15 November 2024

The Chair
Auditing and Assurance Standards Board

Via website

Dear Chair

Exposure Draft of a Proposed Australian Standard on Sustainability Assurance

COBA welcomes the opportunity to respond to the Exposure Draft of a Proposed Australian Standard on Sustainability Assurance.

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 for climate-related disclosures in the first year.

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.

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 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.

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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 and welcome the mandatory climate reporting regime, some COBA members have expressed concerns about the simultaneous implementation of reporting and assurance requirements within the first year. These concerns centre on the reliability, 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.

Concerns around both reporting & assurance in Year 1

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. 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.

Some larger COBA members have enlisted external consultants to conduct reviews of their disclosures this financial year to ensure they are ‘match fit’ before climate reporting becomes a mandatory requirement, however, not all customer-owned banks have the resources and ability to do this. We consider this to be important given the future extension of the framework to Group 2 and Group 3 entities, which includes medium-sized customer-owned banks.

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.

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.

Concerns around COBs in Group 1

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.

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.

Granting customer-owned banks an additional 12 months before requiring assurance would acknowledge this disparity, allowing them to spread the financial burden and ensure a more robust implementation of climate reporting processes. This would also allow customer-owned banks to review the disclosures of larger banks so as to inform their own disclosures and look to ensure the disclosures meet users without having to worry about being subject to audits early on.

Concerns around the cost impasse & timeline

Customer-owned banks face a disproportionate burden in meeting climate reporting requirements due to their limited scale and resources compared to larger Group 1 entities. This means they will need to rely on external climate consultants which has raised concerns around reliance and availability of external consultants, and the associated costs and ability to meet deadlines.

One COBA member has estimated, based on quotes provided from one of the big four audit firms, that limited assurance over its climate disclosures in year one will cost more over $70,000, while this will increase to more than $200,000 p.a. for years two and three. Other customer-owned banks have reported similar costs for audit assurance as well as the need to employ additional FTE to sustainability teams to develop the climate disclosures.

The expected surge in demand for climate-related consulting services when the mandatory climate reporting regime starts on 1 January 2025, has also created concerns about accessing timely and high-quality expertise.

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.

Given their size compared to larger Group 1 entities, customer-owned banks also worry that they may be lower priority clients for large consulting firms who would naturally prioritise companies with larger engagements, potentially receiving less experienced consultants or facing delays that impact their reporting timelines.

A pragmatic approach would be to provide customer-owned banks with a modest extension to the assurance requirements for another year.

Another potential solution to reduce the financial burden on customer-owned banks is to explore how assurance over climate disclosures can be integrated with existing financial statement audits. This would avoid the need for separate, costly engagements with climate-specific assurance providers.

Focusing assurance efforts on climate-related disclosures that directly impact financial statements could be a practical starting point for this integrated approach. This would help ensure that climate risk assessment is embedded within the broader financial governance framework, while also reducing the overall cost of compliance.

Thank you for taking the time to consider our submission. If you have any queries, please contact us at policy@coba.asn.au.

Yours sincerely

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