

21 July 2023

Mr Warren Tease
Chief Adviser
Financial Services Division
The Treasury

Via email: climatereportingconsultation@treasury.gov.au

Dear Mr Tease

Climate-related financial disclosure: Second consultation

COBA welcomes the opportunity to comment on Treasury's second round climate-related financial disclosure paper.

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 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.

The Government should revise the proposed Group 1 to cover the largest entities with a suggested employee threshold of say 2000 employees, and introduce an additional group in the 2025-26 year. This will provide more time to establish the underlying infrastructure in Australia and for smaller currently Group 1 entities to develop internal capacity.

COBA members expect to rely upon external consultants to prepare for both the underlying and disclosure requirements. Alongside assurance capacity, it is not clear that there is sufficient external capacity in Australia to be able to do this efficiently and economically on the proposed timeline.

The Government should provide additional time for smaller ADIs to disclose financed Scope 3 emissions given complexities around data access and methodologies.

The Government should set the 'end state' requirements and timelines, including on liability, relative to the respective Group commencement timelines.

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 supports the Government's intention to phase in covered entities, reporting requirements and assurance requirements. However, COBA is concerned that the current proposal will lead to excessive costs on customer owned banks with uncertainty around the capacity of the consultant and assurance market. We suggest focusing Group 1 on the very largest entities while introducing an additional group to spread out the phasing.

COBA members expect to rely on external consultants to prepare for these disclosures and implement the underlying climate practices. Alongside assurance capacity, it is not clear that there is sufficient external capacity to do this efficiently and economically on the proposed timeline. While these costs are not explicitly limited to the disclosure proposals, if many entities (i.e. all mandatory disclosers) are required to meet certain requirements in a short time then this can compound the costs.

COBA notes that there are concerns around the ability for smaller ADIs to easily disclose scope 3 financed emissions in the second reporting year given the complexity of data requirements and methodology development. We suggest that smaller ADIs be given additional time to report scope 3 financed emissions.

COBA notes that the consultation refers to a fixed end state in the 2027-28 reporting year. The fixed end state means that in practice that non-Group 1 entities would need to move up the disclosure learning curve more quickly than their Group 1 peers. While non-Group 1 entities have additional time to meet these requirements, they are unlikely to commence preparation immediately due to many other competing priorities. It may not be realistic for this to occur unless there is significant expertise transfer or capability development in the market. COBA suggests that the Government reframe these requirements as relative end states for each group, e.g. X years from commencement for Group Y.

Thank you for the opportunity to respond to this Consultation Paper. COBA provides more information on our concerns in **Attachment A**. If you wish to discuss any aspect of this submission, please contact me (mnguyen@coba.asn.au).

Yours sincerely

A handwritten signature in black ink, consisting of the letters 'M' and 'N' in a stylized, cursive font, with a horizontal line underneath.

MARK NGUYEN
Director – Policy

Attachment A

Themes	Proposals	Page	COBA Comments
Finalisation of accounting standards	NA		<p>COBA notes that AASB intends to finalise the reporting standards in the second quarter of 2024. While we acknowledge that this is outside the Government's control, this has implications for reporting entities.</p> <p>This timeline means that Group 1 entities will prepare against standards that are final until at best a few months before the reporting period commences (i.e. July 2024). If there are any slippages, this will further reduce this period.</p> <p>While preparing against draft standards may be appropriate for the very largest entities who have already made significant progress in climate disclosures and reporting, this may be unnecessarily costly for smaller entities such as customer-owned banks.</p> <p>COBA also suggest that the Government draft legislation in a manner where there are Ministerial powers to provide flexibility rather than reliance upon Parliament to change legislation if there are unforeseen events. For example, COBA suggests the Minister be able to provide extensions to the Groups and flexibility around any specific requirements if there are delays, significant teething problems or capacity issues.</p>
Use of external consultants and consultant capacity	NA		<p>Like most smaller entities, COBA members expect to rely on external consultants to prepare for these disclosures and implement the underlying climate practices. Alongside concerns on assurance capacity, it is not clear whether there is sufficient external capacity to do this efficiently and economically on the proposed timeline.</p> <p>COBA expects tasks such as the materiality assessment, internal policies, transition plans and science-based targets to incur significant costs for entities. While these costs are not explicitly limited to the disclosure proposals, if many entities (i.e. all mandatory disclosers) are required to meet certain requirements in a short time then this can compound the costs. Alongside external capacity, reporting entities will need to build</p>

