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Commonwealth Bank of Australia (ASX:CBA)

Shareholder proposal: Transition Planning Disclosure

It has been four years since Commonwealth Bank has faced a shareholder proposal related to climate risk management. This course of action has become necessary after CBA has in recent years maintained its position as a leading lender to the fossil fuel sector, financing new fossil fuel projects that would emit 5.8 billion tonnes of CO_2, equivalent to 12 years of Australia's national emissions.

While Market Forces continues to engage with CBA it is clear that this engagement has been insufficient in recent years as the bank has failed to comply with its own policy, scaled back its commitments to avoid expanding the fossil fuel industry and set new targets that aim to overshoot the goal of net-zero by 2050.

Investors are therefore urged to vote in favour of the following resolution at the upcoming annual general meeting of Commonwealth Bank of Australia (13 October 2021):

Resolution: Transition Planning Disclosure

Shareholders note the company's stated support for the goal of achieving net-zero emissions globally by 2050,[1] along with the publication of the International Energy Agency's Net Zero by 2050 scenario.[2] Shareholders therefore request the Company disclose, in subsequent annual reporting, information demonstrating how the Company will manage its Fossil Fuel[3] exposure in accordance with a scenario in which global emissions reach net zero by 2050. This information should include:

- A commitment to no longer provide Financing[4] where use of proceeds are explicitly intended for new Fossil Fuel projects; and
- Targets to reduce Fossil Fuel exposure consistent with net zero by 2050.

1 2020 Annual Report, Commonwealth Bank of Australia, p.38

2 'Net Zero by 2050', International Energy Agency, May 2021

3 Upstream, midstream and downstream oil and gas; coal mining and transport (including haulage and ports); coal, oil and gas power generation

4 Direct corporate lending, project finance, trade finance, IPOs and their distribution, as listed by Commonwealth Bank in their 2019 Environmental & Social Framework

Summary

CBA's ongoing heavy financing of fossil fuels fails to reflect its own commitments to the Paris Agreement and achieving net-zero by 2050, and mainstream expectations of the global energy transition required to meet these goals.

Recognising the urgency of climate change action, countries and entities representing over 50% of global GDP have pledged to achieve net-zero by 2050, although the latest science points to the need to achieve this goal sooner to limit warming to 1.5°C.

CBA states it is committed to "supporting the responsible global transition to net zero emissions by 2050". The International Energy Agency (IEA)'s 'Net Zero by 2050' report makes clear that achieving this goal means no new fossil fuel supply and an extremely limited and narrowing role for fossil fuels in electricity generation.

Yet the bank has undermined its net-zero by 2050 commitment on multiple fronts by:

- aligning its climate strategy with a scenario consistent with net-zero by **2070** and that allows for expansion of the fossil fuel industry,
- watering down standing climate policy, opening the door to funding a broader range of new and expanded fossil fuel projects, and
- maintaining its position as the top Australian lender to fossil fuels overall, and for new or expansionary fossil fuel projects (2016-2020), according to data compiled by Market Forces.

Market Forces has engaged with CBA since our inception in 2013, and maintained constructive dialogue with bank stakeholders from CSR staff, to the CEO and Chair. In 2020, Market Forces withheld a resolution with CBA in light of a shareholder complaint regarding adherence to the bank's climate policy, with the complainant having resorted to litigation since then. This year, CBA's policy position has actually taken a step backwards - something we have never seen before - making this resolution all the more necessary.

To align with the Paris Agreement and net zero emissions by 2050, CBA's lending must reflect the trajectory of the energy transition required to achieve these outcomes. Yet despite extensive engagement and myriad opportunities, CBA has failed to address the above points, allowing it to continue funding new and expansionary fossil fuel projects consistent with the failure of net-zero and Paris, and failing to align its fossil fuel exposure with these climate goals. This further exposes shareholders to material climate-related transition risks.

In order to address these risks, investors are urged to vote in favour of this shareholder resolution.

