CUSTOMER OWNED BANKING ASSOCIATION

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Manager
Standard Data Collections
Australian Prudential Regulation Authority
Sydney NSW 2000

via email: statistics@apra.gov.au

Dear Manager

APRA's proposed Agricultural Lending Data collection (ARF 750.0)

Thank you for the opportunity to comment on APRA's proposed Agricultural Lending Data (ALD) collection.

About COBA and the customer-owned banking sector

COBA is the industry association for Australia's customer-owned banking institutions – mutual banks, credit unions, and building societies. Collectively, the sector we represent has $104 billion in assets and more than 4 million customers.

Customer-owned banking institutions predominantly serve the consumer market (i.e. retail deposits, residential mortgages and personal loans) and do not have large agribusiness portfolios.

Reducing the reporting burden of ARF 750.0 on smaller ADIs

APRA proposes that "all ADIs will be required to report on ARF 750.0 on an annual basis, for the 30 June reporting period".

COBA does not believe that this requirement is appropriate and APRA and the Department of Agriculture and Water Resources (DAWR) should include the following measures to reduce the burden on customer-owned banking institutions:

- exempt ADIs with less than $200 million in agricultural lending from compulsory reporting against the ALD collection; and

- simplify the ALD collection for ADIs with less than $1 billion in agricultural lending.

These measures will lead to more targeted data collection and reduce the reporting burden on customer-owned banking institutions.

Balancing the costs of data collection with policy needs and benefits

COBA agrees that more data will allow for more informed public debate on agricultural lending and allow the Australian Government, specifically DAWR, to better target its support for farmers.

However, APRA and the DAWR must balance the benefits of data collection against its costs—which in this case is the increased reporting burden for smaller ADIs. Fixed reporting costs disproportionately burden smaller ADIs. It is not clear that the benefits of collecting data from smaller ADIs outweigh these costs.

According to the RBA, there was $69.5 billion of rural debt in Australia in 2016.[1] In comparison, the customer-owned banking sector had $77 billion in residential mortgages and $5 billion in term loans (mainly personal loans).[2]

Given COBA members' focus on residential mortgages, it is unlikely most COBA members will have agricultural exposures large enough to influence the outcomes of the annual ARF 750.0 data collection compared to the larger ADIs outlined in Table A.

Table A: Potential size of other ADIs' agricultural exposures

ADI	$billion	To:	Scope
NAB	45.4	Corporate (including SME)	AFF
ANZ	42.9	Corporate	AFF & Mining
CBA	16.8	SME corporate	Agriculture
Rabobank	13.8	Corporate (inc. private sector)	
Westpac	9.3	Corporate	AFF
Westpac	6.6	Business lending	AFF
Suncorp	4.1		Agribusiness
NAB	4.0	Retail SME	AFF
ANZ	3.4	Other Retail	AFF & Mining
Rural Bank	3.3	Other Retail	
Westpac	2.4	Small business	AFF
CBA	1.8	SME retail	Agriculture
ANZ	1.2	Specialised Lending	AFF & Mining

AFF = Agriculture, Forestry and Fishing
Source: various Jun 2016 – Dec 2016 APS 330 disclosures

Exempting ADIs with insignificant agricultural lending from reporting

COBA proposes that APRA and DAWR should exempt ADIs below a threshold, for example, i.e. less than $200 million in agricultural lending, from compulsory ARF 750.0 reporting to give greater certainty about ADI reporting obligations. An ADI with an agricultural book this size is at best equal to 0.28% of current rural debt.[3]

Some COBA members also seek further clarification on definition of 'agricultural business entity'. APRA's glossary defines business entity as "An entity that undertakes productive activities where these activities constitute the entity's primary source of income." This suggests that an agricultural entity is an entity that gets most of its income from agricultural activities. However, it is unclear whether loans in relation to non-agricultural activities, such as a residential mortgage in Sydney, also are in scope of this reporting requirement.

[1] Reserve Bank of Australia, Statistical Tables, Rural Debt by Lender – D9
[2] APRA's Quarterly Authorised Deposit-taking Institution Performance: Table 9b Mutual ADIs' financial position
[3] Based on a rural debt value of $69.5 billion.

