

Sustainability Bond Framework

Guaranteed by the Commonwealth of Australia

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1 Introduction

Purpose

Established in 2018 under the *National Housing Finance and Investment Corporation Act 2018* (Cth) (**NHFIC Act**) the National Housing Finance and Investment Corporation (**NHFIC**) is mandated to improve housing outcomes for Australians by:

- strengthening efforts to increase the supply of housing;
- encouraging investment in housing (particularly in the social or affordable housing sector);
- providing finance, grants or investments that complement, leverage or support Commonwealth, State or Territory activities relating to housing; and
- contributing to the development of the scale efficiency and effectiveness of the community housing sector in Australia.¹

NHFIC is responsible for administering the Affordable Housing Bond Aggregator (**AHBA**). NHFIC will raise funds by (among other things) issuing bonds in the Australian domestic debt capital markets (**Bonds**) under an issuance programme (**Debt Issuance Program**), and will use the proceeds of its fundraising activities to finance loans to registered community housing providers (**CHPs**) to support improved housing outcomes for Australians (**AHBA Loans**). The issue of Bonds will therefore enable indirect investment in the community housing sector.

NHFIC recognises the meaningful role it can play in Australia's contribution to meeting the United Nations Sustainable Development Goals (**UN SDGs**),² in particular through the issuance of Bonds under its Debt Issuance Programme. The NHFIC Act also recognises NHFIC's role in meeting Australia's commitment under the *International Covenant on Economic, Social and Cultural Rights*, in particular the provision of adequate housing.³ The purpose of this document, therefore, is to set out a framework against which NHFIC will issue Bonds under its Debt Issuance Program as 'Social Bonds'.

¹ Section 3 of the NHFIC Act.

² Further information on the UN SDGs can be found at: www.un.org/sustainabledevelopment/sustainable-development-goals.

³ United Nations International Covenant on Economic, Social and Cultural Rights (December 1966), Article 11.

Social Bonds

This Framework has been developed in line with the International Capital Market Association's Social Bond Principles 2018 (**SBPs**) and as such, adopts the 4 key pillars as follows:

1. Use of Proceeds
2. Process for Asset Evaluation and Selection
3. Management of Proceeds
4. Reporting

This Framework may be updated from time to time as best practice for the issue of Social Bonds evolves and as the SBPs are updated. It may also be updated and expanded to cover the issuance of 'Green Bonds' and 'Sustainability Bonds' under the Debt Issuance Program.

External Review

As is commonly accepted as best market practice, NHFIC intends to obtain a form of external review with respect to the Framework and/or as Social Bonds are issued under the Framework.

Such external review may include but not be limited to one or more of the following forms:

- a second party opinion over the Framework, to confirm alignment with the SBPs;
- pre-issuance assurance to confirm that any intended Social Bond will be in compliance with the Framework; or
- post-issuance annual review and assurance to confirm that each outstanding Social Bond remains in compliance with the Framework.

All such external reviews will be published on NHFIC's website at www.nhfic.gov.au.

2 Use of Proceeds



Eligible Assets

The net proceeds raised through the issuance of Social Bonds will be earmarked to finance or refinance new or existing assets, projects and activities that deliver positive social outcomes, by way of the AHBA Loans to CHPs. The assets, projects and activities must align with the relevant Eligibility Criteria (described below), which have been developed by reference to the principles and categories identified under the SBPs and the objects set out in section 3 of the NHFIC Act (**Eligible Assets**).

Eligibility Criteria

The following comprise the eligibility criteria for relevant assets, projects and activities to qualify as Eligible Assets (**Eligibility Criteria**). These criteria have been presented in a way that shows alignment to both the SBPs and the UN SDGs. If an Eligible Asset no longer meets the Eligibility Criteria set out in this Framework, then it will no longer be deemed an Eligible Asset and the value of the Eligible Assets will reduce accordingly.

The pool of Eligible Assets may be replenished as underlying loans are repaid, any ineligible assets, projects and activities are removed, and additional eligible assets, projects and activities are identified and funded.

