Australian Banking Association

20 November 2020

General Manager
Data Analytics and Insights
Cross-Industry Insights and Data Division
Australian Prudential Regulation Authority
Via email: DataConsultations@apra.gov.au

Dear General Manager,

Consultation on confidentiality of key ADI metrics

The Australian Banking Association (**ABA**) appreciates the opportunity to provide feedback on Australian Prudential Regulatory Authority's **(APRA)** consultation on confidentiality of key ADI metrics.[1]

This submission represents a baseline approach that APRA could take to disclosing entity-specific data on a quarterly basis. A determination of the full reporting suite should be made by reading this submission in conjunction with the submissions made by individual ABA members.

Key points

The ABA submission to APRA's consultation on *Confidentiality of Data Used in ADI Quarterly Publications and Additional Historical Data* in early 2020 outlined concerns that ABA members have with reporting entity-specific data. These concerns included investor confusion & market instability, constraints on competition, and impinging on customer privacy. While APRA's reassurances about the thresholds overcome the issue of customer privacy,[2] the other issues remain.

APRA now proposes to publish entity-specific information on capital adequacy, liquidity, asset quality, financial statements and financial performance. APRA proposes to report this data 40 business days after the end of each quarter. This approach greatly increases the amount of information available to the market on each entity and will increase the resources ADIs must apply to governance, oversight, and investor relations.

A second proposal is for APRA to publish Negotiable Certificates of Deposits in the Monthly ADI Statistics from the end of 2020. ABA members support this proposal without further clarification or input.

An approach which supports APRA's first proposal while overcoming the governance, timing and definitional issues outlined in this letter, is for APRA to publish only Level 2 capital, liquidity and asset quality items aligned with Pillar 3 after all entities have first disclosed the information to market.

Frequency of reporting

APRA's current proposal appears to initiate quarterly market updates. The issue of quarterly reporting is contested in Australia and internationally. An argument in support of quarterly reporting is that greater transparency leads to a more informed and efficient market.[3] A different perspective is that it can lead to increased short-termism as corporations perform to the reported metrics to the detriment of delivering on their longer-term strategy.[4] There is also a risk of investors and analysts taking short term views of ADIs as they move from one quarter to the next.

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[1] APRA has requested a cost benefit analysis to understand the substantive costs of any changes. These costs will differ between ADIs and consequently this submission does not contain this analysis. It should be noted, however, that many ABA members do not consider there to be any benefits to themselves in APRA increasing disclosure of information, though they do understand this is driven by APRA's move to greater transparency. The New Zealand counterparts of some ABA members have found the information useful for benchmarking purposes.
[2] An example of APRA's approach to maintaining confidentiality in reporting can be found in the explanatory notes of their issuance of entity-specific data on loan deferrals https://www.apra.gov.au/temporary-loan-repayment-deferrals-due-to-covid-19-september-2020
[3] In the US context: Singh, M. & Peters, S. (2019) *The case for quarterly reporting and environmental, social, and governance reporting,* CFA Institute, https://corpgov.law.harvard.edu/wp-content/uploads/2019/08/financial-reporting-quarterly-and-esg-2019.pdf
[4] Donaldson, C. (2020) *Why quarterly reporting is undesirable post-pandemic: David Gonski AC,* Media Release, https://newsroom.unsw.edu.au/news/business-law/why-quarterly-reporting-undesirable-post-pandemic-david-gonski-ac

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Currently, ABA members are required to report some capital, liquidity, and asset quality information as part of their Pillar 3 obligations. However, there is no requirement to publish or prepare full sets of financial information on a quarterly basis under the Corporations Act or ASX listing rules.

As not all ADIs make quarterly disclosures there is inconsistency across ADIs as to the extent, frequency and content of current market disclosures. For example, for some ADIs, market updates outside of required reporting periods are done only on a qualitative basis.

If APRA intends to initiate quarterly reporting in a way that is reminiscent of continuous disclosure this would result in a major financial and resourcing impost on all member banks due to increased oversight and governance. ADIs would be required to restructure their current reporting mechanisms to ensure adequate management of detailed quarterly financial data being available to the market.

The ABA supports APRA publishing data on a quarterly basis which is already reported under Pillar 3 requirements.

