

# Implementation Guidelines for the Equator Principles

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Sumitomo Mitsui Trust Bank

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# 1 Introduction

## 1.1 Basic Policy Regarding the Equator Principles

Large scale infrastructure and industrial projects can potentially have adverse impacts on people and the environment. We, Sumitomo Mitsui Trust Bank (hereinafter, SMTB), recognize that as a financial institution we play an important role in promoting socially responsible development, which includes responsible environmental management and respect for human rights. By continuously working in partnership with our clients to conduct due diligence in accordance with the Equator Principles, we promote sustainable environmental and social development and aim for improved financial, environmental and social outcomes. We believe that conducting due diligence in accordance with Equator Principles offers significant benefits to ourselves, our clients and other stakeholders.

We recognize the importance of climate change, biodiversity and human rights and believe that the potential adverse impacts of projects on the environment, local communities and climate should be avoided where possible. In cases where impacts cannot be avoided, they need to be minimized, mitigated or offset.

SMTB 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.

## 1.2 Equator Principles Adoption Background

Based on its Sustainability Policy, Sumitomo Mitsui Trust Group has developed its Environmental Policy and Human Rights Policy with the aim of moving towards a sustainable society, and is working to further strengthen its ESG risk management system in line with international standards. SMTB is aware that financing large-scale projects such as mine development, power plants, oil and gas development, petrochemical plants and infrastructure development may indirectly have an adverse effect on the natural environment and the regional community. SMTB also believes it is the responsibility of a responsible financial institution to avert or mitigate the risk of deterioration in loan receivables due to

the suspension of projects as a result of environmental or social problems. When we identified the priority sustainability issues (Materiality Assessment) at Sumitomo Mitsui Trust Group, we realized the importance of environmental and social risks and/or impacts when investing. In recognition of the necessity to integrate risk management procedures based on the Equator Principles, the global standard for private-sector financial institutions, SMTB adopted them into our project finance credit decision processes in February 2016.

### **1.3 Positioning of the Guidelines**

These Guidelines are based on the Equator Principles revised in June 2013 and July 2020(SMTB started to apply in October 2020) and presents the basic policy of SMTB regarding the Principles as well as their implementation. SMTB discloses information about the application status of the Equator Principles on our Website annually. These Guidelines have been developed and disclosed on SMTB's Website to enable our clients and other stakeholders to understand our activities regarding our implementation of the Equator Principles.

## 2 About Equator Principles

### 2.1 Scope of Application

- ✓ The Equator Principles apply globally and to all industry sectors.
- ✓ SMTB applies the Equator Principles to the financial products described below when supporting a new project:
  1. Project Finance Advisory Services (hereinafter, FA 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 (including export finance in the form of buyer credit) (hereinafter, PRCL) where all three of the following criteria are met: (Note: A only for Category A and appropriate Category B Project where recipients of the loans are countries, regional governments, government ministries and agencies).
    - 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 and SMTB's individual commitment (before syndication or sell down) is at least US\$50 million.
    - iii. The loan tenor is at least two years.
  4. Bridge Loans (hereinafter, BL) with a tenor of less than two years that are intended to be refinanced by project finance or a PRCL that is anticipated to meet the relevant criteria described above.
  5. **Project-Related Refinance** and **Project-Related Acquisition Finance**, where all of the following three criteria are met:
    - i. The underlying project was financed in accordance with the Equator Principles framework.
    - ii. There has been no material change in the scale or scope of the project.
    - iii. Project completion has not yet occurred at the time of the signing of the facility or loan agreement.
- ✓ While the Equator Principles are not intended to be applied retroactively, SMTB 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.

- ✓ SMTB does not apply the Equator Principles to the followings:
  - General working capital expenditures loans
  - General corporate purposes loans
  - Asset finance
  - Supplier's credit
  - Hedging transaction
  - Leasing
  - Letters of credit

## 2.2 Application Policy (Approach)

### *Project Finance and PRCL*

- ✓ As a general rule, SMTB only provides finance to projects where the client complies with the principles 1 to 10 of the Principles.

### *Project-Related Refinance and Project-Related Acquisition Finance,*

- ✓ SMTB will take reasonable measures to ensure that all relevant existing environmental and social obligations continue to be included in new financing documentation.

### *FA Services and BL*

- ✓ When providing project FA services or BL to clients, SMTB makes them aware of the necessity of applying the Equator Principles to the target project, and requests them to express their intention to satisfy the requirements of the Equator Principles.
- ✓ When providing BL to projects classified into Category A or B in the Principle 1, the requirements listed below apply when appropriate.
  - It should be confirmed by SMTB that the client will implement Environmental and Social Impact Assessment (ESIA) when it is expected at the investigation phase that the project will not have undesirable environmental and social effects during the loan period.
  - For a project that will start during the loan period and for which assessment documentation has been prepared, SMTB will confirm, where appropriate, that the client appoints an independent environmental and social consultant and develops a scope of work to

commence an independent review described in the Principle 7.

