

21 August 2020

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

Via email: ADIpolicy@apra.gov.au

Dear Ms Squires

Consultation on the treatment of loans impacted by COVID-19

Thank you for the opportunity to provide our views on the on prudential treatment and disclosure requirements on COVID-19-impacted loans.

COBA is the industry association for Australia's customer owned banking institutions (mutual banks, credit unions and building societies). Collectively, our sector has more than \$131 billion in assets, 10 per cent of the household deposits market and more than 4 million customers.

APS 220 Draft Prudential Instrument

COBA welcomes this Instrument as we believe it will give ADIs some certainty on the capital treatment of the support measures provided to customers during this time.

COBA reinforces the importance of certainty on the prudential treatment of any customer assistance provided under APRA's initial guidance.

As a general principle, COBA believes that where ADIs have provided these customer support packages in line with previous guidance that these packages should remain eligible for any concessions irrespective of retrospective instruments. We request that APRA ensure that there is sufficient flexibility and supervisory discretion to take this into account. We believe there is unlikely to be a significant risk arising from this approach given the temporary nature of these concessions.

One example provided to COBA is the case where a customer and an ADI have agreed that post-deferral repayments would be increased to repay the remaining balance (inclusive of capitalised interest, fees and any pre-deferral arrears) over the remaining loan term. We understand that may not strictly qualify to be a restructure under the criteria in APS 220 Attachment A paragraph 27 (when read in the context of paragraph 7 of the Instrument). Therefore, this arrangement may not be eligible for the provided restructuring exemption under paragraph 8 of the instrument. We would consider that it should be clear that these loans should have their arrears counter for prudential purposes reset to zero from the date of this 'restructure' (i.e. change to a higher repayment) given that the customer is no longer contractually in arrears.

These customer arrangements have been provided in line with the previous guidance so COBA expects that APRA will apply supervisory discretion to ensure that ADIs with such arrangements are not disadvantaged.

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Regulatory reporting burden & ARS 923 Reporting Standard

COBA members continue to raise concerns about the regulatory reporting burden, both before and during the current COVID period.

Smaller ADIs have substantially fewer resources than the major banks to deal with ever-increasing regulatory reporting workloads. Deploying resources to meet regulatory reporting diverts resources from other areas that could assist customers. It is critical that reporting is targeted and creates the minimum necessary burden at both an individual and aggregate reporting level (i.e. the sum of all APRA reporting requirements on ADIs) to meet APRA's requirements.

COBA welcomes recent APRA engagement at senior levels on sector issues, including acknowledgment of the increasing reporting burden. COBA and its members look forward to working with APRA to minimise reporting burden. Given this recent and prospective engagement, APRA should ensure that there are adequate mechanisms in the proposed (ARS 923) or any future COVID reporting standards to be able to accommodate measures to reduce reporting burden.

Limited reporting timeframe

COBA members have noted that the 10-day timeframe imposed so far to submit COVID reporting to APRA is unreasonably tight. The proposed ARS 923 retains this timeframe. COBA members have raised concerns this period aligns with a busy reporting period for ADIs who are subject to Economic and Financial Statistics reporting (which also has a 10-day reporting time). For other COBA members, this short timeline is not normally something that an ADI of their size would be subject to, nor resourced for, in a business as usual scenario. We understand that APRA may have amended reporting dates for some ad-hoc forms, however, in the proposed ARS 923 this remains at 10 days. As noted above, COBA and its members look forward to working with APRA to minimise reporting burden.

Duplicative reporting

COBA members noted that the COVID-19 reporting currently duplicates some other data submitted to APRA via other reporting forms. We suggest that APRA streamlines its data requests so that information is only reported once by an ADI, and APRA systems manage distribution of this data wherever it is required.

Alignment with existing ad-hoc reporting requirements

COBA members note that questions remain around how this standard aligns with the existing and recently revised ad-hoc reporting requirements that ADIs are currently subject to.

We understand that the ARS 923 aligns with some of this ad-hoc reporting and may be a subset of this data. However, ARS 923 is somewhat limited in terms of describing exactly what the COVID-19 repayment deferral form looks like, unlike other ARS which provide a template form.

COBA believes that it is critical that there is clarity about the full reporting suite required of ADIs. Given the large reporting burden, some ADIs are looking to create reporting solutions to reduce this burden. However, it remains unnecessarily difficult and costly to do so without clarity and consistency on the suite of forms.

COBA has also provided more detailed comments on the reporting standard via email to APRA staff on 20 August.

APRA entity-level loan deferral disclosure proposals

COBA has already provided our views on the proposed entity-level loan deferral disclosures directly to APRA through our regular liaison. COBA highlights the importance of APRA emphasising to all stakeholders who may use this data the following message:

“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.”

A failure to make this message clear may make transparency via entity-level data disclosure inconsistent with APRA’s financial stability and financial safety objectives.

APRA states that it will notify ADIs 24 hours prior to the release of the publication. COBA members suggest that timeline be extended to 48 hours to enable more time for appropriate governance. We note previous advice from APRA to COBA that APRA will work closely with ADIs ahead of this release.

Given APRA’s previous references to ‘revision’ of this data, COBA members query when resubmissions are required ahead of the expected early September publication. COBA observes that any resubmissions are likely to be due in a very short period (i.e. next week) if APRA expects disclosure at its proposed time.

Please feel free to contact Mark Nguyen on [REDACTED] if you want to discuss any aspect of this submission.

Yours sincerely

[REDACTED]

MICHAEL LAWRENCE
Chief Executive Officer