

25 May 2017

Manager, Standard Data Collections
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001
By email : statistics@apra.gov.au

Dear Sir/Madam

Discussion Paper: Agricultural lending data collection

The Australian Bankers' Association (**ABA**) welcomes the opportunity to provide comments on the Australian Prudential Regulation Authority's (**APRA**) Discussion Paper *Agricultural lending data collection* (**Discussion Paper**).

With the active participation of its members, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

The ABA and members support the proposed collection and recognise that the data will assist Governments in formulating robust policy relating to the agricultural sector and will also assist agencies to better target more effective assistance measures for Australia's farmers.

Regarding the initial voluntary collection, the ABA notes as this is the first collection, the data sets will need to be manually collated as they are not currently collected by banks therefore for the initial voluntary collection the data will be provided on a best endeavours basis.

The ABA appreciates that APRA has provided an extension for the initial voluntary data collection to 20 June 2017, however a number of issues have arisen regarding this voluntary data collection which the ABA will discuss with APRA

The ABA makes the following comments on the Discussion Paper.

Clarification of definitions and data points

The ABA considers that the definition of any terms and data points to be used in reporting needs to be agreed by all authorised deposit-taking institutions (**ADIs**), APRA and the Department of Agriculture and Water Resources (**DAWR**) prior to any reporting standard being published to ensure consistent and accurate data.

The ABA notes that APRA released further guidance on the definitions on 4 May 2017, including clarification of the following definitions:

Definition of 'business entity'

The ABA had previously noted that farming family operations can often comprise of several legal trading entities, i.e. a company, a partnership or a trust, all with separate ABNs. ADIs report using APRA's *APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk* which requires banks to aggregate lending to these entities under a 'group' which reflects the total lending to each farming family operation. The ABA notes that APRA has subsequently clarified that 'business entity' is also lending to a group of related business entities.



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ANZSIC Code

The ABA supports the collection of the data at the four digit Industrial Classification level, however, some banks use the 1993 ANZSIC Codes to classify a customer's industry (not the 2006 codes, as APRA proposes be used).

The ABA notes that APRA has advised that for the initial voluntary collection, banks should provide the information that they have available. Where the information does not align with APRA's proposed data collection parameters or classifications, banks will note this when providing the data.

Location of 'business entity'

The ABA notes that APRA clarified that State/Territory should be attributed to where a majority of the operations for the business entity are located, and based on where the revenue ultimately derived from the agricultural activities is located.

Mix of total outstanding loans and leases

The ABA notes that where only a portion of lending is for the purpose of agricultural activity, an ADI will only report the lending when half or more of the loan limit, whether or not drawn down, is for the purpose of agricultural activity.

Definition of foreclosure

The proposed definition states "Proceeding in which the reporting institution takes possession of a mortgaged property."

APRA has subsequently advised ADI's to only report a foreclosure when that ADI has appointed the administrator/receiver. In the case where another entity appoints the administrator/receiver, the ADI will not report this as a foreclosure.

Farm debt mediation (FDM)

The ABA notes that the APRA definition for FDM is "A structured negotiation process where a neutral and independent mediator assists the borrower and the creditor to try to reach agreement about current and future debt arrangements".

APRA has subsequently clarified that the reporting for FDM should be the date the mediation meeting takes place, noting that this excludes the pre-mediation meeting. Collating this FDM data will require each bank to conduct a manual review of each case-file.

Outstanding definitions needing further clarification

Definition of total outstanding loans and leases

The ABA preference is to define "total balance outstanding" as inclusive of a range of credit and risk management products, options etc. This would effectively include an ADI's total exposure to a customer, i.e. not just limited to loan and lease balances.

Definition and timing of foreclosure

The date to recognise a "foreclosure" can be open to interpretation and therefore, further clarification is required. For example, in relation to an external administration appointment, is the date of appointing an administrator the date to be reported or the date the administrator sells the asset? Further, in relation to a group, there can be multiple appointments over an extended period as assets are sold.

The ABA considers that ADIs should report an appointment once per group even if there are multiple appointments over various assets or even multiple types of appointments such as a voluntary administration, followed by a receivership.



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Potential misinterpretation of the data

Cognisant of the expertise of the APRA Statistics team in resolving such issues. Our concern arises when a 'group' is listed as 90 days past due, undertakes FDM and also enters into foreclosure. If this occurs within the one reporting year, this same group would be contained in the statistics in three areas – thereby exaggerating the true number of distressed groups which has the potential to be misinterpreted by media and other stakeholders, which could lead to poor policy outcomes.

Closing comments

The ABA is supportive of the collection of aggregated industry level statistics on agricultural lending by DAWR to promote a common understanding of agricultural lending, and looks forward to being consulted on any proposed public utilisation of the data.

If you have any questions or would like further information please contact Amanda Pullinger, Policy Director – Retail Policy on 02 8298 0411 or by email: apullinger@bankers.asn.au.

Yours faithfully

Signed by

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