



30 July 2021

TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS

CONSULTATION ON LOANS IMPACTED BY COVID-19: REGULATORY SUPPORT

On 19 July 2021, APRA announced regulatory support for banks offering temporary financial assistance to borrowers impacted by COVID-19.¹ A number of authorised deposit-taking institutions (ADIs) have announced COVID-19 support packages that will provide affected borrowers with an option to defer their loan repayments.

Prudential treatment

To assist ADIs in supporting their small business, home loan and other retail customers through this period, APRA is providing a temporary regulatory treatment for loans impacted by COVID-19. For eligible borrowers, ADIs will not need to treat a repayment deferral as a loan restructuring or the period of deferral as a period of arrears.

This prudential treatment will apply to loans that are granted a repayment deferral of up to three months on or before 31 August 2021, whether or not the borrower has previously been granted a repayment deferral. ADIs must still continue to provision for these loans under relevant accounting standards.

APRA intends to formalise this regulatory support through a temporary amendment to *Prudential Standard APS 220 Credit Quality (APS 220)*. This largely mirrors the approach taken by APRA in March 2020. A draft of this amendment, Attachment E to APS 220, is provided below for consultation with industry.

Reporting

APRA will require ADIs to disclose publicly and report the nature and terms of repayment deferrals and the volume of loans to which they are applied. To enable an understanding of the impact of these loans on the financial system, APRA intends to collect entity-level data by recommencing reporting under *Reporting Form ARF 923.2 COVID-19 Repayment Deferrals*. For transparency APRA may also decide to publish entity-level data collected under *Reporting Standard ARS 923.2 Repayment Deferrals*.²

To alleviate reporting requirements for small ADIs, the threshold for the collection of ARF 923.2 data for total loans subject to repayment deferral will be increased to a minimum of \$50 million and 50 facilities.

Consultation

APRA invites feedback on the draft revised Attachment E to APS 220. This will be subject to a one-week public consultation; written submissions on the proposals should be sent to

¹ [APRA announces further regulatory support for loans impacted by COVID-19 | APRA](#)

² *Reporting Standard ARS 923.2 Repayment Deferrals* outlines the specific information obtained through *Reporting Form ARF 923.2 COVID-19 Repayment Deferrals*.

ADIpolicy@apra.gov.au by 6 August 2021. APRA will finalise its response and register the revised APS 220 as soon as practicable after the consultation period.

Disclosure notice – publication of submissions

All information in submissions will be made available to the public on the APRA website, unless a respondent expressly requests that all or part of the submission is to remain in confidence.

Automatically generated confidentiality statements in emails do not suffice for this purpose.

Respondents who would like part of their submission to remain in confidence should provide this information marked as confidential in a separate attachment.

Submissions may be the subject of a request for access made under the Freedom of Information Act 1982 (FOIA).

APRA will determine such requests, if any, in accordance with the provisions of the FOIA. Information in the submission about any APRA-regulated entity that is not in the public domain and that is identified as confidential will be protected by section 56 of the Australian Prudential Regulation Authority Act 1998, and will therefore be exempt from production under the FOIA.

Yours sincerely,

John Lonsdale
Deputy Chair

ANNEX A. DRAFT REVISED PRUDENTIAL STANDARD APS 220 CREDIT QUALITY

The content which follows will replace the existing Attachment E to the currently in-force *Prudential Standard APS 220 Credit Quality* determined on 7 September 2020.

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 19 July 2021 to 30 November 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 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
4. For the purpose of paragraph 3 of this Attachment, an eligible repayment deferral means a repayment deferral for a period of up to three months that was granted to an eligible borrower between 19 July and 31 August 2021. When granting this deferral, 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 no less than the number of days past-due at the time the initial deferral was granted, unless the loan is modified in accordance with paragraph 7 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*

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.

Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (APS 113), it must treat the loan as impaired or defaulted.

7. For the purpose of this Prudential Standard, an eligible repayment deferral is not a restructure. Where an eligible repayment deferral has been implemented, and an ADI extends the maturity of the loan or varies repayments over the residual loan term in a manner that fully adjusts for the deferral period and any pre-existing arrears, an ADI may reset the counting of arrears to zero.⁴

Other clarifications

8. For the avoidance of doubt, a COVID-19 loan that is subject to an eligible repayment deferral, 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.
9. For the avoidance of doubt, a COVID-19 loan that is subject to an eligible repayment deferral, 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*.

⁴ For the avoidance of doubt, a COVID-19 loan that is modified on this basis is not a restructured loan for the purpose of this Prudential Standard.

ANNEX B. DRAFT REVISED REPORTING REQUIREMENTS

Transparency is an important component of the regulatory support provided to ADIs. To promote this objective, APRA intends to collect data on COVID-19 impacted loans by recommencing reporting under *Reporting Form ARF 923.2 COVID-19 Repayment Deferrals* (ARF 923.2).

APRA intends to collect data for those ADIs that have:

- total loans subject to repayment deferral of greater than or equal to \$50 million; and
- total number of facilities subject to repayment deferral greater than or equal to 50.

The first collection of ARF 923.2 data is expected to be in late August 2021 for COVID-19 impacted loans as at 31 July 2021. APRA expects that ADIs will provide the relevant data on a monthly basis within 10 business days after the end of the reporting period to which the data relates.

APRA may also decide to publish entity-level data collected under *Reporting Standard ARS 923.2 Repayment Deferrals*. As per previous publications of this data, APRA would not publish data that represents a small number of loans. APRA would also continue to highlight that the temporary repayment deferral reporting has been implemented within tight timeframes, and that the data has been submitted to APRA on a best endeavours basis and may be subject to revision. APRA publications are not a substitute for appropriate disclosure by individual ADIs.