2 Park Street
Sydney NSW 2000

GPO Box 40
Sydney NSW 2001
Australia

T 61 2 8225 1000

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

18 April 2017

Dear Sir,

Comments on APRA Discussion Paper – Economic and Financial Statistics

1. Executive Summary

Thank you for the opportunity to comment on APRA's proposed changes to its Domestic reporting forms within Economic and Financial Statistics ("EFS").

We welcome the intent to enhance and modernise data collections. However, we are very concerned that this is a wholesale change to regulatory reporting, which so far has only been selectively shared with certain banks, thereby limiting the ability of the industry as a whole to understand and participate in its implementation requirements, timing, and cost. Our primary concerns are:

1. The proposed changes follow a very limited consultation period, with no opportunity afforded to Citi to engage, or provide input or feedback, during the proposal's development phase.
2. A lack of co-ordinated governance between the agencies (APRA, RBA and ABS) in scoping the exercise or addressing key industry concerns – both during the informal consultations with selected major banks, and more widely since publication of the Discussion Paper. Our concern is that the agencies have not set priorities, nor does there appear to have been enough strategic thinking at the senior level.
3. The proposed implementation timetable is unrealistic, particularly given the extent of the proposed changes, and particularly for firms like Citi that are dependent on global systems that require long lead times to change.
4. The level of required data accuracy is unachievable, being far beyond that of audited financial statement information, and incompatible with the nature of the requested non-financial data collection.
5. Some of the information being asked for is outside of the scope of the normal bank/customer relationship. It is not easy or possible for us to guarantee collection, let alone reporting.
6. Thresholds for data collection are set at very low levels, both for institutions as a whole, and at the individual data collection level.
7. We believe that the current proposal fails on a cost/benefit analysis, where the elements of timetable, accuracy, detail, and proposed collection methods, make

the new data collection a very expensive undertaking – for individual institutions and the industry as a whole.

8. Citi operates domestically primarily as a full service bank through our foreign branch and ADI, with 0.6% and 0.4% of total domestic banking assets respectively (1.1% combined). Given this small market share, and the global systems that need time to be altered, Citi is different to domestic banks, so a narrower scope and longer implementation timetable needs to be considered.
9. The current proposal does not demonstrate clearly that the agencies have fundamentally and strategically thought through how best to collect the data and why they are collecting the data.

Accordingly, we request the following:

1. A further period of consultation, accessible to all banks, in the form of inclusive and ongoing consultation forums, to enable industry-wide engagement, input and feedback, to consider data content and collection methods that best meets the needs of users and ensures reasonable cost / benefit outcomes.
2. A co-ordinated cross-agency governance framework with a senior-level, strategic approach that sets priorities to facilitate the above consultation, which extends from development, to operational implementation of all phases of the proposed changes.
3. An implementation timetable of at least 18 months following final publication of the data collection forms, instructions and related guidance. Then, beyond the initial 18 months, a phased implementation schedule based on prioritisation, including technology and required testing, without the parallel reporting of data on a different basis to that of existing reporting.
4. A realistic data accuracy framework that recognises the nature of both financial and non-financial data collection, including its origins, based on reasonable assurance or other concepts consistent with international auditing standards.
5. Consideration whether census or local government data can provide information that banks do not collect or require for their own operations, e.g. certain residency information for RBA decisions.
6. Calibration of data collection thresholds at higher, more realistic levels to avoid unnecessary collection of vast amounts of small data, or collection of data from smaller banks with comparatively limited resources.
7. The agencies actively explore more efficient collection methods, significantly reducing the costs for individual institutions and the industry as a whole, e.g. leveraging existing industry OTC data, use of sector information held by the Australian Taxation Office or other information held by government, and collection through common technology databases rather than forms.
8. Citi be treated differently to domestic banks due to its small market share and dependence on global systems. We request a narrower scope to data collection and a longer implementation period.
9. Agencies promote a common API platform to extract information from banks, creating an efficient utility, rather than a disaggregated system. We also request clarification of the rationale for all new data collection, with appropriate consideration given to methods of collection and inherent accuracy issues (e.g. customer-reported data), collection cost, and intended data uses – so as to avoid unnecessary complexity or impracticability.

You will find further detail in the pages that follow.

We are happy to discuss any aspects of our comments with you.

