



7 October 2022

██████████
General Manager, Policy
Australian Prudential Regulation Authority

By email: adipolicy@apra.gov.au

Dear ██████████,

Public disclosure requirements for authorised deposit-taking institutions (APS 330)

The Australian Banking Association (**ABA**) welcomes the opportunity to respond to the Australian Prudential Regulation Authority's (**APRA**) consultation on the public disclosure requirements for Authorised Deposit-Taking Institutions (**ADIs**). The ABA acknowledges APRA's objective to align disclosures with international standards and is supportive of the objectives to promote transparency, improve comparability for prudential metrics across ADIs, and enhance proportionality by removing disclosure requirements for smaller ADIs.

The ABA provides the feedback contained in this letter for APRA's consideration. However, industry expects to raise additional observations and points for clarification as part of the transition to BCBS-based standards. It is also envisaged further clarification will be requested from APRA following full implementation of reporting under the APS 110, APS 112 and APS 113 capital standards and before a test run of the new disclosures can be undertaken. We recommend that further workshops are held with APRA and ABA members during the transitional period.

Key issues

The key issues industry wishes to raise as part of this consultation are:

1. Guidance is required on a suitable application of the existing APS 330 during the transition period, prior to adoption of the revised APS 330.

This includes greater clarity and dialogue on the minor amendments to the current APS 330 to ensure APRA's public disclosure requirements for ADIs align with the ADI capital framework in 2023. This includes proposed changes to the asset class requirements in the existing APS 330 and consistency in reporting New Zealand subsidiary exposures; and

2. The timeframes for adoption of the revised APS 330 are very tight. We recommend an extension of time for the consultation period on the APS 330 proposals until Q3 2023, with an 18-month consultation and implementation period following release of the final standard.

The industry seeks more time in order to provide feedback on the updated disclosure requirements which align to BCBS standards. With current focus on implementation of the revised capital framework from 1 January 2023, the industry has not had sufficient time to undertake a detailed analysis, including test run, of the BCBS disclosures to determine if clarification is required or if there are likely to be issues in implementation. The additional time will also allow further discussion with APRA on the consistency, granularity and comparability of



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the proposed requirements with existing market disclosures and allow for feedback to be sought from market participants on how they may interpret the information.

Directing ADIs to the BCBS standards appears to be a unique approach undertaken by APRA, which has not been adopted by any other prudential regulatory supervisors. In industry's view APRA's input is required to work through the definitions in the international standards, and make it clearer where reference should be made to Australian definitions, rather than international definitions

The ABA would also like to thank APRA for its open engagement regarding these, and other, prudential reforms, particularly APRA's availability for ongoing dialogue and industry workshops.

If you require further information or would like to discuss any of the content of this letter, please do not hesitate to contact me on [REDACTED].

Regards,

[REDACTED]

[REDACTED]

Policy Director
Australian Banking Association

About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.



Appendix A: Additional information

Clarification requested over transitional measures

To ensure APRA’s public disclosure requirements for ADIs align with the ADI capital framework in 2023, APRA has proposed amendments to the current APS 330. These amendments are intended to apply, subject to consultation, from 1 January 2023. The amendments, however, do not provide sufficient guidance for industry on the minimum disclosure expectations for ADIs given the existing APS 330 continues to refer to superseded standards, and updates to existing disclosure requirements will be required to reflect changes to APS 110, APS 112 and APS 113. Further guidance from APRA regarding minimum disclosure requirements would be useful to industry.

Flexibility in approach on applying the existing APS 330

The existing APS 330 is very prescriptive. As an example, APS 330 specifies which asset classes must be disclosed by ADIs, and contains details on the liquidity calculations in the disclosures. Flexibility is needed in the application of APS 330 to allow for the substantial changes required from 1 January 2023 within the existing APS 330 requirements, and consequential amendments to other standards (for example, APS 120, APS 180, APS 210, and APS 220).

The ABA requests:

- APRA provide a general public statement to allow sufficient flexibility for ADIs to modify the existing APS 330 requirements to meet the revisions to the capital framework. This will provide comfort to auditors, and other compliance regimes that regulatory requirements will continue to be met whilst in the transitional period.

Approach to historical / comparative periods

Based on industry’s understanding of APS 330, there is no requirement to recalculate or restate data for periods prior to implementation of the capital reforms. Industry agrees with this approach.

Restatements for prior periods would be problematic given the new data elements and change in key definitions (for example, definition of a commitment), that may not be available historically.

