**AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY**
1 Martin Place (Level 12), Sydney, NSW 2000
GPO Box 9836, Sydney, NSW 2001

T 02 9210 3000 | W www.apra.gov.au

9 September 2020

**TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS**

**RESPONSE TO SUBMISSIONS – TREATMENT OF LOANS IMPACTED BY COVID-19**

APRA recently consulted on capital measures and reporting requirements for loans impacted by COVID-19. As part of this consultation, APRA proposed to:

- give effect to the temporary capital treatment for loans with repayment deferrals or restructures due to COVID-19 by way of adjustments to *Prudential Standard APS 220 Credit Quality* (APS 220); and

- promote public transparency by collecting and publishing entity-level data on loans impacted by COVID-19, through a new *Reporting Standard ARS 923.2 Repayment Deferrals* (ARS 923.2).

Collectively, these measures support authorised deposit-taking institutions (ADIs) in providing temporary assistance to customers impacted by COVID-19 in a manner that is transparent to the community. This includes ADIs working with borrowers to return them to a sustainable repayment structure, following the end of a loan repayment deferral. However, in the event that there is objective evidence that a borrower is unlikely to be able to resume repayments, loans should be recognised as impaired.

Importantly, while the measures outlined in APS 220 set out the appropriate capital treatment of loans impacted by COVID-19, it is the responsibility of ADIs to determine the most appropriate response when borrowers encounter a period of financial hardship. APRA does not preclude or require a particular period of deferral or other form of restructuring, and regulatory capital requirements do not affect an ADI's obligations when offering hardship arrangements.

APRA received seven submissions in response to its consultation – all non-confidential submissions have been published on APRA's website. APRA's response to the issues raised in submissions is set out below.

**APS 220 COVID-19 Adjustments**

The proposed amendments to APS 220 formalise APRA's previous communications to ADIs on the temporary capital treatment for loans with repayment deferrals or restructures due to COVID-19.

*Comments received*

While respondents were broadly supportive of APRA's proposal to formalise the previously announced measures, clarification was sought on the scope of loans eligible for the temporary capital treatment. Respondents also requested that APRA provide additional flexibility in the application of the temporary measures, particularly the treatment of restructures and counting of arrears, in light of the continued uncertainty about future lockdowns or restrictions on activity.

*APRA's response*

Consistent with APRA's earlier messaging, the purpose of the concessional capital treatment is to help ADIs support their retail and small business customers through this period of disruption. To provide ADIs with sufficient flexibility, APRA has amended paragraph 2(a) of Attachment E to clarify that exposures to other legal entities (such as trusts) with less than $10 million in total debt facilities outstanding are also eligible for the concessional capital treatment. Borrowers with greater than $10 million in total debt facilities outstanding are not eligible for the temporary capital treatment, or concessional restructures under paragraphs 7 and 8 of Attachment E. Where an ADI provides temporary assistance to these larger business borrowers, the ordinary APS 220 requirements apply.

In response to industry's request for additional flexibility for restructures, APRA has removed the requirement under paragraph 8 that loans may only be restructured once. APRA expects that all restructures will be genuine attempts to return borrowers to a long-term sustainable repayment structure. However, in extreme circumstances, such as in the event of further lockdowns or further restrictions on activity, additional restructuring may be appropriate.

In relation to the counting of arrears, paragraph 7 has been amended to clarify that an ADI may reset the arrears count to zero where it modifies the loan to adjust for the deferral period and any existing arrears. Specifically, where an ADI extends the maturity or increases repayments over the remaining loan term to adjust for prior missed repayments, arrears can be reset to zero. Similarly, where an ADI restructures the loan under paragraph 8, it may also reset arrears to zero. Otherwise, APRA expects ADIs to resume the arrears count from the number of days past-due at the time the repayment deferral was provided.

More broadly, the capital treatment outlined in Attachment E represents a significant and temporary concession to APRA's prudential framework. It is important that ADIs are proactive in transitioning borrowers through this period of disruption and there is a timely and orderly return to the normal functioning of APRA's prudential framework. APRA is retaining the 31 March 2021 timeframe, which provides ADIs with significant flexibility to manage this transition.

**ARS 923.2 Repayment Deferrals and publication of data**

To ensure that the temporary adjustments to capital, outlined above, are implemented in a way that is transparent to the community, APRA proposed to collect and publish entity-level data on COVID-19 impacted loans through a new Reporting Standard, ARS 923.2.

*Comments received*

Respondents generally supported APRA's objective to provide the public with greater transparency on loans impacted by COVID-19. The key area of focus in submissions was reducing the reporting burden on industry, particularly for smaller ADIs. Respondents suggested that APRA consider extending the reporting timeframe and reduce duplication with other data requests. Respondents also sought greater clarity on specific data reporting items and APRA's expectations for additional self-disclosures.

*APRA's response*

APRA notes the additional pressures that COVID-19 has created for many ADIs. To help reduce the reporting burden for smaller ADIs, APRA is:

- increasing the publication threshold from $10 million in total loans subject to repayment deferral to $20 million. Further, where ADIs fall below the $20 million threshold they will be asked, from September, to provide *ARF 923.2 Repayment deferrals* (ARF 923.2) data to APRA on a quarterly rather than a monthly basis;

- clarifying that, for non-listed ADIs, APRA's expectations of public disclosures on loan repayment deferrals will be met by way of the APRA publication. All ADIs should, however, consider the appropriate level of any additional public disclosure based on their own particular circumstances and broader legal and regulatory obligations. APRA expects that listed ADIs will make additional information publicly available; and

- continuing to review and engaging with industry on additional ways in which APRA can minimise the reporting burden during the COVID-19 period. This includes the recent extension of the due date from 10 to 15 business days for ADIs to report data on *ARF 923.0 Credit and capital*, and the temporary pausing and review of *ARF 923.1 Provisioning*.

APRA is maintaining the requirement that ADIs report data on ARF 923.2 to APRA within 10 business days after the end of the reporting period to which the information relates. This is necessary to provide timely information to the public on loans that have been impacted by COVID-19. Consistent with APRA's prior guidance, APRA will provide ADIs with at least 24 hours' notice ahead of the publication of entity-level data.

In response to industry concerns over duplicative reporting, APRA is clarifying that the data used for the entity level publication will be taken from the existing ARF 923.2 returns. The Reporting Standard ARS 923.2 simply outlines the specific information obtained through the existing forms that is required from ADIs for publication purposes. A template of the upcoming entity publication with links to the ARF 923.2 form has been provided to all ADIs.

**Final Standards**

The updated final versions of APS 220 and ARS 923.2 have been published alongside this letter. APRA has also registered the revised APS 220 and ARS 923.2 on the Federal Register of Legislation, such that both standards are now in-force.

Yours sincerely

John Lonsdale
Deputy Chair