

**POLICY**

Environmental and Social Risk Management  
Policy



## Authority Signatures



**Approved by:** Martine Irman, Chair - Board of Directors

Date 28/02/2019



**Endorsed by:** Lorraine Audsley, Chair – EDC Risk Management Committee

Date 12/02/2019



**Recommended by:** Catherine Decarie, Senior Vice-President, Corporate Affairs

Date 12/02/2019

## Control Sheet

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Policy Monitor:	Director, Environmental and Social Risk Management
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<sup>1</sup> As of May 27, 2019, policy ownership was transferred from Senior Vice-President, Corporate Affairs to Senior Vice-President, Sustainable Business & Enablement.

## Revision History

Version	Approved/Reviewed/ Revised/Rescinded	Date	Comments
1.0	Approved by the Board	June 27, 2005	Inaugural
2.0	Reviewed and revised	November 1, 2010	Reviewed and revised as part of regular revision process
3.0	Reviewed and revised	February 28, 2019	Reviewed and revised as part of regular revision process
3.1	Minor Revision	November 22, 2019	Revised to indicate a new Policy Owner, resulting from a corporate restructuring. <b>**No other changes made**</b>

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## **1. PURPOSE AND SCOPE**

### **1.1. PURPOSE**

Canadian companies operate successfully in virtually every industry sector in the global marketplace. Canadian companies have established a reputation, both in Canada and abroad, for conducting business in a fair, open and responsible manner. EDC works to make Canadian companies internationally recognized as leaders in sustainable and responsible business, giving them the competitive advantage they need to succeed internationally. A key element of that vision is how EDC manages environmental and social risk.

This Policy is EDC's overarching environmental and social risk management policy and sets out EDC's commitments in this regard, as well as EDC's approach in undertaking these commitments when considering transactions.

### **1.2. SCOPE**

This Policy applies to EDC and its global operations, including branches, subsidiaries, regional offices and foreign representations, unless otherwise specified. This Policy is not intended to restrict the ability of subsidiaries to adopt variations of this Policy as may be required to accommodate requirements applicable specifically to them, either stemming from the regulatory environment, their governance regime or otherwise, in alignment with the principles of this Policy to the extent appropriate.

## 2. POLICY REQUIREMENTS

### 2.1. COMMITMENTS

EDC is committed to: (i) reviewing and understanding the potential environmental and social impacts of the transactions and businesses we support, (ii) advocating best practices with our counterparts, and (iii) helping customers achieve and maintain high standards of environmental and social risk management.

As part of these commitments EDC:

- Tracks internationally accepted environmental and social risk management and disclosure practices and updates its policies and procedures accordingly;
- Considers relevant multilateral agreements or frameworks signed by Canada, such as the *United Nations Sustainable Development Goals*;
- Advocates for the adoption of international best practices by other international financial institutions and by those with whom EDC does business; and
- Works with its customers as part of a collaborative relationship to improve environmental and social performance.

For transactions identified by EDC as requiring environmental and social considerations, using a risk-based approach, EDC:

- Integrates internationally accepted risk management practices into its decision-making process; and
- Ensures compliance with host country laws and regulations.

As EDC's overarching environmental and social risk management policy, this Policy informs EDC's environmental and social policies, guidelines, and procedures. EDC has developed individual policies on human rights and climate change to provide specific policy guidance for these issues.

The **Human Rights Policy** articulates EDC's policy commitments for how it will approach both project and non-project transactions from a human rights perspective. The **Climate Change Policy** elaborates on EDC's climate-related commitments including in the context of a project or non-project transaction, as well as at a portfolio-level, and in terms of climate-specific disclosure practices. The **Environmental and Social Review Directive** ("ESRD") is a legal requirement under the *Export Development Act*. If EDC is considering a project-related transaction, the ESRD sets out certain requirements as to when and how the project must be reviewed and, in the end, whether EDC may support the project. EDC's **Disclosure Policy** governs how EDC proactively discloses information related to EDC's business activities and support for both project and non-project transactions.

