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17 April 2017

Manager, Standard Data Collections
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

By email: statistics@apra.gov.au

Dear Sir/Madam,

Re: Consultation on modernised economic and financial statistics (EFS) data collection for ADIs and RFCs

Wolters Kluwer would like to thank APRA for providing the opportunity to submit comments on the "Consultation on modernised economic and financial statistics (EFS) data collection".

Wolters Kluwer fully appreciates that timely access to relevant, reliable and accurate information is critical to the agencies' ability to play their crucial role in the Australian financial system and to comply with international reporting obligations. Greater harmonization and standardisation of data are key elements to providing domestic and international policy makers the relevant insights to make sound and well-informed policy decisions. Many regulators across the globe have upgraded their regulatory reporting framework in recent years or have announced significant changes in the near future. A general theme across the globe is agencies requiring access to more and more granular information more frequently to support sound policy making and supervision. Wolters Kluwer is generally very supportive of the initiative to modernise the EFS collection and acknowledges the agencies' efforts in providing detailed reporting guidance and introducing a data quality reporting standard (ARS702) to support the implementation of the proposed changes.

Wolters Kluwer is the world's leading provider of automated regulatory reporting solutions for financial institutions. In Australia Wolters Kluwer supports a wide range of ADIs/RFCs with end-to-end automation of their APRA reporting process. Amongst our clients are some of the smallest foreign ADIs/RFCs and several of the countries' largest domestic financial institutions. As the largest provider of regulatory reporting compliance solutions in the Australian financial services industry, Wolters Kluwer has quite a unique vantage point across regulated institutions. Wolters Kluwer has built up an intimate understanding of ADIs/RFCs regulatory reporting processes and understands the implementation challenges, potential pitfalls and unintended consequences of regulatory change from both a local and a global perspective. From that perspective, this letter contains Wolters Kluwer's comments and recommendations for APRA's consideration.

General Observation: EFS Reform poses a unique opportunity to evaluate the long term future of regulatory data submissions.

In recent years, Wolters Kluwer has observed the global trend of policy makers moving beyond the collection of regulatory reporting templates and focusing on gathering detailed data sets at a much more granular level. Examples include the European Central Bank's initiative to create a central register of granular data about the credit exposure of regulated institutions within the Eurozone. The Analytical Credit and Credit Risk Dataset (referred to as AnaCredit) contains about 175 attributes across six reporting packages: lender/borrower attributes, exposure features, valuation measures, risk measures, loss measures and balance sheet status and will be collected on a loan-by-loan basis. AnaCredit is the first step in establishing a harmonised statistical reporting framework within the Eurozone.

As you are aware, the GFC hit hard in Europe: some of the continents' largest banks required government bail-outs or were nationalised and the economic, debt and housing crises that followed put many European countries' economies into multi-year economic recessions. Across the Eurozone the gross debt-to-GDP ratio rose by 22 percentage points from its pre-crisis level of about 66% in 2007 to 88% in 2011. This context is important, because as part of the wider overhaul of banking supervision in the Eurozone, the AnaCredit regulatory reporting reform is aimed at providing national and supra-national standard setters with better and faster access to more granular data to support banking supervision and to support research and analysis of monetary policy and financial stability. The reform is an essential part of the European regulators' myriad of regulatory changes; issued in response to shortcomings in the existing model and designed to avoid repeating the failures of the past.

Other examples of regulatory reporting reform requiring data level reporting includes the G20 OTC derivatives reform, which saw the international implementation of trade level reporting for OTC derivatives. This includes in Australia where OTC derivative transaction reporting is regulated by ASIC. The market turmoil after the Lehman Brother's collapse has to a large extent been attributed to gaps in information, at individual banks (lack of visibility into total exposure at counterparty level for example) and at the OTC derivatives market as a whole. The OTC derivatives reporting reform was designed to address that data gap and requires all market participants to provide daily (and to some extent intra-day) information through designated trade repositories.

A final example is the Austrian Central Bank's (OeNB) initiative of introducing transaction level reporting through datacubes as a replacement of existing template-based reporting. Data is gathered at transaction level through a Shared Services company (AuRep), which is co-owned by the largest Austrian banking groups. This allows cost-sharing of compliance as well as standardisation of data collection. Supervisors can interrogate the data which is captured automatically from the reporting institutions platforms, whilst the banks retain control over their commercially sensitive data.

