![Australian Banking Association logo]

11 February 2021

Senior Manager, Data Strategy and Frameworks Data Analytics and Insights
The Australian Prudential Authority (APRA)
By email: DataConsultations@apra.gov.au

Dear Mr Murphy

Proposed reporting standard ARS 220.0 Credit Exposures and Provisions (ARS 220.0)

The Australian Banking Association (**ABA**) welcomes the opportunity to provide its submission to the APRA Reporting Standard ARS 220.0 Credit Exposures and Provisions (**ARS 220**). The ABA looks forward to continuing engagement on ARS 220 as part of the implementation of APRA Connect and a move towards collecting data through concept-dimension models. Collecting data in such a way is, in the long-term, likely to reduce the regulatory data burden on entities and allow APRA to be more responsive to novel data requests.

With the active participation of 22 member banks in Australia, the Australian Banking Association 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 supports the objective of the new ARS 220 data collection. This submission focuses on the ABA's key issues from the proposed implementation process and suggests potential alternatives which could address these issues. Submission on specific data requirements will be provided by ADIs bilaterally.

Taxonomy and definitions

A key concern of the ABA is the lack of a clear taxonomy and list of data definitions. The ABA considers that the taxonomy and definitions for APRA's new data collections needs to be defined before banks can provide a clear feedback on the timeline for ARS 220 reporting. Reference is made to the European Central Bank's (**ECB**) AnaCredit reporting, also a granular credit data submission, where a detailed taxonomy with practice guide and worked examples was provided from the outset of the project[1]. As discussed during workshops, the definitions used in ARS 220 need to be consistent across all future reporting standards which will use APRA's new data collection approach. For example, the ARS 220 taxonomy should consider the definitions in the context of the new Basel III and "unquestionably strong" capital framework which will expand the current concept-dimension model data collection. Taking a 'whole-of-reporting' approach to taxonomy and definitions will avoid any re-work in future which would be costly (to both banks and APRA), and not meet APRA's new data collection objectives. It is also

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[1] https://www.centralbank.ie/statistics/statistical-reporting-requirements/anacredit-in-ireland[1]

more beneficial to regulators as taxonomy also enables Industry synthesis and benchmarking. If definitions are clear, then compliance to those definitions is more straightforward.

The ABA understands that one purpose of the consultation is to gather information from banks on what reportable definitions and data is currently available/used that is relevant to ARS 220. This information is idiosyncratic to each bank and will be provided bilaterally by each bank. The ABA suggests that once this information is collected, that the ABA and APRA work together to finalise a taxonomy and definitions which can be used across all future reporting standards.

The ABA suggests that following the consultation, a program is developed by APRA and the ABA to work through and develop the data taxonomy and definitions.[2] The objective of this group is to develop iteratively the taxonomy and definitions, which would become reporting requirements once agreed.

Implementation timeline

The ABA notes that APRA would like the proposed new ARS 220 data collection to be implemented by 1 January 2022. Whilst the ABA appreciates that the proposed implementation date seeks to align ARS 220 with Prudential Standard APS 220 Credit Risk Management (APS 220) original implementation date, the ABA is concerned that such a significant change to how banks report under APS 220 will require more time to implement in full. This is because:

- the taxonomy and definitions will take a significant time to be developed

- both APRA and ADIs to resolve any confidentiality and privacy issues

- APRA Connect is yet to be completed and implemented; and

- internal systems need to be updated following the finalisation of the taxonomy and implementation of APRA Connect.

The proposed timeline is ambitious compared to similar projects undertaken by APRA and the ECB.

- The Economic and Financial Statistics (**EFS**). The EFS implementation timeline, commencing with the informal 'major banks' consultation and workshops on the reporting requirements to the first go-live reporting period, took approximately four years. The EFS reporting requirements were released in March 2018 and the implementation timeframe was only 18 months (considered across the industry to be too short a timeframe. This resulted in some banks not meeting the timeframe and other banks needing to revise and resubmit EFS returns because of APRA refining their reporting instructions following their review of the EFS reporting). It is also likely that material inconsistencies in key interpretations continue to exist in the EFS reporting across the industry because of the short implementation and parallel run period which did not allow the industry to share and align reporting methodology and implement the new data quality controls.

- ARF 210 Liquidity reporting (**ARF 210**). In 2014, the ARF 210 presented a similarly complex reporting change, there was a two-to-three-year period of QIS 'Quantitative Impact Study' (in essence a 'dry-run') in advance of the go-live.

