GRIFFITH UNIVERSITY

Submission to Senate Standing Committees on Environment and Communications – Inquiry into greenwashing

Submission by Dr Luiz Fernando Distadio, Academy of Excellence in Financial Crime Investigation and Compliance

To: Committee Secretary
PO Box 6100
Parliament House
Canberra ACT 2600

5 December 2023

Dear Committee Secretary,

Re: Senate Standing Committees on Environment and Communications – Inquiry into greenwashing

We refer to the inquiry into greenwashing referred to the Senate Standing Committees on Environment and Communications.

Greenwashing and the capital markets: the case of the public debt market of green bonds

I am writing to bring attention to the issues surrounding greenwashing from a capital markets perspective. Specifically, this letter focuses on the risks and opportunities related to the environmental performance of firms that access the growing niche of the green debt market, where green bonds have a crucial role in fostering a sustained environmental performance, aligned with international efforts in the transition to a low carbon society.

In terms of green bonds, the commitment to redirect financing towards a low-carbon economy has brought sustainable finance to the forefront. Companies' environmental, social, and governance (ESG) practices have received increased scrutiny, particularly in the context of climate risk and energy transition. The significance of this scrutiny is highlighted by the integration of ESG factors into regulations, market policies, and business strategies.

Amidst this transition, the emergence of green bonds as a financial instrument plays a pivotal role. Green bonds offer a mechanism for companies to finance eco-friendly projects, contributing to the global shift towards a low-carbon business model. However, there is room for improving the credibility of the environmental claims associated with these bonds. Specifically, some bonds are labelled as green without adhering to widely accepted use of proceeds and reporting standards for green bonds, leading to increased scepticism about their actual environmental impact, and/or post-issuance poor environmental performance[1]. The absence of a global standard and legal definition, coupled with market criteria relying on voluntary compliance, makes it challenging to definitively classify bonds as green. Questions arise about whether a bond is considered green based on the issuer's claim of compliance with Green Bond Principles, inclusion in a green bond index, or confirmation by an independent third-party review. The lack of direct investor protections increases the risk of greenwashing and related concerns in the market. An example of issues involving ESG related classification is seen in the greenwashing case lodged by ASIC against Vanguard Investments Australia[2], where a bond fund was marketed to investors as being made up of ethical securities while the actual fund was partially exposed to industries with high CO2 emissions. Despite being unrelated to green bonds, this case reinforces the importance of ESG related classifications and 'labels' in this setting, where clearer rules are beneficial to the parties involved (e.g. issuers, investors, clients, intermediaries).

Moreover, greenwashing is not directly addressed in the capital markets legislation in Australia, where the Corporations Act 2001 and the Australian Securities and Investments Commission Act 2001 have non-specific prohibition of the dissemination of misleading or false statement. Specifically, in the green bonds setting, there is a voluntary principles-based regime comprising market-based directives to assist issuing firms. Some of the voluntary governance mechanisms are green ratings, green bond index, and more notably external verification. Accordingly, issuing entities have provided to market participants external verification report as a credibility-enhancing mechanism to sign their green commitments. This external verification, also known as external review, attestation, or

[1] See full report from Baker Mackenzie Critical about the challenges facing the green bond market at https://www.bakermckenzie.com/-/media/files/insight/publications/2019/09/iflr--green-bonds-%28002%29.pdf

[2] See further details in the ASIC's announcement available at https://asic.gov.au/about-asic/news-centre/find-a-media-release/2023-releases/23-196mr-asic-commences-greenwashing-case-against-vanguard-investments-australia/

second party opinions, is conducted by independent third parties, and focuses on evaluating the issuer's green bond framework against the Green Bond Principles[3] (GBP) four pillars:

i. use of proceeds: this is the cornerstone of a green bond issue whose proceeds should support eligible projects with clear environmental benefits. Green projects categories are usually but not limited to renewable energy, energy efficiency, pollution prevention and control, environmentally sustainable management of living natural resources and land use, terrestrial and aquatic biodiversity, clean transportation, sustainable water and wastewater management, climate change adaptation, circular economy adapted products, production technologies and processes, and green buildings.

ii. project evaluation and selection: the green bonds issuing entity is expected to transparently communicate the environmental sustainability goals of eligible green projects, the criteria used to categorize these projects, and the measures taken to identify and manage social and environmental risks. These guidelines aim to enhance transparency, accountability, and the alignment of green bond projects with environmental sustainability objectives.

iii. management of proceeds: the green bond's net proceeds must be clearly accounted for by the issuer, aligned with the issuer's lending and investment operations for eligible green projects. Throughout the bond's existence, the tracked proceeds should be regularly adjusted to reflect allocations to these projects. To ensure credibility, the GBP recommends external verification, possibly by an external auditor, to validate the issuer's internal tracking method and fund allocations from green bond proceeds.

iv. reporting: issuers of green bonds are advised to maintain readily available and regularly updated information on the use of proceeds, renewing annually until full allocation, and promptly in case of material developments. The annual report should provide a project list, brief descriptions, allocated amounts, and expected

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[3] Green Bonds Principles – Voluntary Process Guidelines for Issuing Green Bonds (version June 2021 with June 2022 Appendix 1). Available at https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/

impacts. Transparency is crucial, emphasizing qualitative and, where possible, quantitative performance indicators.

The scrutiny resulting from external verifiers not only enhances the credibility of the issuer's commitment to environmental goals but also provides investors with assurance regarding the environmental credentials of the green bonds. As an example of international policy, the European Commission established an EU voluntary high-quality standard for green bonds (EUGBS), which is part of the European Green Deal. Specifically, the European Commission created a regime for the registration and monitoring of external verifiers[4], reinforcing the importance of the third-party attestation of green bonds. This move aims to reduce greenwashing risks in this niche of the capital markets by enhancing transparency and credibility in the use of green bond proceeds.