Aligning lending with Paris

Meeting the climate goals of the Paris Agreement requires a rapid transition away from coal, oil and gas use. In order to support the Paris climate goals, banks must stop financing the expansion of the fossil fuel sector and reduce exposure to these sectors in line with a 1.5°C decarbonisation pathway.

Achievement of the Paris goals also requires the world to reach net zero emissions of greenhouse gases. The global "carbon budget" of greenhouse gas emissions is now so limited that the latest science points to the need to reach net zero emissions by 2040 globally, and 2035 in wealthy nations such as Australia, if we are to limit global warming to anything near 1.5ºC.

Although the evolution of climate science points to net-zero emissions globally by 2040 as necessary, much of the world's attention has centered on net-zero by 2050, with countries and entities representing over 50% of global GDP pledging to achieve this aim. Commonwealth Bank is among those committed to net-zero by 2050. However, the IEA's 'Net Zero by 2050' report stands in stark contrast to Commonwealth Bank's continued fossil fuel lending.

Net Zero by 2050 (IEA scenario)

The IEA states "there is no need for investment in new fossil fuel supply in our net zero pathway", elaborating for each fossil fuel type:

IEA conclusion	CBA lending activity
Gas: "No new natural gas fields are needed in the NZE beyond those already under development. Also not needed are many of the liquefied natural gas (LNG) liquefaction facilities currently under construction or at the planning stage."	$1,644 million loaned across 21 deals for new or expanded gas supply or LNG projects since 2016, according to data compiled by Market Forces. This includes lending for the acquisition, exploration or development of new gas fields in Australia and PNG, and major LNG developments in the United States.
Oil: "The trajectory of oil demand in the NZE means that no exploration for new resources is required and, other than fields already approved for development, no new oil fields are necessary."	$704 million loaned across 6 deals for new or expanded oil projects since 2016, according to data compiled by Market Forces. This includes lending to Lundin Petroleum for the third largest oil field in the North Sea.
Coal: "No new coal mines or extensions of existing ones are needed in the NZE as coal demand declines precipitously."	

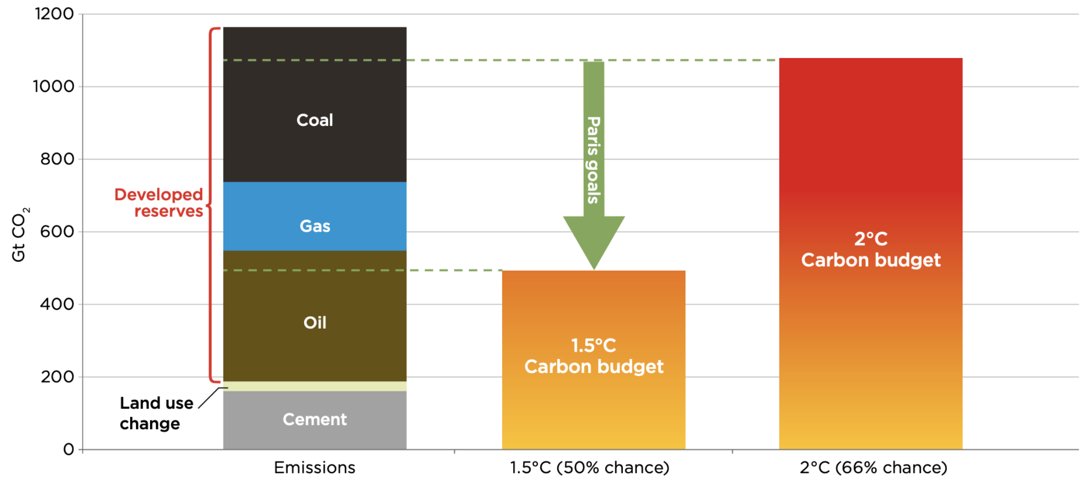
According to the IEA, achieving net zero by 2050 requires net zero emissions in the electricity sector by 2035 for advanced economies, and by 2040 globally. This includes a "phase-out of unabated coal in advanced economies" by 2030, and also a 90% reduction in unabated gas power generation from 2020 to 2040. This means any gas power project planning to operate beyond 2040 (or 2035 in OECD countries) would rely on as yet unviable carbon capture and storage (CCS) technology, or potentially unattainable levels of carbon offsetting.