- The ECB began developing its AnaCredit data collection in 2011 and finalised its requirements in 2017.

Further, Basel III and other APRA reporting standards are due to be updated soon which will need to be considered as part of the taxonomy and reporting definitions development. APRA have indicated that future data extensions are envisaged such as Basel III.

The ABA recommends that an alternative timeline be developed which is tied to the finalisation of the taxonomy and definitions. Once the taxonomy and definitions are finalised, banks will be able to provide

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[2] Representatives from the ABA would include member banks and APRA. The membership should include major banks, non-major banks, and foreign owned branches.

a more certain estimate to APRA for compliant implementation and to what degree. Further, a taxonomy and definitions developed in this way would include the Basel III reporting requirements which could lead to a more efficient implementation of the associated APRA reporting standards under the new data collection process. The ABA understands that this will require at least an additional 12 months. Given this, the ABA recommends that the implementation date be extended until at least 1 January 2023.

Issues with 'best efforts' approach

The ABA understands that APRA does not fully expect compliant data to be reported by 1 January 2022 given a new data collection needs to be developed. The type of reporting data required by concept-dimension models is not yet widely used within banks and needs to be developed from the ground up, in some cases.

To address non-compliance concerns, APRA have stated that data can be provided on a 'best-efforts' basis from the implementation. To assist, APRA can provide a directive to auditors that certain ARS 220 requirements are not required to be audited and include 'best endeavours' within the ARS 220 reporting standard. In APRA's view, this could remove compliance risk from providing information on a 'best efforts' basis.

However, there is a high degree of uncertainty for ADIs from relying on a direction to exempt an ADI from compliance/audit requirements. A direction does not have a specific fixed timeframe and can be withdrawn and changed at any time by APRA. This uncertainty makes project planning and providing senior decision makers appropriate assurances about the progress of implementation projects challenging. Further, it is unclear to auditors what consists of 'best efforts' when reviewing the compliance of implementation projects. ADIs previous experience suggests that a 'best efforts' approach can require multiple resubmissions to APRA given it is unclear what APRA's expectations are for a reporting period. Given this, the ABA recommends APRA to adopt an implementation timetable which is reasonable and clarify what 'best endeavours' will mean in practice for ADIs.

Regulatory reporting during implementation period

The ABA understands that the implementation of ARS 220 is a significant project, and it will take some time after 1 January 2022, that all ARS 220 data received by APRA will be complete and comparable across ADIs. However, APRA is likely to need comparable credit risk management data to supervise ADIs and ensure financial stability following the COVID-19 pandemic. This is likely to increase pressure on APRA to require ADIs to implement manual processes to deliver data ahead of its proper implementation. Manual processes are more prone to error and are much more inefficient than delivering data through an implemented system solution. Given this, an approach that does not incorporate a transitional reporting solution could potentially raise significant operational risk for ADIs

The ABA suggests that a transitional reporting solution be implemented from 1 January 2022 to 1 January 2023. The ABA would welcome working with APRA to develop and explore alternative interim reporting solutions. While the ABA does not prefer a specific solution, it may be useful to explore whether existing or previous requirements could be appropriate in the interim.

The transition period would also allow for parallel reporting for at least four reporting periods so systems can be fully tested and assured by APRA. An interim reporting solution will ensure that there is no delay to reporting under the updated APS 220 standard, data will be comparable, and a fully tested compliant data solution can be implemented.
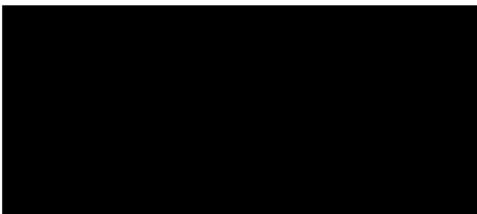
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Summary

In summary, the ABA supports the new APS 220 data collection objectives. However, the ABA recommends that the process for implementation should include:

- The ABA and APRA work together to finalise a taxonomy and definitions which can be used across all future reporting standards for a more efficient implementation.

- The ARS 220 implementation date should be tied to the finalisation of the taxonomy and definitions, and

- APRA clarify its expectations of a 'best efforts' approach for ADIs and consider whether an interim reporting solution is needed from 1 January 2022.

I look forward to developing the final implementation plan further with APRA and a workplan for the next 12 months to ensure an orderly and compliant reporting product.

Yours sincerely

Policy Director