



2 September 2021

## **TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS**

### **RESPONSE TO ADI DATA CONFIDENTIALITY CONSULTATIONS AND PUBLIC DISCLOSURE REQUIREMENTS**

APRA is responding to two consultations on authorised deposit-taking institutions (ADI) data confidentiality: the 2020 key ADI metrics proposal and the 2019 ADI data confidentiality consultation.<sup>1</sup>

On 29 September 2020, APRA released the consultation on key ADI metrics. This consultation revised and narrowed the 5 December 2019 consultation, which had been paused in response to COVID-19. The December 2019 consultation was on the data sources for its ADI quarterly publications that APRA intended to determine to be non-confidential.

In its September 2020 consultation, APRA proposed that the key ADI metrics data on capital adequacy, liquidity, asset quality, financial statements and financial performance would be determined non-confidential and may be published after 40 business days. The data to be published at entity-level would be largely based on the definitions and calculations used in *Quarterly ADI Performance Statistics* (QADIP). This proposal received mixed feedback.

There was general industry support for the second proposal to re-publish certificates of deposit data, which commenced as an aggregated negotiable certificates of deposit series in *Monthly ADI Statistics* (MADIS) in January 2021.

#### **Submissions to consultations**

There were three non-confidential submissions from industry bodies and six confidential submissions in relation to the September 2020 key ADI metrics consultation. In response to the December 2019 consultation, there were six non-confidential submissions from industry bodies and academics and five confidential submissions.

#### *Key prudential metrics*

In response to APRA's key ADI metrics proposal, the ABA and COBA supported the publishing of the highest consolidation of capital, liquidity and asset quality items aligned with Pillar 3 on a quarterly basis, after all entities have first disclosed the information to market. There were some concerns raised in submissions about Pillar 3 coverage, and definitional and disclosure frequency differences including requests to exclude items not covered by Pillar 3.

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<sup>1</sup> Consultation on the confidentiality of data used in ADI quarterly publications and additional historical data' (Letter, 5 December 2019) and Consultation on confidentiality of key ADI metrics' (Letter, 29 September 2020) can be found at : <<https://www.apra.gov.au/consultation-on-confidentiality-of-data-used-adi-quarterly-publications-and-additional-historical>>

### *Key financial metrics - financial position*

One submission suggested that balance sheet items, disclosed by ADIs on either a half-yearly or annual basis, could be published quarterly with a one quarter lag. Others opposed quarterly publication on the basis of “short-termism”, suggesting that it will force ADIs to adopt a short-term focus at the expense of longer-term strategy. COBA requested balance sheet data to be published only on an annual basis for all ADIs less than \$25 billion. Similar data are published monthly in MADIS.

### *Key financial metrics - financial performance*

Significant concerns were raised in submissions about the publication of performance measures and shareholders’ equity, in particular, the risk of “back-solving” for profit, which raises market sensitivity and continuous disclosure issues. Concerns regarding potential financial instability were also raised. One submission suggested that lagging financial performance data by one quarter would be acceptable. COBA requested that the performance metrics to be only published on an annual basis, due to increased burden from governance, communication and review processes for ADIs less than \$25 billion in size. AFMA has raised concerns that foreign ADI branches’ financial performance data would be difficult to interpret in the context of transfer pricing, and argued they should be excluded.

In contrast, academic submissions supported the publication of more detailed ADI data, pointing to international precedents, such as the United States, where there is greater public disclosure and no specific evidence of adverse effects from this practice.

### **Proposed key ADI metrics publication**

The key ADI metrics publication represents the first stage of the development of a centralised ADI entity-level publication of key prudential and financial data implementing Basel’s Pillar 3 requirements.<sup>2</sup>

For locally-incorporated ADIs, APRA intends to publish key prudential and financial metrics aligned with Pillar 3 requirements and other disclosures listed in Attachment 1, initially at ADIs’ current required disclosure frequency.