Specifically, an external verification can be provided prior to the green bonds issuance (pre-issue report), and over the green bonds life-cycle (post-issue report). Pre-issue verification reports attest that the issuer's green framework and related documentation are aligned with the GBP principles. One of the reasons for considering external verification reports as an important governance mechanism to mitigate greenwashing is the scrutiny of the issuing entity's environmental claim by a third party. In Australia, where the green bonds market is relatively behind other countries[5], most corporate green bonds have been issued by financial institutions. Examples of these reports are briefly discussed below based on publicly available ones provided by Macquarie Bank[6] and Commonwealth Bank[7]. Both banks hired Sustainalytics to attest their Green Finance Frameworks to support bonds issues. Amongst the main elements assessed by Sustainalytics are:

- Macquarie specifically excludes lending to industries related to controversial activities (e.g. fossil-fuel, and production of biomass suitable for food production).

[4] See Appendix 1 - European Commission's news on European green bond standard.
[5] For example, green bonds issued by non-banking listed Australian firms totalled less than US$1 billion from 2013 through 2021. In contrast, non-banking listed companies in South Korea for example issued around US$18 billion over this period.
[6] See Appendix 2 – Sample of Macquarie Bank's External Verification Report publicly available at https://www.macquarie.com/assets/macq/investor/debt-investors/macquarie-green-finance-second-party-opinion.pdf
[7] See Appendix 3 – Sample of Commonwealth Bank of Australia's External Verification Report publicly available at https://www.commbank.com.au/about-us/investors/sustainability-funding.html

- Requirement of certification standards for green buildings such as GBCA 6 star, BREEAM Excellent.

- Macquarie's comprehensive internal screening procedures to ensure that it does not lend to sensitive sectors through its Environmental and Social Risk (ESR) Policy. Also, the involvement of relevant departments, notably the oversight of ESR by the Chief Risk Officer.

- Macquarie's overall commitment to mitigate climate change based on its record of accomplishment of deals to support numerous large-scale renewable energy projects globally in onshore and offshore wind, solar, tidal, hydro and biomass. Also, the acquisition of the Green Investment Bank, one of the leading investors in green infrastructure in the UK and Europe.

- Green bonds are a valuable tool for CBA's carbon neutrality achievement by 2030, targeting a 45% reduction in scope 1 and 2 emissions and a 25% reduction in scope 3 emissions by 2030.

- Reporting commitments by both institutions, based on an annual Green Finance Report comprised of allocation and impact reporting of the green bonds proceeds. Also, an auditor will provide annual assurance on their reporting commitments.

These examples show the use of objective measures and standards to elect projects with a positive environmental impact on the issuer's environmental performance. Additionally, the annual reporting of the green bonds related impact metrics enhances the transparency in the use of proceeds. An example of this incremental disclosure is seen in Woolworths Group's 2023 Green Bond Report[8] on the impact and use of green bonds proceeds, which is externally audited by an independent party. Some of the assurance procedures provided in the report are the assessment of the related policies and procedures, the selected performance information for nominated projects, and the documentation supporting assertions made in the Subject Matter, checking of calculations used in the impact reporting, and the accuracy and completeness of the disclosed information. Despite not

[8] See Woolworths' publicly available report at https://www.woolworthsgroup.com.au/au/en/investors/our-performance/debt-investors.html

directly disclosing the methods to calculate these metrics in this report, it is important to highlight the importance of the ongoing reporting to external stakeholders about the use and impact of green bonds. The appropriate use of green bonds proceeds is crucial to support the environmental claim of these securities, where independent parties play a key role.

To better understand the environmental performance[9] of listed firms raising green capital in the international bonds market, an analysis focusing on their pre-issuance performance indicates their superior environmental performance in the year prior to the green bonds issuance compared to listed companies issuing non-green bonds. Otherwise said, companies that access the green bonds market are usually exhibit a better environmental performance prior to the bonds issuance relative to their international peers that issue regular (non-green) bonds. Overall, this initial evidence suggests that companies use the green bonds market as a leverage to continuously improve their environmental performance. It is encouraging to see early evidence that green finance is being effectively used to support environmentally-friendly projects despite the lack of a lower cost of capital observed in green bonds issues[10]. Considering the core role of the renewable energy in the decarbonisation of firms' business operations, initial findings suggest that green bonds issuing firms are already in the transition to a low-carbon economy compared to their peers reliant on regular bonds.

Overall, these findings contribute to the debate on policy making around greenwashing risks and opportunities to strengthen the green bonds market. The existing market-orientated practices and the high visibility of environmental factors could contribute to the relatively high entry-level issuing firms from an environmental perspective. Accordingly, policymakers can focus on the improvement of the existing governance mechanisms to optimise the potential of the green bonds market in Australia. To foster credibility and transparency, a more specific legislation is crucial in establishing the monitoring of external verifiers, clear criteria and reporting requirements aligned with the Treasury's task in the development of a comprehensive sustainable finance strategy. Otherwise said,

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[9] Measures of environmental performance are firm's environmental score of the firm, use of renewable energy, amongst other measures.

[10] An empirical study (Larcker, D.F. , Watts, E.M. , 2020. Where's the greenium? Journal of Accounting and Economics) show no yield differential between green and non-green bonds issued by US municipalities, suggesting that investors are unwilling to receive less return from these environmentally friendlier fixed-income securities. Similar results were found in a sample of international listed companies (Flammer, C., 2021. Corporate green bonds. Journal of Financial Economics).

a joint task effort bringing together the Parliament, Treasury, industry representatives and academics would contribute to the development of policies to mitigate greenwashing risks and consolidate the green bonds market in Australia. By establishing an effective framework, authorities can instil investor confidence, promote genuine environmental commitments, and facilitate a more effective transition to a sustainable, low-carbon economy.

Sincerely,

Dr. Luiz Fernando Distadio
Lecturer
Academy of Excellence in Financial Crime Investigation and Compliance
Griffith University

Appendix 1 – European Commission's news on European green bond standard

European Commission - Daily News

Daily News 01 / 03 / 2023

Brussels, 1 March 2023

Sustainable Finance: Commission welcomes political agreement on European green bond standard

The Commission welcomes **the political agreement** reached yesterday between the European Parliament and the Council on the **Commission's proposal for a European Green Bond Regulation**.

This Regulation, which is an integral part of the European Green Deal, will establish an EU voluntary high-quality standard for green bonds. The European green bond standard (EUGBS) will be available to **companies and public entities that wish to raise funds on capital markets to finance their green investments,** while meeting tough sustainability requirements. In particular, issuers of EUGBS would need to ensure that at least 85% of the funds raised by the bond are allocated to economic activities that align with **the Taxonomy Regulation**. This will allow investors to more easily assess, compare and trust that their investments are sustainable, thereby reducing the risks posed by greenwashing.