The ABA proposes:

- Adoption of a similar approach as when ADIs transitioned from Basel 2 to Basel 3 in 2013. For example:

For those with June or December year-ends:

31-Mar-23	31-Dec-22
NEW	OLD

For those with September or March year-ends:

31-Mar-23	30-Sep-22
NEW	OLD

Asset class disclosures

Following adoption of the revised APS 112 and APS 113, asset class categorisations need to be updated to reflect the requirements of the new standards.

A sample of potential asset classes is included in Appendix B, noting that ADIs may not disclose some of these asset classes if they are not material. Further, the format of the tables may also differ. Impacted ADIs are currently giving consideration to what asset class disclosures to include in their first Pillar 3 report after 1 January 2023, and there may be alternative views to those outlined in Appendix B.



The ABA requests:

- APRA engage with industry on appropriate transitional disclosures, and either endorse a minimum standard for asset class disclosure to ensure some level of comparability is maintained throughout the transition period, or provide a general public statement to allow sufficient flexibility for ADIs as requested above.

Disclosure of Reserve Bank of New Zealand regulated subsidiary figures

Due to ADIs using equivalent requirements set by the Reserve Bank of New Zealand (**RBNZ**) for APS 112 and APS 113 to calculate credit RWA for NZ subsidiaries, industry proposes changes to tables included in the Pillar 3 which contain disclosures by asset class.

- Industry's preferred approach to disclosure is to report NZ amounts as a single row in the various disclosure templates, so as to not blend exposures which are calculated under an APRA basis, with those which are calculated under an RBNZ basis. Please refer to Appendix B as an example.
- Where disclosures are then split out on an AIRB vs. Standardised basis (e.g. APS 330 tables 8b, 9d(i) and 9e), subtotals pre- and post NZ will be included, so as to provide transparency and easy reconciliation to the summary asset class disclosures. The ABA notes that detailed disclosures on NZ capital and RWAs already form part of existing NZ disclosure statements.
- Where including NZ as a total 'asset class' would result in an obscure disclosure (for example, the weighted average PD disclosures required under APS 330 Table 9f), it is proposed that qualitative disclosure be used to provide more transparency as required. Where not material, it is proposed that ADIs have the discretion to include qualitative disclosures be made in the respective notes, with the relevant NZ exposures and RWA being included as part of the counterparty APS 120 and APS 180 'asset classes'.

The ABA requests:

- Further engagement with APRA regarding disclosure of NZ exposures to ensure industry proposals, are in line with APRA's intent.

Feedback on proposed timeframes for adoption of the new APS 330

Given the significant changes required to move to the international standards, the industry has concerns with regard to the timing of the changes, noting detailed analysis of the BCBS requirements have yet to be undertaken, reflective of the below constraints.

It is industry's view that the timeframe appears overly optimistic in the context of:

- Resource / knowledge constraints – There is a finite pool of individuals who have sufficient expertise to deliver capital change. The ABA believes that the current focus of these individuals should be on delivery of the credit capital standard changes and associated regulatory form changes. These resources will be fully engaged on this work for the first half of 2023; and;
- Only once capital changes are embedded will industry be able to fully appreciate any issues or concerns which may arise on adoption of BCBS standards. Detailed analysis of the requirements of the BCBS standards will be more insightful and accurate once ADIs have information flows reflective of the new capital standards.

The ABA requests:

- An extension of time for the consultation period on the APS 330 proposals until Q3 2023, with an 18-month consultation and implementation period following the release of the final standard.

Clarification of APRA's release of the key prudential information

Industry requests guidance on any updates to the timing of, and the type of information being collected as part of the key prudential information request. It is noted that in the discussion with APRA and



industry on 14 September, it was flagged by APRA that consulting on additional data may occur in Q4 2022.

Machine readable format

The ABA and industry are supportive of APRA's proposal for SFI ADIs to improve accessibility to prudential information by publishing disclosures in machine-readable format. Industry's preferred approach, in alignment with the suggestion in the consultation paper, is through publishing CSV files. The ABA acknowledges that as ADIs transition through the various stages of the granular data reporting roadmap, this format might need to be re-visited.

It is unclear as to what the proposed effective date for disclosures in machine readable format. Industry suggests this be aligned to the effective date of the revised APS 330. This recommendation is made on the basis that it would be more useful to provide machine readable information in a consistent information across peers. Whilst ADIs are in the transition period, it is likely inconsistencies across ADIs will remain.

