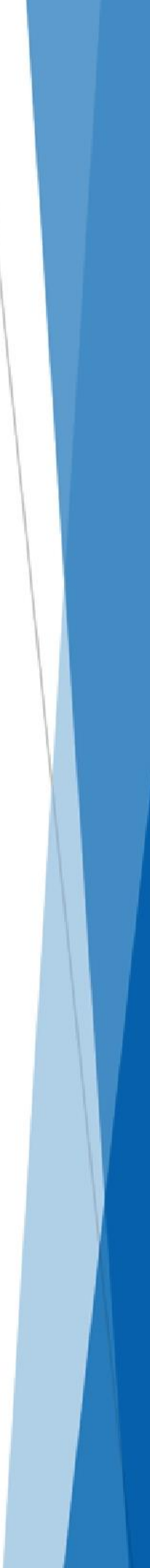
Australian Banking Association



Prudential Framework Minor Updates

APRA

3 May 2024

Table of Contents

ABA submission to APRA ... 2
General and specific provisions ... 2
APS 330 ... 3
1. Securitisation ... 3
2. Frequency of Market Risk tables ... 3
3. Net Stable Funding Ratio disclosure requirements ... 4
4. Leverage ratio ... 4
5. Timing of the annual disclosure of G-SIB indicators ... 4
6. Data format ... 4
7. Asset classes for credit risk disclosures ... 4
8. Interest Rate Risk in the Banking Book ... 5
9. Liquidity disclosures ... 5
10. Leverage ratio ... 6
APG 210 ... 6

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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.

Australian Banking Association

ABA submission to APRA

The ABA would like to thank APRA for the opportunity to provide feedback as part of the consultation process on the proposed minor updates to the prudential framework for ADIs and insurers. We are appreciative of the consideration APRA has shown in soliciting industry feedback and note some of the proposed changes reflect items previously raised by the ABA.

Our submission will consider the proposals as outlined in Annex A in the letter to ADIs and insurers 'Prudential framework minor updates' issued on 4 April 2024.

General and specific provisions

The ABA notes APRA's proposed changes to APS 111, APS 220 and APS 330 to incorporate definitions of specific and general provisions. The ABA's comments provided here apply to all the standards.

APRA's proposed wording changes for specific and general provisions states: "*Stage 1 expected credit loss provisions under Australian Accounting Standards must be treated as general provisions for regulatory purposes. Stage 2 expected credit loss provisions under Australian Accounting standards must be treated as specific provisions for regulatory purposes, except that Stage 2 expected credit loss provisions held against performing exposures that represent a purely forward-looking amount for future losses that are presently unidentified may be treated as general provisions for regulatory purposes. Stage 3 expected credit loss provisions must be treated as specific provisions for regulatory purposes*".

The wording states that Stage 2 provisions will be split across 'general' and 'specific' provision categories. In practice, all Stage 2 expected credit losses (ECL) would be expected to represent performing exposures and therefore classified as part of the regulatory 'general provision'.

This reflects that:

- There is no reference in AASB 9 to "presently unidentified" or "identified" losses, and to the extent that a loss has been identified for a given credit exposure subject to ECL requirements (i.e. it is identified that an individual borrower is unlikely to pay their credit obligations in full), that exposure is considered 'non-performing/in default' for APS 220/APS 113 purposes.
- It is general market practice to align Stage 3 for ECL purposes with the regulatory definition of default, meaning that an exposure with 'identified losses' would be considered Stage 3 for ECL purposes.
- As a result, it is unlikely there is a scenario where ECL held against a Stage 2 credit exposure is classified as part of the regulatory 'specific provision'.

The ABA recommend that the wording on Stage 1 and Stage 2 be changed to "*Stage 1 and Stage 2 expected credit loss provisions under Australian Accounting Standards can be treated as general provisions for regulatory purposes, unless the provision represents identified losses relating to a non-performing exposure*".

There are no wording changes recommended for Stage 3.

Additionally, we appreciate the proposed revisions to APS 111 Tier 2 and Regulatory adjustments would be reported as part of ARF 110.0. However, are there also any consequent adjustments proposed for either ARS 220.5 or ARS 210.0, which still refer to "Collective Provisions", "Specific provisions on an individual basis" and/or "General Reserve for Credit Losses", which are no longer defined in APS 220? Similarly, would the proposed changes to APS 111 imply the need for a consideration of APS 112 Attachment E to also include specific provisions on performing assets?

Australian Banking Association

APS 330

The ABA has some comments on the specific changes proposed by APRA as part of its consultation (items 1 through 5), as well as some additional changes sought following industry discussions (items 6 through 10).

1. Securitisation

The ABA welcome the clarification on mixed asset pools provided by the insertion of Paragraph 28 in the securitisation section of Attachment A in APS 330, though we seek some additional clarification. Paragraph 28 in the proposed revisions to APS 330 states that an ADI is not required to complete securitisation disclosures relating to mixed asset pools.

