CUSTOMER OWNED BANKING ASSOCIATION
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31 October 2014

Mr Pat Brennan
General Manager, Policy Development
Policy, Statistics and International Division
Australian Prudential Regulation Authority

By email: APS330@apra.gov.au

Dear Mr Brennan

Basel III disclosure requirements

Thank you for the opportunity to comment on APRA's letter to all ADIs of 1 September 2014 proposing amendments to the liquidity prudential standard and associated reporting instructions.

As you know, COBA is the industry association for Australia's customer-owned banking institutions – credit unions, mutual banks and mutual building societies.

COBA notes that at this stage, the proposed disclosure requirements around the leverage ratio, liquidity coverage ratio (LCR) and the identification of G-SIBs will only be applied to LCR ADIs and DSIBs, and that as such, they do not impact directly on COBA members.

Leverage ratio disclosures

COBA supports clear and consistent leverage ratio disclosures being made by Internal Ratings-based (IRB) ADIs. Recognising some of the challenges that the IRB approach currently presents, APRA has noted that the leverage ratio is intended to "reinforce the risk-based requirements with a simple 'backstop' measure that provides additional safeguards against model risk and measurement error."[1]

While only applying to IRB ADIs at this time, APRA's Discussion Paper notes that "A decision about extending [leverage ratio] disclosure requirements to other ADIs will be made after that Basel Committee has settled the final calibration of a minimum leverage ratio requirement, and confirmed its final design and implementation date."[2]

[1] APRA, *Discussion Paper, Basel III disclosure requirements,* September 2014, p. 10.
[2] ibid., p. 7.

COBA does not believe it is appropriate for mandatory leverage ratio disclosure to be applied to standardised ADIs.

In discussing the need for a leverage ratio, the Basel Committee noted that: "An underlying cause of the global financial crisis was the build-up of excessive on-and off-balance sheet leverage in the banking system. In many cases, banks built up excessive leverage while apparently maintaining strong risk-based capital ratios,"[3] and that the leverage ratio is designed to "act as a credible supplementary measure to the risk-based capital requirements."[4] The Basel Committee has also previously argued that the leverage ratio would "provide an extra layer of protection against model risk and measurement error."[5]

COBA notes that model risk and measurement error are features of the IRB approach to measuring credit risk, where an ADI is able to use their own internal modelling, including "their own estimates of the probability of customer default, the value of the exposure at the time the customer defaults, and the loss that will be incurred if the customer defaults,"[6] to determine risk weights. In contrast, the conservative risk weights applied under the standardised approach are not subject to model risk or measurement error, and as such, the application of the leverage ratio to these ADIs would be an unnecessary additional burden.

COBA therefore recommends that the application of the leverage ratio and associated disclosures remains limited to IRB ADIs.

In considering the publication of leverage ratio disclosures, APRA has proposed that reporting ADIs make these details publicly available for a minimum of twelve months.[7] While COBA agrees that ADIs should not be required to maintain historical disclosures on their website indefinitely, there may be a role for APRA to play in providing a centralised repository for this information. This is discussed further in the G-SIB disclosures section of this submission.

Confidentiality of liquidity reporting data

In our February 2013 submission on liquidity reporting, we expressed concern about APRA's proposal to make a formal determination that data provided by ADIs is non-confidential, in order to "facilitate transparency and public access to aggregated liquidity statistics."[8] COBA recommended that the existing confidentiality arrangements remain unchanged, and noted that APRA is already able to release this data where it is deemed necessary without requiring a blanket confidentiality exemption.

[3] Basel Committee on Banking Supervision, *Basel III leverage ratio framework and disclosure requirements,* Jan 2014, p. 1.
[4] ibid.
[5] Basel Committee on Banking Supervision, *Basel III: A global regulatory framework for more resilient banks and banking systems,* June 2011, p. 2.
[6] APRA, *FSI Submission,* March 2014, p. 72.
[7] APRA, *Discussion Paper, Basel III disclosure requirements,* September 2014, p. 12.
[8] APRA, *Discussion Paper – Liquidity reporting requirements for ADIs,* November 2012, p. 10.

COBA therefore welcomes APRA's decision in the current discussion paper that liquidity reporting data "will remain confidential until, or unless, APRA indicates otherwise."[9]

Disclosures for the identification of potential G-SIBs

APRA notes that, as an alternative to individual ADIs publishing this data, "APRA could facilitate centralised reporting of the G-SIB indicators."[10]

COBA sees merit in centralised reporting of both the G-SIB and leverage ratio disclosures, because:

- Having all the disclosures located in one place will make it easier for interested stakeholders to access this information; and
- APRA has the capacity to maintain a database of disclosures beyond twelve months, improving transparency.

While maintaining complete disclosures on APRA's website for more than twelve months may be excessive, APRA could instead maintain streamlined historic datasets.

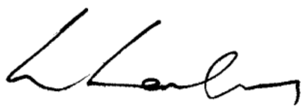
For example, in the case of leverage ratio reporting, rather than APRA publishing complete disclosures indefinitely, APRA could considering maintaining and publishing a database which records the three key quantitative measures in each ADIs disclosure, namely Tier 1 capital, the total exposure, and the leverage ratio.

Other minor amendments

We note APRA has proposed amending APS 330 to "require ADIs subject to the countercyclical capital buffer to disclose the geographic breakdown of their private sector credit exposures in the calculation of the buffer requirement."[11] Consistent with the Basel Committee's approach to this obligation, we presume that the geographical breakdown would be at the national level and that a more granular breakdown of exposures would not be required.

Please contact me on 02 8035 8448 or Micah Green on 02 8035 8447 to discuss this submission.

Yours sincerely



LUKE LAWLER
Acting Head of Public Affairs

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[9] APRA, *Discussion Paper, Basel III disclosure requirements,* September 2014, p. 14.
[10] ibid., p. 16.
[11] ibid., p. 17.