The IEA's report makes clear that net zero by 2050 means no new fossil fuel supply and an extremely limited and narrowing role for fossil fuels in electricity generation.

Paris Agreement

The Executive Director of the IEA stated in 2018 that to limit temperature rise to 2°C, let alone the Paris Agreement's 1.5°C target, "We have no room to build anything that emits CO_2 emissions". Indeed, peer-reviewed research published in *Nature* in July 2019 concludes that achievement of the Paris Agreement means "little or no additional CO_2-emitting infrastructure can be commissioned".

FIGURE ES-1: CARBON DIOXIDE (CO_2) EMISSIONS FROM DEVELOPED GLOBAL FOSSIL FUEL RESERVES, COMPARED TO CARBON BUDGETS WITHIN RANGE OF THE PARIS GOALS



Source: Oil Change International analysis based on data from Rystad Energy, IEA, World Energy Council, IPCC and Global Carbon Project

The IPCC's Special Report on Global Warming of 1.5°C demonstrates that, without relying on assumptions that carbon capture and storage technology will play a significant future role, the role of gas for primary energy must decline globally (from a 2010 baseline) by 25% by 2030 and 74% by 2050, with oil's share of primary energy falling 37% and 87% over the same time frames.

Analysis of the IPCC's modelling has found that "over the next decade any production from new oil and gas fields, beyond those already in production or development, is incompatible with limiting warming to 1.5°C".

The science is clear: meeting the Paris goals means no new fossil fuels and the rapid phase out of coal, oil and gas use, yet CBA continues funding expansion of the fossil fuel industry.

Current lending practices

Commonwealth Bank continues to provide project and corporate finance for new fossil fuel developments. This undermines both the goals of net-zero by 2050 and the Paris Agreement, and is contrary to the bank's commitment to these goals.

According to data compiled by Market Forces, between 2016-2020 CBA loaned at least $2.2 billion for 14 projects which expand the fossil fuel industry, enabling the release of 5.8 billion tonnes of CO_2, equivalent to 12 times Australia's 2020 national emissions.

Expansionary fossil fuel projects funded by CBA, 2016-2020

Project name	Location	Lifetime CO_2 emissions enabled
Sabine Pass LNG Terminal	USA	1,635
Permian Highway Pipeline	USA	1,018
Johan Sverdrup offshore oil field	Norway	966
Corpus Christi LNG	USA	775
Midship Pipeline	USA	698
Barossa gas project	Australia	401
Lackawanna gas power plant (1,480MW)	USA	70
Cambo oil field	UK	66
AES Corp gas power portfolio (1,300MW)	USA	61
CPV Fairview gas power facility (1,050MW)	USA	50
Westmoreland gas power plant (925MW)	USA	44
Tolmount gas field	UK	28
Tipton West gas processing facility	Australia	13.5

Source: Market Forces

Over the same timeframe, CBA loaned $2.4 billion to 9 ASX300 companies pursuing plans consistent with the failure of the Paris Agreement: AGL Energy, APA Group, Aurizon, Beach Energy, Mineral Resources, Oil Search, Origin Energy, Santos and Woodside Energy.

Many of these companies, and others that CBA has since funded, have plans to significantly increase fossil fuel production that are entirely inconsistent with the Paris climate goals, such as:

- Santos, which is planning US$4.5B in capex on major growth projects over the next 5 years, justifying this with reference to the IEA's Stated Policies Scenario aligned with 2.7°C of warming;
- Woodside, Oil Search, Origin Energy and Beach Energy, whose capital expenditure plans are incompatible with a Paris-aligned warming outcome; and
- Glencore, which is proposing 45 mtpa of new coal mine capacity despite the IEA's conclusion that "no new coal mines or mine extensions are required" in a net-zero by 2050 pathway.

