

# PRI-COORDINATED ENGAGEMENT ON FRACKING

RESEARCH ON COMPANY DISCLOSURE  
AND PRACTICES – ABRIDGED VERSION

CONDUCTED BY:  
AccountAbility



# THE SIX PRINCIPLES

- 1** We will incorporate ESG issues into investment analysis and decision-making processes.
- 2** **We will be active owners and incorporate ESG issues into our ownership policies and practices.**
- 3** **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
- 4** We will promote acceptance and implementation of the Principles within the investment industry.
- 5** **We will work together to enhance our effectiveness in implementing the Principles.**
- 6** We will each report on our activities and progress towards implementing the Principles.



This publication focuses on supporting signatories implement Principles 2, 3 and 5 of the Principles for Responsible Investment (PRI). The Principles for Responsible Investment (PRI) Initiative was launched by the United Nations in 2006 after former UN Secretary-General Kofi Annan brought together a group of the world's largest institutional investors, academics and other advisors to draft a set of sustainable investment principles. At the heart of the six Principles for Responsible Investment is the premise that investors have a duty to act in the best long-term interests of their beneficiaries; this means taking into account environmental, social and governance factors.

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AccountAbility is a leading international organization focused on “mainstreaming” sustainability into business thinking and practice. Since 1995 the organization has been helping corporations, non-profits and governments embed ethical, environmental, social and governance accountability into their organizational DNA.

# EXECUTIVE SUMMARY

This research paper was commissioned by the PRI, in cooperation with the steering committee for a new collaborative engagement on hydraulic fracturing ('fracking') undertaken through the PRI Clearinghouse. The research aims to support PRI signatories in their collaborative dialogues with listed oil & gas companies on practices and disclosure in relation to fracking. The research reviewed 46 oil and gas exploration and production companies, and 10 oilfield services companies against 56 indicators of companies' disclosure in four key areas, including governance and risk management practices, greenhouse gas emissions, water quality and use, and community relations.

Overall, results from the research point to very limited fracking-specific disclosure, even within markets where there is a high degree of production and servicing activity. The average score was only 21%. Producing companies fared slightly better overall, with an average of 23%, and servicing companies performed much worse, with an average of just 11%. Only two companies received more than half of the available points. There was significant diversity in the quality of disclosure across company size, geography and the four focus areas.

## KEY FINDINGS

**GOVERNANCE** was the best scoring of the four focus areas with an overall average of 27%. This held true for both for production and servicing sectors.

- 65% of producing companies officially recognised fracking in their sustainability policies, highlighting growing acknowledgement of the environmental challenges related to fracking. Only 20% of servicing companies did so.
- 40% of servicing companies both identified ESG risks and aligned practices with third party risk assessment standards (ISO 14001). Performance among producing companies was even stronger, with 59% recognising ESG risks, and 43% aligning practices with third party risk assessment standards.
- Disclosure of best practices was low in the producing segment, and almost absent in the servicing segment. 28% of producing firms provided specific fracking guidelines, but few tracked and reported performance against those guidelines.
- Only one servicing firm and two producing firms reported having a best available technology (BAT) policy.
- One third of producing and one quarter of servicing firms reported fracking violations in their annual filings. However, this was mostly due to US Securities and Exchange Commission (SEC) reporting requirements.

**WATER QUALITY AND USE** was the second strongest focus area with an average score of 22%.

- Though 30% of producing companies had fracking-related water testing practices (20% for servicing), few companies publically reported results from water testing.
- A majority of producing companies (54%) reported recycling flow back water, and 30% of servicing companies did the same. However, few companies provided more granular detail about flow back treatment.
- Toxic chemical use was one of the most disclosed indicators in the study with 85% of producing companies and 20% of servicing companies disclosing their chemical use, due to US state-level reporting requirements through the website FracFocus.org.
- 48% of producing firms, versus 30% of servicing firms, made public commitments to reduce water use for fracking-related processes. Very few companies report on the impact of their water extraction on local water access.
- 37% of producers committed to well integrity standards, and 10% of servicing companies did similarly, which was surprising, given the high visibility of well integrity as a topic.

**AIR EMISSIONS** reporting was the worst of the four focus areas, with an average score of just 12%.

- A majority of producing firms (61%) disclosed GHGs or criteria pollutants as part of regulatory mandates or CDP, however only 20% reported on fracking-related methane emissions.
- Few companies disclosed monitoring of ambient air quality. Only two companies publically reported data.
- Only 20% of producing firms (and 0 servicing firms) state an intention to develop energy alternatives, and only two firms reported progress on reducing emissions through alternative energy use and energy efficiency.
- Few companies (17% producing, 0 servicing) stated policies on Green Completion, though many companies active in the US referenced Green Completion due to forthcoming Environmental Protection Agency requirements.

**COMMUNITY IMPACT** reporting was the second lowest scoring focus area in the study, with an average score of 20%. Large and medium firms in the producing segment scored the highest, especially European and Canadian firms.

- While 30% of producing firms committed to or demonstrated stakeholder engagement with regard to the ESG aspects of their projects, little further disclosure was made. 22% of producing firms reported a policy commitment to win consent for fracking activities, and one company committed to *free, prior and informed consent* principles when indigenous populations may be impacted. Almost no stakeholder engagement was reported in the servicing segment.

- 33% of producing firms maintained an active grievance mechanism for fracking activities; however, only 13% of producing firms disclosed the recording and resolution of grievances, and only two companies disclosed the existence of an ombudsman.
- Half of producing and 40% of servicing companies disclosed a policy to identify and develop employment opportunities for local affected communities.

In addition to the findings in the four above areas, AccountAbility made a number of suggestions as to how investors and PRI signatories more broadly may support improved disclosure on fracking within the oil and gas sector. These recommendations are available on p. 16 of the report.

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# ABOUT THE COLLABORATIVE ENGAGEMENT AND THE RESEARCH

In late 2012 the PRI Secretariat formed a steering committee (SC) of 10 signatories to initiate a new collaborative engagement on hydraulic fracturing ('fracking'), with the aim of improving company disclosure and practices in this area. The committee consists of representatives from PRI signatories Boston Common Asset Management, British Columbia Municipal Pension Plan, Martin Currie Investment Management, Natixis Asset Management, Nordea, Old Mutual plc, PGGM Investments, Rathbone Brothers Plc, SNS Asset Management, and Threadneedle Asset Management Ltd.

The SC members recognise that there are key ESG risks and opportunities associated with fracking operations, and the SC aims, through this collaborative initiative, to understand how impacts and risks arising from fracking by global oil and gas companies are being managed. Following consultation with experts and a review of guidelines such as the IEA Golden Rules for a Golden Age of Gas, the SC identified community relations, water quality and use, air emissions, and the governance of procedures and contractors as areas of particular concern to be addressed through the collaborative engagement. AccountAbility was commissioned by the PRI to assess companies' disclosure and identify cases of good practices in these areas.

