

6 August 2021

Mr Gideon Holland
General Manager, Policy Development
Australian Prudential Regulation Authority

Via email: ADIpolicy@apra.gov.au

Dear Mr Holland

APRA Letter to ADIs on loans impacted by COVID-19: Regulatory Support

COBA welcomes the opportunity to respond to APRA's 30 July consultation letter on loans impacted by COVID-19.

COBA is the industry association for Australia's customer owned banking institutions (mutual banks, credit unions and building societies). Collectively, our sector has \$147 billion in assets, around 10 per cent of the household deposits market and more than 4.5 million customers. Owing to our prudent lending standards, our sector remains well-capitalised in the current economic environment.

Prudential Treatment – APS 220 Attachment

COBA welcomes APRA's proposed instrument to amend APS 220 to provide greater clarity on the prudential treatment of repayment deferrals. Deferrals are part of the wide ranging tool kit that ADIs can use to support their customers during this difficult time.

While we currently do not expect the demand for deferrals to return to the peak levels seen in 2020, the continually evolving health situation has shown that nothing can be taken for granted.

COBA members provide the following comments regarding the time scope of deferrals:

- The proposed instrument only cover deferrals after APRA's announcement on 19 July. Some COBA members have noted that that some ADIs may have provided deferrals in response to the ABA's 8 July announcement.¹ APRA should include flexibility to allow these ADIs to include these deferrals under the proposed treatment.
- Flexibility is required with the 31 August end date given the current uncertain health situation. **As noted by the RBA on Tuesday, the main source of uncertainty regarding Australia's economic outlook is the health situation.** We suggest that APRA continues to flag the potential for regulatory support where the health and economic situation dictates. **Since APRA's 19 July announcement there have been new lockdowns in Queensland, Victoria and South Australia.**

Regulatory reporting – ARS 923.2

COBA welcomes APRA's proposal to increase the reporting threshold to \$50 million in deferrals and 50 loans. Given we expect fewer deferral requests compared to 2020, this increased threshold is expected to reduce the ongoing D2A reporting burden.

¹ <https://www.ausbanking.org.au/australian-banks-offer-covid-19-customer-relief/>

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 or meeting the numerous upcoming compliance obligations. ADI resources are currently devoted to meeting the 'Big October' reform timelines as well as other projects such as Open Banking and the incoming ARS 220 'tactical' credit risk reporting form.

As a result, 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). We welcome any moves to reduce the reporting requirements on small ADIs.

COBA requests the formalisation of this reporting threshold and its respective treatments, noting that our interpretation of the new requirements is that below threshold ADIs no longer need to report ARS 923.2 as APRA's 30 July letter² notes "it only intends to collect data" from above threshold entities. This differs from the previous 13 August 2020 letter³ stating that it is "only intending to publish" data from above threshold entities (see table below). Clarity in the updated ARS 923.2 standard would be much appreciated. Previously, below threshold ADIs were provided clarity on this below threshold reporting requirement in the reporting standard's explanatory notes.

COBA members also query whether this threshold applies to all loan deferrals, or just those subject to the COVID deferral capital concessions given the specific COVID capital concession focus of this reporting form.

Revised \$50m/50 loan threshold treatments (previous \$20m/20 loan threshold treatment in brackets)

	Reporting frequency	APRA Disclosure
Below threshold	Not reported (<i>Quarterly</i>)	No (<i>No</i>)
Above threshold	Monthly (<i>Monthly</i>)	Potentially (<i>Yes</i>)

Additional queries

COBA members seek clarity around whether the recommencement of deferrals reporting relates only to the COVID deferrals under the currently proposed instrument (i.e. from July 2021) or for all COVID deferrals.

COBA members also seek clarity about whether there are any expectations of requiring them to examine if this current round of deferrals were previous COVID deferrals given that APRA notes in its 19 July announcement⁴ that this measure applies "regardless of whether or not the borrower has previously been granted a repayment deferral due to the impact of the pandemic". While some ADI are examining this, this may be burdensome for other ADIs given the many competing priorities.

COBA members have also raised concerns about whether APRA expect ADIs report 923.2 data other formats such as supervisory meetings, rather than just through using their business as usual hardship monitoring. Requiring below thresholds ADIs to continue to report this form would limit the benefits of this revised threshold.

² [APRA Letter to ADIs – Consultation on Loans Impacted by COVID-19: Regulatory Support \(30 July 2020\)](#)

³ [APRA Letter to ADIs – Consultation on Treatment of Loans Impacted by COVID-19 \(13 August 2020\)](#)

⁴ [APRA announces further regulatory support for loans impacted by COVID-19 \(19 July 2021\)](#)

COBA members have also raised broader concerns about strictly limiting any future changes to deferrals reporting given that any changes would require the redeployment of resources from other current priorities.

Thank you for the opportunity to provide these comments. If you wish to discuss any aspect of this submission, please contact [REDACTED]

Yours sincerely,

[REDACTED]

Michael Lawrence
Chief Executive Officer