



Sustainable Finance Newsletter

Welcome to NAB’s regular newsletter on the Sustainable Finance markets from an Australasian perspective.

Market overview - 1Q23



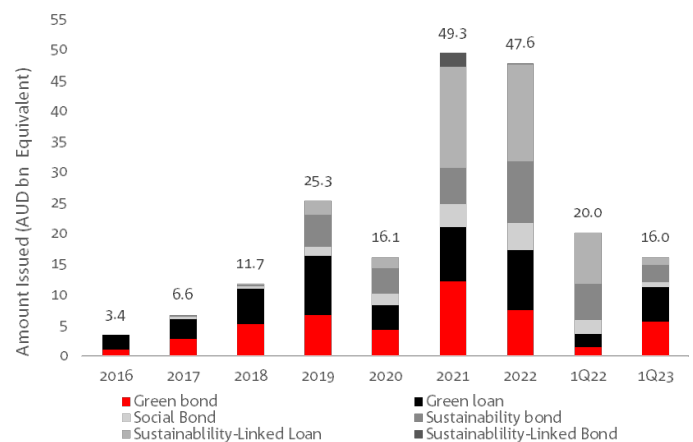
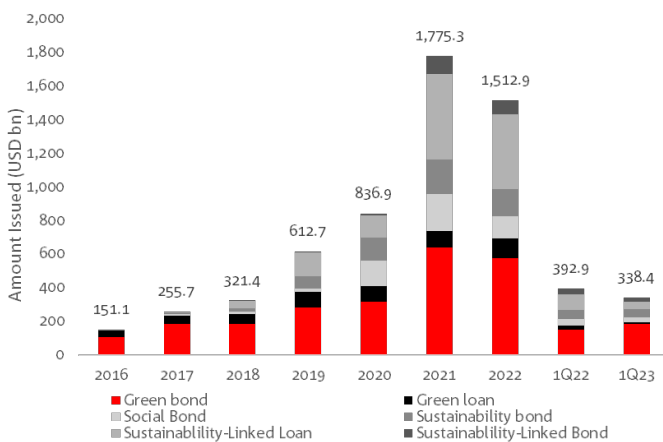
Source: Bloomberg New Energy Finance

Global sustainable debt annual issuance

- US\$338bn of sustainable debt was issued globally in 1Q23, down 14% from 1Q22.
- Green Social Sustainable Sustainability-linked (GSSS) bond volumes were up 5% in 1Q23 compared 1Q22, with green bonds again the most popular format, accounting for 54% of total sustainable debt.
- Sustainability-linked debt volumes across both loan and bond formats have declined with loan issuance down 57% in 1Q23 from 1Q22 and bond issuance down 22% for the same period.

AUD sustainable debt annual issuance

- A\$16bn of AUD-denominated sustainable debt was issued in 1Q23, down \$4bn / 20% from 1Q22.
- \$11.2bn (70%) of issuance was evenly split between green bonds and green loans (each \$5.6bn / 35%).
- Social bond and sustainability bond issuance was \$0.8bn and \$2.8bn, down 64% and 53% respectively from 1Q22. There were no sustainability linked bonds issued and one sustainability linked loan in the Australian market in 1Q23.



