

California State Teachers' Retirement System Dakota Access Pipeline Engagement Report

April 1, 2018

Introduction

In accordance with Chapter 575, Statutes of 2017 (AB 20—Kalra), the California State Teachers' Retirement System (CalSTRS) is required to report, on or before April 1, 2018, to the Legislature and the Governor regarding the Teachers' Retirement Fund's investments in, and CalSTRS' engagement with, companies constructing, or funding the construction of, the Dakota Access Pipeline. This report is submitted in compliance with the bill. In addition to the reporting requirement, Chapter 575 stated the intent of the Legislature that the Teachers' Retirement Board review and consider factors related to tribal sovereignty and indigenous tribal rights as part of the board's investment policies related to environmental, social and governance issues.

Background

CalSTRS

With over 100 years of experience and over \$223.2 billion of assets under management, CalSTRS is the oldest and largest educator-only pension system in the world. CalSTRS members include California public school employees, pre-kindergarten through community college, who teach, are involved in the selection and preparation of instructional materials, or are supervising persons engaged in those activities. CalSTRS members are employed by approximately 1,700 school districts, community college districts, county offices of education and regional occupational programs. CalSTRS is administered by the 12-member Teachers' Retirement Board. The board sets the policies and is responsible for ensuring benefits are paid by the system in accordance with the law.

One of the board's key core values is to ensure the strength of the retirement system by proactively addressing the risks of investing. Accordingly, the board has adopted its Investment Policy for Mitigating Environmental, Social and Governance Risks (ESG). The policy requires investment managers to consider 21 separate risk factors when investing for CalSTRS. A copy of the policy is included as Attachment A.

The Dakota Access Pipeline

The Dakota Access Pipeline (DAPL) is an underground oil pipeline project that covers a distance of nearly 1,200 miles, stretching from the Bakken shale oil fields in northwest North Dakota to an oil tank farm in southern Illinois. An early proposed route would have

placed the pipeline approximately 10 miles northeast of Bismarck, North Dakota. However, this route was 11 miles longer and was rejected because of the potential threat to Bismarck's water supply. Instead, the pipeline's route ended up coming in close proximity to, but did not enter, the Standing Rock Sioux Reservation. Several Native American tribal nations and environmental groups expressed concern and protested against the pipeline, citing concerns about negative impacts to the environment, including potential contamination of water sources, and other adverse impacts to the reservation of the Standing Rock Sioux Tribe. The U.S. Army Corps of Engineers, after initially denying, approved an easement in early 2017, and construction of the pipeline was completed in April 2017. The pipeline became commercially operational on June 1, 2017.

The Equator Principles

The Equator Principles are a risk management framework, adopted by financial institutions, to determine, assess and manage environmental and social risk in projects (Attachment B). The Equator Principles are primarily intended to provide a minimum standard for due diligence and monitoring to support risk decision-making, which apply globally in all industrial sectors. There are currently 92 financial institutions in 37 countries that have officially adopted the Equator Principles. Those institutions commit to implementing the Equator Principles in their environmental and social policies, procedures and standards for financing projects and will not provide project financing or corporate loans for clients that will not, or are unable to, comply with the Equator Principles.

The Equator Principles recognize "that indigenous peoples may represent vulnerable segments of project-affected communities," although they differ in the standards that projects are required to meet depending on whether they are located in a developed or developing country. The Equator Principles specify that in developing countries, "projects with adverse impacts on indigenous people will require their Free, Prior and Informed Consent." However, in developed countries, the requirements of the Equator Principles can be met by "compliance with the relevant host country laws, regulations and permits that pertain to environmental and social issues."

Policy Review

Due to concerns about environmental protection and indigenous tribal rights, AB 20 requires CalSTRS to file a report with the Legislature and the Governor regarding its investments in, and engagement with, companies constructing, or funding the construction of, DAPL by April 1, 2018.

CalSTRS has a long history of engagement under the CalSTRS' existing ESG Policy. CalSTRS' ESG Policy was created to identify and evaluate risks as the fund increased investments in emerging markets. Since that time the policy has been expanded to cover the entire portfolio. While the 21 Risk Factors in the ESG Policy reference environmental risk, the current policy does not specifically include treatment of indigenous people.

However, in the past, CalSTRS has analyzed the treatment of indigenous people through a combination of the 21 Risk Factors, including:

Respect for Human Rights

The investment's long-term profitability from its business operations and activities in countries that lack or have a weak judicial system. Assess the risk to an investment's long-term profitability from its business operations and activities in a country that engages in or facilitates the following: arbitrary or unlawful deprivation of life, disappearance, torture and other cruel, inhuman, or degrading treatment or punishment, arbitrary arrest, detention, or exile, arbitrary interference with privacy, family, home, or correspondence, use of excessive force and violations of humanitarian law in internal conflicts. Consideration should be given to governmental attitude regarding international and non-governmental investigation of alleged violations of human rights.

Respect for Civil Liberties

The investment's long-term profitability from operations, activities, and business practices in countries or regions that do not allow freedom of speech and press, freedom of peaceful assembly and association, freedom of religion, freedom of movement within the country, allowance for foreign travel, emigration, and repatriation.

Discrimination Based on Race, Sex, Disability, Language, or Social Status

The investment's long-term profitability from business practices and activities on discrimination, such as discrimination against women, children, and persons with disabilities, national/racial/ethnic minorities, or indigenous people.

Actions Taken

CalSTRS Engagement

Initially, CalSTRS staff designated the DAPL project as "watch" during the time the claims by the Standing Rock Sioux Tribe were being considered by the courts and by the federal regulatory authorities. Then CalSTRS staff, along with other public pension systems, met with tribal representatives, including Dave Archambault II, Chairman of the Standing Rock Sioux Tribe on February 28, 2017. CalSTRS staff heard the tribe's concerns about the lack of enough opportunity for participation in the consultation process to help determine the pipeline's route and the safety of the pipeline.

Construction Companies

CalSTRS identified within its portfolio holdings of debt or equities in the following 10 companies associated with the construction of DAPL:

Enbridge, Inc.
Enbridge Energy Partners, L.P.

Energy Transfer Equity, L.P.
Energy Transfer Partners, L.P.
Marathon Petroleum Corporation
MasTec, Inc.
MPLX, L.P.
Phillips 66
Phillips 66 Partners, L.P.
Sunoco Logistics Partners, L.P.

Several of these companies are interrelated, as follows:

- Energy Transfer Partners, L.P., the majority owner of DAPL, merged with Sunoco Logistics Partners, L.P. and is controlled by Energy Transfer Equity, L.P.
- Enbridge Energy Partners, L.P. and MPLX, L.P. formed a joint venture, MarEn Bakken LLC, which in turn owns a minority share of DAPL.
 - Enbridge Energy Partners, L.P. is owned by Enbridge Inc.
 - MPLX, L.P. is owned by Marathon Petroleum Corporation.
- Phillips 66 Partners, L.P., the other minority owner of DAPL, bought its stake from its parent company, Philips 66, following the construction of the pipeline.
- MasTec, Inc. was a construction contractor of the pipeline.

Financial Institutions

The following 17 banks were identified as financing the construction of DAPL, and CalSTRS, as of June 30, 2017, had holdings in all of these banks, except BayernLB:

Banco Bilbao Vizcaya Argentaria (BBVA)
Bank of Tokyo Mitsubishi UFJ
BayernLB
BNP Paribas
Citigroup
Credit Agricole
DNB ASA
Industrial and Commercial Bank of China
ING Groep
Intesa Sanpaolo
Mizuho Bank
Natixis
Société Générale
Sumitomo Mitsui Banking Corporation
SunTrust
Toronto-Dominion (TD) Bank
Wells Fargo

CalSTRS staff engaged with all of the affected companies. CalSTRS generally initiated its engagement by sending a letter requesting a meeting to discuss the company's involvement in the DAPL project. A more detailed description of the engagements and the results and efficacy of the engagements, are included in Appendix 1.

In addition to engagement with companies that have direct ties to constructing, or financings the construction of DAPL, CalSTRS has proactively engaged with 18 other banks that provide, or have provided, general purpose financing to the companies involved with the construction of DAPL. CalSTRS staff engaged with these banks in an abundance of caution to confirm that they were not involved in the financing of DAPL. Engagement was also intended to confirm that they have policies, procedures and standards in place to mitigate risks for projects similar to DAPL. CalSTRS was able to meet with the management of 10 of these banks.

Other Actions

In relation to tribal sovereignty and indigenous tribal rights, at the February 7, 2018, board meeting CalSTRS staff proposed changes to the CalSTRS ESG Policy, including the creation of a risk factor specifically addressing indigenous people's rights. The board reviewed the item and recommended changes, which will be incorporated and re-presented to the board at the May 2018 board meeting. The proposed risk factor states:

Respect for Indigenous People's Rights

The investment's long-term profitability from operations, activities and business practices that do not adequately respect the cultural value and ethnic identities or that dispossess or materially degrades lands, territories or resources.

Banks that provided financing for the construction of DAPL retained Foley Hoag LLP, a law firm that specializes in corporate social responsibility services, to provide an independent report, using DAPL as a case study, that considered international industry good practice for community engagement in the development of oil pipelines, especially in relation to engagement with indigenous peoples (Attachment C). Foley Hoag noted the complexity of the U.S. legal system that consists of multiple levels of law (federal, state and municipal), in which non-tribal community engagement varies by state. In order to perform more consistently and to reduce risk, Foley Hoag advised companies to develop corporate policies and processes that go beyond compliance with the applicable laws and are based on international industry good practice. Under federal laws, regulations and presidential executive orders, federal agencies are required to consult with indigenous tribes even if a project is not on federally recognized tribal lands when federal actions, such as permitting, may impact the tribes in certain ways. Foley Hoag notes, however, that each federal agency has developed its own consultation guidelines, which differ significantly from one another.

Foley Hoag stated that international law, and related international industry good practice, has developed rapidly in recent years, especially as it relates to indigenous rights. Therefore, U.S. law is less stringent than international law, particularly because international industry good practice:

- Provides more detailed guidance than U.S. federal law on what constitutes company-tribal consultation, defined as a two-way exchange that begins early, with tribes playing an active role in risk identification, mitigation and monitoring.

- Calls for the company-tribal consultation, and even free, prior and informed consent, in a significantly wider range of circumstances than U.S. federal law, regardless of whether impacts are on private or public land or a federal permit is required.

A group of 10 banks, including six held in the CalSTRS portfolio, authored a letter to the Equator Principles Association to express concern regarding shortcomings of the Equator Principles they found in relation to DAPL (Attachment D). The letter noted that the banks were publicly and harshly criticized for supporting a project in which consultation with an indigenous community did not involve free, prior and informed consent. The banks stated that the criticism was largely based on the fact that local laws in relation to engagement with indigenous communities are lacking compared to best practices for free, prior and informed consent. They also had no leverage with the project sponsors because there was no breach with applicable environmental and social standards being used. The banks noted the reputational damage to the banks themselves and that they believe the lack of engagement in this case would likely damage the reputation of the Equator Principles as well.

To avoid similar situations in the future, the banks proposed two changes to the Equator Principles that would significantly improve them:

- Applying the more rigorous environmental and social standards for projects in developing countries to projects in developed countries.
- Amending the Equator Principles framework to facilitate the resolution of issues resulting from a potential breach of the applicable environmental and social standards that may lead to significant damage to the environment and/or communities.

Planned Actions

CalSTRS will continue to engage the companies identified on risks related to the environment and indigenous people's rights. Furthermore, the board has directed staff to propose revisions to the ESG Policy to more explicitly recognize risks related to indigenous people. Lastly, CalSTRS will work with other investors and Equator Principles signatories to remove implementation differences between emerging and developed markets, effectivity requiring consultation with indigenous people with the goal of free, prior and informed consent on projects.

CalSTRS intends to continue to meet with banks that have been identified as providing general purpose financing to the companies involved in the construction of DAPL, and the results will be discussed at the 21 Risk Factor Review Committee. The 21 Risk Factor Review Committee consists of 13 senior staff members: the Chief Investment Officer, the Deputy Chief Investment Officer, the Chief Operating Investment Officer, two senior staff members from Global Equities, two senior staff members from Fixed Income, two senior staff members from Corporate Governance, one senior staff member from Private Equity, one senior staff member from Real Estate, one senior staff member from Operations, and one senior staff member from the Innovation and Risk Group. In 2014,

the committee adopted a charter governing its operation and scope of duties (Attachment E).

