AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY
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13 August 2020

TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS

CONSULTATION ON TREATMENT OF LOANS IMPACTED BY COVID-19

To help facilitate authorised deposit-taking institutions (ADIs) supporting their customers through the COVID-19 period, APRA announced in March a temporary capital treatment for a period of up to six months for loans where the ADI had granted a repayment deferral. On 9 July 2020, APRA published a letter which extended the temporary capital treatment and also adjusted the treatment of restructured loans affected by COVID-19.[1] As foreshadowed in that letter, APRA intends to formalise the announced capital measures and reporting requirements through temporary legislative instruments.

APRA will give effect to the temporary capital treatment by adding a new Attachment E to *Prudential Standard APS 220 Credit Quality* (APS 220). The new Attachment E will operate on a time-limited basis, and modifies the application of APS 220 requirements for loans affected by COVID-19.[2] A draft is included in Attachment A to this letter.

APRA's July letter also highlighted the importance of public transparency regarding the extent and nature of loans granted repayment deferrals, or that have otherwise been restructured. APRA intends to collect and publish entity-level data on these loans through a new *Reporting Standard ARS 923.2 Repayment Deferrals* (ARS 923.2). Further details are outlined in Attachment B to this letter.

APRA invites feedback on the draft Attachment E to APS 220, draft ARS 923.2 and its approach to publishing entity level data, which will be subject to a one-week public consultation. Written submissions on the proposals should be sent to ADIpolicy@apra.gov.au by 21 August 2020 and addressed to:

General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

APRA will finalise its response and register the revised APS 220 and new ARS 923.2 as soon as practicable after the consultation period.

Yours sincerely,

John Lonsdale
Deputy Chair

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[1] 'Treatment of loans impacted by COVID-19' (Letter, 9 July 2020) https://www.apra.gov.au/sites/default/files/2020-07/Letter%20to%20authorised%20deposit-taking%20institutions%20-%20Treatment%20of%20loans%20impacted%20by%20COVID-19.pdf.

[2] The new *Prudential Standard APS 220 Credit Risk Management* that was finalised in December 2019 and due to commence on 1 January 2021, will now commence on 1 January 2022: 'APRA announces new commencement dates for prudential and reporting standards' (Media Release, 16 April 2020) https://www.apra.gov.au/news-and-publications/apra-announces-new-commencement-dates-for-prudential-and-reporting-standards.

ATTACHMENT A – DRAFT PRUDENTIAL INSTRUMENT

The content which follows will be included in a new Attachment E to the currently in-force 2015 version of APS 220.

Attachment E – COVID-19 Adjustments

1. Notwithstanding any other requirements in this Prudential Standard, a COVID-19 loan as defined in paragraph 2 is subject to the provisions in this Attachment for the period 23 March 2020 to 31 March 2021.

Scope

2. A COVID-19 loan refers to a credit exposure that meets all of the following criteria:

   (a) the loan is provided to an eligible borrower. An eligible borrower for this purpose is either:

      (i) a natural person; or

      (ii) a small- to medium-sized enterprise (SME) with less than $10m in total debt facilities outstanding.

   (b) the borrower's ability to repay according to the original loan terms has been affected by the COVID-19 pandemic; and

   (c) the loan was not 90 days past-due or impaired at the time a loan deferral or restructure was provided to the borrower.

Repayment deferrals

3. Where an ADI provides an eligible borrower with an eligible repayment deferral, the period of deferral does not need to be treated as a period of arrears for prudential purposes, nor do the loans need to be regarded as impaired. An ADI may pause the counting of days past-due from the date on which the repayment deferral is granted[3]. This temporary capital treatment is available until the earlier of either:

   (a) an aggregated period of ten months from when the initial repayment deferral was granted; or

   (b) 31 March 2021.

   For the avoidance of doubt, this temporary capital treatment ends on 1 April 2021 for all loans, irrespective of when the repayment deferral was initially granted or the period remaining on a deferral.

4. For the purpose of paragraph 3 of this Attachment, an eligible repayment deferral means:

   (a) a repayment deferral for an aggregated period of up to six months that was granted to an eligible borrower prior to 30 September 2020; or

[3] For the purpose of the 90 days past-due criterion in paragraph 26(a) of this Prudential Standard, the days past-due of such loans will remain unchanged throughout the repayment deferral period

(b) a repayment deferral granted in accordance with sub-paragraph 4(a) that has been extended beyond the initial six month term, or a repayment deferral that was granted to an eligible borrower after 30 September 2020, where the ADI has conducted an appropriate credit assessment of the borrower. As part of this credit assessment, the ADI must be satisfied that the borrower has a reasonable prospect of being able to repay the loan on appropriate terms at the end of the deferral period.