Could APRA confirm that the intention is for all securitisation exposures to be disclosed in the appropriate category of the underlying collateral (i.e. a securitisation exposure where underlying collateral is mixed is disclosed as a line item either under 'retail' or 'wholesale'), as the proposed wording could suggest that disclosure is not required for these securitisation exposures.

Additionally, we still seek additional clarification with respect to the treatment of New Zealand exposures.

APS 330 Attachment A Paragraph 30 requires New Zealand securitisation exposures to be disclosed as a separate asset class in the banking book and trading book securitisation disclosures. In the January 2023 version of APS 113 and APS 120, explicit changes were made that require ADIs calculate RWA and EL on exposures of subsidiaries regulated by the Reserve Bank of New Zealand (RBNZ) using the rules issued by the RBNZ.

As a result, securitisation exposures of New Zealand subsidiaries have received the treatment prescribed in the RBNZ's BPR 133 and are treated as corporate IRB approach exposures, unless required to be a deduction from capital under APS 120.

This creates a complication, as under RBNZ requirements securitisation exposures are measured under RBNZ's IRB approach but for disclosure purposes are to be reported under the securitisation asset class. For example, in SEC 4 Securitisation exposures in the banking book and associated capital requirements – bank acting as investor, the columns in the fixed format table do not have columns with an applicable methodology for exposure, RWA or capital charge after cap. One solution is that three columns could be added to this table for "RBNZ IRB approach" under exposure, RWA and capital charge after cap. Industry, however, do not recommend that this approach is taken.

Industry believe that the disclosure of capital requirements for RBNZ regulated securitisation exposures should be aligned to their calculation methodology. The ABA therefore suggest removing APS 330 Attachment A Paragraph 30, unless at some stage in the future the RBNZ requires a Basel compliant treatment of securitisation exposures.

Alternatively, we recommend that disclosure be made of the total amount of exposures and RWA for securitisation exposures of the RBNZ regulated banking subsidiary, in the form of a qualitative disclosure in the securitisation section of the Pillar 3 report, with amounts not included in the DIS 43 table.

2. Frequency of Market Risk tables

The ABA welcome the clarification provided by the amended Paragraph 32 in Attachment A that disclosures are to be made on a semi-annual basis.

3. Net Stable Funding Ratio disclosure requirements

The ABA welcome the clarification provided by the amended Paragraph 41 in Attachment A regarding the required disclosures for the Basel II standardised approach for credit risk as part of their Net Stable Funding Ratio.

The ABA believe that Row 21 of the BIS template also needs to be amended to Basel III instead of Basel II, and that it should read "of which: with a risk weight of less than or equal to 35%" as per APS 112" to be consistent with the current NSFR approach.

4. Leverage ratio

The ABA welcome the clarification provided by the amended Paragraph 39 in Attachment A regarding the required disclosure under Template LR1 *Summary comparison of accounting assets vs leverage ratio exposure measure*. **The ABA believe that the same reporting frequency should be applied to Template LR2: *Leverage ratio common disclosure template* (i.e. that this becomes a semi-annual disclosure as opposed to the quarterly disclosure today).**

5. Timing of the annual disclosure of G-SIB indicators

The ABA note the clarification provided by APRA in the amended Paragraph 36 in Attachment A that, consistent with current requirements, an ADI that is required to disclose GSIB1 *Disclosure of global systemically important bank (G-SIB) indicators* must do so by 31 July following the date on which the G-SIB indicators are based.

As 31 July does not coincide with the release date for a Pillar 3 report, **Industry suggest that a better outcome would be to require disclosure as part of the 30 June Pillar 3 report, which would most likely be released in mid to late August**. The slight delay in reporting would be more efficient in terms of obtaining approval on a single report, rather than two separate reports.

Should APRA require the disclosure of G-SIB indicators as a separate report, Industry suggest that the wording of the January 2025 APS 330 Paragraph 33, which states that "*an ADI must publish all required prudential disclosures under this Prudential Standard in a standalone document*", should be re-considered.

6. Data format

Paragraph 34 of APS 330 requires ADIs to "*disclose all quantitative information in a Comma-separated values (CSV) file to facilitate use of the data*".

Industry recommend APRA confirm that XLS/XLSX formats would also be acceptable machine-readable formats. XLS and XLSX would limit additional formatting required by users of the information. This would also assist users who are only looking for specific templates, given templates can be clearly set out in different sheets of an excel file. While Industry feel that an XLS/XLSX format will be more useful for users, the wording in Paragraph 34 is quite specific, and would appear to not allow XLS/XLSX formats unless modified.

