

23 February 2023

Ms Rebecca McCallum  
Director  
Climate Disclosure Unit  
Market Conduct Division  
The Treasury

Via email: [climatereportingconsultation@treasury.gov.au](mailto:climatereportingconsultation@treasury.gov.au)

Dear Ms McCallum

**Consultation paper: Climate-related financial disclosure**

COBA welcomes the opportunity to comment on the Climate-related financial disclosure paper.

Climate change is one of the most pressing issues facing our planet and economy today. As a result, investors and other stakeholders, such as customers and staff, increasingly demand greater transparency and disclosure from companies on their environmental impact and action. In response, many organisations, including some COBA members, have begun to voluntarily disclose information on climate governance, strategy, risk management, metrics and targets.

COBA represents Australia's customer owned banks (mutual banks, credit unions and building societies). Collectively, our sector has over \$160 billion in assets, around 10 per cent of the household deposit market and around five million customers. Customer owned banking institutions account for around two-thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs).

**Key points**

COBA supports the Government establishing common standards for climate-related financial disclosures.

COBA supports mandatory disclosures for the largest listed entities, highest emitting sectors, and the major banks, to start, to establish these disclosures and the underlying infrastructure in Australia. These requirements must be flexible and proportionate to cover different entities.

COBA supports the phasing of mandatory disclosure by entities into the regime. The starting point for any mandatory threshold for banks should be **at least significant financial institution size**.

For banks, any COBA members that are required to disclose must be phased after the majors and the second tier of non-majors (e.g. 3 years after the effective date) given our limited relative resources and the need to establish reporting capacity and capability in Australia.

COBA supports an expandable framework for other sustainability disclosures, however, the framework must have a vigorous consultation process for any additional mandatory disclosures.

## About our sector

Our members have several characteristics to be consider when developing the scope and phasing of any mandatory disclosures.

### *Smaller entities*

Customer owned banks range in size from \$100 million to around \$20 billion in assets. This pales in comparison to the major banks with significant resources and the regional banks increasing in size as the 'middle' of the banking market hollows out. Our sector is also going through two large mergers that will create two larger customer owned banks. Mergers are complex transactions and we suggest that these proposals account for these changes to be able to delay the implementation for these entities.

### *Prudentially regulated*

Our members are ADIs and APRA-regulated and supervised. APRA has recently released a climate risk practice guide and is expected to increase its supervisory activity on climate. APRA is also commencing consultation shortly on a data collection involving climate risk. This activity means that climate risks will be managed in the absence of a disclosure regime.

### *Unlisted entities*

Given our customer-owned nature, our members are unlisted entities, so do not have the same required disclosures to investors. Any disclosures for our sector are likely to be non-investor stakeholders (noting may be of use for debt investors). Given our status as unlisted entities, any scope definitions on these entities should not unintentionally capture us.

### *Retail Banks*

COBA members are retail banks, meaning they take household deposits and lend them to other households for mortgages. Our focus on retail banking means that financed emissions (scope 3) are related to housing exposures across many different households rather than larger exposures to higher-emitting corporates. Our business model means that the levers and data requirements to reduce financed emissions are different from a bank that lends to high emitting industries (e.g. coal mines). We also note that the predominate climate risks to our sector relate to physical risks and that as customer owned banks we look to work with our customers to manage these risks.

COBA provides a response to Treasury's consultation questions in Appendix A and more information on our sector in Appendix B.

Thank you for the opportunity to respond to this Consultation Paper. If you wish to discuss any aspect of this submission, please contact Mark Nguyen ([mnguyen@coba.asn.au](mailto:mnguyen@coba.asn.au)).

We looked forward to further engagement with Treasury on the more detailed design proposals.

Yours sincerely



**MICHAEL LAWRENCE**  
Chief Executive Officer

# Appendix A: Question Responses

## Alignment

There are several benefits of aligning to international climate reporting standards:

- Consistency and comparability
- Reducing relative reporting costs
- Enhancing credibility
- Meeting stakeholder expectations

There are several potential costs of aligning to international climate reporting standards:

- Implementation costs
- Data collection and verification costs
- Potential for additional compliance cost
- Business disruption costs

COBA notes that in the context of mandatory disclosures that alignment to international standard is preferred unless they materially clash with other mandated standards. We note that Australian law already requires directors to disclose material risks, including climate-related risks. On balance, COBA supports alignment.

## Who should be covered?

### Phasing

Australia must take a phased approach to mandatory climate-related financial disclosures.

