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Dear Sir/Manager

Consultation on modernised economic and financial statistics

Thank you for the opportunity to provide comments on your discussion paper – “Economic and financial statistics” (“EFS”) and supporting papers.

As noted the purpose of the proposed changes is to develop a more modern approach to the collection of data from APRA regulated institutions (“participants”). The recommendations however are largely changes to particular data points required and formalising data requests previously covered in ad hoc returns.

The papers do not contain changes to the processes of preparing, reporting and checking information provided to APRA.

Over the last few years a number of significant developments have occurred which are relevant to consider as part of this project.

The key developments we note are:

- The Productivity Commission inquiry into data availability and use;
- Government Agencies increasing data collection requirements;
- Rise of marketplace lending; and
- The impact of new technologies.

Productivity Commission inquiry into data availability and use

In April 2016 the Productivity Commission (the “Commission”) commenced its inquiry into data availability and use with the terms of reference to:

- Look at the benefits and costs of making public and private datasets more available;
- Examine options for collection, sharing and release of data;
- Identify ways consumers can use and benefit from access to data, particularly data about themselves; and
- Consider how to preserve individual privacy and control over data use.

In its November 2016 draft report the Commission noted the extraordinary growth in data generation and usability to emerge, as a result of developments in computing power, internet connectivity, new business models, etc. As a result of this growth, the Commission has recognised that frameworks and protections developed for data collection and access prior to extensive digitisation need reform.

Consequently the Commission has recognised that marginal changes to existing structures and legislation will not suffice and is proposing reforms to data availability and use, aimed at moving to a system based on transparency and confidence in data processes.

As noted by the Commission, if data regulation fails to adapt to rapid technological change, Australia will be unable to realise the full value of our data and will risk being left behind other countries that are adapting to these changes and taking the steps necessary to benefit from their data holdings.

One of the key implications of the inquiry directly relevant to APRA is the recommendation that banks provide “Open APIs” (Application Programming Interfaces) to third parties allowing access to customer data.

While this recommendation will contain a number of implementation challenges for public access to banks’ data covering security and permissions protocols, APRA, as a regulator, could potentially mandate open API access for itself and then build its own back end analytics engines.

This would seem a highly attractive option for both banks and APRA. For banks it should reduce the regulatory cost of producing forms and help to fund the investment required to implement open API architectures. For APRA and other regulatory agencies such as the ABS and RBA, the data analysis possible would be far better than both the current and proposed data from the APRA forms.

Under the current approach the forms can only provide directional information about business performance which is used for macro analysis and where more detailed investigation is required, new information requests need to be made to financial institutions.

Under an Open API approach, APRA would have greater access to an entity’s data allowing analysis to be performed initially at the entity level with the ability to drill down into any area of interest as needed. The benefits of this are:

- Reduced additional information requirements;
- Faster regulatory analysis; and
- Additional exercises such as stress tests could be performed independently, more regularly and in greater detail.

Other benefits to consider include the following:

- The need to separate reporting requirements by institution will be removed;
- An Open API approach will better facilitate analysis over new products and product names; and
- There will be an ability to link areas of focus such as fees to the business drivers causing the fees to be charged.

We also note that the Digital Transformation Agency has a key role supporting government agencies access the benefits of digital transformation.

We recommend that the Agency review the current project plans to assist identifying digital solutions that could streamline and improve the data collection and analysis process.

Government agencies increasing data collection requirements

Government agencies, particularly the ATO, are changing their data collection processes. In addition, some agencies already collect a significant amount of data that APRA could utilise to validate or provide information currently provided by the participants. Consequently an approach of collect once and share amongst relevant government agencies should be considered. For example, the ATO collects data on all loans and deposits from banks to cross check against submitted tax returns and to assist with prefilling returns. Significant economic and regulatory gains could be achieved from using this information to monitor banks rather than completing additional reports.

Another example is the proposed APRA form ARF_720 requires data on housing loans located by State. Using a common approach with the ATO would eliminate the need for this form as well as providing much more valuable data at a postcode level together with a borrower's income level. This information would be particularly useful for institution specific and industry stress testing. In addition, the ATO collects data on properties held for investment purposes, which could be used to cross check classification of loan purpose (i.e. owner occupied or investor).

Rise of Marketplace lending

A number of marketplace lending start-ups have emerged over recent years with a particular focus on the provision of personal and small business credit. These lenders typically are regulated by ASIC and consequently do not submit reporting forms. This means that ARF 746 –ABS/RBA Personal Credit Stocks, Flows and Interest Rates will not include the growth in Peer to Peer market share.

If ASIC also required an Open API approach as part of its licensing requirements – that would enable APRA to access the data and build more detailed analysis of lending in each relevant sector.

