

18 April 2017

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

Dear Sir/Madam

Economic and Financial Statistics Consultation

The Australian Bankers' Association (**ABA**) appreciates the opportunity to provide comments to APRA on the Economic and Financial Statistics consultation, comprising the Discussion Paper: Economic and financial statistics, the draft reporting forms, and the data quality and assurance standards and guidelines.

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, ensuring Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

The consultation concerns changes to the Economic and Financial Statistics (EFS) collection, data collected by APRA on behalf of the Australian Bureau of Statistics (ABS), and the Reserve Bank of Australia (RBA).

The ABA acknowledges the important role of the data collected under the EFS in shaping public policy decisions and in contributing to the good management of the Australian economy. It also recognises that it is necessary for the EFS to be updated and modernised from time to time to ensure it continues to be fit for purpose.

The ABA notes, however, that the proposed changes in the current review are of sizeable scale, and involve a substantial number of new statistical forms, detailed data definitions, and advanced data quality and assurance guidelines and standards. For all ABA members there will be significant time and cost involved in revising processes and data quality metrics in order to meet the new standards. For many ABA member banks there will be a significant increase in the on-going data reporting burden.

Members are working on estimates of the additional costs. While there are still considerable uncertainties, it is intended that a range of costs for the industry based on aggregated information be provided in a second submission, by the extended date of 16 May.

The ABA has a number of material concerns around the implementation of the EFS project.

Governance

There are three agencies involved in this exercise – APRA, ABS and RBA. We understand that APRA are coordinating the consultation and implementation of the EFS on behalf of the other two agencies.

The introduction of the revised data collection is a major and costly exercise for both the agencies, and the banks. The ABA strongly recommends that there should be tight governance of this project to ensure it will be delivered on time and up to quality standards.



It is recommended a formal project management structure be put in place. It is proposed this comprises:

- A Head of Project, with a very senior agency representative experienced in the oversight of large data projects. The Head of Project should be accountable for the delivery of the project to the relevant Minister – in this case either the Treasurer or the Minister for Revenue and Financial Services.
- A steering committee comprising senior experts from all three agencies, and senior representatives from key industry stakeholders, with the expertise to resolve issues as they arise.
- Industry consultative groups (more below), comprised of key stakeholders to provide a forum for discussion of issues, propose practical solutions, and provide feedback up the line to the steering committee and the Head of Project.

This project management structure should be in place for the formal consultation phase, the preparation period, and monitoring and feedback during the implementation phases, until the project is finally signed off as complete.

Engagement

The process of engagement has not been sufficiently constructive across all reporting institutions to ensure that all concerns have been addressed and resolved.

While there have been a number of Webinars for all affected institutions, and some meetings between institutions and relevant associations, and the agencies, there is a belief, particularly among smaller institutions, that they have had insufficient opportunity to present their view on the proposals.

To improve engagement and communication to an adequate level, it is proposed that formal industry consultative groups (as above) be formed. These would be structured around the reporting requirements and characteristics of the key reporting institutions via:

- Major banks
- Smaller domestic banks
- Foreign banks
- Other domestic financial institutions.

Senior representatives from each of the agencies – APRA, RBA and ABS – should be included, with the groups to be chaired by APRA.

It is proposed that these groups meet once a month initially to discuss and resolve issues. This would include closing out threshold issues in a systematic and comprehensive manner, as well as addressing other issues as they arise through the consultation and implementation process.

It is envisaged that the monthly meetings may become less frequent as issues are identified and progressively resolved. The groups would continue until the successful implementation of phase 3 of the project, or later if there are follow-on projects.

The ABA would encourage APRA to continue to revert to individual institutions on issues they have raised through the consultation process and in their submissions.

Appropriateness of Data

There is some concern that there has not been sufficient explanation of the policy uses and the significance of the requested data. The ABA suggests a process is required to ensure close



collaboration between the data and policy teams within the three agencies, to ensure the data being requested fully meets the intent and purpose of the policy analysis, and that only relevant data is collected.

To this end it is also recommended that the regulators engage with the institutions in order to achieve a deeper mutual understanding of the purpose and uses of the data - ie the questions the policy makers and agencies are trying to answer - and to provide an opportunity for the institutions to provide feedback on the suitability of the requested data, and if necessary propose alternatives.

As an example of new data proposals which could be reviewed, the Reporting Guidance: ABS/RBA Reporting Concepts provides that residency status of customers, counterparties and/or financial instruments should be updated over time (p8 and 9). Reporting institutions will be required to make “reasonable efforts” (undefined) to verify a customer’s residential address, by “communicating with them from time to time” to verify their address “cross checking against residency categorisations”. This in itself would entail a significant body of work and an assessment is required as to whether this is a high priority, or the most appropriate area to which reporting institutions should be directing their efforts.

Data quality and assurance

The current draft of the Reporting Standard ARS 702.0 ABA/RBA Data Quality for the EFS Collection and guidance note on Data Quality, remains the key issue for the ABA members.

The primary concern is over the ability to practically implement these requirements, particularly the proposed accuracy thresholds, within the implementation timeline and over the large quantity of new data requested under the EFS collection.

The key issues are:

- The very high accuracy requirements vary greatly from materiality principles applied to Statutory or Prudential reporting information;
- Assurance requirements apply to data “throughout the financial year” rather than “at financial year-end” as required under the existing Prudential Standard APS 310 - Audit and Related Matters;
- Lack of recognition of the data quality improvements undertaken by the industry in response to APRA Prudential Practice Guide CPG 235 – Managing Data Risk; and
- No acknowledgement of data quality concessions required for manual processes, such as mapping of ANZSIC and SESCO codes, which will be naturally prone to higher error due to manual activity.

The implementation of the Data Quality requirements as they stand adds significantly to industry costs.

The ABA is of the strong view that there needs to be further specific consultation between the agencies and the industry to align the expectations of data quality with practical solutions.

Timelines

The strategy proposes to introduce the new forms in phases, with phase 1 taking effect from 1 July 2018, phase 2 from 1 January 2019, and phase 3 from 1 July 2019.

The parallel runs for some forms, where both old and new collections are run concurrently, are proposed to commence in January 2018.

The ABA has real concerns whether the project can be delivered in the proposed timeframe. Industry feedback is that for a project of this size, a minimum of 18 months to two years from date of finalisation of standards and forms, would be required. Even then there is concern there will be insufficient time to



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test the processes and systems to ensure the data reporting infrastructure is robust, and to mitigate against significant “repeat submissions” as data forms are corrected and resubmitted.

Many banks will need additional resources to build the new processes and systems. People with the necessary knowledge and experience are in short supply – they require an understanding of regulatory requirements and bank systems, including data capture, the journey of data through an institution, and reporting. Banks are likely to be drawing from the same limited pool of talent as they attempt to meet their resourcing requirements.

Banks cannot commence full system build until the form specifications and data quality and assurance protocols are finalised and published. Budgets and resources cannot be approved until the time and scale of the project is certain. Given that final submissions on the proposals are not due until 16 May, it seems unlikely that the forms and data quality aspects will be finalised before July 2017. Under that scenario the parallel runs for phase 1 could not commence until January 2019 at the earliest.

It may be that even longer timelines would be appropriate, given that not all institutions were included in the informal consultation period, and those that were not have really only had the opportunity to get a handle on the complexity and scale of the project, and commence preliminary planning, from this calendar year.

I would welcome further discussion on these issues.

Yours faithfully

A handwritten signature in black ink that reads 'A G Pea', which is a stylized representation of 'Tony Pearson'.

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