The Treasury Consultation Paper highlights a clear rationale for taking such an approach:

“There are advantages to phasing in disclosure requirements by initially targeting larger entities, maximising the initial benefit from increased transparency. Larger entities have more resources to adequately respond to new requirements, while smaller firms have time to benefit from the institutionalisation of reporting in the market prior to commencing their own reporting.”

In the absence of a phased approach, it is not clear that the Government can mandate a critical mass of firms into the regime without capacity and capability constraints. Even our largest members are significantly smaller than the major banks and large listed companies so are unlikely to be able to cost effectively meet these requirements without phasing.

On the start date, given our view on phasing, any of our members subject to these requirements should do so several years after their much larger peers to ensure there is sufficient time for the Australian corporate sector to institutionalise this reporting and its underlying infrastructure.

While the start date is more a question for those who should be in the first phase, COBA notes that climate commitments and the pressing need to reduce emissions means that the mandatory disclosure regime should kick off sooner rather than later, noting our caveat around our in-scope members needing additional time.

### Other regulatory changes

When mandating climate-related financial disclosures, it is important to consider any other regulatory change projects that may be in progress, to ensure that there is consistency and alignment across different reporting requirements as well as capacity in reporting entities to meet the full suite of requirements. This could include coordinating with other government agencies or industry groups that are also working on related regulations. COBA notes that APRA is expected over the next few years to collect quantitative and qualitative information on climate risk.

## Specific current issues in the customer-owned banking sector

There are currently two large pending mergers in our sector that are expected to commence in the next few months. It will take a few years for these entities to fully embed systems and processes.

These mergers will also lead to these entities moving across the significant financial institutions (SFI) threshold, which means they will be subject to additional APRA SFI requirements.

This changing industry structure must be acknowledged in any phasing as well as in the design of any potential exemption powers (possibly via APRA given we are prudentially regulated entities).

## Mandated climate-related financial disclosures

Mandatory climate-related financial disclosures should be made by companies, governments and organisations that have a significant negative impact on the environment and climate change. This includes companies in industries such as agriculture, fossil fuels, utilities, transportation and manufacturing.

Financial institutions and investors should also be covered by mandatory climate disclosures to the extent that their activities have a significant impact on funding and investment decisions that contribute to climate change.

In summary, the following organisations should be covered:

- Large emitters – largest contributors to climate change, providing information for financiers.
- Listed entities – investor demand and support for capital allocation.
- Large financial institutions – largest financiers of the large emitters.

In determining thresholds across these sectors, Treasury should examine the overlap between these different groups given that entities such as customer-owned banks can be part of multiple groups (e.g. ADIs and unlisted entities).

We also note that the number of entities brought into the regime should ensure that it does not create capacity constraints regarding the skills and resources required.

COBA members have noted the following costs of mandatory disclosures as well as associated activities:

- **Emissions reduction costs.** These costs may reduce over time as capability and capacity grows in the market.
- **Climate risk exposure measurement, particularly physical risk data.** We note this cost is likely to be incurred over time irrespective of mandatory disclosure given APRA's increasing supervisory focus.
- **External and internal assurance costs.** These costs may reduce over time as capability and capacity grows in the market. COBA also notes this may require those with any specific skillsets to be able to take on smaller engagements.
- **Data collection and reporting costs.** This includes updating systems to be able to collect or hold more granular data on emissions and risk exposures. We note these changes may need to be done in future if APRA pursues more granular climate reporting.
- **External consultants and internal staffing costs.** These costs can be amplified if a lot of entities are looking for these capabilities at the same time (e.g. similar to the Open Banking implementation experience).

## Voluntary disclosures

COBA notes that the final design proposals should consider when an entity would voluntarily disclose this information. For instance, investors already want to know more about a bank's climate credentials, emissions (particularly financed emissions), actions, and goals. In these situations, entities will reveal

information on their own to access finance. These disclosures may also be asked for by rating agencies, customers, and regulators, among others. So, entities that voluntarily disclose will add to the information from mandated entities (i.e. being pulled through by the market demand).

Even though none of our member banks are ASX-listed, many have ratings, some have wholesale debt investors, and many are required to have self-securitisation facilities with the Reserve Bank of Australia. As the climate disclosure ecosystem develops, we expect that market demand will push more entities to start sharing climate information as it becomes more commonplace and costs go down.

Some COBA members are likely to voluntarily disclose where it aligns with their investor or customer value proposition.

## Large bank thresholds

The existing regulatory frameworks already use several thresholds to split entities.

Our view is that any threshold must be at least at the SFI level of \$20 billion in assets. Given the rationale for banks' disclosures relate to prudential risk management, we believe that a prudential measure is appropriate. The SFI threshold is where APRA has drawn a line for its prudential requirements for domestic banks so is an appropriate starting point.