The impact of new technologies

Many industries, including financial services, are seeing a dramatic increase in the adoption of new technologies, enhanced business processes and strengthened control environments. One example of this is the rising level of experimentation and investment in Blockchain technologies. All banks have some level of investment in developing or piloting Blockchain solutions covering areas such as cross-border payments, derivative transactions, through to home loan processing.

Over the next 5 to 10 years we expect to see a substantial shift of transactions to Blockchain-enabled solutions. This change presents an opportunity for APRA to participate as a trusted party on the Blockchain and accessing transactions and money flows. For example one of the ARFs (ARF 744) requires reporting of new loans funded each month. We consider that it is likely that a Blockchain solution could be developed to cover the mortgage origination process where the information required by the forms will be readily available. Even today the introduction of electronic conveyancing by PEXA could virtually eliminate the requirement to submit loan funding data.

Data quality

The current proposals require that institutions provide data with a 99% confidence level that the data submitted is within specified accuracy thresholds. Measuring data accuracy to such a high confidence level will present a number of practical implementation challenges. Some of the challenges from an audit perspective are as follows:

- It will be difficult to form a limited assurance opinion over processes and controls in place to achieve a 99% confidence (especially given that a number of judgements are required to be made as part of the reporting process, such as industry classification for complex organisations, organisation size (and movement between small, medium and large), loan purpose, etc.);
- The requirement for such a high level of confidence may result in a significant number of qualifications and therefore may not provide APRA, the ABS and the RBA with sufficient comfort; and
- Statutory reporting financial information is generally subject to a 95% confidence level. As some information in the revised forms is derived from statutory reporting this information may be subject to different levels of assurance.

We recommend that a lower confidence level is implemented (e.g. 95% or reasonable assurance is used) to align with other current practices.

External/Internal audit and review requirements

The proposals require that all forms will be required as a minimum to be subject to an external audit or review with additional deep dives conducted as required. These oversight requirements are quite onerous and could be eliminated under an Open API environment. Using Open APIs, the review requirements could be limited to testing that the data made available through an Open API has been correctly extracted from the institutions' core systems and that source data is correctly input into the core systems. Much of this assurance is already provided through the external audit process. Consequently the additional review scope requirements would be reduced.

Data definitions

One of the key issues with the current 300 reporting series has been the inconsistent application of interpretations and definitions across the industry. Considerable advancements have been made in establishing the ARS 701.0 ABS/RBA definitions and the Reporting Guidance ABS/RBA Reporting Concepts, which will provide greater clarity over the reporting requirements. However we note that given the complexities under the EFS reporting requirements, the consistent application of definitions and interpretations will continue to be a challenge for participants in the future as well as part of the implementation of the new EFS requirements.

We recommend that:

- A process be established for the regular and ongoing engagement between the participants and APRA/RBA/ABS to discuss and confirm the objectives and intended use for the information collection, appropriateness of detailed interpretations and definitions during the implementation of the EFS requirements. These discussions should be shared across the industry to help drive consistency and to provide the basis for financial institutions to develop and recommend more practical solutions that achieve the intended objectives.
- That the definitions and reporting concepts documents should be updated on at least an annual basis by APRA to reflect developments in the interpretations and definitions to help drive greater consistency in reporting across the industry.

Transitional requirements for back book data

The current Reporting Guidance ABS/RBA Reporting Concepts has identified that migration of the back book of data to the new definition requests may be challenging to certain participants. For the transition for ANZSIC 1993 to ANZSIC 2006, an interim arrangement has been established to facilitate this process, however similar transitional arrangements do not exist for SESCO reporting.

We recommend that consideration is made to establishing transitional arrangements for the back book of data for the new reporting forms to facilitate a more efficient transition to the new EFS standards.

Timeframes

The current proposed timeframes for reporting will represent a significant challenge for industry participants. This is driven by:

- A substantial change in the forms and identification of a significant number of new data points to be reported. This will result in a change in the current reporting process and systems as well as changes to the data capture processes to ensure the appropriate data is captured by the “front line” staff. In addition, the new reporting processes will need to comply with the calendar day (rather than business day) requirements;
- Required remediation of existing data in order to meet new data definitions; and
- Establishing new control and governance processes to address the requirements of ARS 702.0 (ABS/RBA Data quality for the EFS Collection)

We recommend that consideration be given to extending timing of the implementation of the new reporting requirements as this may significantly impact the quality and consistency of data reported by the participants, potentially in the short term (with resubmissions in the future) and in the long term, where decisions are accelerated and not fully considered during the critical implementation phase.

Yours faithfully



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