Clearly, these are not the actions of a bank committed to aligning its lending with the goals of the Paris Agreement.

Current commitments

In July 2021, 115 investors with US$4.2 trillion in assets under management and/or stewardship wrote to 63 global banks, calling on them to integrate the IEA's Net Zero by 2050 findings into their climate strategies. CBA's current policies and practices fall well short of this demand.

CBA's currently disclosed climate commitments are insufficient to bring the bank's exposure to fossil fuels into line with net-zero by 2050 or the Paris goals. The bank's 2021 Annual Report sets out its commitments or expectations with respect to fossil fuel exposure:

Glidepaths

CBA is developing "sector-level glidepaths in four of the most emissions-intensive sectors in [its] portfolio: thermal coal mining, upstream oil, upstream gas and power generation". The bank describes these glidepaths as "a way to set and articulate interim and long-term aspirations with respect to emissions as they relate to a bank's financing activities".

The bank has chosen to use the IEA's Sustainable Development Scenario (SDS) as the underlying reference scenario for these glidepaths. **This scenario aims for net-zero by 2070, three decades later than what the latest science prescribes as necessary to limit warming to 1.5°C.**

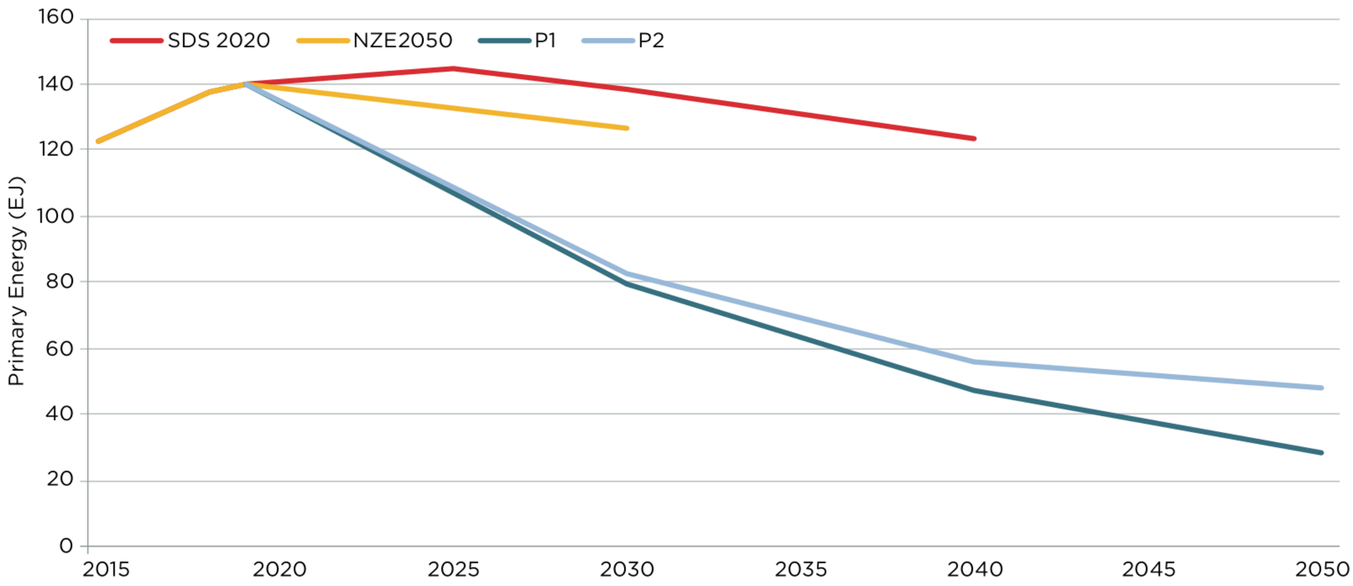
The SDS also allows for expansion of the fossil fuel industry, for example by projecting significant supply from new oil fields (IEA World Energy Outlook 2020, Figure 7.3), which is clearly incompatible with net-zero by 2050 and the Paris Agreement as discussed above. As demonstrated in the figures below:

- the SDS also projects increasing gas demand to 2025, while the IEA's net-zero by 2050 (NZE2050) scenario projects a decline, albeit not as steep as the IPCC's 1.5°C-aligned P1 pathway, and
- the SDS also relies upon wildly unrealistic assumptions about the pace of carbon capture and storage (CCS) deployment.

