



Response to Submissions

Financial Claims Scheme for authorised deposit-taking institutions: Proposed requirements for payment, reporting and communications

June 2013

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Preamble

Prudential Standard 910 Financial Claims Scheme (APS 910) came into effect on 1 January 2012 and requires all locally incorporated authorised deposit-taking institutions (ADIs) to establish a single customer view for balances in accounts protected under the Financial Claims Scheme (FCS).

In November 2012, APRA released a consultation package on proposals to implement further requirements for the FCS for ADIs in relation to payment, reporting and communications. The consultation package comprised a discussion paper, a draft amended APS 910 and a draft information paper.

This paper responds to submissions received on the proposals outlined in the November 2012 package. APRA is also issuing a final APS 910, which comes into effect from 1 July 2013. A revised information paper and payment and report forms will be available in July 2013.

This response paper and the final APS 910 are available on APRA's website at www.apra.gov.au/policy.

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Glossary

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| Account-holder | An entity (as defined in section 960-100 of the <i>Income Tax Assessment Act 1997</i>) that holds in its name, or keeps in its name, (either alone or jointly with another entity) an account or covered financial product with an ADI |
| ADI | Authorised deposit-taking institution as defined in the <i>Banking Act 1959</i> (Banking Act) |
| AEST | Australian Eastern Standard Time |
| APCA | Australian Payments Clearing Association |
| APRA | Australian Prudential Regulation Authority |
| APS 910 | <i>Prudential Standard APS 910 Financial Claims Scheme</i> |
| ATO | Australian Taxation Office |
| AUASB | Auditing and Assurance Standards Board |
| Banking Act | <i>Banking Act 1959</i> |
| BCP | Business continuity planning |
| Declared ADI | An ADI specified in a declaration under section 16AD of the Banking Act as an ADI in relation to which Subdivision C of Division 2AA of Part II of the Banking Act applies |
| EFT | Electronic funds transfer |
| Electronic banking | All electronic delivery channels, such as internet banking, telephone banking and mobile phone banking, which are accessed using a unique customer identification and password |
| EOD | End-of-day means 9.00 am AEST on the day following the date on which the Minister's declaration is made under section 16AD of the Banking Act in relation to an ADI or, for testing purposes, 9.00 am AEST on the day following the date on which APRA requests that the information be generated by an ADI |
| FCS | Financial Claims Scheme |
| FCS limit | The limit on payments to an account-holder with a declared ADI applicable under section 16AG of the Banking Act, as prescribed in regulations made under the Banking Act |
| FCS balance | The aggregate amount an account-holder is entitled to be paid by APRA in respect of protected accounts under Part 2, Division 2AA of the Banking Act, being not more than the FCS limit |
| Liquid funds | Funds that can be used by a person for the purpose of making a financial transaction, with or without a linked or transactional bank account. Liquid funds can include cash, deposit balances in a transaction account or call account, pre-paid or stored value card, virtual card or other emerging mobile payment technologies |
| Prescribed accounts | An account prescribed under subsection 16AH(5) of the Banking Act |
| Protected account | An account as defined in section 5 of the Banking Act |
| RBA | Reserve Bank of Australia |
| SCV | Single customer view, as defined in APS 910 |

Executive summary

Prudential Standard APS 910 Financial Claims Scheme (APS 910) came into effect on 1 January 2012 and requires locally incorporated ADIs to establish a single customer view (SCV) for balances in accounts protected under the Financial Claims Scheme (FCS). At the time of determining APS 910, APRA indicated it would release further proposals dealing with payment, reporting and communications associated with the FCS.

In November 2012 a consultation package was released comprising:

- a discussion paper, *Financial Claims Scheme for authorised deposit-taking institutions: Proposed requirements for payment, reporting and communications*;
- a draft amended APS 910 including the proposed requirements; and
- a draft information paper, *Financial Claims Scheme for authorised deposit-taking institutions*. This paper provided information to assist ADIs in complying with the SCV, payment and reporting requirements contained in APS 910.

Broadly, the discussion paper set out proposals to require ADIs to be pre-positioned for two forms of payment: electronic funds transfer (EFT) and RBA cheque. The proposals also required ADIs to generate reports and to comply with testing, audit and CEO attestation requirements.

Nine submissions were received on the package. Industry feedback was also provided at a series of workshops and meetings. Submissions broadly supported the package; however, issues were raised on some aspects of the proposals. The main issues related to: the capture of alternative account data; alternate payment options; payment processing issues; audit requirements; and transition arrangements.

