



Sustainability Bond Framework

National Housing Finance and Investment Corporation Affordable Housing Bond Aggregator

Guaranteed by the Commonwealth of Australia, Updated October 2021

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' or 'Sustainability 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 1



Social Bonds and Sustainability Bonds

This Framework has been developed in line with the International Capital Market Association's Social Bond Principles (SBPs), Green Bond Principles (GBP) and Sustainability Bond Guidelines (SBG) and as such, adopts the 4 core components as follows:

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

This Framework allows for the issuance of 'Social Bonds' and 'Sustainability Bonds'.

This Framework may be updated from time to time as best practice for the issue of Social Bonds and Sustainability Bonds evolves and as the SBPs, GBPs and SBGs are updated.

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 and Sustainability 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, GBPs, and SBGs (where relevant);
- pre-issuance assurance to confirm that any intended Social Bond or Sustainability Bond will be in compliance with the Framework; or
- post-issuance annual review and assurance to confirm that each outstanding Social Bond or Sustainability Bond remains in compliance with the Framework.

All such external reviews will be published on NHFIC's website.



2. Use of Proceeds

The proceeds of Social Bonds will be used to fund social and affordable housing projects.

The proceeds of Sustainability Bonds will be used to fund social and affordable housing projects which have additional environmental characteristics within the categories set out in section 2. Projects funded will therefore be a combination of 'Social Projects' and 'Green Projects' (in each case, as described in the SBG). 'Social Projects' in the form of social housing projects will be the primary use of proceeds.

Eligible Assets

The net proceeds raised through the issuance of Social Bonds and Sustainability Bonds will be earmarked to finance or refinance new or existing assets, projects and activities that deliver positive social and/or environmental 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).

If a Sustainability Bond is being issued, such assets, projects and activities must also align with the Additional Eligibility Criteria (described below). The Additional Eligibility Criteria have been developed by reference to the principles and categories identified under the GBPs.

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		Loans to registered CHPs funding not-for-profit community housing activities	Loans are used to: <ul style="list-style-type: none"> acquire new housing stock; construct new housing stock;



	<p>forms of property: - developing adequate, affordable and accessible products and services for low-income populations; and - developing innovative solutions and investing in infrastructure that facilitates the access to basic services.</p>  <p>Target 11.1: Make Cities and Human Settlements inclusive, safe, resilient and sustainable: - investing in responsible practises in land, construction and real estate use; and - promoting affordable housing opportunities and complementing government action.</p>		<ul style="list-style-type: none"> 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>
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Additional Eligibility Criteria (for Sustainability Bonds)

The following are the eligibility criteria (Additional Eligibility Criteria) which Eligible Assets must meet to be classified as Sustainability Bonds. These criteria are aligned with the GBPs and the UN SDGs.

GBP PROJECT CATEGORY	UN SDG & TARGET	ADDITIONAL ELIGIBILITY CRITERIA
<p>Green Buildings</p>	 <p>Target 11.3: Enhance inclusive and sustainable urbanisation and capacity for sustainable human settlement planning and management: - investing in sustainable practises in land, construction and real estate use; and - promoting affordable and sustainable housing opportunities and complementing government action.</p>	<p>In addition to meeting the Eligibility Criteria, loans are used for new construction, design and development that have or will receive any one of the following certifications:</p> <ul style="list-style-type: none"> Department of Industry, Science, Energy and Resources – Nationwide House Energy Rating Scheme (“NatHERS”) – minimum 6 Star or above for any individual apartment and / or minimum 7 Star average rating for the entire development/project; or Green Building Council of Australia (“GBCA”) Green Star



		<p>(including Design and As Built) – minimum 5 Star or above; or</p> <ul style="list-style-type: none"> Any other equivalent 'Green Building' label, that is an equivalent standard as the above listed items.
<p>Energy Efficiency</p>	<div data-bbox="419 539 580 698"> <p>7 AFFORDABLE AND CLEAN ENERGY</p> </div> <p>Targets 7.3 and 7a: Promote investment in energy infrastructure and clean energy technology and improve energy efficiency:</p> <ul style="list-style-type: none"> - investing in responsible and sustainable products, services and technology, which increase energy efficiency. <div data-bbox="419 958 580 1117"> <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> </div> <p>Target 9.4: Upgrade infrastructure to make it sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies:</p> <ul style="list-style-type: none"> - developing innovative, affordable and accessible products with increased resource-use efficiency for low-income populations; and - developing innovative solutions and investing in infrastructure that facilitates the access to these technologies. 	<p>In addition to meeting the Eligibility Criteria, loans are used for construction, design, development or ownership of property and/or infrastructure that provides for:</p> <ul style="list-style-type: none"> Metering and monitoring systems which ensure that billing and data gathering to all dwellings in respect of utility use is simple, transparent, low cost and supports improved energy consumption outcomes; or The selection of electrical appliances based on energy performance; or Structured post occupancy evaluations with a focus on the sustainability, environmentally sustainable design and value for money outcomes of the project; or <p>The adoption of smart technologies and/or systems for optimising energy management in new and existing buildings.</p>
<p>Pollution Prevention and Control</p>	<div data-bbox="419 1541 580 1700"> <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> </div> <p>Target 11.6: Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and other waste management:</p> <ul style="list-style-type: none"> - developing innovative, affordable and accessible products with pollution prevention capabilities for construction, development and residential use. 	<p>In addition to meeting the Eligibility Criteria, loans are used for:</p> <ul style="list-style-type: none"> Facilities, systems and equipment on development sites that are used to reduce or remove the requirement for gas hot water systems and any gas appliances; or <p>Facilities, systems and equipment that are used for the collection, treatment and recycling of waste (excluding landfilling).</p>



