Australian Banking Association

06 July 2021

Senior Manager
Data Strategy and Frameworks
Data Analytics and Insights
Australian Prudential Regulation Authority

Dear Senior Manager

Response to APRA letter – Reporting Standard ARS 220.0 Credit Exposures and Provisions

The Australian Banking Association (ABA) welcomes the opportunity to comment on the proposed changes to the Australian Prudential Regulatory Authority's (APRA) reporting standard ARS 220.0 Credit Exposures and Provisions (ARS 220.0). The ABA and members are supportive of APRA's move to data collection based on a concept-dimension data model. ABA members broadly support the approach APRA has outlined in their letter of June 8.

The collective view of ABA members is that a successful implementation will result from sufficient time being given to develop a full taxonomy, and that this is finalised well in advance of the first submission date so banks can build the infrastructure to support the data model.

ABA members have concerns with the overlap of two new reporting requirements (the tactical solution and the incremental collections), the granular level of detail required for the strategic solution (especially for the lower risk portfolios) and the timing by which each reporting needs to be provided. Banks would also like more detail on what is intended by the pilot phase in Q3 & Q4 of 2021, including expectations of participating banks.

The ABA suggests that the first strategic collection is due 12-18 months after the finalisation of ARS 220.0. We also propose that APRA prioritise either the tactical reporting or the incremental reporting, as the requirement for both creates a substantial workload that industry will find difficult to meet. Industry prefers definitions to be consistent among all reporting forms. Consistency will take time to develop and is best considered during the development of the taxonomy. We also encourage APRA to have a separate ANZSIC project commencing in 2023.

Finally, to help ABA members forward plan, they would benefit from an early and high-level indication of what is expected to be incrementally involved in each of the phases. For example:

- Quarter 1: Residential mortgages, domestic books only
- Quarter 2: Residential mortgages, all books
- Quarter 3: Business Banking etc

Detailed explanation for the ABA's suggested approach is provided in the attached annexure.

Yours sincerely

[redacted]

Michelle Jakubauskas
[redacted]

Australian Banking Association

Annexure

Proposed timing and staging

The approach suggested by APRA in developing and implementing ARS 220.0 provides a number of opportunities but in its current format also creates some challenges.

Piloting

Opportunity: Banks understand the piloting approach taken by APRA is intended to create the opportunity for a co-development of the ARS 220.0 taxonomy.

Challenges: Banks require a detailed taxonomy to provide information on specific data attributes, dimensions, and the reporting format before data teams can be fully engaged to work on a solution. Further a number of smaller banks report being interested in participating in piloting but not having the resources (by way of staff) to do so. These banks are at risk of not having an opportunity to influence the development of the taxonomy in the same way in which those banks involved with piloting may.

Tactical reporting

Opportunity: Banks understand that the interim solution was intended to minimise the work required of banks in transitioning to the strategic ARS 220.0.

Challenges: Examination of the tactical form finds that rather than it being a simplified interim solution, banks are required to build a new data solution to deliver it. The complexity is illustrated by the questions about definitions in the tactical form as outlined later in this letter. Once definitions are finalised and the build is complete, banks still require multiple testing cycles to assess the accuracy of the build. These test cycles take further time meaning the interim solution may still need refining during 2022 when they are also expected to deliver the incremental reporting.

Incremental reporting

Opportunity: Banks understand the staging of quarterly incremental collections is intended to give them time to develop their reporting solutions. The incremental reporting follows on from the pilot exercise in Q1 2022 with incremental collections required during 2022 ahead of the first formal collection in Q2 2023.

Challenges: For banks who have yet to develop any kind of data cube (and possibly even for those who have), the amount of work required to be ready for the first incremental collection is significant and includes major system infrastructure work, enabling interfaces to D2A and/or APRA Connect and the alignment of multiple data sets not previously reported together. Given all this, meeting the Q1 2022 timing for the first incremental collection will be challenging, if not impossible.

All these issues are exacerbated by a shortage of skills in the local industry needed to implement these extensive changes, including changes to consequential reporting forms. This skill shortage has existed for some time but has increased due to the pandemic as staff cannot be recruited internationally. Existing teams may be better placed focusing attention on reporting datasets for those higher risk areas.

Alignment of timeframes with Basel III

ABA recommends that the final implementation of ARS 220 align with the finalisation of the revised capital reforms (Basel III). As it stands a mid-2023 roll-out would result in ARS 220 definitions being finalised prior to capital framework definitions. Given overlapping definitions between ARS 220 and capital framework this may result in further updates required to ARS 220 in the years after its implementation & expected finalisation.

Suggested timing

Given these concerns, there is a preference for the first strategic collection to be due 12-18 months after the finalisation of ARS 220.0, with the detailed taxonomy provided prior to any submissions. Industry also proposes either that the:

- pilot to continue through 2022 in place of the incremental collections, or
- tactical solution be removed to allow banks to focus their energy on the piloting, development of the taxonomy, and the incremental reporting.

These approaches would allow ADIs to focus on the work required for the strategic collection without the distraction of the incremental collections while also aligning the final reporting with Basel III finalisation.

