Australian bank 2023 shareholder resolutions: requesting transparency regarding climate commitments

Australian Ethical has co-filed shareholder resolutions with National Australia Bank (NAB) and Westpac ahead of the banks' December Annual General Meetings (on 14 and 15 December 2023) The resolutions request further disclosure with respect to how the banks will implement certain climate commitments. Based on current information, we propose to vote in favour of those resolutions. Our rationale for supporting the resolutions is set out below.

Investors are encouraged to carefully consider support for these resolutions (NAB Item #5, Westpac Item #6), given:

- **they go to the credibility of the banks' long-standing commitments** to align their lending portfolios with net zero by 2050 consistent with a 1.5°C pathway, and
- the crucial enabling role major Australian banks are playing in the development of new large-scale fossil fuel projects and infrastructure in Australia and globally.

With respect to Westpac, investors are encouraged to carefully consider whether the concerns set out below warrant an 'abstain' or vote **against Westpac's 2023 Climate Change Position Statement and Action Plan (item #5)**.

Background and rationale

The banks have previously disclosed that by or in 2025, corporate lending to certain oil and gas customers would only be provided if those customers have in place a transition plan. In our direct engagements with the banks, we asked for additional information to be provided about the scope of this commitment and how it will be implemented.

While the banks have subsequently provided additional information in their respective 2023 climate commitment updates, **investors are still missing important information.** These gaps are outlined from page 4 below. Both banks say in their FY23 reporting that they are still working on their transition plan expectations, **but they have not committed to further disclosure.** The resolutions are an opportunity for investors to signal they would like disclosure as transition plan expectations evolve.

We see the transition plan commitment as a cornerstone of the banks' climate plans. The gaps in disclosures with respect to this commitment are therefore of concern to investors. It is important for investors to understand the extent of banks' restrictions on finance to the oil and gas sector:

1. **Lack of disclosure may undermine the credibility of the banks' climate commitments.** The banks have made general commitments to align their lending portfolios with net zero by 2050 consistent with a 1.5°C pathway. Without clear information about how the banks will assess general finance to oil and gas companies, investors are not able to assess whether the banks' climate commitments and plans are credible. Providing new finance to oil and gas companies, whose planned activities are not aligned with science-based pathways, undermines the credibility of the banks' general commitment. This increases reputational and legal risk for the banks. It is therefore important that banks disclose to shareholders a clear

and credible process and framework for ensuring that the provision of any new finance to oil and gas emissions customers is credibly aligned with the banks' general commitments.

2. **Genuine implementation of the banks' commitments aligns with responsible investors' engagement objectives.** Through initiatives like Climate Action 100+, investors are also engaging with many of the same oil and gas companies about their transition plans. Ensuring others in the finance sector are also leveraging their influence to align oil and gas companies with a 1.5°C or well below 2°C transition pathway will help investors achieve the objectives of their own engagements. Conversely, not supporting the resolutions might be perceived as inconsistent with those objectives. The banks have a unique point of leverage with which to influence companies, that can complement that exercised by investors. By making finance conditional on credible transition plans, they provide a consequence for inaction that divestment does not have (given the risk that customers may not be able to find another lender on similar terms).

3. **Paris-aligned lending criteria equip the major Australian banks to better manage climate risk and exploit opportunity.** Bank support for business-as-usual exposes them to increased financial risk, not only from direct exposure to high emissions companies with potentially stranded assets and business models, but also from the losses they can expect across their housing, agricultural and other lending due to the impacts of higher levels of climate change – impacts like increased storms, floods and bushfires, and the compounding effects as all of these impacts become more frequent and severe. Banks with credible climate criteria and action plans are also better positioned to exploit the banking opportunities presented by climate transition and adaptation. This extends beyond opportunities related to growth in climate solutions. Banks with climate credibility and expertise are more attractive banking partners for those high-emissions companies genuinely grappling with the transition of their businesses.

4. **Genuine implementation of the banks' commitments aligns with the interests of long-term diversified investors.** Given the broader financial impacts of the world failing to meet the 1.5°C or well below 2°C target, it is not in the interests of long-term diversified investors for banks to finance new oil and gas related activities that are inconsistent with meeting these targets. Conversely, an orderly, accelerated transition (with protections for vulnerable workers and consumers) to a fossil-fuel-free energy system will deliver increased energy availability, security and affordability, and help reduce the risk of climate change destabilising the financial system. Banks are playing an important role in that transition by facilitating investment in renewables and energy storage and an expanded and more flexible electricity grid. They should not be funding the projects and companies which are obstructing that transition. This is particularly relevant with respect to banks in Australia, where oil and gas companies are seeking to progress multiple greenfield gas projects which, if developed, will obstruct realisation of science-based transitions.