By relying on the SDS, CBA is aligning its climate strategy with the failure of net-zero by 2050 and the Paris Agreement, thereby acting inconsistently with its commitment to these goals.

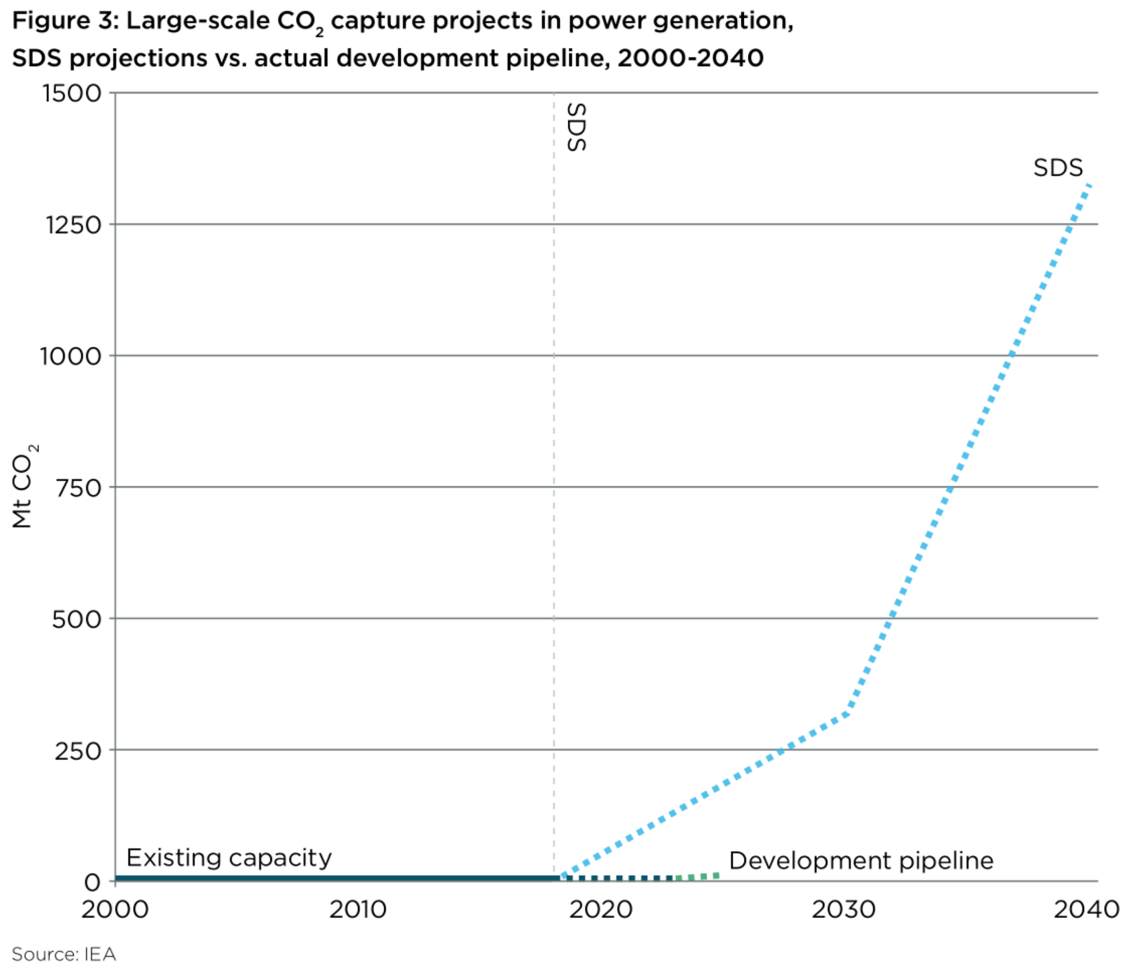
The IEA's Executive Director has confirmed the NZE2050 scenario will form "an integral part" of its upcoming World Energy Outlook 2021. This means that, **by the date of its AGM, Commonwealth Bank will have all the data it requires to integrate the IEA NZE2050 scenario into its glidepaths. The bank was made aware of this fact throughout Market Forces' engagement with it but still chose to aim for an outcome aligned with net-zero by 2070.**