APRA has considered the submissions and our responses are outlined in this paper. Key changes in the final package include:

- clarifying expectations in relation to the ability to capture alternative ADI account data;
- clarifying expectations in relation to audit matters; and
- proposing a temporary extension to the time to generate EFT payment instructions to allow more time to capture alternative ADI account data.

APS 910 requires implementation of EFT and cheque payment options; however, APRA will consider additional payment options in the medium term.

Implementation

APRA is releasing a final APS 910 with this response paper and a revised information paper and reporting requirements will be available in July 2013. The final APS 910 will take effect from 1 July 2013, and compliance with the new requirements is required by 1 July 2014. Compliance with the SCV requirements of APS 910 continues to be required by 1 January 2014. ADIs can apply for an extension up to 31 December 2015 for compliance with any of the requirements in APS 910. Applications for extension are subject to approval by APRA, and APRA expects applications to be lodged three months prior to the relevant compliance date to allow time for APRA's consideration.

Chapter 1 – Introduction

The FCS for ADIs was established by the *Banking Act 1959* (Banking Act) in 2008. In December 2011 APRA released APS 910, which requires ADIs to establish a SCV for each protected account-holder.

APS 910 required that ADIs be compliant with the SCV requirements by 1 January 2014. ADIs may apply to APRA for an extension up to 31 December 2015.

APRA expects applications for extension for the SCV requirements of APS 910 to be lodged by 30 September 2013.

At the time of determining APS 910, APRA indicated that it would release further proposals dealing with payment, reporting and communications associated with the FCS.

In November 2012 APRA released a consultation package comprising a discussion paper, draft amended APS 910 and draft information paper. This package contained proposals in relation to payment, reporting and communications requirements for further implementation of the FCS.

The response date for submissions on the package was 31 December 2012, and was extended to 18 January 2013 at the request of industry.

In the package, APRA proposed that ADIs would need to comply with the further requirements of APS 910 by 1 July 2014. ADIs may apply to APRA for an extension up to 31 December 2015. APRA expects applications for extension for the payment, reporting and communications requirements of APS 910 to be lodged by 31 March 2014.

APRA has consulted extensively with industry over the past six months on the main elements of the package and issues raised in the submissions through workshops and meetings with industry participants.

Structure of this paper

The following chapters address key issues raised in the submissions and provide details of the implementation arrangements. Chapter 2 discusses payment options, including clarification of APRA's expectations of the 'alternative ADI account facility' and additional payment options. Chapter 3 deals with payment and reporting issues, such as the timeframe for generating payment instructions, prioritisation and reporting expectations. Chapter 4 clarifies APRA's expectations in relation to communications, testing and assurance. Chapter 5 covers transitional arrangements.

Chapter 2 – Payment options

2.1 Payment options – EFT and cheque

The purpose of APS 910 is to ensure that, in the event that an ADI is declared under the FCS, the following objectives are achieved:

- speed and security of payment is facilitated (with an aim of completing most payments within seven calendar days of declaration of the FCS);
- operational risks and administrative costs are minimised by drawing on existing ADI capacity and systems where possible, rather than building new capacity and systems;
- the impact on financial system stability and confidence is minimised by maintaining the credibility of the FCS; and
- relevant international principles and practice are observed where possible.

To achieve these objectives APRA proposed two payment options, EFT provided by the RBA and cheque drawn on the RBA. Accordingly, APRA proposed requirements for ADIs to be pre-positioned to enable data to be extracted in a specified format to enable the RBA to effect payment under these two methods.

APRA's preferred payment option is EFT, with cheques the residual option used to pay account-holders who do not provide the declared ADI with account details at another ADI within a few days of the FCS declaration. APRA also sought feedback on alternative payment options; these are discussed in the following section.

APRA has discretion under the Banking Act to determine if payment is made by single or multiple instalments. For practical reasons it was proposed that, where possible, payments for the majority of protected account balances would be made by only one payment to minimise complexity and cost. The intention is for this payment to be made within a seven calendar day period. Payments that could not be made immediately (for example, due to an exception reason or account condition) would be processed on a slower timeframe.

For protected prescribed account-holders, such as first home saver, farm management and retirement savings accounts, payment under the Banking Act would be effected by establishing a new prescribed account of the same kind with an alternative ADI. This is expected to happen on a slower timeframe.