The banks have not made a compelling case for voting against the resolutions:

1. The banks claim the disclosures being sought are broadly covered in their climate reporting. We outline in the table from page 4 below the significant gaps in their reporting.

2. The banks point to their project finance restrictions (which in NAB's case are relatively limited in scope). The resolutions do not relate to project finance restrictions, but to the lack of comprehensive general corporate lending restrictions. This is a major loophole. General corporate lending can be used by the borrower for the same projects that are the subject of project finance restrictions. In our view, banks should be testing whether customers throughout the fossil fuel value chain are genuinely aligning with the Paris Agreement – including scrutinising new capital spending and political lobbying – before providing or renewing funding of any type.

3. The banks claim their exposure to fossil fuels has reduced over time, is relatively small, and/or that they have sector targets to reduce financed emissions by 2030. Simply reducing financed emissions does not address

the concerns we have outlined above. To assess credibility of climate commitments and plans, investors need to understand not only aggregate customer emissions in oil and gas sectors, but also the type of customers financed in those sectors. For example, a lender might reduce its total financed emissions in the oil and gas sector, while at the same time increasing its lending to oil and gas customers that are obstructing realisation of science-based transition pathways.

4. The banks point to the need for an orderly transition, the need for flexibility and/or the need to support customers to transition or decarbonise. There is nothing in this resolution that takes away from the banks' ability to continue to support customers that are genuinely grappling with the complicated task of transitioning. The resolution asks for the disclosures necessary to give investors comfort that the banks will genuinely implement their commitment to limit corporate lending to only those oil and gas customers that have in place a credible transition plan.

Alongside more rigorous lending criteria, the major Australian banks should take the business opportunity to establish themselves as sought-after expert partners in transition funding, through action like:

- Increased transparency about the assessment of Paris-alignment of major high-emissions projects they fund, and refuse to fund. While banks often cite confidentiality concerns for limited disclosure, we know these concerns do not constrain their disclosure about many projects they support, and we see other banks and insurers providing disclosure about transactions they have chosen not to participate in.
- Increased contribution of the banks' sector and transition expertise to crucial public discussion of the need for stronger and broader climate policy to promote a fair, efficient and orderly net zero by 2050 transition.

Contact details

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Gaps in disclosures

Disclosures requested in resolution	NAB	Westpac
Scope of coverage: does the transition plan requirement apply to *all* fossil fuel companies as defined in the Science-Based Targets Initiative Fossil Fuel Finance Position Paper Consultation Draft (SBTI Position Paper), or to only a subset of relevant companies? The SBTI Position Paper defines a fossil fuel company as including both specific projects dedicated to fossil fuel activities plus established companies who derive at least 5% revenue share from projects and activities in upstream, mid-stream and downstream fossil fuel value chains. With respect to coal, this includes existing extraction plus exploration, drilling, processing, and development of new or expansion of existing mines; any transport and logistics, processing of coal to liquid gas and coal to gas, storage, and services dedicated to supporting the coal value chain; new, existing (including retrofitting) coal power, operations and maintenance (O&M) & engineering, procurement and construction (EPC) services to any part of the coal value chain, heat, or cooling production plants and any transmission infrastructure of coal-fired electricity	**Disclosure gaps:** NAB does not provide revenue thresholds or other criteria to define to which oil and gas clients its lending restrictions, including transition plan requirements, apply. It is unclear whether transition plan requirements will apply to diversified miners with significant oil and gas exposure, that are developing new projects. NAB has not disclosed to investors the reasons its general corporate lending restrictions do not apply to companies involved in midstream and downstream activities in the fossil fuel value chain, such as new gas pipelines. New (greenfield) downstream specialist oil and gas infrastructure can facilitate increased demand for oil and gas – and are often co-dependent. **What is disclosed:** NAB's transition plan requirements apply to customers in the following sectors: - Power generation, where at time of lending 25% or more of the electricity generated by the customer is from thermal coal. - Oil and gas – defined elsewhere in the climate report as including oil and gas extraction (upstream); LNG production (not at refineries – downstream) and LNG production at wellhead (integrated LNG) - Metallurgical coal.	**Disclosure gaps:** Westpac does not provide revenue thresholds or other criteria to define to which oil and gas clients its lending restrictions, including transition plan requirements, apply. It is unclear whether transition plan requirements will apply to diversified miners with significant oil and gas exposure, that are developing new projects. Westpac has not disclosed to investors the reasons its general corporate lending restrictions do not apply to companies involved in the metallurgical coal value chain or in midstream and downstream activities in fossil fuel value chains, including new gas pipelines and power generation. New (greenfield) downstream specialist coal, oil and gas infrastructure can facilitate increased demand for coal, oil and gas – and are often co-dependent. **What is disclosed:** With respect to coal: Westpac will not provide corporate lending or bond facilitation, or onboard new customers with ≥15% of their revenue coming directly from thermal coal mining. With respect to oil and gas: Westpac's transition plan requirement applies only to upstream oil and gas clients including exploration, extraction and drilling companies, all activities of integrated oil and gas companies (IOCs), tolling and stand-alone refineries and LNG producers.