Mairead **McGuinness**, Commissioner for Financial Services, Financial Stability and Capital Markets Union, said: *"Led by Europe and European issuers, the green bond market is growing into an important source of funding for companies that need to fund large-scale climate-friendly investments, such as renewable energy, clean transportation, and energy-efficient buildings. With the European Green Bond Standard, we are creating a new gold standard available to those companies that want to be at the forefront of the sustainability transition."*

As a result of the agreement, the Commission will also publish EU templates for issuers of other bonds with environmental objectives, even if they do not make use of the EUGBS. The use of these templates will be strictly voluntary. For the first time, there will be a standardised template that issuers can use to report information on the Taxonomy-alignment of green bonds, thereby reducing administrative burdens and uncertainty both for green bond issuers and for their investors.

The Regulation also creates a regime for the registration and supervision of external reviewers. External reviewers play an important role in the market by assessing green bonds in detail and providing confirmation to investors about their environmental credentials. Issuers making use of the new EUGBS will be required to employ such external reviewers at several points during the bond's life-cycle, including to check the alignment of the funded projects with the Taxonomy Regulation.

(For more information: Daniel Ferrie – Tel.: +32 2 298 65 00; Aikaterini Apostola – Tel.: +32 2 298 76 24)

Appendix 2 – Sample of Macquarie Bank's External Verification Report

SUSTAINALYTICS

Second-Party Opinion

Macquarie Green Finance

Evaluation Summary

Sustainalytics is of the opinion that the Macquarie Green Finance Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2017 and the Green Loan Principles. This opinion is based on:

USE OF PROCEEDS The eligible categories for the use of proceeds (renewable energy, energy efficiency, waste management, green buildings, and clean transportation) are aligned with those recognized by the Green Bond Principles and Green Loan Principles as project categories with positive environmental benefits.

PROJECT EVALUTION / SELECTION Eligible Projects are reviewed and approved by a dedicated Green Finance Working Group ("GFWG"). Macquarie ensures that social and environmental risks are mitigated by applying its internal Environmental and Social Risk (ESR) Policy and ESR Risk Assessment Toolkit. This approach to risk management is based on the IFC Performance Standards. Macquarie's project evaluation and selection process is in line with market best practices.

MANAGEMENT OF PROCEEDS Macquarie will track Eligible Projects through a register which includes relevant information on each transaction. All transactions will be earmarked for allocation against the Eligible Projects and any unallocated proceeds will be held in accordance with Macquarie's prudent liquidity management policy. Macquarie's disclosure and processes with respect to management of proceeds is in line with market best practices.

REPORTING Macquarie commits to report on allocation of proceeds within its annual Green Finance Report. The allocation reporting will include relevant transaction data such as the aggregate amount allocated to Eligible Projects, while the impact reporting will comprise relevant metrics for each of the Eligible Projects. An auditor will provide annual assurance on Macquarie's reporting commitments. Macquarie's reporting commitments are in line with market best practices.

SECOND-PARTY OPINION

Evaluation date	June 7, 2018
Issuer Location	Sydney, Australia

Report Sections

For inquires, contact the Project Team:

Ankita Shukla (New York)
Senior Associate, Sustainable Finance Solutions
ankita.shukla@sustainalytics.com
(+1) 617 603 3329

Catalina Secreteanu (Sydney)
Director, Institutional Relations
catalina.secreteanu@sustainalytics.com
(+61) 2 8015 5651

SUSTAINALYTICS

Introduction

Macquarie Group Limited ("Macquarie", "the Group", or "the issuer") is the largest Australian investment bank with presence across 28 countries. The Group's key activities include asset management and finance, banking, advisory and risk and capital solution across debt, equity and commodities.

Macquarie has developed the Macquarie Green Finance Framework (the "framework") under which it may issue Green Financing Transactions ("GFT") which will include bonds, loans and other debt or financing structures to finance and refinance "Eligible Projects" that provide clear environmental sustainability and climate change benefits. The framework defines eligibility criteria in the following five areas:

1. Renewable energy
2. Energy efficiency
3. Waste management
4. Green buildings
5. Clean transportation

Macquarie engaged Sustainalytics to review the Macquarie Green Finance Framework and provide a second-party opinion on the framework's environmental credentials, as well as the alignment of GFTs with the Green Bond Principles 2017[1] (the "GBP") and the Green Loan Principles[2] (the "GLP"). This framework has been published in a separate document.[3]

As part of this engagement, Sustainalytics held conversations with various members of Macquarie's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of Macquarie's GFTs. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Macquarie Green Finance Framework and should be read in conjunction with that framework.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Macquarie Green Finance Framework

Summary

Sustainalytics is of the opinion that the Macquarie Green Finance Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2017 and Green Loan Principles. In addition, Sustainalytics highlights the following elements of Macquarie's Green Financing Transactions ("GFT"):

- The eligible use of proceeds categories (renewable energy, energy efficiency, waste management, green buildings, and clean transportation) are recognized by the GBP 2017 and GLP as project categories carrying positive environmental benefits. Further, Macquarie specifically excludes lending to industries which involve fossil-fuel, nuclear, and production of biomass suitable for food production;
- Macquarie's green buildings eligibility criterion is based on third-party certification standards such as GBCA 6 star, BREEAM Excellent, LEED Gold or above, or equivalent regional standards. Sustainalytics has conducted an evaluation of the certifications, and considers such certification standards as having a positive impact (see Appendix 1 for additional details on the certification schemes).
- With regard to its selection process, Macquarie will have a dedicated Green Finance Working Group ("GFWG") comprised of cross-departmental team members responsible for ensuring that GFTs meet the use of proceeds criteria. In addition, Sustainalytics is of the opinion that Macquarie has comprehensive internal screening procedures to ensure that it does not lend to sensitive sectors through its Environmental and Social Risk (ESR) Policy with relevant priorities and approach methods, internal ESR Risk Assessment Toolkit, and oversight of ESR by the Chief Risk Officer. Macquarie's approach is based on the IFC Performance Standards and, as such, Sustainalytics views the Group's project evaluation and selection process as in line with market best practices.
- Macquarie will establish a register to record the ongoing allocation of net proceeds for each GFT. All GFT funds will be earmarked within the register for allocation against the Eligible Projects. Macquarie's processes with respect to management of proceeds is robust and in line with market practices.
- Macquarie commits to provide an annual Green Finance Report comprised of allocation and impact reporting. The allocation reporting will include relevant transaction data such as the aggregate amount allocated to Eligible Projects, while the impact reporting will comprise relevant metrics for each of the Eligible Projects. An auditor will provide annual assurance on Macquarie's reporting commitments. Macquarie's reporting commitments are in line with market best practices.

