



11 February 2021

Senior Manager, Data Strategy and Insights
Data Analytics and Insights
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

By email: dataconsultations@apra.gov.au

Dear Sir/Madam,

**Consultation on proposed reporting standard ARS 220.0
Credit Exposures and Provisions**

The Australian Financial Markets Association (AFMA) welcomes the opportunity to make comment on APRA's abovementioned consultation. We note that APRA has made available a template designed to facilitate the provision of structured feedback on the draft reporting standard. As feedback received has been of a more general nature rather than being specific to line item reporting issues, AFMA's narrative is provided below, and primarily expresses the views of our foreign ADI members.

Scope of Data Collection

The proposed ARS 220.0 will collect more detailed data on ADIs' credit exposures and provisions. While the increased complexity introduced by this may be countered somewhat by the risk-based approach taken by APRA, it introduces its own challenges particularly regarding technology upgrades and data validation. For example:

Automated processes

The new ARF 220.0 series of returns is understood to be the first set of reporting undertaken by ADIs using the *APRAConnect* interface. While our members have been previously informed of the D2A replacement project, considerable developmental work may still be required to capture and/or transform data from product or source systems in order for this process to be seamless and efficient, and particularly if material data quality issues are to be minimised. This then requires budget allocations for technology updates which, for many foreign ADIs, are subject to a 31 December year-end with budget cycle dictated by the home office. As such, for many foreign ADIs, the budget cycle for approval of expenditure necessary for automated ARF 220.0 reporting now commences in the fourth quarter of 2021, which means that having automated submissions commence as expected in 2022 will be problematic.

Testing period and parallel run

The collection of loan level data as opposed to portfolio level data brings with it challenges in ensuring that data is being submitted correctly. The data attributes requested are often not sourced from a single repository, meaning there is a need to update taxonomies and systems/vendor solutions in order to fit into the existing operating model without resorting to tactical manual processes. There will likely be complications in the early stages of development. These are best accommodated by an extended testing period in concert with a commensurate parallel run period, as was conducted successfully by APRA during the rollout of EFS reporting. Further, a phased implementation starting with prioritised data elements, as applied during the EFS reporting rollout, will help ensure appropriate reporting practice and fits with APRA's risk-based approach.

It is AFMA's view that different types of phasing can be adopted, for example based on portfolio type (i.e. retail vs wholesale) and specific data elements where phasing could be either non-submission (i.e. could not generate the data in line with taxonomy) or on best endeavours basis (i.e. no guarantee of accuracy/compliance).

Validation of data

The validations process ranks equally in terms of its critical importance as compared to the data submissions process within *APRAConnect*. APRA's current validations processes are viewed as very complex, and it is anticipated that this will also be the case for ARF 220.0 submissions. Reporting entity executive management will be expected to attest to data sets submitted in an evolving environment where the taxonomy to be used may not be currently determined, i.e. whether APRA will continue to use the SBR taxonomy or incorporate it within the PET regime (the latter generally being preferred by the foreign ADIs for the ease by which it assists in interpreting the data requirements). In light of this and during the parallel run APRA may wish to consider submissions being made on a best endeavours basis.

It is understood that APRA anticipates a deterioration in data quality, at least initially. Given internal and external audit focus on data accuracy, a definition of the materiality and tolerances for data differences would be most helpful to ADIs. It would also be helpful for APRA to confirm whether it intends for these returns and the controls to be in scope for audit during the parallel run period. The presumption is that as long as the current ARF 220.0 is still being submitted in parallel, the audit requirements around both the forms and the controls would only be applied to the existing return and not the new ARF 220.0.

AFMA suggests that APRA:

- Extend the testing and parallel run periods to 30 June 2022.
- Introduce a phased implementation including prioritisation of data elements.
- Provide further information on the taxonomy to be applied.

- Provide ADIs with further information on the materiality and tolerances for data differences, and on the audit requirement of forms and controls during the parallel run period.
- Extend the first reporting period to 31 March 2023.

Structured feedback

It is anticipated that ADIs will submit structured feedback on specific line items using the template, and on the taxonomy. It will be helpful for reporting entities to have clarity over taxonomy and definitions as early as possible to enable sufficient time to construct the reporting framework without having to go back and revisit concepts.

Clarifications

Clarification was sought via AFMA as to the requirement for foreign bank branch ADIs to report *Credit risk-weighted assets (RWA)* as represented in Table 1 row 28 and Table 2 row 24 of the proposed reporting standard.

It is AFMA's understanding that this should not be applicable to foreign bank branches and as such we suggest that the standard be amended to reflect this, with ADIs advised accordingly.

AFMA suggests that APRA exempt foreign bank branches from the requirement to report Credit risk-weighted assets, amending ARS 220.0 Table 1 row 28 and Table 2, row 24 to reflect this.

Confidentiality of Data

APRA has advised intentions to consult further on determining ARS 220.0 data to be non-confidential for the purposes of section 56 of the APRA Act. As communicated in our 20 November 2020 submission to APRA's consultation on confidentiality of key ADI metrics, we believe that APRA should not release data of this nature unless a sound principled case is made to do so. This is particularly the case for loan level data to be submitted under ARS 220.0, and absent a prudential reason for the public release, AFMA maintains that it is incumbent upon APRA to abide by the intent of its enabling legislation and hold this data confidential.

For more information or if you have questions in relation to this letter please contact me at [REDACTED]

Yours sincerely

[REDACTED]

[REDACTED]

Director Markets and Rates