The objectives of the collaborative initiative are to:

- Better understand companies' ability to identify, manage and reduce fracking related risks and capacity to improve practices and disclosure.
- Achieve enhanced disclosure of policies, management systems and reporting related to fracking operations, by companies.
- Enable investors to better assess and manage their exposure to the financial, operational and reputational impacts of the risks related to fracking operations in their portfolios.

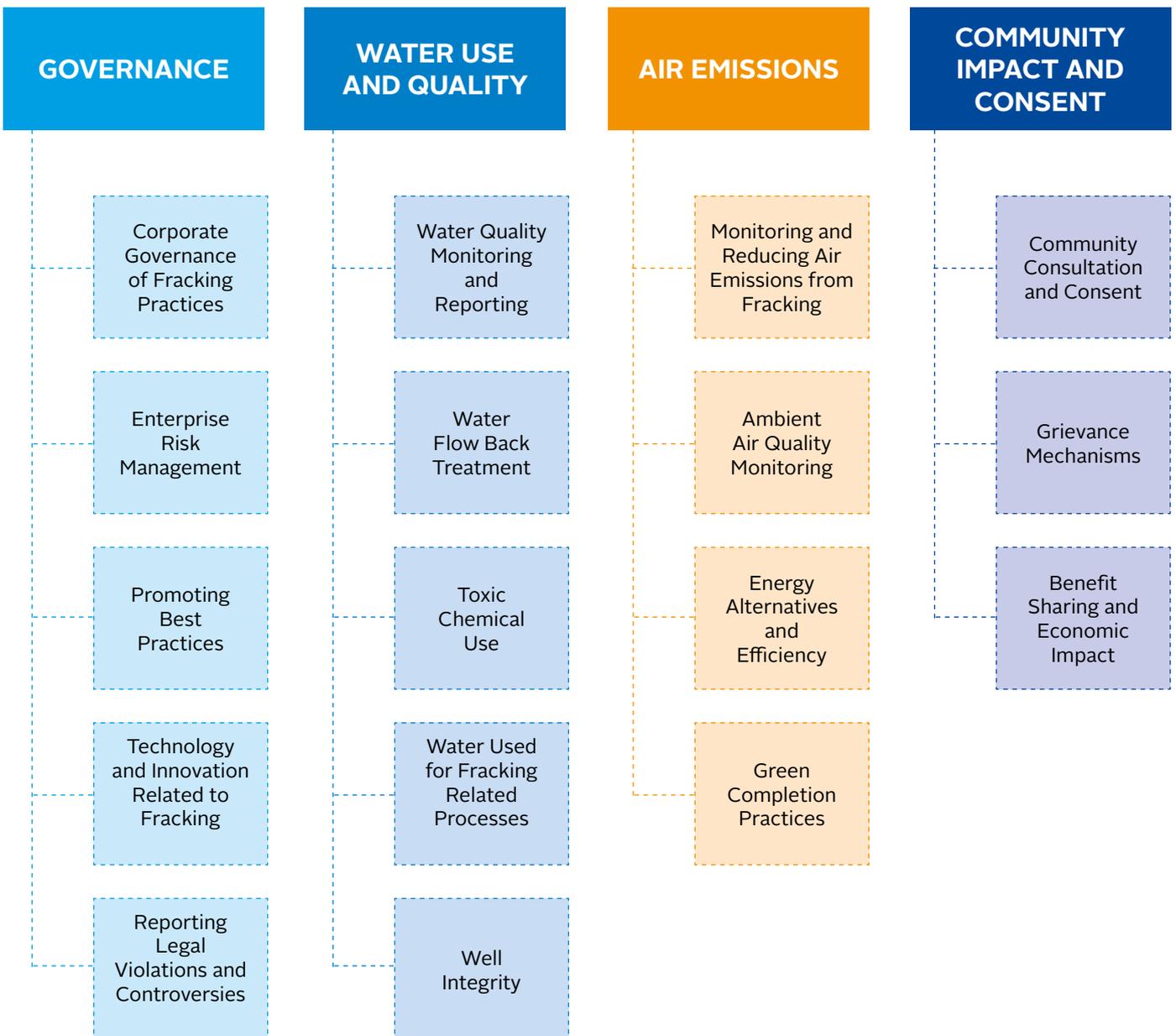
# RESEARCH METHODOLOGY

The PRI commissioned AccountAbility, a global standards organisation and consultancy in the area of corporate responsibility, to conduct an analysis of disclosure and practices in the oil and gas industry to better understand the current status of disclosure, good practices, and potential opportunities for improvement. SC members identified a target list of 56 global oil and gas companies with fracking operations, including 46 exploration and production companies and 10 oilfield services companies, which are the focus of the research.

The companies are economically diverse yet geographically concentrated in North America, which is representative of the current state of global fracking activity.

The study examined disclosure practices as it relates to four focus areas: Governance, Water Use and Quality, Air Emissions, and Community Impact and Consent. The SC identified three to five indicators within each focus area, with a total of 16 indicators. (See Figure 1)

Figure 1: Hydraulic Fracturing: Disclosure: Focus Areas and Indicators



To assess the degree of disclosure, AccountAbility developed a set of two to five questions (referred to as 'metrics') for each indicator. These metrics probed the degree of disclosure for each indicator. Each metric is binary (yes/no), with companies receiving one point each time there is evidence supporting relevant disclosure. There are a total of 56 metrics for the 16 indicators. Therefore, the highest score any company could receive was 56 points, indicating it fully disclosed on all metrics. For a detailed list of the metrics used, please see the Appendix.

Information on firms' fracking disclosure practices were collected from publicly available sources including:

- Annual reports;
- Annual sustainability reports or equivalent publications;
- 10-K, 40-F , and other regulatory filings;
- Third party disclosures (FracFocus, Carbon Disclosure Project);
- Company websites; and
- News searches.