The common thread between the various examples is that the data gap experienced by these regulators has not been solved by requiring additional or updated forms, but rather by regulators gaining access to more granular, *raw* data sets at higher frequencies. As outlined in the EFS discussion paper, many Australian ADIs/RFCs have struggled to provide the degree of data accuracy required by the agencies and have been subject to reporting resubmissions and large-scale data revisions, which has had a direct impact on the agencies' ability to formulate appropriate economic policy.

In many areas of international post-GFC regulatory reform APRA has been an early adopter, most notably in the areas of Liquidity Risk and Capital Adequacy Reform (Basel III). APRA's prudential regulatory framework has served as a benchmark and reference for many regulators overseas. But despite acknowledged shortcomings in terms of the quality of reported data, the regulatory reporting framework has not seen significant changes in the past decade (other than those mandated by updates to the Basel framework such as LCR/NSFR reporting).

The proposed EFS reform is extensive and ADIs/RFCs will have to invest a significant amount of resources into their systems, processes and people to comply with the modernised EFS reporting requirements. There are many forms impacted with a significant uptick in data points and in some forms potentially much more granular data (e.g. ARF 721 Repurchase Agreements and Securities Lending). However it is not an overhaul of the overall reporting framework; it is merely a modernisation of existing reporting forms. And although the agencies have introduced reporting quality requirements through ARS 702 and provided more detailed guidance on the reporting concepts – it remains to be seen if more of the same medicine will address the actual illness this time.

The EFS modernisation is only one of many regulatory reporting consultation packages released by APRA in recent months. ARS120 (Securitization), ARS223 (Residential Mortgage Lending), ARS210 (NSFR and LCR), ARS750 (Agricultural Lending), ARS221 (Large Exposures) are all new or significantly updated regulatory reporting standards. The amount of changes required to regulatory reporting forms and the pace with which they are being released is illustrative of the changing dynamic of financial regulation. The fact that some of the LCR reporting returns are proposed to be changed quite substantially after only being implemented in 2015 demonstrates the velocity of regulatory change. Regulators' data needs are not static and therefore capturing regulated entities' data in static forms may not be the optimal reporting solution.

Moreover, in its Corporate Plan 2016-2020 APRA announced that the data collection platform (D2A) will be replaced with a modern solution which provides improved data collection and taxonomy management, reporting capability, security and software compatibility. APRA also mentioned that it will enhance its data analytics capabilities by establishing an analytics laboratory to investigate predictive analytics techniques for both structured and unstructured information and adopting techniques that improve supervision. Collecting more granular data will clearly allow APRA to gain deeper insights through the advanced data analytics technologies and techniques it is planning to implement.

Although the impact on the implementation timelines is likely to be significant, Wolters Kluwer would like to urge the agencies to consider and thoroughly analyse alternative reporting mechanisms such as those being implemented in other jurisdictions. It is Wolters Kluwer's sincere desire that the EFS reform will deliver all the benefits the Australian policy setters are seeking and that the efforts of all parties involved will contribute to the overall strength of the Australian financial system. In various parts of the world regulators are imposing more drastic changes based on their recent experience that, during times of crisis, they did not have access to the relevant and accurate data they required to make well-informed policy decisions. Wolters Kluwer believes the EFS reform and the D2A replacement initiative represent a unique opportunity for the Australian regulators and the industry as a whole to rethink the reporting model and balance increasing compliance demands with reducing the regulatory compliance burden by leveraging new technologies.

Comments on the proposal

Based on Wolters Kluwer's global experience with significant regulatory reporting change events it would like to highlight some particular areas of concern on the proposed EFS reform as it stands, most notably on the proposed phasing, timelines and parallel run requirements.

