the International Finance Corporation Performance Standards and the World Bank Group Environmental, Health and Safety Guidelines.

The EPs have consequently become the standard for assessing and managing environmental and social risk in Project Finance transactions. This common framework has allowed for greater consistency in approach and application in environmental and social risk management within the Project Finance industry globally.

Additional added welcome benefits have included enhanced bank – client dialogue on such issues, and greater protection for project-affected communities and ecosystems. This has helped accelerate momentum in other areas of environmental and social responsibility in the financial industry, including development and application of broader environmental and social risk management policies and procedures for other financial product types.

Have the Equator Principles hurt banks' business?

No. The EPFIs have not seen any decline in business because of adoption, application or implementation of the EPs.



In fact, the EPs have been championed by the Project Finance business heads of participating EPFIs. They continue to believe that having a framework for the industry will lead to greater learning among Project Finance institutions on environmental and social issues, and that having greater expertise in these areas will better enable them to advise clients and control risks. In other words, they continue to believe it is good for business.

GOVERNANCE & MANAGEMENT

How are the Equator Principles governed?

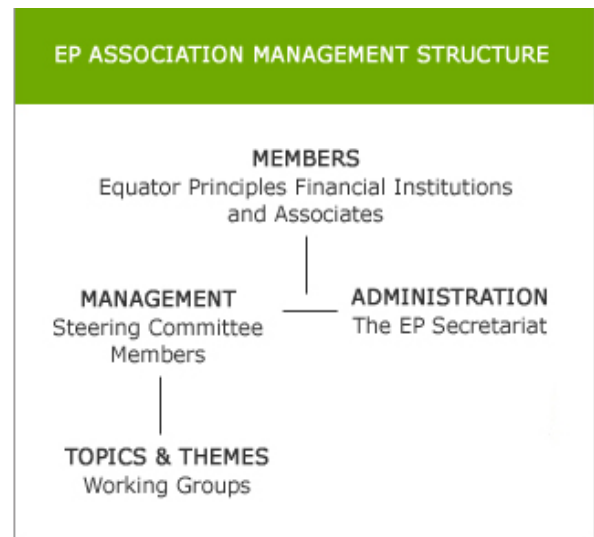
The EP Association is the unincorporated association of member EPFIs and Associates whose object is the management, administration and development of the EPs. The EP Association was formed on 1 July 2010 and was instituted to ensure long-term viability and ease of management of the member EPFIs and Associates.

The EP Association is governed by a set of [Governance Rules](#) which provide guidance to existing and prospective EPFIs and Associates on the processes for the management, administration and development of the EPs.

The EP Association Steering Committee coordinates the administration, management and development of the EPs on behalf of the member EPFIs and Associates.

There are 14 members of the EP Association Steering Committee:

- Barclays plc
- Credit Agricole Corporate & Investment Bank
- Credit Suisse
- Citi
- Export Development Canada
- HSBC
- ING (Chair)
- Itau Unibanco S/A
- Mizuho
- Standard Bank Group
- Bank of Tokyo-Mitsubishi UFJ (BTMU)
- The Royal Bank of Scotland
- UniCredit Bank AG
- WestLB



The role of the Chair of the EP Association Steering Committee (currently ING) is to provide co-ordination across the Steering Committee, Working Groups and member institutions. The EP Association Governance

Rules detail the scope of the roles of the EP Association Steering Committee and Chair and how representatives are nominated and appointed.

Are the Equator Principles part of an International Finance Corporation or World Bank initiative or programme?

No, the EPs were created and are managed and governed by the adopting institutions. However a close and constructive relationship with the International Finance Corporation is maintained.

What are the Equator Principles Association Working Groups?

EP Association Working Groups are created by the EP Association Steering Committee to discuss and provide guidance to EPFIs, Associates and/or their stakeholders on issues associated with the management, administration or development of the EPs.

EPFIs and Associates are not required to join a Working Group, however, they are encouraged to do so if they have any specific expertise or interest, and believe they can contribute.

There are currently ten EP Working Groups and details can be found at <http://www.equator-principles.com/index.php/best-practice-resources/working-groups>

What is the role of the Equator Principles Association Secretariat?