SBP Project Category	UN SDG & Target	Eligible Asset Type	Eligibility Criteria
Affordable Housing	 <p>Target 1.4 Ensure access to basic services ownership and control over land and other forms of property:</p> <ul style="list-style-type: none"> - developing adequate, affordable and accessible products and services for low-income populations - developing innovative solutions and investing in infrastructure that facilitates the access to basic services  <ul style="list-style-type: none"> • Target 11.1: Make Cities and Human Settlements inclusive, safe, resilient and sustainable: investment in responsible practises inland, construction and real estate use • promoting affordable housing opportunities, and complementing government action 	<p>Loans to registered CHPs funding not-for-profit community housing activities</p> <hr/> <p>Loans to registered CHPs funding “mixed tenure development” activities where profits are applied to support affordable housing outcomes</p> <p>Note: “mixed tenure development” is a development which (1) makes affordable housing available for sale or rent, and (2) also makes housing available for sale or rent on the private market at the prevailing market price (or such other price which does not support affordable housing outcomes).</p>	<p>Loans are used to:</p> <ul style="list-style-type: none"> • acquire new housing stock; • construct new housing stock; • maintain existing housing stock; • assist CHPs with working capital requirements, and/or for application towards their general corporate purposes (including by assisting CHPs to refinance existing indebtedness), <p>in each case, provided that the use of the loan finance can be demonstrated to improve housing outcomes for Australian.</p>

3 Process for Project Evaluation and Selection

NHFIC has formed a Social Bonds Working Group (SBWG) to take responsibility and accountability for the administration of this Framework. The SBWG will consist, at a minimum, of the following representatives from within NHFIC and may also draw on external resources as needed:

- Chief Financial Officer;
- General Counsel;
- Head of the Credit Committee; and
- Legal and Compliance Counsel.

A key task for the SBWG in the administration of this Framework includes the evaluation and selection of Eligible Assets for new Social Bonds and for the ongoing monitoring and management of existing Social Bonds, in both cases to ensure that the proceeds of issuance are applied in accordance with section 2 above and section 4 below.

The SBWG will take into account the following when evaluating and selecting Eligible Assets:

- conformance with the Eligibility Criteria above;
- conformance with the SBPs, or any other principles, standards, guidelines or tools that may otherwise become commonplace in the sustainable finance market;
- conformance with the NHFIC Act; and
- application of NHFIC's own professional judgement.

At least on an annual basis the SBWG, supported by the NHFIC's Finance Team, will review:

- the Eligible Assets of existing Social Bonds;
- whether any new Eligible Assets need to be identified for existing Social Bonds or for new Social Bonds issuance; and
- conformance of Eligible Assets with this Framework

4 Management of Proceeds

NHFIC intends to allocate proceeds of each Social Bond to Eligible Assets between issuance and 24 months after issuance.

To manage this, NHFIC has set up the following mechanisms which NHFIC's Finance Team will be responsible for Tracking, Allocation, Unallocated Proceeds and Monitoring, as follows.

- (a) **Tracking:** the receipt and use of proceeds will be tracked via internal reporting systems, to ensure that Eligible Assets are appropriately identified against each Social Bond on issuance.
- (b) **Allocation:** a register has been established that shows:
 - each Social Bond issued, including transaction date, principal amount of proceeds, settlement date, maturity date, and interest margin or coupon, ISIN number;
 - the Eligible Assets allocated to each Social Bond, including a brief description (e.g. borrower, loan purpose) and drawn value of investment in each Eligible Asset;

- the aggregate amount of Social Bond proceeds allocated to Eligible Assets;
 - any potential new Eligible Assets; and
 - any Unallocated Proceeds.
- (c) **Unallocated Proceeds:** to the extent that any proceeds of a Social Bond have not been allocated to Eligible Assets promptly after issuance of that Social Bond, or become unallocated during the tenor of that Social Bond (**Unallocated Proceeds**), those proceeds will only be invested in:
- cash, or cash equivalent instruments;
 - other investment instruments, such as Australian Government Securities or green, social or sustainability bonds as issued by other issuers; and/or
 - to temporarily reduce indebtedness of a revolving nature before being redrawn for investments or disbursements to Eligible Assets.
- (d) **Monitoring:** monitoring reports capturing all of the above will be provided to the SBWG on a monthly basis.

