# Feedback on the Proposed Reporting Standard ARS 220.0 - Credit Exposures and Provisions

Use of this template is optional. Respondents may choose to use it to provide structured feedback on the proposed reporting standard.

## *General Feedback*

- Some definitions in ARS 220 are linked to a draft version of the new APS 112 (not effective until 1 January 2023). For example, the standardised credit risk classifications.
- This poses a risk that any system design will need to immediately commence, taking into account requirements that are not effective for 12 months after the new ARS 220 reporting commences.
- Therefore, compliance with the new ARS 220 effectively requires an ADI to implement certain classification requirements of APS 112 which is not effective until 1 January 2023. We believe this imposes a significant burden on ADIs and APRA should consider deferring ARS 220, or decoupling the definitions from the new APS 112.
- This could easily be done by removing the data fields relating to APS 112 from the ARS 220 collection, or making the fields non-mandatory until 1 January 2023.

- APRA should provide greater clarity around the 'valid values' that will be accepted in APRA Connect. Entities cannot commence build work on the data sets until this is provided.
- For example, should date values be provided in YYYYMMDD format, or something else? Every field to be reported needs to contain the exact syntax that the APRA Connect system will accept, otherwise there will be increased risk of data validation errors that will require rework.

**Definition of "Restructured" in APS 220 and Table 1**

- We feel that it would be helpful to have some clear guidelines around the classification of a loan as 'restructured'. Under the current APS 220, NPBS has been advised by APRA that:
  - Loans that are in advance, and are granted a repayment holiday to run down the advance balance are not considered restructured.
  - A well-secured loan 90+DPD is not reported as restructured if the borrower facing financial difficulty was granted a repayment holiday, but is required to make additional repayments over the remaining term of the loan to ensure the original conditions of the loan are met, and there is considered a high probability that this will occur based on the exercise of professional judgement by a suitably qualified and experienced delegated officer.
- Under the definition of restructured exposures in para 12(c) in the new APS 220, both scenarios above could arguably be classified as restructured.
- It is our view that publication of a range of practical examples and FAQs will help ensure consistency of application across the industry. NPBS' view would be that any loan approved under an ADI's hardship policy would be classified as restructured.

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## Views on Implementation Timeline

NPBS notes that the ARS 220 consultation period ends 28 Jan 2021. Allowing say an additional 2 months for APRA to finalise the consultation, which may be ambitious given the significant change in data collection format and the likely volume of questions and feedback from industry, this timeframe will effectively allow 9 months to implement for the reporting commencement date of 1 Jan 2022. Our view is that this is the absolute minimum timeframe that is reasonable, and additional time would allow for better quality data outcomes.

## Views on Entity Level Aggregates

Until ADIs are provided with the planned aggregated reporting it is difficult to make a determination about confidentiality. We would suggest a minimum $ threshold be set to publish entity level data. For example, an ADI may have 1 loan >90 days in arrears for $200,000. We would think it might be inappropriate to publish this. However, if there were 100 loans for $20,000,000, then this would be ok.

## Specific Feedback

### Table 1: Exposures and provisions

### Scope Feedback

- Table 1 scope is for 'all financial instruments subject to AASB 9'. However, the descriptions of items in the table seem to primarily relate to 'loans'.
- We would suggest changing the descriptions to 'exposures'. For example, a bank bill investment falls within the scope of AASB 9, but is not a loan.
- Further, we also assume that APRA does not want disclosure of financial liabilities in the data set, even though these are financial instruments subject to AASB 9?
- Does APRA intend for exposures such as 'other receivables' and 'derivatives' to be reported in the data set, as these are subject to AASB 9.
- Clarification on the exact scope items would be helpful in building the data set.

### Field by Field Feedback

[Please provide any feedback regarding specific data requirements in the table below, please include any feedback regarding ability to deliver and definitions in this section. It is not necessary to provide feedback for all data elements]

|   | Name | Description | Feedback |
|---|------|-------------|----------|
| 1 | Loan identifier | Report the loan identifier. This should be a unique identifier assigned by the lender for each individual loan. It must not include any personal details such as names, addresses or date of birth.<br><br>The loan identifier should be consistent across collections. | |