Alignment with Green Bond Principles 2017 and Green Loan Principles

Sustainalytics has determined that Macquarie's Green Finance Framework aligns with the four core components of the Green Bond Principles 2017. For detailed information please refer to Appendix 2: Green Bond/Green Bond Programme External Review Form.

Sustainalytics also considers Macquarie's Green Finance Framework to be aligned with the expectations of the Green Loan Principles, which closely reflect the Green Bond Principles 2017.

Section 2: Sustainability Performance of the Issuer

Contribution of Green Financing Transactions to Macquarie's sustainability strategy

Sustainalytics has a positive view of Macquarie's framework and its alignment with the Group's efforts to transition to a low-carbon economy. Although Macquarie has not set quantifiable targets for green lending/financing, the Group has demonstrated its commitment to mitigating climate change through the following efforts:

- Macquarie has a substantial and longstanding commitment to the renewable energy sector having invested or arranged approximately AUD 20 billion into renewable energy projects since 2010.[4] The Group has an existing track record of supporting numerous large-scale renewable energy projects globally in onshore and offshore wind, solar, tidal, hydro and biomass. Macquarie and Macquarie-managed businesses have more than 12,546MW of diversified renewable energy assets in operation.[5]
- In 2017, Macquarie evolved its climate risk approach, enhancing its portfolio analysis and the assessment of climate-related risks for transactions in carbon intensive sectors.[6]
- Macquarie Asset Management has been a signatory to the United Nations-supported Principles for Responsible Investment since August 2015, submitting its first RI Transparency Report in 2017, and has dedicated teams to coordinate ESG activities across the group.[7]
- The Group transparently reports on its lending and equity exposures to the oil and gas, and coal sectors, which accounted for 2% of the total funded loan assets and 7% of the total funded equity investments[8] in 2017.
- In 2017, Macquarie acquired the Green Investment Bank, which will remain one of the leading investors in green infrastructure in the UK and Europe, with an added scope to further expand internationally. Macquarie has committed to the Green Investment Bank's target of leading £3 billion of investment in green energy projects over the next three years, and operating in accordance with its established green purpose.[9]

Sustainalytics is of the opinion that Macquarie's sustainability efforts are indicative of the priority the Group assigns to achieving positive environmental impact. As such, Sustainalytics is of the opinion that Macquarie's Green Financing Transactions are aligned with the Group's overall sustainability efforts and serve as a tool to mobilise capital and enable a transition to a low carbon economy.

Well positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the proceeds from Macquarie's GFT will be directed towards Eligible Projects that are recognized by market norms (GBP and GLP) to have positive impact, Sustainalytics is aware that such projects can lead to negative social and environmental impacts. Some key environmental and social risks associated with the Eligible Projects are biodiversity loss, pollution control in the construction and development of projects, and increased exposure of local communities to adverse impacts. However, Sustainalytics is of the opinion that Macquarie has strong environmental and social risk assessment processes to mitigate such risks, through its: (i) compliance with International Finance Corporation (IFC) Performance Standards, (ii) Environmental and Social Risk (ESR) Policy[10] with relevant priorities and approach,[11] (iii) internal ESR Risk Assessment Toolkit, (iv) oversight of ESR by the Chief Risk Officer, and (v) Climate Change Approach.

Macquarie's Environmental and Social Risk Policy provides a process for embedding environmental and social risk management into investment decision making. As per Macquarie's climate change approach, climate-related risks are considered through the assessment of changes to laws and regulations, technology developments and disruptions, physical and reputational risks and the evaluation of adaptation and mitigation measures for transactions and counterparties in exposed industry sectors.[12]

Sustainalytics is of the opinion that Macquarie's internal processes and mechanisms to mitigate environmental and social risks associated with its project financing and lending activities are in line with market best practices.

Section 3: Impact of Use of Proceeds

The proceeds of the bond will be used for project financing and lending in the following five categories:

1. Renewable energy
2. Energy efficiency
3. Waste management
4. Green buildings
5. Clean transportation

All of the above-mentioned green categories defined in the Macquarie Green Finance Framework are recognized as having beneficial environmental impacts by the Green Bond Principles, 2017, and the Green Loan Principles.

Moreover, financial institutions play an important role in the environmental finance landscape by raising and channeling funds in order to help make low-carbon investment projects viable. Scaling up low-carbon investment and finance is a two-fold process which involves: scaling up finance for long-term investment in infrastructure; and shifting investments towards low-carbon alternatives. According to estimates, between 2015-2030, the global economy will require $89 trillion in infrastructure investments across cities, energy, and land-use systems, and $4.1 trillion in incremental investment for the low-carbon transition to keep within the internationally agreed limit of a 2-degree Celsius temperature rise.[13] Macquarie's green commitments, which are enabling financing of renewable energy and low-carbon infrastructure projects, are supporting global goals to mitigate climate change. As such, Sustainalytics is of the opinion that Macquarie's Green Financing Transactions will be allocated towards projects or loans that facilitate climate change mitigation and promote development of sustainable infrastructure.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. Responsible business and investment is essential to advancing the SDGs and achieving transformational change through the SDGs.[14] Macquarie's Green Financing Transactions will specifically advance the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Renewable energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Waste management	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Green buildings	11. Sustainable Cities and Communities	11.B By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters
Clean transportation	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes

Appendix 3 – Sample of Commonwealth Bank of Australia's External Verification Report

Second-Party Opinion

Commonwealth Bank of Australia Green, Social & Sustainability Funding Framework

SUSTAINALYTICS
a Morningstar company
SECOND-PARTY OPINION

Evaluation Summary

Sustainalytics is of the opinion that the Commonwealth Bank of Australia Green, Social & Sustainability Funding Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021 and Social Bond Principles 2021. This assessment is based on the following:

USE OF PROCEEDS The eligible categories for the use of proceeds[1] are aligned with those recognized by the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories are expected to contribute to the transition to a low-carbon economy, help support the socio-economic development of Australia and contribute to advance the UN Sustainable Development Goals (SDGs), specifically SDGs 2, 3, 4, 6, 7, 9, 11, 12 and 15.