Comments received

Submissions strongly recommended using existing infrastructure, and were generally in favour of the RBA cheque option.

Some submissions suggested that the only payment solution be the RBA cheque option, rather than a combination of EFT and cheque. It was noted that using a single payment option would ensure that communication of the payment method to customers of a failed ADI would be succinct and easily understood and would be more efficient.

Some submissions requested that pre-positioning of FCS obligations for large and small ADIs be done in two tiers, to allow for differences in technology, and suggested using only cheque payments for smaller ADIs. This was on the basis that entities covered by the scheme have significant diversity in scale and complexity and the principles of any payments solution should offer flexibility in approach.

APRA response

APRA has clarified in APS 910 that where an ADI does not have an existing electronic banking capacity, an exemption from EFT payment pre-positioning requirements may be granted (see following section).

Even so, EFT remains APRA's preferred option and RBA cheque remains APRA's preferred residual option, where alternative ADI account data are not available. These payment options meet APRA's stated objectives of speed and security, while minimising operational risks and administrative costs. APRA's preference for payment by EFT, where possible, also reflects the continued decline in use of cheques as a payment instrument.

2.2 Alternative ADI account data capture

EFT is a secure and fast payment option with low processing costs, provided the ADI's own systems can be used to authorise and authenticate information for individual account-holders. However, prompt payment is reliant upon the account-holder having a transaction account with another ADI and there is a need for consent from account-holders to release the alternative BSB and account details to the declared ADI.

To facilitate prompt EFT payments, APRA proposed ADIs establish and maintain an 'alternative ADI account facility' to enable account-holders of an ADI declared under the FCS to provide alternative account details at another ADI. Account-holders would provide their alternative ADI BSB and account numbers if they wished to have FCS payments made by EFT to that alternative account.

A file of EFT payment instructions would be generated from the SCV and the information provided by account holders on alternative ADI accounts. The file would be sent to APRA's paying agent, the RBA, for processing via existing clearing systems.

Although many account-holders hold transaction accounts at multiple ADIs, many do not. If no other ADI account is held (by the account-holder) the only currently available alternative is for a cheque to be drawn or for APRA to establish an account in another ADI on their behalf.

Comments received

Industry raised a number of concerns and issues with APRA's proposal relating to:

- the system build required to capture alternative account information;
- potential capacity and robustness issues; and
- the costs involved - highlighting costs against the low likelihood of a FCS declaration.

Industry concerns related to the systems capacity and robustness required to handle potentially large volumes of access requests to the alternative ADI account facility by account-holders in a failure situation, particularly in the case of a large ADI. Submissions indicated it would be very costly to build an alternative ADI account facility capable of handling high volumes. It was further noted that there would be significant operational risks in processing high volumes in a tight timeframe. Submissions considered the alternative ADI account facility to be very expensive for testing and maintenance costs.

Many ADIs indicated costs would decrease if the time period for data capture were extended.

Industry raised concerns about the costs for each ADI to develop a separate facility for obtaining alternative ADI account details that may never be used. Submissions were concerned that the EFT option would require significant and duplicate infrastructure investment for all ADIs.

On this basis, submissions suggested that there were cost and efficiency advantages from building a centralised data hub to be run by a single central body to facilitate processing payments and data capture during an FCS event, rather than each ADI developing their own facilities.

Submissions also raised a number of other complicating factors including:

- identifying clients for EFT joint account login;
- business cheque accounts requiring dual signatories;
- ADIs without any electronic banking presence; and
- the capacity of non declared ADIs to set up new accounts within the proposed three day window.

APRA response

It was not APRA's intention that the alternative ADI account data capture functionality require significant infrastructure build or that it must be a separate facility.

Development of the data capture ability may use existing functionality and authentication systems (for example, using a 'pay anyone' function) and need only cover an ADI's existing electronic banking customer base.

APRA's system capacity expectations are consistent with those required for an ADI's business continuity management and disaster recovery planning needs as set out in *Prudential Standard CPS 232 Business Continuity Management (CPS 232)*. There is not an expectation that capacity must be increased to accommodate access by every account-holder during the three-day time period for alternative ADI data capture.

While industry put substantial effort into considering centralised models, no proposal was fully developed nor agreed among industry members and significant further work would be required for any model to be a practicable solution. A centralised model for this purpose is not being pursued by industry at this time. APS 910 has been amended to allow for APRA to approve an alternative data capture option if one is to be developed in future.