Conclusion

As noted in this report, CalSTRS will continue to invest its funds in a responsible and prudent manner and adhere to the board's ESG Policy. CalSTRS will continue to address the concerns and risks around the environment and indigenous rights raised by the DAPL situation through complete engagement with all companies identified in which CalSTRS has holdings, including those that provided general purpose financing to the companies involved with the construction of DAPL. CalSTRS will also revise the ESG Policy to specifically include treatment of indigenous people and work with banks and other investors to improve the environmental and indigenous people's rights requirements in the Equator Principles.

Companies Involved in DAPL Construction		
	Company	Engagement Actions
1	Enbridge Inc.	<p>Enbridge Inc. owns a 34.9 percent economic interest in Enbridge Energy Partners, L.P. Enbridge Energy Partners, L.P. formed MarEn Bakken LLC, a joint venture with MPLX, L.P, a publicly traded master limited partnership. MarEn Bakken LLC bought a 36.75 percent minority stake in Dakota Access, LLC.</p> <p>Description of Engagement: CalSTRS voted in favor of a 2017 shareholder proposal for management to report on the “due diligence process used by Enbridge, its affiliates and subsidiaries to identify and address social and environmental risks, including Indigenous rights risks, when reviewing potential acquisitions.”</p> <p>Results and Efficacy of Engagement: In its recommendation to reject the shareholder proposal, the Enbridge board indicated that the company provides extensive information on environmental protection, stakeholder engagement and indigenous consultation in its annual Corporate Social Responsibility (CSR) and Sustainability Report. In 2016, Enbridge established a new Indigenous Peoples Policy and expanded its Indigenous Engagement Program to enhance its ability to build relationships with the indigenous communities near projects and operations. In an effort to be responsive to the proposal, the company committed to providing additional information regarding indigenous consultation, engagement and inclusion for its 2017 CSR and Sustainability Report.</p> <p>Consistent with CalSTRS Corporate Governance Principles and ESG Policy, CalSTRS voted in favor of the 2017 shareholder proposal, which received 30.08 percent support.</p>
2	Energy Transfer Partners, L.P. (ETP)	<p>ETP is the parent company of Dakota Access, LLC, which constructed and operates the Dakota Access Pipeline. ETP merged with Sunoco Logistics Partners, L.P. in April 2017 to form one partnership also named ETP. ETP’s general partner is owned by Energy Transfer Equity, L.P.</p> <p>Description of Engagement: CalSTRS staff had an in-person meeting with management and toured ETP’s terminal and pipeline control operations center in Sugarland, Texas, in July 2017. The purpose of the meeting was to assess the company’s risk mitigation strategies concerning human capital, emergency preparedness, social license to operate and internal controls.</p> <p>Results and Efficacy of Engagement: Through the site tour and extensive discussion with staff, ETP provided information regarding its significant risk management and internal control process as well as its efforts to consult with stakeholder communities, including the Standing Rock Sioux Tribe. Though risk is inherent with pipeline operations, the company indicated that it has adopted, and will continue to further adopt, risk mitigation strategies to help prevent the occurrence and limit the severity of leaks and other emergencies. A thorough description of ETP’s safety measures can be found on the company’s website. ETP also indicated that it would continue to improve its efforts to communicate its pipeline safety and environmental risk mitigation practices with stakeholder communities located near its projects and demonstrated a particular appreciation for the uniqueness of indigenous peoples’ relationships with the resources affected by such projects.</p>

Companies Involved in DAPL Construction		
	Company	Engagement Actions
3	Marathon Petroleum Corporation	<p>Marathon Petroleum Corporation formed MPLX, L.P, a publicly traded master limited partnership, in 2012. MPLX, L.P., formed a joint venture with Enbridge Energy Partners, L.P., MarEn Bakken LLC, which bought a 36.75 percent minority stake in Dakota Access, LLC. The MPLX share of the joint venture amounts to approximately 9 percent of the pipeline.</p> <p>Description of Engagement: Marathon has yet to respond to CalSTRS letter seeking to initiate engagement. In a separate action, CalSTRS voted in favor of a 2017 shareholder proposal for management to prepare a report describing the due diligence process used to identify and address environmental and social risks, including Indigenous rights risk, in reviewing potential acquisitions.</p> <p>Results and Efficacy of Engagement: In recommending against the proposal, management indicated in an April 11, 2017, statement that that they remain committed to the project and that, as experienced pipeline owners and operators, they were satisfied with the level of consultation with indigenous people as well as the level environmental review.</p> <p>Consistent with CalSTRS Corporate Governance Principles and ESG Policy, CalSTRS voted in favor of the 2017 shareholder proposal, which received 32.04 percent support. A similar proposal was withdrawn by shareholders in 2018 after the company committed to new disclosures regarding policies on indigenous people's rights.</p>
4	MasTec, Inc.	<p>MasTec is an infrastructure engineering and construction company with a focus on the electric transmission and distribution, oil and natural gas pipeline, and communications industries. Subsidiary Precision Pipeline, LLC was a contracted construction partner on the Dakota Access Pipeline.</p> <p>Description of Engagement: CalSTRS staff met with MasTec management on March 19, 2018. The purpose of the meeting was to assess the company's level of involvement with the project as well as their risk mitigation strategies regarding human rights and social license to operate.</p> <p>Results and Efficacy of Engagement: MasTec confirmed that it was a construction contractor for the pipeline and was comfortable with the regulatory reviews and governmental approvals received by the owners to ensure that the project achieved an appropriate legal and social license to operate. In addition, the company reports that in order to ensure the safety of its own workers as well as the protestors, it took a policy of avoidance, including leaving property and equipment unprotected resulting in losses to the company.</p>

Companies Involved in DAPL Construction		
	Company	Engagement Actions
5	Phillips 66	<p>Phillips 66 had a 25 percent minority ownership stake in Dakota Access, LLC, which it sold to Phillips 66 Partners L.P in September 2017. Phillips 66 Partners L.P. is a master limited partnership in which Phillips 66 has a 55 percent interest.</p> <p>Description of Engagement: CalSTRS staff met with company management by phone on November 6, 2017. The purpose of the meeting was to discuss Philips 66 consultation with stakeholders, including the Standing Rock Sioux Tribe, as well as the company's risk mitigation strategies concerning human capital, emergency preparedness, social license to operate and internal controls.</p> <p>Results and Efficacy of Engagement: Philips 66 conducted more than 100 consultations with stakeholders, including the Standing Rock Sioux Tribe, and the pipeline route was revised more than 140 times to address concerns. In addition, the company also highlighted the fact that the pipeline route is more than 100 feet under any area of water in order to help prevent contamination. Philips 66 pledged its continued commitment to dedicate resources to research and development in order to further enhance safety and emissions standards. The company's safety history and policy and its sustainability efforts highlighting responsible operations can be found in its Sustainability Report.</p> <p>In 2017, a shareholder proposal was withdrawn that would have required Philips 66 to report on its due diligence process regarding environmental and social risks, including indigenous rights risk. As rationale for the withdrawal, the proponents of the proposal indicated that Philips 66 committed to "work towards disclosing and strengthening the company's human rights and indigenous rights policies."</p>

Companies Involved in DAPL Financing		
	Company	Engagement Actions
1	Banco Bilbao Vizcaya Argentaria (BBVA)	<p>BBVA has been identified as directly financing the pipeline.</p> <p>Description of Engagement: BBVA has yet to respond to CalSTRS letter seeking to initiate engagement.</p> <p>Results and Efficacy of Engagement: BBVA issued a public statement that noted its early adoption of the Equator Principles, which were among the guidelines used to evaluate the Dakota Access Pipeline project finance transaction. The company stated that it met with the Standing Rock Sioux Tribe in March 2017, to hear the tribe's concerns directly and would follow up with its client to discuss the matter. BBVA also expressed interest in doing its part to help resolve the matter in a respectful way that encourages ongoing dialogue.</p> <p>BBVA is also a signatory of the letter supporting the effort to revise the Equator Principles to require free, prior and informed consent of indigenous communities in all countries (Attachment D).</p>
2	Bank of Tokyo-Mitsubishi UFJ (MUFG)	<p>MUFG has been identified as directly financing the pipeline.</p> <p>Description of Engagement: MUFG has yet to respond to CalSTRS letter seeking to initiate engagement.</p> <p>Results and Efficacy of Engagement: MUFG is an adoptee of the Equator Principles. In response to demands from Japanese activists to divest from DAPL, the company released the following statement to a Japanese news organization: "Consistent with our global commitment to a sustainable society, we respect responsible energy development and continue to take the concerns and safety of all parties into consideration."</p>
3	BNP Paribas	<p>BNP Paribas has been identified as directly financing the pipeline.</p> <p>Description of Engagement: CalSTRS staff had an in-person meeting with company management on December 5, 2017. The purpose of the meeting was to better understand the risk mitigation efforts that the company undertakes when assessing the environmental and social risks related to its loans.</p> <p>Results and Efficacy of Engagement: Through discussion with CalSTRS staff, the company stated that it has an environmental, social and governance, as well as corporate social responsibility and reputational, review of all loans. In April, 2017, BNP Paribas announced its decision to sell its loan related to DAPL. The decision was made following a comprehensive review of the project, including consultation with all relevant stakeholders. The company indicated that the decision signaled their commitment to the importance of full and detailed consultation on projects that impact large numbers of stakeholders.</p> <p>BNP Paribas is also a signatory of the letter supporting the effort to revise the Equator Principles related to free, prior and informed consent of indigenous communities in all countries (Attachment D).</p>

Companies Involved in DAPL Financing		
	Company	Engagement Actions
4	Citigroup	<p>Citigroup has been identified as directly financing the pipeline</p> <p>Description of Engagement: CalSTRS staff had a meeting with company management by phone on February 2, 2018. The purpose of the meeting was to better understand the risk mitigation efforts that the company undertakes when assessing the environmental and social risk related to its loans.</p> <p>Results and Efficacy of Engagement: Citigroup reviewed the project and engaged the related parties, including the Standing Rock Sioux Tribe. The company made several public statements to improve the consultation process. Separately the firm hired independent social risk consultant to advise the firm on due diligence and social risk.</p> <p>Citigroup also indicated supporting the effort to revise the Equator Principles to require free prior and informed consent of indigenous communities in all countries.</p>
5	Credit Agricole	<p>Credit Agricole has been identified as directly financing the pipeline.</p> <p>Description of Engagement: CalSTRS staff had an in-person meeting with Credit Agricole management on December 6, 2017. The purpose of the meeting was to better understand the risk mitigation efforts that the company undertakes when assessing the environmental and social risks related to its loans.</p> <p>Results and Efficacy of Engagement: Credit Agricole committed to supporting the recommendations of Foley Hoag LLP and not increasing exposure to Bakken Holdings Company or its affiliates until the dispute is resolved. Credit Agricole discussed its support to revise the Equator Principles to require free, prior and informed consent of indigenous communities in all countries and to create a grievance support structure for when there is a dispute. The company is a signatory of the letter supporting this effort. (Attachment D)</p> <p>A separate company statement also noted the following:</p> <ul style="list-style-type: none"> • The DAPL project had obtained all the necessary permits from the U.S. government, and an independent legal counsel had confirmed that the project complied with all the prevailing laws and regulations. • The company spoke directly on several occasions with representatives from the Standing Rock Sioux Tribe.
6	DNB ASA	<p>DNB ASA has been identified as directly financing the pipeline.</p> <p>Description of Engagement: DNB ASA has yet to respond to CalSTRS letter seeking to initiate engagement.</p> <p>Results and Efficacy of Engagement: DNB ASA, an adoptee of the Equator Principles, sold its loan related to DAPL in March, 2017. Upon entering an agreement to sell its share of the loan, DNB ASA issued a statement indicating that the attempts at consulting the indigenous peoples affected by the project were inadequate.</p>