5 Disclosure and Reporting

NHFIC recognises the importance that investors place on transparency and disclosure relating to Social Bonds. It intends to make information available as follows.

Information	Timing	Location
Framework	Upon adoption of this Framework (for NHFIC's debut Social Bond issuance) and at any time when the Framework is updated, expanded or otherwise amended.	https://nhfic.gov.au/bond-aggregator/
Assurance Statements (or other form of independent review)	For each Social Bond issuance, when post-issuance assurance (or other form of independent review) occurs.	
Social Bond Report	Annually, in line with NHFIC's financial year and statutory reporting requirements (see below for inclusions).	

Social Bond Reporting

Each Social Bond Report will include:

- a list of all Social Bonds issued and key information per bond (e.g. bond volume and currency, transaction date, maturity date);
- a list of the Eligible Assets allocated to the Social Bonds on issue, and/or subject to confidentiality concerns, some detailed examples of such allocated Eligible Assets;
- an update on Unallocated Proceeds, if any (e.g. volume unallocated per issuance, amount of time unallocated, potential allocation)
- alignment with the relevant UN SDGs and the underlying Targets as set out in section 2; and
- information and an overview on any periodic assurance (or other form of independent review) that may have taken place in the relevant period of the report.

Impact Reporting

As the field of impact reporting is in a developmental stage, NHFIC will use reasonable endeavours to include impact reporting in its annual Social Bond Reports. This will be on the basis of general market practice, consistent with the guidance maintained and developed by organisations such as ICMA and the UN Global Compact (which oversees the UN SDGs).

In the first instance, NHFIC will look to utilise guidance published by the ICMA SBP Impact Reporting Working Group to develop Social Bond impact reporting indicators. Further details are available via the following link:

<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Framework-for-Social-Bond-Reporting-Final-140618v3.pdf>

In addition, the potential Social Bond impact reporting indicators that NHFIC may include are:⁴

- SBP category;
- SBP sub-category;
- UN SDG alignment (Goal and Target as relevant);
- target population – groups or cohorts targeted;
- social Indicators for social, affordable, community or other housing assets, projects and activities:
- rental costs compared to the national/regional rent index;
- participation (rate) of tenants;
- share of under-served tenants; and
- number of dwellings.

⁴ The indicators are examples of methods currently used in the market. NHFIC will update these reporting indicators over time.

Appendix 1 – Guidance and Reference Documents

United Nations Sustainable Development Goals

The UN SDGs came into effect on 1 January 2016. The 17 goals are part of the United Nation's 2030 Agenda for Sustainable Development, established to mobilise efforts to end a range of social and environmental problems by 2030. Resources published by the ICMA, the United Nations and the United Nations Principles for Responsible Investment have been utilised to identify assets, projects and activities which support and contribute towards meeting the UN SDGs.

See: <http://www.un.org/sustainabledevelopment/sustainable-development-goals>
<https://www.unpri.org/about/sustainable-development-goals>.

United Nations International Covenant on Economic, Social and Cultural Rights

The United Nations Covenant on Economic, Social and Cultural Rights came into effect in December 1966. Article 11 specifies the human right to an adequate standard of living, including adequate food, clothing and housing.

See: <https://www.ohchr.org/EN/ProfessionalInterest/Pages/CESCR.aspx>

ICMA Social Bond Principles, Green Bond Principles and Sustainability Bond Guidelines

- **Social Bond Principles**
<https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>
- **Green Bond Principles**
<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>
- **Sustainability Bond Guidelines**
<https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

High-Level Mapping to the Sustainable Development Goals

- <https://www.icmagroup.org/green-social-and-sustainability-bonds/mapping-to-the-sustainable-developmentgoals/>

Impact Reporting

- <https://www.icmagroup.org/green-social-and-sustainability-bonds/resource-centre/#>

Guidelines for Social, Green and Sustainability Bonds External Reviews

- <https://www.icmagroup.org/green-social-and-sustainability-bonds/external-reviews/>

Climate Bonds Standard

- **Taxonomy:** <http://www.climatebonds.net/standards/taxonomy>
- **Standard:** <https://www.climatebonds.net/standard/download>
- **Sector Criteria:** <https://www.climatebonds.net/standard/available>