



# corporate responsibility/ sustainability

December, 2013

## UPDATE OF EQUATOR PRINCIPLES: EP III

The [Equator Principles](#) are a voluntary credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions.

These principles have been promoted by myriad institutions in the financial sector in coordination with the International Finance Corporation, an agency attached to the World Bank. There are currently [79 adopting institutions](#) around the world, including 5 Spanish institutions.

The financial institutions that have adopted these principles will only provide financing to projects that meet the requirements established in the 10 Equator Principles. The Principles are global and apply to all industry sectors.

The Equator Principles have recently been updated on the basis of a series of recommendations on key thematic areas, namely: scope, climate change, human rights, reporting, transparency, stakeholder engagement and governance.

The new update of the Equator Principles has a direct and important consequence, namely: a larger number of finance transactions will be assessed under a strengthened environmental and social risk management framework.

The new version of the principles ([EP III](#)) took effect on June 4, 2013:

Most notable among the **main new features included in the third version of the Equator Principles** are the following:

- (i) Expansion of the scope to certain corporate finance projects and bridge loans.
- (ii) Description of the minimum requirements relating to reporting and to project finance advisory services.
- (iii) Introduction of new terminology, such as “non-designated countries” and “designated countries” (deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment).
- (iv) Increased requirements for category B projects (potential limited adverse environmental and social risks).

- (v) Stronger requirements for conducting informed consultation and participation processes with affected communities.
- (vi) Application, in compliance with Principle 3, of the new version of the IFC Performance Standards on Environmental and Social Sustainability (version 2012), and of the Environmental, Healthy and Safety Guidelines that are being defined in the current review process that is being carried out.
- (vii) Inclusion of the Alternatives analysis, quantification and reporting of greenhouse gas emissions (see next section).

Institutions that have adopted the Equator Principles will have a transition period, from June 4 to December 31, 2013, to apply EP III to all the products determined in the new scope.

## **1. UPDATED EQUATOR PRINCIPLES RELEASED: THE NEW GHG REQUIREMENTS**

EPIII obliges EPFI to require borrowers from projects in all locations to report GHG emissions levels during the operational phase for projects emitting **annually over 100,000 tonnes of carbon dioxide equivalent**, including both direct (GHG Protocol scope 1) and indirect emissions related to electricity consumption (GHG Protocol scope 2).

Main issues are as follows:

### **(i) GHG emissions quantification**

- (a) Quantification of Scope 1 (direct emissions) and Scope 2 (emissions from electricity consumption, basically).
- (b) GHG emissions will be calculated by the client in accordance with internationally recognised methodologies and good practice, for example, the WBCSD GHG Protocol.

### **(ii) GHG emissions alternatives analysis**

For affected projects there is also a requirement to undertake an analysis of less emissions-intensive alternatives:

- (a) This analysis requires the evaluation of feasible options available to reduce the GHG emissions during the design, construction and operation of the project.
- (b) For Scope 1 Emissions, this analysis will include consideration of alternative fuel or energy sources if applicable (i.e fossil fuel substitution for biomass).

- (c) 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.
- (d) For Projects in high carbon intensity sectors (thermal power, cement and lime manufacturing, integrated steel mills, base metal smelting and refining, and foundries), 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.

**(iii) GHG emissions reporting**

- (a) Reporting publicly on an annual basis on GHG emission levels during the operational phase for Projects emitting over 100,000 tonnes of CO<sub>2</sub> equivalent annually. Clients will be encouraged to report publicly on Projects emitting over 25,000 tonnes.
- (b) 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.

Garrigues Medio Ambiente is an energy and environmental consulting firm that provides technical assistance and economic services. It has been involved in more than 800 projects worldwide since 2001, advising clients on climate change matters and energy and environment-related project finance deals.

We would be pleased to provide you with further information on the update of the Equator Principles.

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