Proposed Phasing

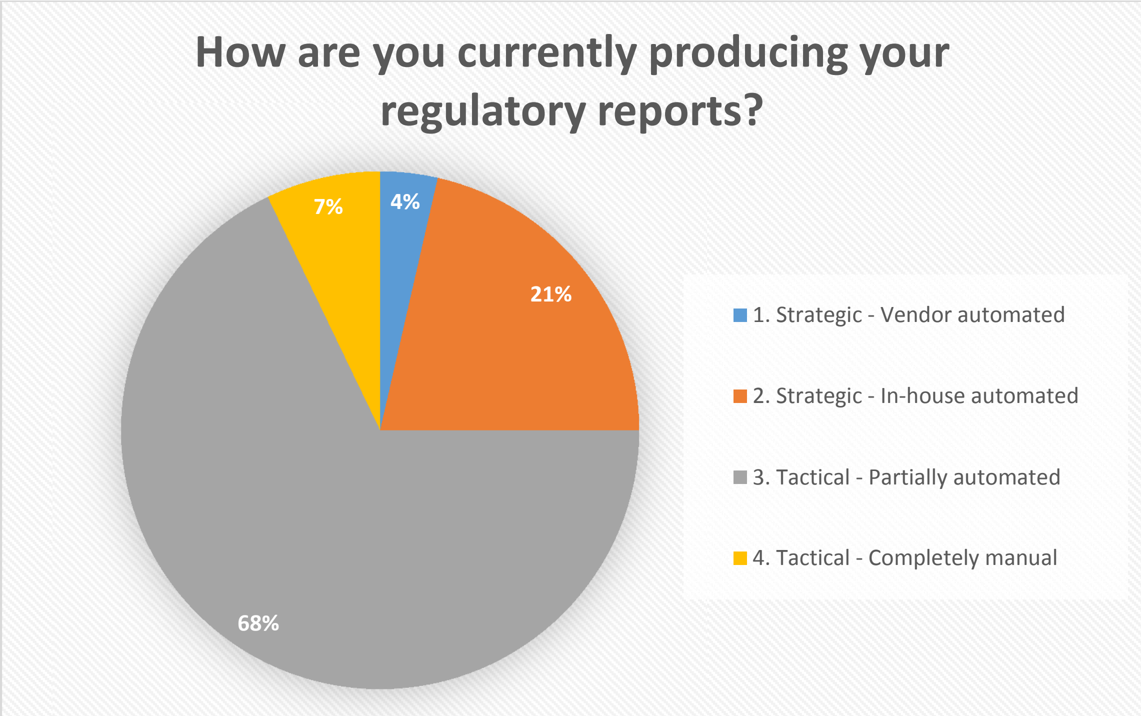
Although generally supportive of a phased implementation approach, Wolters Kluwer would like to draw APRA's attention to the fact that in combination with the proposed parallel reporting options some of the phases are "overlapping" from an implementation perspective. For example, in the scenario of *hybrid* parallel run, reporting entities need to submit phase I returns for the first time from July 2018 onwards (and submit 6 months of backdated data) and at the same time start gathering the new/updated data attributes for some of the Phase II returns, such as ARF730 (again to allow for the backward looking parallel runs). Such overlaps pose significant operational challenges from a systems and resourcing perspective. Should the agencies continue to require a phased implementation, Wolters Kluwer suggests to leave a wider gap between the phases, or to adjust the parallel run requirements to avoid overlaps. Wolters Kluwer is of the opinion that a 2 phased implementation approach may allow for a better alignment between the agencies' requirement to quickly get access to more relevant and higher quality data and the industries' constraints to execute a high quality implementation of the new reporting standards.

Proposed Timelines

Through its Regulatory Update Service, Wolters Kluwer ensures ongoing regulatory reporting compliance for its clients. By providing automated regulatory reporting solutions which are kept up to date with changes to the regulatory requirements, Wolters Kluwer eases the burden of regulatory reporting reform for its customers. Wolters Kluwer's clients focus their efforts on gathering the new and updated data from upstream systems; knowing the regulatory reports will be populated in accordance with the new reporting standards via the regulatory reporting engine.

In the context of EFS – Wolters Kluwer foresees no issues in providing its clients with an update to its APRA regulatory reporting solution within the proposed timelines (across all implementation options of parallel runs outlined within the proposal) for all 3 phases. Wolters Kluwer deals with regulatory changes on a global scale on a continuous basis and has the experience and scale to make true on its promise of the Regulatory Update Service (fully compliant solution implemented within the regulatory deadline). The unanimous feedback from our larger clients however has been that the changes required in upstream systems to capture the updated and new data elements and the end-to-end testing of the new forms, to ensure they adhere to the data quality ratios outlined in ARS702, will be extremely hard to achieve, especially for the Phase I deadline. Also the change management that accompanies system changes (staff training, system testing) typically takes more time than what will be allowed under the proposed timeline, which could have an adverse effect on data quality.

Wolters Kluwer would like to highlight that its clients are in a much better position than most ADIs/RFCs. In a poll conducted by Wolters Kluwer in March 2017, a staggering *75%* of over 30 ADIs surveyed are currently taking a tactical approach to regulatory reporting, which is either completely manual or only partially automated (typically via internal Macros).