Disclosures requested in resolution	NAB	Westpac
With respect to oil and gas, this includes new or existing oil and gas upstream projects: exploration, extraction, development/redevelopment/expansion of fields (including enhancing the rate of production, e.g., EOR projects); oil and/or gas refining, storage, transportation and distribution infrastructure or logistics; and oil and/or gas power, heat or cooling generation facilities.	NAB has explained that it does not intend to apply the transition plan requirement to customers in the thermal coal sector because it has set a target to reduce financed emissions for this sector to zero by 2030, and no longer has any corporate lending to thermal coal mining customers, with BNZ exiting all lending to thermal coal mining by end of 2025.	
Scope of coverage: does the transition plan requirement apply to all new financing or to only a subset of relevant new financing? All new financing is defined as the provision of new corporate lending, project finance or trade finance to a customer, including the refinancing of existing facilities, and the arranging or underwriting of capital markets transactions to a customer	**Disclosure gaps:** NAB has not disclosed any restrictions on trade finance, or on arranging or underwriting of capital market transactions / bond facilitation. **What is disclosed:** NAB's transition plan requirements apply to new or renewed corporate lending or project-level lending. NAB has restrictions on project finance for new (greenfield) oil and gas extraction projects; oil and gas extraction, production or pipeline projects within, or impacting, the Arctic National Wildlife Refuge area or any similar Antarctic Refuge; oil/tar sands or ultra-deep-water oil and gas extraction projects; new thermal coal mining projects; and new or material expansions of coal-fired power generation facilities.	**Disclosure gaps:** It is unclear whether Westpac's transition plan requirements apply to the refinancing of existing general corporate facilities. Westpac has not disclosed any restrictions on trade finance. **What is disclosed:** Westpac's transition plan requirements apply to corporate lending or bond facilitation. Westpac has restrictions on project finance for new (greenfield) or expansionary oil and gas fields, including new associated dedicated infrastructure; new, expansions or extensions of thermal coal mines; new (greenfield) metallurgical coal and new (greenfield) coal-fired power generation facilities.

Disclosures requested in resolution	NAB	Westpac
Date of application: does the transition plan requirement apply from 1 January 2025?	Disclosure gaps: NAB has stated its transition plan requirement will apply from 1 October 2025, but has not disclosed any rationale for the delay in applying this requirement to FY26. Given the long-term emissions implications of new fossil fuel projects not aligned with science-based pathways, any delay in application of this requirement could allow for the bank to be facilitating activities that are not aligned with their overarching commitment or the interests of long-term, diversified investors. We can see the case for banks to provide some time for companies and executives genuinely grappling with the challenge of winding down existing high-emissions activities. We see no case for latitude when customers continue to allocate capital to expansion of those high emission activities rather than to the alternative technologies and infrastructure which need to replace them. Recognising the difference between these two cases is crucial from both a climate and investment perspective. In our view the banks have already given oil and gas companies too much time to align their activities with science-based pathways. Fossil fuel customers should be making capital allocation decisions in line with credible transition plans now.	Disclosure gaps: In its 2023 climate report, Westpac stated that its transition plan requirement will apply from 30 September 2025. In its 2022 climate report, Westpac stated that its transition plan requirement will apply *by* 2025. Westpac has not disclosed why it is in the interests of the company and shareholders to have delayed application of its transition plan requirement to FY26. Given the long-term emissions implications of new fossil fuel projects not aligned with science-based pathways, any delay in application of this requirement could allow for the bank to be facilitating activities that are not aligned with their overarching commitment or the interests of long-term, diversified investors. We can see the case for banks to provide some time for companies and executives genuinely grappling with the challenge of winding down existing high-emissions activities. We see no case for latitude when customers continue to allocate capital to expansion of those high emission activities rather than to the alternative technologies and infrastructure which need to replace them. Recognising the difference between these two cases is crucial from both a climate and investment perspective. In our view the banks have already given oil and gas companies too much time to align their activities with science-based pathways. Fossil fuel customers should be making capital allocation decisions in line with credible transition plans now.