Figure 2: Gas demand in IEA climate pathways vs. IPCC illustrative 1.5°C pathways with CDR constraints



Source: WEO 2020, IPCC/IAMC 1.5°C Scenario Explorer

Source: 'Getting on track to 1.5°C', Oil Change International, March 2021



Source: 'Getting on track to 1.5°C', Oil Change International, March 2021

Scaling back assessments for new fossil fuel projects

CBA's 2019 Environmental and Social (E&S) Framework committed the bank to "only providing Banking and Financing activity to New oil, gas or metallurgical coal projects if supported by an assessment of the environmental, social and economic impacts of such activity, and if in line with the goals of the Paris Agreement".

The bank's 2021 E&S Framework substantially narrows the scope of this commitment by only requiring an assessment demonstrating projects to be Paris-aligned if:

- the bank provides project finance, rather than a broader suite of 'Banking and Financing activity' as required under the previous policy, and
- these projects involve new or expansionary oil, gas or metallurgical coal extractive activity, rather than any oil, gas or metallurgical coal activity (including, for example, new coal ports and gas pipelines) as was covered under the previous policy.

The new policy means CBA has opened the door to funding new oil, gas or metallurgical coal projects, through a broad suite of financial arrangements, without needing to demonstrate these projects align with the Paris Agreement.

For example, CBA's December 2020 extension of its corporate loan to Siccar Point Energy, supporting Siccar's highly controversial new Cambo Oil Field offshore UK, would not require an assessment demonstrating alignment with the Paris Agreement under the new policy.

Not only is CBA's policy of assessing new fossil fuel projects insufficient, but the bank's compliance with it is in doubt. Having first made requests in June 2020 for information demonstrating CBA had adhered to its policy of assessing new fossil fuel projects as being aligned with Paris, a CBA shareholder recently commenced legal proceedings to gain access to the assessment documents underpinning the bank's finance for a suite of new or expanded oil and gas projects.

A strong vote in favour of this resolution is required to send a clear signal to CBA that weakening its policy and continuing to fund new and expanded fossil fuel projects are unacceptable.

Other commitments

While the above commitments or expectations are the most relevant for this resolution, there are many other aspects of CBA's climate policy that require scrutiny and engagement from investors. Should you wish to obtain more detail about these issues, please contact Will van de Pol (will@marketforces.org.au) or Jack Bertolus (jack@marketforces.org.au).

CBA risks being left behind

Peers

Other financial institutions have placed more effective restrictions on finance for oil and gas, leaving CBA's clearly ineffective policy behind.

In 2020 Suncorp ruled out underwriting new oil and gas production assets, committing to "not directly invest in, finance or underwrite...new oil and gas exploration or production", and will phase out underwriting for the sector by 2025 and direct investment by 2040. Similarly, IAG "committed to ceasing underwriting entities predominantly in the business of extracting fossil fuels, and power generation using fossil fuels, by 2023".

As of March 2021, Nordea Asset Management has excluded fossil fuel producers without a clear plan for complying with the Paris Agreement in 213 of its 368 funds, stating "no oil and gas producers and of course coal miners live up to these requirements at present". In March 2021, Danske Bank committed to immediately end direct finance for expansion of oil and gas exploration and production worldwide, while NedBank, SEB, and NatWest have made similar commitments.