Complexity of tactical form

The current tactical form requires considerable work for banks to implement. ABA members have outlined a number of questions below in order to clarify definitional issues. These questions illustrate how the apparent slight modifications to the form create a substantial amount of work in implementation.

Derivatives

Are derivatives in scope (other than guarantees)?

The current interpretation is that derivatives remain in scope for the tactical reporting as they are required to be reported in Table 2 for fair value instruments of the strategic form. However, on page 34 of the marked up tactical ARS 220, the third bullet point of section 1 deletes comments that relate to derivatives eg "credit equivalent amounts …", "Derivative transaction exposures should be revalued…".

If derivatives are in scope, as these and other fair value instruments are not subject to provisioning per AASB 9, staging definitions do not apply and only performing / non-performing definitions are relevant. Is it correct to assume that non-performing derivatives should be reported under "non-performing", and performing derivatives are scoped out of the tactical form given Stage 2 does not apply?

Performing / Non-performing

Please clarify the definition of well secured / not well secured.

Whilst acknowledging APRA have provided definitions of Well Secured / Not Well Secured and Unsecured, these definitions are not explicit and may be open to interpretation. We welcome the opportunity to work with APRA and ADI's on the application of these definitions to ensure alignment and consistency across the industry.

For example, does the well-secured / not well-secured and unsecured distinction apply to all of the bank's loan exposures subject to the impairment requirements of AASB 9?

Further, there is an inconsistency between the definitions of 'well secured' in the draft tactical form which ***does not*** refer to '90 days past-due', compared to the definition in the strategic draft ARS 220 which ***does*** refer to exposures that are '90 days past-due'. Is it correct to take the definition from the tactical form to also be the definition for the strategic form, considering the strategic is asking for the determination of 'well- secured' to be carried out on all exposures not just those th'90 days past-due'?

Please clarify the classification of restructured loans as performing or non-performing.

Australian Banking Association

It is explained in the new APS 220 (para 98) that a "restructure may be granted on performing or non-performing exposures…when the restructure is applied to a performing exposure, the ADI must assess whether the exposure meets the definition of non-performing…".

In many scenarios a restructure is offered as financial assistance to a customer experiencing hardship, therefore the loan would often be considered non-performing. We request APRA provides further clarification through worked examples of where a loan is continued to be classified as 'performing' after being restructured.

Please include clear instructions on inclusion of facilities which are >=90 days past due

In an industry / APRA phone call we confirmed that if a facility falls into >=90 days past due and is also non-performing, it should be reported in both the non-performing exposure line items and the >=90 days past due line items. That is, they are not mutually exclusive. It would be useful for all of industry if this was specified in the standard, or in definitions.

Balance Outstanding

Is 'balance outstanding' in the tactical return intended to mirror the Plain English Taxonomy (PET) definition in D2A for the current ARF 220.0 form[1]?

Within industry 'balance outstanding' is typically referred to as the 'drawn amount', however, interpretation of the Plain English Taxonomy (PET) definition is that the term refers to the total exposure which is equal to the 'drawn' plus 'undrawn amount' (undrawn for irrevocable commitments only). Industry would further like to understand how this aligns with the strategic return where only the 'drawn amount' and 'gross carrying amount of credit exposures' are required.

Past Due Amount

Please clarify the definition of 'Past Due Amount'.

- Past Due' is defined in the new Australin Prudential Standard 220 (APS 220) (para 12 (b)) as "an exposure for which any amount due under a contract has not been paid in full at the date when it was due…[2]".
- 'Past Due Amount' is defined in the PET as "...total amount of contractual payments that remain unpaid beyond their due dates[3]".

The industry interpretation of the new APS 220 definition is to report the entire balance of the exposure (of which a portion of amounts could be past due), which is different to the interpretation of the PET definition which points to reporting only those amounts that are past due. The industry preference would be for the APS 220 interpretation to apply.

Provisions

Please clarify the following reporting and definitional issues relating to provisions.

1. Total Provisions is a combination of both Collective and Specific Provisions. However, the Collective Provision may include certain central adjustments.
    - Is APRA expecting these central adjustments to be fully allocated at an account level for mapping into the tactical form?
2. In Section C, >= *90 DPD items that are well secured*

[1] Per the PET for "Balance Outstanding": "This is the value of all exposures of the reporting party that give rise to counterparty credit risk, determined in accordance with the relevant prudential standards, where the estimates of future interest income are zero; a specific provision for impairment has been raised in respect of it; and the reporting party is receiving no, or only sporadic, payments."

[2] Per APS 220 12b: "past-due – an exposure for which any amount due under a contract (interest, principal, fee or other amount) has not been paid in full at the date when it was due. An exposure is considered past-due from the first day of missed payment. An exposure will remain outside of contractual arrangements notwithstanding any waiver of payments unless such an exposure has been restructured."

[3] Per the PET for "Past Due Amount": "This is the past due amount of all credit facilities as at the relevant date. The past due amount is calculated as:(1) if the facility is not subject to a regular repayment schedule it is the amount that has remained continuously outside contractual or approved arrangements; or (2) if the facility is subject to a regular repayment schedule then it is the total amount of contractual payments that remain unpaid beyond their due dates."

