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Senior Manager
Data Analytics and Insights
Australian Prudential Regulation Authority
Via email: DataConsultations@apra.gov.au

6 July 2021

Dear Sir/Madam,

Sub: Comments on proposed revisions to the credit risk management framework for authorised deposit-taking institutions

RegCentric is pleased to provide feedback to APRA's consultation on Reporting Standard ARS 220.0 Credit Quality (ARS 220.0).

RegCentric specialises in transformation in Regulatory Reporting, Finance and Risk in the Australian financial services industry. RegCentric supports a growing number of Australian financial services organisations adhere to their regulatory compliance obligations whilst driving strategic transformation. We help them leverage technology and data management best practices to drive operational efficiencies across Risk, Finance and Compliance departments. We differentiate ourselves by combining deep domain expertise in APRA regulation with technical know-how and a hands-on approach.

As outlined in previous consultations, we are a long-term advocate of collecting more granular data and encourage APRA to take a holistic approach across all collections related to credit exposures, so the benefits of reduced regulatory burden can be realised by minimising the duplication of data collections and reducing the number of future ad-hoc data requests.

We welcome APRA's approach of increased industry engagement for the strategic solution and we support the interim simplified reporting requirements. We also support APRA's intention to incorporate into the final full reporting standards data that supports the updated credit risk capital framework requirements included in Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk and Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk as appropriate.

Moreover, RegCentric encourages APRA to include in its strategic collection all key credit exposure related concepts and dimensions currently collected through other reporting standards such as:

- ARS 223 – Residential Mortgage Lending
- ARS 720.1(A/B) - ABS/RBA Loans and Finance Leases
- ARS 741 - ABS/RBA Business Finance
- ARS 742(A/B) - ABS/RBA Business Credit Stocks, Flows and Interest Rates
- ARS 743 - ABS/RBA Housing Finance
- ARS 744(A/B) - ABS/RBA Housing Credit Stocks, Flows and Interest Rates
- ARS 745 - ABS/RBA Personal Finance

- ARS 746(A/B) - ABS/RBA Personal Credit Stocks, Flows and Interest Rates
- ARF 923.5 – Residential Mortgage Information Request
- ARS 230 – Commercial Property

A staged implementation approach, using a Critical Data Element approach, may be appropriate, however APRA should conduct this project with the clear and deliberate intention that the concept-dimension model approach will replace the majority of existing data collections in the near future. In absence thereof, the strategic ARS220 collection will in effect result in an increased regulatory burden on industry.

We look forward to supporting APRA and the industry deliver sustainable regulatory reporting processes through the industry working groups.

RegCentric would like to provide feedback on specific items on the proposed standard along with the implementation and timing of the phased implementation of ARS 220.0:

1. **Implementation and Timing of interim ARS 220**

The timeframe proposed for the interim and simplified reporting form ARF 220.0 Credit Quality with the first submission due 35 calendar days after the end of the 31 March quarter 2022 is achievable, provided APRA provides to industry a finalised version of the standard by the end of August 2021 allowing time for implementation. This is assuming that the proposed changes for capturing credit exposures; non-performing exposures along with the new breakdown of *well secured* and *not well secured* or *unsecured* do not differ significantly from the draft standard.

RegCentric have noted several items in the Appendix: High Level Timeframe – 220 Strategic Collection to the letter "Response to submissions and consequential changes – Reporting Standard ARS 220.0 Credit Exposures and provisions" that require further clarification. These items are outlined as follows:

(i) *High-level data expectations to industry.*

The release of high-level data expectations to industry in Q3 2021. Please confirm if APRA intends to consult with industry prior to the release of these data expectations and if so, will this include representatives of all parts of the industry, including the Mutual sector and the foreign ADI's? Can APRA please clarify whether these data expectations will then be used to draft a subsequent prudential guide like what has been done for the Economic Financial Statistics (EFS) forms RPG 701.0 ABS/RBA Reporting Concepts for the EFS Collection.

