

22 March 2024

██████████
Senior Manager, Data Collection Design and Management
Technology and Data Division
Australian Prudential Regulation Authority

Via email: DataConsultations@apra.gov.au

Dear ██████████

ARS 117 – Interest Rate Risk in the Banking Book – Consultation

The Customer Owned Banking Association (COBA) welcomes the opportunity to respond to APRA's consultation on revisions to Reporting Standard ARS 117 – Interest Rate Risk in the Banking Book.

COBA is the industry association for Australia's customer owned banks (mutual banks, credit unions and building societies). Collectively, our sector has over \$170 billion in assets and is the fifth largest holder of household deposits. Customer owned banks (i.e. mutual ADIs) account for around two thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs) and deliver competition and market leading levels of customer satisfaction in the retail banking market.

Our sector provides competition and diversity in a major bank and investor-owned bank dominated market. COBA members are retail consumer banks that have a wide range of business models and service many different demographics including those originating from employee groups (e.g. essential workers) or specific regional areas. The customer owned banking sector has a long history of putting our customers first.

Key points

A simplified reporting hierarchy for items under ARS 117.0 would ease the reporting burden for ADIs, without compromising the information provided to APRA.

More clarity is requested from APRA in detailing how ADIs are expected to implement the modelling of the six Basel-defined interest rate shock scenarios.

Both parallel runs should be completed on a best endeavours basis and permit gaps in data, in order to allow sufficient time for ADIs (particularly resource constrained small ADIs) to develop and test new systems and processes.

Simplifying the reporting hierarchy

APRA's proposed reporting hierarchy for repricing items under ARS 117.0 (Table 1) would benefit from simplification, in order to ease the reporting burden on ADIs, in particular smaller COBA members. COBA supports the proposed simplified hierarchy that was presented to our members in February 2024. For reference, it is included at Attachment A.

COBA would also support consistent use of terminology across the reporting framework. This would assist in avoiding confusion about classification across the reporting suite. In particular, alignment with EFS return terminology would make it easier for ADIs to complete APRA reporting.

Implementation

COBA requests that APRA clarify the actions required to be undertaken by ADIs in order to satisfy APRA's reporting requirements under ARS 117.0, in particular any calculations which ADIs are required to undertake in order to report on the six Basel-defined interest rate shock scenarios.

Parallel run expectations

Some COBA members have expressed concerns over the timing and expected level of reporting under APRA's proposed parallel runs. APRA has stated that it expects entities to complete the first parallel run (30 June 2025) on a best endeavours basis with some gaps permitted and the second run (30 September 2025) be materially compliant with the standards and contain complete data.

Small ADIs have significant resource constraints and require extra time to implement changes, particularly given the significant volume and pace of change across the regulatory landscape. Given the significant changes to systems and processes expected of ADIs, and in particular the need for many small ADIs to engage with third party suppliers, COBA believes that expectations for the second parallel run should be consistent with those of the first. This will give small ADIs in particular the time that they need to integrate and test systems and ensure a level of compliance by the 'go-live' reporting period ending 31 December 2025.

Thank you for taking the time to consider our submission. We look forward to continuing our engagement with APRA on this issue. If you wish to discuss any aspect of this submission, please contact [REDACTED], Policy Manager ([REDACTED]).

Yours sincerely

[REDACTED]
Chief Executive Officer

Attachment A – Proposed Hierarchy

Balance Sheet Category	APRA revised 117.0	Proposed Hierarchy
Assets	Notes and coins	Notes & coins, Deposits with Central Banks & Collateral Posted
Assets	Exchange Settlement Account balances - Deposits with central banks	
Assets	Australian Government Securities	Government & Semi-Government Securities
Assets	Australian State Government or Territory Central Borrowing Authorities Securities	
Assets	Securities issued by foreign sovereigns	
Assets	Bank and Financial Institution Securities	Bank, FI & Corporate Securities
Assets	Corporate Securities	
Assets	Mortgage Backed Securities	Mortgage and Asset Backed Securities
Assets	Asset Backed Securities	
Assets	Money Market Securities	Money Market Securities
Assets	Home Loan - Fixed Rate	Home Loan - Fixed Rate
Assets	Home Loans - Variable Rate	Home Loan - Variable Rate
Assets	Business Loans - Fixed Rate	Business Loan - Fixed Rate
Assets	Business Loans - Variable Rate	Business Loan - Variable Rate
Assets	Personal Loans	Personal Loan
Assets	Credit Cards	Credit Cards
Assets	Inter-company Loans	Inter-company Loans
Assets	Other Loans and Advances	Other Loans and Advances
Assets	Asset and Lease Financing	Asset and Lease Financing
Assets	Non-interest earning assets	Other Assets
Assets	Other assets	
Assets		Reverse Repos
Liabilities	Deposits - Term Deposits	Deposits - Term Deposits
Liabilities	Deposits - Transaction Accounts	Other Deposits
Liabilities	Deposits - Savings Accounts	
Liabilities	Deeming Accounts	
Liabilities	Other deposits	
Liabilities	Wholesale short term funding	Wholesale short term funding
Liabilities	Deposit Replicating Portfolio	Deposit Replicating Portfolio
Liabilities	Domestic bond issuance	Domestic and Offshore bond issuance
Liabilities	Offshore bond issuance	
Liabilities	Additional Tier 1 capital items	Additional Tier 1 capital items
Liabilities	Tier 2 capital items	Tier 2 capital items
Liabilities	Securitisation - RMBS	Securitisation
Liabilities	Securitisation - ABS	
Liabilities	Other borrowings	Other borrowings
Liabilities	Non-interest bearing liabilities	Other Liabilities
Liabilities	Other liabilities	
Liabilities		Repos
Derivatives and other commitments	Interest rate - swaps (pay fixed)	Interest rate - swaps

Derivatives and other commitments	Interest rate - swaps (receive fixed)	
Derivatives and other commitments	Interest rate - swaps (basis swaps)	Interest rate - swap (basis swaps)
Derivatives and other commitments	Interest rate - options	Interest rate - options
Derivatives and other commitments	Interest rate - futures and FRAs	Interest rate - futures and FRAs
Derivatives and other commitments	Foreign Exchange-linked Derivatives	Foreign Exchange-linked Derivatives
Derivatives and other commitments	Other Derivatives	Other Derivatives
Derivatives and other commitments	Other Commitments (timing is known)	Other Commitments (timing is known)