## 2.3 Equator Principles

### Principle 1: Review and Categorization

When a project is proposed for financing, SMTB as part of its internal environmental and social review and due diligence, uses checklists to categorize the project (as Category A, B or C) based on the magnitude of its potential environmental and social risks and impacts including those related to human rights, climate change, and biodiversity..

- ✓ Based on the categorization, our Environmental and Social Impact Review is commensurate with the nature, scale and stage of the project, and with the level of environmental and social risks and impacts.
- ✓ SMTB implements Environmental and Social Impact Review based on the ESIA report provided by the client and/or the independent reports prepared by external experts and decides on the Final Categorization in accordance with the results of the review.

- ✓ The categories are classified into the three following groups.

Category	Definition
A	Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented.
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.
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, SMTB will conduct Environmental and Social Impact Review based on the Environmental and Social Impact Report provided by the client and/or the independent reports prepared by external experts.
- ✓ 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. SMTB may consider that additional information or further technical investigation is necessary. In limited high risk circumstances, it may be appropriate for the client to complement its Assessment Documentation with specific human rights due diligence.

- ✓ (1) For all Category A and, as appropriate, Category B projects, the client will be requested to consider relevant physical risk as defined by the TCFD (Task Force on Climate-related Financial Disclosures). (2) For all projects, in all locations, when Green House Gas (GHG) emissions are expected to be more than 100,000 tonnes of CO<sub>2</sub> equivalent annually, the client will be requested to consider relevant climate transition risk as defined by the TCFD and to conduct an alternatives analysis. Alternatives analysis refers to a comparative analysis of potential technologies and fuel options capable of reducing the GHG emissions, and those scheduled to be adopted by the project.

### **Principle 3: Applicable Environmental and Social Standards**

- ✓ SMTB confirms that all projects comply with environmental and social laws, regulations, permits and licenses of the project host country.
- ✓ Regarding all Category A and B projects, SMTB checks how the project and transaction meet each of the principles.
- ✓ SMTB evaluates the project's compliance with the applicable standards, with supporting advice from the Independent environmental and social consultant where applicable. SMTB checks the project location is in the list of Designated Countries defined by the Equator Principles Association, in order to determine which environmental and social standards to apply.
- ✓ When conducting Environmental and Social Impacts Review, SMTB confirms the followings:
  1. For projects located in Non-Designated Countries: SMTB uses checklists to confirm compliance with applicable IFC Performance Standards on Environmental and Social Sustainability (Performance Standards) and the World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines).

2. For projects located in Designated Countries: SMTB confirms compliance with relevant host country laws, regulations and permits applicable to environmental and social issues.
- ✓ The assessment process will establish, to SMTB's satisfaction, the project's overall compliance with, or justified deviation from, the applicable standards. SMTB may, at its sole discretion, apply additional requirements.
  - ✓ For all Category A projects in Non-Designated Countries, site visits should be conducted whenever possible.
  - ✓ SMTB shall confirm the external information related to environmental and social aspects about the project, the borrower and the company to the extent possible. For negative information identified, SMTB shall confirm the information where possible.

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

- ✓ For all Category A and Category B projects, SMTB will require the client to develop or maintain an Environmental and Social Management System (ESMS). Further, SMTB requests the client to develop an Environmental and Social Management Plan (ESMP) to address the issues identified in the Assessment process and implement the actions required to comply with the applicable standards. Where the applicable standards established by Principle 3 are not met to SMTB's satisfaction, SMTB requests the client to develop an Equator Principles Action Plan (hereinafter, EPAP). The EPAP is intended to identify the gaps and establish how the client will meet its commitments to comply with the requirements established by the applicable standards.

#### **Principle 5: Stakeholder Engagement**

- ✓ For all Category A and Category B projects, SMTB confirms whether the client is implementing effective Stakeholder Engagement as an ongoing process in a structured and culturally appropriate manner with affected communities, workers and, where relevant, other stakeholders.
- ✓ For projects with potentially significant adverse impacts on affected communities, SMTB shall confirm that the client is conducting an Informed Consultation and Participation process.
- ✓ SMTB confirms that Assessment Documentation is readily available in to the

affected communities and other stakeholders in the local language and in a culturally appropriate manner.