PROJECT EVALUATION / SELECTION Commonwealth Bank of Australia's Green, Social and Sustainability Funding Steering Committee will be responsible for evaluating and selecting eligible projects in line with the Framework's eligibility criteria. The Committee is chaired by the Bank's Head of Term Funding and comprised of representatives from various departments, including Retail Banking Services, Business Banking, Institutional Banking & Markets, Investor Relations and Group Treasury. Commonwealth Bank of Australia Group's Environmental and Social Policy and its Risk Management Framework are applicable for all allocation decisions made under the Framework. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.

MANAGEMENT OF PROCEEDS Commonwealth Bank of Australia's Post Deal Management Team (PDM) in its Treasury department will be responsible for the management and allocation of proceeds to eligible projects, under oversight from the Committee. The Bank will use its internal tracking system to track and report the allocation of proceeds, using a register of eligible assets and intends to allocate all proceeds to eligible instruments within 24 months of issuance. Pending allocation, proceeds may be temporarily held in cash, cash equivalents or other liquid marketable instruments. Sustainalytics considers this process to be in line with market practice.

REPORTING Commonwealth Bank of Australia intends to report on the allocation of proceeds in its Green, Social and Sustainability Report on its website annually until full allocation. Allocation reporting will include the net proceeds, breakdown by asset category and share of financing versus refinancing. In addition, Commonwealth Bank of Australia is also committed to reporting on relevant impact metrics. Sustainalytics views Commonwealth Bank of Australia's allocation and impact reporting as aligned with market practice.

Evaluation Date	February 01, 2022
Issuer Location	Sydney, Australia

Report Sections

For inquiries, contact the Sustainable Finance Solutions project team:

Rashmi John (Mumbai)
Project Manager
rashmi.john@sustainalytics.com

Arnab Deb (Mumbai)
Project Support

Keerthana Gopinath (Mumbai)
Project Support

Audrey van Herwaarden (Amsterdam)
Project Support

Marika Stocker (Singapore)
Client Relations
susfinance.apac@sustainalytics.com
(+852) 3008 2391

Introduction

Commonwealth Bank of Australia ("CBA" or the "Bank") is a multinational bank with operations spanning across Australia, New Zealand and Asia. Headquartered in Sydney, Australia, the Commonwealth Bank Group employs approximately 50,000 people and provides retail, business and institutional banking services.

CBA has developed the Commonwealth Bank of Australia Green, Social & Sustainability Funding Framework, dated February 2022 (the "Framework"), under which it intends to issue sustainable finance instruments, such as bonds, asset-backed or residential mortgage-backed securities, and use the proceeds to finance or refinance, in whole or in part, existing or future projects that are expected to contribute to the transition to a low-carbon economy and help support the socio-economic development of Australia.

The Framework defines eligibility criteria in nine green areas:

1. Renewable Energy
2. Green Commercial Buildings
3. Green Residential Buildings
4. Energy Efficiency
5. Clean Transportation
6. Sustainable Water and Wastewater Management
7. Pollution Prevention and Control
8. Environmentally Sustainable Management of Living Natural Resources and Land Use
9. Climate Change Adaptation

The Framework defines eligibility criteria in four social areas:

1. Health, Healthcare and Well-being
2. Education and Vocational Training
3. Affordable Housing
4. Affordable Basic Infrastructure

CBA engaged Sustainalytics to review the Commonwealth Bank of Australia Green, Social & Sustainability Funding Framework and provide a second-party opinion on the Framework's environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP) and Social Bond Principles 2021 (SBP).[2] The Framework has been published in a separate document.[3]

Scope of work and limitations of Sustainalytics' Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent[4] opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

[1] The eligible categories are: Renewable Energy, Green Commercial Buildings, Green Residential Buildings, Energy Efficiency, Clean Transportation, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use, Climate Change Adaptation, Health, Healthcare and Well-being, Education and Vocational Training, Affordable Housing and

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11.2, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of CBA's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. CBA representatives have confirmed (1) they understand it is the sole responsibility of CBA to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and CBA.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written for a period of twenty-four (24) months from the evaluation date stated herein.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that CBA has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Commonwealth Bank of Australia Green, Social & Sustainability Funding Framework

While the Framework also refers to deposits, Sustainalytics' opinion only refers to bonds, and asset-backed or residential mortgage-backed securities issued under the Framework.
Sustainalytics is of the opinion that the Commonwealth Bank of Australia Green, Social & Sustainability Funding Framework is credible, impactful and aligns with the four core components of the GBP and SBP. Sustainalytics highlights the following elements of CBA's Sustainability Finance Framework:

- Use of Proceeds:
  - The eligible categories – Renewable Energy, Green Commercial Buildings, Green Residential Buildings, Energy Efficiency, Clean Transportation, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use, Climate Change Adaptation, Health, Healthcare and Well-being, Education and Vocational Training, Affordable Housing and Affordable Basic Infrastructure – are aligned with those recognized by the GBP and SBP. Sustainalytics notes that the proceeds of the Framework are expected to contribute to the transition to a low-carbon economy and help support the socio-economic development of Australia.
  - CBA intends to use the proceeds to finance and refinance loans for existing assets and assets in construction, as well as CBA's own expenditures to social projects. CBA also finances general purpose loans under its social eligibility criteria to organisations that derive 90% or more of their

revenues from activities defined under the social eligibility criteria. Sustainalytics recognizes that the SBP favour project-based lending and financing, and that there is, in general, less transparency with non-project-based lending. The Framework allows for general purpose lending to pure play companies, however, Sustainalytics notes the high threshold (90% or more of their revenues from eligible activities) that CBA has established in order to deem a company eligible for inclusion. Sustainalytics notes that the social categories have clear target populations (see below) and considers organizations that are dedicated to the defined social categories to have a positive social impact.