(ii) *Pilot collection (pilot group only).*

APRA have provided reference to a Pilot collection. Can APRA clarify which entities are participating in the pilot collection and will learnings from these submissions be shared with industry?

(iii) *Quarterly incremental collections*

RegCentric are supportive of the approach of providing quarterly incremental collections allowing industry time to build their internal systems and data governance models properly in readiness for the first formal collection in Q2 2023. Can APRA please confirm if participation in the incremental collections will be on a voluntary basis or how APRA will determine which ADIs will be required to participate? Can APRA also clarify if/how the findings from each incremental collection will be shared across industry?

(iv) *Timeframe and Activity*

In appendix to the response letter, APRA indicated a timeframe for the strategic collection. Could APRA confirm that the timeframe refers to activities within the quarter as opposed to reporting date? For example, confirm the timeframe for Q1 2022 means for the reporting period ended 31 December 2021 (not 31 March 2022).

Can APRA please confirm that no quarterly collection will be required during Q1 2023 to allow industry six months to finalise their systems, processes, and governance models in readiness for the first formal collection Q2 2023?

The revised timetable for the strategic collection is closely aligned with the ADI capital reforms roadmap to 2023. Given the synergies between the capital framework and the credit risk management, would APRA consider issuing one timetable going forward for the APRA reporting standards?

(v) *Data Quality of quarterly incremental collections*

Can APRA provide clarification around the expectations for the quality of data being submitted during the quarterly incremental submissions from Q1 2022 to Q4 2022. Are the submissions on a best endeavours' basis similar to the process that was undertaken initially on the COVID forms?

(vi) *Format of quarterly collections*

Can APRA clarify which format the submissions will take? Will the APRA Connect test environment be used for all submissions commencing Q1 2022 (or will this be introduced at a later quarter)? As outlined above the entities that are required to participate in the quarterly collections will require lead time to prepare their systems in readiness for APRA Connect. Data volumes will need to be considered.

(vii) *Attestation for ARS 220 Credit Quality*

There is a request for two attestations from an accountable person under the capital framework timeframe that an ADI (i) will be compliant with the updated standards (December 2022) and (ii) ADI will report accurate regulatory capital data (March 2023).

Can APRA please confirm that there will not be a similar attestation for ARS 220 Credit quality?

2. ARS 220 Credit Quality

The interim ARS 220.0 Credit Quality reporting standard refers to a number of concepts that will be subject to confirmation as part of the strategic consultation process with industry. For the interim ARS 220.0 could APRA please clarify the following or consider providing further detail:

(i) *Total Provisions*

The definition of what constitutes total provisions is not outlined in the ARF 220.0 instructions definition section. We request APRA please provide further clarity around what will be captured under total. We are assuming that the definition is consistent with accounting standard AASB 9 Financial Instruments (excluding any management overlays to be applied at a loan level). We also note that in the new APS 220 General Reserve for credit losses in equity does not apply.

ARS 220 Section C columns (5) and (6) refers to Provisions not Total Provisions as is the case for Section A columns (1) and (2). We request that APRA confirm the consistent reporting of Total Provisions under these columns.

Could APRA please confirm that the ARF 230.0 Commercial Property form is not required to report total provisions? We note that the template for this form is only for specific provisions which appears to be inconsistent with the ARF 220.0.

(ii) Well Secured – further clarity on the definition and consistent application across ADIs

APRA provided additional guidance on the definition of *well secured* exposures by referring to Attachment B of APS 220 for Prescribed Provision ADIs.
We recommend that APRA consider moving the definition of *well secured* out of the Attachment B in APS 220 into the main section of the Prudential Standard so that the definition is clearly and consistently defined as applying to all ADIs.

The definition of *well secured* requests ADIs to assess the fair value of the associated security, discounted to allow for reasonable realisation costs, that is sufficient to cover payment of principal and any accrued interest.

