CUSTOMER OWNED BANKING ASSOCIATION

6 July 2021

Mr Michael Murphy
Senior Manager, Data Strategy and Frameworks
Data Analytics and Insights
Australian Prudential Regulation Authority

By email: DataConsultations@apra.gov.au

Dear Mr Murphy

Reporting Standard ARS 220.0 Credit Exposures and Provisions

COBA welcomes the opportunity to comment on APRA's 8 June 2021 letter to ADIs on its response to the previous March 2021 ARS 220 consultation and the consultation on the consequential amendments to ARS 220 and other reporting.

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.

We support APRA's decision for a phased implementation of ARS 220. As noted in our earlier submission, "the 'concept dimension' model is a significant change that needs adequate planning and implementation time given the current operating environment."

As a result, COBA welcomes APRA's decision to introduce a 'tactical' solution in the interim instead of pushing ADIs to report from 1 January 2022 with the more complex 'strategic' solution. However, irrespective of the solution type, COBA members remain concerned about the implementation period given that there are now less than six months to the implication.

Tactical solution – interim reporting for ARS 220

Short time frame for implementation of the tactical solution

COBA members have noted that this implementation timeframe could be quite challenging given that we expect less than six months from the final interim reporting standard's release to the implementation date.

Industry expects that the standard will be finalised in July or August based on submissions closing in early July. With an implementation date of 1 January 2022, this is less than six months. As a rule of thumb, COBA strongly supports that finalised guidance and standards are released at least one year ahead of implementation dates. We recognise that this is not possible given that APRA has a short timeframe for these changes due to the APS 220 implementation date. APRA must ensure that ADIs have sufficient support and flexibility to meet this very short implementation timeline. COBA members note that definitional issues remain where ADIs will need assistance and guidance (see **Attachment A**).

COBA notes that the final APG 220 has not been released yet to assist the industry to comply with both APS 220 and the ARS 220 reporting obligations. COBA members have also noted that this short

ARS 220 implementation period overlaps with the start of the APRA Connect transition and significant regulatory change including the roll-out of open banking for non-major ADIs.

Timely responses to ADI queries required to meet a shortened timeframe

COBA members have noted timely responses to definitional questions will assist in a speedier implementation of these final interim standards.

A COBA member has noted that they have previously raised queries that have taken APRA three months to respond to. These delays mean it is very difficult to make progress in implementing the reporting and prudential standards.

To assist ADIs, APRA requires a timely response process as there may be future queries arising from the finalised interim reporting standard. This process could include formalising service level standards for responding to technical questions to give ADIs more confidence in meeting this challenging deadline.

Confirmation with the APRA Connect environment

Recent APRA Connect communications have stated that "APRA will progressively start new collections in APRA Connect in line with industry consultations." Given this is a consultation, we seek confirmation that these updated forms will be implemented in the existing D2A system rather than transitioning into the new APRA Connect environment.

COBA provides further comment on the consequential standard changes in **Attachment A**.

Strategic solution – longer term granular reporting for ARS 220

Assurance on minimising the additional burden during the incremental collection process

While we welcome APRA's decision to not implement the formal strategic solution in 2022, APRA must recognise that the 'incremental' reporting places additional burden on reporting resources. The proposed approach creates both on-going and build requirements for two different solutions. COBA members seek assurances that any decisions that APRA takes in this process will seek to minimise the additional burden on ADIs, particularly mutual ADIs, as much as possible.

COBA members also seek more information as to who APRA expects to participate in the pilot collection process as well as the incremental collection process given that both these processes will create additional work for ADIs with limited reporting resources.

Consultations on high-level data expectations and expectations on APRA

COBA members also seek engagement on the high-level data expectations prior to its release, to ensure that there is sufficient input from mutual ADIs. We suggest that industry can also discuss any expectations on APRA during this process, including the release of any subsequent prudential guidance such as that released off the back of the Economics and Financial Statistics reporting (i.e. RPG 701.0 ABS/RBA Reporting Concepts).

While COBA appreciates APRA providing a high-level timeframe in its letter, COBA members have several additional queries around the approach. These include:

- Clarity on the reporting date vs the reporting due date, for example, does the Q1 2022 date relate to the March 2022 or December 2021 data? Based on the first formal collection, the Q1 2022 date could refer to December 2021 data.
- Will the lessons learnt from the pilot collection be shared with industry beyond the pilot collection participants?
- What are the data quality expectations for the quarterly incremental submissions? Will this be on a best endeavours basis?

- What format will the submissions take? Will APRA Connect be used as part of the submission process? What are the reporting options? Will it include Microsoft Excel?
- Is there likely to be any Accountable Person attestation similar to the APS 112 on data quality after the release of the finalised standards in Q4 2022?
- How does the ‘handover’ between the tactical and strategic solution work? Will there be a period of parallel reporting? Our view is that this is not necessary give there will be parallel reporting throughout 2022.

Industry classification

COBA notes that any reporting for smaller ADIs that requires the ANZSIC[1] 2006 classification will need to be worked through with the industry. Some COBA members do not have mechanisms to place to report this, irrespective of whether it was ANZSIC 1993 or ANZSIC 2006. This would mean that such mechanisms would need to be built, and this cost would need to be considered against any reporting benefit.