The proposed key ADI metrics publication will improve data quality and increase the transparency of the ADI data APRA collects, providing the following benefits:

1. **Informing the public:** providing entity-level key capital, liquidity and asset quality data will enable industry, government, investors and beneficiaries and the general public to more effectively assess the risk of Australian-incorporated ADIs. ADI financial performance and balance sheet data will also be available, which is in line with the content of APRA’s insurance and superannuation entity-level publications and will move Australia closer towards international best practice.<sup>3</sup>
2. **Influencing by comparison:** the release of centralised key prudential and financial metrics data publication will promote better practices through comparability and peer

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<sup>2</sup> Basel Committee on Banking Supervision’s Pillar 3 disclosure requirements: [DIS - Disclosure requirements \(bis.org\)](https://www.bis.org/basel/disclosure_requirements)

<sup>3</sup> Internationally, New Zealand, the Netherlands and the United States make some financial performance data available for individual banks.

review, facilitating analysis and understanding of observed trends and maintaining confidence in the Australian financial system.

3. **Driving accountability:** sharing of key prudential and financial metrics will encourage ADIs to act with self-discipline and encourage better, more efficient market behaviour.<sup>4</sup>

To address ADIs' concerns about the potential risks of publishing entity-level financial position and performance data on a quarterly basis, APRA will initially publish only very similar or already disclosed data and match ADI's disclosure frequency. This will also ensure that initially there is minimal increase in governance, communication and regulatory burdens for ADIs. Disclosure on this basis will not pose any potential stability risks.

The non-alignment of balance dates within the ADI industry, overlaid with publishing data on a half-year or annual basis will mean that there will be significant gaps in the publication. These can only be remedied fairly by publishing quarterly data, and APRA plans to increase the frequency of disclosure to quarterly, with a transition period of two years. Market sensitive data will be lagged appropriately so as not to trigger any continuous disclosure obligations.

Foreign ADI branches are excluded from *Prudential Standard APS 330 Public Disclosure* (APS 330) requirements and will not be included in the publication.<sup>5</sup>

The new publication is planned for release for the first quarter reporting period of 2022. The publication will include the full history of all published metrics submitted by the ADI.

APRA will work with ADIs and industry associations to reconcile definitional issues prior to publication, with a view to disclosing meaningful comparable information across the industry, particularly for balance sheet data. A draft template of the new publication will be released after further liaison with industry associations.

### *Commentary*

There were a number of objections to the proposal in the December 2019 consultation, that an ADI provide an explanation of material revisions to, or large period-to-period movements in, its data, for inclusion in APRA's statistical publications. In the September 2020 submissions, some ADIs have requested APRA publish commentary, as way of addressing data discrepancies, suggesting mechanisms to provide commentary similar to the RBNZ.<sup>6</sup>

APRA will work with the ADI industry using workshops to investigate mechanisms for ADIs to provide optional commentary. An optional link in the publication to each ADIs' website could be a way to provide access to an ADI's commentary.

### *Confidentiality of underlying data*

Submissions in both consultations requested APRA determine non-confidential published aggregates rather than individual items. APRA only intends to publish metrics at the highest consolidation available.

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<sup>4</sup> See also BCBS (2015) *Revised Pillar 3 disclosure requirements*, pg1.

<sup>5</sup> See *Prudential Standard APS 330 Public Disclosure*: <https://www.legislation.gov.au/Details/F2018L00509>

<sup>6</sup> <https://bankdashboard.rbnz.govt.nz/summary>

### *Future consultation*

APRA is proposing to continue to consult the ADI industry in manageable phased stages and in further depth in the future. This will include the proposal in the 2019 consultation to publish entity-level data for all reporting forms used in ADI quarterly publications with a three-year lag.

APRA will also continue to consult on the confidentiality and frequency of disclosure for data to be included in an expanded centralised publication, in line with changes to APS 330.

