

8 July 2022

Ms Alison Bliss
General Manager
Data Analytics and Insights
Australian Prudential Regulation Authority

By email: Dataconsultations@apra.gov.au

Dear Ms Bliss

APRA Discussion Paper: Direction for data collections

COBA welcomes the opportunity to comment on APRA's data directions paper.

COBA is the industry association for Australia's customer owned banking institutions (mutual banks, credit unions and building societies). Collectively, our sector has over \$150 billion in assets, around 10 per cent of the household deposits market and around 5 million customers.

Our members range in size from less than \$200 million in assets to around \$15 billion in assets – all significantly smaller than most of our ASX-listed peers. The size diversity means that our members are subject to a diverse range of formal and informal data reporting requirements across the spectrum of financial regulators and agencies. Customer owned banking institutions deliver competition, choice and market leading levels of customer satisfaction in the retail banking market.

Support for a data modernisation agenda

We support the modernisation of data reporting systems and processes. We recognise APRA's stated case for change, with the current aging APRA reporting system (D2A) no longer fit for purpose with technological change and the increasing demands for more granular data from regulators.

Reporting to APRA is consistently ranked by our sector as one of the largest regulatory burdens so we strongly support any measures that will meaningfully reduce the ongoing reporting burden to our sector.

While we support the modernisation objective, APRA must ensure that any 'regulated' modernisation is efficient and targeted. Customer-owned banks, like regulators and other stakeholders operate in a limited resource world. There are competing priorities for project funds. Regulatory change projects can divert resources from other priorities such as customer-facing projects. However, these regulatory

projects must be given priority despite being low value as responding to regulatory change is not optional. This issue is even more acute where these regulatory change projects involve significant technological transformations (e.g. Open Banking).

In a competitive retail banking environment, customer facing changes are likely to have more benefit for an organisation than world class reporting from both a financial safety¹ and competitive strategy perspective. Therefore it is important that this regulatory reporting change is as efficient as possible.

Given this modernisation can be a significant investment, APRA and regulated entities need to ensure that these investments can pay off over the long term. Broadly, the expected benefits of a shift to this new form of reporting are:

- Reduced ad-hoc reporting
- More streamlined recurrent reporting, and
- Reduced supervisory burdens from more targeted risk-based supervision.

It is important that APRA ensure that ADIs are able to realise the benefits of these investments.

Different reporting requirements for different COBA members

COBA represents wide range of mutual ADIs that vary significantly in size. As a result, our members are subject to different data requests from different regulators. They also have different capacity and capabilities to respond to these data requests. As mutual ADIs, our members report to:

- APRA in its role as prudential regulator, including ad-hoc requests
- APRA in its role as financial sector statistical agency (Economic and Financial Statistics (EFS) collections for the ABS/RBA). COBA members are subject to a varying number of EFS forms based upon their size with larger COBA members subject to more forms.
- RBA for securitisation reporting purposes – only those who have self-securitisation facilities are subject to this reporting (generally assets >\$1 billion)
- ASIC in its role as financial protection regulators through ad-hoc ASIC data requests– mostly targeted at the very largest mutual ADIs
- NHFIC to understand risk of the NHFIC-guaranteed loans where COBA members are on the lender panel.

The diverse range of data reporting requirements means that there are varying costs and benefits across the sector of modernising their data reporting systems.

Importance of third-party engagement by APRA and entities

COBA welcomes the engagement between APRA and COBA members. However, APRA must consider how it involves third party service providers in discussions on APRA's new reporting requirements.

Third parties are critical to develop solutions for our members to meet APRA's reporting obligations. Customer owned banks can engage them bilaterally as clients. However, this is difficult without public information on APRA's requirements. APRA needs to be open, timely and transparent with any

¹ i.e. APRA mandate

developments regarding reporting requirements to ensure these third parties are able to deliver efficient and timely solutions for their regulated entity customers.

COBA provides more detailed comments in **Attachment A**. Please feel free to contact Mark Nguyen (mnguyen@coba.asn.au) if you have any questions.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Michael Lawrence', with a stylized flourish at the end.