	<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p> <p>Target 12.5: Substantially reduce waste generation through prevention, reduction, recycling and reuse: - investing in responsible waste management practices in construction and real estate use.</p>	
<p>Clean Transportation</p>	<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> <p>Target 11.2: Provide access to safe, affordable, accessible and sustainable transport systems for all: - investing in projects which provide sustainable transport solutions for low-income populations.</p>	<p>In addition to meeting the Eligibility Criteria, loans are used for construction, design, development or ownership of property and/or infrastructure that provides:</p> <ul style="list-style-type: none"> • Clean transportation facilities and/or associated infrastructure such as infrastructure for electric vehicles, cycle ways and other forms of bicycle infrastructure, pedestrian thoroughfares and other transportation infrastructure that supports modal shifts away from transportation dependent on producing harmful emissions; or • Cost effective and environmentally sensitive share transportation facilities such as ensuring availability of multiple share cars for use, which may reduce reliance on individual car ownership of tenants or occupiers.
<p>Sustainable Water and Waste Water Management</p>	<p>6 CLEAN WATER AND SANITATION</p>	<p>In addition to meeting the Eligibility Criteria, loans are used for projects that incorporate water saving features or reduce use of potable water for non-potable uses (including, but not limited to):</p> <ul style="list-style-type: none"> • Rainwater harvesting for other uses and onsite detention and rainwater storage systems coupled with reticulation pipework and pumping systems to ensure maximum amounts of rainwater can be collected and reused; or



	<p>accessible water efficient products and services for low-income populations.</p>	<ul style="list-style-type: none"> • Water efficient fixtures and fittings; or <p>Sustainable urban drainage systems, wastewater recycling and installation of water treatment systems and equipment, which improve water efficiency during construction and operation.</p>
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3. Process for Project Evaluation and Selection

The NHFIC Social and Sustainability Bonds Working Group (SSBWG) takes responsibility and accountability for the administration of this Framework. The SSBWG consists of, at a minimum, of the following representatives from within NHFIC and may also draw on external resources as needed:

- Financial Controller;
- General Counsel;
- Head of the Credit Committee;
- Legal and Compliance Counsel;
- Portfolio Management; and
- Director of Origination.

A key task for the SSBWG in the administration of this Framework includes the evaluation and selection of Eligible Assets for new Social Bonds and Sustainability Bonds and for the ongoing monitoring and management of existing Social Bonds and Sustainability Bonds, in each case to ensure that the proceeds of issuance are applied in accordance with this Framework, the SBP, GBP and SBG.

The classification of the use of proceeds of each Bond will be determined by NHFIC, based on the primary objectives of the Eligible Assets, which will dictate whether the Bond is a 'Social Bond' or a 'Sustainability Bond'.

The SSBWG takes into account the following when evaluating and selecting Eligible Assets:

- conformance with the Eligibility Criteria and, if relevant, the Additional 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, including without limitation the GBPs and the SBGs;
- conformance with the NHFIC Act; and
- application of NHFIC's own professional judgement.

At least on an annual basis the SSBWG, supported by the NHFIC's Portfolio Management Team, will review:



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

4. Management of Proceeds

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

To manage this, NHFIC has set up the following mechanisms which NHFIC's Portfolio Management 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 or Sustainability Bond on issuance.
- (b) Allocation: a register has been established that shows:
 - each Social Bond or Sustainability 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 or Sustainability Bond, including a brief description (eg, borrower, loan purpose) and drawn value of investment in each Eligible Asset;
 - the aggregate amount of Social Bond or Sustainability Bond proceeds allocated to Eligible Assets;
 - any potential new Eligible Assets; and
 - any Unallocated Proceeds.
- (c) 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 SSBWG on a monthly basis by the Portfolio Management Team.



5. Disclosure and Reporting

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

INFORMATION	TIMING	LOCATION
Framework	At any time when the Framework is updated, expanded or otherwise amended.	https://www.nhfc.gov.au/what-we-do/affordable-housing-bond-aggregator/
Assurance Statements (or other form of independent review)	For each Social Bond or Sustainability Bond issuance, when post-issuance assurance (or other form of independent review) occurs.	
Social and Sustainability Bond Report	Annually, in line with NHFIC's financial year and statutory reporting requirements (see below for inclusions).	

Social and Sustainability Bond Reporting

Each Social and Sustainability Bond Report will include:

- a list of all Social Bonds and Sustainability Bond issued and key information per bond (eg, bond volume and currency, transaction date, maturity date);
- a list of the Eligible Assets allocated to the Social Bonds and Sustainability Bonds on issue, and/or subject to confidentiality concerns, some detailed examples of such allocated Eligible Assets;
- an update on Unallocated Proceeds, if any (eg, 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 and Sustainability 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.

For more information: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Harmonized-Framework-for-Impact-Reporting-for-Social-BondsJune-2020-090620.pdf>

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

- SBP, GBP and/or SBG category or 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;
- number of dwellings; and
- environmental outcomes and impacts where applicable and possible for Sustainability Bonds.

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



Appendix: 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.

<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.

<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>