28 October 2016

Manager Banking Statistics
Australian Prudential Regulation Authority
Sydney NSW 2001

By e-mail: statistics@apra.gov.au

Dear Sir/Madam

International Exposures Reporting

This letter provides comments from the Australian Financial Markets Association (AFMA) on the Discussion Paper entitled "*Banks' international exposures reporting requirements*".

At a general level members indicated that the reform is accepted but systems need to be upgraded with regard to reporting and the timing of this reform. This should be coordinated with other changes that will require additional reporting. Implementation of the proposed changes by 30 June 2017 is very challenging and is not realistically achievable. The key message is that the commencement date of the new requirements should aligned to the other regulatory changes that APRA is planning to implement.

1. Barriers/specific costs to implement changes within the proposed timeframe

International exposure reporting forms are very granular and require reporting of multiple data dimensions of very large data sets. Members believe that manual compilation is likely to be more prone to error and accuracy of reporting will need to be ensured by using an automated reporting platform, generally supplied by third party vendors. However, this entails that any changes to reporting requirements involve a lead time to obtain and upgrade capable reporting systems in a controlled manner and carry out essential testing. Given the considerable size and scale of the regulatory changes this requires a lead time of at least one year.

APRA is currently conducting consultation on significant changes that will affect other regulatory forms, for example associated with Basel III liquidity requirements which are planned to apply from January 2018. It would be reasonable to implement those changes all together within the same timeframe. Logistically, it would help the efficiency of the IT system upgrade and testing involved.

2. Implementation and ongoing compliance costs of the additional requirement

Implementation costs are mainly associated with installation of a new system and so are substantial one-off set up costs. Current regulatory reporting systems will need to be enhanced to implement the new forms. This will require a system upgrade and a series of IT system testing, both for the reporting tool, as well as an XBRL generator.

The substantial investment costs associated with these forms could be lowered to more of a marginal cost if spread across and shared with implementation of other management and reporting requirements at the same time in January 2018.

3. Reporting timeframe change

The change to calendar day 28 reporting deadline (or the preceding good business day if 28 falls on a weekend or public holiday) instead of the current business day 20 is not supported.

The timing of reporting should be aligned to the number of business days after the end of the quarter, rather than a number of calendar days after the end of a quarter. This will ensure that these reports are aligned with the rest of the forms submitted to APRA (which are due on business days after the end of a month/quarter) and will avoid a need to manage reporting deadlines between 'calendar' and 'business' days.

4. International banking statistics – Domestic ADIs

The reporting of International Banking Statistics in new form ARF 731.4 is directed at Australian owned ADIs and does not apply to foreign branches. The wording of the reporting requirement should clearly state this distinction.

5. Quality assurance

There is strong support for not requiring a review by auditor of reporting on international exposures. In line with the current prudential standard APS 310 Attachment A, the International Exposures returns are currently not subject to assurance review. The risk of exempting these forms from audit is considered very low. In addition, the exemption would lower the administrative burden and bring cost savings from the reduction of granular, low added value assurance work. An assurance requirement specifically for international exposures reports does not bring added value and results to a large extent in duplication of the auditors' work. The general obligation for limited assurance regarding the controls an ADI has to have to ensure it provides reliable data to APRA already achieves this outcome without a specific requirement. To do this external auditors review the end-to-end internal processes and controls around production of APRA reports, as well as the underlying data itself. International exposures reports that require disclosure of assets/liabilities in essence represent a subset of other reports that are audited (for example, ARF 320 Balance Sheet).

As noted above, the objective here is for international exposures reporting to be integrated into upgraded reporting systems that serve for enhanced reporting across a number of areas to meet upcoming requirements. The general objective is for a reporting system that is automated to ensure the data sourcing and reconciliation, mapping and controls around data integrity are high-quality and consistent across all reports. This is best done on a common platform.

6. Non-confidential data

In relation to non-confidential treatment of the additional data as occurs with current international exposures data, the utility of this disclosure is understood. Apart from normal access rights under freedom of information rules the question is posed as to whether APRA anticipates disclosure and use of the data beyond what occurs currently in statistics published by the Reserve Bank of Australia and the Bank for International Settlements? It is important that data supplied under reporting rules is subject to the strict controls and protections when published by clearly identified authorities. Further dissemination for academic and general public commentary purposes is beyond the intended scope of use.

If you have any queries with regard to these comments please contact either Murray Regan on 9776 7992 or myself on 02 9776 7995 or at dlove@afma.com.au.

Yours sincerely

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