| | | | |
|---|---|---|---|
| 2 | **On/off balance sheet** | Report whether the exposure is **on-** or **off-balance sheet**. | • Off-balance sheet items, such as loan commitments not advanced, are not typically recognised under AASB 9. However, from the data set classifications it would appear that these items should be reported.<br>• Clarification of the scope of Table 1 and its application to off-balance sheet items would be appreciated. Further, if off-balance sheet items are to be reported, what valid data would be reported in columns that are not-applicable? For example, a loan approved but not advance does not have a 'drawn amount' (Line 24) or 'gross carrying amount' (Line 23) or any 'credit quality' data (Lines 5 to 9).<br>• A suggestion may be to have a different data set for off-balance sheet items, which is more tailored to their individual characteristics. |
| 3 | IRB asset class | Report the IRB asset class.<br><br>Non-IRB ADIs or those not seeking IRB approval should report *not applicable*. | |
| 4 | Standardised asset class | Report the standardised asset class. | • NPBS seeks further clarification regarding the standardised credit risk classification "Exposures through third-party lenders". APRA have indicated that 'purchased portfolios of assets' would not be captured under the definition, and that this would be clarified in APG 112. However, APG 112 has not yet been released.<br>• This poses a significant issue in how to classify such loans, as a strict reading of the APS 220 requirement may see them classified as an "Exposure through third-party lender" when in fact, APRA may have specific carve-outs in certain cases. |
| 5 | Degree of performance | Report the degree of performance. | |

| 6 | Impairment stage | Report the impairment stage for the current **reporting period**. | • Classification of exposures into AASB 9 provisioning stage is not readily accessible at an account level.<br>• For example, a loan may currently be <30DPD and therefore classified as a Stage 1 exposure. However, the provisioning model then applies a forward looking economic assumption to transition that exposure based on the expected outlook for the economy. Such an adjustment is done on a portfolio basis (i.e.: an aggregate transfer between Stage 1 and 2 is completed, with no identification at a loan level), and does not select individual loans for transition. Using the individual characteristics of the loan would therefore not reconcile the loan buckets for AASB 9.<br>• Further, AASB 9 models generally apply a weighted average of at least 3 scenarios. In each scenario a loan may be modelled into different Stages. How would APRA suggest that a loan be classified where it may in fact be classified in multiple stages depending on the scenario being applied? |
|---|---|---|---|
| 7 | Restructure | Report whether the exposure is **restructured**. | |
| 8 | Security | Report the exposure's security category. | |
| 9 | Number of days **past due** | Report the number of days **past due**. | |
| 10 | **Geography** | Report the **geography** of the exposure.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |
| 11 | Counterparty | Report the **SESCA classification** of the counterparty to the exposure.<br><br>Refers to the SESCA sector, subsector, group, or class of the counterparty to the exposure as applicable. Report the most detailed level possible. If | |

| | | the subsector, group or class cannot be determined, aggregate the exposures to the parent hierarchy.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |
|---|---|---|---|
| 12 | Residency | Report the counterparty's residency. | |
| 13 | Repayment type | Report the repayment type.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |
| 14 | *ANZSIC* | Report the *ANZSIC* code of the exposure.<br><br>If the ANZSIC category cannot be determined or if the counterparty covers multiple categories, aggregate the relevant exposures to the parent hierarchy. For example, if a counterparty covers multiple ANZSIC classes, report the ANZSIC group.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |
| 15 | Prescribed provisioning category | Report the prescribed provisioning category.<br><br>Non-Prescribed provisioning ADIs should report *not applicable*. | • Our view is that Prescribed Provisioning has largely ceased to be relevant. All ADIs are required to have AASB 9 provisioning models that are audited by their external auditors. It would be difficult to find a scenario where an auditor would sign-off on an entity's Prescribed Provision balance given that it would not comply with Accounting Standards.<br><br>• The existence of the Prescribed Provisioning approach requires smaller ADIs to maintain a calculation model to determine a provision number that simply has no bearing to the disclosed provision for accounting standard purposes. |

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| | | | APRA could achieve similar data outcomes using the proposed ARS 220 data set. |
| | | | • NPBS would propose removing the Prescribed Provisioning methodology altogether and introducing a balance sheet based threshold to introduce more detailed reporting by ADIs. Our view is that the Prescribed Provision approach actually adds to the compliance cost of credit quality reporting, rather than reduces it. |
| 16 | Security type | Report the security type. | |
| 17 | Interest rate type | Report the interest rate type.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |
| 18 | Origination channel | Report the origination channel.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |
| 19 | ***Currency*** | Report the ***currency*** of the exposure.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |
| 20 | Booking country | Report the ***country of domicile*** of the exposure.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |
| 21 | ***Origination date*** | Report the ***origination date*** of the exposure. | |

