19 December 2024

Ms Kate O'Rourke
Commissioner
Australian Securities and Investment Commission

Dear Ms O'Rourke

ASIC Consultation Paper 380 Sustainability reporting (CP 380)

COBA welcomes the opportunity to respond to the Draft Regulatory Guide on Sustainability Reporting.

COBA is the industry association for Australia's customer owned banks (mutual banks, credit unions and building societies). Collectively, our sector has over $179 billion in assets and is the fifth largest holder of household deposits. Our members range in size from less than $200 million in assets to around $25 billion in assets – all significantly smaller than our ASX-listed peers. Customer-owned banks (i.e. mutual banks) account for around two thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs) and deliver competition and market leading levels of customer satisfaction in the retail banking market.

Key Points

Customer-owned banks remain concerned about the disproportionate burden of establishing both reporting and assurance regimes in the same year despite ASIC's intent to take a 'proportionate and pragmatic approach to supervision and enforcement'. ASIC should clearly and publicly message this approach to relevant stakeholders (i.e. directors and preparers).

Despite some COBA members being Group 1 entities, they are significantly smaller and have less resourcing than other Group 1 entities. This size disparity creates a disproportionate burden in meeting climate reporting requirements, particularly regarding cost and time. ASIC should therefore anticipate and prepare for potential relief requests.

As customer-owned banks, we need clarity on whether to tailor climate reports to meet the potentially differing needs of customer-owners and regulators.

Many COBA members also already provide separate voluntary sustainability-related disclosures so we seek flexibility around the ability to name these reports as 'voluntary' sustainability reports noting that their intent is not to meet the climate disclosure requirements and that another report will clearly be outlined to meet this need.

Customer-owned banks are committed to creating a positive impact on the people and communities they serve, which is why many COBA members are passionate about addressing climate change and contributing to a sustainable future.

A number of mutual banks and credit unions offer competitive rates, and sometimes discounted rates, for customer-members who buy sustainable homes or add environmentally friendly features to their existing homes, including solar panels, water tanks and insulation, as well as for the purchase of low emissions vehicles.

Customer-owned banks are also leading when it comes to B Corp certification: a rigorous process recognising companies with exceptional environmental and social performance.

In Australia, 15 financial providers are certified B Corps – of these, 8 are authorised deposit taking institutions (ADIs), and all are customer-owned including Beyond Bank, Bank Australia and Great Southern Bank. Australian customer-owned banks make up an outsized 15% of the global list of B-Corp certified ADIs.

While customer-owned banks are actively working to reduce their environmental footprint, they are concerned about the simultaneous implementation of reporting and assurance requirements within the first year of the mandatory climate regime. These concerns centre on the high and opaque costs and limited availability of qualified external consultants, compounded by tight reporting deadlines.

In essence, while customer-owned banks are committed to meeting their climate reporting obligations, they request a more tailored approach to ensure they can do so effectively without compromising their core mission of serving their members and communities. The onerous application of these obligations has the potential to distract from other ESG work that will deliver tangible benefits to the environment and communities.

Disproportionate burden

While several customer-owned banks are included in Group 1, it is important to recognise that they remain relatively small players compared to the 'big four' banks, ASX-listed companies and emissions-intensive industries like mining which also fall into this category. For comparison, the largest customer-owned bank, People First Bank, is less than 3% the size of Australia's largest bank, CBA. The sector holds 2.9% of total banking assets.

Customer-owned banks do not have either the scale or resources of many other Group 1 entities, including a level of existing infrastructure or readily available expertise in climate-related risk assessment and reporting. This means they face a disproportionate burden in meeting these requirements when it comes to cost and time. This is also important given the future extension of the framework to Group 2 and Group 3 entities, which includes medium-sized customer-owned banks.