Figure 3: Market Value of Companies

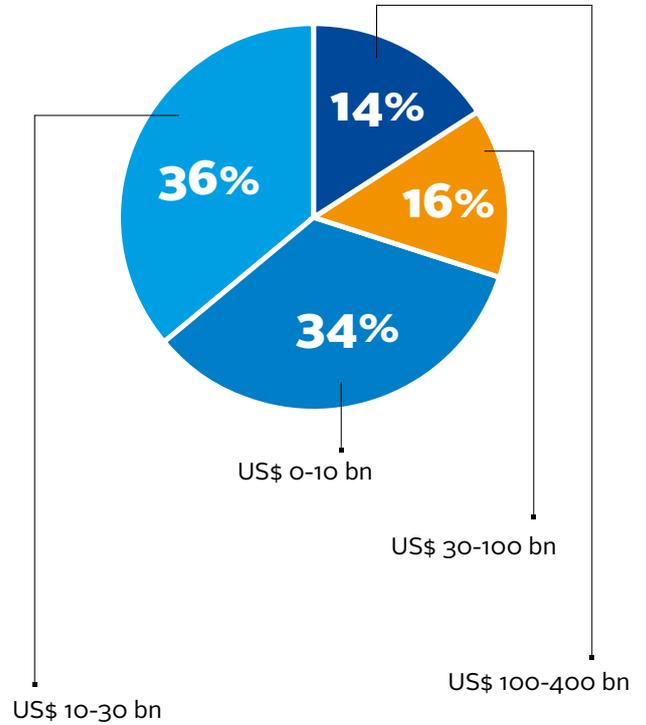
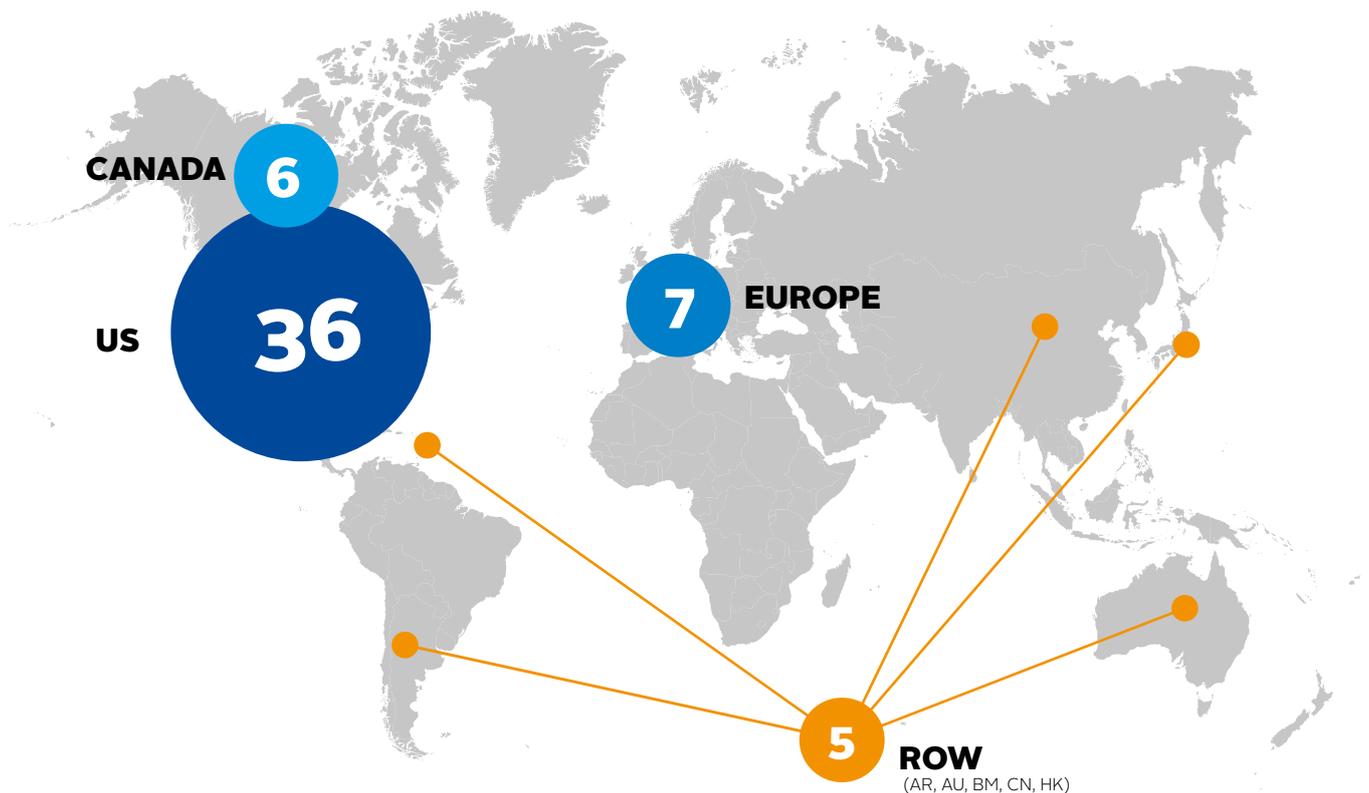


Figure 2: Company Headquarter Locations



# THE STATE OF HYDRAULIC FRACTURING DISCLOSURE

“While the process of hydraulic fracturing has been around for decades, the rapid increase in the number of wells [...] and the large number of companies who drill them has been accompanied by growing concerns about the environmental effects of the exploitation of unconventional resources. Land use, water scarcity, pollution of water supplies and greenhouse gas emissions are increasingly being scrutinized.”

Fatih Birol, Chief Economist, International Energy Agency

Horizontal drilling and hydraulic fracturing (fracking) have made previously unviable oil and natural gas deposits from tight and shale formations<sup>1</sup> into technically recoverable reserves, resulting in a worldwide boom in energy supply. In a recent report published by the US Energy Information Administration (EIA), global technically recoverable

resources from shale alone are estimated to increase recoverable hydrocarbon energy by as much as 42% by 2035.<sup>2</sup> Of this 42% increase, 32% will come from natural gas, and the remaining 10% will come from oil.<sup>3</sup> Both the public and private sectors are assessing if and how hydraulic fracturing will be used to meet their needs.

Table 1: Technically Recoverable Shale Reserves. Source: US EIA

SHALE GAS (Tcf)		SHALE OIL (Billion Barrels)	
1. US	1,161	1. Russia	75
2. China	1,115	2. US	48
3. Argentina	802	3. China	32
4. Algeria	707	4. Argentina	27
5. Canada	573	5. Libya	26
6. Mexico	545	6. Australia	18
7. Australia	437	7. Venezuela	13
8. South Africa	390	8. Mexico	13
9. Russia	285	9. Pakistan	9
10. Brazil	245	10. Canada	9
Others	1,535	Others	65
<b>TOTAL</b>	<b>7,795</b>	<b>TOTAL</b>	<b>335</b>

1 Terminology: tight vs. shale formations: Although shale and tight are used interchangeably in public discourse to describe unconventional oil and gas, shale formations are only a subset of tight formations. Both formations require the use of hydraulic fracturing.  
 2 US Energy Information Agency. *Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States*. (June 13, 2013) <http://www.eia.gov/analysis/studies/worldshalegas/>  
 3 Ibid

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Table 1 illustrates the broad geographic distribution of shale resources around the world, with every continent besides Antarctica having significant resources. Many countries are progressing cautiously with developing their shale resources, such as China, which completed its first horizontally fracked well in 2011,<sup>4</sup> and South Africa, which has banned and then lifted bans on fracking in regions of the country.<sup>5</sup>

## MAJORITY OF HYDRAULIC FRACTURING OCCURS IN THE UNITED STATES

Although recoverable shale reserves are distributed around the world, the large majority (over 90%) of horizontal drilling and fracking currently takes place in the US.<sup>6</sup> Fracking has dramatically increased natural gas production in the US; from 2002-2011, natural gas production from shale grew from 2% to 34% of total US natural gas production, and is expected to continue increasing.<sup>7</sup>

The large amount of fracking conducted in the US has generated research and policies aimed at mitigating the risks associated with fracking. Experience has also demonstrated the importance of certain above ground “context” factors in determining the economic feasibility of recovering reserves. They include:

- Private ownership of subsurface mineral rights, which provides a strong incentive for landowners to allow development;
- Availability and expertise of independent operators and supporting contractors;
- Pre-existing pipeline infrastructure; and
- Availability of water resources.