However, it must be remembered that not all entities in each group are the same.

For example, in the SFI category, there will be major banks and then some COBA members. If this threshold is used then there must be appropriate phasing of requirements onto the much smaller COBA members, ideally several years later as ecosystem capacity and capability develops.

Alternatively, a higher \$50 billion threshold could be combined with APRA designation power to require entities to disclose where they have larger commercial loan portfolios.<sup>1</sup> Another issue to consider is the presence of foreign banks who may already be disclosing such information to their parents in their home jurisdictions.

On prudential risk management, COBA notes that APRA's future supervisory work is highly likely to include climate-related financial risk management so the need for mandated disclosures for this purpose is limited in our sector given we do not have the capital allocation rationale of listed entities.

**Table 1: Banking Thresholds**

Type	Size	Legislation	Expected COBA members covered <sup>2</sup>
<b>Domestic systemically important bank (D-SIB)</b>	APRA-determined.	Prudential Standard APS 110 Capital Adequacy	0
<b>Major banks</b>	\$100 billion liabilities	Treasury Laws Amendment (Major Bank Levy) Bill 2017	0
<b>Significant Financial Institutions</b>	\$20 billion assets	Prudential Standard APS 110 Capital Adequacy	3
<b>Small ADI (BEAR)</b>	<\$10 billion assets	Banking Executive Accountability Regime (Size of an Authorised Deposit- taking Institution) Determination 2021	~50

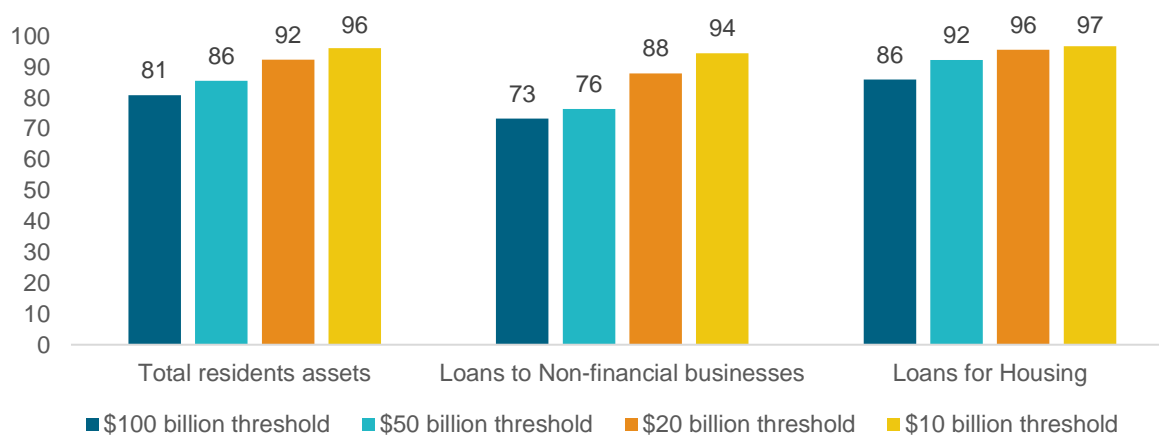
<sup>1</sup> APRA collects this data from regulated entities.

<sup>2</sup> Expected by end of this financial year.

<b>Medium ADI (BEAR)</b>	\$10-\$107 billion assets	Above	5-7
<b>Large ADI (BEAR)</b>	\$107 billion assets	Above	0
<b>FAR Enhanced Notification Threshold</b>	\$10+ billion assets	Financial Accountability Regime Minister Rules 2022	5-7
<b>Other</b>	\$30 billion		0
<b>Other</b>	\$50 billion		0

When determining any thresholds Treasury should also consider the level of banking assets covered by these thresholds and the relative reporting effort required to reach the desired level of coverage. COBA provides an indicative graph below.

**Graph 1: Percentage of banking assets covered by individual ADI asset thresholds**



Source: COBA estimates based on APRA’s Monthly ADI Statistics, 31 December 2022. COBA has included the two pending large member mergers in our sector as two rather than four entities.