5. For all COVID-19 loans that have been granted an eligible repayment deferral, an ADI must resume the counting of arrears for prudential purposes at the end of the deferral period from the number of days past-due at the time the initial deferral was granted, unless the loan is modified in accordance with paragraph 8 of this Attachment.

6. Notwithstanding the other provisions in this Attachment, where an ADI determines, that a loan is impaired or the borrower is unlikely to pay in accordance with the criteria detailed in paragraph 26 of this Prudential Standard or paragraph 77 of Attachment A to *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk* (APS 113), it must treat the loan as impaired or defaulted, unless the loan is modified in accordance with paragraph 8 of this Attachment.

Restructured loans

7. For the purpose of this Prudential Standard, a deferral period, extension of maturity or capitalisation of interest that results solely from implementing an eligible repayment deferral is not a restructure.

8. Where an ADI otherwise modifies or restructures a COVID-19 loan, as described in paragraph 27 of Attachment A to this Prudential Standard, before 1 April 2021, the ADI does not need to treat the loan as impaired following the restructure where all of the following criteria are satisfied:

   (a) the ADI and the borrower have formally agreed to the modified terms;

   (b) the ADI expects the borrower will perform in accordance with the modified terms, so that the ADI will receive in a timely manner the full amount of modified cash flows contracted to be received;

   (c) no repayment deferral periods are provided to the borrower as part of the modified terms; and

   (d) the loan has not been returned to a non-impaired status under this paragraph more than one time.

   An ADI may reset the counting of arrears to zero for loans modified or restructured in accordance with this paragraph, from the date of the restructure.

9. Where an ADI restructures a COVID-19 loan and the restructure does not meet the criteria in paragraph 8 of this Attachment, the loan must satisfy the conditions in paragraph 34 of Attachment A to this Prudential Standard before it may be returned to a non-impaired status.

Other clarifications

10. For the avoidance of doubt, a COVID-19 loan that is subject to an eligible repayment deferral or that has been restructured in accordance with paragraph 8 of this Attachment, does not need to be treated as 90 days past-due or impaired for the purpose of *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk or APS 113*.

11. For the avoidance of doubt, a COVID-19 loan that has been restructured in accordance with paragraph 8 of this Attachment, does not need to have performed in accordance with the modified terms and conditions for a period of at least six months prior to being re-rated to a non-defaulted grade under paragraph 80 of Attachment A to APS 113.

12. For the avoidance of doubt, a COVID-19 loan that is subject to an eligible repayment deferral or that has been restructured in accordance with paragraph 8 of this Attachment, may be considered a performing loan for the purpose of calculating an ADI's required stable funding requirement under paragraphs 36 and 37 of Attachment C to *Prudential Standard APS 210 Liquidity*.

ATTACHMENT B – ENTITY LEVEL PUBLICATIONS

As previously communicated by APRA, transparency is an important component of the capital concessions provided to ADIs. To promote this objective, APRA intends to collect and publish entity-level data on COVID-19 impacted loans through a new *Reporting Standard ARS 923.2 Repayment Deferrals* (ARS 923.2).

APRA intends publishing data at an entity level for those ADIs that have:

- total loans subject to repayment deferral of more than $10 million; and
- total number of facilities subject to repayment deferral greater than 20.

APRA expects that data collected under ARS 923.2 will be non-confidential. However, in order to protect borrowers' privacy, APRA will not publish data that represents a small number of loans. In its publication of the data, APRA will continue to highlight that the temporary repayment deferral programs were implemented within tight timeframes, and that the data has been submitted to APRA on a best endeavours basis and may be subject to revision.

The first publication of ARS 932.2 data is expected to be in early September 2020. This publication will cover COVID-19 impacted loans, for individual ADIs, as at 30 June 2020 and 31 July 2020. The APRA publications are not a substitute for appropriate disclosure by individual ADIs.

Going forward, APRA expects that ADIs will provide the relevant data within 10 business days after the end of the reporting period to which the information relates. APRA then intends to publish the data by the end of the following month to which the information relates. APRA will also notify ADIs 24 hours prior to the release of the publication. This will allow, within tight timeframes, an opportunity for ADIs to disclose additional information if relevant.

The table below sets out the reported data that APRA intends to include in its entity level publication.

	Data items
High level	• Value and number of deferrals outstanding – split by housing and SME
Flows during period	• New loan deferrals granted during the period • Loans exiting loan deferral during the period
Risk indicators for COVID-19 impacted housing loans	• Interest-only • Investor • High-LVR