Companies Involved in DAPL Financing		
	Company	Engagement Actions
7	Industrial and Commercial Bank of China (ICBC)	<p>ICBC has been identified as directly financing the pipeline.</p> <p>Description of Engagement: ICBC has yet to respond to CalSTRS letter seeking to initiate engagement.</p> <p>Results and Efficacy of Engagement: The company has not responded to CalSTRS or made any public comments related to DAPL.</p>
8	ING Groep	<p>ING has been identified as directly financing the pipeline.</p> <p>Description of Engagement: CalSTRS staff had a meeting with ING management on November 28, 2017. The purpose of the meeting was to better understand the risk mitigation efforts that the company undertakes when assessing the environmental and social risks related to its loans.</p> <p>Results and Efficacy of Engagement: Following a constructive dialogue with the Standing Rock Sioux Tribe, ING announced in March 2017 that it would sell its loan related to DAPL. The company issued a statement that noted the general importance of respectful dialogue with groups potentially affected by large infrastructure projects and received indication from the Standing Rock Sioux Tribe that it would appreciate ING selling its DAPL-related loan.</p> <p>ING discussed how its interactions with the tribe contributed to its support to revise the Equator Principles to require free, prior and informed consent of indigenous communities in all countries. Additionally, in highlighting its commitment to mitigate environmental and social risk, the company described how it maintains a social responsibility desk to review all financing opportunities.</p>
9	Intesa Sanpaolo	<p>Intesa Sanpaolo has been identified as directly financing the pipeline.</p> <p>Description of Engagement: Intesa Sanpaolo has yet to respond to CalSTRS letter seeking to initiate engagement.</p> <p>Results and Efficacy of Engagement: In May 2017, Intesa Sanpaolo issued a statement confirming its commitment to adhere to its Code of Ethics to be attentive to social and environmental issues in line with international standards, including the Equator Principles and the UN Global Compact. Along with other banks, Intesa Sanpaolo commissioned Foley Hoag LLP to issue a report (Attachment C) on industry good practices for community engagement regarding pipeline projects. The company is also a signatory of the letter supporting the effort to revise the Equator Principles to require free, prior and informed consent of indigenous communities in all countries (Attachment D).</p>

Companies Involved in DAPL Financing		
	Company	Engagement Actions
10	Mizuho Bank	<p>Mizuho Bank has been identified as directly financing the pipeline.</p> <p>Description of Engagement: Mizuho Bank has yet to respond to CalSTRS letter seeking to initiate engagement.</p> <p>Results and Efficacy of Engagement: Mizuho Bank, an adoptee of the Equator Principles, issued a statement confirming its commitment to upholding its social responsibilities. Consistent with this commitment, the company indicated that it was seeking guidance and collaborating with an independent human rights expert “to review compliance and legal engagements relating to tribal government, community engagement, security, and environmental issues relating to DAPL.”</p>
11	Natixis	<p>Natixis has been identified as directly financing the pipeline.</p> <p>Description of Engagement: CalSTRS staff had a meeting with company management by phone on February 2, 2018. The purpose of the meeting was to better understand the risk mitigation efforts that the company undertakes when assessing the environmental and social risks related to its loans.</p> <p>Results and Efficacy of Engagement: Natixis confirmed with CalSTRS that the DAPL project was reviewed by its Environmental and Social Responsibility team to ensure that the project conformed to the requirements of the Equator Principles. The company indicated that it has become more cautious on large infrastructure projects, in particular pipelines, and has not approved pipeline project financing since DAPL. Natixis has strengthened internal control and review processes to confirm free, prior and informed consent of indigenous communities for all projects, regardless of location or financing type, and is a signatory of the letter supporting the effort to revise the Equator Principles accordingly (Attachment D).</p>
12	Société Générale	<p>Société Générale has been identified as directly financing the pipeline.</p> <p>Description of Engagement: Société Générale has yet to respond to CalSTRS letter seeking to initiate engagement.</p> <p>Results and Efficacy of Engagement: In describing its involvement in the financing of DAPL, Société Générale issued a statement indicating that it would only support projects that were compliant with all rules and regulations as well as the company’s Environmental and Social General Guidelines. In a follow up statement in May 2017, the company indicated that it had consulted with the Standing Rock Sioux Tribe to better understand their concerns and, along with other banks, had commissioned Foley Hoag LLP to issue a report on industry good practices for community engagement regarding pipeline projects.</p> <p>Société Générale is also a signatory of the letter supporting the effort to revise the Equator Principles to require free, prior and informed consent in all countries (Attachment D).</p>

Companies Involved in DAPL Financing		
	Company	Engagement Actions
13	Sumitomo Mitsui Banking Corporation (SMBC)	<p>SMBC has been identified as directly financing the pipeline.</p> <p>Description of Engagement: SMBC has yet to respond to CalSTRS staff letter seeking to initiate engagement.</p> <p>Results and Efficacy of Engagement: SMBC is an adoptee of the Equator Principles. In response to demands from Japanese activists to divest from DAPL, the company released the following statement to a Japanese news organization: “We, SMBC, decline to comment on individual projects.”</p>
14	SunTrust	<p>SunTrust has been identified as directly financing the pipeline.</p> <p>Description of Engagement: SunTrust has yet to respond to CalSTRS letter seeking to initiate engagement.</p> <p>Results and Efficacy of Engagement: SunTrust has not issued a statement regarding its financing of the construction of DAPL.</p>
15	Toronto-Dominion (TD) Bank	<p>TD Bank has been identified as directly financing the pipeline.</p> <p>Description of Engagement: TD Bank has yet to respond to CalSTRS letter seeking to initiate engagement.</p> <p>Results and Efficacy of Engagement: TD Bank issued a statement in which it acknowledged being one of the lenders for DAPL. TD Bank also acknowledged the concerns regarding DAPL but noted that the North American economies have abundant energy resources that contribute to jobs and economic prosperity. The company indicated that it employs rigorous due diligence processes, and they will only finance responsible resource development that appropriately balances environmental, economic and social considerations. TD Bank is an adoptee of the Equator Principles. The company states that free, prior and informed consent is becoming an increasingly important factor in securing social license and that it has been an advocate for development of practical guidance for implementation of free, prior and informed consent at a project level.</p>

Companies Involved in DAPL Financing		
	Company	Engagement Actions
16	Wells Fargo	<p>Wells Fargo has been identified as directly financing the pipeline.</p> <p>Description of Engagement: CalSTRS staff had a meeting with company management by phone on March 2, 2018. The purpose of the meeting was to better understand the risk mitigation efforts that the company undertakes when assessing the environmental and social risks related to its loans.</p> <p>In addition, CalSTRS voted in favor of a 2017 shareholder proposal for management to “develop and adopt a global policy regarding the rights of indigenous peoples which includes respect for the free, prior and informed consent of indigenous communities affected by [Wells Fargo] financing.”</p> <p>Results and Efficacy of Engagement: Wells Fargo is an adoptee of the Equator Principles and indicated through a statement regarding DAPL that its process for evaluating the project complied with that framework. During the discussion with CalSTRS, the company indicated that it had improved its policies based on the DAPL experience, including requiring free, prior and informed consent for all project financing, regardless of the project’s location. Additionally, the company has expanded its environmental and social risk due diligence process to include the rights of indigenous people for all general financing. Lastly, the company has hired a human rights expert to expand their internal research capabilities.</p> <p>Consistent with CalSTRS Corporate Governance Principles and ESG Policy, CalSTRS voted in favor of the 2017 shareholder proposal, which received 16.87 percent support.</p>

Attachment A: Investment Policy for Mitigating Environmental, Social, and Governance Risks (ESG)

PRINCIPLES

The fiduciary responsibility of the Board, as described in detail within the overall Investment Policy and Management Plan, is to discharge its responsibility in the sole and exclusive interest of the participants and beneficiaries in a manner that will assure the prompt delivery of benefits and related services.

CalSTRS invests a multi-billion dollar fund in a unique and complex social-economic milieu and recognizes it can neither operate nor invest in a vacuum. The System's investment activities impact other facets of the economy and the globe. As a significant investor with a very long-term investment horizon and expected life, the success of CalSTRS is linked to global economic growth and prosperity. Actions and activities that detract from the likelihood and potential of global growth are not in the long-term interests of the Fund. Therefore, consideration of environmental, social, and governance issues (ESG), as outlined by the CalSTRS 21 Risk Factors, are consistent with the Board fiduciary duties.

Consistent with its fiduciary responsibilities to our members, the Board has a social and ethical obligation to require that the corporations and entities in which securities are held meet a high standard of conduct and strive for sustainability in their operations. As an active owner, CalSTRS incorporates ESG into its ownership policies and practices.

Since CalSTRS is a long-term investor and may hold an investment in a corporation or entity for decade after decade, short-term gains at the expense of long-term gains are not in the best interest of the Fund. Sustainable returns over long periods are in the economic interest of the Fund. Conversely, unsustainable practices that hurt long-term profits are risks to the System's investment.

Since CalSTRS must invest huge sums of moneys for long periods of time to pay for future benefits promised to California Teachers, our actions to invest in securities of a corporation predominately reflects a judgment that the ownership will produce a sustainable rate of return which will make it an attractive investment and help CalSTRS meet its long-term obligations. It is important to note that CalSTRS ownership of a security in a company does not signify that CalSTRS approves of all of the company's practices or its products or that CalSTRS believes a particular company is an attractive investment since the security may be owned due to its membership in a particular index or for risk mitigation purposes.

Since 1978, CalSTRS has used a written policy, the Statement of Investment Responsibility, SIR, to navigate the complex landscape of ESG issues. The long history of this document is testimony to the national leadership of CalSTRS among pension funds in addressing ESG matters through a written policy. The SIR will continue its longevity as guidance on proxy voting; however this Policy now replaces the SIR as CalSTRS's preeminent policy on ESG matters.

POLICY

Governance Risks and Social Risks: To help manage the risk of investing a global portfolio in a complex governance environment, CalSTRS has developed a series of procedures to follow when faced with any major governance and social issue as identified by the 21 risk factors. It is important to note that fiduciary standards do not allow CalSTRS to select or reject investments based solely on social criteria.

When faced with a corporate decision that potentially violates CalSTRS Policies; the Investment Staff, CIO and Investment Committee will undertake the following actions:

- A. The CIO will assess the gravity of the situation both as an ESG risk and as to the System. The extent of the responsibility of the System to devote resources to address these issues will be determined by: 1) the number of shares held in the corporation, and 2) the gravity of the violation of CalSTRS Policies.
- B. At the CIO's direction, the Investment Staff will directly engage corporate management to seek information and understanding of the corporate decision and its ramifications on ESG issues.
- C. The CIO and investment staff will provide a report to the Investment Committee of the findings and recommend any further action of engagement or need to commit further System resources. The Investment Committee can marshal further resources given the gravity of the situation.

To assist CalSTRS Staff and external investment managers in their investment analysis and decision-making, CalSTRS has developed a list of 21 risk factors that should be included within the financial analysis of any investment decision. This list is not exhaustive and does not attempt to identify all forms of risk that are appropriate to consider in a given investment transaction; however they do provide a framework of other factors that might be overlooked. These risk factors should be reviewed for an investment in any asset class whether within the U.S. or across the globe.

CalSTRS expects all investment managers, both internal and external to assess the risk of each of the following factors when making an investment. The manager needs to balance the rate of return with all the risks including consideration of the specific investments exposure to each factor in each country in which that investment or company operates.

CALSTRS 21 RISK FACTORS

Monetary Transparency

The long-term profitability by whether or not a country or company has free and open monetary and financial data, and its observance of applicable laws.

Data Dissemination

The long-term profitability by whether or not a country is a member of the IMF (or similar organization) and satisfies the conditions for access, integrity, and quality for most data categories.

Accounting

The long-term profitability by whether or not the accounting standards are formulated in accordance with International Accounting Standards or the U.S. Generally Accepted Accounting Principles.

Payment System: Central Bank

The long-term profitability by whether the activities of a country's central bank encompass implementing and ensuring compliance with principles and standards which are established to promote safe, sound, and efficient payment and settlement systems.

Securities Regulation

The long-term profitability by exposure to operations in countries that have not complied with IOSCO objectives, which provide investor protection against manipulation and fraudulent practices.

Auditing

The investment's long-term profitability by whether or not the country uses International Standards on Auditing in setting national standards.

Fiscal Transparency

The investment's long-term profitability by its exposure or business operations in countries that do not have not some level of fiscal transparency such as publication of financial statistics, sound standards for budgeting, accounting, and reporting.

Corporate Governance

The investment's long-term profitability by whether or not the government recognizes and supports good corporate governance practices and whether it generally adheres to OECD principles.

Banking Supervision

The investment's long-term profitability from its exposure to countries that have not endorsed/complied with the Basel Core Principles. An endorsement includes an agreement to review supervisory arrangements against the principles and bring legislation in line with the principles where necessary.