While present in the US and Canada, these factors vary considerably around the world.

## CONCERN ABOUT IMPACTS FROM FRACKING

Every country considering or engaging in fracking is concerned about how best to mitigate its risks. Poorly constructed wells degrade local air and water quality; poor community relations and development policies can put severe strains on communities and infrastructure surrounding hydraulic fracturing wells; and weak corporate governance of these issues can mean fracking risks are never truly managed.

Local and regional communities, governments, investors, activists and other stakeholder groups have voiced their concern about these issues.

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4 Watts, Jonathan. The Guardian. *China takes step towards tapping shale gas potential with first well.* (April 11, 2011)

5 Maylie, Devon and Alexis Flynn. The Wall Street Journal. *South Africa Lifts Fracking Ban.* (Sept. 7, 2012)

6 Mauerer, Leonardo. Harvard Kennedy Center: Belfer Center for Science and International Affairs. *The Shale Oil Boom: A US Phenomenon.* (June 2013).

7 US Energy Information Agency. *Annual Energy Outlook 2013: Market Trends – Natural Gas.* (April 15- May 20, 2013) [http://www.eia.gov/forecasts/aeo/MT\\_naturalgas.cfm](http://www.eia.gov/forecasts/aeo/MT_naturalgas.cfm)

# GENERAL FINDINGS

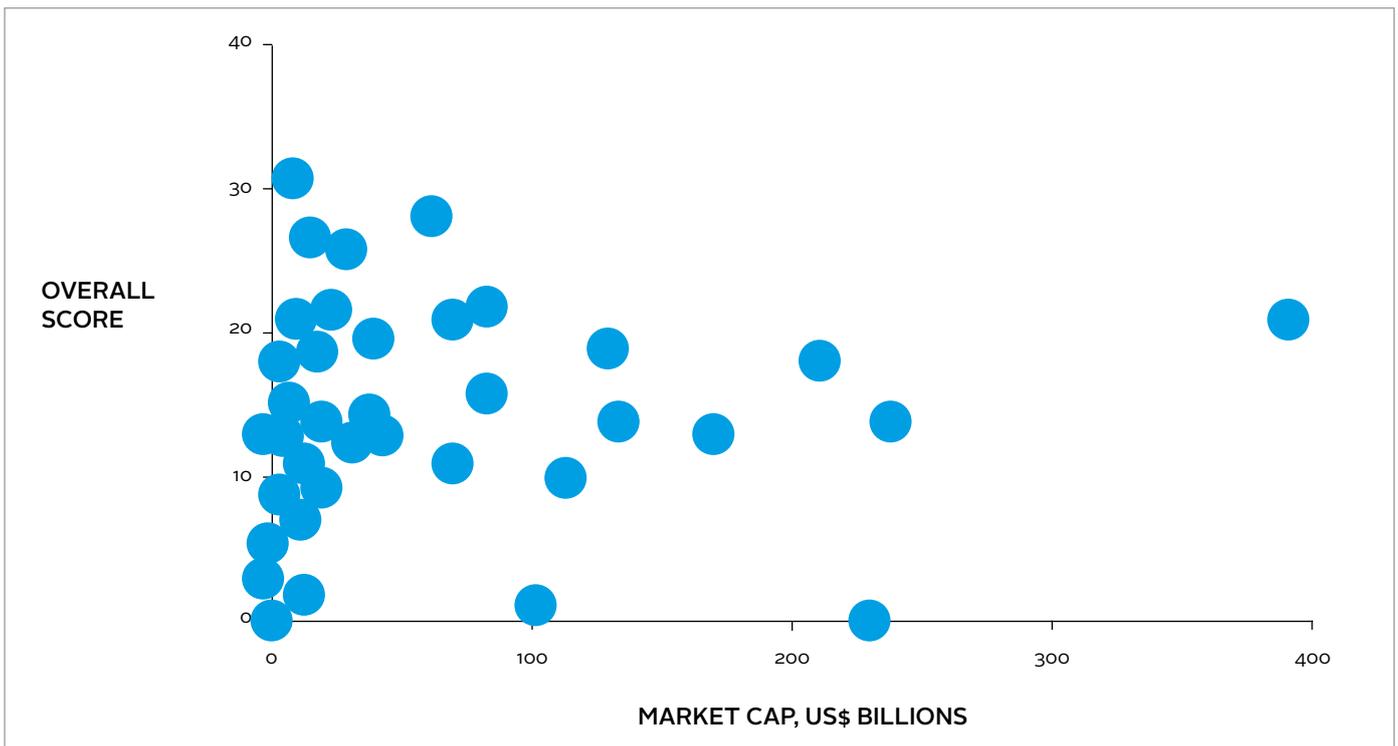
Overall, results from the research point to very limited fracking-specific disclosure, even within markets where there is a high degree of production and servicing activity. The overall average score out of a possible score of 56 points was 11.5 (only 21%). Producing companies fared slightly better overall, with an average of 12.8 points (23%), and servicing companies performed much worse, with an average of 5.9 points (just 11%). Only two companies, Talisman Energy and BG Group, received at least half of the available 56 points. There was also significant diversity in the quality of disclosure across company size, geography and the four focus areas. This result affirms the SC’s assumption that there is significant opportunity to enhance disclosure and reporting practices.

1. **MINIMAL FRACKING-SPECIFIC DISCLOSURE EXISTS TODAY.**  
Most firms analysed do not disaggregate their data to provide a clear picture of their fracking activities and impacts. This reflects the lack of regulatory and reporting guidelines that incentivise fracking-specific disclosure.
2. **PRODUCTION COMPANIES OUTSCORED SERVICING COMPANIES.**  
This reflects both heightened public and regulatory pressure on producing companies, and different

business models and activities which can enhance or reduce the relevance of specific indicators. For example, many servicing companies perform activities that are limited to specific aspects of fracking, such as well drilling, and therefore confine their disclosure to those activities.

