CUSTOMER OWNED BANKING ASSOCIATION
www.customerownedbanking.asn.au
LEVEL 11, 35 CLARENCE STREET, SYDNEY NSW 2000 GPO BOX 4686, SYDNEY NSW 2001

16 May 2017

Manager
Standard Data Collections
Australian Prudential Regulatory Authority
Sydney NSW 2000

via email: statistics@apra.gov.au

Dear Manager

APRA's proposed economic and financial statistics package - Phase 2 and 3

Thank you for the opportunity to comment on APRA's proposed economic and financial statistics (EFS) package.

APRA's Phase 2 and 3 forms are generally targeted at ADIs above certain size thresholds (i.e. more than $2 billion in deposits or housing finance). COBA estimates that there are currently a dozen customer-owned banking institutions above the $2 billion in deposits threshold. By July 2018, it is possible that there could be another six institutions in this category.

The proposed package will have a disproportionate impact on smaller ADIs due to the detailed nature of the reporting and the accuracy requirements. Feedback from COBA members indicates that it is unlikely that they will be able to undertake these changes to the required quality within the proposed timeframes.

Furthermore, this data is unlikely to lead to improved consumer outcomes or improved individual or system-wide financial stability, noting customer-owned institutions' relative systemic importance and APRA's collection of ADI-specific prudential statistics through its other forms.

COBA proposes two measures that together will reduce the reporting burden on smaller ADIs and allow for a more orderly transition to the new reporting requirements.

1. **Extend the proposed implementation timelines for all forms by at least 12 months**

2. **Increase the respective thresholds for the more detailed reporting forms**

Unrealistic timeframes to undertake significant reporting system changes

While APRA's discussion paper notes that ADIs with between $200 million and $10 billion in assets will see their indicative annual reporting burden reduce by around 25 per cent (see Figure 1 on page 58 of the EFS discussion paper) this does not recognise the increased complexity of the proposed reporting items and the transition costs of changing reporting systems.

COBA members believe that transitioning to this new reporting suite is a significant project that will require extra staff and resources.

An ADI's ability to adapt to APRA's changing requirements depends on their existing systems and whether they are able to adjust it using internal resources. At best, those who can utilise internal resources will have to co-opt staff from other business units or hire additional staff—detracting from our core business of making loans. Some COBA members will require external consultants, which will generally take longer and be more costly. Others may have to go through unplanned system changes which will not only be costly, but will also reduce regulatory capital levels due to the treatment of capitalised software expenses. Our limited access to capital-raising options and relative size (and therefore inability to offset deductions) means that new regulatory reporting requirements can adversely and disproportionately impact our capital.

Members that already collect the majority of this data expect that these systems changes will take upwards of 12 to 18 months to implement once the final standards are settled. It is expected that any EFS compliance project will require significant liaison across all banking units within an organisation as well as with APRA, ABS and RBA to further understand their expectations.

One member noted that the granularity of required data alongside their current collection practices will mean that this project could take from 2 to 3 years (for example, another member noted foreign sourced income may not be appropriately captured). To capture this data, members will need to modify their frontline systems. This process adds additional complexity as system and process changes will need to be done alongside staff training. Similarly, if requested data is not collected on past loans, ADIs will have to contact borrowers and source more information from them—a process that is unlikely to timely or efficient.

COBA members also seek more clarity on how APRA expects ADIs to prove that their systems meet the 99% confidence level. A member notes that under the current proposal they may not be comfortable in signing off that the figures meet the required accuracy thresholds, given the insufficient time to adequately prepare their systems.

Furthermore, these changes must be considered alongside the number of reporting forms that have changed, or will change in the near future (including on residential mortgage reporting, securitisation, liquidity reporting and agricultural reporting), as these changes will start to stretch members' limited reporting resources.

Disproportionate reporting requirements on smaller ADIs

COBA members note that it is hard to understand why smaller ADIs are subject to the same reporting requirements as the largest ADIs, particularly as our members are unlikely to have a significant impact on the transmission of interest rate changes or national accounts aggregates.

For example, ADIs with more than $2 billion in housing finance must report against *ARS 744.0 ABS/RBA Housing Credit Stocks, Flows and Interest Rates*. While the proposed data quality standard allows "not large" institutions[1] to report against more generous accuracy thresholds, these smaller institutions are still required to report against the same items and at the same 99% confidence level. While more generous thresholds reduce some burden, the number of items combined with the high confidence level means that quality requirements create a much larger burden on smaller ADIs.

[1] A large institution is an ADI with greater than or equal to $200 billion in total assets measured on a domestic books basis

COBA proposes the following measures:

1. **Extend the proposed implementation timelines for all forms by at least 12 months**

APRA should extend the deadline by at least 12 months for all reporting forms.

As noted, the development and testing of the required reporting systems will be lengthy and costly process and it is unlikely that all ADIs will be able to do this in a cost effective manner to meet the proposed deadlines. This will allow ADIs a period of at least 18 months to adjust to this reporting in an orderly and commercially-viable manner.

2. **Increase the respective thresholds for the more detailed reporting forms**

APRA should increase the minimum thresholds for reporting against the Phase 2 and 3 forms, particularly for the monthly forms.

This will reduce the regulatory burden of institutions under the current thresholds and allow these institutions to adequately plan their IT investments (and any subsequent regulatory capital costs) ahead of reaching these thresholds.

This approach will allow ADIs to plan investments in their reporting systems in a cost effective and timely manner (i.e. they will know that in X years they will be subject to a higher level of reporting and will be able to plan their capital management and IT investment programs accordingly).

	Current Thresholds	**Suggested Thresholds**
Personal Finance	$500 million personal finance	$2 billion
Business Finance	$2 billion business finance	$5 billion
Housing Finance	$2 billion housing finance	$15 billion
Wholesale Funding	$2 billion deposits	$15 billion
Fees	$10 billion in assets	$15 billion

COBA welcomes APRA's recent announcement that it, in relation to forthcoming changes to the bank capital regime, APRA is also giving consideration to areas where regulatory burden could be reduced. We encourage APRA to take a similar approach to implementing the EFS package.

Thank you for the opportunity to contribute to this consultation. Please contact Mark Nguyen at mnguyen@coba.asn.au or 02 8035 8443 if you wish to discuss any aspect of this submission.

Yours sincerely

LUKE LAWLER
Head of Public Affairs