<p>Payment System: Principles</p> <p>The investment's long-term profitability by whether a country complies with the 10 Core Principles for Systemically Important Payment Systems, which includes operational reliability, efficiency, real time settlement, final settlement in central bank money; and whether rules and procedures are clear and permit participants to understand the financial risks resulting from participation in the system.</p>
<p>Insolvency Framework</p> <p>The investment's long-term profitability from its business operations and activities in specific countries with regard to bankruptcy reform or insolvency legislation.</p>
<p>Money Laundering</p> <p>The investment's long-term profitability from exposure and whether or not a country has implemented an anti-money laundering regime in line with international standards; consideration should be given to compliance with the 40 recommendations in the Financial Action Task Force, FATF, on Money Laundering; and whether it is a member of FATF.</p>
<p>Insurance Supervision</p> <p>Whether or not a country has a regulatory framework in line with International Association of Insurance Supervisors, IAIS, Principles.</p>
<p>Respect for Human Rights</p> <p>The investment's long-term profitability from its business operations and activities in countries that lack or have a weak judicial System. Assess the risk to an investment's long-term profitability from its business operations and activities in a country that engages in or facilitates the following: arbitrary or unlawful deprivation of life, disappearance, torture and other cruel, inhuman, or degrading treatment or punishment, arbitrary arrest, detention, or exile, arbitrary interference with privacy, family, home, or correspondence, use of excessive force and violations of humanitarian law in internal conflicts. Consideration should be given to governmental attitude regarding international and non-governmental investigation of alleged</p>
<p>Respect for Civil Liberties</p> <p>The investment's long-term profitability from operations, activities, and business practices in countries or regions that do not allow freedom of speech and press, freedom of peaceful assembly and association, freedom of religion, freedom of movement within the country, allowance for foreign travel, emigration, and repatriation.</p>
<p>Respect for Political Rights</p> <p>The investment's long-term profitability from business practices and activities in countries that do not allow their citizens the right to advocate for change to their government.</p>
<p>Discrimination Based on Race, Sex, Disability, Language, or Social Status</p> <p>The investment's long-term profitability from business practices and activities on discrimination, such as discrimination against women, children, and persons with disabilities, national/racial/ethnic minorities, or indigenous people.</p>

Worker Rights

The investment's long-term profitability from management and practices globally in the area of worker's rights; specifically the right of association, the right to organize and bargain collectively, prohibition of forced or bonded labor, status of child labor practices and minimum age for employment, acceptable work conditions, or human trafficking.

Environmental

The investment's long-term profitability from activities and exposure to environmental matters such as; depleting or reducing air quality, water quality, land protection and usage, without regard for remediation. Consideration should be given to how a company is dealing with the impact of climate change, including whether the government is taking steps to reduce its impact, exacerbating the problem, or oblivious to the risk.

War/Conflicts/Acts of Terrorism

The investment's long-term profitability from business exposure to a country or region that has an internal or external conflict, war, acts of terrorism or involvement in acts of terrorism, and whether the country is a party to international conventions and

Human Health

The risk to an investment's long-term profitability from business exposure to an industry or company that makes a product which is highly detrimental to human health so that it draws significant product liability lawsuits, government regulation, United Nations sanctions and focus, and avoidance by other institutional investors.



THE EQUATOR PRINCIPLES JUNE 2013

A financial industry benchmark for determining, assessing
and managing environmental and social risk in projects

www.equator-principles.com



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PREAMBLE

Large infrastructure and industrial Projects can have adverse impacts on people and on the environment. As financiers and advisors, we work in partnership with our clients to identify, assess and manage environmental and social risks and impacts in a structured way, on an ongoing basis. Such collaboration promotes sustainable environmental and social performance and can lead to improved financial, environmental and social outcomes.

We, the Equator Principles Financial Institutions (EPFIs), have adopted the Equator Principles in order to ensure that the Projects we finance and advise on are developed in a manner that is socially responsible and reflects sound environmental management practices. We recognise the importance of climate change, biodiversity, and human rights, and believe negative impacts on project-affected ecosystems, communities, and the climate should be avoided where possible. If these impacts are unavoidable they should be minimised, mitigated, and/or offset.

We believe that adoption of and adherence to the Equator Principles offers significant benefits to us, our clients, and local stakeholders through our clients' engagement with locally Affected Communities. We therefore recognise that our role as financiers affords us opportunities to promote responsible environmental stewardship and socially responsible development, including fulfilling our responsibility to respect human rights by undertaking due diligence¹ in accordance with the Equator Principles.

The Equator Principles are intended to serve as a common baseline and framework. We commit to implementing the Equator Principles in our internal environmental and social policies, procedures and standards for financing Projects. We will not provide Project Finance or Project-Related Corporate Loans to Projects where the client will not, or is unable to, comply with the Equator Principles. As Bridge Loans and Project Finance Advisory Services are provided earlier in the Project timeline, we request the client explicitly communicates their intention to comply with the Equator Principles.

EPFIs review the Equator Principles from time-to-time based on implementation experience, and in order to reflect ongoing learning and emerging good practice.

¹ As referenced in the "Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework".



SCOPE

The Equator Principles apply globally and to all industry sectors.

The Equator Principles apply to the four financial products described below when supporting a new Project:

1. **Project Finance Advisory Services** where total Project capital costs are US\$10 million or more.
2. **Project Finance** with total Project capital costs of US\$10 million or more.
3. **Project-Related Corporate Loans**² (including Export Finance in the form of Buyer Credit) where all four of the following criteria are met:
 - i. The majority of the loan is related to a single Project over which the client has Effective Operational Control (either direct or indirect).
 - ii. The total aggregate loan amount is at least US\$100 million.
 - iii. The EPFI's individual commitment (before syndication or sell down) is at least US\$50 million.
 - iv. The loan tenor is at least two years.
4. **Bridge Loans** with a tenor of less than two years that are intended to be refinanced by Project Finance or a Project-Related Corporate Loan that is anticipated to meet the relevant criteria described above.

While the Equator Principles are not intended to be applied retroactively, the EPFI will apply them to the expansion or upgrade of an existing Project where changes in scale or scope may create significant environmental and social risks and impacts, or significantly change the nature or degree of an existing impact.

² Project-Related Corporate Loans exclude Export Finance in the form of Supplier Credit (as the client has no Effective Operational Control). Furthermore, Project-Related Corporate Loans exclude other financial instruments that do not finance an underlying Project, such as Asset Finance, acquisition finance, hedging, leasing, letters of credit, general corporate purposes loans, and general working capital expenditures loans used to maintain a company's operations.



APPROACH

Project Finance and Project-Related Corporate Loans

The EPFI will only provide Project Finance and Project-Related Corporate Loans to Projects that meet the requirements of Principles 1-10.

Project Finance Advisory Services and Bridge Loans

Where the EPFI is providing Project Finance Advisory Services or a Bridge Loan, the EPFI will make the client aware of the content, application and benefits of applying the Equator Principles to the anticipated Project. The EPFI will request that the client communicates to the EPFI its intention to adhere to the requirements of the Equator Principles when subsequently seeking long term financing. The EPFI will guide and support the client through the steps leading to the application of the Equator Principles.

For Bridge Loans categorised A or B (as defined in Principle 1) the following requirements, where relevant, apply. Where the Project is in the feasibility phase and no impacts are expected during the tenor of the loan, the EPFI will confirm that the client will undertake an Environmental and Social Assessment (Assessment) process. Where Environmental and Social Assessment Documentation (Assessment Documentation) has been prepared and Project development is expected to begin during the tenor of the loan, the EPFI will, where appropriate, work with the client to identify an Independent Environmental and Social Consultant and develop a scope of work to commence an Independent Review (as defined in Principle 7).

Information Sharing

Recognising business confidentiality and applicable laws and regulations, Mandated EPFIs will share, when appropriate, relevant environmental and social information with other Mandated Financial Institutions, strictly for the purpose of achieving consistent application of the Equator Principles. Such information sharing shall not relate to any competitively sensitive information. Any decision as to whether, and on what terms, to provide financial services (as defined in the Scope) will be for each EPFI to make separately and in accordance with its risk management policies. Timing constraints may lead EPFIs considering a transaction to seek authorisation from their clients to start such information sharing before all other financial institutions are formally mandated. EPFIs expect clients to provide such authorisation.



STATEMENT OF PRINCIPLES

Principle 1: Review and Categorisation

When a Project is proposed for financing, the EPFI will, as part of its internal environmental and social review and due diligence, categorise it based on the magnitude of its potential environmental and social risks and impacts. Such screening is based on the environmental and social categorisation process of the International Finance Corporation (IFC).

Using categorisation, the EPFI's environmental and social due diligence is commensurate with the nature, scale and stage of the Project, and with the level of environmental and social risks and impacts.

The categories are:

Category A – Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented;

Category B – Projects with potential limited adverse environmental and social risks and/or 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 adverse environmental and social risks and/or impacts.

Principle 2: Environmental and Social Assessment

For all Category A and Category B Projects, the EPFI will require the client to conduct an Assessment process to address, to the EPFI's satisfaction, the relevant environmental and social risks and impacts of the proposed Project (which may include the illustrative list of issues found in Exhibit II). The Assessment Documentation should propose measures to minimise, mitigate, and offset adverse impacts in a manner relevant and appropriate to the nature and scale of the proposed Project.

The Assessment Documentation will be an adequate, accurate and objective evaluation and presentation of the environmental and social risks and impacts, whether prepared by the client, consultants or external experts. For Category A, and as appropriate, Category B Projects, the Assessment Documentation includes an Environmental and Social Impact Assessment (ESIA). One or more specialised studies may also need to be undertaken. Furthermore, in limited high risk circumstances, it may be appropriate for the client to complement its Assessment Documentation with specific human rights due diligence. For other Projects, a limited or focused environmental or



social assessment (e.g. audit), or straight-forward application of environmental siting, pollution standards, design criteria, or construction standards may be carried out.

For all Projects, in all locations, when combined Scope 1 and Scope 2 Emissions are expected to be more than 100,000 tonnes of CO₂ equivalent annually, an alternatives analysis will be conducted to evaluate less Greenhouse Gas (GHG) intensive alternatives. Refer to Annex A for alternatives analysis requirements.

Principle 3: Applicable Environmental and Social Standards

The Assessment process should, in the first instance, address compliance with relevant host country laws, regulations and permits that pertain to environmental and social issues.

EPFIs operate in diverse markets: some with robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment; and some with evolving technical and institutional capacity to manage environmental and social issues.

The EPFI will require that the Assessment process evaluates compliance with the applicable standards as follows:

1. For Projects located in Non-Designated Countries, the Assessment process evaluates compliance with the then applicable IFC Performance Standards on Environmental and Social Sustainability (Performance Standards) and the World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines) (Exhibit III).
2. For Projects located in Designated Countries, the Assessment process evaluates compliance with relevant host country laws, regulations and permits that pertain to environmental and social issues. Host country laws meet the requirements of environmental and/or social assessments (Principle 2), management systems and plans (Principle 4), Stakeholder Engagement (Principle 5) and, grievance mechanisms (Principle 6).

The Assessment process will establish to the EPFI's satisfaction the Project's overall compliance with, or justified deviation from, the applicable standards. The applicable standards (as described above) represent the minimum standards adopted by the EPFI. The EPFI may, at their sole discretion, apply additional requirements.



Principle 4: Environmental and Social Management System and Equator Principles Action Plan

For all Category A and Category B Projects, the EPFI will require the client to develop or maintain an Environmental and Social Management System (ESMS).

Further, an Environmental and Social Management Plan (ESMP) will be prepared by the client to address issues raised in the Assessment process and incorporate actions required to comply with the applicable standards. Where the applicable standards are not met to the EPFI's satisfaction, the client and the EPFI will agree an Equator Principles Action Plan (AP). The Equator Principles AP is intended to outline gaps and commitments to meet EPFI requirements in line with the applicable standards.

Principle 5: Stakeholder Engagement

For all Category A and Category B Projects, the EPFI will require the client to demonstrate effective Stakeholder Engagement as an ongoing process in a structured and culturally appropriate manner with Affected Communities and, where relevant, Other Stakeholders. For Projects with potentially significant adverse impacts on Affected Communities, the client will conduct an Informed Consultation and Participation process. The client will tailor its consultation process to: the risks and impacts of the Project; the Project's phase of development; the language preferences of the Affected Communities; their decision-making processes; and the needs of disadvantaged and vulnerable groups. This process should be free from external manipulation, interference, coercion and intimidation.

To facilitate Stakeholder Engagement, the client will, commensurate to the Project's risks and impacts, make the appropriate Assessment Documentation readily available to the Affected Communities, and where relevant Other Stakeholders, in the local language and in a culturally appropriate manner.

The client will take account of, and document, the results of the Stakeholder Engagement process, including any actions agreed resulting from such process. For Projects with environmental or social risks and adverse impacts, disclosure should occur early in the Assessment process, in any event before the Project construction commences, and on an ongoing basis.

EPFIs recognise that indigenous peoples may represent vulnerable segments of project-affected communities. Projects affecting indigenous peoples will be subject to a process of Informed Consultation and Participation, and will need to comply with the rights and protections for indigenous peoples contained in relevant national law, including those laws implementing host country obligations under international law. Consistent with the special circumstances described in



IFC Performance Standard 7 (when relevant as defined in Principle 3), Projects with adverse impacts on indigenous people will require their Free, Prior and Informed Consent (FPIC)³.

