

25 November 2020

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Cross-Industry Insights and Data Division  
Australian Prudential Regulation Authority

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Dear Ms Bliss

### **Consultation on confidentiality of key ADI metrics**

The Customer Owned Banking Association (COBA) appreciates the opportunity to provide a submission to APRA on its proposed changes to the confidentiality of its data sources used in ADI quarterly publications.

COBA is the industry body for the customer owned banking sector. Our sector has \$139 billion in assets. Uniquely, our members are owned by their customers rather than a separate set of shareholders. Given our customer-owned model and the absence of dividend payments to our customer-owners, there is less emphasis on quarterly financial performance metrics in our sector than ASX-listed ADIs. COBA notes that at present only the largest ADIs provide public quarterly trading updates.

APRA is proposing to increase the volume and breadth of data it makes available on individual ADIs.<sup>1</sup>

We broadly support the objectives APRA has outlined for this proposal, i.e. increasing accountability, supporting competition and lifting overall industry standards. We also support the steps APRA has taken to reduce the amount of data disclosed from the original proposal outlined in late 2019 and its decision to take a phased approach to future disclosure.

However, we urge APRA to further revise these items to reduce the increase in burden on ADIs that would not normally be required to disclose this data. While APRA proposes to reduce burden relating to certain APS 330 disclosures, we expect a more than offsetting increase in burden from governance, communications and review processes if APRA undertakes the quarterly release of some of the proposed data.

Given APRA's proposed timeline to publish this data in 2021, this proposal's implementation will occur against a backdrop of elevated COVID reporting and significant transformation as ADIs adjust to the incoming APRA Connect system<sup>2</sup> and proposed ARS 220 concept dimension reporting<sup>3</sup>.

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<sup>1</sup> APRA Letter to ADIs <https://www.apra.gov.au/consultation-on-confidentiality-of-key-adi-metrics>

<sup>2</sup> Getting ready for APRA Connect <https://www.apra.gov.au/getting-ready-for-apra-connect>

<sup>3</sup> ARS 220 consultation <https://www.apra.gov.au/news-and-publications/apra-issues-letter-to-adis-on-alignment-of-credit-risk-management-reporting>

ADIs are currently subject to reporting on:

- the RBA Term Funding Facility
- Coronavirus SME scheme (weekly)
- COVID-19 repayment deferrals
- COVID-19 capital and credit
- COVID-19 provisions, and
- liquidity reporting (weekly).

This additional COVID reporting is on top of existing APRA reporting requirements. This collective reporting workload creates a significant strain on ADI reporting resources, which is particularly acute for smaller ADIs who do not have the reporting and investor relation teams of larger, listed ADIs. As a result, implementing APRA's full proposal is likely to create additional workload at a time when resources are scarce. Irrespective of this, and more importantly, COBA does not see a clear net benefit of quarterly disclosure of this full suite of metrics.

### **Narrowing quarterly data disclosures**

APRA proposes to publish entity level data in 2021. To meet this timeline in the current operating environment, APRA must narrow the set of quarterly disclosed data. For ADIs below a certain size threshold (e.g. below \$25 billion in assets), APRA should:

- focus any quarterly disclosed data on prudential key metrics related to capital, liquidity and credit quality. Most ADIs already disclose some of this data via their quarterly APS 330 disclosures. This will allow APRA to immediately reduce the burden on ADIs of publishing their quarterly APS 330 disclosures, particularly Attachment C APS 330 disclosures.
- disclose the remaining items annually based on an ADI's financial year<sup>4</sup>. This will reduce the immediate additional data governance requirements around this proposal.
- consider any additional data items and any increases to the frequency of above annually disclosed data items once APRA has demonstrated the value of the above disclosures, consulted with ADIs and have demonstrated stakeholder demand for additional disclosures.

These changes will still result in an increase in public availability of ADI data from a central and consistent data source (i.e. APRA publication) while balancing the additional burden on ADIs.

### **Disclosing certain items on an annual basis**

If APRA is intent on disclosing financial performance metrics, there is a clear case that they should only be disclosed on an annual basis (see Attachment 1). For our sector, there is no significant benefit from quarterly disclosure of these items compared to a less burdensome annual disclosure. This would not be consistent with measures to reduce burden on industry.

These APRA returns are currently collected on a private reporting basis and ADIs will need to introduce additional governance, communication, and review processes if this data becomes public. These changes will introduce additional cost burdens that are unlikely to be offset by the reduction in the APS 330. As a compromise, the disclosure of annual data should suffice for the non-prudential key metrics.

These annually reported metrics are also likely to be more robust and better meet external stakeholder needs. For financial performance indicators, there is likely be significant variation in quarterly data due to timing of expenses, timing of lumpy income (e.g. dividends) and accounting decisions (e.g. impairments).

These variations will divert scarce ADI time to providing explanations without providing a significant

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<sup>4</sup> Noting COBA's views on the confidential nature of Board-approved minimum MLH requirements

benefit for public stakeholders. For example, if an ADI took impairments in one quarter while another ADI took impairments in another quarter. Ultimately, the use of annual financial performance measures provides a better indicator of the profitability of an individual ADI and removes the 'noise'.

We believe that prudential ratio metrics such as capital, liquidity and credit quality have a case to be disclosed on a quarterly basis. ADIs already disclose many of these metrics on a quarterly basis under APS 330. This approach also aligns with their status as prudential key metrics in the Basel Pillar 3 disclosures.<sup>5</sup>

#### *Annual report timing and disclosure*

APRA proposes a 56 calendar day period after which it can disclose the deconfidentialised data. For periods that do not relate to when an ADI's financial reports are lodged, COBA does not expect this period to be an issue. However, the current APS 330 para 45<sup>6</sup> allows ADIs to publish their capital, credit quality and the liquidity disclosures concurrently with the ADI's financial reports, or for other periods within 40 business days of the end of the period.