7. Asset classes for credit risk disclosures

Currently, APS 330 prescribes the asset classes that should be disclosed in the Credit Risk disclosures in the Pillar 3 report (footnote 14 of Attachment C), whereas the January 2025 standard references APS 112 and 113. APS 112 does not contain the term asset class, so it is unclear what asset classes should be reported for exposures and RWA under the standardised approach. ARS 112.0 (i.e. the Reporting Standard, rather the Prudential Standard) contains the many exposure classes which could be summarised as follows:

- Residential/commercial property
- Sovereign exposures

- Domestic public sector entities
- Bank exposures
- Corporate exposures
- Retail exposures
- Margin lending exposures
- Subordinated debt
- Leases
- Exposures through a third party
- Other exposures.

The prescribed standardised asset classes under the current APS 330 (being claims secured by residential mortgages, other retail, corporate, bank, government, and all other) do not align with reporting under ARS 112.0, which in some cases is by product type (like margin lending), and in other cases is by counterparty type (like corporate exposures).

Where APS 112 is the appropriate reference, Industry recommend APRA reword APS 330 Attachment A Paragraph 20 to refer to exposure classes in ARS 112.0 rather than asset classes in APS 112. Where exposure classes are immaterial, Industry will consolidate in line with Paragraph 38.

8. Interest Rate Risk in the Banking Book

The APS 330 which comes into effect from 1 January 2025 sets out modified Interest Rate Risk in the Banking Book (IRRBB) disclosure requirements. ADIs are required to provide information on changes in economic value of equity and net interest income under a number of prescribed interest shock scenarios (i.e., parallel shock up, parallel shock down, steepener shock, flattener shock, short rate shock up, short rate shock down). The disclosures are very similar to the proposed ARF 117.1 Table 1.2 requirements.

The ABA recommends that APRA align the disclosure of the new Pillar 3 IRRBB tables (i.e. IRRBA and IRRBB1) with the implementation of the new IRRBB requirements in 2025. This has the advantage that:

- Bank's regulatory disclosures would align to the Regulatory Reporting forms;
- Time invested to generate these shocks, for the purposes of Pillar 3 disclosures, based on current standards could be better utilised investing in implementing the new IRRBB requirements and reporting forms.

Industry proposes allowing banks to maintain their existing IRRBB disclosures in a transitional phase until the new Standards are implemented. This would result in one or two reporting periods disclosed in the transitional phase, depending on an ADI's year-end.

In relation to IRRBB1, Industry also recommends earning offsets be excluded in order to ensure comparability of economic value of equity (EVE) numbers globally.

9. Liquidity disclosures

LIQA quantitative disclosure (i) is to disclose balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps. **Could APRA please confirm that LIQ2 provides sufficient information to cover the requirement in (i), as LIQ2 provides the balance sheet maturity buckets based on NSFR methodology**?

In addition to the point raised previously on the NSFR disclosure template, the LCR disclosure template differs from the transitional APS 330. Some examples have been noted below. **Industry recommends that the LCR disclosure template be modified to be consistent with APS 210**.

BCBS 'disclosure requirements' standard			Transitional APS 330	
2	Retail deposits and deposits from small business customers are the sum of stable deposits, less stable deposits and any other funding sourced from (i) natural persons and/or (ii) small business customers (as defined by [CRE30.20] and [CRE30.21]).		4	Retail deposits and deposits from small business customers are the sum of stable deposits, less stable deposits and any other funding sourced from (i) natural persons and/or (ii) small business customers (as defined in paragraph 46 of Attachment A and footnote 7 to APS 210, and paragraphs 117 to 120 of Prudential Practice Guide APG 210 Liquidity as it exists from time to time).
18	Inflows from fully performing exposures include both secured and unsecured loans or other payments that are fully performing and contractually due within 30 calendar days from retail and small business customers and other wholesale customers, operational deposits and deposits held at the centralised institution in a cooperative banking network.		20	Inflows from fully performing exposures include both secured and unsecured loans and other payments that are fully performing and contractually due within 30 calendar days from retail and small business customers and other wholesale customers.

10. Leverage ratio

The BCBS "disclosure requirements" standard refers to the Basel III leverage ratio. **Industry recommend that this is modified via Attachment A of APS 330 as APRA's requirements for calculation of the leverage ratio are not fully consistent with BCBS requirements**. In particular, exposures of the RBNZ regulated banking subsidiary are under RBNZ rules as per APRA's instructions. References to a Basel III leverage ratio are in both KM1 *Key metrics (at consolidated level)* and in DIS 80 *Leverage ratio.*

Industry recommend that Rows 14a to 14d of KM1 are not applicable for ADIs and be reflected as a modification to BCBS "Disclosure requirements" standard in Attachment A of APS 330.

LR1 *Summary comparison of accounting assets vs leverage ratio exposure measure* discloses a reconciliation from total assets to total exposures. Industry is unclear what could be reported in Row 11 "Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital". The initial Industry thinking is that general and specific provisions for credit impairment is a contra-asset that is already reflected as a reduction of total assets. Industry is not clear what should be deducted to come to total exposures (noting that the instructions say this should be a negative amount).

APG 210

The ABA welcome the clarification provided by the proposed changes and expect they will improve liquidity management and reporting for MLH ADIs across the industry.