Similarly, it is unclear whether extending an unsecured $2,000 personal loan to a farmer also creates a reporting obligation. This is not the kind of exposure that DAWR is targeting with this collection.

COBA members note agricultural exposures could also be loans to hobby farmers. Generally, these borrowers do not meet the definition of having a primary income from agricultural activities and are outside the scope. However, the cyclical nature of farming income, or alternatively a reduction in other income (i.e. a transition to retirement), could result in these loans moving into scope and creating a reporting obligation.

The reporting obligations created under the above examples, or the 'risk' that these loans could move into scope creates, at best, a contingent reporting obligation and, at worst, a compulsory reporting obligation for smaller ADIs.

In either case, this uncertainty means smaller ADIs will need to invest in rarely used system changes or develop a process for undertaking time-consuming ad-hoc reporting to meet these reporting obligations.

It makes sense to exempt ADIs below a threshold (i.e. $200 million) from ALD reporting to give these ADIs certainty about their reporting requirements. In addition, APRA will also need to clarify how the previously mentioned issues apply to other ADIs.

Simplifying reporting for smaller ADIs

COBA further proposes that APRA and DAWR allow ADIs with agricultural lending below a threshold, i.e. $1 billion, to report a simplified ARF 750.0 at an ANZSIC subdivision level.

This simplified reporting ensures that reporting requirements are more in line with those expected in the current reporting framework and aligned with APRA's intent to reduce the reporting burden on smaller ADIs.

The ALD collection requires ADIs to report agricultural exposures along 15 detailed ANZSIC class groupings.[4] For example, ADIs will need to classify loans based on whether a borrower's primary income is from 'fruits and nuts', 'vegetables' or 'grapes'. Given ADIs must also report loan location, this leads to 120 different detailed industry and location groupings (8 states or territories).

In contrast, APRA's proposed economic and financial statistics (EFS) collection (currently in consultation) takes steps to reduce the reporting burden on smaller ADIs. One of these steps exempts ADIs with less than $2 billion in business loans reporting against the proposed *ARF 741.0 ABS/RBA Business Finance* form, which reports lending classified by broad ANZSIC division groupings such as 'Agriculture, Forestry and Fishing' or 'Mining'. Given the size of our sector's business lending portfolios, COBA expects all customer-owned banking institutions to be exempt from ARF 741.0 reporting in the near future.

Under the current requirements, all ADIs report industry-level exposures under forms such as *ARF 391.0 Commercial Finance* and *ARF 393.0 Lease Finance*. However, once again these forms only require ADIs to report at a broad ANZSIC division level.

Considering the current and future reporting requirements only require division-level classification, making smaller ADIs classify loans to the 'class' level required by ARF 750.0 is not appropriate. While it may make sense when ADIs are large

[4] In the ANZSIC 2006 industry classification, the hierarchical structure (from top to bottom) is division, subdivision, group and class.

agribusiness lenders, for smaller ADIs this creates unnecessary costs that have minimal benefit to overall policy-making purposes.

COBA notes that some members have already classified their commercial portfolios under more detailed ANZSIC classifications for internal purposes. One member notes that reporting against ARF 750.0 would have been a 'difficult' process otherwise. Another COBA member has expressed concern that these detailed ANZSIC reporting requirements could spill over into other industries and require them to review all their existing business relationships. COBA seeks clarification on this issue.

Under our proposal, smaller ADIs would only need to determine whether an exposure sits in agriculture (subdivision-level) rather than where it sits in agriculture (class-level). This is a much less onerous process as differences between subdivisions are much clearer. It also reduces the burden of reclassifying loans when the servicer changes their primary income within the agriculture subdivision (i.e. from 'poultry' to 'pig' farming).

From a policy-making perspective, these loans would still be included in aggregates as unclassified agricultural exposures.

This proposal improves on the current reporting framework that only collects data at the ANZSIC division level of "Agriculture, Forestry and Fishing". Reporting at a subdivision level means that APRA will be able to distinguish agriculture loans from forestry and fishing loans.

This approach also improves agricultural data collection beyond APRA's proposed EFS collection where smaller ADIs will not report even industry-level data due to being below the $2 billion business lending threshold.

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
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