

Manager, Regulatory Reporting, Data Analytics
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

Consultation on the confidentiality of data used in ADI quarterly publications
and additional historical data

I am extremely pleased to see this initiative by APRA and it has my strong support. The lack of detailed data on Australian ADI and bank activities in the past has been detrimental to the public good in a number of ways.

First it has limited in depth research by Australian academics (and other researchers) on Australian banking. Consequently many questions examined by international researchers using, for example, US data publicly available from the “call reports”, could not be addressed in an Australian context. A couple of examples may help illustrate. One relates to attempts to measure the amount of liquidity creation by the banking sector such as by Berger and Bouwman¹ and Bai et al², an important issue for both macroprudential policy and for investigating the effects of liquidity regulation. Another relates to better understanding bank capital management. Studies such as Jopiki and Milne³, for example, enable a better understanding of whether, in response to excess or deficient capital, banks adjust towards target capital ratios at differential speeds and/or by relative reliance on adjusting the amount of capital or asset risk. This is an important issue in discerning likely economic impacts.⁴

Second, increased disclosure of bank information will enable improved analysis by financial and economic commentators, hopefully enhancing economic efficiency. This is relevant both in terms of forecasting changes in economic conditions due to ADI activities and in terms of improved valuation of ADIs potentially enhancing market discipline.

I appreciate that some data about current ADI conditions and performance is likely to have commercial/competitive relevance, such that ADIs would prefer those to be confidential. My experience, however, is that organisations have an inherent bias to maintain confidentiality on commercial grounds even when there is little evidence to support such a stance. Hence I would hope that APRA would push back strongly against such unjustified opposition to maintaining confidentiality. And, it is important to remember that there are clearly differential implications for the commercial value of information when data is made public for all institutions as opposed to only data of an individual institution being made public.

¹ Alan Berger and Christa Bouwman “Bank Liquidity Creation” *Review of Financial Studies* (2009) 22 (9): 3779-3837 doi:10.1093/rfs/hhn104

² Bai, Jennie, Arvind Krishnamurthy, and Charles-Henri Weymuller. "Measuring liquidity mismatch in the banking sector." *The Journal of Finance* 73, no. 1 (2018): 51-93.

³ Jokipii, Terhi, and Alistair Milne. "Bank capital buffer and risk adjustment decisions." *Journal of Financial Stability* 7.3 (2011): 165-178.

⁴ I do wonder however whether the apparent maintenance of risk ratios (Section C, CS24346 – CS24348) as confidential will inhibit such research. It is not clear to me why, for example the CET1 ratio should remain confidential – particularly since it is an important determinant of the risk associated with other capital instruments (eg AT1 hybrids). And, although I have not had time to examine closely, it would seem likely that these figures could be derived from other non-confidential figures to be made available?

It is difficult to see what commercial value justifications can be made for non- release of historical information with a lag of a year or so. (Of course, release of such historical data into the public domain may expose poor past decision making by management who may still be in place!)

I hope these comments are useful. I fully support the general aim of the proposal to make ADI data more readily available to the public. Time constraints preclude me from making a detailed consideration of where the boundary between disclosure and non-disclosure of certain items should be drawn, and practitioners will have greater awareness of any commercial costs arising from increased disclosure. I would however note that the USA has (via publication of Call Report data) had much greater public disclosure, and I am not aware of any studies which have identified adverse effects from this practice. Since all ADIs are subject to the same information disclosure, a level playing field still exists – although competition takes place in a somewhat different information environment. One concern might be that non-ADIs who compete in certain areas with ADIs might gain an informational advantage, but this would need to be demonstrated rather than used as an argument against the proposal for increased disclosure.

Kevin Davis AM

Professor of Finance

The University of Melbourne

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P.S. It is unclear to me what the shading in the section on ARF_320: Statement of Financial Position (Domestic Books) actually implies. The grey shaded items are described as “non- confidential” (compared to the yellow shading of “proposed non-confidential”. Does that mean the grey shaded items are already publicly available at the individual ADI level – and if so where?