Principle 6: Grievance Mechanism

For all Category A and, as appropriate, Category B Projects, the EPFI will require the client, as part of the ESMS, to establish a grievance mechanism designed to receive and facilitate resolution of concerns and grievances about the Project's environmental and social performance.

The grievance mechanism is required to be scaled to the risks and impacts of the Project and have Affected Communities as its primary user. It will seek to resolve concerns promptly, using an understandable and transparent consultative process that is culturally appropriate, readily accessible, at no cost, and without retribution to the party that originated the issue or concern. The mechanism should not impede access to judicial or administrative remedies. The client will inform the Affected Communities about the mechanism in the course of the Stakeholder Engagement process.

Principle 7: Independent Review

Project Finance

For all Category A and, as appropriate, Category B Projects, an Independent Environmental and Social Consultant, not directly associated with the client, will carry out an Independent Review of the Assessment Documentation including the ESMPs, the ESMS, and the Stakeholder Engagement process documentation in order to assist the EPFI's due diligence, and assess Equator Principles compliance.

The Independent Environmental and Social Consultant will also propose or opine on a suitable Equator Principles AP capable of bringing the Project into compliance with the Equator Principles, or indicate when compliance is not possible.

Project-Related Corporate Loans

An Independent Review by an Independent Environmental and Social Consultant is required for Projects with potential high risk impacts including, but not limited to, any of the following:

³ There is no universally accepted definition of FPIC. Based on good faith negotiation between the client and affected indigenous communities, FPIC builds on and expands the process of Informed Consultation and Participation, ensures the meaningful participation of indigenous peoples in decision-making, and focuses on achieving agreement. FPIC does not require unanimity, does not confer veto rights to individuals or sub-groups, and does not require the client to agree to aspects not under their control. Process elements to achieve FPIC are found in IFC Performance Standard 7.



- adverse impacts on indigenous peoples
- Critical Habitat impacts
- significant cultural heritage impacts
- large-scale resettlement

In other Category A, and as appropriate Category B, Project-Related Corporate Loans, the EPFI may determine whether an Independent Review is appropriate or if internal review by the EPFI is sufficient. This may take into account the due diligence performed by a multilateral or bilateral financial institution or an OECD Export Credit Agency, if relevant.

Principle 8: Covenants

An important strength of the Equator Principles is the incorporation of covenants linked to compliance.

For all Projects, the client will covenant in the financing documentation to comply with all relevant host country environmental and social laws, regulations and permits in all material respects.

Furthermore for all Category A and Category B Projects, the client will covenant the financial documentation:

- a) to comply with the ESMPs and Equator Principles AP (where applicable) during the construction and operation of the Project in all material respects; and
- b) to provide periodic reports in a format agreed with the EPFI (with the frequency of these reports proportionate to the severity of impacts, or as required by law, but not less than annually), prepared by in-house staff or third party experts, that i) document compliance with the ESMPs and Equator Principles AP (where applicable), and ii) provide representation of compliance with relevant local, state and host country environmental and social laws, regulations and permits; and
- c) to decommission the facilities, where applicable and appropriate, in accordance with an agreed decommissioning plan.

Where a client is not in compliance with its environmental and social covenants, the EPFI will work with the client on remedial actions to bring the Project back into compliance to the extent feasible. If the client fails to re-establish compliance within an agreed grace period, the EPFI reserves the right to exercise remedies, as considered appropriate.



Principle 9: Independent Monitoring and Reporting

Project Finance

To assess Project compliance with the Equator Principles and ensure ongoing monitoring and reporting after Financial Close and over the life of the loan, the EPFI will, for all Category A and, as appropriate, Category B Projects, require the appointment of an Independent Environmental and Social Consultant, or require that the client retain qualified and experienced external experts to verify its monitoring information which would be shared with the EPFI.

Project-Related Corporate Loans

For Projects where an Independent Review is required under Principle 7, the EPFI will require the appointment of an Independent Environmental and Social Consultant after Financial Close, or require that the client retain qualified and experienced external experts to verify its monitoring information which would be shared with the EPFI.

Principle 10: Reporting and Transparency

Client Reporting Requirements

The following client reporting requirements are in addition to the disclosure requirements in Principle 5.

For all Category A and, as appropriate, Category B Projects:

- The client will ensure that, at a minimum, a summary of the ESIA is accessible and available online⁴.
- The client will publicly report GHG emission levels (combined Scope 1 and Scope 2 Emissions) during the operational phase for Projects emitting over 100,000 tonnes of CO₂ equivalent annually. Refer to Annex A for detailed requirements on GHG emissions reporting.

EPFI Reporting Requirements

The EPFI will report publicly, at least annually, on transactions that have reached Financial Close and on its Equator Principles implementation processes and experience, taking into account appropriate

⁴ Except in cases where the client does not have internet access.



confidentiality considerations. The EPFI will report according to the minimum reporting requirements detailed in Annex B.

DISCLAIMER

The Equator Principles is a baseline and framework for developing individual, internal environmental and social policies, procedures and practices. The Equator Principles do not create any rights in, or liability to, any person, public or private. Financial institutions adopt and implement the Equator Principles voluntarily and independently, without reliance on or recourse to the IFC, the World Bank Group, the Equator Principles Association, or other EPFIs. In a situation where there would be a clear conflict between applicable laws and regulations and requirements set out in the Equator Principles, the local laws and regulations prevail.



ANNEXES: IMPLEMENTATION REQUIREMENTS

Annex A: Climate Change: Alternatives Analysis, Quantification and Reporting of Greenhouse Gas Emissions

Alternatives Analysis

The alternatives analysis requires the evaluation of technically and financially feasible and cost-effective options available to reduce project-related GHG emissions during the design, construction and operation of the Project.

For Scope 1 Emissions, this analysis will include consideration of alternative fuel or energy sources if applicable. Where an alternatives analysis is required by a regulatory permitting process, the analysis will follow the methodology and time frame required by the relevant process. For Projects in high carbon intensity sectors, the alternatives analysis will include comparisons to other viable technologies, used in the same industry and in the country or region, with the relative energy efficiency of the selected technology.

High carbon intensity sectors include the following, as outlined in the World Bank Group EHS Guidelines: thermal power, cement and lime manufacturing, integrated steel mills, base metal smelting and refining, and foundries.

Following completion of an alternatives analysis, the client will provide, through appropriate documentation, evidence of technically and financially feasible and cost-effective options. This does not modify or reduce the requirements set out in the applicable standards (e.g. IFC Performance Standard 3).

Quantification and Reporting

Quantification of GHG emissions will be conducted by the client in accordance with internationally recognised methodologies and good practice, for example, the GHG Protocol. The client will quantify Scope 1 and Scope 2 Emissions.

The EPFI will require the client to report publicly on an annual basis on GHG emission levels (combined Scope 1 and Scope 2 Emissions) during the operational phase for Projects emitting over 100,000 tonnes of CO₂ equivalent annually. Clients will be encouraged to report publicly on Projects emitting over 25,000 tonnes. Public reporting requirements can be satisfied via regulatory requirements for reporting or environmental impact assessments, or voluntary reporting mechanisms such as the Carbon Disclosure Project where such reporting includes emissions at Project level.

In some circumstances, public disclosure of the full alternatives analysis or project-level emissions may not be appropriate.



Annex B - Minimum Reporting Requirements

The EPFI will report annually and as per the requirements detailed in all of the sections below.

Data and Implementation Reporting

Data and implementation reporting is the responsibility of the EPFI. It will be published on the EPFI's website, in a single location and in an accessible format.

The EPFI will specify the reporting period (i.e. start and end dates) for all data and implementation reporting.

Project Finance Advisory Services Data

The EPFI will report on the total number of Project Finance Advisory Services mandated during the reporting period. The total will be broken down by Sector and Region.

Data for Project Finance Advisory Services will be reported under a separate heading from Project Finance and Project-Related Corporate Loans. Project Finance Advisory Services data may exclude the Category and whether an Independent Review has been carried out because the Project is often at an early stage of development and not all information is available.

Project Finance and Project-Related Corporate Loans Data

The EPFI will report on the total number of Project Finance transactions and total number of Project-Related Corporate Loans that reached Financial Close during the reporting period.

The totals for each product type will be broken down by Category (A, B or C) and then by:

- Sector (i.e. Mining, Infrastructure, Oil and Gas, Power, Others)
- Region (i.e. Americas, Europe Middle East and Africa, Asia Pacific)
- Country Designation (i.e. Designated Country or Non-Designated Country)
- Whether an Independent Review has been carried out

Data for Project Finance transactions and Project-Related Corporate Loans should be shown separately.

Bridge Loans Data

Data for Bridge Loans, due to their nature, are not subject to specific reporting requirements.



Implementation Reporting

The EPFI will report on its implementation of the Equator Principles, including:

- The mandate of the Equator Principles Reviewers (e.g. responsibilities and staffing);
- The respective roles of the Equator Principles Reviewers, business lines, and senior management in the transaction review process;
- The incorporation of the Equator Principles in its credit and risk management policies and procedures.

For the first year of Equator Principles adoption, the EPFI will provide details of its internal preparation and staff training. After the first year, the EPFI may provide details on ongoing training of staff if considered relevant.

Project Name Reporting for Project Finance

The EPFI will submit project name data directly to the Equator Principles Association Secretariat for publication on the Equator Principles Association website.

Project name reporting is:

- applicable only to Project Finance transactions that have reached Financial Close,
- subject to obtaining client consent,
- subject to applicable local laws and regulations, and
- subject to no additional liability for the EPFI as a result of reporting in certain identified jurisdictions.

The EPFI will seek client consent at any time deemed appropriate but no later than Financial Close.

The EPFI will submit the following project name data directly or via a web link:

- Project name (as per the loan agreement and/or as publicly recognised),
- Calendar year in which the transaction reached Financial Close,
- Sector (i.e. Mining, Infrastructure, Oil and Gas, Power, Others),
- Host country name.

Individual EPFIs may want to publish the data as part of their individual reporting, but there is no obligation to do so.



EXHIBITS: SUPPORTING INFORMATION

Exhibit I: Glossary of Terms

Unless specified here, the Equator Principles use definitions as set out in the IFC Performance Standards.

Affected Communities are local communities, within the Project's area of influence, directly affected by the Project.

Assessment (see **Environmental and Social Assessment**).

Assessment Documentation (see **Environmental and Social Assessment Documentation**).

Asset Finance is the provision of a loan for the purchase of assets (such as airplanes, cargo ships, or equipment) in exchange for a security interest in those assets.

Bridge Loan is an interim loan given to a business until the longer term stage of financing can be obtained.

Buyer Credit is a medium/long term Export Finance credit where the exporter's bank or other financial institution lends to the buyer or the buyer's bank.

Critical Habitats are areas with high biodiversity value, including (i) habitat of significant importance to Critically Endangered and/or Endangered species; (ii) habitat of significant importance to endemic and/or restricted-range species; (iii) habitat supporting globally significant concentrations of migratory species and/or congregatory species; (iv) highly threatened and/or unique ecosystems; and/or (v) areas associated with key evolutionary processes.

Designated Countries are those countries deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment. The list of Designated Countries can be found on the Equator Principles Association website.

Effective Operational Control includes both direct control (as operator or major shareholder) of the Project by the client and indirect control (e.g. where a subsidiary of the client operates the Project).

Environmental and Social Assessment (Assessment) is a process that determines the potential environmental and social risks and impacts (including labour, health, and safety) of a proposed Project in its area of influence.



Environmental and Social Assessment Documentation (Assessment Documentation) is a series of documents prepared for a Project as part of the Assessment process. The extent and detail of the documentation is commensurate with the Project's potential environmental and social risks and impacts. Examples of Assessment Documentation are: an Environmental and Social Impact Assessment (ESIA), Environmental and Social Management Plan (ESMP), or documents more limited in scale (such as an audit, risk assessment, hazard assessment and relevant project-specific environmental permits). Non-technical environmental summaries can also be used to enhance the Assessment Documentation when these are disclosed to the public as part a broader Stakeholder Engagement process.

Environmental and Social Impact Assessment (ESIA) is a comprehensive document of a Project's potential environmental and social risks and impacts. An ESIA is usually prepared for greenfield developments or large expansions with specifically identified physical elements, aspects, and facilities that are likely to generate significant environmental or social impacts. Exhibit II provides an overview of the potential environmental and social issues addressed in the ESIA.

