Australian Banking Association

ARS 117: Interest Rate Risk in the Banking Book

1 March 2024

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About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

ABA submission to APRA

The Australian Banking Association (ABA) welcomes the opportunity to respond to APRA's draft Reporting Standard ARS 117: Repricing Analysis (ARS 117.0) and Interest Rate Risk in the Banking Book Capital Charge (ARS 117.1) as part of APRA's consultation on the Revision to the ADI capital framework: Reporting standards for consultation and parallel run expectations.

ABA members are very appreciative of APRA's consultative approach with the reporting standards. The pre-consultation industry engagements and workshops have been extremely valuable in helping banks understand APRA's thinking on the changes to the regulatory reporting.

The ABA welcome APRA's responsiveness to the initial feedback that has been provided through these forums and appreciate the opportunity to highlight further areas for consideration.

The ABA believes that the recommendations outlined in this submission will assist APRA in obtaining the benefits it seeks from this data. The ABA believes that aligning the data provided to APRA with bank's internal risk models, existing disclosure requirements, and timelines is the best approach.

Finally, it is important to ensure that banks have sufficient implementation time between the finalisation of the standard and implementation, including parallel runs.

Simplification of ARS 117.0

Following early engagement with APRA, the ABA welcomes the enhancements to the draft Reporting Standard and the simplified ARS 117.0 repricing hierarchy. The ABA note APRA's intent for greater granularity of data items to reduce the need for ad-hoc data collections and supplementary data queries.

Simplification of the hierarchy

While acknowledging APRA's desire for granularity in the data, the ABA believes that, to the extent possible, the reporting hierarchy should align to how interest rate risk is currently modelled, and that unnecessary granularity introduces complexity for banks.

The ABA believes that there are still a few opportunities for further simplification of the ARS 117.0 hierarchies. Further simplification could be achieved by removing items that can be derived from other data fields, for example:

- *Variable and fixed rates* – In the ABA's view these items can be determined through the tenor bucketing.
- *Australian Government vs Foreign Government securities* – In the ABA's view these items can be determined through the different currencies (i.e. AUD vs Other).
- *Swaps pay & receive legs* – The ABA recommends that these items could be consolidated to reflect bank's current Interest Rate Risk in the Banking Book (IRRBB) management practices.
- *Options* – In the ABA's view, the inclusion of interest rate options at the delta-equivalent amounts of the underlying, or notional underlying instrument, can result in the material misstatement of the impact of interest rate options under significant interest rate shock scenarios. We therefore suggest that this information could be provided in a separate disclosure.
- *Reverse repurchase & Repurchase agreements* – The ABA notes that in the current draft ARS 117.0 repurchase agreements are disclosed as assets under 'Money Market Securities', while reverse repurchase agreements are disclosed as liabilities under 'Wholesale Short Term

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Funding'. In the ABA's view this should be reversed, so that repurchase agreements are disclosed as liabilities under 'Wholesale Short Term Funding' and reverse repurchase agreements are disclosed as assets under 'Money Market Securities'.

- *Consistency in assets and liability lines* – The ABA has noted some discrepancies between disclosures on the assets lines compared to the liabilities lines. For example, Intercompany Loans are in the hierarchy yet there are no Intercompany Deposits. The ABA would be happy to work with APRA to highlight further potential inconsistencies.

Definition of Categories

The ABA note that APRA wishes to monitor banks with specific behavioural assumptions across transactions/savings/deeming accounts that is outside of the replicating portfolio. We encourage APRA to assess to what extent banks have different assumptions across transactions/savings/deeming accounts in evaluating the necessity of this level of granularity. In the ABA's view, given the category of the loan or deposit has no impact on its interest rate risk management, reporting on this basis does not improve risk management outcomes.

Providing further clarity to the definitions of a reduced number of categories would aid comparability with existing definitions, while also limiting the uplift required. The ABA is willing to work with APRA in clarifying how the categories are defined.

Alignment across 117.0 and 117.1

As previously raised by the ABA, and discussed at the APRA workshops, Members have proposed that more consistent reporting results can be achieved through aligning the reporting hierarchy across ARS 117.0 and ARS 117.1, with both forms potentially incorporating the changes to ARS 117.0 hierarchy noted above.

