APG 220: Minor updates to APRA's prudential and reporting framework

Thank you for the opportunity to provide feedback on the proposed minor updates to APRA's prudential and reporting framework. Our feedback relates to the proposed updates to 'restructured exposure' paragraphs in APG 220 Credit risk management. We would welcome the opporunity to meet to discuss our feedback.

Arca works closely with its Members to help improve their provision of financial hardship assistance to consumers and to ensure those arrangements are reported appropriately in the credit reporting system. Our feedback relates to both of these activities.

We welcome the intention of the changes to clarify the meaning of APG 220 and consider that it is important to ensure consistent prudential reporting of accounts subject to hardship. We also appreciate that the proposed changes to APG 220 are intended to be minor and help to align ADI practice with the existing intent of prudential requirements. However, Members have noted concern that the changes, as drafted, may inadvertently result in a material change to the meaning of APG 220. As such, we note some concern that the proposed changes may not provide the level of clarity intended.

Our feedback below reflects what we understand is the intent of APG 220, and our recommendations are intended to clarify that intent. If our understanding of the intent is not consistent with APRA's, we suggest that a further, in-depth consultation process may be required (and an extended implementation period beyond 1 January 2027 may be necessary).

In addition to the specific comments below, we note that Members have identified the potential need for guidance on further 'restructure' scenarios to ensure consistency across ADIs.

Issue	Comments / Recommendation
General: nature of the changes	We are unclear as to whether the proposed amendments (which include paragraph 99, 102, 104 – 106) replace the existing paragraphs 99 – 105. The intended approach is significant for our feedback, in particular the comments in the row below where our Members' concern will be stronger if paragraph 101 is intended to be removed.
Table 2: description of 'restructured exposure' in paragraph 102 and Table 2 (particularly 'rescheduling the dates of principal and interest payments, other than minor changes to payment frequency within contractual terms' and 'granting new or additional periods of non-payment').	Members have noted concern that this description may unintentionally broaden the currently understood meaning of 'restructured exposure' under APG 220. Further, while they are distinct regulatory regimes, it may introduce additional uncertainty in relation to the meaning of 'financial hardship arrangement' under the CR Code. **Restructured exposures under APG 220:** ADIs have traditionally offered payment deferrals to address customers' temporary financial hardship. These arrangements do not change the terms of the contract and the arrears continue to accrue during the period of non/reduced payment. While these are treated as 'temporary financial hardship arrangements' under the CR Code (and reflected in such in the credit reporting system), they do not traditionally trigger restructure reporting under APG 220; which is suggested although not made explicit in paragraph 101.[1] Our Members have noted that the drafting of the minor updates could call that approach into question. This would be a significant change and would have broad – and potentially adverse - implications for industry and consumers.

[1] We understand these accounts are reflected in arrears reporting.

Issue	Comments / Recommendation
	Potential impact on CR Code credit reporting: While the prudential standards do not have a direct consumer impact, AFCA considers them when determining what is 'fair in all the circumstances' (see, for example, page 76 of **AFCA's Operational Guidelines**). We are confident that the drafting is *not* intended to require ordinary collections 'promise to pay' arrangements to be treated as 'restructured exposures'. However, the broad drafting of the updates may influence AFCA to, in turn, take a very broad view of the meaning of 'financial hardship arrangement' under the CR Code, so that there becomes an expectation that 'promise to pay' arrangements ought to be reported as financial hardship arrangements. This would have a significant effect on the credit reporting system and how credit providers interpret and use data from that system. **Arca recommendation:** APS 220, paragraph 102, should reaffirm (as suggested in paragraph 101) that the examples in Table 2 relate to situations involving a change to the terms of the credit contract only.
Table 2: move to interest only payments for up to 12 months do not trigger the restructured exposure definition	In the context of financial difficulty, a move to interest only payments is a means to an end, allowing for reduced payments while ensuring the principal balance does not increase. The same outcome can be achieved by directly reducing the payment required under the contract. These situations should receive similar treatment (provided the reduced payments were at least as high as those interest only payments). **Arca recommendation:** Table 2 clarify that a marginal reduction in payments (so that remain above interest only payments) for a short period means the account is not restructured whether structured as an interest only change or a direct reduction to the minimum monthly payment. *Credit reporting treatment* As a separate observation (and simply to note this outcome), a move to interest only payments because of hardship/financial difficulty, would involve a financial hardship arrangement under the CR Code (notwithstanding the length). That is, the credit report would show FHI=V in the month the change is made (even though the account may not be reported as 'restructured' for prudential reporting).
Paragraph 106: "proportionate approach to credit evaluation for an initial period (e.g. up to three months) where a retail borrower experiences financial difficulty or hardship for the first time due to an unforeseen event (e.g. unemployment, illness, reduced income) and has otherwise been in good financial standing"	We welcome the recognition that a simplified form of credit evaluation may be appropriate in some situations of financial difficulty. This will help to ensure the prudential requirements are more consistent with the expectations of ASIC (as per REP782). Noting the above, we consider that the description of the circumstances in which the 'proportionate' approach may be too limited (while acknowledging that the description is provided as an example only).

Issue	Comments / Recommendation
	Particularly, the requirement to consider whether the difficulty was due to an "unforeseen event" (i.e. 'reasonable cause'). While consideration of whether there is a 'reasonable cause' for financial difficulty was traditionally an element of the financial hardship regime under the National Credit Code, there is now reduced consideration of the 'cause' of the financial difficulty. Rather, lenders now focus on whether there is an inability to repay and whether an arrangement can help alleviate that inability (regardless of the initial 'cause'). Requiring ADIs to consider the 'cause' of financial difficulty for that initial period of assistance is likely to result in longer processing times for many customers and be inconsistent with e.g. ASIC's expectations to expedite the assessment of hardship requests. We consider that it will be overly limiting to restrict the proportionate approach to: • the "first time" the customer experiences difficulty; and • situations where the customer has "otherwise been in good standing". Rather, it would be preferable for the availability of the proportionate approach to consider the consumer's overall circumstances. For instance, a customer may require assistance today and again in several years (where it is difficult to suggest that the two issues taken together suggest a poor credit worthiness of the customer). Likewise, a customer may have two proximate – but completely unrelated – situations that require financial hardship assistance. It is not fair to a creditworthy – but unlucky – consumer to be necessarily be put through a more onerous process if they need a short period of assistance due to a second, unrelated issue. Finally, we note that there is a strong view amongst consumer advocates that it is inappropriate to provide a 'three month payment deferral' as a default form of hardship assistance. Further, ASIC's REP782 makes it clear that CPs must assess what assistance is appropriate for the customer (rather than default automatically to a three month deferral). The reference to 'up to three months' in paragraph 106 may be inconsistent with these views and unintentionally encourage ADIs to default to offering those arrangements. **Arca recommendation:** The following changes should be made to paragraph 106: • rather than limiting the proportionate response to 'the first time', the approach be available where previous requests for assistance are distinct from each other; • remove 'unforeseen event' and replace with '…and, based on the information available to the ADI, the ADI reasonably believes the period of assistance would result in the customer being able to restart ordinary minimum payments'. • change 'three months' to 'three months or longer if appropriate'