3. **SIZE TENDS TO BE CORRELATED WITH MORE ROBUST OVERALL DISCLOSURE.**  
However, this is not necessarily a key driver of best practices at the focus area or indicator level, as some companies with mediocre overall scores excelled in single focus areas and/or indicators.
4. **COMPANIES DO NOT DISCLOSE QUANTIFIABLE DATA IN A STANDARDISED FORMAT.**  
This is true even for easily quantifiable data, such as flow back water recycling. Companies disclose data in percentages, absolute volumes (such as tons of flow back water recycled), or in qualitative statements.
5. **VOLUNTARY STANDARDS AND REPORTING FRAMEWORKS IMPROVE COMPANY DISCLOSURE.**  
Companies perform better when they adhere to a standard for risk or environmental management, specifically ISO 14001, and to reporting standards such as the Global Reporting Initiative (GRI) and Carbon Disclosure Project (CDP).

Figure 4: Market Capitalization vs. Overall Score: All Firms



# FOCUS AREA FINDINGS

## GOVERNANCE

Governance was the best scoring of the four focus areas with an overall average of four out of 15 points (27%). This held true for both for production and servicing sectors.

### INDICATOR: CORPORATE GOVERNANCE OF FRACKING PRACTICES

This was highest scoring indicator for producing companies. 65% of producing companies officially recognised fracking in their sustainability policies, though only 20% of servicing companies did the same. This highlights growing acknowledgement by corporate leaders and boards, especially among producing companies, of the environmental challenges related to fracking.

### INDICATOR: ENTERPRISE RISK MANAGEMENT

A strong performing indicator for servicing companies, with 40% of both identifying ESG risks and aligning practices with third party risk assessment standards (ISO 14001). Performance among producing companies was even stronger, with 59% recognising ESG risks, and 43% aligning practices with third party risk assessment standards. It should be noted that publically-listed oil and gas firms are required to publically identify risks. The fact that not all companies did so speaks to the need for specific provisions for identifying and reporting on fracking-related risks.

### INDICATOR: PROMOTING BEST PRACTICES

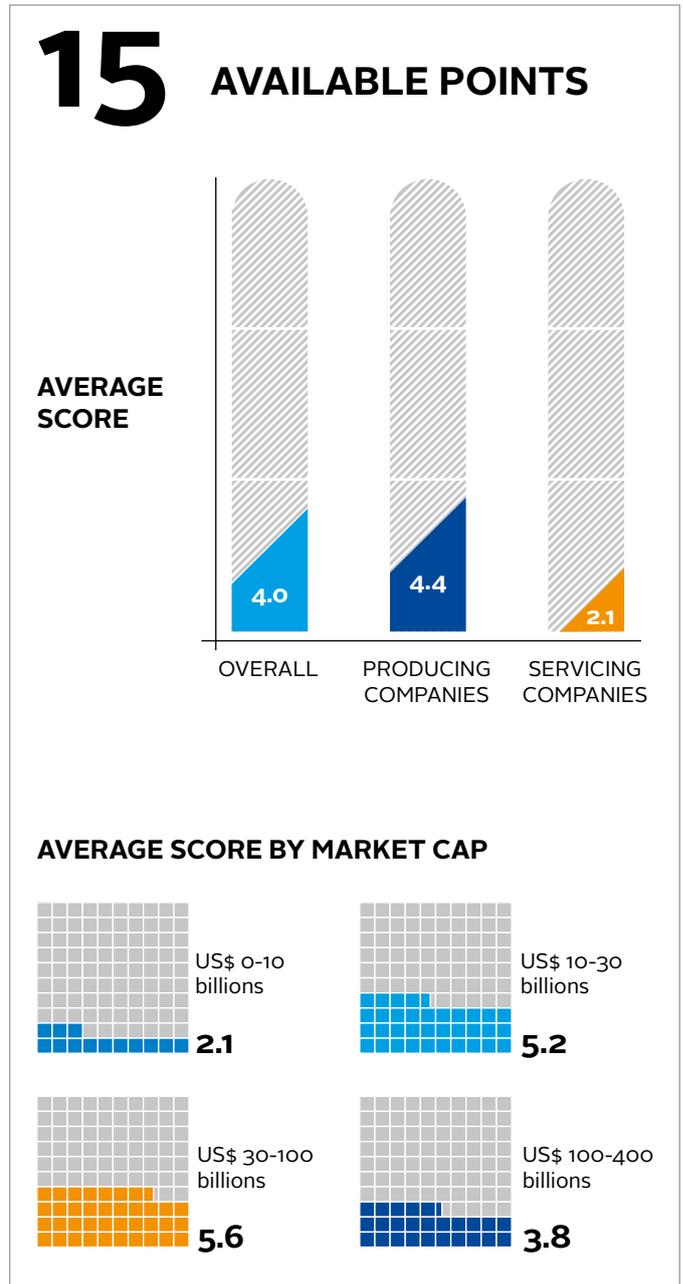
Disclosure of best practices was low in the producing segment, and almost absent in the servicing segment. Only 28% of producing firms provided specific fracking guidelines, but few tracked and reported performance against those guidelines. The low scores highlight the need to promote industry collaboration and investor engagement.

Indicator: Technology and Innovation Related to Fracking  
This was the lowest scoring indicator of this focus area.

The low score of this indicator underlines the need for companies to understand the importance of BAT policies to investors.

### INDICATOR: REPORTING LEGAL VIOLATIONS AND CONTROVERSIES

Regulation plays a strong role in reporting on this indicator. One third of producing and one quarter of servicing firms reported fracking violations in their annual filings. However, this was mostly due to US Securities and Exchange Commission (SEC) requirement that firms report violations resulting in fines over \$100,000. It is difficult to know whether the absence of reporting from other firms is a result of a lack of violations, or because any violations did not meet the SEC threshold. The results for this indicator also highlight the lack of a global repository for collecting information on fracking violations.



## WATER QUALITY AND USE

The process of hydraulic fracturing typically uses a large quantity of water, some of which returns to the surface after being pumped into the well. This contaminated ‘flow back’ or ‘produced’ water is one of the major environmental challenges faced by companies engaged in fracking.

Water disclosure represents the second strongest focus area with an average score of 4 out of 18 points (22%). European firms outperformed all other regions in the producing segment with an average of 6.7 points (37%). Large and small firms in the producing segment scored well. Among servicing firms, large firms outperformed small firms.

### INDICATOR: WATER QUALITY MONITORING AND REPORTING

Water quality monitoring and reporting was the weakest of all water indicators. While 30% of producing companies had fracking-related water testing practices (20% for servicing), few companies publically reported results from water testing, and no servicing companies reported at the region or project level.

While not captured in the indicators, a desk review of water disclosure revealed many producing firms conducted initial water testing prior to beginning drilling operations. No producing or service company reported the results of water monitoring by region or project.