MICHAEL LAWRENCE
Chief Executive Officer

Attachment A: APRA question responses

Transitioning reporting to a modern, efficient web-based system

We agree that it is important to shift APRA reporting to a modern and efficient system. However, we have concerns around the relative benefits and costs of a shift to more modern reporting systems. This shift will require investment to update systems and processes with benefits being both uncertain and only returned over the long term.

While we believe this shift is likely to be inevitable given the aging D2A reporting system and APRA's significant investments in the APRA Connect system, APRA should ensure that it maximises the benefits and minimises the cost of this shift.

Reporting to APRA is consistently ranked by our sector as one of the largest regulatory burdens so we strongly support any measures that will meaningfully reduce the ongoing reporting burden to our sector.

As smaller entities, reporting burden can be significant for COBA members. This can be driven by a number of factors:

1. the volume of reporting change (constant change is costly)
2. the number of reporting forms (preference for fewer forms)
3. different definitions for similar items between forms (harder to interpret and reconcile output)
4. ad-hoc data requests, and
5. the capacity and capability of the systems used to report.

A modern and efficient system provides the opportunity to reduce the number of ad-hoc data request and streamline reporting processes. However, this shift will create a significantly level of reporting regulatory change.

Alignment of APRA's data directions to strategic priorities

COBA believes there is general alignment with the shift towards more modern data systems and more granular data with COBA member priorities. However, it must be noted that member data priorities are not for the purpose of reporting to APRA but to support management decisions.

As noted in APRA's roundtables, it is critical in this to recognise that the purpose of mutual ADIs is to lend money and take deposits from their customers rather than to create data for reporting to APRA. APRA should ensure that its expectations are as clear and targeted as possible to ensure that any general data transformation programs are able to minimise resources used on APRA's requirements and are able to deliver benefits beyond just improved APRA reporting.

Increasing a likelihood of successful transition in the timeframe

COBA agrees with APRA's discussion paper that the "proposed timelines are ambitious" and that "substantial effort from APRA and entities will be required to achieve them". We welcome APRA's commitment to "work with them [stakeholders] to mitigate challenges as far as possible".

COBA notes there are number of things that APRA can do to support timely transition:

1. Clearly communicating expectations
2. Maintaining ongoing and responsive engagement with industry
3. Recognising the importance of third party providers, and
4. Refining solution design.

Clearly communicating expectations

COBA members believe that it important that APRA set a clear course for its data directions so ADIs can set up their data systems and frameworks in the most efficient way possible to meet APRA and business requirements. In particular, we would like more detailed information on APRA's plans given the high-level nature of APRA's Data Directions Discussion Paper. This would include

- More specific and granular in regard to what information is required to be reported.
- More granularity on APRA's proposed timelines and project milestones.
- More information on the existing reporting forms that are expected to be retired with each of the new granular data collections.
- Providing clear timings early on consultation periods and when the final reporting standard is expected to be released. This enables longer term project planning and sequencing to be done which can reduce the costs of implementation.
- In particular, COBA members are interested in the greater detail on the first set of reporting requirements give we will need to start working on them now.
- More information on the potential methods of uploading data given the dual shifts of a new reporting systems and new reporting format.

Maintaining ongoing and responsive engagement with industry

We welcome APRA's engagement so far with industry roundtables and sharing of information through industry associations.

COBA supports APRA providing more public and more timely information to support regulated entities to implement reporting solutions to meet APRA's reporting requirements. More public information recognises the wider range of stakeholders (including third party software providers). More timely information better positions entities to be able to meet APRA's proposed 'ambitious' implementation timelines.

Examples of this information include:

- Frequently Asked Questions sessions, published FAQs and worked examples.
- Promptly released data taxonomies and data templates to support ADI preparedness.
- Connecting the information on the APRA website to allow easy access to related relevant information. FAQs, letters, APGs, prudential standards and reporting standards that are related need to be able to be linked together or tagged to allow easy retrieval.
- Providing information to ensure these investments can be pitched at Board level given this project is competing against other investments that generate more benefit for customers.
- Early publication of proposed data points to ensure ADIs are storing data that will need to be collected and reported.