Source: Bloomberg New Energy Finance March 2023

Investor and market news

- In November, New Zealand announced its Kāinga Ora's future funding to be folded into [New Zealand Debt Management \(NZDM\) sovereign programme](#).
- In December, COP15, the 15th United Nations (UN) Biodiversity Conference of the Parties, resulted in the significant Kunming Montreal Global Biodiversity Framework (GBF). [The plan](#) includes concrete measures to halt and reverse nature loss, including putting 30% of the planet and 30% of degraded ecosystems under protection by 2030. The GBF captures agreement from 188 countries to a series of goals and 2030 nature action targets and aims to address biodiversity loss, restore ecosystems, and protect indigenous rights.
- In February, the Australian Securities & Investments Commission (ASIC) launched its [first court action](#) related to greenwashing, against Mercer Superannuation (Australia) Limited (Mercer) for allegedly making misleading statements about the sustainable nature and characteristics of its superannuation investment options. Action against greenwashing is one of ASIC's 2023 Enforcement Priorities.
- In February, BNP Paribas faced climate litigation risk from climate activists and became the first commercial bank to face climate litigation. The [case claims](#) that BNP's continued financing of oil and gas is in violation of Frances 'do no harm' law.
- In February, the US Commodity Futures Trading Commission (CFTC) announced it is set to increase its resources to [tackle false claims](#) on environmental aspects in the US futures and derivatives markets. Christy Goldsmith Romero, a commissioner at the CFTC indicated that greenwashing is a type of fraud.
- In March, The Australian Sustainable Finance Institute's (ASFI) final taxonomy recommendations report was released. It has found that there is broad consensus on the key design elements of an Australian sustainable finance taxonomy and the need for its rapid development. The [report](#) highlights the importance of an Australian taxonomy to guard against greenwashing and to support capital to flow in support of Australia's transition to a net zero economy. An Australian taxonomy is a critical element of the Government's sustainable finance agenda alongside mandatory climate-related disclosures. The report confirms the draft recommendations released by ASFI in December 2022, and lays the groundwork for ongoing close collaboration across government, regulators and the finance sector to move quickly to taxonomy development. The final report follows extensive public consultation on the draft recommendations, which found there is significant consensus that scientific credibility should underpin the development of the taxonomy, whilst ensuring it is usable.
- In March, The Intergovernmental Panel on Climate Change (IPCC) released [AR6 Synthesis Report: Climate Change 2023 — IPCC](#) based on the content from the three Working Groups Assessment Reports: [WGI – The Physical Science Basis](#), [WGII – Impacts, Adaptation and Vulnerability](#), [WGIII – Mitigation of Climate Change](#), and the three Special Reports: [Global Warming of 1.5°C](#), [Climate Change and Land](#), [The Ocean and Cryosphere in a Changing Climate](#). The Synthesis Report stresses the urgency, stating there is a rapidly closing window of opportunity to secure a liveable and sustainable future for all and rapid and far-reaching transitions across all sectors and systems are necessary to achieve deep and sustained emissions reductions and secure a liveable and sustainable future.
- In March, President Biden issued his [first veto](#) to protect the ability of fund managers to consider ESG issues when investing.
- In March, the [independent review](#) of Australian Carbon Credit Units (ACCUs) recommendations and key findings were handed down ('Chubb' report). The panel concluded that the ACCU scheme is essentially sound and incorporates mechanisms for regular review and improvement. The panel recommends several changes to clarify governance, improve transparency, facilitate positive project outcomes and co-benefits, and enhance confidence in the integrity and effectiveness of the scheme.
- In April, the Albanese Government held its second [Investor Roundtable](#). The roundtable outcomes included: the introduction of a Sovereign Green Bond program, an expand and upgrade of the Nationwide House Energy Rating Scheme which will apply to existing homes, and the co-funding of the initial development phase of an Australian Sustainable Finance Taxonomy. Further details are expected when the Government hands down its 2023-24 Budget on 9 May.
- NAB's [Carbon Research](#) suggests ACCUs prices are set to soar.



Regulatory developments

- In December, the Australian Department of the Treasury released a Consultation Paper regarding the introduction of mandatory [climate-related financial disclosure](#) in Australia. The consultation period closed on 17 February 2023. Findings still to be announced.
- In December, Aotearoa New Zealand Government has passed The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 making [climate-related disclosures](#) mandatory for some large financial market participants from 1 January 2023. Reporting is required against climate standards issued by the External Reporting Board (XRB). These climate standards are based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- In December, the European Union reached agreement on the implementation of a [carbon dioxide tariff](#) on imports of polluting goods such as cement, iron and steel, aluminium, fertilisers, electricity and hydrogen.



When fully phased in, it will capture more than 50% of emissions in the EU Emissions Trading Scheme. It will enter its transitional phase as of 1 October 2023.