### INDICATOR: WATER FLOW BACK TREATMENT

A majority of producing companies (54%) reported recycling flow back water, and 30% of servicing companies did the same. However, beyond stating that they recycle flow back water, few companies provided more granular detail about flow back treatment. Many firms are piloting water treatment schemes at various locations. Examples of typical pilots include: companies treating their own wastewater, developing new methods to manage water use, and increasing recycling.

### INDICATOR: TOXIC CHEMICAL USE

This indicator was one of the most disclosed in the study with 85% of producing companies and 20% of servicing companies disclosing their chemical use. Good disclosure practices of toxic chemicals among producing companies were largely due to US state-level requirements that companies report chemical use through the website FracFocus.org. Disclosure was better on the US version of FracFocus.org than on the Canadian site. At present, there is no international registry of fracking-related toxic chemicals.

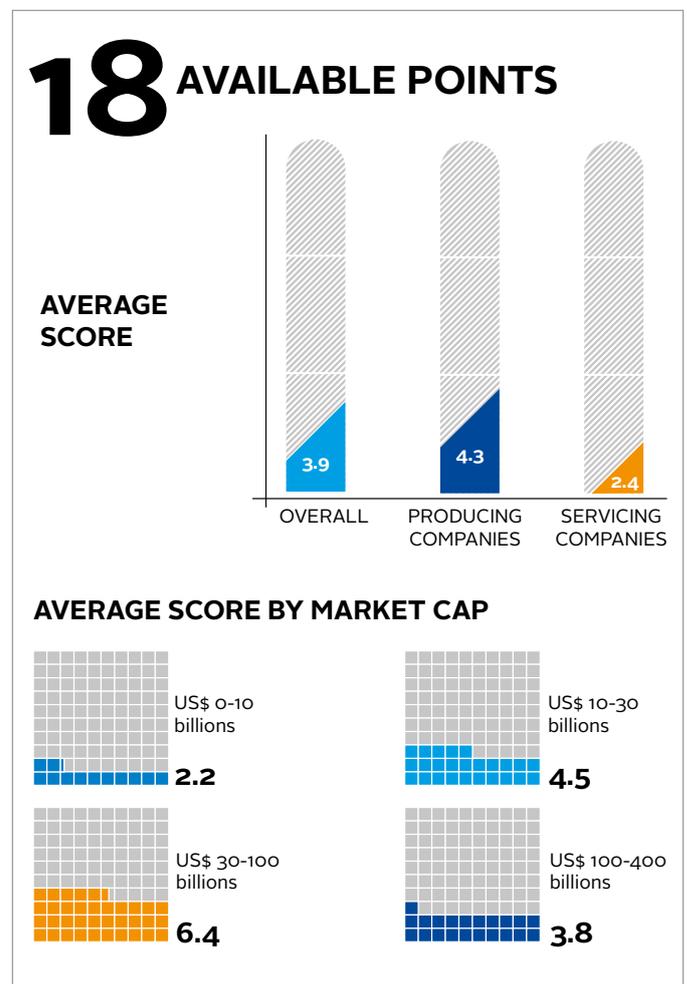
### INDICATOR: WATER USED FOR FRACKING-RELATED PROCESSES

Producing firms outperformed the servicing segment in this indicator. 48% of producing firms, versus 30% of servicing firms, made public commitments to reduce water use. Both producing and servicing companies did not go far beyond commitments to reduce water use. No servicing

firms, and just 4% of producing firms, used a third party verified baseline of available water to report the impact that fracking-related water extraction had on local water access in their project areas.

### INDICATOR: WELL INTEGRITY

Among producing firms, 37% of companies committed to well integrity standards, and 10% of servicing companies did similarly. Low scores for this indicator were surprising, since well integrity is a highly visible topic with interest from many stakeholders.



## AIR EMISSIONS

With an average score of just 1.6 points out of 13 points (12%), performance in air emissions reporting was the worst of the four focus areas. Large and medium US and European producing companies received higher scores. Among servicing companies, only two American firms provided data for the first indicator, and no company provided data on the last three.

### INDICATOR: MONITORING AND REDUCING AIR EMISSIONS FROM HYDRAULIC FRACTURING

A majority of producing firms (61%) disclosed GHGs or criteria pollutants as part of regulatory mandates or voluntary efforts such as the Carbon Disclosure Project. Only the two largest servicing companies (Schlumberger and Halliburton) reported GHGs. This discrepancy could reflect heightened investor/stakeholder pressure on producing companies overall, and on the largest servicing companies.

While 61% of producing companies disclosed GHGs or criteria pollutants, only 20% reported on fracking-related methane emissions, and 0% of servicing companies reported on methane emissions.

### INDICATOR: AMBIENT AIR QUALITY MONITORING

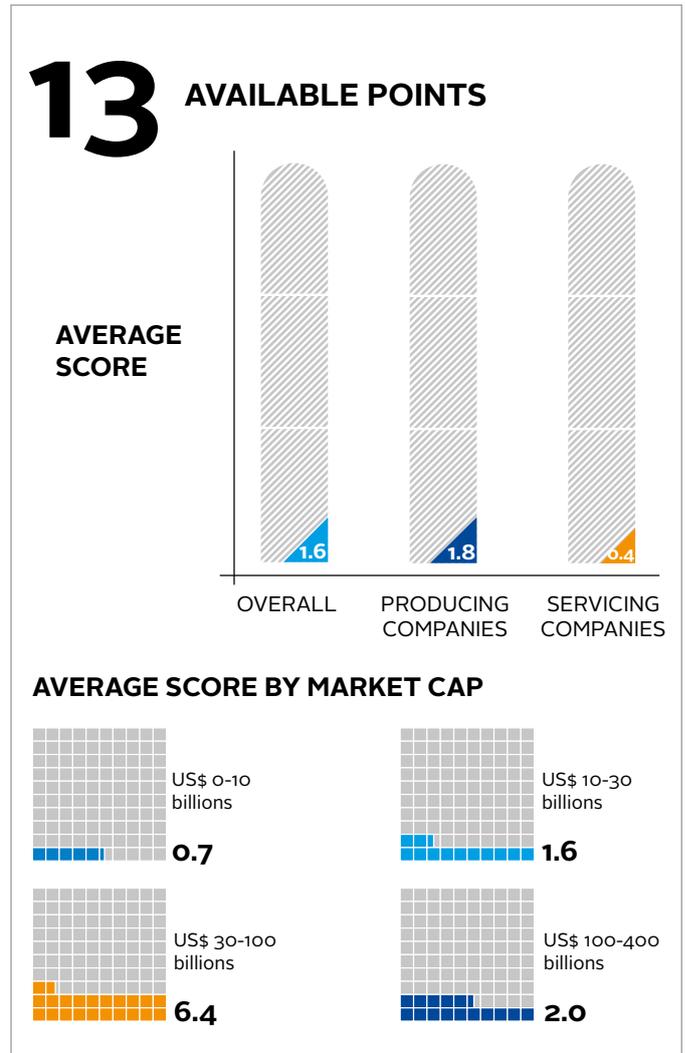
This was one of the lowest scoring indicators. Few companies disclosed monitoring of ambient air quality. Only two producing companies publicly reported data, and no service companies did so. This may be due to the fact that air regulation is typically focused on equipment standards (e.g. vehicle tailpipe standards, boiler standards, engine standards, etc.) and may come with specifications on the length of time the equipment may run. States are charged with developing “State Implementation Plans” to ensure they meet national standards and disclose ambient air quality on a regional level.