We request APRA provide more guidance to avoid each entity making their own assumptions around reasonable realisation costs (that may only be determined at a portfolio level). We suggest APRA provides guidance and worked out examples to define *well secured*. We suggest APRA defines LVR bands in combination with LMI in the definition of *well secured*. For example if a loan is secured by residential mortgage with an LVR >=80% with LMI compared to no-LMI, would the former be treated as well secured and the latter not well secured?

(iii) Well Secured – Expected realisation costs only available on impaired facilities.

The current application of *well secured* in APS 220 dated 7 September 2020 is used in the identification of impaired facilities whereas the proposed interim ARS 220.0 standard will be more broadly applied across loans that are >=90 days past due; stage 2 and non-performing. The expected realisation costs on these loans may not be available at present and therefore this will result in ADIs assessing this at a portfolio level to determine well secured.

(iv) Section A Item 1: Credit Exposures

We note the request to report Item 1.1 >=90 days past due and Item 1.3 non-performing loans in Section A. The definition of Non-performing in APS 220 Definitions paragraph 12 (a)(ii) includes as non-performing loans where the borrower is 90 days or more past-due on a credit obligation to the ADI. We note that this definition is consistently applied in the ARF 220.0 Instructions definition.

We request APRA confirm that it is the intention that loans that are >=90 days past due will be reported under both Item 1.1 and Item 1.3

(v) Section C Item 5: Credit Exposures less than 90 days past due.

We note that Section C: >= 90 days past due items that are well secured included item 5 Provisions for credit exposures less than 90 days past due. It appears (i) to be inconsistent to report on less than 90 days past due under Section C and (ii) is the reporting on provisions here for both *well secured* and *not well secured / unsecured* exposures. We request APRA provide further clarification on item 5 in this section.

3. Other items

(i) Economic Financial Statistics

APRA have discussed and set the expectation with industry the long-term roadmap for granular reporting will include Economic Financial Statistics (EFS) forms. We request APRA use consistent definitions in the interim and strategic ARS 220 standards in line with EFS where possible. For example, Households; Non-resident and Resident as some examples where consistency should be applied.

This will allow industry to take a more strategic approach around the setup of their data models and governance processes to ensure consistency in the publishing of granular data to APRA as part of the roll out of granular reporting in the future.

(ii) Impact of ARS 220 on other forms.

APRA have listed and provided links to the eight ADI reporting standards and the reporting taxonomy for ARF 743 Housing Finance as changing because of the term non-performing replacing impaired along with other forms where well-secured and not well secured for example on the ARF 230 Commercial Property form.

We request APRA provide a summary of all the changes across the forms identified to enable easier referencing and checking of the confirmed changes. This will ensure that ADIs do not miss any changes to the forms and enable them to ensure cross checks and governance processes are in place to ensure consistency across the suite of forms submitted to APRA.

(iii) Reconciliation guidance

We request that APRA provide guidance around the reconciliation of items on the ARS 220 form itself and other external forms. This will provide consistency around the implementation of the data items and governance in place for submission of the interim ARS 220 form.

(iv) ANZSIC codes

APRA have requested feedback from ADIs on the impediments of transitioning to ANZSIC 2006 in time for full ARS 220.0 implementation in early 2023. Several core banking systems used by standardised banks currently do not capture ANZSIC pre or post 2006 information in the existing fields that are available. Investment will be required by industry to uplift these core systems and warehouses to source and capture ANZSIC 2006. In addition, the ABS have outlined processes in determining predominant activity in instances of vertical and or combined activity classes requiring methodologies and proxies to be applied. Where ANZSIC codes have not been applied in the past these assessments will require business input and lead time to implement.

We thank APRA for the opportunity to lodge this submission and would welcome further discussion on our feedback. Please do not hesitate to contact us via email on [redacted]

Yours Faithfully

[redacted]

Thomas Verlaet
Founder | Principal Consultant

[redacted]

David Williams
Principal Consultant

Office: [redacted]