- Is the column for 'Total Provisions' only intended for the well secured exposures (as per Section C's heading), or for the whole portfolio of the relevant products?
- Column (3) and (4) - What is the measure for 'Total Portfolio Size'?
- Column (5) and (6) - Does 'Provision' mean specific or total provisions?

3. For Item *5. Provision for credit exposures less than 90 DPD*
   - Does "less than 90 DPD" means 0-89 DPD or 1-89 DPD?
   - Is the requirement to report provisions for both individually managed and portfolio managed facilities less than 90 Days past due? (This was previously reporting for portfolio managed facilities only.)
   - Or, is the requirement to capture Stage 1 provisions here that are not captured under Stage 2 or Stage 3 provisions reported under other categories?

Consequential Returns

As noted in APRA's letter, changes to definitions in ARS 220 result in flow-on consequences to other reporting forms, including EFS reporting forms. However not all forms with flow-on consequences are included in their list of proposed revisions. Some questions resulting from these exclusions are included below.

ARF 743.0 ABS/RBA Housing Finance

In addition to the taxonomy changes to ARS 220.0 amendments are required to be made to ARS 743.0 within the Specific Instructions - Sections for Items 6 and item 7. ARS 743.0 currently uses the term 'impaired'. Can APRA confirm that this will also be done as per the proposed timelines for ARF 743.0.

ARS 720.1 ABS/RBA Loans and Finance Leases:

The amended ARS 701 (amended November 2020) will replace the term impaired with non-performing and the amended standard effective from **30 September 2021**. It is recommended that the effective date for the amended ARS 720.1 be changed to **1 January 2022**, to align with the proposed effective date for APS 220 Credit Risk Management or alternatively data points for non-performing to be provided on a best endeavours basis.

ARS 720.1 refers to the definition and methodology for the term non-performing contained in ARS 220.0 and the definition is also to be implemented from **30 September 2021.** We continue to request that this date be extended to January 1, 2022 as per our email of April 6, 2021.

Given the misalignment of implementation dates between the EFS Modernisation changes, and the updated APS220 and ARF220 to what extent do the Agencies accept the use of proxy measures in relation to well/ not well / unsecured where the data is not yet available? If accepted what proxy measures are appropriate?

ARS 220.5 Movement in provisions for impairment

ARS 220.5 is not included in the list as a consequential change, despite being included in the original consultation as intended to be replaced by new ARS 220.0. Banks would like guidance as to whether it should continue to be submitted during the period of the interim reporting.

Other reporting forms

ABA member banks have identified other forms which will be impacted by definitional changes. These will be outlined in individual bank submissions.

Appendix 4: Industry classification

Implementation of the ANZSIC 2006 codes across customer systems is a significant piece of work which ADIs believe should be carried out separately to the implementation of ARS 220.0, and propose that this work continues post 2023. It is worthwhile briefly explaining why banks might have difficulty associating an ANZSIC code in their lending books.

Moving to the full use of ANZSIC 2006 across both customer source systems and underlying processing systems requires several steps to be worked through. These include confirming the recorded ANZSIC code for each customer and subsequent revision. It may also require updates to customer onboarding and front-end systems, so the 2006 codes are available for use. Finally, it requires testing to ensure any movements between codes are understood and able to be explained.

ANZSIC 1993 vs 2006

Banks have gone through a process of classifying businesses they lend to according to ANZSIC 1993. Mapping the previous version to the 2006 version involves a number of complexities including:

- In some cases it is unclear whether a business is allocated a 1993 code or a 2006 as they use they both use same numbering systems, though those numbers can sometimes be assigned to different industries.
- The mapping of 1993 classifications can have multiple allocations to 2006, which means it cannot be used for direct translations.

Should ANZSIC 2006 codes, which were last revised in 2013, are to be superseded with an updated version within the next few years, then ADIs may need to undertake further rework which has implications for time, resourcing and cost. Guidance on when a revision to the ANZSIC codes may be provided in the future would assist ADIs in planning for system and process changes within their businesses. Industry would welcome working with ABS to help develop any updated ANZSIC coding.

Central database

One possible approach to help banks overcome the difficulty of applying ANZSIC classification is a centralised database in which the industry of unique businesses could be identified. The Australian Business Register currently holds detailed information on individual businesses and publishes some of this information, including location of business. While the register contains the ANZSIC classification of businesses it does not make this information public. It would be useful for banks to access this information on the register rather than conducting their own classification and mapping systems.

Data submission

ABA would like to confirm:

- that D2A will be the method of submission for the tactical return and incremental strategic data sets,
- that APRA Connect will only be used for the final strategic return, and
- how the definitional changes to the consequential returns will be treated including when the revised taxonomy and XBRL will be provided. The ABA requests a minimum of 6 months before first reporting date to allow adequate time for testing.

Confidentiality of data

ABA members would like confirmation that data collected through the final ARS 220.0 will not be published in any format. ADIs need to apply governance and oversight to any data which is placed in the public domain. This is not possible with data APRA collects through the final ARS 220.0, due to the granular nature of the data collection.