### **Revised timeline for revisions to disclosure requirements**

APRA will be delaying revisions to APS 330 by twelve months, to align better with the policy development timeline for the ADI capital reforms and proposed approach to non-confidentiality outlined above. The revised APS 330 timeline means that consultation will occur in 2022, the final standard will be released in late 2022 and the effective date will be 1 January 2024. This timeline will alleviate pressures on ADIs to simultaneously implementing multiple revised standards into their operations.

To further alleviate pressures on small, less complex ADIs, APRA is retaining the carve-out of eligible ADIs on the simplified capital framework from APS 330 requirements from 1 January 2023. APRA's centralised publication on key ADI prudential metrics will be operational from Q1 2023, to ensure transparency of key prudential and financial ADI metrics. Revisions to APS 330 for other ADIs will apply from 1 January 2024, with the current APS 330 continuing to apply until this date.

Yours sincerely,

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**Attachment 1 – Publication of key ADI metrics: initial publication frequency**

**Table1: Key Prudential metrics**

<b>Capital framework</b>						
<b>Amount (\$bn)</b>				<b>Capital ratios as a percentage of RWA (%)</b>		
<b>CET1</b>	<b>Tier 1</b>	<b>Total Capital</b>	<b>RWA</b>	<b>CET1</b>	<b>Tier 1</b>	<b>Total Capital</b>
Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly

<b>Liquidity framework</b>				
<b>Liquidity Coverage Ratio (LCR)</b>	<b>Net Stable Funding Ratio</b>	<b>Minimum Liquidity Holding ratio (MLH)</b>		
<b>LCR (%) (average over the quarter)</b>	<b>NSFR ratio (%)</b>	<b>Adjusted minimum liquidity holdings (\$bn)</b>	<b>Adjusted liability base (\$bn)</b>	<b>MLH ratio (%)</b>
Quarterly	Annual	Annual	Annual	Annual

<b>Risk profile (\$bn)</b>							
<b>Total credit risk RWA</b>	<b>Total operational risk RWA</b>	<b>Total market risk RWA</b>	<b>Of which:</b>			<b>Other risk charges</b>	<b>Total RWA</b>
			<b>IRRBB</b>	<b>Traded market risk under Standard method</b>	<b>Traded market risk under Internal model approach</b>		
Quarterly	Quarterly	Quarterly	Quarterly	Half-yearly	Half-yearly	Quarterly	Quarterly

**Table 2: Key financial metrics**

<b>Financial Position</b>				
<b>Amount (\$bn)</b>				
<b>Total assets</b>	<b>Gross loans and advances</b>	<b>Total liabilities</b>	<b>Total deposits</b>	<b>Total shareholders' equity</b>
Quarterly	Quarterly	Quarterly	Quarterly	Half-yearly / Annual*

<b>Financial Performance</b>					
<b>Amount (\$bn)</b>					
<b>Net interest income</b>	<b>Other operating income</b>	<b>Total operating income</b>	<b>Operating expenses</b>	<b>Charge for bad or doubtful debts</b>	<b>Net profit (loss) after tax</b>
Half-yearly / Annual*	Half-yearly / Annual*	Half-yearly / Annual*	Half-yearly / Annual*	Half-yearly / Annual*	Half-yearly / Annual*

<b>Financial Performance (Ratios)</b>		
<b>Percentage (%)</b>		
<b>Cost to income</b>	<b>Return on assets (after tax)</b>	<b>Return on equity (after tax)</b>
Half-yearly / Annual*	Half-yearly / Annual*	Half-yearly / Annual*

<b>Asset Quality</b>				
<b>Amount (\$bn)</b>			<b>Percentage (%)</b>	
<b>Total Impaired facilities</b>	<b>Past due items</b>	<b>Provisions held (or subcomponent)</b>	<b>Impaired facilities to loans and advances ratio</b>	<b>Past due to total loans and advances ratio</b>
Quarterly	Quarterly	Quarterly	Quarterly	Quarterly

\* Publication frequency will be aligned with current disclosure requirements