

2 Park Street  
Sydney NSW 2000

GPO Box 40  
Sydney NSW 2001  
Australia

T 61 2 8225 1000



Manager, Data Collection Design  
Australian Prudential Regulation Authority  
GPO Box 9836, Sydney, NSW 2001  
By email: [DataAnalytics@apra.gov.au](mailto:DataAnalytics@apra.gov.au)

18 October 2017

Dear Sir,

**Comments on APRA Data Quality framework for Economic and Financial Statistics**

- **Reporting Practice Guide RPG 702.0 – ABS/RBA Data Quality for the EFS Collection**
- **Reporting Standard RRS 710.0 – ABS/RBA Audit Requirements for Registered Financial Corporations (RFCs)**

Thank you for the opportunity to comment on APRA's proposed data quality framework and audit requirements for the Economic and Financial Statistics ("EFS") forms.

We would like to thank APRA for the revisions outlined in the 23 August Response to Submissions document and welcome this more practical approach to the EFS collection.

However, we do harbour concerns on the proposed data quality framework & audit requirements, primarily being:

- Unrealistic form cell reporting thresholds, data accuracy, and audit requirements in RPG 702.0 – we request further revision to these thresholds and concepts
- Inappropriate characterisation of errors in RPG 702.0 – we request materiality concepts consistent with those well established for audited financial statements
- Drafting issues with data quality benchmarks in RPG 702.0 causing implementation issues and misinterpretation – we request re-drafting to address these
- Lack of clarity in guidance on the use of proxy methodologies in RPG 702.0 – we request a worked example to make it clearer
- Conceptual and drafting concerns with RRS 710.0 – we request re-drafting to address these concerns
- Inconsistencies between EFS guidance and APRA's existing reporting – we note that EFS reporting will be prepared on a different basis to existing reporting
- We support APRA's commitment to progress more efficient data acquisition methods – we request that APRA expeditiously explore these, to maximise the use of highly accurate, single, "gold source" information sources

The following pages provide further details.

We look forward to APRA's consideration of our concerns and we are happy to discuss any aspects of our comments with you.

Yours sincerely

Tim Sedgwick  
Citi Country Finance Officer

## Appendix

### 1. Unrealistic form cell reporting thresholds, data accuracy and audit requirements in RPG 702.0

- We welcome replacement of the originally proposed “confidence interval” approach to data quality (which had a 99% confidence level for each form cell) with APRA’s new proposal that is more aligned to existing guidance in APS 310. However, while the new proposal is more realistic than the original, it is still fraught with considerable operational difficulty – for both preparers and auditors – and we do not believe it is workable in its proposed form, for the reasons outlined below.
  - The foundation of APRA regulatory reporting is financial information – prepared under International Financial Reporting Standards (IFRS) and audited under international auditing standards, in accordance with the Corporations Act, under the regulatory oversight of the Australian Accounting Standards Board and the Australian Auditing and Assurance Standards Board (AUASB).
  - While regulatory reporting is more specific than general purpose financial reporting, both must provide users with information that is reliable and useful for their purpose.
  - The internationally recognised and applied audit methodology for obtaining adequate assurance over reliability of financial information is “reasonable assurance”, which balances concepts of materiality, reliability and usefulness. Locally, the Framework for Assurance Engagements issued by the AUASB is the primary authority for the concept of Reasonable Assurance Engagements and Limited Assurance Engagements, pursuant to section 227B of the Australian Securities and Investments Commission Act 2001. However, while RRS 710.0 mentions both types of reports, it does not actually reference the guidance.
  - The newly drafted approach still proposes data quality levels and audit rules to be applied at an individual Form Cell level, which is well beyond that of financial information within financial statements. We believe this is unachievable in practice, and that the audit and assurance costs would exceed that required for the EFS information.
- We believe a more workable approach would be to fully align to the principles-based approach of Prudential Practice Guide 235 Managing Data Risk (CPG 235).
- Regarding the concession for ADIs with <\$25 billion in deposits to not report detailed margin data for Cost of Funds in certain Stock, Flow and Interest Rate Forms, we note there are many small ADIs quite close to that threshold. As they comprise a very small market share, we believe this creates an unbalanced reporting burden on those ADIs, for seemingly very little benefit.
- While our entities do not appear to require submission of detailed Cost of Funds reporting, we believe a more appropriate submission threshold is \$100 billion, consistent with the threshold for the new Major Bank Levy, but based on Total Assets (i.e. the subject of funding) rather than liabilities.