Disclosures requested in resolution	NAB	Westpac
Assessment: does the bank make clear the criteria it will use to assess the credibility of transition plans? Specifically, whether transition plans will need to: - be aligned with the goals of the Paris Agreement - include short, medium and long-term scope 1, 2 and 3 emission reduction targets; - include strategies (including capital expenditure plans) to align with those targets; - ensure no unreasonable reliance on emissions offsets or negative emissions technology; and - align with existing investor-supported transition plan assessment frameworks such as the Climate Action 100+ Net zero Company Benchmark and the IGCC Corporate Climate Transition Plans Guide, including with respect to ensuring that any political lobbying activities do not obstruct the realisation of science-based pathways.	**Disclosure gaps:** NAB has not disclosed its position on any of the issues critical to credible transition plans including: - whether it will expect that transition plans are aligned with the goals of the Paris Agreement and whether it will require alignment to well-below 2°C or 1.5°C, - whether it will require customers to include short, medium and long-term scope 1, 2 and 3 emission reduction targets, - whether it will require alignment of new capital expenditure with science-based pathways, - whether it will allow for unreasonable reliance on emissions offsets or negative emissions technology, - whether it will align its requirements with existing investor-supported transition plan assessment frameworks, including with respect to ensuring that any political lobbying activities do not obstruct the realisation of science-based transition pathways. **What is disclosed:** NAB has defined transition plans to mean 'a customer's time-bound decarbonisation plan which details the customer's interim and long-term emissions reduction targets and outlines the overall strategies and actions to meet those targets.' NAB has said it expects those plans will *consider* elements such as:	**Disclosure gaps:** Other than potentially by implication, Westpac has not made clear its position on the following issues critical to credible transition plans: - whether it will require alignment of new capital expenditure with science-based pathways, - whether it will allow for unreasonable reliance on emissions offsets or negative emissions technology, and - whether it will align with existing investor-supported transition plan assessment frameworks, including with respect to ensuring that any political lobbying activities do not obstruct the realisation of science-based transition pathways. **What is disclosed:** Westpac has specified that a credible transition plan should be developed by reference to the best available science and should include scope 1, 2 and 3 emissions and actions the company will take to achieve greenhouse gas reductions aligned with pathways to net-zero by 2050, or sooner, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100. Westpac has said it has *reviewed* global climate frameworks like Climate Action 100+, GFANZ guidance and the Transition Pathway Initiative to create a pilot

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	- relevant scope 1, 2 and 3 emissions disclosures and inclusion of interim and long-term targets and their alignment to scenarios consistent with the Paris Agreement, - actions to meet targets, including (where appropriate) considerations around capital expenditure to drive those actions, and - details about the customer's level of reliance on offsets over time and future technology developments. NAB said it will *consider* relevant external guidance and benchmarking. NAB has not committed to disclosing any further detail when it finalises its customer transition plan requirements.	transition plan assessment framework for Institutional customers. Westpac has provided a high-level pilot framework. With respect to capital allocation, this framework refers only to what is being allocated to emission reduction or zero carbon projects. It is silent on capital allocation to new projects, as well as political lobbying, that will obstruct realisation of science-based pathways. Westpac has not committed to disclosing any further detail when it finalises its customer transition plan requirements.

The wording of the resolutions

The specific wording of the individual bank resolutions is included in the bank notices of meeting.[1],

> ***Transition Plan Assessments Resolution (NAB)***
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> *Shareholders recognise the substantial transitional and physical risks of climate change and their potential financial impacts on our company. Noting our company's requirement that oil and gas customers have a transition plan in place to receive new lending and renewals from 1 October 2025,[2] shareholders request further disclosure addressing:*
>
> 1. *Whether all 'fossil fuel companies'[3] will be required to have climate change transition plans in place in order for NAB to provide new lending and renewals;*
> 2. *Whether the restriction on new lending and renewals applies to all 'new financing'[4];*
> 3. *Whether NAB will bring its requirement that customers have transition plans forward to 1 January 2025 to match peer timelines;[5] and*
> 4. *Whether and how NAB will assess such transition plans for credible alignment with the 1.5°C goal of the Paris Agreement.[6]*

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[1] Available here (NAB): https://www.nab.com.au/content/dam/nab/documents/notice/corporate/2023-notice-of-agm.pdf; and here (Westpac): https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/ic/Westpac-2023-Notice-Annual-General-Meeting.pdf

[2] https://www.nab.com.au/content/dam/nab/documents/reports/corporate/2022-climate-report.pdf

[3] As defined in Science-Based Targets Initiative Fossil Fuel Finance Position Paper Consultation Draft (https://sciencebasedtargets.org/resources/files/The-SBTi-Fossil-Fuel-Finance-Position-Paper-Consultation-Draft.pdf)

[4] Defined as: The provision of new corporate lending, project finance or trade finance to a customer, including the refinancing of existing facilities, and the arranging or underwriting of capital markets transactions to a customer.

