AUSTRALIAN BANKERS' ASSOCIATION INC.
Strong banks – strong Australia

Level 3, 56 Pitt Street
Sydney NSW 2000
Australia
+61 2 8298 0417
@austbankers
bankers.asn.au

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Manager, Banking Statistics
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001
By email statistics@apra.gov.au

Dear Sir/Madam

Discussion Paper: Banks' international exposures reporting requirements

The Australian Bankers' Association (**ABA**) appreciates the opportunity to provide APRA with comments on the Discussion Paper: *Banks' international exposures reporting requirements* (**Discussion Paper**).

With the active participation of its members, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

The ABA notes APRA's intention to issue a response paper and finalise the content and format of the reporting standards and forms in the second half of 2016. The new reporting requirements are proposed to commence in the quarter ending 30 June 2017. The ABA has concerns regarding the short timeframe for implementation.

The ABA requests APRA considers aligning these proposed changes with its Domestic Forms Review into one delivery date for authorised deposit-taking institutions (**ADI's**). If any alignment with ARF 320.0 is unfeasible, the problems associated with an implementation timeframe of less than six months will still remain, and further time will be needed to complete the work and minimise the cost of these reporting reforms.

The ABA is fully cognisant that the proposed changes are to facilitate the data requirements of the Bank of International Settlements (**BIS**). However, these requirements were approved in 2012 and for APRA to now ask ADI's to implement these changes with less than six months lead time will unnecessarily increase regulatory costs for ADIs.

To give some context, ADI's in Australia are implementing an extraordinary number of international and domestic regulatory reforms concurrently. These include the remaining Basel III reforms to capital and liquidity such as NSFR, SA-CCR and FRTB.

In the 'reporting' space, the banking industry is already undertaking a number of substantial mandatory projects driven by government's data requirements. These include, IFRS 9, FATCA, Volcker, CRS, AIIR, AUSTRAC reporting, ATO third party reporting (shares, units, payments), OECD country-by-country reporting, FOFA reforms, stronger super reforms, MySuper reporting, the New Payments Platform, Standard Business Reporting, Single Touch Payroll, enhanced Pillar 3 disclosures and the Attorney-General's review of Australia's AML/CTF regime, together with the extensive G20 OTC reforms and APRA's requirements for margining and risk mitigation for non-centrally cleared derivatives to name just a few currently in progress. ADIs, regardless of size, have a limited amount of resources to deal with so many competing projects.

The FSI Final Report recognised this ever increasing burden on ADI's, and the Government accepted the Inquiry's 31st recommendation, namely to increase the time available for industry to implement complex regulatory change. The Government agreed to provide industry with appropriate time to implement regulatory change and also committed to reflect this in the Statement of Expectations to APRA.

Alignment of implementation with APRA's other regulatory reporting reforms

APRA's proposed "go live" date of June 2017 poses a significant challenge given the greater level of counterparty granularity, requirements to report in all currencies (i.e. report AUD as well as FX), and the need to report CNY as a separate currency. The technology build required is significant. One large ADI has indicated that in addition to the problems created with a short implementation timeframe, the proposed changes will cost an estimated $3 million to implement.

The ABA proposes that APRA aligns the implementation of international exposures reporting with the implementation date of the Domestic Forms Review. The ABA proposes this holistic approach so that the rework in implementing the new reporting requirements are minimised and the regulatory burden reduced. If implementation dates are not aligned, significant rework and unnecessary additional costs will occur.

To maximise efficiencies in implementation, ADIs should be able to leverage the existing reporting of AUD positions as the proposed changes to international exposures reporting uses much of the information already reported in the domestic books reporting. Obviously, ADIs will need to see the detail of APRA's release of new reporting standards, forms and instructions on the domestic returns to gauge the extent of common balances reported in the ARF 320.0, which could be used for the new international exposures reporting or reconciliation.

Comments on the proposals

Notwithstanding the above, the ABA takes this opportunity to provide some feedback on APRA's proposals as they stand. For ease, our comments are grouped under the numbered headings as they appear in the Discussion Paper.

2.5 Balance sheet totals

As per APRA's Discussion Paper, "The IBS now includes banks' total assets, some breakdowns of liabilities, and capital adequacy information. These items allow for better measurement of banks' funding risk, for example, through the calculation of simple performance ratios."

Australian-owned banks currently report balance sheet items (assets, liabilities, equity) on an accounting consolidated group basis in ARF 322.0 Statement of Financial Position – Consolidated, and capital adequacy information is reported in ARF 110.0 Capital Adequacy, on a Level 2 basis.

In addition:

- These existing balance sheet and capital adequacy reports could be leveraged on for calculation of performance ratios.
- Are there data overlaps expected between the existing reporting requirements on balance sheet (i.e. ARF 322.0) and the proposed form ARF 731.4? The category totals should be reconcilable between ARF 322.0 and ARF 731.4. The reconciling difference should relate to Level 3 entities excluded from ARF 731.4, but included in ARF 322.0.
- If APRA expects a reconciliation between the capital adequacy information in the existing ARF 110.0 and total equity in the proposed ARF 731.4, some guidance would be welcome.

As per the Discussion Paper, “Australian-owned banks already report capital adequacy information to APRA in other forms on a Level 2 basis. However, no balance sheet information is reported to APRA on a Level 2 basis.”

- The ARF 210.0 Liquidity series of returns includes balance-sheet submissions which are completed on a Level 1 and Level 2 basis. The ABA considers that these returns have the information that APRA requires, specifically ARF 210.3.1. Balance Sheet Maturity - Assets and ARF 210.3.2 Balance Sheet Maturity - Liabilities.

2.6 Currency breakdowns

In June 2015, the Reserve Bank of Australia (**RBA**) introduced the quarterly Renminbi (**RMB**) business volume survey. Given the onshore and offshore RMB positions in domestic books are already captured in the existing RMB business volume survey, and ARF 731.1 is also compiled at the ADIs' domestic books level, the ABA expects there to be significant data overlap between the RMB business volume survey and the new currency RMB exposures reported in ARF 731.1.

With the implementation of the proposed ARF 731.1, the ABA suggests that the RBA's RMB business volume survey should be decommissioned to avoid the burden of duplicative reporting.

2.7 Quality assurance

The ABA understands that APRA is considering the appropriate level of external quality assurance for the proposed international exposures reporting requirements. ADIs' current international exposures reporting requirements are subject to the audit requirements set out in Prudential Standard APS 310 Audit and Related Matters (**APS 310**).

The current ARF 231 International Exposures is not a specified form. Exempting the ARF 731 from APS 310 does not pose any significant risk, nor does it result in any material cost savings. Thus, the ABA suggests that the new international exposures returns do not need to be audited as an ADI's appointed auditors already audit this information which is captured in other returns.

The ABA looks forward to continued dialogue with APRA to ensure an efficient and effective implementation of APRA's data needs.

Yours faithfully

Signed by Aidan O'Shaughnessy

Aidan O'Shaughnessy
Policy Director - Industry Policy
aidan.oshaughnessy@bankers.asn.au