Accordingly we request that APRA:

- Apply the data quality and audit guidance to a Whole Form level, consistent with the above known and understood audit concepts that appear to be referenced.
- Reference the appropriate audit framework and methodology – if “reasonable assurance” or “limited assurance” opinions are required, the RRS (and any other

APRA guidance) needs to be explicitly linked to the relevant assurance guidance issued by the AUASB.

- Remove reporting thresholds and instead adopt qualitative guidance, as noted above.

## **2. Inappropriate characterisation of errors in RPG 702.0**

The draft RPG 702.0 Glossary defines an error as “a difference between the data reported to APRA and the data required to be reported to APRA as set out in the relevant reporting standards and guidance documents”.

We believe that categorising items “outside” data quality benchmarks as “errors” is inappropriate, as the proposed benchmarks are too granular and they do not appropriately consider the differences in information at Form Cell level, category (class) or total level, and Whole Form level. This is also unlikely to be capable of being audited in practice, to the level of accuracy and assurance that appears to be expected by APRA as set out in the draft RPG 702.0.

Normal concepts of financial information (audited financial statements) recognise that the inherent difficulty and cost required to achieve equivalent levels of accuracy and audit assurance with component information (single lines, or in EFS terms, Form Cells) is significantly greater than for grouped totals like classes of assets or liabilities, or for information as a whole (financial statement level, or Whole Form level).

It is for this reason that materiality concepts for the reporting of individual line items are applied very differently to classes or totals, or to financial statements as a whole, and that audit assurance is provided for information as a whole, and not separately on each of its component elements individually.

Indeed, APRA already treats “of which” lines in its other data collections in the same way as described above. That is, “of which” level data is recognised by APRA as inherently more difficult to achieve anywhere near the same level of accuracy as Whole of Form data, and preparers are allowed considerably more latitude with the accuracy of micro-level component data (i.e. at the Form Cell level).

As a result, we request APRA to adopt accuracy concepts (rather than “error” thresholds) that are capable of being audited at a Whole Form level, with appropriate consideration given to the level of accuracy and audit assurance applied to totals and Form Cells. These concepts would be qualitative, consistent with the qualitative nature of the overall data assurance framework, and treat differences as “variations” from indicative benchmarks.

This will enable audit firms to provide “reasonable assurance” audit opinions (consistent with APS 310) within the required time frames, at a cost that is manageable.

Further, it would also allow for developments in interpretation over time – for example as new products emerge – and improved data quality over time, given the non-financial nature of most of the EFS data collection.

Lastly, we welcome APRA’s guidance that changes in calculation methodologies would not be classified as errors. However, the guidance on treatment of errors in relation to

the use of proxy methodologies is unclear, and we request a worked example to make it more understandable.

### **3. Drafting issues with data quality benchmarks in RPG 702.0 causing implementation issues and misinterpretation**

We find the RPG 702.0 data quality benchmarks counterintuitive and confusing.

The definition preceding RPG 702.0 Table 1 states that a data item expressed as a dollar value, count or proportion is considered to be outside agency expectations of data quality if an error in that data item exceeds the benchmarks:

- in Table 1 specified in (1a) and (1b); or
- in Table 1 specified in (2)”

The definition preceding Table 1 then states:

“For data items reported as a dollar value, refer to the percentage and absolute dollar benchmarks. For data items reported as a count or as a proportion, refer only to the percentage benchmarks.”