In summary, the main alterations to APS 910 are to:

- emphasise that ADIs may use existing functionality and need not develop a separate facility to capture alternative ADI account data; and
- clarify that ADIs without any electronic banking facilities may be exempted from the requirement to provide payment by EFT.

EFT payment would only be used where an account holder has provided alternative ADI account information to the declared ADI and payments to customers that have not advised alternative ADI account details would be made by RBA cheque.

2.3 Alternative payment options

To give industry an opportunity to provide its views on possible future payment options, feedback was sought on three alternative payment options:

- deposit account transfer – legal ownership of protected accounts would be transferred from the declared ADI to an acquiring ADI;
- re-opening the declared ADI's own payment channels for a limited period to facilitate access by account-holders to transaction accounts using the ADI's existing infrastructure; and
- stored value or pre-paid EFT cards.

Comments received

The two alternative payment options that received mixed, but generally positive, feedback were deposit account transfer and keeping the ADI open for a limited period in the payment system.

The deposit account transfer option, however, also raised concerns that it was potentially more costly than the current proposals, could reduce competition in the banking sector and could undermine customer choice.

There was a relatively positive reaction among participants to the option of keeping the ADI open for a limited period in the payment system. In particular, this was seen as a way of meeting the bulk of depositor payments and limiting other payments that may be required. Others saw it as a way of reducing the volume of account-holder requests on the alternative ADI account facility and reducing the volume of EFT/cheque payments to be made for residual amounts.

There was also recognition, however, that this option creates a number of technical challenges, costs and risks, relating to:

- IT complexities and costs and system capacity issues;
- payment reconciliation issues and a potential delay in account holders receiving their full FCS entitlement;

- security risks if branch networks are re-opened;
- cash supply management and logistics issues; and
- managing other ADIs' exposures to the declared ADI while it is kept in the payment system.

For smaller ADIs, there were reservations about the effectiveness of this option as a great deal of pre-positioning work would be needed to satisfy the cash demands of a very small proportion of the smaller ADIs' customer bases.

An industry model was put forward which combined a number of solutions and proposals discussed in the submissions. However, there were a number of legal and operational challenges to be addressed with this model.

The stored value or pre-paid EFT cards proposal did not receive support. There were reservations about the security risks, logistical issues and effectiveness of this option. Significant pre-positioning work would be needed unless there were a large amount of pre-paid cards held in stock by every ADI. Alternatively, a central repository of pre-paid cards would need to be established.

APRA response

APRA's view is that in the immediate term the focus of ADIs should be on the implementation of the required payment options of EFT and cheque and the requirements which facilitate these such as the data capture for alternate ADI account details. Other payment options would be additional, and may be considered at a later date.

Without specifically providing for particular mechanisms, APS 910 is sufficiently flexible so as not to impede or preclude potential industry developments. For example, APS 910 enables APRA to approve pre-positioning using additional payment arrangements that otherwise meet the requirements of APS 910 so as to allow for any industry model that may be developed in the future.

APRA is open to other options and will consider the need for review over time.

Chapter 3 – FCS payment and reporting issues

3.1 Prioritisation

One of the main aims of the FCS is to provide fast access to liquid funds for protected account-holders. To facilitate the timely payment of these funds, APRA is proposing guidelines to prioritise the apportionment of account balances where the aggregate value is above the FCS limit.

In relation to account-holders for whom the aggregate account balance for protected accounts exceeds the FCS limit, the Banking Act provides APRA the flexibility to determine the order of FCS payment across different categories of protected accounts, up to the FCS limit, and also flexibility as to whether to prioritise the payment of principal or accrued interest.

Three categories of protected account were outlined in the discussion paper:

- savings, transaction and call accounts, where the funds can be withdrawn immediately;
- cash management accounts and term deposits, where the funds can only be accessed on a maturity date, or upon giving advance notice of withdrawal; and
- prescribed accounts, such as retirement savings accounts, farm management deposit accounts and first home saver accounts, where the funds may only be used for dedicated purposes consistent with the terms of those accounts.

The implications of prioritising between these categories of protected accounts were considered in the discussion paper. APRA proposed to seek to make payment to the majority of account-holders within seven calendar days of the FCS being declared.

APRA noted that funds in prescribed accounts cannot be paid to the account-holder or deposited into a transaction account at another ADI. The Banking Act requires APRA to establish a prescribed account of the same kind at another ADI and deposit the funds relevant to the prescribed account into the new account.