### 2.2. TRANSACTION REVIEW

In implementing the above commitments at the transactional level, EDC will take a risk-based approach to identifying, managing, and mitigating environmental and social risks. This means that, in considering

the risk associated with a particular transaction, EDC assesses customers' activities to identify both the likelihood of environmental and social impacts and the severity of any potential impacts, and seeks to address identified issues. Our approach is informed by the *IFC Performance Standards* and, as articulated in the **Environmental and Social Review Directive**, these are the benchmark standards for project-related transactions. To identify and assess human rights impacts associated with our customers, EDC's transaction review processes are also informed by the *United Nations Guiding Principles on Business and Human Rights*.

We will look to work with customers, financial institutions, and other partners, where possible, to influence customers' environmental and social performance, depending on the nature of environmental and social impacts. EDC will use tools such as environmental and social loan covenants or action plans. Where we do not have the ability to sufficiently influence environmental and social performance, EDC will seek ways to increase our ability to do so.

EDC's commitment to environmental and social performance does not end once a transaction reaches financial close. Monitoring is an integral part of EDC's environmental and social risk management process. EDC may employ loan documentation or other mechanisms to ensure EDC's environmental and social performance expectations are met. Depending on the nature of the transaction, customers can expect to engage with EDC for ongoing environmental and social monitoring and follow-up throughout their relationship with EDC.

EDC has developed a variety of processes to manage and mitigate environmental and social risks for different product and transaction types. Additional details on these processes are articulated in EDC's **Guideline on Environmental and Social Risk Management Review**.

### 3. ROLES AND RESPONSIBILITIES

The **Environmental and Social Risk Management Policy** is a Board Policy and, as such, is approved by the Board of Directors.

The Senior Vice-President, Sustainable Business & Enablement is the Policy Owner of this **Environmental and Social Risk Management Policy** and is responsible for its development, implementation and maintenance. They are also accountable for its execution and effectiveness.

The Director, Environmental and Social Risk Management shall be the Policy Monitor. The Policy Monitor may delegate their responsibilities as Policy Monitor to an alternative and credible person.

Internal Audit, as the Third Line of Defence, shall be responsible for providing Independent Assurance to the Board of Directors and Executive in accordance with EDC's **Internal Audit Charter**.

EDC's external Advisory Council on Corporate Sustainability and Responsibility, comprised of prominent leaders from business, academia and civil society, shall be responsible for providing advice to EDC on matters related to evolving best-in-class corporate sustainable and responsible business practices, including in relation to this Policy.



## 4. REPORTING REQUIREMENTS AND TRANSPARENCY

The table below sets out the minimum reporting requirements for the **Environmental and Social Risk Management Policy**.

Table 1: Reporting Requirements

Report	Frequency	Description	Distribution
Integrated Annual Report	Annual	Provide a summary of any relevant updates regarding the implementation of EDC's <b>Environmental and Social Risk Management Policy Framework</b> , which includes the <b>Environmental and Social Risk Management Policy</b>	<b>Distributed by:</b> <ul style="list-style-type: none"> <li>• CEO</li> </ul> <b>Distributed to:</b> <ul style="list-style-type: none"> <li>• Disclosed externally</li> </ul>

EDC's transparency and disclosure commitments can be found within EDC's **Disclosure Policy**. EDC's disclosure commitments align with the *Revised Council Recommendation on Common Approaches on Environment and Officially Supported Export Credits* (the "OECD Common Approaches") adopted by Members of the Export Credits Group of the Organisation for Economic Co-operation and Development. EDC shares additional information with OECD Members in an effort to build a body of experience and to seek greater consistency in implementation of the OECD Common Approaches.

The Auditor General of Canada undertakes a periodic review of the design and implementation of the **Environmental and Social Review Directive** in accordance with the requirements of the *Export Development Act* and submits a report on the audit to the Corporation's Board of Directors, to the Minister for International Trade Diversification, and to each House of Parliament.

## 5. REVIEWS AND REVISIONS

The **Environmental and Social Risk Management Policy** shall be reviewed and approved every three years, or more frequently should circumstances require.

Any revisions to, or rescinding of, this **Environmental and Social Risk Management Policy** shall be accompanied by supporting detail on the material changes and associated rationale.

Any minor off-cycle adjustments to this **Environmental and Social Risk Management Policy** may be made in adherence with and as set out in EDC's **Policy of Policies**.