Firstly, while the earlier part of the definition requires considering 1. part (1a) and (1b), or 2. part (2), the latter guidance states that if the data item is a dollar value the preparer must refer to the percentage and absolute dollar benchmarks, which would mean applying 1. part (1a) and (1b), and not 2. part (2) as that is only an absolute dollar value expression.

Secondly, when looking to apply the earlier part of the definition to data items reported as a count or proportion, the latter guidance states that preparers must only refer to the percentage benchmarks, which means only (1b) – that is contradictory to the earlier part of the definition which requires considering part (1b) in conjunction with (1a).

Thirdly, within Table 1, the description of section (1a) is “Benchmarks for errors that are within agency expectations”

This adds further confusion when looking to apply a “within expectation” concept to that of errors which are “considered to be outside agency expectations”.

We request that all these aspects be revised to ensure that APRA’s guidance is completely clear and devoid of ambiguity.

### **4. Lack of clarity in guidance on the use of proxy methodologies in RPG 702.0**

The RPG 702.0 guidance on use of proxy methodologies would benefit from a worked example to make it clear. As written it is not entirely clear how APRA will assess proxy-related errors in practice. Clarification of what is intended, with a worked example, will provide clearer industry guidance that is less likely to be inconsistently interpreted by different preparers, especially in the earlier stages of EFS submissions, when it is important to develop consistency.

## 5. Conceptual and drafting concerns with RRS 710.0

1. The title of RRS 710.0 does not make clear that it is only intended to apply to EFS information being reported.
2. The objectives and key requirements section is expressed in terms of “the provision of independent advice”, but it is not clear what that advice would be, nor why it would be provided to RFCs.
3. The objectives and key requirements section, first key requirement, states that an RFC “must ensure that the auditor is able to fulfil its roles and responsibilities”, yet we are not clear that RFCs could do that in all circumstances.
4. The objectives and key requirements section, second key requirement, states that auditors must prepare reports on “aspects of the RFC”, however, the RRS does not describe such specific aspects.
5. The objectives and key requirements section, third key requirement, makes the RFC responsible for submitting all reports required to be prepared by the auditor. However, this would not be possible, for example, if the auditor failed to issue such a report within the required time frame.
6. Paragraphs 15, 16, 19, 20 place additional obligations on RFCs, e.g. for the auditor to provide reports to the RFC’s Board within four months, that the audit report be only reasonable assurance or limited assurance, that the auditor exercises independent judgment, and to retain working papers, but it is not clear that RFCs would be able to enforce auditors to do these in all circumstances.
7. Paragraph 21 fails to contemplate that the costs of preparing and submitting reports, documents and other material may in fact be borne by a related party of the RFC – which may be the case for Diners Club Pty Ltd.
8. Paragraph 22 requires an RFC to ensure all persons involved in the provision of EFS information are aware of the seriousness of Criminal Code offences. We are unclear how RFCs are to achieve this with respect to audit firms maintaining quality standards, including the knowledge and experience of their employees.
9. Paragraph 23 comprises a normative statement, and an expression of what the agencies and the auditor might do – neither are described as responsibilities of the RFC, yet this paragraph sits within a section entitled “Other responsibilities of the RFC”.
10. Paragraph 24 states that APRA may adjust or exclude a specific reporting requirement of an RFC, however, there is no link to audit requirements (audit requirements being the subject of the RRS).
11. Paragraph 26 defines accounting records, however, we believe it would be better to refer to directly to definitions within the Corporations Act.
12. Attachment A places obligations on RFCs to ensure the auditor’s report addresses certain information, however, we feel it is auditors who own their audit reports.
13. Attachment A appears to be missing several Description items – there is a description for ARF 720.0A (“Statement of financial position” [SIC]), but not for the others.