- ✓ SMTB shall confirm that the client documents the results of the Stakeholder Engagement process, including any agreed actions resulting from the process.
- ✓ For projects with environmental or social risks and adverse impacts, SMTB confirms that disclosure should occur early in the assessment process, before the project construction commences at the latest.
- ✓ SMTB recognizes that indigenous peoples may represent vulnerable segments of project-affected communities. SMTB shall confirm that for projects affecting indigenous peoples a process of Informed Consultation and Participation is implemented. Such projects 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.
- ✓ IFC Performance Standard 7 paragraphs 13-17 detail the special circumstances that require the Free, Prior and Informed Consent (FPIC) of affected indigenous peoples, which include any of the following:
  - Projects with impacts on lands and natural resources subject to traditional ownership or under the customary use of Indigenous Peoples,
  - Projects requiring the relocation of Indigenous Peoples from lands and natural resources subject to traditional ownership or under customary use,
  - Projects with significant impacts on critical cultural heritage essential to the identity of Indigenous Peoples, or
  - Projects using their cultural heritage for commercial purposes.
- ✓ Globally for projects that meet these special circumstances, SMTB will require a qualified independent consultant to evaluate the consultation process with indigenous peoples, and the outcomes of that process, against the requirements of host country laws and IFC Performance Standard 7.
- ✓ Where stakeholder engagement, including with indigenous peoples, is the responsibility of the host government, SMTB require the client to collaborate with the responsible government agency during the planning, implementation and monitoring of activities, to the extent permitted by the agency, to achieve outcomes that are consistent with IFC Performance Standard 7. If a process

of good faith negotiations that meets the consultation requirements of IFC Performance Standard 7 has been followed and documented, but it is not clear if FPIC has been achieved, SMTB will determine, with supporting advice from the consultant, if this qualifies as a justified deviation from the requirements of IFC Performance Standard 7, and whether the client should pursue additional corrective actions to meet IFC Performance Standard 7's objectives.

### **Principle 6: Grievance Mechanism**

- ✓ SMTB will confirm for all Category A projects and Category B projects identified by Environmental and Social Impacts Review results whether the client, as part of the Environmental Social Management System, has established a grievance mechanism and complies with the following requirements.
  - The grievance mechanism is required to be scaled to the risks and impacts of the project and have affected communities and workers as its primary user.
  - The grievance mechanism shall seek to resolve concerns promptly, using an understandable and transparent consultative process that is culturally appropriate.
  - The mechanism shall be 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 and workers about the grievance mechanism in the course of the Stakeholder Engagement process.

### **Principle 7: Independent Review by Environmental and Social Consultant**

- ✓ Regarding project finance and PRCL, for all Category A projects and Category B projects identified by Environmental and Social Impact Review results an independent environmental and social consultant, not directly associated with the client, will carry out an independent review of the Assessment Documentation including the Environmental and Social Management System, and the Stakeholder Engagement process

documentation in order to assess Equator Principles compliance. The independent environmental and social consultant will also propose or opine on a suitable EPAP capable of bringing the project into compliance with the Equator Principles or indicate where there is a justified deviation from the applicable standards. The independent environmental and social consultant must be able to demonstrate expertise in evaluating the types of environmental and social risks and impacts relevant to the project.

- ✓ For Category B projects identified by Environmental and Social Impacts Review results, SMTB shall determine whether an independent review is necessary or if internal review by SMTB is sufficient. This decision may take into account the results of due diligence performed by a multilateral or bilateral financial institution or an OECD Export Credit Agency, if relevant.

### **Principle 8: Covenants**

- ✓ Where a client is not in compliance with its environmental and social covenants, SMTB 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, SMTB reserves the right to exercise remedies, including calling an event of default, as considered appropriate.

### **Project Finance and PRCL**

- ✓ SMTB will include in the financing documentation that the clients shall covenant 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, SMTB will include in the financial documentation:
  - a) the client shall comply with the Environmental and Social Management Plan and EPAP during the construction and operation of the project in all material respects;
  - b) the client shall provide periodic reports (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;
  - c) the client shall decommission the facilities, in accordance with an agreed

decommissioning plan, where a decommissioning plan has been established and where applicable and appropriate.

### **Principle 9: Independent Monitoring and Reporting**

- ✓ Regarding project finance and PRCL, to ensure ongoing monitoring and reporting over the life of the loan, SMTB will, for all Category A projects and Category B projects identified by Environmental and Social Impacts Review results, 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 SMTB.
  
- ✓ In the specific case of monitoring of PRCL to national, regional or local governments, governmental ministries and agencies, SMTB may decide between requiring an Independent Environmental and Social Consultant or relying on internal monitoring by SMTB. Additionally, SMTB may take into account any monitoring performed by a multilateral or bilateral financial institution or an OECD Export Credit Agency.

### **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 projects and Category B projects identified by Environmental and Social Impacts Review results:
  - To make accessible and available online at a minimum, a summary of the Environmental and Social Impacts Assessment, that includes a summary of human rights and climate change risks and impacts when relevant
  - To publicly report GHG emission levels and, if appropriate, the GHG efficiency ratio during the operational phase for projects emitting over 100,000 tonnes of CO<sub>2</sub> equivalent annually.
  - SMTB will encourage the client to share commercially non-sensitive project-specific biodiversity data with the Global Biodiversity Information Facility (GBIF) and relevant national and global data repositories, using formats and conditions to enable such data to be accessed and re-used in future decisions and research applications.
  
- ✓ SMTB Reporting Requirements: SMTB will report publicly on an annual basis

regarding its Equator Principles implementation, taking into account appropriate confidentiality considerations.