## Other responses

Question	Response
<p><b>Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?</b></p>	<p>COBA supports alignment with the global baseline envisaged by the International Sustainability Standards Board.</p>
<p><b>Question 5: What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?</b></p>	<p>The following considerations should inform the new framework:</p> <ul style="list-style-type: none"> <li>• Proportionality to ensure framework can adjust to size, nature and complexity of many different types of institutions, particularly related data costs.</li> <li>• Principles-based to provide flexibility as above.</li> <li>• Ensuring alignment with Corporations Acts, APRA and ASIC requirements as well as international standards.</li> <li>• That some methodologies are still being developed for financed emissions (we note the Partnership for Carbon Accounting Financials (PCAF) methodology for some portfolios is in place).</li> </ul>
<p><b>Question 8: What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?</b></p>	<p>We support the assurance of disclosures.</p> <p>In making any decision on the level of assurance requirements, Treasury needs to ensure that this level is available at a reasonable cost to all entities that will be subject to mandatory disclosure.</p>
<p><b>Question 9: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?</b></p>	<p>We support phased mandatory disclosure of emissions starting with scope 1 and 2 and then eventually scope 3.</p> <p>Scope 3 emissions will be the most difficult to calculate, assure and disclose due to the availability of data and methodologies (noting PCAF methodology for some portfolios is in place).</p>

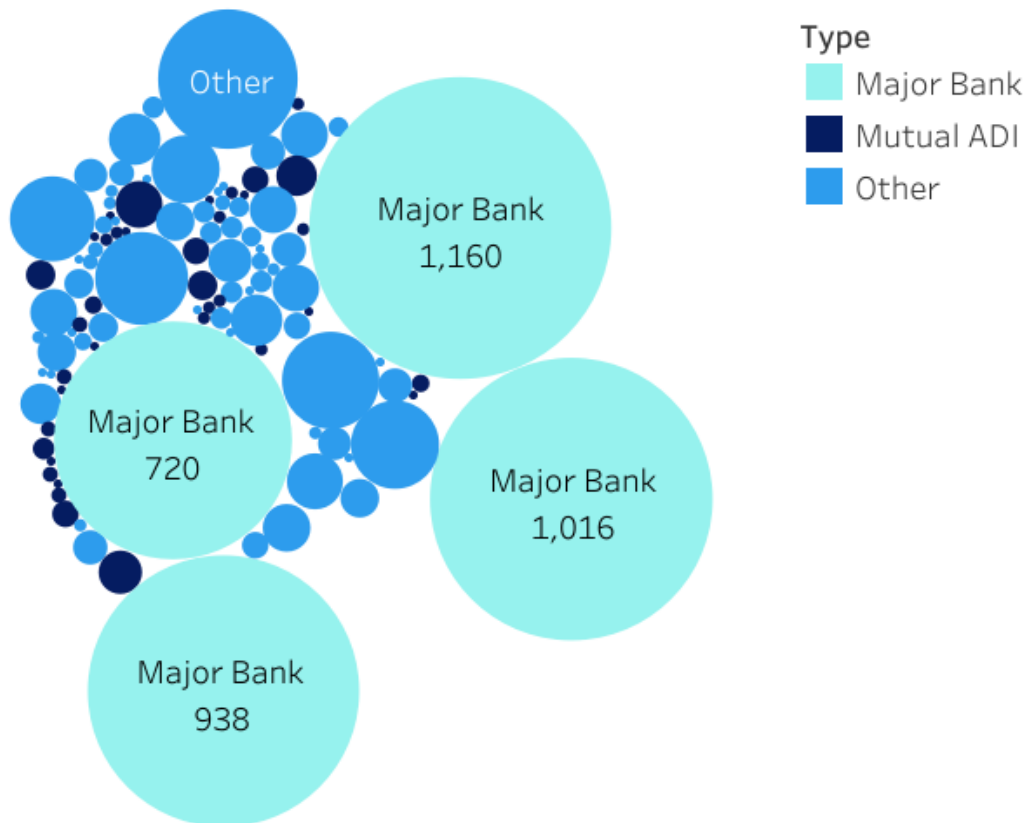
<p><b>Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?</b></p>	<p>Yes. Common baseline metrics provide clarity and comparability.</p> <p>However, these should not be too extensive or too granular as this can impact the capacity of smaller entities to report if subject to mandated disclosures. We also note that some granular metrics may not be appropriate for all business models.</p>
<p><b>Question 11: What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?</b></p>	<p>The following considerations should apply:</p> <ul style="list-style-type: none"> <li>• Setting targets in line with the Science-Based Targets initiative (SBTi) or other appropriate third party.</li> <li>• Providing information on the extent an entity is using carbon credits or offsets.</li> <li>• Reporting progress against their published targets including trends in emissions and progress against any transition or action plans they have in place (i.e. what actions have been commenced and completed).</li> </ul>
<p><b>Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?</b></p>	<p>Yes – see phasing of scope 3 disclosures as well as phased assurance of these disclosures.</p> <p>Other disclosures to commence in different phases should be those that require granular data use given this is likely the most resource intensive part of the activities underlying disclosure.</p>
<p><b>Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?</b></p>	<p>COBA see the following challenges:</p> <ul style="list-style-type: none"> <li>• Internal capability and capacity in entities.</li> <li>• External capability and capacity in the market.</li> <li>• Access to electricity use data.</li> <li>• Access to supplier data to determine scope 3 emissions.</li> <li>• Financed emissions methodologies.</li> </ul> <p>These can be addressed by phasing in requirements, developing capability and capacity, national information registers and working with suppliers to be better equipped to share their information.</p>