- In January, the [Corporate Sustainability Reporting Directive](#) (CSRD) came into force and will require in-scope companies to report on sustainability-related issues in line with the detailed set of disclosure standards developed by the European Financial Reporting Advisory Group (EFRAG). The CSRD applies to large and listed EU companies, as well as to large non-EU companies that have securities listed in the EU or that do significant business in the EU.
- In February, the Loan Markets Association (LMA), Asia Pacific Loan Markets Association (APLMA) and LSTA (Loan Syndications and Trading Association) published updated [Sustainability Linked Loan Principles](#) and related [Guidance](#), [Green Loan Principles](#), [Social Loan](#)

[Principles](#) which will apply to all transactions originated/extended or refinanced after March 9th, 2023. All loans seeking to be classified as either Green Loans, Social Loans or Sustainability-Linked loans must fully align with these updates to the sustainable lending principles. The update also included guidance around the use of language in documentation where in exceptional circumstances SPTs are agreed post origination.

- In February, final [EU regulation](#) for renewable hydrogen production was released. These define the conditions under which Hydrogen can be 'renewable' by specific criteria used by producers to prove the electricity used by the electrolyzers is renewable.
- In February, the International Sustainability Standards Board (ISSB) announced the new [climate and sustainability disclosures](#) S1 and S2 will come into effect in January 2024. The ISSB is engaged with several jurisdictions and organisations to support a global baseline of cost-effective and decision-useful standards.
- In March, the Securities and Exchange Commission (SEC) proposed to finalise changes to the [reporting requirements](#) for public companies and companies that have securities trading in the US to disclose detailed net-zero transition plans, material climate-related risks, and GHG emissions.
- In March, The Australian Competition Consumer Commission (ACCC) publicised the [findings](#) of their internet sweep of environmental claims that had been underway since late 2022. The aim of the sweep was to identify industries that commonly use environmental, and sustainability claims to assess whether these claims have the potential to mislead consumers. 57% of business were identified as making 'concerning claims'. The ACCC plans to undertake further work to determine whether individual environmental claims identified during the sweep may be in breach of Australian Consumer Law and will release updated economy-wide guidance material, as well as targeted guidance for specific sectors.

Selected recent deals

- Queensland Treasury Corporation (QTC) issued a \$A3bn 10yr CBI Certified [Green Bond](#). NAB acted as Joint Lead Manager.
- New Zealand Debt Management issued [NZ\\$3 billion New Zealand Sovereign Green Bond](#) that will mature in 2034. BNZ acted as Sustainability Coordinator/Structurer.
- Acciona Financiacion Filiales Australia entered into a A\$225m sustainability-linked loan with KPIs around selected Sustainable Development Goals outlined in the [Sustainable Finance Framework](#)
- Meridian Energy Ltd issued a NZD\$200m 5.5 year [retail Green Bond](#). BNZ acted as Joint Lead Manager.
- Contact Energy launched a NZD\$200m CBI certified [retail Green Bond](#). BNZ acted as Joint Lead Manager.
- Arena REIT entered into a [sustainability-linked loan](#) with KPIs tied to greenhouse gas emission reduction, increased rooftop solar and strengthening management of modern slavery risks. NAB was engaged as a Joint Sustainability Coordinator.
- Plenti prices a A\$73.5m Green tranche of the A\$300m Plenti PL-Green ABS 2023-1 Trust [green & personal loan securitisation](#). It was notable that the class A1-G green note tranche priced 3bps inside the equivalent ranking and rated non-green A1 tranche. NAB acted as Arranger and Joint Lead Manager.
- Atmos Renewables entered into a [Green Loan](#) to refinance an operating renewable energy portfolio in Australia. NAB acted as a lender.
- NBN Co Ltd printed a EUR750m 6-year and a EUR600m 10-year [green bond](#). It was NBN Co's inaugural issue into the Euro market. The combined proceeds will be fully allocated to eligible green projects undertaken as part of the company's commitment to energy efficiency in line with its [Sustainability Bond Framework](#).
- Bank Australia Ltd printed at \$225m 4-year senior unsecured sustainability bond. Proceeds from the transaction will be used to finance or refinance assets that confirm to the eligibility criteria set out in its [Sustainability Bond Framework](#).



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