A key concern for some customer-owned banks is the implementation of both climate reporting and assurance for Scope 1 & 2 emissions in Year 1. This presents a significant challenge as many of these institutions are still developing their climate risk management capabilities and reporting infrastructure. As non-listed entities, customer-owned banks do not have the same reporting infrastructure as larger listed banks. Requiring assurance, albeit limited, from Year 1 means customer-owned banks will need to dedicate significant resources to both establishing robust reporting processes and ensuring they meet assurance standards concurrently.

Due to their limited scale and resources compared to larger Group 1 entities, customer-owned banks will need to rely on external climate consultants which has raised concerns around reliance on and availability of external consultants, and the associated costs.

Another concern is the ability to meet deadlines. ADIs are required to lodge their financial year reports with ASIC by 31 October, leaving a narrow window for data collection from the financial year, external analysis including climate inventory, and auditor review of the climate disclosures. This pressure is expected to be especially challenging for Scope 3 emissions (which include financed emissions), demanding extensive data collection and analysis within this tight timeframe.

Consequently, customer-owned banks face a disproportionate burden in meeting climate reporting requirements. A phased approach, where customer-owned banks would be granted a year to focus on establishing accurate reporting systems before introducing the assurance requirement, would enable them to build a solid foundation and ensure the quality of reported data, and minimise the disproportionate financial burden. This would also allow customer-owned banks to review the disclosures of larger banks to inform their own disclosures and look to ensure the disclosures meet users without having to worry about being subject to audits early on.

Alternatively, an opportunity to undertake a preliminary auditor review (pre-assurance) in the first year, focused on identifying recommendations for improvement, could provide customer-owned banks with valuable guidance and support while allowing them to build capability and confidence in their disclosures before assurance is required.

Relief requests caution

The mandatory climate regime represents the 'biggest change to corporate reporting in a generation' as acknowledged by ASIC Chair Joe Longo.[1]

While we acknowledge ASIC has committed to a 'proportionate and pragmatic approach to supervision and enforcement', it has outlined a strict stance on relief in the draft regulatory guide.

The strict limitations around relief mean customer-owned banks must navigate new and complex climate reporting standards with very little room for error. This can create uncertainty and potential liability risks, especially for mutual banks and credit unions that have limited resources and rely heavily on external consultants.

We therefore caution ASIC to anticipate a significant influx of relief requests from customer-owned banks**.** As outlined above, these institutions face unique challenges in meeting the new requirements, and a rigid approach to relief could have unintended consequences. Failure to meet reporting deadlines or facing penalties could damage their reputation and hinder their ability to compete with larger institutions.

Another complexity that customer-owned banks will need to deal with is post-merger disclosures. Mergers between entities that result in expanded disclosure coverage (for example, a larger disclosing entity with a smaller non-disclosing entity, or two smaller non-disclosing entities) will create a disclosure requirement across the newly merged business even though the smaller part of the business may not have the appropriate reporting frameworks in place. This could drive relief requests by newly merged entities. ASIC should take facilitative approach to relief in these cases to ensure that there are not any unnecessary barriers to mergers.

[1] https://www.aicd.com.au/content/dam/aicd/pdf/tools-resources/director-resources/directors-guide-to-mandatory-climate-reporting-web.pdf

Clarity around reporting

Customer-owned banks operate with a distinct ownership model: they are owned by their members, who are also their customers. This unique structure necessitates clear guidance from ASIC on whether these institutions need to publish sustainability reports to cater to the potentially differing needs of both their customer-owners and regulators.

Furthermore, the sector seeks clarity on the flexibility allowed in naming voluntary ESG reports, which would be in addition to the mandatory sustainability report. While many customer-owned banks are eager to showcase their broader environmental and social initiatives, we acknowledge it is crucial that these voluntary reports are clearly distinguishable from the mandatory climate disclosures to avoid confusion among stakeholders. We also note that some non-disclosing entities and Group 2 or 3 entities may also be disclosing voluntary sustainability reports during the transition period.

Thank you for taking the time to consider our submission. If you have any queries, please contact us at [redacted]

Yours sincerely

[redacted]

MICHAEL LAWRENCE
Chief Executive Officer