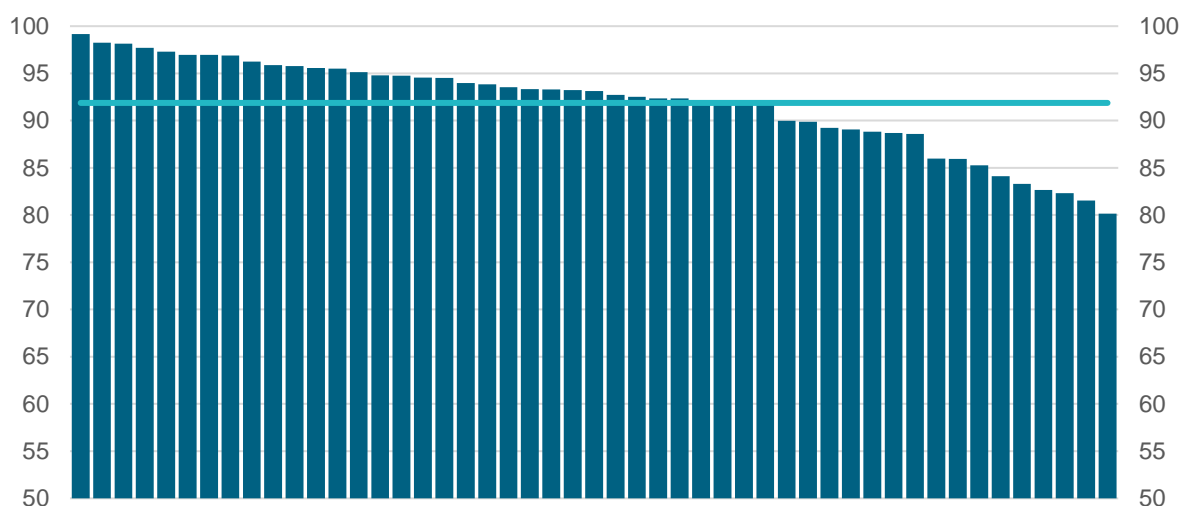
<p><b>Question 14: Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?</b></p>	<p>COBA supports guidance on common scenarios. We understand that some industries in New Zealand have developed industry and geographical-specific climate scenarios that entities can choose to use.</p> <p>COBA notes that as APRA-regulated entities we may also be subject to APRA scenarios. We should ensure that any supporting information frameworks do not duplicate or create any unnecessary burden.</p>
<p><b>Question 17: While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?</b></p>	<p>COBA supports a framework that can incorporate future sustainability disclosure standards.</p> <p>Sustainability contributes to an organisation's value creation as well as value creation in society beyond financial outcomes.</p> <p>However, the current priority and focus should be climate change.</p> <p>We acknowledge that there are increasing material sustainability risks and opportunities in different industries and new standards are being developed to integrate these risks and opportunities into decision-making.</p> <p>However, there must be a vigorous consultation process before any additional mandatory disclosures given entities have limited resources.</p>

# Appendix B: Sector Information

**Figure 1: Relative size of customer owned banks (total resident assets)**



Source: COBA estimates based on APRA Monthly ADI Statistics, 31 December 2022. COBA has included the two pending large member mergers in our sector as two rather than four entities.

**Graph 2: Percentage of Customer Owned Bank loans as housing loans**

Source: COBA estimates based on APRA Monthly ADI Statistics, 31 December 2022.

**Table 2: COBA member size relative to ASX indices**

ASX	Market Capitalisation Threshold	COBA member estimate
100	Est. \$4.7 billion	0
200	Est. \$1.4 billion	2 members
300	Est. \$700 million	3 members

Source: COBA estimates based on internal data on member equity. COBA has included the two pending large member mergers in our sector as two rather than four entities.

**Table 3: COBA member size based on staff numbers (February 2022)**

FTE Threshold	Number of COBA members
500+	7
400+	8
300+	9
200+	11
100+	22
<b>Total members</b>	<b>55</b>

Source: COBA estimates based on internal data on member FTE. COBA has included the two pending large member mergers in our sector as two rather than four entities.