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			<p>internal capacity with both sustainability staff as well as general staff members (e.g. credit, accounting and risk areas).</p> <p>Many larger entities, particularly listed ASX 200 entities, are likely to be more advanced in these disclosures and practices, so their gaps are likely to be fewer than smaller entities in Group 1. This will make it easier for them to meet the short timelines compared to smaller and unlisted entities. Cost estimates for this uplift work are in the low hundreds of thousands while recurring cost estimates for quantitative scenario analysis and assurance are in a similar ballpark.</p> <p>COBA notes that given the Government's proposed position on disclosures it should now seek to do as efficiently as possible.</p>
End State	Fixed end state in 2027-28.		<p>COBA notes that the consultation refers to a fixed end state in the 2027-28 reporting with requirements on quantitative scenario analysis and industry-based metrics coming at this stage. The fixed end state means that non-Group 1 entities would need to move up the disclosure learning curve more quickly than their Group 1 peers.</p> <p>Given these groups are size-based, it may not be realistic for this to occur unless there is significant expertise transfer or capability development in the market.</p> <p>While they have additional time to meet these requirements, non-Group 1 entities are likely to commence preparation later due to many other competing priorities.</p> <p>COBA suggests that the Government reframe these requirements as relative end states for each group, e.g. X years from commencement for Group Y.</p>
Reporting entities	That all entities that meet prescribed size thresholds and that are required to lodge financial reports under Chapter 2M of the Corporations Act 2001 (Cth) (Corporations Act) would be required to make	6	<p>COBA estimates that around half of the customer owned banking sector is expected to be subject to mandatory climate disclosures under the current proposal by the 2027-28 reporting.</p> <p>Our key initial concern relates to the largest customer-owned banks being in initial Group 1 with the very largest reporting entities, many of whom are ASX-listed and moving into TCFD-compliant reporting. We do not consider this to be appropriate given the references to proportionality.</p>

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	climate-related financial disclosures.		<p>If the intent is to allow for sufficient time for smaller entities to build capability and skills and for the market to attract and grow the resourcing, then the Group 1 thresholds should reflect the reality of a 'very large entity' by increasing the threshold, in particular the employee threshold.</p> <p>We suggest focusing Group 1 on entities with more than 2000 employees while introducing an additional group covering entities with 501 to 2000 employees. This change will provide extra time for smaller entities in the current Group 1 to comply with the requirements while allowing the consultant and assurance market to develop. Rather than being an 'out', this change will reduce the overall implementation costs while meeting policy objectives as covered entities will still need to comply but at slightly later time.</p>
Strategy	From commencement, all entities would be required to disclose information about any climate-related targets (if they have them) and progress towards these targets.	14	COBA notes that targets and progress would need to be disclosed before disclosing scope 3 emissions calculations. This may cast doubt on the credibility of targets as scope 3 makes up the largest component of emissions. While COBA supports the additional time for scope 3 disclosures, the Government will need to consider these interactions and their potential impact on how entities approach this target setting.
Risks and Opportunities	Disclosure of material scope 3 emissions would be required for all reporting entities from their second reporting year onwards. Scope 3 emissions disclosures made could be in relation to any one-year period that ended up to 12 months prior to the current reporting period.	16	<p>COBA notes that there are concerns around the ability for smaller ADIs to easily disclose scope 3 financed emissions in the second reporting year given the complexity of data requirements and methodology development.</p> <p>We suggest that scope 3 emissions be pushed back further given the complexities.</p> <p>As a middle ground, the Government could split out non-financed scope 3 emissions to be reported for 12 months after commencement given that their approaches are more established. Financed Scope 3 emissions could be reported 24 months after commencement for smaller ADIs.</p>

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Reporting framework and assurance	Assurance	22-26	<p>Similar to our previous comment on the availability of external consultants, there remain significant concerns about the economical availability of quality assurance.</p> <p>We suggest that the Government further stagger these disclosures with an additional group in the 2025-26 year to reduce the rush in demand for the initial year.</p> <p>We also seek further information on the estimated number of entities in each tranche to understand the Government's assessment of the availability and adequacy of assurance.</p> <p>Adequate assurance is critical given that this will support entity directors' comfort with signing off on climate-related disclosures given their inclusion in Annual Reports.</p> <p>In addition, there needs to be more structure around how emerging auditors can become certified to audit these disclosures.</p>
Liability and Enforcement	Climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act. The application of misleading and deceptive conduct provisions to scope 3 emissions and forward-looking statements would be limited to regulator-only actions for a fixed period of three years.	27	<p>See COBA's earlier comments on a relative rather than fixed end state timing.</p> <p>With a fixed end state timing, Group 2 & 3 participants would be subject to civil penalty provisions from their commencement year. This is not a burden faced by the Group 1 entities who have three years of modified liability. Whilst wider industry practice of forward-looking statements and scope 3 reporting will advance during this time, these non-Group 1 entities would not have had the same access to the data, consultants, assurance, and accumulative learning of many years of reporting.</p> <p>Since this reporting is part of Annual Reports, entity directors will need to sign off on a 'true and fair representation of affairs'. Additional time for liability provisions for non-Group 1 entities will help improve comfort with the scope 3 and forward-looking elements.</p>