Yours sincerely

Tim Sedgwick
Citi Country Finance Officer

2. Citi's Concerns and Requests

2.1 APRA's proposed changes are very extensive, there has been limited opportunity for engagement or consultation, and the proposed implementation timetable is not realistically achievable by Citi:

- APRA's proposals represent the first wholesale change to APRA's reporting requirements in over 15 years, and are several orders of magnitude larger than APRA's recent implementation of LCR (Liquidity Coverage Ratio), for which the overall implementation period was 3-4 years.
- APRA's proposals are also far more complicated for data collection, data management, and data reporting, than Australia's adoption of IFRS accounting standards, which was at typically a 3 year project for Australian financial institutions; even a single accounting standard change generally involves a 2-3 year implementation period – the most cogent example being IFRS 9 that rewrites the accounting rules for financial instruments, impairment and hedging, that was published in 2014, for adoption on 1 January 2018.
- As a foreign bank, for a project of this size, Citi generally needs at least 12 months' advance notice simply to obtain Regional and Global planning and budget approvals, for the necessary staffing and IT resources required to undertake the data collection and data management aspects of APRA's proposed changes – and resource discussions are generally not able to begin until final publication of precise requirements, with Citi's local IT change pipeline already locked down well into 2018 with existing business-critical changes.
- Once funding is available, a period of at least 12 months is required to assess, define, build, resolve and operationalise the newly defined data across over more than 23,000 separate data points (comprising EFS and ARF 731 series), including testing of new data sources and managing over 20 feeder systems, across three different general ledger systems within Citi's four impacted entities – an ADI (Citigroup Pty Ltd), a Branch (Citibank N.A. Sydney Branch), and two RFC entities (Citigroup Global Markets Australia Pty Ltd, and Diners Club Pty Ltd).
- Consequently Citi will need 18-24 months, following APRA's release of finalised requirements, to achieve adequate collection of most new data, to a reasonable level of quality; it is likely 2-3 years are needed to reach a complete set of data, that approaches the level of quality anticipated in APRA' Discussion Paper.
- The periods mentioned above are required to address the extent of data changes, including the inherent complexity of the new data, the application of new rules and definitions to all data, the significantly expanded residency definitions, and the complete re-mapping of all sector and industry code data to most of the data, in addition to the first-time acquisition of the data itself.
- In addition, the Discussion Paper makes no allowance for business transformations or major transactions during the implementation period – for example Citi's recent purchase of the Coles credit card portfolio, for which the migration and integration period has only just begun and extends well beyond APRA's go-live date of 1 January 2018; it is unlikely that all APRA's requested data will be available until full migration has been completed.
- Citi has also received other change project notifications from agencies recently that do not appear to have been coordinated with APRA, examples including an ABS request on 20 March to discuss changes to "Form 90" Survey of International Investment, several new quarterly disclosures including the Foreign Exchange Survey, Business Characteristic Surveys and Research and Development Survey, and a request from APRA on 5 April regarding a new "*ARF 750.0 DAWR Agricultural Lending"* form.

- The incompatibility of APRA's proposed changes with the current reporting regime means that delivery parallel reporting is infeasible – Citi's local franchise does not currently have the resources required to deliver two sets of differential reporting for any period of time.

Citi requests the following of APRA:

1. Citi requests formal opportunity for direct consultation with the users of APRA's data collection – the ABS and RBA – to ensure that only the most useful information will be collected, that "nice to have" data collection or data for the sake of data is avoided, and that all data collection passes appropriate public interest measures. We request this be part of an ongoing and inclusive consultation forum with all banks, to address operational implementation matters, and that this be subject to an appropriate cross-agency governance framework for all further aspects of these consultations.
2. That all future proposed regulatory developments be shared with market participants on a "level playing field" basis, to avoid disadvantaging smaller firms, which appears to be the case with APRA's private EFS consultations, that has given some large banks nearly 18 months' additional time to plan and resource for these very significant changes.
3. That APRA create an appropriate cross-agency governance framework for all further aspects of these consultations, and establish an ongoing and inclusive consultation forum with all banks, to address their operational implementation.
4. That all reporting form changes be fully coordinated with other regulators and clearly communicated in a coordinated manner.
5. That the implementation period be at least 18 months – between APRA's publication of finalized reporting requirements and supporting frameworks (e.g. data quality), and the first period of data to be submitted. If final rules were published in late 2017, this would mean a first-time reporting date, for any new data, of 1 July 2019 or later. In addition, achieving a high level of data quality is likely to take considerable time – perhaps several years, and so a phased approach is desirable.
6. That there be no back dated or retrospective data. That is, a go live on 1 July 2019 would mean that from that date onwards, reporting would be on a prospective basis. To the extent any retrospective data were required by APRA we would need to extend our go-live data accordingly.
7. That any parallel reporting be limited to one month, and certainly to a maximum of three months.
8. That subsequent reporting changes, including phases 2 and 3 of EFS, be similarly managed with longer implementation periods and shorter parallel periods
9. That exemptions, extensions or other arrangements be formally made available for significant transactions, deals or business restructures while implementation is underway.