Multilateral Development Banks are also drafting and implementing similar policies including the Asian Development Bank, the EBRD and the European Investment Bank. Approaches taken by these banks are often followed by commercial institutions.

The IEA is also highly influential among financial institutions. Upon release of the IEA's 'Net Zero by 2050' report in May 2021, IEA Executive Director Dr. Fatih Birol said further investment in oil and gas projects may be "junk investments" that could derail the achievement of climate goals.

These policies and approaches are a sign of significant changes to the way banks approach the oil and gas industry, making clear that a wave of exclusion and divestment by financial institutions is imminent. Rather than winding back its commitments in this area and falling behind its peers, CBA must adopt the requests set out in this resolution.

Regulatory developments

Compliance with Australian regulator expectations, the OECD Guidelines, and TCFD recommendations, requires CBA to disclose strategies and targets to reduce exposure to gas, oil and gas assets in line with the climate goals of the Paris Agreement.

In April 2021, the Australian Prudential Regulation Authority (APRA) published draft Prudential Practice Guide 'CPG 229 Climate Change Financial Risks', "designed to assist APRA-regulated entities in managing climate-related risks and opportunities".

APRA's Guide states:

> *"Where an APRA-regulated institution has identified material climate risks, a prudent institution would establish and implement plans to mitigate these risks and manage its exposures, as well as regularly review and assess the effectiveness of those plans."*
>
> *"Where climate risks are found to be material, ensuring that the institution's risk appetite framework incorporates the risk exposure limits and thresholds for the financial risks that the institution is willing to bear."*

The above extracts make it clear that, in order to comply with APRA's guidance, CBA should disclose targets to manage down exposure to gas, oil and coal sub-sectors, in line with the carbon constraints that can be anticipated under the Paris climate agreement.

Other Australian regulators including the Reserve Bank of Australia (RBA) and ASIC have also been calling for robust, TCFD-aligned climate risk disclosure and management from financial institutions. CBA is also subject to international regulatory regimes, including the OECD Guidelines for Multinational Enterprises. The Dutch National Contact Point for the OECD Guidelines in April 2019 concluded these guidelines require commercial banks to formulate concrete goals for aligning their financial services with the Paris Agreement.

Engagement

Market Forces has been engaging with each of the four major banks in Australia since we commenced operations in 2013. Throughout that time we have maintained constructive dialogue internally with various stakeholders, from rank and file staff, to Corporate Social Responsibility and Corporate Affairs representatives, heads of Investor Relations, Company Secretaries, CEOs and Board members.

Since 2016 we have maintained a consistent set of asks of the banks in relation to their fossil fuel lending and exposure, which reflect the requests of the current resolution.

In contrast to this year, Market Forces did not consider it necessary to lodge a resolution with CBA in 2019 and 2020. In 2019, the bank took a significant step forward by committing to exit thermal coal by 2030 and to assess any new fossil fuel projects against their consistency with the Paris climate goals, warranting the withholding of a resolution. In 2020, Market Forces a resolution was again withheld to allow for settlement of a shareholder complaint regarding the bank's adherence to its policy of assessing new fossil fuel projects against the Paris goals.

This resolution has become necessary after CBA has in recent years maintained its position as a leading lender to the fossil fuel sector, financing new fossil fuel projects that would emit 5.8 billion tonnes of CO_2, equivalent to 12 years of Australia's national emissions. While Market Forces continues to engage with CBA it is clear that this engagement has been insufficient, as the bank has failed to comply with its own policy, scaled back its commitments to avoid expanding the fossil fuel industry and set new targets that aim to overshoot the goal of net-zero by 2050.

To avoid further exposing shareholders to financial risks associated with the energy transition required to meet net-zero by 2050, CBA must bring its strategy into line with its stated support for this goal and investor expectations regarding climate risk disclosure. Investors are therefore urged to vote in favour of this resolution.