### INDICATOR: ENERGY ALTERNATIVES AND EFFICIENCY

Only 20% of producing firms (and 0% of servicing firms) publicly state an intention to develop energy alternatives, and only two firms reported progress on reducing emissions through alternative energy use and energy efficiency. Companies generally looked to find energy alternatives by converting vehicle fleets to run on compressed natural gas, and a few are either investigating or utilising natural gas in the drilling process.

### INDICATOR: GREEN COMPLETION PRACTICES

Few companies (17% producing, 0% servicing) stated policies on Green Completion. Many companies active in the US referenced Green Completion in their reporting, acknowledging pending Environmental Protection Agency (EPA) requirements for Green Completion of all wells after January 1, 2015. The EPA's action is a good example of a national regulating body impacting specific fracking practices, which in turn will enhance disclosure.



## COMMUNITY IMPACT AND ENGAGEMENT

Community impact reporting was the second lowest scoring focus area in the study, with an average score of 2 out of 10 available points. Large and medium firms in the producing segment scored the highest, especially European and Canadian firms. Servicing firms fared worse in this focus area, especially on the Community Consultation and Consent, and Grievance Mechanism indicators.

### INDICATOR: COMMUNITY CONSULTATION AND CONSENT

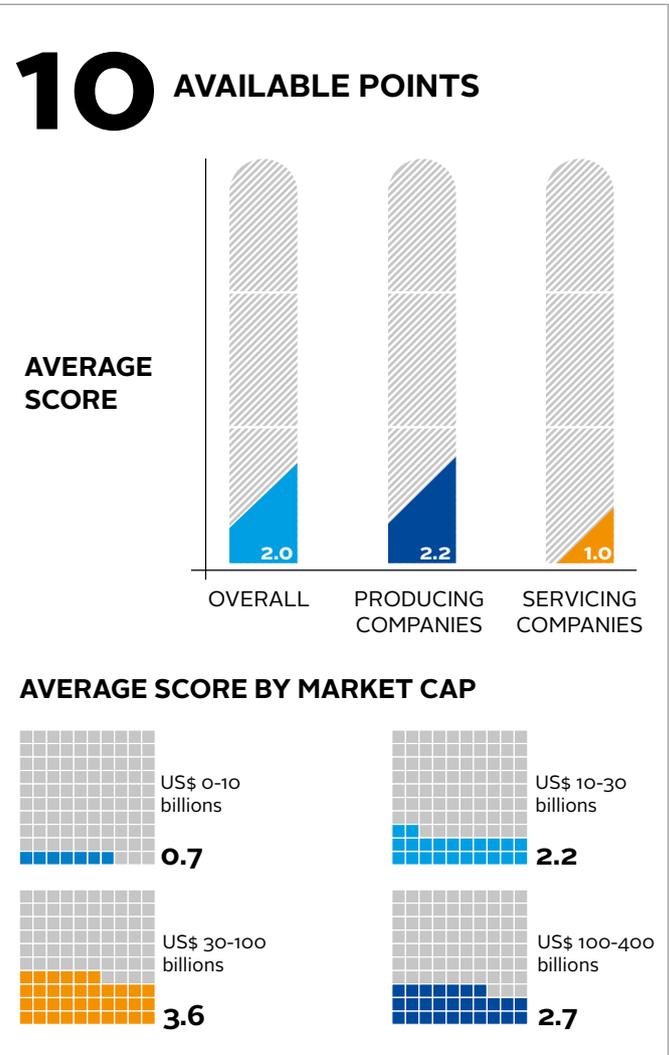
While 30% of producing firms committed to or demonstrated stakeholder engagement with regard to the ESG aspects of their projects, little further disclosure was made. 22% of producing firms reported a policy commitment to win consent for fracking activities, and one company, committed to free, prior and informed consent (FPIC) principles when indigenous populations may be impacted. Almost no stakeholder engagement was reported in the servicing segment.

### INDICATOR: GRIEVANCE MECHANISMS

Producing firms far outperformed the servicing segment in this indicator, though there still is significant room for improvement. 33% of producing firms maintained an active grievance mechanism for fracking activities; however, only 13% of producing firms disclosed the recording and resolution practices of grievances. Only one producing company disclosed the existence of an independent grievance ombudsman. In the servicing segment, one firm reported having an ombudsman.

### INDICATOR: BENEFIT SHARING AND ECONOMIC IMPACT

Benefit Sharing and Economic Impact was the strongest performing indicator for both producing and servicing in this focus area. Approximately half of producing and 40% of servicing companies disclosed a policy commitment to identify and develop employment opportunities for local affected communities. Nearly 40% of all firms committed to sustainable economic development in affected regions, though few companies (20% producing, 0% servicing) had formally negotiated Community Development Agreements.<sup>8</sup>



<sup>8</sup> Community Development Agreements are agreements between communities, companies, and at times state and/or regional governments, but not national governments. These agreements have the goal of enhancing the economic and social wellbeing of communities impacted by fracking activities.

# RECOMMENDATIONS

This report and the underlying analysis provide a profile of the state of corporate disclosure around fracking activities. Over the course of the research AccountAbility developed a view of the gaps, opportunities and potential levers to advance towards better and more uniform disclosure, and has made a number of recommendations which the steering committee and PRI signatories more broadly could consider adopting in support of this objective:

- 1. ADVOCATE FOR FRACKING-SPECIFIC DISCLOSURE:**  
By encouraging oil and gas producing firms to disclose disaggregated data on fracking activities, investors can improve the quality of assurance information available to investors.
- 2. PROMOTE GREATER DEPTH OF FRACKING DISCLOSURE FOR SPECIFIC FOCUS AREAS:**  
Given that some of the primary environmental concerns levelled against fracking are related to air and water pollution, the low rate of disclosure of water and ambient air testing is a concern. Investors can improve reporting by advocating deeper reporting by companies, including the results of in situ local water and ambient air testing.
- 3. ESTABLISH AND PROMOTE A GLOBAL BENCHMARK FOR LEADING FRACKING DISCLOSURE PRACTICES:**  
This would simplify disclosure for companies, and due diligence for investors.
- 4. PROMOTE AND LEVERAGE PUBLIC/PRIVATE PARTNERSHIPS TO ENHANCE DISCLOSURE:**  
The success of FracFocus in attaining near-ubiquitous reporting from firms fracking in the US highlights the potential of industry partnerships and public/private collaborations to improve the disclosure environment. Investors can build on this success by engaging industry associations, such as the American Petroleum Institute, to enhance reporting standards and practices.
- 5. PROMOTE CREATION OF GLOBAL VIOLATION RECORDS DATABASE:**  
A searchable repository containing information on violations across state, local, and national jurisdictions would greatly improve the investor knowledge base.
- 6. PROMOTE DISCLOSURE REGULATIONS AMONG GOVERNMENTS AND SECURITIES EXCHANGES IN EMERGING FRACKING REGIONS:**  
While fracking is predominantly a US phenomenon today, it is only a matter of time before production increases globally. Investors can set the stage for global fracking investment by engaging regulatory bodies and securities exchanges in emerging fracking regions, and advocating strong disclosure requirements.

# APPENDIX: INDICATORS AND METRICS USED IN THE RESEARCH

FOCUS AREA	INDICATOR	METRICS
<b>GOVERNANCE</b>	<b>Corporate governance of fracking practices</b>	1. Fracking is recognised/fully incorporated in the sustainability policy of the company.
		2. There is a dedicated (independent from the corporate EHS policy) policy statement on sustainability and fracking.
		3. A senior executive or committee is formally accountable for the sustainability/risk management of fracking activities.
	<b>Enterprise Risk Management</b>	1. Fracking ESG risks are publically noted in company's Board or CEO letters to shareholders.
		2. The company has identified (and reports) the ESG risks specifically related to fracking.
		3. The analysis/methodology of ESG risks used by the company is aligned with/based on an independent third party risk assessment standard (such as ISO or AA1000 standards).
		4. Goals are set and performance monitored and reported for the mitigation of risks identified for fracking activities.
	<b>Promoting best practices</b>	1. The company provides specific guidelines for onshore drilling fracking practices.
		2. The company tracks performance relative to these guidelines.
	<b>Technology and innovation related to fracking</b>	1. The company maintains a policy to use the best available technology (BAT) for fracking.
		2. The company describes its investment and deployment of BAT.
		3. The company reports on the return on investment from best practice research and development.
	<b>Reporting legal infractions and controversies</b>	1. The company acknowledges/ reports legal infractions and controversies related to fracking.

		2. The company describes the nature of these infractions/controversies.
		3. The company reports on the risk exposure (financial/or other) of infractions/controversies.

<b>WATER USE AND QUALITY</b>	<b>Water quality monitoring and reporting</b>	1. The company has specific fracking-related water testing practices.
		2. The company has a policy to report on fracking-related water testing results.
		3. The results from water monitoring are publicly reported.
		4. The results from water monitoring are publicly reported by region/project.
	<b>Water flow back treatment</b>	1. The company discloses flow back treatment practices.
		2. The company recycles flow back water.
		3. The company provides quantitative metrics of flow back recycling.
		4. The company stores flow back water in tanks.
		5. The company provides quantitative metrics of tank use.
	<b>Toxic chemicals use</b>	1. The company has a policy/management practice to develop a public risk profile of chemicals used in fracking.
		2. The company reports chemicals used in registries such as FracFocus.
		3. The company has a public commitment to find better alternative chemicals and processes.
	<b>Water used for fracking-related processes</b>	1. The company publically commits to and details efforts to reduce water use.
		2. The company tracks and reports water use efficiency.

		3. The company reports on the impact of fracking-related water extraction on access to water using a third party verified baseline of available water in the area of the project.
	<b>Well integrity</b>	1. The company publically commits to well integrity standards.
		2. The company publically commits to specific well integrity standards beyond regulatory requirements.
		3. The company reports on specific well integrity practices (such as pressure testing and casing evaluation).

<b>AIR EMISSIONS</b>	<b>Monitoring and reducing air emissions from fracking</b>	1. The company publically reports on greenhouse gases (excluding methane) emissions, volatile organic compounds, BETX and other toxic chemicals.
		2. The company reports on fracking-related methane emissions.
		3. The company has air emission reduction goals.
		4. The company monitors and publically discloses progress against air emission reduction goals.
	<b>Ambient air quality monitoring</b>	1. The company monitors ambient air quality.
		2. The company engages in ambient air quality monitoring networks.
		3. The company publically reports data from ambient air quality monitoring.
	<b>Energy alternatives and efficiency</b>	1. The company has a strategy to find alternative fuel sources for drilling.
		2. The company lists the alternative fuel sources they use.
		3. The company reports progress in reducing air emissions from the use of alternative fuels.
	<b>Green completion practices</b>	1. The company has a stated policy on green completion.

		2. The company has green completion targets.
		3. The company reports air emission reductions from green completion.

<b>COMMUNITY IMPACT AND CONSENT</b>	<b>Community consultation and consent</b>	1. The company has a policy commitment (statement) to consult with and win consent for fracking activities from project stakeholders
		2. The policy commits to/ demonstrates stakeholder engagement in the planning and implementation of the ESG aspects of projects.
		3. The policy commits to/is aligned with free, prior and informed consent (FPIC) as articulated by the IFC PS 2012.
		4. The company policy includes a commitment to using operating practices that exceed state regulations, local zoning codes, and/or land use plans.
	<b>Grievance mechanism related to fracking activities</b>	1. The company has a policy commitment (statement) to maintain an active grievance or complaints mechanism.
		2. Grievances/complaints are recorded and performance to address/resolve grievances is monitored and reported quantitatively.
		3. The grievance/complaints mechanism has recourse to an independent ombudsman.
	<b>Benefit sharing / economic impact</b>	1. The company has committed to identify and develop employment opportunities for communities affected by their projects.
		2. The company has committed to identify and invest in opportunities to support sustainable economic development at its projects.
		3. The company has committed to implement Community Development Agreements (or similar) at their projects.

The PRI is an investor initiative in partnership with  
**UNEP Finance Initiative** and the **UN Global Compact**.

#### **United Nations Environment Programme Finance Initiative (UNEP FI)**

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: [www.unepfi.org](http://www.unepfi.org)



#### **UN Global Compact**

Launched in 2000, the United Nations Global Compact is both a policy platform and a practical framework for companies that are committed to sustainability and responsible business practices. As a multi-stakeholder leadership initiative, it seeks to align business operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to catalyse actions in support of broader UN goals. With 7,000 corporate signatories in 135 countries, it is the world's largest voluntary corporate sustainability initiative.

More information: [www.unglobalcompact.org](http://www.unglobalcompact.org)