For preparers of regulatory information, manual spreadsheets are not without advantages; they enable business users for example to easily visualize and organize data. But this flexibility comes with numerous control risks and unavoidable human (mis)interpretations and errors, which has been a leading cause of the data quality issues experienced within the current framework. The same Wolters Kluwer study shows that the vast majority (82%) will either change their current approach, or at least consider more strategic alternatives. Indeed, ARS702 requires that the information provided under each EFS reporting standard must be the product of systems, processes and controls that assure that the data submitted on an ongoing basis is correct or, at a minimum, within accuracy thresholds as specified within the standard. Wolters Kluwer's position is that ADIs and RFC's will be required to implement a fit-for-purpose regulatory reporting solution to be able to comply with these requirements. Only by using reporting solutions that are designed from the ground up to provide a fully transparent and auditable end-to-end regulatory reporting process - from data acquisition all the way to upload into D2A – can ADIs/RFCs and the regulators be confident that the reported figures are consistently correct.

Wolters Kluwer also would like to highlight that for the vast majority of ADIs, the announcement on January 16 2017 has been their first exposure to the proposed regulatory changes. Only a select number of ADIs has been privy to the private consultation, and thus already had the opportunity to socialize the regulator's intentions internally at management and board level. For the majority of ADIs/RFCs current budgets don't account for regulatory reporting reform of this scale. All ADIs/RFCs require time to analyse the new reporting requirements and their impact on data, people and systems. They will need to estimate the effort required for its implementation and to communicate their requirements effectively throughout the organization. Only when budgets have been allocated will they be able to engage with third party consultants and solution providers for the implementation of the appropriate regulatory reporting solution. Many foreign ADIs/RFCs will require regional or global offices to sign off on projects of this magnitude.

In order for the modernised EFS data collection to deliver the data quality improvements the agencies need, ADIs/RFCs should be given sufficient time to budget for, select and implement the appropriate regulatory reporting solution. If the regulatory deadline is prohibitive of the implementation of a strategic solution, ADIs/RFCs are likely to go back to ineffective, cumbersome and error-prone manual processes in not fit-for-purpose tools in order to meet the deadlines. This will leave them, and the agencies they report to, in the same (or worse) position as today.

Based on its 25 years of experience dealing with regulatory reporting implementations locally and globally, Wolters Kluwer considers that a successful roll-out of regulatory reporting changes of the magnitude proposed in the modernised EFS consultation paper requires a minimum of 18 months from the official release date of the final reporting standards.

Proposed parallel run requirements

Another key aspect within the current proposal is the parallel run requirement. The options outlined in the proposal require ADIs/RFCs to gather all data required for Phase I reports from January 2018 (and even July 2017 in the *backward looking* parallel option). For larger organisations the backward looking approach poses significant operational challenges: running multiple reporting cycles within a single reporting period, especially with the added data quality review requirements may well be unachievable – even with significant increases in resources. Therefore – in the option of *hybrid* parallel run - the *practical* implementation date for Phase I is considered by most ADIs/RFCs to be January 2018. With APRA's final standards expected to be released in June 2017 that would leave only about 6 months between the final standard being official and the practical go-live date.

Wolters Kluwer acknowledges that parallel submissions may be required by agencies to provide consistency across various statistics. ADIs/RFCs who implement strategic regulatory reporting solutions will be in a position to submit both the original and the updated/new regulatory reports from a common reconciled and validated data set; ensuring integrity of its submissions during the parallel reporting period. Regardless of the reporting solution though; generating, validating, reconciling, analysing and signing off on two versions of the regulatory reports requires significant effort from report prepares. Wolters Kluwer asks the agencies to be cognisant of this fact and requests the agencies to significantly shorten its parallel run requirements to 3-6 months.

In summary, Wolters Kluwer is very supportive of the agencies' quest for more relevant and accurate data submissions from regulated entities. However Wolters Kluwer believes the time is right for even more drastic change and for regulators and the regulated entities to rethink the reporting model together and leverage new technologies to build out a regulatory framework that is ready for the future. Wolters Kluwer has concerns regarding the implementation timeline of the proposed modernisation of the EFS data collection. Without adjustments to the timeline it is highly doubtful the agencies will get the quality, accuracy and timeliness of data submissions they are seeking from all ADIs and RFCs.

Should you have any queries regarding any of the above or about Wolters Kluwer in general, please don't hesitate to contact me directly on 02 9857 1582.

Yours faithfully,

Thomas Verlaet
Product Specialist
Wolters Kluwer Financial Services Australia