- CBA does not indicate a look-back period in the Framework. However, Sustainalytics positively views CBA's efforts to transparently report on the portion of financing versus refinancing and encourages CBA to limit its refinancing of opex activities to those that are financed in the last 2-3 years.
- CBA confirmed that eligible operating costs will only include operating costs that directly add value or extend the life of eligible assets under the Framework. All day-to-day operating costs are excluded.
- In the Renewable Energy category, the Bank may finance equipment, development, manufacturing, construction, operation, distribution and maintenance of renewable energy projects, including solar photovoltaic, onshore and offshore wind power, hydro power, tidal energy, geothermal energy and electrochemical storage systems, such as batteries. Additionally, CBA may finance transmission infrastructure, which includes inverters, transformers and control systems dedicated to renewable energy sources. Sustainalytics considers these projects well suited for inclusion in the Framework, noting in particular the following:
  - For hydropower projects, CBA may finance projects whose power density is greater than 10 W/m^2 or whose emissions intensity is lower than 50 gCO_2e/kWh, as per the Climate Bonds Initiative criteria for hydropower.[5] For new facilities, the Bank will require an environmental and social impact assessment by a credible body and is also committed to ensuring the absence of significant risk and expected negative controversies associated with the projects.
- Under the Green Commercial Buildings category, CBA may finance new and existing commercial buildings that have obtained green building certification schemes or the top 15% of the energy performance of similar building in the respective city in accordance with Climate Bonds Standards for Australia for commercial buildings.[6] CBA uses credible third-party standards for green building certification, such as Green Star 5, NABERS 5, or BREEAM Excellent. Please refer to Appendix 1 for Sustainalytics' assessment of these schemes. Sustainalytics considers the expenses as credible and aligned to market practice.
- Under the Green Residential Buildings category, CBA may finance mortgage loans for renovation and construction of buildings in the top 15% residential buildings in terms of energy performance in Australia. The Framework also enables CBA to finance mortgage loans for new and existing buildings with a renewable energy output in accordance with Climate Bonds Standards for Australia and Green Building Council of Australia.
  - To identify the top 15% energy performing buildings in Australia, CBA uses the Climate Bond Standards for residential buildings[7] in Australia, which is considered to be aligned with market practice. CBA also intends to use other Australian green building standards such as the Green Building Council of Australia and NatHERS. Sustainalytics considers using the Green Building Council of Australia's Green Star Homes certification to identify the top 15% energy performing buildings in Australia to be aligned with market practice as this scheme is approved as a proxy under the Climate Bonds Initiative for the Australian context and ensures low-carbon performance in terms of emissions

[5] Climate Bonds Initiative, "The Hydropower Criteria for the Climate Bonds Standard & Certification Scheme", (2021), at: https://www.climatebonds.net/files/files/Hydropower-Criteria-doc-March-2021-release3.pdf
[6] https://www.climatebonds.net/standard/buildings/commercial/calculator#calculator
[7] https://www.climatebonds.net/standard/buildings/residential/calculator

intensity.[8] With regard to NatHERS, Sustainalytics notes that CBA intends to finance buildings with NatHERS 6 stars and above, which corresponds to the top 15% energy performing buildings in a few Australian jurisdictions, however, there is insufficient data available for Sustainalytics to verify its use in all of Australia.

- Regarding renovation projects, CBA may finance buildings that either will meet or have already met the aforementioned eligible criteria for energy performance. In the case of the latter, CBA confirmed to Sustainalytics it would limit financing to buildings that achieve a minimum of 20% emissions or energy performance improvement over baseline.
- Regarding renewable energy output, CBA has communicated to Sustainalytics that financing is limited to new and existing buildings that are in compliance with the renewable energy requirements of the Australian residential rooftop solar proxy, simplified rooftop solar proxy or Green Star Homes. All these schemes are approved as a proxy under the Climate Bonds Initiative for the Australian context and Sustainalytics considers these investments to be aligned with market practice.

– In the Energy Efficiency category, CBA may finance energy efficiency upgrades for buildings as well as smart grid investments.
  - Regarding upgrades, CBA commits to financing projects that achieve at least 30% energy savings from the baseline. Examples may include retrofits, installation of LED lighting, thermal insulation and upgrade of heating and cooling systems. The Bank has confirmed to Sustainalytics that all energy efficient technologies, systems and products in this category will be either non-motorized or powered by electricity. Sustainalytics views positively the inclusion of a defined energy efficiency threshold for the installations of energy-efficient systems, equipment and technologies.
  - The Bank specified that smart grid related investments are intended to improve energy efficiency in electricity transmission and distribution and may include meter measurement tools for tracking energy usage information. Further, CBA confirmed that the proceeds will not be allocated to projects that facilitate new connections to fossil fuel power plants. Sustainalytics considers these investments to be aligned with market practice.

– In the Clean Transportation category, CBA may finance the acquisition, development, manufacturing, construction, operation and maintenance of energy-efficient public and private transport and supporting infrastructure. Low-carbon transport assets may include electric or hybrid passenger, light commercial vehicles and heavy trucks, and buses, as well as electric rail and non-diesel rolling stock. Sustainalytics considers these investments to be aligned with market practice, noting the below:
  - For hybrid vehicles and non-diesel rolling stock, the Framework specifies emissions thresholds for low-carbon transport as follows: (i) hybrid passenger and light commercial vehicles below 75 gCO_2e/pkm, (ii) buses below 50 gCO_2e/pkm, (iii) commercial heavy trucks below 25 gCO_2/tkm, (iii) passenger rail below 50 gCO_2/pkm, and (iv) freight rail below 25 gCO_2/tkm. The Framework excludes investments in rolling stock and heavy trucks where fossil fuel freight represents more than 25% of the freight transported (tonne/km).
  - Supporting infrastructure may include financing charging stations for electric vehicles and plug-in hybrids, and expansion of electric rail networks, tracks, platforms and station upgrades.

– In the Sustainable Water and Wastewater Management category, CBA may finance water treatment infrastructure, including wastewater treatment systems.[9] Additionally, CBA may also finance water infrastructure for flood defence, storm water management and drought resilience.