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

[1] Australian and New Zealand Standard Industrial Classification

Attachment A: Comments on draft ARS 220 standards

Issue	Item	Comments
Summary of changes	General	COBA members suggest that APRA summarise all the changes across the eight returns to provide a clear list of the changes. This summary will ensure that ADIs do not miss any potential changes to the returns. It will also ensure that ADIs can easily implement the cross checks and governance changes required to ensure consistency across the suite of returns.
Reconciliation guidance	General	COBA members suggest that it would be helpful to have some clear guidance on APRA's expectation of reconciling items within the ARS 220 form as well as externally to other forms.
Total provisions definition	ARS 220 Section A: Credit Quality Column 2	COBA members seek clarity on what the Total Provisions item in ARS 220.0 captures. One interpretation is that Total Provisions is the total of specific provisions and Expected Credit Loss (ECL) Provisioning under AASB9. However, others have questioned whether Column 2 is referring to the provision or the APRA Prescribed Provision? Some COBA members have noted that for the purpose of total provisions that their ECL model does not calculate provisions at an individual account level. They question whether APRA accept a reasonable allocation approach for disclosing provisions in Column 2. The ARS 220 instructions refer to the reporting of "total provisions for exposures recorded in Australia. This should include the credit loss reserve held as part of retained earnings". Under the new APS 220 Prudential Standard, the General Reserve for Credit Losses held in equity no longer applies. They seek clarity on what the instructions are referring to in relation to "credit loss reserve held as part of retained earnings".

Location of *well secured* Definition	APS 220	Some COBA members have noted that APRA should move the definition of *well secured* out of the Attachment B in APS 220 and into the main section of APS 220. Attachment B refers to requirements for prescribed provisioning (PP) ADIs. This change will ensure that the definition is clearly and consistently defined as applying to all ADIs, rather than just PP ADIs.
***Well secured* and LVR**	APS 220/APG 220	COBA members suggest that APRA provide additional guidance on how *well secured* applies particularly in relation to LVR. If APRA does not provide this guidance, ADIs will make their own assumptions and apply that definition at a portfolio level. This could cause inconsistencies in what is reported as *well secured* to APRA Without consistency, any variations in this reporting across ADIs could be driven by internal ADI definitions rather than the underlying risk of the portfolio.
Well secured and the expected realisation costs on performing loans	APS 220/APG 220	The current APS 220 definition of *well secured* only relates to *non-performing loans* and therefore ADIs' definitions many also linked into expected realisation costs on these properties. The incoming ARS 220 definition of *well secured* relates to both *performing* and *non-performing* loans. The expected realisation costs on *performing loans* may not be available at present and therefore this will result in ADIs assessing this at a portfolio level to determine *well secured*. COBA members suggest that APRA provides more guidance to create consistency in how ADIs will approach this issue.
Multiple field loan reporting	ARS 220 Section A: Credit Quality	COBA members seek clarity on whether APRA expects ADIs to report a loan in multiple fields within this section. For example, a loan could be both 90+ days past due and non-performing. Under ARS 220, should this loan be included in both Item 1.1 (90+ days past due) and Item 1.3 (Non-performing)? The current understanding is that based on the way the form instructions are currently written, loans will appear in more than one section.
Stage 2 balance outstanding	ARS 220 Section A, Item 1.2	A COBA member notes that under its ECL model, it does not transition individual loans to Stage 2, but applies a proportional shift from Stage 1 to Stage 2, based on historical analysis of loans demonstrating significant increase in credit risk. A COBA member notes that their ECL model calculates the total provision represents a weighted average of three scenarios. Each scenario may see a different allocation of loans

		transferred to Stage 2. So whilst the total provision relating to Stage 2 is known, it is difficult to allocate this provision to individual loans. As result, does APRA expect that the amount shown in Item 1.2 represents specific loans, or can this be reported based on an allocation of the portfolio that has shifted stages? If so, how would APRA suggest that ADIs determine the amounts considered well secured or not well secured, given that this allocation cannot be traced back to individual loans and security values (i.e. the normal way to determine well secured loans).
Stage 2 loan disclosure	ARS 220 Section A, Item 1.2	Some COBA members note that disclosing Stage 2 loans is not relevant for APS 220 given that APRA uses the concepts of performing, non-performing and restructured under APS 220. They note that provisions reporting is a highly subjective matter, and they question what value this reporting provides to APRA given that only one component of the provisioning balance is being reported (i.e. no reporting of the total provision, Stage 1 or Stage 3).
Past Due Amounts	ARS 220 Section C, cols 1 and 2	COBA members note that the ARS 220 instructions refer to the reporting of “past due amount”. COBA seeks confirmation whether this refers to only the amount past due on a loan, or the total loan balance of a loan that is past due.
Management Overlays	ARS 220 Section C	A COBA member notes that its ECL provision under AASB 9 contains a management overlay. This management overlay amount cannot be allocated on an individual loan basis. They seek advice on where APRA expects it to disclose the management overlay amount. Should it be disclosed as part of Item 5? Also, is it expected that Column 5 agrees to the total ECL provision?
Provisions for less than 90 days past due	ARS 220 Section C: Item 5	COBA members note that Item 5 is reported within a section that refers to exposures that are 90+ days past due and *well secured*. However, this particular item refers to exposures that are less than 90 days past due. COBA members also question whether Item 5 refers to exposures less than 90 days past due that are *well secured*, or all exposures that are less than 90 days past due?