

Vote Bulletin: Commonwealth Bank of Australia

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| Company | Commonwealth Bank of Australia (ASX: CBA) |
| Market and Sector | Australia, Financials |
| Meeting Date | 13 October 2021 |
| Key Resolutions ¹ | Item 5.a: Amendment to the Constitution Item 5.b: Transition Planning Disclosure |
| Key Topics | Climate and natural capital |
| Board Recommendation | The board recommended voting AGAINST items 5.a and 5.b |
| BlackRock Vote | BlackRock voted AGAINST items 5.a and 5.b |

Overview

The Commonwealth Bank of Australia (CommBank) is Australia’s leading provider of integrated financial services. CommBank serves more than 15 million customers and focuses on retail and commercial banking services.² CommBank also operates in New Zealand through its subsidiary ASB.

BlackRock Investment Stewardship (BIS) regularly reviews the company’s risk profile and engages to discuss corporate governance and sustainability risks and opportunities that we believe contribute to long-term shareholder value. Most recently, we engaged with both members of the Board of Directors and management team to discuss governance-related issues such as board composition and executive compensation. In our engagements, we also touched on the continued impact of COVID-19 and CommBank’s response in support of its employees and customers, as well as its role in the country’s recovery. Lastly, we sought to further our understanding of CommBank’s approach to environmental risks and its progress against its 2050 climate commitments. The company had two shareholder resolutions on the agenda for its Annual General Meeting (AGM).

Rationale for BlackRock’s Vote

Item 5.a: Amendment to the Constitution

BIS voted AGAINST the proposal to amend CommBank’s Constitution. The full resolution reads as follows:³

To consider, and if thought fit, to pass the following resolution as a special resolution:

¹ Commonwealth Bank of Australia. “[Notice of Meeting: 2021 Annual General Meeting.](#)”

² Commonwealth Bank of Australia. “[2021 Annual Report.](#)” Page 80.

³ Commonwealth Bank of Australia. “[Notice of Meeting: 2021 Annual General Meeting.](#)” Pages 9, 18 and 19.

"Insert into the Constitution in clause 9 'Meetings of members' the following new sub-clause: 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 of the Company."

As required under the Australia Corporations Act 2001, a resolution calling for an amendment to the company's constitution is first necessary to allow for the subsequent ordinary resolution (in this case item 5.b). A group of shareholders owning 5% of voting shares or 100 shareholders (with no minimum holding size or length of holding period) may file a resolution.

BIS is generally not supportive of constitutional amendment resolutions. Our concern is that the relative ease of filing introduces the risk of potentially distracting and time-consuming proposals being submitted by shareholders whose interests are not necessarily aligned with those of the broader shareholder base.

Item 5.b: Transition Planning Disclosure

BIS voted AGAINST the resolution as it is overly prescriptive and risks unduly constraining management's ability to make business decisions. Further, the company has demonstrated its commitment to integrating climate risks into its long-term strategy, including TCFD-aligned reporting since 2018 and a stated goal of net zero emissions by 2050.

At this year's AGM, a shareholder resolution requested that the company disclose, in subsequent annual reporting, information demonstrating how it will manage its fossil fuel exposure in accordance with the International Energy Agency's (IEA) net zero by 2050 scenario.⁴ The full resolution reads as follows:⁵

Subject to and conditional upon the resolution in Item 5(a) (Amendment to the Constitution) being passed as a special resolution, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

"Shareholders note the Company's stated support for the goal of achieving net-zero emissions globally by 2050, along with the publication of the International Energy Agency's Net Zero by 2050 scenario. Shareholders therefore request the Company disclose, in subsequent annual reporting, information demonstrating how the Company will manage its Fossil Fuel 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 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."*

The proponents note that "despite committing to the climate goals of the Paris Agreement and achieving net zero emissions by 2050," CommBank "remains an active investor in fossil fuel expansion and is aiming to miss the 2050 goal for net zero emissions, further exposing shareholders to financial risks associated with the energy transition required to meet the Paris climate goals."⁶

In general, BIS does not support shareholder proposals that we believe to be overly prescriptive and as such, would risk unduly constraining management's ability to make business decisions, as is the case with this resolution. BIS also took into account the progress the company has already made in integrating climate and

⁴ On May 18, 2021 the IEA published a special report detailing a comprehensive roadmap for the energy sector on how to transition to a net zero energy system by 2050. The report highlights that "climate pledges by governments to date – even if fully achieved – would fall well short of what is required to bring global energy-related carbon dioxide (CO₂) emissions to net zero by 2050 and give the world an even chance of limiting the global temperature rise to 1.5 degrees Celsius." To learn more, see IEA's special report "[Net Zero by 2050: A Roadmap for the Global Energy Sector](#)."