Industry's preference is for APRA to set out the exact requirements for the data sets so there is consistency across industry. Instructions could include a list of all APS 330 / BCBS tables to be made publicly available, a request to provide all material data in tables, and where the files should be published. Further, the information provided in this format should only encapsulate quantitative disclosures.

The ABA requests that APRA:

- Specify that CSV should be used as the machine readable format for disclosures;
- Clarify that the reporting of the machine readable formats coincide with the implementation date of the new APS 330;
- Publish minimum tables for ADIs to complete to ensure consistency.

Additional clarity is also required regarding:

- A full list of tables to be made publicly available, specifically noting those that are not currently applicable to the Australian context;
- Whether all tables should be provided even if Nil values;
- How ADIs indicate/inform that they assess a table as immaterial and therefore will not be made public;
- Where to make the files available (i.e. Is this only to be on ADIs' own websites?)



Appendix B: Sample format of tables containing asset class segmentation, and disclosure of RBNZ

Advanced	Corporate	
	SME Corporate	
	SME Retail	
	SME Retail - Secured by residential mortgages	
	Residential Mortgages	
	QRR	
	Other Retail	
		x
FIRB	Corporate - Large	
	Sovereign	
	Financial Institution	
		x
Specialised Lending		x
Standardised	Corporate - Large	
	Corporate	
	SME Corporate	
	SME Retail	
	Sovereign	
	Bank	
	Residential Mortgages	
	Other Retail	
		x
NZ		x
Securitisations		x
Credit Valuation adjustment ¹		x
Counterparty Credit Risk ¹		x
Other ²		x
Total RWA for credit risk exposures		x

1. Each ADI to determine if material enough to warrant separate disclosure, or amalgamation of RBNZ regulated amounts
2. Includes other assets. ADIs may disclose this category as part of standardised, or elsewhere



Appendix C: Detailed observations and questions

As the draft wording stands, a new robust change management framework is likely required from APRA to ensure that APS 330 Attachment A remains current and considers any amendments that are required from time to time, due to changes to the BCBS Standard: Disclosure Requirements. This will, therefore, require ongoing consultation with ADIs, to ensure that the requirements of APS 330 are compatible with and consulted upon, both in the draft and final versions of the BCBS Standard: Disclosure Requirements.

ADIs strongly encourage APRA to consider the direct inclusion of the tables in a revised APS 330. This would:

- Provide clarity and alignment of terminology within the Australian context, including APRA's approach where the BCBS standards specify inclusion of these disclosures is at the advice of national regulators (e.g. DIS45. DIS40 CRB-A);
- Increase efficiency, as individual ADI's would not have to consult multiple regulations to consider if any localisation amendments are required to APS 330 Attachment A due to out of cycle changes, which would in turn require communication to APRA;
- While APS 330's length and number of pages would grow, the impact would be negligible, as for all market participants who require an understanding of the public disclosure requires, they would need to consult the already extensive BCBS Standards: Disclosure Requirements; and
- Align the approach taken by APRA in implementing the BCBS Standard: Disclosure Requirements to the other global prudential regulators.

Clarifications and comments on revised APS 330 for 2024 reporting

A number of the credit risk disclosures include information on the number of obligors. This introduces complexity into already detailed disclosures. The definition of an obligor may differ between ADIs and also across portfolios e.g. is a retail customer with multiple product types more than one obligor? The number of obligors may also be not reflective of the measurement of risk in the portfolio (e.g. the risk of retail products). The ABA suggests removing any disclosure requirements related to obligors.

Industry's reading of the requirements on disclosure of G-SIB indicators is that these will now be published in the annual Pillar 3 report, which for banks with a September year-end would mean disclosure in November instead of the current 31 July reporting date, which is not in accordance with the BCBS's G-SIB instructions. The ABA asks APRA to confirm if this is the correct understanding.

APS 113, Attachment E, paragraph 6 relates to the eligibility of IPRE collateral for IRB LGD. Paragraph 6(d) states that "the ADI publicly discloses how it has satisfied the conditions in sub-paragraphs (b) and (c)". Given the reference to public disclosure, can APRA confirm whether this is intended to reference the APS 330 disclosure or whether it is made publicly available in some other way?

Table KM1

This table requires the disclosure of capital metrics, 'as if transitional arrangements were in place', using non-Australian terminology. Specifically, "fully loaded ECL accounting model", which is not applicable in an Australian context. ADIs therefore, would request that APRA provide additional guidance on this matter. The ADIs preference would be to produce public disclosures that do not contain any references to transitional arrangements, unless circumstance arises where APRA has provided transitional relief.