2.2 The proposed level of data accuracy is unrealistic, the content is excessive and the threshold levels are set too low

- We recognise the need for accurate national accounts or other statistical collections, however, we have serious doubts about the volume of data APRA seeks to collect, and whether it will lead to more informed critical decision making. In our view less is more, and beyond a point, more data obscures decision making, creating an industry in checking and reconciling a minutiae of data without adding any further value.
- We note that the foundation of APRA regulatory reporting is financial information prepared under International Financial Reporting Standards (IFRS), and audited under international auditing standards, in accordance with the Corporations Act, and under the regulatory oversight of the Australian Accounting Standards Board, and the Australian Auditing Standards Board.
- Contrary to the above, APRA has proposed an operationally complex “confidence interval” approach to data quality, at an unrealistically high 99% confidence level, for every piece of reported data, at the lowest level of granularity. We do not understand how financial data (prepared in accordance with the internationally acceptable level of audit assurance noted above), and non-financial data, that in many cases must be obtained only for APRA’s statistical purposes, can reasonably be subject to an audit assurance regime which is an entire order of magnitude higher than the international standards applied to financial statements.
- Citi has scoped over 7,000 new EFS data points to be submitted across its four impacted entities, mostly monthly, plus over 16,000 new data points for APRA’s recently published ARF 731 “International Exposures” series. This involves an exponentially increased cost of collection in terms of system investments, human resources, and customer impact, however, much of it appears to lack critical usefulness or purpose that justifies the cost, given its complexity, extent of collation using multiple systems, additional effort on data governances, maintenance of extensive data lineage mapping and ongoing tracking of critical data elements.
- A lot of data is required in narrow bands or sub categories – it is questionable whether detailed levels of banding actually achieves useful outcomes, as it is more likely to lead to information overload by the data users (i.e. the agencies), and it also requires considerable manual work effort, judgment, and decision making to allocate to bands (for example dollar ranges, or percentages) and similar manual work effort by users (i.e. the agencies) to extract and analyse.
- Modifying bespoke Cost of Funds models for arbitrary allocation across detailed bands within portfolios, is not comparable across firms; it will be of little or no use for policy decisions – particularly for foreign banks, whose funding models differ substantially to domestic banks.
- Even if there were common Cost of Funds models, the users (e.g. RBA) would have no practical use for the Cost of Funds of foreign banks, as their funding models make them relatively insensitive to RBA interest rate policy settings.
- In addition, the market share of foreign banks is very small compared to the market as a whole, so does not pass a reasonable cost / benefit test.
- In addition to the above concerns, Cost of Funds measures are commercially sensitive and the inadvertent or uncontrolled release of such data would be commercially very damaging to the operations of small market participants.
- Certain collection, notably derivatives, repurchase agreements, and margin lending, requires transaction level data that is inconsistent with the recognition and measurement bases of accounting standards and risk management, not held within finance systems (e.g. general ledgers) and is not readily auditable, which will cause significant issues to obtain and validate to APRA’s required level of confidence interval accuracy.

- In its February 2015 publication ”Update on Regulatory Cost Savings” APRA stated (page 15) that it only deviates from alignment with accounting standards when there is a specific prudential purpose for doing so – and yet there does not appear to be any prudential purpose to the above inconsistencies.
- We note that derivative information is already supplied to ASIC under the OTC Trade Reporting Regime, so APRA's separate derivative data collection would create a duplication of effort, with submission of information to two separate regulators, at a time of scarce resources.
- We note that Citi, like several other foreign banks, does not use ANZSIC codes for customer classification within source systems – for example, the North American Industry Classification System ("NAICS") is often used, It is not feasible for a global bank to maintain multiple sets of customer classifications within source systems, so the most feasible solution is a manually intensive re-mapping at the point of reporting form preparation.