The EP Association Secretariat manages the day to day running of the EP Association and provides a wide variety of services to the EP Association members, Steering Committee and Chair. These include:

- being the first point of contact for all internal and external enquiries,
- managing internal and external communications including the EP website, press and general updates,
- providing advice and assistance with regards to adoption,
- managing the financial administration relating to the running of EP Association.

The EP Association Secretariat consists of three individuals based in the UK and they can be contacted as follows:

Samantha Hoskins, Joanna Clark and Nina McKay
The EP Association Secretariat, The EP Association
Tel: +44 1621 853 900
Fax: +44 1621 731 483
Email: secretariat@equator-principles.com

What relationships do Equator Principles Financial Institutions have with external stakeholders?

Stakeholder engagement remains an important element of EP implementation and the members regularly meet to share experiences with various stakeholders.

There are three Stakeholder Engagement Working Groups that work directly with stakeholders:

- NGO and Civil Society
- Industry
- Export Credit Agency

EPFIs also engage with stakeholders through other Working Groups, EP meetings and events and individually.

ADOPTION AND MEMBERSHIP

Does the Equator Principles Association encourage institutions to adopt the Equator Principles?

Yes. The EP Outreach Working Groups is actively engaged with institutions in China, Russia, India and Africa/Middle East, and South America. The EPFIs also have continuous dialogue with export credit agency practitioners and multilaterals. Engagement can take the form of one-on-one meetings, conferences or seminars.

Why do financial Institutions adopt the Equator Principles and what are the benefits?

The EPs have become the financial industry standard for environmental and social risk management in Project Finance. Financial institutions adopt the EPs to ensure that the projects they finance are developed in a socially responsible manner and reflect sound environmental management practices. By doing so, negative impacts on project-affected ecosystems and communities should be avoided where possible, and if unavoidable, should be reduced, mitigated and/or compensated for appropriately.

Adopters believe that the adoption of and adherence to the EPs offers significant benefits to them, their borrowers and local stakeholders through their borrowers' engagement with locally affected communities.

Adopters should be able to better assess, mitigate, document and monitor the credit and reputation risk associated with financing development projects. Additionally, the collaboration and learning on broader policy application, interpretation and methodologies between adopters, and with their stakeholders, helps knowledge transfer, learning and best practice development. The adopters' role as financiers affords them opportunities to promote responsible environmental stewardship and socially responsible development.

Who can adopt the Equator Principles?

There are two membership categories and the applicable category is determined by whether the financial institution is "Active in Project Finance".

A financial institution is "Active in Project Finance" when:

- a) it has current loans on its books which are subject to the EPs, or
- b) it has provided Project Finance loans or Project Finance Advisory Services within the previous 24 months, or
- c) it has the intention of providing Project Finance loans or Project Finance Advisory Services within a 12 month period.

Equator Principles Financial Institution

An EPFI is a financial institution that has adopted the EPs, in accordance with the procedures in the EP Association Governance Rules, and is “Active in Project Finance”.

The ongoing requirements for an EPFI are:

- that it shall continue to be Active in Project Finance;
- that it shall report publicly at least annually about its implementation of the EPs, in accordance with EP 10 and the EP Association Governance Rules;
- that it shall pay the Annual Fee in a timely manner;
- that it shall provide annually to the EP Association Secretariat a hyperlink to the relevant page on its website where it reports publicly;
- and that, if it ceases to be Active in Project Finance and wishes to become an Associate, it shall inform the EP Association Secretariat in writing so that its change in status can be recorded.

Each EPFI shall introduce and implement its own internal social and environmental risk management policies, procedures and standards in order to comply with the EPs.

EPFIs are expected to apply the EPs to all new projects over \$10m from the date of adoption. It is recommended that all the relevant policy and procedures to enable them to do this are in place at the time of adoption.

Associate

An Associate is a financial institution that has adopted the EPs, in accordance with the procedures in the EP Association Governance Rules, as part of its broader approach to sustainability but is not Active in Project Finance.

