



Sustainability Bond Framework

National Housing Finance and Investment Corporation Affordable Housing Bond Aggregator

Guaranteed by the Commonwealth of Australia, Updated May 2022

I. 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', 'Green Bonds' or 'Sustainability Bonds'.

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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, Green and Sustainability Bonds

This Framework has been developed in line with the International Capital Market Association's Social Bond Principles (SBPs) 2021, Green Bond Principles (GBPs) 2021 and Sustainability Bond Guidelines (SBGs) 2021 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', 'Green Bonds' and 'Sustainability Bonds'.

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

2. Use of Proceeds

This Framework enables the issuance of Social, Green and Sustainability bonds in accordance with the SBPs, GBPs and SBGs respectively. The classification of the instrument will be determined by NHFIC based on the primary objectives of the underlying assets, as defined below:

- Social Bonds: to finance and/or refinance Eligible Social assets (as defined under Social Eligibility Criteria below)
- Green Bonds: to finance and/or refinance Eligible Green assets (as defined under Green Eligibility Criteria below)
- Sustainability Bonds: to finance and/or refinance a mix of Eligible Social assets (as defined under Social Eligibility Criteria) and Eligible Green assets (as defined under Green Eligibility Criteria)

Eligible Assets

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

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



Eligibility Criteria

The following comprise the eligibility criteria for relevant assets to qualify as Eligible Assets (Eligibility Criteria). These criteria have been presented in a way that shows alignment to the SBPs, GBPs and the UN SDGs. If an Eligible Asset no longer meets one of the Eligibility Criteria set out in this





Framework, then it will no longer be deemed an Eligible Asset and the value of the pool of Eligible Assets will reduce accordingly.

- **Social Eligibility Criteria**

SBP PROJECT CATEGORY	UN SDG & TARGET	ELIGIBLE ASSET TYPE	ELIGIBILITY CRITERIA
<p>Affordable Housing</p>	<div data-bbox="435 541 594 695" style="background-color: red; color: white; padding: 5px; margin-bottom: 10px;"> <p>1 NO POVERTY</p>  </div> <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; and - developing innovative solutions and investing in infrastructure that facilitates the access to basic services. <div data-bbox="435 1066 594 1220" style="background-color: orange; color: white; padding: 5px; margin-bottom: 10px;"> <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>  </div> <p>Target 11.1: Make Cities and Human Settlements inclusive, safe, resilient and sustainable:</p> <ul style="list-style-type: none"> - investing in responsible practises in land, construction and real estate use; and - promoting affordable housing opportunities and complementing government action. 	<p>Loans to registered CHPs</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 social and affordable housing outcomes for low income and/or vulnerable Australians.</p>






• **Green Eligibility Criteria**

GBP PROJECT CATEGORY	UN SDG & TARGET	ELIGIBLE ASSET TYPE	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>Loans to registered CHPs</p>	<p>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 (including Design and As Built) – minimum 5 Star or above⁴; or • Any other equivalent ‘Green Building’ label, that is an equivalent standard as the above listed items. <p>Loans used for refurbishment of residential building energy efficiency projects that reduce energy consumption by at least 30%.</p>
<p>Energy Efficiency</p>	 <p>Targets 7.3 and 7a: Promote investment in energy infrastructure and clean energy technology and improve energy efficiency: - investing in responsible and sustainable products, services and technology,</p>	<p>Loans to registered CHPs</p>	<p>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



⁴ The rating thresholds may be recalibrated if there are changes to the GBCA rating system at a future date.



	<p>which increase energy efficiency.</p>  <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. 		<ul style="list-style-type: none"> • 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 • The adoption of smart technologies and/or systems for optimising energy management in new and existing buildings including, but not limited to, solar panels, battery storage, EV charging stations, centralised hot water systems, individual apartment metering (smart metering) and smart LED lighting systems.
<p>Pollution Prevention and Control</p>	 <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>Target 12.5: Substantially reduce waste generation through prevention, reduction, recycling and reuse:</p>	<p>Loans to registered CHPs</p>	<p>Loans 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 • Facilities, systems and equipment that are used for the collection, treatment and recycling of waste (excluding landfilling).