[8] Climate Bonds Initiative, "Climate Bonds Initiative recognises Green Star as a pathway to net zero buildings: Two new proxies available for Certification under the Low Carbon Buildings Criteria" (2021), at: https://www.climatebonds.net/resources/press-releases/2021/11/climate-bonds-initiative-recognises-green-star-pathway-net-zero

[9] Eligible wastewater treatment projects exclude treatment reliant on fossil fuel and treatment of wastewater from fossil fuel operations.

The Bank specifies that the eligible projects will be substantiated with environmental assessments along with internal and external certifications. Sustainalytics further encourages CBA to identify projects based on vulnerability assessments as necessary adaptation projects which go beyond business-as-usual activities.

- Under the Pollution Prevention and Control category, CBA may finance the operation and upgrade of recycling and composting facilities, soil remediation, waste-to-energy power and landfill gas power projects. Sustainalytics views these expenses to be in line with market practice, noting in particular the below:
  - CBA may invest in physical recycling facilities for metals, plastic or paper, including waste collection that supports recycling and waste segregation at source. The Bank has also communicated that it may finance waste collection vehicles. CBA confirmed to Sustainalytics that the Framework limits financing of waste collection vehicles that meet one of the following criteria: (i) light commercial vehicles either electric or hybrid with direct emissions below 75 gCO_2e/pkm; and (ii) commercial heavy trucks with zero direct emissions or direct emissions below 25 gCO_2/tkm. Further, CBA has communicated to Sustainalytics that the Framework excludes financing of hazardous and electronic waste.
  - Regarding soil remediation projects, CBA has communicated to Sustainalytics that the Framework may finance soil remediation projects excluding those projects that offset contamination or negative environmental impacts from the Bank's borrowers' own activities.
  - The Framework may finance organic waste treatment, composting and waste-to-energy power projects, limited to projects using food waste, and forestry and agriculture residues as feedstock. CBA has communicated to Sustainalytics that the Framework excludes waste from non-RSPO[10] certified palm oil operations.
  - Other eligible expenditures under this category include financing of landfill gas projects for energy generation from closed landfills with 75% or more gas capture efficiency. CBA has confirmed to Sustainalytics that plastics, rubber, tyre-derived fuels and landfill gas capture for flaring will be excluded.
- Under the Environmentally Sustainable Management of Living Natural Resources and Land Use category, CBA may provide loans related to sustainable farming and land conservation and restoration projects, such as soil sequestration, development of carbon sinks, no-till farming, polyculture farming, extension of native forests, tree planting and installation of shelter belts. In addition, the Bank may include financing of rainwater harvesting, irrigation recycling and the installation of watering systems. CBA has confirmed to Sustainalytics that the loans provided under this category will not include general-purpose loans. Sustainalytics considers these projects well suited for inclusion in the Framework, noting in particular the following:
  - Regarding soil sequestration and carbon sinks projects, CBA has confirmed to Sustainalytics that loans will be limited to sequestration projects meeting the Carbon Credits (Carbon Farming Initiative) Act and Regulations, 2011[11,12] for generating Australian Certified Carbon Units (ACCU).[13] Examples of projects financed under this category may include nature-based solutions such as habitat restoration and conservation, afforestation, and land management practices to increase carbon content in soil through addition of biochar and crop rotation. Sustainalytics notes the exclusion of any general-purpose loans to ACCU owners or the purchase of ACCUs itself.

[10] RSPO refers to Roundtable on Sustainable Palm Oil, a non-profit organization that has developed a set of environmental and social criteria which companies must comply in order to produce Certified Palm Oil (CSPO).
[11] Government of Australia, "Carbon Credits (Carbon Farming Initiative) Act 2011", at: https://www.legislation.gov.au/Details/C2020C00281
[12] Government of Australia, "Carbon Credits (Carbon Farming Initiative) Regulations 2011", at: http://extwprlegs1.fao.org/docs/pdf/aus112295.pdf
[13] An ACCU is issued to a person by the Clean Energy Regulator and represents one ton of carbon dioxide equivalent net abatement (through either emissions reductions or carbon sequestration) achieved by eligible activities undertaken as part of the Australian Government's Emissions Reduction Fund. More information on ACCU is available at: http://www.cleanenergyregulator.gov.au/OSR/ANREU/types-of-emissions-units/australian-carbon-credit-units

- Based on the commitment to both allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Commonwealth Bank of Australia Green, Social & Sustainability Funding Framework aligns with the four core components of the GBP and SBP. For detailed information, please refer to Appendix 3: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of CBA

Contribution of the Framework to CBA's sustainability strategy

Sustainalytics is of the opinion that CBA demonstrates a strong commitment to sustainability by incorporating sustainable finance into its core business activities. CBA's Environmental and Social Framework defines the Bank's commitment to sustainability through its focus on: (i) climate change, (ii) human rights, (iii) biodiversity, and (iv) agriculture, forestry, and fisheries. Sustainalytics highlights the following aspects of CBA's strategy as defined in its Environmental and Social Framework, Annual TCFD Report and Annual Report.[16,17,18]

CBA aims to achieve carbon neutrality from its global operations by 2030, via a reduction from its own emissions and by offsetting residual emissions in Australia and New Zealand. Regarding own emissions, the Bank has set targets of a 45% reduction in scope 1 and 2 emissions[19] and a 25% reduction in scope 3 emissions[20] by 2030 compared to 2020. To support this, CBA has set the target of sourcing 100% of its energy from renewable sources by 2030. In addition, CBA has established the Sustainability Funding Target which builds on the preceding Low-Carbon Funding Target.[21] The renewed Sustainability Funding Target aims to contribute AUD 70 billion (USD 49.75 billion) in cumulative sustainable funding[22] between FY2021 and FY2030. CBA also aims to ensure that its lending strategy supports a responsible transition to a net-zero emissions economy by 2050. The Bank's lending strategy is supported by the internal implementation of sector-level glide paths[23] , which are focused on emissions-intensive sectors.