Table CC1

The Composition of Regulatory Capital is defined differently in APS 111, vs. BCBS Standards. For example, Treasury shares and deferred fee income. The differences in composition consequently require differences in the public disclosures. Within table CC1, row 26 BCBS allows for "national specific regulatory adjustments". ADIs ask that APRA provide explicit guidance to the composition of adjustments, consistent with the detail that is currently found in the in-force APS 330 Table 1.



Table CC2

CC2 disclosure is partially duplicated in Table LI1. Is there a need to disclose a regulatory balance sheet in Balance Sheet form? This is an opportunity for the two tables to be combined.

Table CR1

Clarification is required regarding the definitions of provisions specifically relating to specific and general provisions.

Can APRA confirm that draft APS 330, Attachment A paragraph 6 states that “*When disclosing credit risk exposures, an ADI also must separately disclose its New Zealand exposures*”. ADIs would encourage APRA to revise this wording to refer to ADIs entities which operate in New Zealand and regulated by the RBNZ. The current wording suggests that any New Zealand exposure, irrespective of geographical operating location of the ADIs entity which assumed the exposure, would need to be separately disclosed. This does not appear to be an ideal outcome, as it could require all operating entities within an ADI to determine if their exposures arise in New Zealand, and in turn separately calculate and disclose their impacts.

Equity risk

The in-force APS 330, Appendix D, Tables 13 and 14 have been excluded from the draft APS 330, and there is no equivalent in the BCBS disclosures. The ABA asks that APRA confirm that APRA is proposing to no longer require these disclosures, as they are not requirement in the BCBS standard.

Table OV1

IRRBB RWA

The Basel RWA disclosure tables do not allow for disclosures of the IRRBB RWA, as they are not present in the Basel Framework. Given IRRBB is an APRA requirement, and is currently required to be disclosed separately in the Pillar 3 report, the ABA asks that APRA to amend the proposed APS 330 to include this additional disclosure.

Row 24 - Overview of RWA

In respect of RWA for amounts below the thresholds for deduction (subject to 250% risk weight), equity exposures held in other ADIs or overseas deposit-taking institutions and their subsidiaries, and insurance companies that are subsidiaries of the ADI:

- up to a maximum of 10% of the ADI's CET1 capital, are risk-weighted at 250% for Level 1; and
- exposures above 10% of the ADI's CET1 Capital are subject to CET1 deductions.

However, this does not apply at Level 2. For Level 2, all equity exposures are all subject to the CET1 deductions. Given the APS 330 disclosure is for Level 2 only, industry believes this disclosure is not applicable, and requests APRA's confirmation.

Rows 21-23 - Overview of RWA

The disclosure of Market Risk RWA components (in rows 21 to 23), aligns with the market risk disclosures requirements set out in the BCBS Standard. APS 330 Attachment A Paragraph 17 has provided relief from producing such metrics. ADIs therefore ask APRA to confirm that the disclosures required in table OV1 (rows 21 to 23) are not required, by further clarifying the language in Attachment A, and any substitution of information be drawn from Table 1 of the draft APS 330.

DIS40 - CR9: Back testing of probability of default (PD) per portfolio

The ABA requests that APRA provide additional clarity as to the modifications found in the Draft APS 330 Attachment A paragraph 7, which states “An ADI must use the default rate consistent with that used to estimate probability of default under APS 113, rather than as defined under the BCBS Standard”.

- Is the intention that calculations should be performed consistently with APG 113 Paragraph 99 (probability of default estimation)?
- This will also apply to number of obligors (col f) and defaulted obligors in the year (col g)
- Notwithstanding our feedback above in relation to obligors, if consistent with APG 113, industry expects that these columns consider only the number of obligors that were funded as at a



respective date point, and when considering number of obligors at the end of the year this would need to account for obligors that defaulted throughout the year.

Confirmation is required on the granularity of information to be provided for the disclosure, i.e. individual rating (for example, rating grade, retail pool) or portfolio (for example, home loans, corporate):

- If the disclosure is to be completed at an individual rating level, various columns will have equivalent information (for example, column d: weighted average PD, column e: arithmetic average PD by obligors).

Can APRA confirm how the margin of conservatism is to be considered in default rates?

- The explanation for average historical annual default rate states that the “historical annual default rate disclosed should be before the application of the margin of conservatism”. However, default rates by definition do not include a margin of conservatism. Rather, per APS 113 a margin of conservatism is included in probability of default estimates.