Environmental and Social Management Plan (ESMP) summarises the client's commitments to address and mitigate risks and impacts identified as part of the Assessment, through avoidance, minimisation, and compensation/offset. This may range from a brief description of routine mitigation measures to a series of more comprehensive management plans (e.g. water management plan, waste management plan, resettlement action plan, indigenous peoples plan, emergency preparedness and response plan, decommissioning plan). The level of detail and complexity of the ESMP and the priority of the identified measures and actions will be commensurate with the Project's potential risks and impacts. The ESMP definition and characteristics are broadly similar to those of the "Management Programs" referred to in IFC Performance Standard 1.

Environmental and Social Management System (ESMS) is the overarching environmental, social, health and safety management system which may be applicable at a corporate or Project level. The system is designed to identify, assess and manage risks and impacts in respect to the Project on an ongoing basis. The system consists of manuals and related source documents, including policies, management programs and plans, procedures, requirements, performance indicators, responsibilities, training and periodic audits and inspections with respect to environmental or social issues, including Stakeholder Engagement and grievance mechanisms. It is the overriding framework by which an ESMP and/or Equator Principles AP is implemented. The term may refer to the system for the construction phase or the operational phase of the Project, or to both as the context may require.

Equator Principles Action Plan (AP) is prepared, as a result of the EPFI's due diligence process, to describe and prioritise the actions needed to address any gaps in the Assessment Documentation, ESMPs, the ESMS, or Stakeholder Engagement process documentation to bring the Project in line



with applicable standards as defined in the Equator Principles. The Equator Principles AP is typically tabular in form and lists distinct actions from mitigation measures to follow-up studies or plans that complement the Assessment.

Equator Principles Association is the unincorporated association of member EPFIs whose object is the management, administration and development of the Equator Principles. The Equator Principles Association Secretariat manages the day to day running of the Equator Principles Association including the collation of EPFIs project name reporting data. For more information go to the Equator Principles Association website.

Equator Principles Reviewers are EPFI employees responsible for reviewing the environmental and social aspects of transactions subject to the Equator Principles. They may be part of a distinct Equator Principles team or members of banking, credit risk, corporate sustainability (or similar) departments/divisions tasked with applying the Equator Principles internally.

Export Finance (also known as Export Credits) an insurance, guarantee or financing arrangement which enables a foreign buyer of exported goods and/or services to defer payment over a period of time. Export credits are generally divided into short-term, medium-term (usually two to five years repayment) and long-term (usually over five years).

Financial Close is defined as the date on which all conditions precedent to initial drawing of the debt have been satisfied or waived.

Informed Consultation and Participation is an in-depth exchange of views and information and an organised and iterative consultation that leads the client to incorporate the views of Affected Communities, on issues that affect them directly (such as proposed mitigation measures, the sharing of development benefits and opportunities, and implementation issues), into their decision-making process.

Independent Environmental and Social Consultant is a qualified independent firm or consultant (not directly tied to the client) acceptable to the EPFI.

Independent Review is a review of the Assessment Documentation including the ESMPs, ESMS and Stakeholder Engagement process documentation carried out by an Independent Environmental and Social Consultant.

Known Use of Proceeds is the information provided by the client on how the borrowings will be used.



Mandated Equator Principles Financial Institution or **Mandated Financial Institution** is a financial service provider that is contracted by a client to carry out banking services for a Project or transaction.

Non-Designated Countries are those countries not found on the list of Designated Countries on the Equator Principles Association website.

Operational Control (see **Effective Operational Control**)

Other Stakeholders are those not directly affected by the Project but have an interest in it. They could include national and local authorities, neighbouring Projects, and/or non-governmental organisations.

A **Project** is a development in any sector at an identified location. It includes an expansion or upgrade of an existing operation that results in a material change in output or function. Examples of Projects that trigger the Equator Principles include, but are not limited to; a power plant, mine, oil and gas Projects, chemical plant, infrastructure development, manufacturing plant, large scale real estate development, real estate development in a Sensitive Area, or any other Project that creates significant environmental and/or social risks and impacts. In the case of Export Credit Agency supported transactions, the new commercial, infrastructure or industrial undertaking to which the export is intended will be considered the Project.

Project Finance is a method of financing 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. 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. 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 Project's output, such as the electricity sold by a power plant. The client is usually a 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. For reference go to: "Basel Committee on Banking Supervision, International Convergence of Capital Measurement and Capital Standards ("Basel II")", November 2005. Reserve-Based Financing in extractive sectors that is non-recourse and where the proceeds are used to develop one particular reserve (e.g. an oil field or a mine) is considered to be a Project Finance transaction covered under the Equator Principles.



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

Project-Related Corporate Loans are corporate loans, made to business entities (either privately, publicly, or state-owned or controlled) related to a single Project, either a new development or expansion (e.g. where there is an expanded footprint), where the Known Use of Proceeds is related to a single Project in one of the following ways:

- a. The lender looks primarily to the revenues generated by the Project as the source of repayment (as in Project Finance) and where security exists in the form of a corporate or parent company guarantee;
- b. Documentation for the loan indicates that the majority of the proceeds of the total loan are directed to the Project. Such documentation may include the term sheet, information memorandum, credit agreement, or other representations provided by the client into its intended use of proceeds for the loan.

It includes loans to government-owned corporations and other legal entities created by a government to undertake commercial activities on behalf of the government, but excludes loans to national, regional or local governments, governmental ministries and agencies.

Scope 1 Emissions are direct GHG emissions from the facilities owned or controlled within the physical Project boundary.

Scope 2 Emissions are indirect GHG emissions associated with the off-site production of energy used by the Project.

Sensitive Area is an area of international, national or regional importance, such as wetlands, forests with high biodiversity value, areas of archaeological or cultural significance, areas of importance for indigenous peoples or other vulnerable groups, National Parks and other protected areas identified by national or international law.

Stakeholder Engagement refers to IFC Performance Standards provisions on external communication, environmental and social information disclosure, participation, informed consultation, and grievance mechanisms. For the Equator Principles, Stakeholder Engagement also refers to the overall requirements described under Principle 5.

Supplier Credit is a medium/long term Export Finance credit that is extended by the exporter to the overseas buyer.



Exhibit II: Illustrative List of Potential Environmental and Social Issues to be Addressed in the Environmental and Social Assessment Documentation

The list below provides an overview of the issues that may be addressed in the Assessment Documentation. Note the list is for illustrative purposes only. The Assessment process of each Project may or may not identify all of the issues listed, or be relevant to every Project.

The Assessment Documentation may include, where applicable, the following:

- a) assessment of the baseline environmental and social conditions
- b) consideration of feasible environmentally and socially preferable alternatives
- c) requirements under host country laws and regulations, applicable international treaties and agreements
- d) protection and conservation of biodiversity (including endangered species and sensitive ecosystems in modified, natural and Critical Habitats) and identification of legally protected areas
- e) sustainable management and use of renewable natural resources (including sustainable resource management through appropriate independent certification systems)
- f) use and management of dangerous substances
- g) major hazards assessment and management
- h) efficient production, delivery and use of energy
- i) pollution prevention and waste minimisation, pollution controls (liquid effluents and air emissions), and solid and chemical waste management
- j) viability of Project operations in view of reasonably foreseeable changing weather patterns/climatic conditions, together with adaptation opportunities
- k) cumulative impacts of existing Projects, the proposed Project, and anticipated future Projects
- l) respect of human rights by acting with due diligence to prevent, mitigate and manage adverse human rights impacts
- m) labour issues (including the four core labour standards), and occupational health and safety
- n) consultation and participation of affected parties in the design, review and implementation of the Project
- o) socio-economic impacts
- p) impacts on Affected Communities, and disadvantaged or vulnerable groups
- q) gender and disproportionate gender impacts
- r) land acquisition and involuntary resettlement
- s) impacts on indigenous peoples, and their unique cultural systems and values
- t) protection of cultural property and heritage
- u) protection of community health, safety and security (including risks, impacts and management of Project's use of security personnel)
- v) fire prevention and life safety



Exhibit III: IFC Performance Standards on Environmental and Social Sustainability and the World Bank Group Environmental, Health and Safety Guidelines

The Equator Principles refer to two separate parts of the IFC Sustainability Framework as “the then applicable standards” under Principle 3.

1. The IFC Performance Standards

As of 1 January 2012, the following Performance Standards are applicable:

- 1 - Assessment and Management of Environmental and Social Risks and Impacts
- 2 - Labor and Working Conditions
- 3 - Resource Efficiency and Pollution Prevention
- 4 - Community Health, Safety and Security
- 5 - Land Acquisition and Involuntary Resettlement
- 6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources
- 7 - Indigenous Peoples
- 8 - Cultural Heritage

Guidance Notes accompany each Performance Standard. EPFIs do not formally adopt the Guidance Notes however EPFIs and clients may find them useful points of reference when seeking further guidance on or interpreting the Performance Standards.

The IFC Performance Standards, Guidance Notes and Industry Specific Guidelines can be found on the IFC website.

2. The World Bank Group Environmental, Health and Safety Guidelines

The World Bank Group EHS Guidelines are technical reference documents containing examples of Good International Industry Practice (GIIP) as described in the IFC Performance Standards. They contain the performance levels and measures that are normally considered acceptable for Projects in Non-Designated Countries, as well as being achievable in new facilities at reasonable costs by existing technology. Two sets of guidelines are used:

The General Environmental, Health and Safety Guidelines

These Guidelines contain information on cross-cutting environmental, health, and safety issues potentially applicable to all industry sectors. They are divided into sections entitled: Environmental; Occupational Health and Safety; Community Health and Safety; Construction; and Decommissioning. They should be used together with the relevant Industry Sector Guideline(s).



The Industry Sector Guidelines

These Guidelines contain information on industry-specific impacts and performance indicators, plus a general description of industry activities. They are grouped as follows:

Agribusiness/Food Production

- Annual Crop Production
- Aquaculture
- Breweries
- Dairy Processing
- Fish Processing
- Food and Beverage Processing
- Mammalian Livestock Production
- Meat Processing
- Plantation Crop Production
- Poultry Processing
- Poultry Production
- Sugar Manufacturing
- Vegetable Oil Processing

Chemicals

- Coal Processing
- Large Volume Inorganic Compounds Manufacturing and Coal Tar Distillation
- Large Volume Petroleum-based Organic Chemicals Manufacturing
- Natural Gas Processing
- Nitrogenous Fertilizer Manufacturing
- Oleochemicals Manufacturing
- Pesticides Formulation, Manufacturing and Packaging
- Petroleum-based Polymers Manufacturing
- Petroleum Refining
- Pharmaceuticals and Biotechnology Manufacturing
- Phosphate Fertilizer Manufacturing

Forestry

- Board and Particle-based Products
- Forest Harvesting Operations
- Pulp and Paper Mills
- Sawmilling and Wood-based Products

General Manufacturing

- Base Metal Smelting and Refining
- Cement and Lime Manufacturing
- Ceramic Tile and Sanitary Ware Manufacturing
- Construction Materials Extraction
- Foundries
- Glass Manufacturing
- Integrated Steel Mills
- Metal, Plastic, Rubber Products Manufacturing
- Printing
- Semiconductors and Electronics Manufacturing
- Tanning and Leather Finishing
- Textiles Manufacturing



Infrastructure

- Airlines
- Airports
- Crude Oil and Petroleum Product Terminals
- Gas Distribution Systems
- Health Care Facilities
- Ports, Harbors and Terminals
- Railways
- Retail Petroleum Networks
- Shipping
- Telecommunications
- Toll Roads
- Tourism and Hospitality Development
- Waste Management Facilities
- Water and Sanitation

Mining

- Mining

Oil and Gas

- Offshore Oil and Gas Development
- Onshore Oil and Gas Development
- Liquefied Natural Gas (LNG) Facilities

Power

- Electric Power Transmission and Distribution
- Geothermal Power Generation
- Thermal Power
- Wind Energy

Public Summary of Foley Hoag LLP Report, “Good Practice for Managing the Social Impacts of Oil Pipelines in the United States”

Due to their linear nature, pipeline projects affect a large number of stakeholders, which increases the likelihood of broad opposition and protests. Tribal opposition to projects in the United States sometimes reflects fundamental disagreements between the U.S. government and tribes about tribal rights. Many environmentalists believe that preventing pipeline projects decreases the risk of oil spills, increases the cost of energy produced with oil, and makes renewable energy more attractive. Protests against oil pipelines also reflect decreasing public trust that existing governmental pipeline approval processes will adequately prevent environmental harm. Due to these increasing concerns, companies are likely to find that legal compliance by itself is insufficient to secure a social license to operate.