Where an account-holder's aggregate balance is in excess of the FCS limit, in order to prioritise the accounts paid out first, two methods of apportionment were proposed in the discussion paper: *pari passu* or assigning priority to categories of protected accounts. Options for prioritising payment of principal versus accrued interest were also addressed in the discussion paper, with APRA's preference being for calculating principal and interest components up to the FCS limit on a *pro rata* basis. A specific account order and priority was suggested in the draft information paper.

Comments received

The submissions received were supportive of the approach to prioritise the apportionment of FCS balances as outlined in the draft information paper. This gave priority to non-prescribed accounts in order to maximise account-holder's access to funds.

Some submissions requested that prioritisation be clarified in APS 910.

Industry supported the suggestion made by APRA that the terms and conditions of each underlying product inform the timing of payment of interest.

It was suggested that the accrued interest component and accrued fees and charges on eligible accounts, but not yet applied to those accounts, could be dealt with in the liquidation process, rather than as part of determining the payout.

APRA response

APRA remains of the view that access to liquid funds should be maximised. The priority of accounts in the final APS 910 is:

- non-prescribed accounts, such as transaction, call accounts, term deposits which are not flagged as having an exception; then
- non-prescribed accounts which are flagged as having an exception; then
- prescribed accounts (retirements savings accounts, farm management deposits and first home saver accounts) which are not flagged as having an exception; then
- prescribed accounts which are flagged as having an exception.

Within each category, accounts have equal standing and are to be apportioned equally.

It is envisaged that immediate payment would not be able to be made in some cases, and that exception processing would be required. Examples where FCS payment may be delayed and require an account-holder to make a claim directly to APRA for payment include, but are not limited, to:

- dormant or frozen accounts;
- accounts of deceased persons;
- accounts with invalid or obsolete addresses (where the payment cannot be made by EFT); and
- accounts with a restricted operating status.

Under the Banking Act, the balance to be paid out to the account-holder is the aggregate of each protected account's net credit balance (the balance in the protected account less fees, charges and duties) plus any accrued interest payable at the time of declaration. The net credit balance must be increased or decreased to take account of clearance of transactions connected with the account.

Principal and interest components of the aggregate account-holder's entitlement, when it is above the FCS limit, are to be apportioned on a *pro rata* basis, such that the interest and principal components are each determined in relation to their share of the aggregate balance. As withholding tax is calculated as a percentage of the paid out accrued interest, it will be apportioned on a *pro rata* basis as well.

APS 910 Attachment C has been amended to include these principles and further guidance is contained in the revised information paper and payment and report forms which will be uploaded on APRA's website.

3.2 End-of-day and extension of timeframe

To ensure that payments can be made as quickly as possible, maximum processing times for ADIs were included in APS 910. Timeframes have already been specified for EOD balances and the generation of the SCV. A proposed timeframe for the generation and transmission of payment instruction information was included in the draft APS 910. These timeframes are targeted to achieve a payment processing schedule which sees the majority of payments being completed within seven calendar days.

Balances as at the time of declaration on Day 0 are required in APS 910 to be determined not later than 9.00 am AEST on Day 1 (i.e. EOD, hence 'EOD balances') to allow ADIs to complete their overnight processing. The declared ADI would be expected to start calculating its SCV from such balances as soon as the data were available, and not necessarily wait until 9.00 am AEST.

The payment methods of BPAY[®], Visa and MasterCard were included in draft amended Attachment B of APS 910 to ensure consistency in the treatment of final payout amounts. The amendments ensure that ADIs use the same general principles and requirements when calculating EOD balances.

APRA sought feedback on whether 72 hours was sufficient time to establish cleared funds positions for all deposit accounts. APRA also sought industry views on the need for the payments system operators and ADI industry to develop more guidance on the procedures to be followed in determining EOD balances in each payment system upon the failure of an ADI.

APCA has since set up a project team to work through these issues and develop industry guidance on the processes required in each payment system to establish EOD balances and the clearance of funds in a situation where an ADI has been declared.

Comments received

Submissions indicated that the proposed timeframes are problematic, although some indicated that it was difficult to comment on this in an informed way until APRA has finalised its position on the processes required to generate EOD balances and the clearance of funds in an FCS event.