Recognising the importance of third party providers

Many COBA members use third parties such as regtech providers or core banking system providers to develop solutions to address APRA's regulatory reporting requirements. Given that APRA's proposed shift in data directions is a significant change, APRA should ensure that these parties are able to access up to date information that will support regulated entities preparedness. We note the more widely available this information is the more likely there is to be competitive offerings to meet APRA reporting requirements and hence potentially lower implementation costs.

COBA member provides the following comments on third parties:

- APRA needs to keep things as constant and predictable as possible to support implementation to support third party providers to develop solutions
- Ensuring that third party providers understand that they are able to request access to the APRA Connect test environment to support current and future clients, and
- APRA should provide the opportunity for third party providers to engage with APRA through Q&A sessions.

Refining solution design

COBA member provides the following comments on refining the design of APRA's reporting solutions:

- Aligning definitions and items across standards given we are now shifting into a world where one collection can cover multiple standards.
 - Articulating the differences between fields where they are very similar.
 - Ensuring fields that have the same definition also have consistent names.
 - Given APRA's role as the central data collection agency, this process creates an opportunity to create one regulatory taxonomy.
- Ensuring that the dates of implementation are consistent given different standards are linked to each other. This includes considering the impacts of how any changes flow through into impacted returns that may be due before the newest return.
- Considering the ability to front-load currently phased work so that ADIs may deliver data for later stages such as EFS early on an 'opt-in' basis. Smaller ADIs are likely to stand up project teams rather than have an ongoing team which means that smaller ADIs may need a different timeframe to larger ADIs.
- Considering grouping together the similar collections i.e. all the credit collections together in one lot and the liability collections in another (including EFS elements).
- Considering limiting major reporting changes during the 12-month transition period.
- Considering a minimum 18-month implementation timeframe from the date the final reporting standard is released.

Potential changes to the proposed sequence of collections

As mentioned above, COBA notes that there are potential efficiencies to be gained by aligning some of the lending-related EFS forms with the comprehensive credit collection as well as other EFS forms with the comprehensive liability collection.

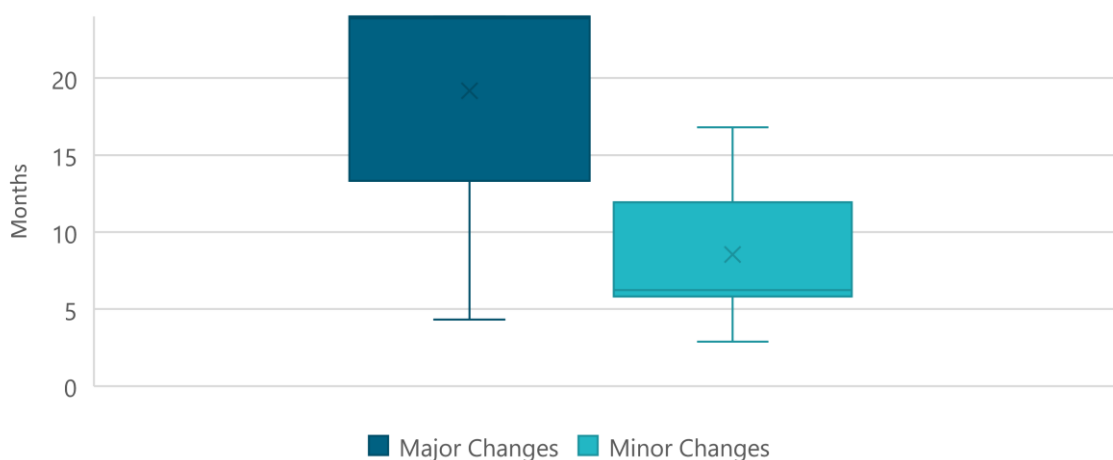
Creating reasonable lead times for major and minor reporting changes

COBA surveyed COBA members on reasonable lead times for 'major' and 'minor' reporting changes. Results based on a limited sample of 10 responses are below.

In general, it is clear that a least 12 months is required for 'major' changes whilst at least 6 months is required for 'minor' changes. In both cases, the average is well above this at 18 months and 9

months—likely representing the additional time it takes to deal with service providers on top of internal ADI processes to understand and respond to requirements.