Banks providing project finance to the Dakota Access Pipeline Project retained Foley Hoag LLP (“Foley Hoag”) to provide an independent report, using the pipeline as a case study, that considered international industry good practice (“IIGP”) for community engagement in the development of oil pipelines, with a particular focus on engagement with Indigenous Peoples. Foley Hoag was asked to review the U.S. legal framework on community engagement, tribal consultation, and security, and compare that framework to IIGP. Foley Hoag’s final report provided recommendations for the project sponsors on steps they can take beyond U.S. legal requirements, as well as more general industry good practice guidance. The full report is confidential, but the banks requested that Foley Hoag share some general findings and the general industry good practice guidance. This good practice guidance may help companies building future pipelines in the United States incorporate IIGP, and may assist banks when they evaluate those projects.

IIGP for community engagement evolved significantly during the past decade in response to community stakeholder concerns that led to lawsuits, campaigns, and project delays or stoppages. The report’s analysis draws extensively on the International Finance Corporation’s Environmental and Social Performance Standards (“IFC Performance Standards”), particularly the provisions stemming from the U.N. Declaration on the Rights of Indigenous Peoples. These standards are a widely respected benchmark for good practice with regard to community engagement, including company consultation with Indigenous Peoples and security practices. The IFC Performance Standards were developed for application in emerging market contexts with limited rule of law and were not developed with the U.S. legal context in mind, but they nevertheless provide a useful benchmark to consider for U.S. projects. The report considers the Equator Principles, a voluntary global framework used by financial institutions to assess environmental and social risk in project finance. The analysis also incorporates good practice from the International Council on Mining and Metals (“ICMM”), the U.N. Global Compact, and the Voluntary Principles on Security and Human Rights.

U.S. Law and IIGP

U.S. law differs from IIGP in certain ways. The U.S. legal system is complex, consisting of multiple levels: federal law, the laws of each of the 50 states, and municipal law. U.S. law governing non-tribal community engagement and security varies by state, so companies complying with the law will be required to take varied actions in different states. The potential variations in state law make it challenging for companies that rely only on legal compliance to apply a consistent approach

to community engagement or security. Companies are likely to perform more consistently and to reduce risk if they develop corporate policies and processes that go “beyond compliance” and are based on IIGP.

Tribal engagement is governed by U.S. federal law, and tribes have special status and unique rights. The U.S. federal government maintains government-to-government relations with tribes and has the primary power to regulate relations with them. The federal government holds “Indian country” -- tribes’ federally recognized lands -- in trust for tribes, which confers fiduciary duties on the government to manage those lands for the good of the tribes. Tribes have internal sovereignty on Indian country and thus typically control, and have the right to profit from, natural resources located on or under Indian country.

Laws, regulations, and Presidential executive orders require federal agencies to consult with Indian tribes if a project is not on Indian country but federal actions -- such as permitting -- may impact the tribes in certain ways. These sources do not, however, provide detailed definitions of consultation. The consultation requirements are also difficult to legally enforce. Each federal agency has developed its own internal, more detailed guidelines. These guidelines differ significantly from one another and are, typically, unenforceable. Such consultation is procedural, offering tribes an opportunity to express concerns, but not guaranteeing that concerns raised during such consultations will ultimately prevent a federal action from affecting the tribes. Tribes have complained about certain aspects of tribal consultation for years, including inconsistent implementation, but they have limited legal recourse. This lack of consistency and clarity in government-to-government consultation creates challenges for both tribes and companies.

Although U.S. law is generally robust, international law – and related IIGP – has developed rapidly in recent years, particularly in the area of indigenous rights. U.S. law is less stringent than international standards in at least two vital ways. First, IIGP provides more detailed guidance than U.S. law on what constitutes company-tribal consultation, and offers a solid foundation for companies and potentially impacted tribes to develop strong working relationships, regardless of the government’s level of involvement. IIGP defines consultation as a two-way exchange that begins early, with tribes playing an active role in risk identification, mitigation, and monitoring. Companies may need to financially assist tribes with such activities, and compensate them for certain impacts created by projects.

Second, IIGP calls for company-tribal consultation and even Free, Prior, and Informed Consent (“FPIC”) in a significantly wider range of circumstances than U.S. federal law. Under U.S. federal law, if a project is not sited on Indian country, tribal consent is almost never required. Tribes have a right to consultation when projects are not sited on Indian country only in limited circumstances, typically when a federal action would impact their cultural heritage, legally recognized hunting/fishing/gathering rights, or the environment on Indian country. Compounding the challenges, no single federal agency has overall jurisdiction over oil pipelines. As a consequence, permits are typically only required for small portions of such projects, and the portion of the pipeline’s cultural or environmental impacts that is likely to require tribal consultation under federal law is correspondingly limited.

In contrast, IIGP calls for company-tribal consultation and even FPIC for certain impacts arising from projects, regardless of whether impacts are on private or public land or a federal permit is required. For example, the IFC Performance Standards call for FPIC when cultural heritage would

be significantly impacted or a project would impact traditional or customary lands or resources to which Indigenous Peoples maintain a collective attachment. The guidance below highlights the good practices that IIGP identifies for consultation and/or to achieve consent, and that are vital components to build relationships of trust and mutual benefit between companies and Indigenous Peoples, including in the United States.

Notably, the IFC Performance Standards were developed for emerging economies, where Indigenous Peoples' rights, including their land rights, may be less protected as a matter of law and implementation. However, the evolution in Indigenous Peoples' rights under international law (and related IIGP) contributes to expectations in the United States that are unlikely to be met under current law and practice, potentially leading to project risk and social conflict. IIGP can help address such risk in the United States.

The following table contains good practice guidance based on IIGP that companies developing pipelines in the United States should consider building into their corporate practices. To the extent possible, pipeline companies should work with government agencies to implement these practices.

Guidance for Good Practice in the United States

<p>A. General Consultation and Community Engagement Pipeline companies need to be proactive in engaging all potentially affected stakeholders. For example, companies should:</p>	<p>Ensure appropriate staffing expertise and capacity: At an early stage of a project, before a company seeks a permit, it should hire staff with expertise in community engagement who can dedicate the necessary time to this activity. Companies should strive for continuity in staffing so that relationships and trust with local communities can be established.</p>
<p>A.2</p>	<p>Conduct stakeholder mapping: A company should conduct stakeholder mapping on an ongoing basis and for specific projects to better understand the social landscape in which it operates.</p>
<p>A.3</p>	<p>Create a stakeholder engagement plan: The company should develop a stakeholder engagement plan that differentiates between interested stakeholders and stakeholders who are directly impacted by a project. The plan should also identify and focus on stakeholders who are most impacted by the project, or who are marginalized and may require special measures for effective engagement. The engagement should begin before there is a problem or a campaign against the company, and should continue throughout the project lifecycle, which may help to pre-empt or minimize problems and campaigns.</p>
<p>A.4</p>	<p>Engage in information-sharing: A company should share information proactively about projects, and try to connect personally with potentially affected stakeholders as much as possible to share accurate information about the project. Potentially affected community members should have an opportunity to share their concerns about the project as well.</p>
<p>A.5</p>	<p>Establish a grievance mechanism: A company should establish a grievance mechanism at an early stage of a project and ensure that it is staffed and monitored so that complaints are not only received but resolved in a timely fashion. Complaints should be tracked and timelines by which issues are likely to be resolved should be regularly communicated to complainants. To be effective, grievance mechanisms need to be culturally appropriate. An effective grievance mechanism should help prevent issues from escalating. If a grievance is significant and the parties cannot reach a resolution on their own, the company should consider bringing in a third party mediator.</p>
<p>A.6</p>	<p>Rely upon expropriation only as a last option, and provide fair compensation: Given recent pushback against the use of eminent domain for pipeline projects in the United States, companies should rely on expropriation as seldom as possible and only as a last resort. Moreover, companies should evaluate the compensation provided under law and consider whether it is adequate to improve or restore livelihoods. Companies should develop project timelines that allow for time to negotiate with landowners.</p>

B. Engagement with Indigenous Peoples

To avoid the risk of project opposition, litigation, and delays, companies should incorporate ILGP to develop positive relationships and partnerships. Many of the recommendations below focus on building trust. Companies engaging with Indigenous Peoples may struggle to develop trust with tribes due to the challenging history of relations between Indian tribes and the U.S. government and, in some instances, with companies. To overcome this, companies need to invest in the relationship and spend adequate time on consultation. This does not always fit neatly within normal project timelines. Yet a failure to spend adequate time can also lead to significant and costly operational delays. The following recommendations would help companies better achieve ILGP in the United States:

B.1	<p>Develop policy guidance: Companies should develop guidance that clarifies their position on Indigenous Peoples’ rights. Such rights are different from those of other stakeholders under international law, particularly collective procedural rights such as consultation and FPIC. Similarly, tribes enjoy special rights under U.S. law, including collective rights, that differentiate them from other groups. Company policies should reflect this. A policy helps provide internal clarity and, if the guidance is public, sets expectations for external parties. The guidance should be based on ILGP and should identify when companies plan to consult or seek FPIC from Indigenous Peoples for:</p>
B.1.a.	<ul style="list-style-type: none"> • Potential impacts on tribal cultural heritage that are subject to protections in the IFC Performance Standards, whether or not consultation under the National Environmental Policy Act (“NEPA”) or the National Historic Preservation Act (“NHPA”) is triggered.
B.1.b.	<ul style="list-style-type: none"> • Environmental impacts affecting Indian country/water or off-reservation usufructuary rights (e.g. hunting, fishing, gathering), whether or not consultation under NEPA or the NHPA is triggered.
B.1.c.	<ul style="list-style-type: none"> • Projects on unrecognized traditional lands to which tribes still have a strong and active collective attachment.
B.2	<p>Conduct due diligence to understand tribal interests and rights: Companies should conduct due diligence to understand tribes’ historical grievances, including with particular federal agencies; tribal land claims and whether tribes continue to seek rights to traditional lands; off-reservation usufructuary rights (e.g. fishing, hunting, or gathering); known cultural heritage sites; and the experiences other companies have had engaging with those tribes. This should help companies define more realistic timelines, approach tribes sensitively, plan projects with consideration of tribal rights and interests, and hire appropriate personnel. Pipeline projects may affect many tribes to varying degrees. To the extent necessary, companies should prioritize engagement with particular tribes if: the activities will occur on reservations, may affect (or are thought to affect) the environment on their reservations/trust lands, may affect off-reservation usufructuary rights, may affect their cultural heritage, or are located on their traditional, unrecognized lands to which they maintain a collective attachment. The more of these factors are present and the more severe the potential impact, the greater the priority that should be given to that tribe.</p>

B. Engagement with Indigenous Peoples <i>continued</i>	
<p>B.3</p>	<p>Consider appropriate timelines: Company timelines and budgets should take into account the time needed to consult or seek FPIC in accordance with international standards for potentially affected Indian tribes. These processes may lengthen the front end of a project, but also should help ensure the project is able to proceed without significant social unrest.</p>
<p>B.4</p>	<p>Consult early: Companies should engage potentially affected Indian tribes early. Under the IFC Performance Standards, for a pipeline this engagement should occur during project planning so that there is still flexibility to adapt the project. Company guidelines should establish a well-defined stage-gated process that calls for and enables the company to consult earlier than regulations require in certain situations, thus facilitating tribal input into site selection and potential re-routing. This would enable consideration of tribal views in routing, environmental risk assessment, and mitigation plans. Ideally, companies would undertake this early engagement along with the permitting agency. Consultation should be ongoing throughout the project life cycle.</p>
<p>B.5</p>	<p>Ensure appropriate staffing and expertise: Companies should hire staff with experience engaging with Indian tribes to conduct consultation for projects that might have impacts on tribes. Companies also sometimes hire tribal members to assist with community liaison. Companies would also benefit from consulting with Indian tribes and/or anthropologists to design and support the stakeholder engagement process, particularly if trust between the parties is low. Company representation at meetings with tribal leadership should be at a sufficiently senior level. Conducting such consultation should be written into relevant job descriptions and performance indicators. All employees and contractors engaging with tribes should receive cultural training.</p>
<p>B.6</p>	<p>Share adequate information: Share information with potentially affected tribes regarding: (1) <u>Project impacts and mitigation:</u> This would include information that is sufficient for them to understand the potential positive and negative impacts of the project, including cumulative effects, as well as planned mitigation steps. This may entail sharing more information than is mandated by law. Information sharing should be a two-way dialogue, where tribes have an opportunity to share potential impacts and concerns with companies and have those taken into account in project planning. (2) <u>The consultation or FPIC process:</u> Given the complexity of agency consultation processes in the United States, and the number of consultation processes in which tribes are asked to participate, companies can play a vital role by sharing information to clarify the project, the government’s process, the company’s process, and thus can help tribes engage more effectively. Companies should prioritize information sharing with tribes if the activities may affect the environment/water on their reservations/trust lands, may affect their usufructuary rights, are located on their traditional, unrecognized lands and the tribe still has a strong attachment to them, or may affect their cultural heritage. The more of these factors are present and the more severe the potential impact, the greater the priority that should be accorded to the tribe. Companies should share as many documents as possible to help tribes understand project risk, and should redact them when they cannot be shared in full so that tribes have adequate information.</p>