Further clarification regarding the calculation of withholding tax was sought, as well as the assessment of uncleared funds, completion of interest calculations, and apportionment calculations for joint accounts, in order to fully understand any changes that will be required to ADI systems.

It was noted that a definitive FCS file per account-holder may be delayed until outstanding backdated transactions are posted.

There were suggestions to extend the timeline to resolve timing issues. Industry submissions consider that if the payout timeframe were increased costs would potentially reduce significantly.

Submissions noted that for small business and corporate customers, setting up a new deposit account can take quite a number of days because there are often complex account authorities and multiple authorised signatories to complete.

APRA response

APRA proposed in the draft amended APS 910 and discussion paper that ADIs pre-position to produce payment instruction information for EFT and cheque not later than 72 hours after calculating EOD balances to facilitate prompt payment in line with international best practice.

APRA will temporarily extend the timeframe to generate payment instruction information for EFT and/or cheque during the period until 31 December 2015. This will allow an extra 24 hours for processing the SCV (as already provided for in APS 910) and an extra 24 hours for generating and transmitting payment instruction information. APRA's payment target remains seven calendar days. For the purposes of testing, however, ADIs can assume that they won't be expected to process on weekends or public holidays.

APRA will monitor progress in this area as ADIs develop their systems and industry processes improve. APRA expects to see ADIs working towards timely payment by, for instance, processing payments in batches.

APRA has also:

- clarified the wording around the payment instruction information generation to make it clearer that there will be some flexibility if required to tailor the payment timeline for larger (or very small) ADIs; and
- emphasised that accrued interest, fees, duties and charges payable, and withholding tax must be calculated as at the point of declaration in line with the terms and conditions of the account.

3.3 Reporting

APRA proposed that FCS reporting information be produced by ADIs to facilitate access to confidential customer data by APRA, its paying agent the RBA, and/or the liquidator, to provide an audit trail of transactions, and to assist in the processing of manual payments as quickly as possible.

The reporting proposals were made in the context of the obligations placed on APRA under the Banking Act. Those reports to be provided include reports to account-holders and the ATO about matters specified in the Act. There are also a variety of other reports that APRA requires. APRA proposed that ADIs be pre-positioned to have the systems and processes to generate the required reports should an FCS declaration occur.

The specified reports to APRA include:

- a SCV summary report showing the values and volumes of potential FCS payments to provide aggregate information about account-holders' entitlements;
- EFT payments and/or RBA cheque payments and summary reports to track the payments made via payment instructions transmitted to the RBA;
- an exception and summary report, to record payments that cannot be made via EFT or cheque; and
- a prescribed account and summary report, to enable APRA to establish an account of the same kind at an alternative ADI.

ADIs may also be required to provide APRA with additional information in relation to the FCS payments and reporting after the time of declaration.

Comments received

Industry submissions indicated that there had been insufficient time for internal reporting and technical subject matter experts to analyse the requirements in detail.

APRA response

The reporting requirements remain largely unchanged, although there have been some changes to the fields included in payment and report forms which will be located on APRA's website from July 2013. APRA, in consultation with industry through workshops, has provided feedback about the reporting and associated technical requirements and has amended the guidance contained in the revised information paper to provide additional clarification and simplify the reporting process for ADIs.

Chapter 4 – Communications, testing and assurance

4.1 Communications

Communications are extremely important in the context of the FCS to maintain confidence in, and the credibility of, the scheme and hence assist financial system stability. APS 910 therefore proposed to require ADIs to be pre-positioned to manage certain communications in the event of a declaration.

In the event of a declaration, an ADI should be pre-positioned to manage communications with account-holders and other customers. Specific communications proposals in the discussion paper gave consideration to the account-holders and other interested parties. It will be the responsibility for ADIs to prepare and develop communication material specific to their products.

APRA sought input from ADIs on their capacity to handle high volumes of enquiries in a crisis situation and what arrangements they already have, or plan to establish, to ensure that they can manage high volumes of communications.

APRA requested industry's feedback on the nature and scope of testing to provide reasonable assurance that ADIs have the ability to meet the FCS requirements, including in relation to managing the customer communications aspects of the FCS.

Comments received

Some submissions indicated that communication requirements would draw on existing business continuity plans (BCP) to ensure they could efficiently manage the expected high volume of customer enquiries.

The main industry concerns centred on the ability of an ADI to 'scale up' to meet the expected high volume of enquiries. It was suggested that the level of resources that may be required to meet this obligation should not be beyond that already in place to meet the crisis management planning requirements in CPS 232.