⁵ Commonwealth Bank of Australia. "[Notice of Meeting: 2021 Annual General Meeting](#)." Page 9, 19 and 20.

⁶ Commonwealth Bank of Australia. "[Notice of Meeting: 2021 Annual General Meeting](#)." Page 22.

sustainability-related risks into its long-term value proposition and believes it sufficiently articulates a plan to align its business model with the global aspiration to reach a net zero economy by 2050.

BIS believes companies should disclose a plan for how their business model will be compatible with a low-carbon economy. The plan should be integrated into company strategy and include short-, medium-, and long-term targets and goals. CommBank's "Environmental & Social Framework" outlines the company's approach to environmental and social risks, and how it is proactively identifying opportunities within a rapidly changing context, community expectations and regulation.⁷ CommBank's Board of Directors oversaw and reviewed an update to the company's "Environmental & Social Framework" for 2021, published on August 11, 2021.^{8,9} In the revised E&S Framework, CommBank has also publicly recognized the role it plays in helping its customer base transition to a low-carbon future, as Australia's largest financial institution.

The company has already committed to 1) refrain from providing corporate or trade finance to new clients who derive 25% or more of their revenue from the sale of thermal coal; 2) reduce its corporate and trade finance exposure to existing clients who derive 25% or more of their revenue from the sale of thermal coal to zero by 2030; and 3) only offer corporate or trade finance to existing oil and/or gas producing, metallurgical coal mining or coal-fired power generation clients after an appropriate assessment. The company also expects these clients to have published Transition Plans from 2025 and moving forward.¹⁰

Further, in the 2021 E&S Framework, CommBank committed to provide no project finance to new or expanded thermal coal mines, nor to new coal fired power plants. The company also committed to: 1) reduce existing project finance exposure to thermal coal mines and coal fired power plants to zero by 2030; and 2) to only provide project finance for new or expanded oil and gas projects or metallurgical coal mines after an assessment of the environmental, social and economic impacts of such activity, and if in line with the goals of the Paris Agreement.¹¹

Based on the above, BIS believes the company has provided sufficient clarity around its strategy to pursue its commitments while also providing funding to companies relevant to the energy transition. A related consideration is that BIS advocates for climate-related disclosures aligned with the reporting framework developed by the Task Force on Climate-related Financial Disclosures (TCFD) in order to provide investors with relevant information to assess companies' plans, actions, and outcomes, which CommBank has been doing since 2018.¹² This helps investors and shareholders to map its progress, performance and plans to address climate change on an on-going basis.

BIS maintains that carbon-intensive companies have a critical role to play in unlocking the value of the energy transition, and this naturally extends to the financial services companies that fund their activities. BIS will continue to monitor CommBank's progress and responsiveness to shareholder concerns given the rapidly evolving ability of companies to better identify and report climate risk data relevant to their business.

⁷ Commonwealth Bank of Australia. "[Environmental & Social Framework](#)."

⁸ Commonwealth Bank of Australia. "[2021 Annual Report](#)," Page 5 and 68.

⁹ Commonwealth Bank of Australia. "[Notice of Meeting: 2021 Annual General Meeting](#)," Page 19.

¹⁰ Commonwealth Bank of Australia. "[Environmental & Social Framework](#)," Page 6.

¹¹ Commonwealth Bank of Australia. "[Environmental & Social Framework](#)," Page 6.

¹² Commonwealth Bank of Australia. "[2021 Annual Report](#)," Page 22.

About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in BlackRock's fiduciary approach. As an essential component of our responsibility to our clients, BIS engages with companies to advocate for the sound corporate governance and business models that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance – and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business operations, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our [Global Principles](#), [market-level voting guidelines](#), and [engagement priorities](#), material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.

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