



30 August 2021

TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS (ADIs)

RESPONSE TO SUBMISSIONS ON INTERIM *REPORTING STANDARD ARS 220.0 CREDIT QUALITY* AND CONSEQUENTIAL CHANGES TO ADI REPORTING STANDARDS

The Australian Prudential Regulation Authority (APRA) is releasing a response to submissions on the proposed interim *Reporting Standard ARS 220.0 Credit Quality* (interim ARS 220.0) and consequential changes to ADI reporting standards and forms that will be affected by APRA's updated prudential and reporting framework for credit risk.

Background

Reporting Standard ARS 220.0 Credit Exposures and Provisions (ARS 220.0) will complement the *Prudential Standard APS 220 Credit Risk Management* (APS 220). APRA consulted on draft ARS 220.0 from October 2020-January 2021.¹

Since January 2021, APRA has held a number of bilateral discussions with ADIs and industry bodies to gain feedback on the proposals and APRA's likely response. APRA incorporated feedback from these discussions and its formal consultation to develop its response.

In June 2021, APRA proposed a phased implementation of ARS 220.0, with an interim ARS 220.0 which would apply while ADIs develop their solutions for delivering the full ARS 220.0 data². The interim ARS 220.0 was proposed to apply from the beginning of Q1 2022, being replaced by ARS 220.0 starting in the second quarter of 2023.

Under the new APS 220, the term *impaired* will be replaced with the term *non-performing*. In June 2021 APRA also proposed replacing the term *impaired* with the new term *non-performing* in affected ADI reporting standards and forms. APRA proposed these consequential changes would be effective commencing 1 January 2022. First submissions for the new reporting standard will be due 5 May 2022.

Submissions received

APRA received nine submissions, four from ADIs, three from industry bodies and two from regulatory service providers.

All submissions were supportive of the deferred implementation schedule for ARS 220.0, however a number also raised concerns about the reporting burden imposed by the introduction of an interim ARS 220.0.

Submissions also discussed the implementation timelines of the interim and full ARS 220.0, and raised queries on specific aspects of reporting.

¹ [Proposed revisions to the credit risk management framework for authorised deposit-taking institutions](#)

² See footnote 1.

Implementation effort of interim ARS 220.0

While one submission was supportive of the introduction of an interim ARS 220.0, four others raised concerns with the implementation burden. Two proposed prioritising the full ARS 220.0 instead of developing the interim ARS 220.0, while one submission proposed allowing ADIs to report interim ARS 220.0 on a best endeavours basis.

Given the range of feedback received relating to the implementation burden of the proposal, APRA considered the effects of continuing to implement the interim ARS 220.0 against the potential benefits.

APRA considers the implementation of interim ARS 220.0 is required to ensure alignment of reporting with the revised APS 220 from January 2022, maintaining its value for supervision, publication and use by other agencies. In addition, implementing the interim ARS 220.0 creates a smoother, staged transition to APS 220 and a more accurate base to evaluate the implementation of ARS 220.0 and APRA's new capital framework.

For these reasons, APRA will proceed with implementation of the interim ARS 220.0 commencing 1 January 2022.

Continuation of Reporting Standard ARS 220.5 Movements in Provisions for Impairment (ARS 220.5)

Two submissions noted ARS 220.5 was not included in the consultation and questioned if it would continue post 1 January 2022. APRA confirms that reporting on ARS 220.5 will continue unchanged.

Timeframe for full ARS 220.0 implementation

Three submissions from ADIs also expressed a preference for additional lead time to develop and implement the full ARS 220.0. APRA will continue to consult with ADIs during development of the full ARS 220.0 data cube and will consider feedback from ADIs on the indicative implementation dates.

Updates to Reporting Standard ARS 743.0 ABS/RBA Housing Finance (ARS 743.0)

APRA also has amended ARS 743.0 to update two references to *impaired* exposures and replace them with *non-performing* in response to consultation feedback. These changes, like the other consequential amendments, will apply from 1 January 2022.

Finalised reporting standards

Copies of finalised reporting standards can be viewed at: [Proposed revisions to the credit risk management framework for authorised deposit-taking institutions](#).

Yours sincerely,

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