Table 2: Reviews and Revisions

Document	Review & Recommend for Approval, Revision (or Rescinding)	Approval	Approval Cycle
<b>Environmental and Social Risk Management Policy</b>	SVP, Sustainable Business & Enablement and endorsed by an Executive-level committee	Board of Directors	At least every three years, unless deemed otherwise by the Board of Directors

## 6. ESCALATION AND EXCEPTIONS

All exceptions or instances of non-compliance to this **Environmental and Social Risk Management Policy** shall be assessed by the Policy Monitor and escalated to the Policy Owner for resolution or approval.

Requests for Policy exceptions or instances of non-compliance must:

- Identify the applicable section(s) of the Policy to which the exception applies;
- Assess the risk(s) that arises from the proposed exception(s);
- If applicable, outline the appropriate controls to mitigate these risks; and,
- Specify the review or effective period of the Policy exception.

A process shall be established by the Policy Owner to identify, record and report on exceptions or instances of non-compliance with this Policy. Policy exceptions will be disclosed.

## **7. OTHER RELATED DOCUMENTS**

The following documents relate to the **Environmental and Social Risk Management Policy**:

- **Environmental and Social Review Directive**
- **Climate Change Policy**
- **Human Rights Policy**
- **Disclosure Policy**
- **Guideline on Environmental and Social Risk Management Review**
- **Policy of Policies**
- **Internal Audit Charter**
- **IFC Performance Standards on Environmental and Social Sustainability**
- **Revised Council Recommendation on Common Approaches on Environment and Officially Supported Export Credits (the “OECD Common Approaches”)**
- **Equator Principles**

## 8. EFFECTIVE DATE

This revised version of the **Environmental and Social Risk Management Policy** shall take effect on May 1, 2019.

## 9. DEFINITIONS

In this Policy, the names of EDC teams and groups are capitalized, and refer to the teams/groups as set out in EDC’s corporate directory.

Capitalized terms other than name of EDC teams or groups are defined terms, as set out below.

Table 3: Definitions

Terminology	Definition
Board of Directors	EDC’s Board of Directors.
Board Risk Management Committee (BRMC)	Board-level Risk Management Committee, as set out in the ORMF.
Equator Principles	A risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making.
Executive	The cadre of managers that provides the most senior level of review, guidance and decision-making.
First Line of Defence	Teams or individuals who assume, own, and manage risk.
Guideline	A document which sets out the parameters within which EDC employees should act and the standards which should be defined to achieve expected outcomes and Policy requirements. This includes mandatory controls, or alternatively guidance, recommendations or best practices.
Independent Assurance	The process for assuring the Board and Senior Management that the Policy and its related Guidelines (or Standards), Procedures and Frameworks are effectively designed and functioning as intended.
IFC Performance Standards	The International Finance Corporation’s Performance Standards on Social and Environmental Sustainability as amended from time to time.
Operational Risk Management Framework (ORMF)	The overarching Governance Structure for establishing effective operational risk management in respect of the entire organization.
Policy	A document which sets out the principles or protocols to guide decisions and achieve expected outcomes. Policies are derived from EDC’s mandate, missions, strategic objectives and Risk Appetite.

Terminology	Definition
Policy Monitor	The authority responsible for monitoring, ensuring and attesting to compliance with the Policy, and also responsible for reporting instances of non-compliance to the Policy Owner (if Policy Monitor is different from the Policy Owner).
Policy Owner	The senior Executive responsible for the matters addressed by the Policy. This includes responsibility for ensuring the Policy’s development, implementation and maintenance.
Procedures	Step-by-step instructions (including process maps where available, and job aids) to complete a task to implement Policies and Guidelines (or Standards). These documents should describe a series of actions on how to perform an activity to achieve expected outcomes.
Second Line of Defence	Individuals and teams oversee risk-taking.
Standards	Requirements that are mandatory, prescriptive and intended to be binding on EDC’s employees.
Third Line of Defence	EDC’s Internal Audit, which is responsible for providing Independent Assurance to the Board of Directors in accordance with EDC’s Internal Audit Charter.
Three Lines of Defence Model	A governance model that distinguishes organizational roles and responsibilities via three lines of management: First Line of Defence, Second Line of Defence and Third Line of Defence.