CBA is committed to supporting communities and has implemented several social initiatives and programmes. CBA aims to strengthen relationships and improve the financial well-being of Aboriginal and Torres Strait islander customers and communities through its Reconciliation Action Plan. The plan focuses on cultural awareness training, educational grants, creating employment opportunities and delivering culturally informed banking services to customers in remote communities. In addition, CBA offers long-standing models of financial support for victims of domestic and financial abuse. The Bank's Next Chapter programme provides care for customers impacted by domestic and family violence by providing access to a specialist community well-being team as well as hardship assistance, such as minimizing the need for additional documentation or providing flexible repayment plans.

Sustainalytics is of the opinion that the Commonwealth Bank of Australia Green, Social & Sustainability Funding Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further the Company's action on its key environmental and social priorities.

Approach to managing environmental and social risks associated with the eligible projects

Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes such as those

[16] CBA, "Social and Environmental Framework", (2021), at: https://www.commbank.com.au/content/dam/commbank/about-us/download-printed-forms/environment-and-social-framework.pdf
[17] CBA, "Addressing Climate Change", (2021), at: https://www.commbank.com.au/content/dam/commbank-assets/investors/docs/cba-2021-annual-report_tcfd-report.pdf
[18] CBA, "Annual Report", (2021), at: https://www.commbank.com.au/about-us/investors/annual-reports/annual-report-2021.html
[19] Emissions from buildings, branches and data centers.
[20] Emissions from supply chains, excluding financed emissions.
[21] AUD 15 billion (USD 10.66 billion) funding by 2025 targeted at renewable energy projects, 6-star rated commercial green buildings, energy efficiency projects and low carbon transport.
[22] Funding targeted at renewables, energy efficiency, low carbon transport, commercial property, land/agriculture, sustainable water, pollution and waste management and climate adaptation.
[23] A glide path is defined by the Bank as a way to set and articulate interim and long-term aspirations with respect to emissions as they relate to the Bank's financing activities.

involving occupational health and safety, biodiversity loss, waste and effluents generated from large infrastructure projects and negative community relations. In addition, social projects that may be financed under the Framework and which do not have a defined target population may result in negative outcomes, such as increased social disparity. While CBA has limited involvement in the development of the specific projects to be financed under the Framework, it is exposed to environmental and social risks associated with the loans that it may finance. Sustainalytics is of the opinion that CBA is able to manage or mitigate potential risks through implementation of the following:

- CBA has an environmental and social risk management system in place as part of its broader Risk Management Policy. CBA's Environmental and Social Framework defines the Bank's commitment to the management of environmental and social risks, including climate change, human rights and modern slavery.[24]
- CBA is a signatory to the Equator Principles III, non-binding principles that provide guidance to identify and assess major environmental and social risks related to major infrastructure projects. Since 2018, the Bank has produced an annual Equator Principles Report which is used to manage, mitigate and monitor ESG risks in project-related financing.[25]
- CBA has a Group Work Health and Safety Policy in place, which outlines the Bank's approach to the group's physical and psychological health and safety, its directors, employees, contractors, secondees and workers, and customers and visitors.[26] The policy outlines requirements related to the minimum provision of information, training, instruction and supervision, as well as management of workplace hazards and systems for monitoring, measuring and reporting work-related risks.
- CBA's Environmental and Social Framework details the Bank's commitment to managing environmental risks.[27] Biodiversity is included as one of the five areas of focus under this policy, which states the Bank's commitment to complying with or exceeding the requirements of relevant environmental legislation in all areas in which it operates. This policy also states that Bank will not knowingly provide finance to clients whose primary focus is on: (i) the mining, exploration, expansion, or development of oil sands, (ii) extraction, exploration, expansion or development of oil and gas projects in the Arctic and Antarctica, (iii) international trade of specimens and wild animals, or (iv) clients who operate in world heritage sites. In addition, CBA publishes an annual Carbon Disclosure Project Report, which is aimed at improving disclosure and management of the impacts from environmental risks.[28]
- Regarding community relations and stakeholder engagement, CBA pursues its Stakeholder Engagement Approach.[29] This policy aims to enrich partnerships with stakeholders, enhance community participation, and utilize insights from stakeholders to understand risks and opportunities. To enable stakeholder engagement, the Bank references the AA1000 AccountAbility Stakeholder Engagement Standard and overarching principles of inclusivity, materiality and responsiveness.[30]

Additionally, Sustainalytics' research has identified CBA as currently being exposed to a significant controversy related to ethical business.[31] Sustainalytics notes that the antitrust irregularities involved with the controversy are unrelated to the eligible projects that may be financed by the Framework.

[24] CBA, "Environmental and Social Framework", (2021), at: https://www.commbank.com.au/content/dam/commbank/about-us/download-printed-forms/environment-and-social-framework.pdf
[25] CBA, "Equator Principles Reporting – FY21", (2021), at: https://www.commbank.com.au/content/dam/commbank-assets/about-us/docs/CBA-FY21-Equator-Principles-Report.pdf
[26] CBA, "Group Work Health & Safety Policy", (2021), at: https://www.commbank.com.au/content/dam/commbank/about-us/PDS_PDF/health-and-safety-policy.pdf
[27] CBA, "Environmental and Social Framework", (2021), at: https://www.commbank.com.au/content/dam/commbank/about-us/download-printed-forms/environment-and-social-framework.pdf
[28] CBA, "Climate Change Report", (2020), at: https://www.commbank.com.au/content/dam/commbank-assets/about-us/docs/CBA-2020-CDP.pdf
[29] CBA. "Stakeholder Engagement Approach", (2021), at: https://www.commbank.com.au/content/dam/commbank/assets/about/opportunity-initiatives/Stakeholder-Engagement-Approach.pdf
[30] AccountAbility, "AA1000 AccountAbility Principles", (2021), at: https://www.accountability.org/standards/aa1000-accountability-principles/
[31] In 2020, The Australian Securities and Investments Commission (ASIC) filed civil legal proceedings against CBA over allegations that the Bank's distribution of payments related to superannuation products (Essential Super) represented conflicted remuneration. Sustainalytics assesses this controversy as Category 4 (High), reflecting the seriousness of the AML/CTF (Anti-Money Laundering and Counter Terrorism Financing) violations by CBA and the systemic past compliance failures that have been identified by regulators and acknowledged by the Bank. However, CBA has achieved most of the milestones in the agreed remedial action plan and appears on track to deliver on its commitments.

GRIFFITH UNIVERSITY
QUEENSLAND AUSTRALIA