| | | If the origination date is not known, or not clear; use the date the current loan expiry date was approved. | |
|---|---|---|---|
| 22 | Maturity date | Report the contractual maturity date of the exposure. | • Loan Characteristic – Maturity Date (Line 22). How does APRA envisage a revolving credit item be reported? For example, a credit card exposure does not have a defined maturity date. What would be a valid value to return in this field? |
| 23 | Gross carrying amount of credit exposures | Report the **gross carrying amount of credit exposures**. | |
| 24 | Drawn amount | Report the drawn amount. | |
| 25 | Prescribed provisioning adjusted balance | Report the **prescribed provisioning adjusted balance**.<br><br>Prescribed provisioning ADIs should report *0*. | |
| 26 | Portfolio-allocated provisions (pro rata) | Report the value of portfolio-allocated provisions. | • Portfolio allocated provisions. What is the pro-rata approach? E.g.: could be allocated on the basis of outstanding loan amount, total credit limit? Does the pro-rata apply to the entire loan portfolio? For example, what if an overlay was included for higher risk loans (say Stage 2 and 3), would the pro-rata only be made over that loan population?<br>• A simple pro-rata allocation on the basis of outstanding loan balance would be feasible. However, care would need to be taken in allocating provisions to loans within the correct stages, otherwise higher risk loans would receive a proportionally lower provision. Allocating the total Stage 1 provision to loans in Stage 1 would be difficult though, due to |

| | | | transition overlays that apply to shift loans from Stage 1 to 2 to take into account forward-looking economic factors. |
|---|---|---|---|
| | | | • NPBS would question the value of reporting portfolio allocations at a loan level, and would request that APRA reconsider this. Reporting portfolio provision balances at a higher aggregate level would be more meaningful, given the individual characteristics of a loan do not generally drive the provision, rather the attributes of a portfolio in aggregate drive the provision. |
| | | | • NPBS would propose that a separate data table be collected by APRA, with aggregate provisions disclosed by AASB 9 stage, rather than at an account level. |
| | | | • Our comment would be that for the majority of loans, receiving a proportional provision allocation at an account level is almost non-sensical. I'm not sure what value APRA could take in being provided information that a loan of $500,000 with no arrears had an allocated provision of say $45 (based on a Stage 1 provision coverage ratio of say 0.01%). |
| 27 | Allocated provisions | Report the value of provisions that have been allocated at a loan level. | • It is unclear what the difference is between Line 26 and 27 in Table 1. Both are allocations of provisions at a loan level.<br>• Please provide examples of what the difference is between a 'Portfolio allocated provision' and an 'Allocated provision'. |
| 28 | Credit RWA | Report the value of **credit risk-weighted assets**. | |
| 29 | Reconciliation balance | Report Y if the line is for a reconciliation balance, N otherwise. | • Item 29, "Reconciliation Balance". If a reconciliation balance is provided, should this be allocated a Loan Identifier? Can the reconciliation balance item be used for any of the value columns? What would APRA allow as a maximum tolerable value for a reconciling item? |

## Table 2: Exposures and value adjustments

### Scope Feedback

| Feedback / Comment |
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| • If Table 1 includes all assets subject to AASB 9, then a financial instrument subject to fair value measurement would essentially be reported twice, once in Table 1 and then in Table 2. This would presumably lead to a duplication of reporting. Is this APRA's intention? |

### Field by Field Feedback

[Please provide any feedback regarding specific data requirements in the table below, please include any feedback regarding ability to deliver and definitions in this section. It is not necessary to provide feedback for all data elements]

| | Name | Description | Feedback |
| --- | --- | --- | --- |
| 1 | Loan identifier | Report the loan identifier. This should be a unique identifier assigned by the lender for each individual loan. It must not include any personal details such as names, addresses or date of birth.<br><br>The loan identifier should be consistent across collections. | |
| 2 | *On/off balance sheet* | Report whether the exposure is *on-* or *off-balance sheet*. | |
| 3 | IRB asset class | Report the IRB asset class.<br><br>Non-IRB ADIs or those not seeking IRB approval should report *not applicable*. | |
| 4 | Standardised asset class | Report the standardised asset class.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |

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|---|---|---|---|
| 5 | Degree of performance | Report the degree of performance. | |
| 6 | Restructure | Report whether the exposure is *restructured*. | |
| 7 | Security | Report the exposure's security category. | |
| 8 | Number of days *past due* | Report the number of days *past due*. | |
| 9 | *Geography* | Report the *geography* of the exposure.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |
| 10 | Counterparty | Report the *SESCA classification* of the counterparty to the exposure.<br><br>Refers to the SESCA sector, subsector, group, or class of the counterparty to the exposure as applicable. Report the most detailed level possible. If the subsector, group or class cannot be determined, aggregate the exposures to the parent hierarchy.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |
| 11 | Residency | Report the counterparty's residency.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |
| 12 | Repayment type | Report the repayment type.<br><br>Prescribed provisioning ADIs should report *not applicable*. | |
| 13 | *ANZSIC* | Report the *ANZSIC* code of the exposure. | |

| | | |
|---|---|---|
| | | If the ANZSIC category cannot be determined or if the counterparty covers multiple categories, aggregate the relevant exposures to the parent hierarchy. For example, if a counterparty covers multiple ANZSIC classes, report the ANZSIC group.<br><br>Prescribed provisioning ADIs should report *not applicable*. |
| 14 | Security type | Report the security type.<br><br>Prescribed provisioning ADIs should report *not applicable*. |
| 15 | Interest rate type | Report the interest rate type.<br><br>Prescribed provisioning ADIs should report *not applicable*. |
| 16 | Origination channel | Report the origination channel.<br><br>Prescribed provisioning ADIs should report *not applicable*. |
| 17 | ***Currency*** | Report the ***currency*** of the exposure.<br><br>Prescribed provisioning ADIs should report *not applicable*. |
| 18 | Booking country | Report the ***country of domicile*** of the exposure.<br><br>Prescribed provisioning ADIs should report *not applicable*. |

| 19 | Origination date | Report the origination date of the exposure.

If the origination date is not known, or not clear; use the date the current loan expiry date was approved. | |
|----|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| 20 | Maturity date | Report the contractual maturity date of the exposure. | |
| 21 | Gross carrying amount of credit exposures at fair value | Report the **gross carrying amount of credit exposures at fair value**. | |
| 22 | Valuation adjustment | Report the **prescribed provisioning adjusted balance**.

ADIs that do not use the prescribed provisioning approach should report the drawn amount in this column. | |
| 23 | Drawn amount | Report the drawn amount. | |
| 24 | Credit RWA | Report the value of **credit risk-weighted assets**. | |
| 29 | Reconciliation balance | Report Y if the line is for a reconciliation balance, N otherwise. | |

## Table 3: Movements in exposures and provisions

### Scope Feedback

| Feedback / Comment |
| --- |
| • Table 3 does not include a loan/exposure identifier. Does this mean the data is reported at an aggregate level, or on an individual account basis? |
| • Reporting entities are only required to apply the disclosure requirements of AASB 9, including the provision movement allocation, on an annual basis. |
| • APRA requesting this information quarterly imposes a significant increase in reporting burden for smaller ADIs. Further, the use of statistical models that determine an overall provision based on a weighted average of at least 3 scenarios, management overlays and forward looking factors, means that it is practically very difficult to determine the reason for provision movement at an account level. |

### Field by Field Feedback

[Please provide any feedback regarding specific data requirements in the table below, please include any feedback regarding ability to deliver and definitions in this section. It is not necessary to provide feedback for all data elements]

| | Name | Description | Feedback |
| --- | --- | --- | --- |
| 1 | Impairment stage | The impairment stage for the current *reporting period*. | • Can APRA explain why they are requesting Table 3, line 1 and 4, when these are already included in Table 1? It would be our view that consolidating information into one single data set would be more efficient than splitting across two data tables. |
| 2 | Reason for movement | The reason for movement. | |
| 3 | IRB asset class | Report the IRB asset class.<br><br>Non-IRB ADIs or those not seeking IRB approval should report *not applicable*. | |

| 4 | Standardised asset class | Report the standardised asset class.<br><br>All other ADIs should report *not applicable*. | • Can APRA explain why they are requesting Table 3, line 1 and 4, when these are already included in Table 1? It would be our view that consolidating information into one single data set would be more efficient than splitting across two data tables. |
|---|---|---|---|
| 5 | Movement in gross carrying amount of credit exposures | The movement in **the gross carrying amount of credit exposures**. | • Lines 5 to 7 should be able to be determined by APRA simply by comparing data sets submitted by the ADI.<br>• For example, the movement in the gross carrying amount of a loan between each reporting date, will simply be the delta between Line item 23 in Table 1.<br>• Where possible, APRA should seek to reduce duplication in reporting and only request a piece of data once. Further, if requested data can be easily calculated from other items reported, then it would be our view that APRA should complete this data analysis in their own system. |
| 6 | Movement in drawn amount | The movement in the drawn amount. | |
| 7 | Movement in provisions | The movement in **provisions**. | |