[5] See:

• ANZ Climate Change Commitment (https://www.anz.com.au/content/dam/anzcomau/about-us/anz-climate-change-commitment-2023.pdf); • Commonwealth Bank Environment & Social Framework (https://www.commbank.com.au/content/dam/commbank/about-us/download-printed-forms/environment-and-social-framework.pdf);

• Westpac Climate Change Position Statement and Action Plan (https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/sustainability/Climate_Change_Position_Statement_and_Action_Plan.pdf).

[6] Criteria for determining climate change transition plan credibility include, but are not limited to:

• Short, medium-and long-term scope 1, 2 and 3 emission reduction targets;

• Strategies (including capital expenditure plans) to align with those targets; and

• No unreasonable reliance on emissions offsets or negative emissions technology

See, for example:

• Climate Action 100+ Net-Zero Company Benchmark (https://www.climateaction100.org/net-zero-companybenchmark/)

Transition Plan Assessment (Westpac)

Shareholders recognise the substantial transitional and physical risks of climate change and their potential financial impacts on our company. Noting our company's requirement that upstream oil and gas customers have 'credible transition plans'[7] in place prior to 2025 in order to receive corporate lending, shareholders request further disclosure addressing:

1. Whether all 'fossil fuel companies'[8] will be required to have such plans in place prior to 2025 in order for Westpac to provide 'new financing'[9] ; and

2. How Westpac will assess such plans for alignment with the bank's definition of a credible transition plan, which should not include an unreasonable reliance on emissions offsets or negative emissions technology.[10]

Enabling amendment to the Company Constitution

There is also a resolution to insert the following new sub-clause in the banks' corporate constitutions:

"The Company in general meeting may by ordinary resolution express an opinion or request information about the way in which a power of the Company partially or exclusively vested in the Directors has been or should be exercised. Such a resolution must relate to a material risk identified by the Directors or the Company and cannot advocate action that would violate any law or relate to any personal claim or grievance. Such a resolution is advisory only and does not bind the Directors or the Company".

Investors may choose to support the "Transition Plan Assessment" resolution through their proxy voting ahead of the meeting, irrespective of how they vote on the constitutional amendment resolution. Australian Ethical intends to vote in favour of both resolutions. The proposed constitutional amendment gives shareholders the right to propose resolutions for consideration at company meetings, provided they meet the requirements of the proposed new clause. Shareholder resolutions give all shareholders an opportunity to consider, discuss and express an opinion on important matters in an efficient and transparent way. Many countries allow shareholder resolutions of this type. Australia already allows non-binding votes on remuneration which have enhanced the quality of company-shareholder engagement without affecting director accountability. The proposed constitutional amendment does not displace the rights and responsibilities of directors for company business decisions. These shareholder resolutions do not bind directors. They simply supplement and make more accessible the range of mechanisms available to shareholders to express their views, such as private meetings, AGM comments and questions, and voting on the election and re-election of directors.

• IGCC Corporate Climate Transition Plans Guide (https://igcc.org.au/wp-content/uploads/2022/03/IGCC-corporate-transitionplan-investor-expectations.pdf)

[7] As defined in Westpac November 2022 Climate Change Position Statement (https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/sustainability/Climate_Change_Position_Statement_and_Action_Plan.pdf)

[8] As defined in Science-Based Targets Initiative Fossil Fuel Finance Position Paper Consultation Draft (https://sciencebasedtargets.org/resources/files/The-SBTi-Fossil-Fuel-Finance-Position-Paper-ConsultationDraft.pdf)

[9] Defined as: The provision of new corporate lending, project finance or trade finance to a customer, including the refinancing of existing facilities, and the arranging or underwriting of capital markets transactions to a customer

[10] For examples of transition plan assessment frameworks, see: • Climate Action 100+ Net-Zero Company Benchmark (https://www.climateaction100.org/net-zerocompany-benchmark/) • IGCC Corporate Climate Transition Plans Guide (https://igcc.org.au/wpcontent/uploads/2022/03/IGCC-corporate-transition-plan-investor-expectations.pdf)