Economic and Financial Statistics (EFS) alignment

The ABA is appreciative of APRA's response to feedback to remove the alignment to EFS in the ARS 117.0 and ARS 117.1 reporting tables. As previously raised by the ABA and discussed at the APRA workshops, the ABA believes the reporting for interest rate risk should align to the management and measurement of interest rate risk.

The EFS taxonomy is not constructive for this purpose. Furthermore, rebuilding to EFS categories would be time consuming. This is particularly a concern in respect of banks' overseas subsidiaries in jurisdictions that do not ordinarily report in alignment with EFS. The ABA believes that if any alignment is considered, then aligning to Liquidity Coverage Ratio (LCR) taxonomy, for example, would be more useful, as many LCR banks leverage Asset Liability Management (ALM) systems to report both ARS 210 and ARS 117 together.

The ABA does acknowledge that many smaller banks use their EFS reporting system for ARF 117 reporting. We therefore propose that should the APRA seek to align ARS 117, then using less granular definitions that cover/align to EFS and LCR taxonomy will reduce the level of confusion as well as potential implementation costs for the range of different groups of organisations.

Clarification regarding Disclosure Requirements

Alignment with Pillar 3 Disclosures

As APRA is aware, the disclosure of the new Pillar 3 Interest Rate Risk in the Banking Book (IRRBB) table is not aligned with the implementation of the new IRRBB standard in late 2025. The relevant new disclosure standard, APS 330, becomes effective on 1 January 2025. The format of the disclosures under the new Pillar 3 standard for interest rate risk is similar to the new ARS 117.1 reporting form and is based on modelled outcomes. The ABA therefore requests that APRA allow banks to defer the new disclosures for interest rate risk in the banking book in its Pillar 3 disclosure until the new APS 117 standards are implemented.

The ABA proposes that banks maintain existing IRRBB disclosures until the new IRRBB Standards are implemented. This would align banks regulatory disclosures with the regulatory reporting forms and ensure that banks will not spend time generating the newly prescribed interest shock scenarios for Pillar 3 disclosures, based on current standards, for the one reporting period between APS 330 and the implementation of ARS 117.

Basel Disclosure

Further, the ABA has a number of clarification questions for APRA around disclosure requirements in ARS 117.1 in relation to the guidance on Basel disclosures. The Basel disclosures include the following guidance for the calculation of Net interest income (NII):

- Banks should include expected cash flows (including commercial margins and other spread components) arising from all interest rate-sensitive assets, liabilities, and off-balance sheet items in the banking book.
- Changes in NII should be computed assuming a constant balance sheet, where maturing or repricing cash flows are replaced by new cash flows with identical features with regard to the amount, repricing period and spread components.
- Changes in NII should be disclosed as the difference in future interest income over a rolling 12-month period.

The ABA seeks clarification as to APRA's expectation on whether ADIs should follow similar guidelines when reporting impact on NII?

Tight Implementation Timelines

Finalising the standard

As noted above, the ABA strongly welcomes APRA's early engagement on ARS 117. However, we note that the timeline between APRA finalising the standard and implementation appears tight. The ABA is concerned that banks will not have sufficient time to build out and test the systems required between the finalisation of ARS 117 and the reporting period commencing in 2025.

The ABA notes that banks will have difficulty in designing, building and testing the systems required in the absence of the final standard and reporting form. In the ABA's view, members would need at least a year between the finalisation of ARS 117 and the commencement of parallel runs.

Parallel run

The ABA welcomes the released requirements for ADIs in relation to parallel run expectations and 'go-live' dates. The ABA seek further clarification on the timeline for APS 117 implementation, with further information being sought on specifics of the model submission and approval dates.

Members have a range of products that are based on different modelling, prepayment, behavioural, contractual etc. We understand that the work required to standardise these, in line with the proposed models in ARS 117, is significant. For each product, any systems change must be accompanied by extensive testing, not only for the purposes of reporting but for internal use as well.