The ongoing requirements for an Associate are:

- that it shall report publicly at least annually about the relevance of the EP to its business and how it uses the EPs to implement the International Finance Corporation Performance Standards and Environmental, Health and Safety Guidelines in its business;
- that it shall pay the Annual Fee in a timely manner.
- that it shall provide annually to the EP Association Secretariat a hyperlink to the relevant page on its website where it reports publicly;
- and that, if it becomes Active in Project Finance, it shall inform the EP Association Secretariat in writing, so that its change in status can be recorded.

What is an Equator Principles Financial Institution?

An EPFI is a financial institution that adopts the EPs and is **active** in Project Finance or Project Finance Advisory Services.

A financial institution is '**Active in Project Finance**' when:

- a) it has current loans on its books which are subject to the EPs, or
- b) it has provided Project Finance loans or Project Finance Advisory Services within the previous 24 months, or
- c) it has the intention of providing Project Finance loans or Project Finance Advisory Services within a 12 month period.

After adoption the ongoing requirements for an EPFI are:

- that it shall continue to be Active in Project Finance;
- that it shall report publicly at least annually about its implementation of the EPs, in accordance with EP 10 and the grace period detailed in Rule 6b of the EP Association Governance Rules;
- that it shall pay the Annual Fee in a timely manner;
- that it shall provide annually to the EP Association Secretariat a hyperlink to the relevant page on its website where it reports publicly;
- and that, if it ceases to be Active in Project Finance and wishes to become an Associate, it shall inform the EP Association Secretariat in writing so that its change in status can be recorded.

What is an Associate?

An Associate is a financial institution that is **not active** in Project Finance and adopts the EPs part of its broader approach to sustainability.

After adoption the ongoing requirements for an Associate are:

- that it shall report publicly at least annually about the relevance of the EPs to its business and how it uses the EPs to implement the International Finance Corporation Performance Standards and World Bank Environmental, Health and Safety Guidelines in its business;
- that it shall pay the Annual Fee in a timely manner.
- that it shall provide annually to the EP Association Secretariat a hyperlink to the relevant page on its website where it reports publicly;
- and that, if it becomes Active in Project Finance, it shall inform the EP Association Secretariat in writing, so that its change in status can be recorded.

What is the adoption process?

It is very important that the adopting institution read and understand the EPs and the EP Association Governance Rules before embarking on the adoption process.

1. The prospective EPFI/Associate is required to complete an Adoption Agreement and Contact Form.
2. The Agreement and Contact Form should be emailed or faxed to the EP Association Secretariat.
3. It is then promptly determined whether the adoption requirements have been met and the forms are forwarded to the EP Association Steering Committee Chair to obtain confirmation.
4. Then an adoption date is agreed between the EP Association Secretariat and the prospective EPFI/Associate.
5. The adopting institution should also prepare a press release and send it to the EP Association Secretariat for review before it is made public.
6. On the adoption date the EPFI/Associate should announce their adoption on their website and this is reciprocated on the EP website.
7. The EPFI/Associate will receive a welcome email from the EP Association Steering Committee Chair Bank and the EP Association Secretariat will announce the adoption to EP Association members.

What is the Annual Fee?

There is a minimal fee payable by EPFIs and Associates on an annual basis in respect of external costs incurred in the management, administration and development of the EPs.

The fee is approved and voted upon by the members at the EP Association Annual Meeting each year. The Annual Fee is payable on adoption and if the financial institution adopts part way through the financial year the amount is pro-rated.

The Annual Fee for the Financial Year 1 July 2011- 30 June 2012 is GBP £2,370.00.

IMPLEMENTATION & REPORTING

Do Equator Principles Financial Institutions have to change their business processes to ensure robust implementation?

EPFIs are organised differently internally, and each EPFI commits to embedding the implementation of the EPs into its business and risk management processes in a manner consistent within its organisational structure.

EPFIs who have adopted the EPs have concentrated on implementation steps within their organisations, including formal changes to internal policies and processes to mandate the application of the EPs.

Additionally, EP 10 on reporting requires each EPFI to commit to report publicly at least annually about its EP implementation processes and experience, taking into account appropriate confidentiality considerations. Such reporting should at a minimum include the number of transactions screened by each EPFI, including a summary of the categorisation accorded to transactions (and may include a breakdown by sector or region), and information regarding implementation.