APRA response

APRA expects ADIs to have the capacity to handle higher-than-usual volumes of communications in an FCS situation, consistent with the BCP requirements in CPS 232, and this has been clarified in APS 910. APRA does not expect ADIs to put separate communications contingency plans in place specifically to deal with an FCS situation.

ADIs should be pre-positioned to manage communications with account-holders and other customers. Communications include pre-positioning call centre scripts and frequently asked questions, as well as call escalation processes.

General communications about the FCS will normally be the responsibility of APRA.

4.2 Testing

Periodic testing of various components of the pre-positioning is an important aspect of determining ADIs' compliance with APS 910 and their capacity to make payments within the expected timeframes in the event of declaration of the FCS.

Demonstration of an ADI's preparedness and ability to meet the requirements of APS 910 through testing will be assessed regularly by APRA. Testing will be used in conjunction with on-site assessment of data, relevant controls and systems.

Tests proposed in the discussion paper and draft amended APS 910 included:

- the timeliness, quality and accurate generation of the SCV file;
- ability to activate alternative ADI data capture;
- the ability to generate and transmit timely, accurate and complete payment instructions to the RBA;
- the ability to generate required reports in a timely and complete manner;
- the ability to invoke the required communications arrangements in a timely and complete manner; and
- end-to-end simulation testing.

Comments received

Some submissions noted that testing capabilities will involve varying degrees of precision, particularly in the context of the 'to the extent practicable' construct. Submissions agreed that continuous improvement in underlying data quality and processes will, nevertheless, see progressive refinement in the accuracy of reporting.

Submissions generally requested further information on the testing mechanisms and suggested that APRA utilise direct testing as the primary mechanism in assessing compliance. It was suggested that the proposed testing approach differs from that applied in CPS 232 whereby an annual test is conducted with external audit oversight.

Submissions stated that it would be of assistance if APRA could provide more detail on the proposed 'simulation' tests. It was indicated that it would be extremely difficult to simulate millions of customers going online in 48 hours to validate/test the IT and internet banking infrastructure.

APRA response

APRA's expectations are that testing will be conducted in line with business continuity arrangements and IT capacity constraints consistent with CPS 232.

ADIs will also be required to periodically test payment files with the RBA according to a testing schedule notified by APRA. End-to-end simulation testing may also be conducted by APRA from time to time.

4.3 Assurance

APRA proposed that assurance be given that ADIs are able to comply with the requirements of APS 910 through annual CEO attestations and audit requirements. The proposed CEO attestation in relation to the payment, reporting and communications requirements builds on the attestation provisions already in place in respect of SCV requirements. APRA also proposed reliance on external auditors in APS 910 to ascertain the extent to which an ADI complies with relevant elements of *Prudential Standard APS 310 Audit and Related Matters* (APS 310).

Comments received

The assurance proposals were generally well accepted. There was support for CEO attestation covering the additional payments requirements within APS 910.

It was suggested that APRA modify APS 910 attestation requirements which concern the ADI's systems and associated controls for the purposes of ensuring payment instructions and reports, including the alternative ADI account data, are complete and accurate, to include a statement 'to the extent practicable'.

Submissions supported that assurance should be provided by internal audit as it was felt the additional requirement to have an external audit of the FCS preparedness would not provide any real benefit.

APRA has also consulted with external auditors regarding expectations on the scope, form and details of the external audit review, with auditors indicating additional costs to ADIs are likely.

Other matters raised in submissions were that:

- the audit and assurance be conducted at time of FCS testing;
- the lodging of the audit report should be within three months of the test being completed by the ADI (not annually);
- there are audit limitations in extending assurance to non-financial data and that APRA should work with AUASB to issue guidance on the type of testing and level of sampling expected over non-financial data;
- more detail needs to be provided by APRA about the matching rules for SCV;
- guidelines should be provided by APRA about the materiality that would be applicable to the FCS audit testing; and
- the auditor report on the alternative account facility be limited to the date of test and not at a future date.

APRA response

APRA's audit expectations are consistent with those required for the audit of compliance with all other prudential standards.

Changes have been made to APS 910 to clarify consistency with APS 310. The audit requirements in APS 910 are now more closely aligned with APS 310, in particular in requiring a limited assurance audit rather than a reasonable assurance audit. APRA may require an ADI to engage an auditor to undertake a reasonable or limited assurance engagement of SCV systems and data, and the systems used to generate and transmit FCS payment and reporting information.