Chart 1: Survey Responses on reasonable time periods



Implications of more granular data

Multiple shifts are required for ADIs to be able to report more granular data. The first one relates to APRA's data collection systems which will be addressed by the new APRA Connect system. As identified by APRA, the other shifts are from ADIs on the data 'supply' side and by all stakeholders on the 'assurance' side.

Supply issues

COBA members provide the following comments on more granular data supply:

- Setting up governance processes, frameworks, and parallel runs over granular data collections requires a significant uplift from industry (adding costs).
- This transformation will increase the time, consideration and expertise is required to ensure sufficient quality data is captured and reported to APRA. This will require additional support from APRA in terms of understanding APRA expectations.
- This transformation will increase the number of errors within the data given the significant increase in number of reporting points and granularity. APRA will need to increase its tolerance for incorrect or incomplete data. For example, some loans may be recorded temporarily without loan-to-value ratios.
- Limited resourcing will require ADIs to prioritise key data items. APRA should provide a data heat map in a similar way to the EFS priority listing to provide guidance on where ADIs should focus their energy.
- While increasing the focus on data quality, providing more granular data to APRA will remove the step of aggregation into reporting forms.
- More granular data reporting requirements will increase the reliance on core banking providers to meet reporting requirements.

Assurance issues

COBA members provide the following comments on assuring more granular data:

- APRA and industry will meet to create a collective tolerance for data quality and processes for dealing with data entry errors. This is important given requirements for audit and accountable person sign-offs.
- COBA members are concerned about the impact of human and timing errors that would not make a material difference in current summarised reporting but would cause individual accounts/facilities to appear incorrectly and cause assurance flags.
- Internal review and external audit requirements are going to require aggregation and summarisation of the granular data in order to focus audit attention.

Making meaningful efficiencies by collaborating more closely with other regulators

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The diverse range of data reporting requirements means that there are varying costs and benefits across the sector of modernising their data reporting systems.

COBA believes that the main efficiencies can come from reducing the differences between APRA prudential and the EFS collections as well as aligning any APRA mortgage or credit reporting with the data request by the RBA, NHFIC, SMEG² scheme (Treasury) and any ad-hoc ASIC mortgage requests.

Savings if all APRA reporting is via APRA Connect

COBA notes that it is assumed that the D2A system will need to be decommissioned in the near future. As outlined above, there are two elements – the new reporting system and the new reporting style. COBA has previously provided rough estimates of the ongoing costs of reporting via the D2A system.

² SME Guarantee Scheme

The potential savings of any shift to reporting via the APRA Connect system will be the 'benefits' of the new reporting system and style minus the costs of transition. We expect the costs of transition to be significant with unknown benefits. Throughout the transition timeframe, any assessment must also consider the costs of entities reporting in both the APRA Connect and D2A systems at the same time, particularly regarding reconciliation and double handling of data.

Engage with stakeholders on this data collection agenda

COBA members provide the following comments on industry engagement:

- Provide clear data requirements and issuing comprehensive FAQs.
- Maintain a strong level of consultation with the industry, including through round tables and workshops.
- Host regular Q&A sessions including third party providers. This will support providers to work out the technicalities and understand any limitations.
- Summarise APRA's stakeholder engagement outcomes on a project website.
- Provide regular public updates on the progress of the data collection agenda would be helpful (i.e. similar to the D2A mailing list).
- Communicate proposed deadline changes as early as possible.
- Increase APRA's responsiveness to data queries from ADIs - a member notes that APRA does not always respond to queries.
- Making available templates relevant to our industry early.

More information on APRA's proposal

COBA members believe that there are a number of elements where APRA can provide more information regarding its data transformation proposals. These are:

- As previously noted, more detailed information on timelines and the specific proposals.
- Information on how APRA will manage security regarding more granular information that can be at risk of loss and unintended and unauthorised use.
- APRA's proposed use of the data both internally and for sharing with other regulators, including whether the data is collected for the intended purposes.
- How APRA will deal with new and emerging risk collections (i.e. climate change).