National Housing Finance and Investment Corporation

	- investing in responsible waste management practices in construction and real estate use.		
Clean Transportation	 <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>	Loans to registered CHPs	<p>Loans 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 EV charging stations, 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.
Sustainable Water and Waste Water Management	 <p>Targets 6.3, 6.4 and 6b: Improve water quality by substantially increasing recycling and safe reuse; increase water-use efficiency; and improve water and sanitation management: - investing in projects which substantially increase water-use efficiency; and - developing adequate, affordable and accessible water efficient products and services for low-income populations.</p>	Loans to registered CHPs	<p>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 • Water efficient fixtures and fittings; or • Sustainable urban drainage systems, wastewater recycling and installation of water treatment systems and



			equipment, which improve water efficiency during construction and operation.
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3. Process for Project Evaluation and Selection

The NHFIC Social and Sustainability Bonds Committee (SSBC) takes responsibility and accountability for the administration of this Framework. The SSBC 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;
- Director, Treasury & Capital Markets; and
- Director of Origination.

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

The *National Housing Finance and Investment Corporation Investment Mandate Direction 2018* sets out the purpose of the Affordable Housing Bond Aggregator, the eligibility criteria for loans from NHFIC and matters to be considered when making lending decisions. All lending decisions are subject to review and approval of the Credit Committee and the NHFIC Board.

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’, ‘Green Bond’ or a ‘Sustainability Bond’.

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

- conformance with the Social and/or Green Eligibility Criteria
- conformance with the SBPs, GBPs and SBGs 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 SSBC, supported by the NHFIC’s Portfolio Management Team, will review:



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

4. Management of Proceeds

NHFIC intends to allocate proceeds of each Social, Green or Sustainability Bond to Eligible Assets within 36 months of 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, Green or Sustainability Bond on issuance.
- (b) **Allocation:** a register has been established that shows:
 - each Social, Green 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, Green 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, Green or Sustainability Bond proceeds allocated to Eligible Assets;
 - any potential new Eligible Assets; and
 - any Unallocated Proceeds.
- (c) **Unallocated Proceeds:** proceeds unallocated will be held 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 the above will be provided to the SSBC on a semi-annual basis by the Portfolio Management Team.



5. Disclosure and Reporting

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

INFORMATION	TIMING	LOCATION
Framework and Second Party Opinion	At any time when the Framework is materially 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, Green or Sustainability Bond issuance, when post-issuance assurance (or other form of independent review) occurs.	
Social, Green and Sustainability Bond Report	Annually, in line with NHFIC's financial year and statutory reporting requirements (see below for inclusions).	

Social, Green and Sustainability Bond Reporting

Each Social, Green and Sustainability Bond Report will include:

- A list of all Social, Green and Sustainability Bond(s) 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, Green 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 (e.g, volume unallocated per issuance, amount of time unallocated, potential allocation)
- alignment with the relevant UN SDGs and the underlying eligibility criteria 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 impact reporting continues to develop, NHFIC will use reasonable endeavours to include impact reporting in its annual Social, Green and Sustainability Bond Reports. This will be on the basis of general market practice, and 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 Impact Reporting Working Groups to develop Social and Green impact reporting indicators.

For more information: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>

Potential Social and Green Bond impact reporting indicators that NHFIC may include are:⁵

- 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 Green and Sustainability Bonds.

6. External Review

NHFIC intends to obtain an independent external review with respect to the Framework and/or as Social, Green 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, Green or Sustainability Bond will be in compliance with the Framework; or
- post-issuance annual review and assurance to confirm that each outstanding Social, Green or Sustainability Bond remains in compliance with the Framework.

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

⁵ 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/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>

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/climate-bonds-standard-v3>

Sector Criteria: <https://www.climatebonds.net/standard/sector-criteria>