Citi requests the following of APRA:

1. Citi requests a narrower scope to data collection and a longer implementation period due to our smaller market share and dependence on global systems.
2. Citi requests a replacement of the confidence interval approach to data quality with an internationally recognised data accuracy framework, consistent with the audit of information prepared under International Financial Reporting Standards reporting, i.e. "reasonable assurance".
3. Citi requests APRA to engage with the ABS and RBA to ensure that only the most necessary levels of data granularity are collected, including that any reporting bands are set widely.
4. Citi requests that Cost of Funds data collection be strictly limited to the largest domestic banks, which would also allow APRA or the RBA to reconcile the key differences between different models.
5. Citi requests reporting thresholds to be set at significantly higher levels than initially proposed, and clarification of how thresholds will apply to entities which briefly exceed thresholds say for only 1 or 2 months. Please refer to Appendix 1 for more details.
6. Citi requests derivatives, repurchase agreements, and margin lending collection to be obtained from existing sources, e.g. from the OTC Trade Reporting Regime.
7. In the event derivatives, repurchase agreements, and margin lending collection cannot be adequately obtained from other sources, we request any collection from banks be consistent with accounting standards, so that the information is available, and to be subject to the same levels of audit assurance as audited financial statements, i.e. reasonable assurance.
8. Citi requests that banks using reasonable alternatives to ANZSIC codes be permitted to use those systems for reporting of customer classifications.

2.3 Unnecessary complexity, impracticability and potential customer impact

- Many data points are subject to complex rules or guidance – which may be intended to assist preparers, but complicates data collection, and creates unworkable issues related to data accuracy and auditability.
- Much of the new data will require Citi to undertake a significant rebuild of existing technology. However, for Citi – and no doubt other foreign banks – the local franchise does not control the design or modification of Global data systems, and requests to implement uniquely Australian data collection are a relatively low priority, and take considerable time, or may not be granted, often requiring alternatives such as manual processes.
- Much of the retail data collection, e.g. loan purpose, owner occupier status, and the extent to which facilities and loans serviced by foreign income, is not needed by banks in managing their businesses, so has not previously been collected; it is difficult and cumbersome to accurately obtain and maintain much of the new data over the life of a facility, and banks will be dependent on the veracity of data reported by customers, who are not subject to APRA's data quality expectations, not themselves subject to audit, and not necessarily motivated to provide accurate reporting.
- There is potential for a very significant customer impact in seeking to collect data from customers beyond the scope of the normal banking/customer relationship, which may lead to negative customer experience aspects, customer animosity, adverse commercial impacts, uncontrollable time delays, and significant data inaccuracies, that are beyond our control. The collection of large numbers of data fields from customers would also impact the business models on servicing customers.
- Citi is disappointed that so much of the proposal's content is contrary to APRA's earlier achievements, and commitments, in its February 2015 publication "Update on Regulatory Cost Savings" – notably APRA's commitment on page 7 to the removal and adjustment of validation rules so preparers must only respond to material errors, and APRA's commitment to increased reporting thresholds and reducing reporting frequency from monthly to quarterly, to achieve cost savings.
- The proposed Calendar Day reporting concept is far more complex than the existing Business Day model, with many months like February (28 days) March and April (3 days lost to Easter and ANZAC day), and those with other public holidays, representing a far more challenging reporting burden and impact on resourcing, that is very difficult to manage. In addition it is unclear how due dates falling on weekend or public holiday dates are to be treated? The due date for EFS submissions on 18 April, falling immediately after the 4 day Easter holiday period, is an excellent example of these types of issues.
- APRA's proposed Calendar Day reporting dates significantly increase the burden on quarter end reporting, e.g. in March 2018, the ARF 331 reporting would be due 8 working days earlier than currently lodged – we believe this is unreasonable
- The adoption of EFS reporting will be at odds with APRA's existing reporting regime, due to the use of different definitions, including residency, SIC codes, Sector codes – it will complicate and in some cases may prevent the reconciliation of key data points between EFS forms and the existing regime.
- We also note that four existing quarterly reports would become due monthly – two on Calendar Day 15, and another two on Calendar Day 20.