EPFIs believe strongly that this will significantly increase transparency regarding EPs implementation across the industry.

What steps do Equator Principles Financial Institutions take to ensure the Equator Principles are followed?

Firstly, EPFIs use the common terminology in the EPs to categorise projects into high, medium and low environmental and social risk, based on the International Finance Corporation's categorisation process.

EPFIs apply the EPs to projects globally and to all industry sectors and over time this leads to the development of consistent approaches to dealing with high and medium risk projects.

Secondly, EPFIs require their borrowers to demonstrate in their Social and Environmental Assessments, and in their Action Plans, the extent to which they have met the applicable World Bank Group sector-specific Environmental, Health, and Safety Guidelines and International Financial Corporation Performance Standards, or to justify deviations from them. This gives EPFIs better information on which to make informed judgments.

For all Category A projects, and as appropriate Category B projects, EPFIs require the appointment of an independent environmental and/or social expert, or require that the borrower retain qualified and experienced external experts, to review and verify the borrowers' Social and Environmental Assessments and their Action Plans, as well as its independent monitoring and reporting information over the life of the

loan (which would be shared with EPFIs). The goal of such constructive interaction between the borrower, the EPFI and their consultants is to design action plans and management systems in line with the EPs requirements, and to ensure they are complied with during the project's operation and decommissioning phases.

Thirdly, EPFIs will insert covenants, for borrowers to comply with the Action Plan, into the loan documentation for high and medium risk projects. Where a borrower is not in compliance with its social and environmental covenants, EPFIs will work with the borrower to bring it back into compliance to the extent feasible, and if the borrower fails to re-establish compliance within an agreed grace period, EPFIs reserve the right to exercise remedies, as they consider appropriate.

Is there any best practice guidance to assist Equator Principles Financial Institutions in implementation?

Yes there are two public documents.

The EP Association has produced a document entitled ["Guidance to EPFIs on Incorporating Environmental and Social Considerations into Loan Documentation"](#).

Note: This guidance document has been prepared for use by the EP Association and is not to be viewed as a required legal framework, but rather a guidance document to assist EPFIs in incorporating environmental and social considerations into Project Finance loan documentation, as appropriate. As such, it does not refer to any specific Law. If this document is used by an EPFI it would be considered prudent to take in to account national law of the host country(ies) to which it is applied. The structure of the loan agreement, including timescales for receipt of reports and monitoring frequency, will depend on the nature of the project and complexity of the environmental and social risks (i.e. category of the project).

The EP Association has also produced produced a document entitled ["Guidance to EPFIs on Equator Principles Implementation Reporting"](#).

Note: This guidance document has been prepared for use by the EP Association and is not to be viewed as a required reporting framework, but rather a guidance document to assist EPFIs in development of their EP implementation and reporting methodologies, as required.

What does Principle 10 mean in practice and are there any guidelines on reporting?

EPFIs recognise the importance of transparency with regard to the implementation of the EPs.

On adoption each EPFI commits (via EP 10) to report at least annually about its EP implementation processes and experience, taking into account appropriate confidentiality considerations.

The reporting should at a minimum include the number of transactions screened by each EPFI, including the categorisation accorded to transactions (and may include a breakdown by sector or region), and information regarding implementation.

There is a one year grace period for new adopters and the guidance states that EPFIs could consider reporting only on their EP implementation efforts after the first year. It would be expected that an institution be at an advanced stage of implementation after this 1 year grace period.

A newly adopting institution would benefit from best practice and support from the EP Association members however it would need to allocate adequate resources to implementation to satisfy EP 10.

By the 2nd year of implementation full reporting on number of transactions screened/reviewed and a discussion of EP implementation efforts is required.

There is a best practice guidance note on EP reporting ["Guidance to EPFIs on Equator Principles Implementation Reporting"](#) to assist new adopters.

Note: This guidance document has been prepared for use by the EP Association and is not to be viewed as a required reporting framework, but rather a guidance document to assist EPFIs in development of their EP implementation and reporting methodologies, as required.