Disclosure after 56 calendar days may lead to a situation where there is one set of figures (reported in early August) and another set of figures released with the annual reports (reported September).

COBA believes that it is simpler if there are only one set of public figures. This should align with those disclosed in an ADI's financial reports.

#### **Outlining the proposed disclosure**

APRA should release more information as soon as possible on the format of its proposed disclosure of this data to stakeholders for consultation.

COBA notes that to undertake the above approach APRA will need to deconfidentialise the underlying quarterly data. COBA remains concerned about the risks regarding the disclosure of this underlying deconfidentialised data. As such, there should be consultation on how APRA intends to disclose and present this data to stakeholders.

Given our sector's primary stakeholder is our customers, there is a risk that customers read these disclosures and misinterpret them. APRA should ensure that it presents this data in a manner that reduces the potential for such confusion and contains sufficient explanation to allow them to interpret these ratios. Similarly, APRA should also reinforce that all ADIs are covered by the Financial Claims Scheme which insures deposits up to \$250,000 to minimise any unnecessary risks to financial stability.

COBA also notes that some COBA members would prefer to share commentary to explain any movements voluntarily via this mechanism.

#### **Outlining a clear and certain immediate reduction in APS 330 burden**

APRA notes that it "intends to use this publication as a foundation to reduce the burden of disclosure requirements for smaller ADIs." COBA requests more specific information around what, how and on whom APRA will remove these disclosure requirements. APRA should reduce this burden as soon as possible if it intends to implement this proposal in 2021. It does not make sense to have periods where APRA and ADIs are unnecessarily duplicating disclosure efforts. As noted above, while removing these requirements will reduce the burden of some APS 330 requirements, it will not offset the burden of additional processes around quarterly disclosure of the non-prudential key metrics.

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<sup>5</sup> Aligns to the KM1 template in <https://www.bis.org/bcbs/publ/d455.pdf>

<sup>6</sup> APS 330 <https://www.legislation.gov.au/Details/F2018L00509>

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

Yours sincerely,

[REDACTED]

**MICHAEL LAWRENCE**  
Chief Executive Officer

# Attachment 1

Item	COBA suggested disclosure	Comments
<b>Capital Adequacy</b>		
Common Equity Tier 1 capital (\$m)	Quarterly	ADIs already disclose most of this data through Pillar 3 disclosures (APS 330) so it is reasonable for APRA to disclose this information.  The incremental gain from this disclosure would be from having them all in a central location, noting that they may not be directly comparable.
Total capital base (\$m)	Quarterly	
Common Equity Tier 1 capital ratio	Quarterly	
Capital-adequacy ratio	Quarterly	
Total Tier 1 capital	Quarterly	
Total risk-weighted assets (\$m) - RWA	Quarterly	
RWA – Credit risk	Quarterly	
RWA – Market risk	Quarterly	
RWA – Operational risk	Quarterly	
RWA – Other charges by APRA	Quarterly	
<b>Liquidity</b>		
Total LCR liquid assets (\$m)	Quarterly	Should remain on a quarterly disclosure basis in line with APS 330 Attachment C.
Net cash outflows (\$m)	Quarterly	
Liquidity coverage ratio (LCR)	Quarterly	
Total adjusted minimum liquidity holdings (\$m)	Quarterly	There is incremental transparency increase here if this data is disclosed on a quarterly basis. This data is generally disclosed annually in ADI financial reports.
Adjusted liability base (\$m)	Quarterly	
Minimum liquidity holdings (MLH) ratio	Quarterly	
Minimum MLH requirement	Not disclosed	
		COBA notes that disclosing the minimum MLH requirements based on liquidity management

		strategies (BSAO16013) is a step beyond simple disclosure of ratios and commercially sensitive. This should remain confidential.
Credit Quality		
Total Impaired facilities (\$m)	Quarterly	COBA notes most of this data is already disclosed in existing APS 330 Attachment C disclosures.
Gross loans and advances (\$m)	Quarterly	
Impaired facilities to loans and advances	Quarterly	
Past due items (\$m)	Quarterly	
Past due to total loans and advances	Quarterly	
Provisions held (\$m) (or subcomponent)	Quarterly	
Financial Statements and Performance		
Total assets (\$m)	Annual	COBA notes some of this data (ex. equity) would already be disclosed in the <a href="#">APRA MADIS</a> on a monthly basis.
Total shareholders' equity (\$m)	Annual	
Total liabilities	Annual	Disclosing equity on a quarterly basis is likely to be a 'backdoor' to profit disclosures.
Total deposits	Annual	
Return on assets (after tax)	Annual	Quarterly disclosure of this information will require internal ADI uplift given there are not currently requirements to prepare or publish this information on a quarterly basis other than for the purposes private APRA reporting.
Return on equity (after tax)	Annual	
Net interest income (\$m)	Annual	
Other operating income (\$m)	Annual	Furthermore, these items can vary significantly over a quarter and we believe it is more accurate representation of performance to show this information over a full year in line with annual ADI financial reports.
Total operating income (\$m)	Annual	
Operating expenses (\$m)	Annual	
Net profit (loss) after tax (\$m)	Annual	
Charge for bad or doubtful debts	Annual	