Citi requests the following of APRA:

1. Citi requests that APRA provides detailed guidance only where absolutely necessary, and otherwise adopts a principles based approach to data collection.
2. Citi requests the removal of detailed rules, e.g. the number days that an owner occupied home or holiday house has been slept or used in by the owner, noting that it is virtually impossible to obtain such data on a continuous basis to the level of accuracy proposed in the Discussion Paper. Citi proposes that such material be presented separately, as guidance, of an aspirational or best efforts nature, as reference material.
3. Citi requests APRA to specifically clarify that it does not expect banks to obtain statistical information where doing so may be detrimental to the commercial operations of the bank – client relationship or provision of the financial service to the customer.
4. Citi requests leveraging the use of existing government information such as census or local government data, instead of collecting information from banks which is not used in their operations, e.g. certain residency information for RBA decisions.
5. Citi requests APRA to maintain the Business Day reporting regime, which will avoid the complications involved in a Calendar Day approach, and enable firms with limited resources to complete their reporting obligations to the current standard.
6. Citi suggests that increasing the frequency of reporting, from quarterly to monthly, does not necessarily provide a commensurate increase in the value of data obtained.

2.4 Cost / benefit concerns

- Although Citi is a small market participant, our dependence on multiple global systems across several reporting entities with retail, commercial, and institutional businesses, may result in total project costs to implement all APRA's proposed changes of up to $15 million.
- We have not had sufficient time to undertake a detailed costing in the fashion requested by APRA, however, broadly it comprises $3-5 million local systems cost, $3-5 million global systems cost, and $5-10 million human resource and consulting cost to build and test the new data collection and fully incorporate it into these systems.
- We note APRA's claim of an overall industry-wide reduction in workload following implementation of EFS. Contrary to this, the current proposals would see Citi's main operating entities experience very large increases in reporting obligations. Even Citi's smallest reporting entity (Diners Club Pty Ltd), an RFC, which until late 2016 was not required to report to APRA, will experience an increased reporting burden.
- The above cost estimates do not include the additional cost of continuing to maintain and store the new data, the increased ongoing global charges for usage of the additional systems capabilities, and the ongoing staffing and related costs in preparing and submitting the revised Domestic reporting forms, which would be exacerbated by APRA's intention to abandon Business Day reporting and move to a more complex Calendar Day regime.
- We note that EFS will replace certain recent decisions communicated by APRA to Citi, e.g. the use of collateral to allocate between owner occupied and investor loans, for which Citi has made considerable investments, and incurred considerable costs, which now appears redundant.
- The current proposal does clearly illustrate to Citi that the agencies have strategically thought through how best to collect the data and why they are collecting the data.

Citi requests the following of APRA:

1. Citi suggests APRA will achieve much better project outcomes, with far more reliable data, by concentrating data collection efforts on the top 90% of the Domestic market, and excluding small participants such as foreign banks.
2. Citi requests an independent review of the costs and benefits, e.g. by the Productivity Commission, to ensure that any new data collection is in the public interest.
3. Citi requests that previous investments in systems and methodologies be respected, particularly those which APRA has specifically confirmed in recent years, to avoid incurring unnecessary cost or waste of limited resources.
4. Citi requests that agencies actively explore more efficient collection methods, significantly reducing the costs for individual institutions and the industry as a whole, e.g. leveraging existing industry OTC data, use of sector information held by the Australian Taxation Office or other information held by government, and collection through common technology databases rather than forms.
5. Citi requests that agencies consider implementing a common API platform to extract information from banks, creating an efficient utility, rather than a disaggregated system, which clearly reflects the rationale and intended uses for all new data collection.

Appendix 1

New Form code	New Form description	Frequency	Reporting Threshold	Suggest Threshold
ARF 720_A	ARF_720_0A: ABS/RBA Statement of Financial Position (Banks & RFCs)	Monthly	ADI banks report monthly, RFC report monthly if total asset >$ 200MM	Increase RFC threshold to $300million.
ARF 720_2B	ARF_720_2B: ABS/RBA Deposits (Non-bank ADIs & RFCs)	Monthly	ADI non bank and RFC report monthly if total asset >$ 200MM	Increase RFC threshold to $300million.
ARF 721 (opt A)	ARF_721_0: ABS/RBA Repurchase Agreements and Securities Lending (Option A)	Monthly	Monthly if Repo >$100MM	Increase threshold to $500million.
ARF 721 (opt B)	ARF_721_0: ABS/RBA Repurchase Agreements and Securities Lending (Option B)	Monthly	Monthly if Repo >$100MM	Increase threshold to $500million.
ARF 722	ARF_722_0: ABS/RBA Derivatives	Quarterly	Quarterly if Deriv >$1Bn	Increase threshold to $2billion.
ARF 723	ARF_723_0: ABS/RBA Margin Lending	Quarterly	Quarterly if Deriv >$100MM	Increase threshold to $2billion.