Chapter 5 – Transition arrangements

The transition arrangements included in APS 910 acknowledge that to fulfil the FCS pre-positioning arrangements will require ADIs to make changes to their IT systems and other operational processes.

In the consultation package APRA distinguished two separate transition arrangements:

- the first required that ADIs comply with the SCV required by 1 January 2014; and
- the second proposed compliance with pre-positioning requirements for payments, reporting and communications by 1 July 2014 (based on the amended standard being issued by 1 July 2013).

Approval for an extended transition period up to 31 December 2015 may be sought from APRA on a case by case basis for either transition arrangement. All ADIs must be compliant with the requirements in APS 910 by 1 January 2016 at the latest.

Comments received

Submissions proposed extending the effective implementation dates in APS 910. Suggestions from ADIs included:

- aligning the implementation date of 1 January 2014 for the SCV with the proposed date of 1 July 2014 for payments, reporting and communications for operational risk and project efficiency reasons given the lead times and significant expenses associated

with implementing some of the requirements of APS 910; and

- extending the 1 July 2014 timeframe for the payments, reporting and communications proposals out to 1 January 2015, with up to a further 18 months for extension.

APRA response

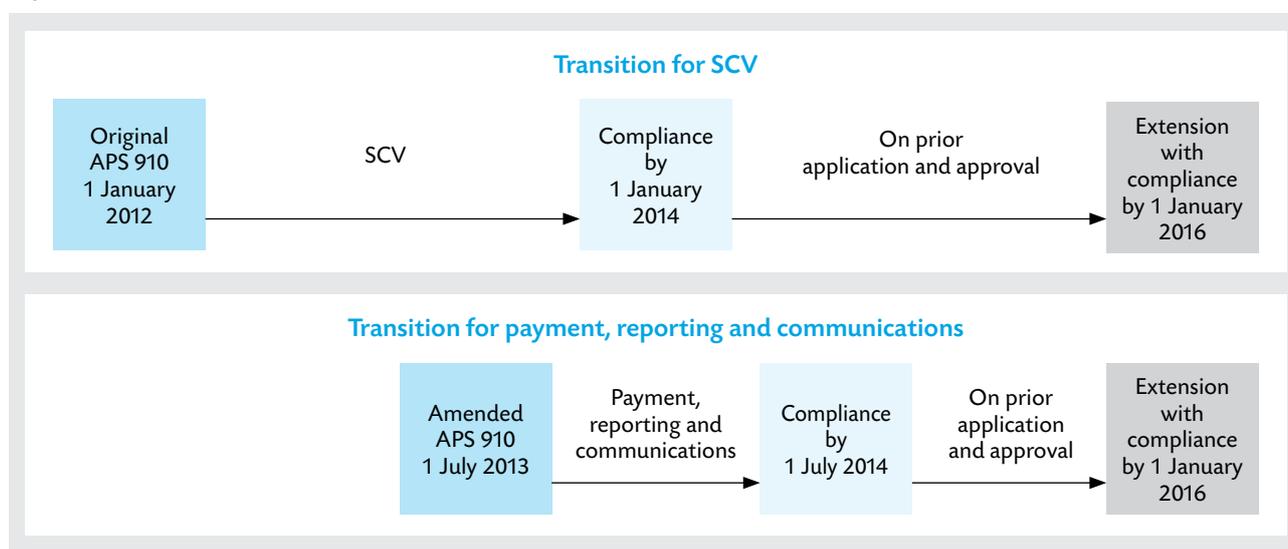
APRA remains committed to ensuring that the FCS is fully implemented as soon as possible. Further, the Financial Sector Assessment Program report on Australia's crisis management framework in 2012 recommended that APRA should ensure that ADIs implement the SCV on, or where possible, ahead of schedule.

Accordingly, the effective date for compliance with APS 910 remains as proposed: that is, 1 January 2014 for the SCV requirements and 1 July 2014 for all other requirements.

Where individual ADIs face difficulties in meeting these timeframes an extended transition period up to 31 December 2015 may be granted by APRA. APRA expects applications for extended transition to be lodged with APRA at least three months prior to the effective date for the relevant requirement, that is by:

- 30 September 2013 for SCV requirements; and
- 31 March 2014 for requirements in relation to payments, reporting and communications.

Figure 1 – Transition





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