B. Engagement with Indigenous Peoples *continued*

B.7	<p>Identify potential cultural heritage impacts together and develop mitigation plans: If a project will potentially impact cultural heritage, companies should work with the affected Indian tribe’s elders, cultural heritage experts, or archeologists to plan cultural heritage assessments, identify those sites, and develop mitigation plans. Many U.S. tribes have their own archaeologists. If they are licensed and meet legal requirements, companies should hire them. Otherwise, companies should incorporate tribal elders into archaeological and cultural surveys at an early stage before on-the-ground assessments begin.</p>
B.8	<p>Identify potential environmental risks together and include tribal input related to mitigation: Companies should provide potentially impacted tribes an opportunity to share their concerns about environmental risks and potentially integrate those concerns into Environmental Assessments (“EAs”) and other environmental studies. Tribes might be aware of impacts on wildlife or fauna that a conventional environmental study might miss. Moreover, understanding tribal concerns, even if they ultimately prove unfounded, helps companies respond to those concerns and explain why those impacts would not arise. Companies should also provide an opportunity for tribes to suggest and comment on mitigation methodologies, and ensure that the tribes know whether their suggestions were incorporated and, if not, why not. Providing an opportunity for this feedback helps create a positive and respectful working relationship from the beginning, and may help avoid project opposition and protests. Companies may need to provide financial support to potentially impacted tribes so that they can hire experts to assist them and obtain scientifically accurate information about risks. When identifying which tribes might be impacted, companies should consider impacts of the project as a whole, as well as the risk of a spill, even if a spill is improbable.</p>
B.9	<p>Consider creating an impact-benefit agreement: These documents are a potential outcome of a consultation or a consent process. They identify the potential impacts of the project on a tribe and how mitigation will occur or the tribe will be compensated for those impacts. If the goal of the engagement process was to obtain FPIC, the document would include a formal statement of that agreement. Impact-benefit agreements can include components such as employment and contracting opportunities, environmental, social, and cultural impact management, compensation or disbursements to address impacts, governance arrangements, and other commitments such as continued access to land. Of particular importance for pipeline companies, impact-benefits agreements can address:</p>
B.9.1	<ul style="list-style-type: none"> • A tribal role in monitoring and managing impacts: Tribes play an ongoing role in monitoring cultural and environmental impacts, particularly in the context of certain projects in Canada and Australia. In many of these instances, a company places funds in escrow for the tribe so that it can hire environmental and other experts as needed and produce its own reports or data. For some projects, the company and the tribe have developed joint environmental and cultural oversight boards, with representation from or selected by each party. A government agency has also joined the oversight board in some cases. Enabling tribes to play a role in monitoring can produce significant benefits. It creates trust in project-related data and mitigation approaches. It also provides an opportunity to develop and maintain a constructive relationship between the company and tribe.

B. Engagement with Indigenous Peoples <i>continued</i>	
B.9.2	<ul style="list-style-type: none"> • Compensation for impacts: To the extent that a project is expected to potentially adversely impact a tribe’s lands, environment, usufructuary rights, livelihoods, or cultural heritage, companies should provide compensation. Companies should prioritize land-based compensation where feasible. Offering a tribe a revenue stream from the project is another way to build mutual interest in the project’s success and to offset impacts. These practices are used in Canada and Australia.
C. Security	
The security situation facing U.S. pipeline proponents has changed significantly in recent years. Today, pipelines under construction are much more likely to be the subject of protests. Such unrest, in turn, can increase the risk of disproportionate use of force. As a result of these changes, pipeline companies need to be more proactive in their approach to security. To that effect, companies should:	
C.1.	Seek to use conflict resolution first: If a situation appears likely to escalate into protests, companies should consider hiring a mutually acceptable third party mediator to help the two sides manage the conflict peacefully through dialogue to attempt to avoid the outbreak of protests and the need to engage security forces. Companies should consider developing a list of respected third party mediators to facilitate quick action in a crisis.
C.2	Require Private Security Contractors (“PSCs”) to act in a manner consistent with the Voluntary Principles on Security and Human Rights and proportional use of force: Companies should include this expectation in their negotiations and agreements with PSCs.
C.3	Conduct security risk assessments: To better understand and address security risks in a responsible manner, companies should consult with a broad range of sources regarding security risks, conflict dynamics, the potential for violence, the effectiveness of rule of law, the human rights records of public and private security, and the risk of equipment transfers from private to public security.
C.4	Screen potential private security providers: Companies should not only ensure that security providers are licensed, but also review the security company’s record, including any lawsuits or reports regarding the excessive use of force. Companies should ensure that the security provider is adequately screening its employees’ records for histories of violence or criminal acts. Companies should also consider whether their chosen security provider has the experience and training to peacefully handle more complex security scenarios, such as large crowds and protests or sabotage of equipment. If not, given the challenges that the pipeline industry currently faces, companies should have in place a back-up provider with such capabilities.
C.5	Ensure private security providers have adequate training: Companies should require that private security providers receive robust training on proportionate use of force, conflict resolution, and responsible crowd control, where relevant.

C. Security continued

C.6	<p>Ensure that security incidents are investigated: Companies should contractually require their PSCs to report any use of force, weapons discharge, or injury related to security to them. Such incidents should be investigated and any potentially criminal acts reported to the authorities. Security personnel should be disciplined, including by dismissal, if they used excessive force.</p>
C.7	<p>Engage with public security regarding expectations: In the United States, corporate influence on the police or other public security forces may be limited, and the ability of public security to act in accordance with international standards regarding the use of force is frequently assumed. Companies should nevertheless clarify with relevant public security that their first priority is protection of human life and health of their own employees and of any protesters. They should make clear that they would never wish for lethal force to be used to protect company property. These steps have the potential benefit of helping to protect the company from the appearance of complicity in public security abuses and potential lawsuits.</p>
C.8	<p>Avoid sharing equipment with public security: Companies should ensure that they and their private security providers do not provide equipment to public security forces. Were this equipment to be used against individuals, the company could be considered to be complicit in any abuses. Sharing of equipment is less likely in the U.S. context, where public security is well-equipped. These steps nevertheless have the potential benefit of helping to protect the company from the appearance of complicity in public security abuses and potential lawsuits under the Alien Tort Statute.</p>



May 22, 2017

The Equator Principles Association
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 Eastbourne, East Sussex, BN21 3XE
 United Kingdom
secretariat@equator-principles.com

Dear Chair,

As some of us experienced with a recent project located in a Designated Country, banks were publicly and harshly criticised for supporting a project where consultation with an indigenous community did not involve their free, prior and informed consent (FPIC). They were also criticised for not being able to intervene with the Sponsors in order to help identify a solution that was agreeable to all parties in this context.

In the present case, this was largely based on the fact that (i) local laws in relation to engagement with indigenous communities are lacking compared to best practice for FPIC such as the one developed by the World Bank & IFC and reflected in the IFC Performance Standards (IFC PS) and (ii) banks had no leverage as there was no breach with the applicable environmental & social standards being used.

In addition to the reputation damage that this has caused to the banks involved, we believe that this is likely to damage the reputation of the Equator Principles (EPs) as a “golden standard” and a common playing field for determining, assessing and managing environmental and social risks in projects.

The EPs have imposed themselves as a market standard, attracting more and more Financial Institutions and enabling them to collectively learn about this important matter. Overall, we are deeply convinced that the EPs have significantly improved the quality of the projects that we finance and we remain fully committed to the EPs and to their continuous improvements.

Whilst the EP Financial Institutions (EPFIs) and the EP Association have been quite active since the launch of the EPs in 2003 and more recently with the last version in 2013, we believe that the world has changed even more rapidly and that the initial intention of setting a golden standard and common playing field needs to be re-affirmed. It is therefore critical that we maintain the level of our initial ambition and that the EP Association demonstrates continuous progress.

As a lesson learned from the above captioned project, we believe that a significant improvement to the EPs is now needed to avoid similar situations in the future and we would like to put forward two important changes:

- Requiring that projects in Designated Countries (as defined in the EPs) are developed to comply with the same environmental and social standards as in non-Designated Countries, i.e. the IFC PS, in addition to applicable local standards.

This is crucial with respect to critical issues such as FPIC and biodiversity conservation. Moreover, this would address concerns that local laws in Designated Countries are not necessarily as stringent as the IFC PS in all respects. We request that this proposal be discussed in the coming months in order to reach a decision in a timely manner.

- Propose amendments to the EP framework to facilitate the resolution of issues resulting from a potential breach of the applicable E&S standards that may lead to a significant damage to the environment and / or communities. We request that a working group be put in place as soon as possible to review this request and make proposals to the EP Association on how to implement them.

The undersigned would like to call on all EPFIs to support this ambition and work collectively to achieve significant progress on these two important aspects. In this spirit, the undersigned EPFIs would be happy to participate in a working group(s) to work towards achieving these goals.

We will be grateful to the Steering Committee to bring the subject forward to the EPFIs community and assist us in fostering discussions..

Best Regards

For and on behalf of,

ABN AMRO

Claire Gillig-Brouwer
EP Primary Contact

BNP PARIBAS

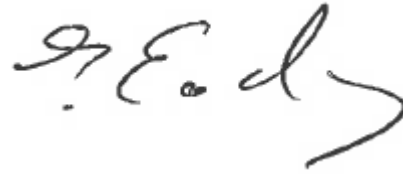
Patrick Bader
EP Primary Contact

BBVA

Juan A. Casals Ovalle
EP Primary Contact

Credit Agricole
CIB

Eric Cochard
EP Primary Contact



FMO

Emilie Goodall
Manager, Development Impact
and Sustainability



Intesa San
Paolo

Antonella Bernasconi
EP Primary Contact



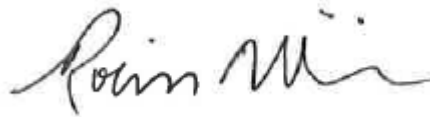
Natixis

Pierre Dufaud
EP Primary Contact



NIBC

Robin Willing
EP Primary Contact



Rabobank

Bas Rüter
Director of Sustainability



Société
Générale

Sylvie Préa
Director of Corporate Social
Responsibility



Charter of the CalSTRS 21 Risk Factor Review Committee

Purpose

The 21 Risk Factor Review Committee (“the Committee”) is established by the Chief Investment Officer of California State Teachers’ Retirement System (“CalSTRS” or “the fund”) CalSTRS to discuss geopolitical and Environmental Social and Governance (“ESG”) risks to the fund and to take actions to address ESG risks faced by the fund.

Membership and Structure

Membership

The 21 Risk Factor Review Committee shall consist of at least the Chief Investment Officer, Deputy Chief Investment Officer and Director of Corporate Governance as well as one representative of each asset class determined by each asset class’ director. From time to time, the committee may seek input from other CalSTRS Departments and groups such as the Green Team, Legal, or Legislative Affairs.

Meetings

Committee meetings will be open to all members of the Investment Office.

Meetings are led by the Chair, which shall be determined by Chief Investment Officer.

The Committee will meet at least quarterly and on ad hoc basis as circumstances dictate. Occasionally the committee may act through written consent to act on pressing issues and with a more in depth review of the issue at the next scheduled meeting.

Reporting

The Chair of the Committee or Chief Investment Officer shall report on the Committee’s activities of the CalSTRS board as circumstances demand.

The Chair of the committee shall draft an annual report to the CalSTRS board and legislatively required reports to the Legislature for approval of the Chief Investment Officer and CalSTRS Board.

Responsibilities

The responsibilities of the 21 Risk Factor Review Committee are:

- Evaluate ESG issues to determine if they violate 21 Risk Factors Policy
- Carry out CalSTRS Board’s directives relating to the 21 Risk Factors and Divestment policies

Attachment E

- Assist the investment office in addressing ESG Issues
- Assist asset classes on engagement of ESG issues
- Insure all asset classes are aware of ESG issues affecting the fund
- Determine if such issues should be elevated to the full board. Refer issues to the Teachers' Retirement Board for review.
- Prepare annual reports to the board and legislature on ESG issues related to investments