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To: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS AND REGISTERED FINANCIAL CORPORATIONS

RESPONSE TO SUBMISSIONS ON PROPOSED CHANGES TO MODERNISED ECONOMIC AND FINANCIAL STATISTICS (EFS) REPORTING STANDARDS RESULTING FROM AMENDMENTS TO THE BANKING ACT 1959

Background

In January 2017, the Australian Bureau of Statistics, the Reserve Bank of Australia (collectively the agencies), and the Australian Prudential Regulation Authority (APRA) commenced public consultation on proposals for a modernised economic and financial statistics (EFS) data collection. This collection consists of data submitted by authorised deposit-taking institutions (ADIs) and some unregulated entities known as registered financial corporations (RFCs) that are used by APRA and the agencies for publication, analysis and policy purposes.

In September 2018, APRA and the agencies undertook a further round of consultation on proposed changes to the EFS data collection resulting from these amendments to section 66 of the *Banking Act 1959* (Banking Act). The most significant changes were to:

- remove references to the term 'bank' from the EFS data collection where the term is no longer applicable;
- create a new method for allocating EFS reporting standards to ADIs which does not rely on the term 'bank';
- remove differentiated scale factor requirements on EFS reporting forms to require all ADIs and RFCs to report in whole numbers;
- provide new and updated definitions, guidance and instructions to provide clarity in response to queries raised by entities; and
- update definitions to address changes in accounting standards.

This letter responds to submissions received on the proposed changes.

Submissions received

APRA and the agencies received five submissions from reporting entities. Most of the feedback in those submissions was related to a proposed change to the classification of family trusts and to a clarification of treatment of the assets in covered bond pools that respondents believed created inconsistencies between the standards and RPG 701.0.

Two submissions raised issues with the transition to submitting data in whole numbers, noting that the increased accuracy would increase the reporting burden. One submission inquired if the level of precision in the publications would change as a result of this.

In addition to these specific points of feedback, respondents also suggested a number of minor amendments to the reporting standards and guidance to improve usability. APRA and the agencies have made changes to the reporting standards to reflect this feedback where appropriate and it is not considered further in this document.

Increased reporting precision

Comments received

Two submissions considered that the removal of scaling factors for Reporting Category B ADIs, requiring all entities to submit EFS data in whole dollars, represented an increase in reporting burden. One raised concerns that the increased degree of precision used in cross-form validations would result in additional work to ensure submitted data passed validation checks. Both submissions raised concerns that regulatory reporting would be no longer align with other statutory reporting which is reported in millions of dollars.

One submission also inquired if the scale factor of APRA's statistical publications would change as a result of the increased precision of the EFS data collection.

Response

The use of scale factors in D2A is a legacy of APRA's data collection being form-based and designed to accommodate manual data entry. The proposal to move to reporting in whole dollars is consistent with APRA's transition to more data concept driven collections.

APRA agrees that the increased precision could increase reporting burden due to the additional level of accuracy required for data to pass validation checks. To address this, APRA will increase the threshold on the relevant validation rules from a strict equality to $10,000.

The increased accuracy will only alter the submitted results marginally and will have no noticeable impact on the post submission checks performed by APRA or the agencies. This includes the data quality benchmarks as set out in *Reporting Practice Guide RPG 702.0 ABS/RBA Data Quality for the EFS Collection* (RPG 702).

APRA understands that this change may require a small number of entities to rework a small portion of their EFS solutions, particularly those that have progressed the furthest in their implementation. However, given the desire to transition to collecting data that most matches its native state, a change at this point is expected to impose less burden on reporting entities as a whole.

Classification of family trusts

Comments received

Four responses highlighted that a proposed change to the classification of family trusts created an inconsistency between RPG 701.0, which was changed to require family trusts to be reported as part of the 'households' sector, and *Reporting Standard ARS 701 ABS/RBA Reporting Concepts* (ARS 701.0) which still requires family trusts to be reported as either 'private unincorporated businesses' or 'financial institutions'.

Response

After further consideration and having regard to the feedback received in submissions, the agencies and APRA have determined that all family trusts should be reported as 'private unincorporated businesses' across all EFS forms. This reflects the following:

- The revised classification of family trusts aligns with the definitions used in *Reporting Standard ARS 223.0 Residential Mortgage Lending*, which also requires family trusts to be reported as private unincorporated businesses. APRA and the agencies therefore do not expect this change to cause any issues for reporting institutions;
- The option to classify family trusts in the 'households' sector was removed from the EFS data collection in response to feedback on the initial consultation in 2017. Furthermore, 'households' are defined as 'persons' and exclude other entities similar to family trusts (such as SMSFs and sole proprietorships/partnerships); and
- Family trusts do not match the definition of 'financial institutions' which are entities that are mainly engaged in financial intermediation and providing auxiliary financial services.

This change will be reflected in both RPG 701.0 and ARS 701.0.

Covered bonds

Comments received

Three of the responses requested clarification of the consolidations required for covered bond trusts. The submissions also noted the proposed changes would mean that the domestic books definition would be inconsistent with that used for statutory reporting.

Response

The updated RPG 701.0 included additional guidance on the treatment of special purpose vehicles (SPVs) established to hold assets in a cover pool for covered bonds (section 2.1.5.2). The requirement to consolidate such SPVs has been in place since August 2017, when APRA and the agencies issued their response to submissions on the initial EFS consultation. Recent engagement with entities led APRA and the agencies to include the additional guidance.

As indicated in ARS 701.0, covered bonds are distinct from other asset-backed securities because investors have dual recourse to both the collateral and the issuing ADI in the event of bankruptcy. That is, even if the assets in a cover pool for covered bonds are transferred to a legally separate SPV, the covered bond remains a direct obligation of the ADI. It is therefore important that on the domestic books balance sheet, ADIs disclose both the assets underlying the cover pool and the covered bonds issued by the reporting entity. The consolidation of covered bond SPVs is intentional to ensure this outcome.

APRA and the agencies have considered the feedback received from reporting entities on this approach. Importantly, responses confirmed that cover pool assets are generally not derecognised from the balance sheet of the ADI after being transferred to an SPV under Australian accounting standards; that is, cover pool assets and covered bonds would be reported similarly to other on-balance sheet securitisations. The only impact of consolidation would therefore be the elimination of intra-group balances with the SPVs.

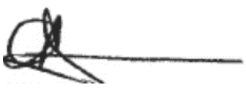
In light of this, and to minimise deviations from statutory reporting from the general EFS concept of 'domestic books' reporting, APRA and the agencies have removed the requirement to consolidate covered bond SPVs. Instead, it has been replaced with a requirement to report covered bonds and any cover pool assets transferred to an SPV similar to other on-balance sheet securitisations. The updated RPG 701.0 includes guidance on how covered bonds should be reported across the relevant EFS forms.

Finalised EFS reporting standards

Accompanying this letter are the finalised reporting standards. Further amendments to the standards and guidance have been made in response to the submissions received, including:

- Changes to the definitions of family trusts and covered bonds;
- Updating references for changes in accounting standards; and
- Correction of typographical errors.

Yours sincerely,



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