Timing of reporting

When ADIs disclose capital, liquidity, and financial data, they do so while also providing contextual commentary. Although commentary is not always necessary, it may be required where there are large movements in the data. ABA members consider publishing commentary as most appropriate when done through each ADI's own reporting mechanisms. It is not considered appropriate to provide commentary on any major movements through APRA statistical publications.

It should also be noted that while the ABA supports reporting of capital on a quarterly basis, some capital disclosures are significantly scaled back in off-quarter Pillar 3 reporting. This includes limited L1 disclosures while NSFR is only disclosed at year-end.

The ABA recommends APRA publish data only after ADIs have already disclosed it.

Data definitions

As described in the ABA's original submission, ADI data captured in APRA reporting forms is not always conceptually consistent. Data contained in the Quarterly ADI Publication (QADIP) from which the proposed data constructs have been drawn, has not gone through the same degree of scrutiny as the Economic and Financial Statistics (EFS) which resulted in appropriate convergence of definitions.

There are a number of reasons for the conceptual differences reported by ADIs, including various bilateral and informal agreements between banks and APRA as well as possible definitional issues in legacy returns. The full extent to which the data proposed by APRA to be made non-confidential is conceptually similar or conceptually different is unclear. This raises concerns with banks that APRA might make public information which will be used to compare bank performance that does not accurately depict similarities / differences in ADI metrics due to underlying differences in definitions.

The ABA recommends that before making any data non-confidential or public, APRA conduct their own audit of data definitions to identify and rectify any gaps in the taxonomy. Where any data items do contain different definitions, APRA should either choose not to publish data which is inconsistent or conduct a data review and alter current collection to ensure the data is consistent.

Data exclusions

Some data APRA proposes to publish is problematic and should not be published without further review of the timing and / or data attributes.

The following items should not be published outside of the current semi-annual cycle:

> **Total shareholders equity**: If published on a quarterly basis it would allow market participants to back-solve underlying earnings / profits.
>
> **Minimum targeted HQLA ratio:** The liquidity management strategy per ARS210 is commercially sensitive.

Some of the data constructs APRA proposes to publish contain definitions created for EFS reporting, but do not align with accounting / financial standards. The discrepancies in the definitions may confuse investors if concepts created from EFS definitions are made public, as investors are not familiar with EFS definitions. Therefore, APRA should give further consideration of the definitions / attributes for the following items they propose to publish:

Liquidity Coverage Ratio: Under Pillar 3, LCR is reported on a weight daily average, while it is reported as period end in the ARF 210.

Financial statements and performance: ADI market updates of financial information are usually reporting according to accounting standards which are not always aligned with the definitions used in the EFS data collection.

Levels of publication

It is essential for APRA to have clarity on the definitions of Level 1 & 2 given they do not directly align to the concepts of consolidated and licensed entity. The proposal currently appears to align these concepts.

At its simplest, Level 1 data includes ADI and extended licensed entity subsidiaries, while Level 2 extends this coverage to the consolidated group which can include international entities and other subsidiaries providing financial services. However, complexity in these definitions arise from complexity of different business structures of entities reporting to APRA. For example, some ABA members do not have the ADI as the head entity, given they have a diversified range of product and / or business offerings. This can result in the ADI not being the predominant sub-group in the consolidated entity.

The need for clarity on what is to be made non-confidential and reported is clear in Attachment 2 of APRA's consultation. The current proposal suggests that capital metrics relating to ARF 110 are to be made available for "ARF_110_0_C/L" as well as for "ARF_110_0_1/2". Capital reporting is currently only done at regulatory Level 1 and Level 2. Hence, any requirements to make non-confidential capital data relating to ADI Consolidated entity (C) and / or ADI Licensed entity (L) is incremental to current regulatory reporting requirements. Such metrics do not currently exist and hence significant changes to systems would be required to calculate such items.

Further, Pillar 3 requires entities to publish Level 2 data. APRA's current proposal includes making Level 1 and Level 2 data non-confidential. ABA members support the continuation of publication of only Level 2 data. This is for two reasons:

- Introducing Level 1 publication for Liquidity, Capital and other items will likely confuse investors as they are only familiar with Level 2 APS 330 disclosures.
- There are substantial costs associated with expanding level of governance to include all information that feeds into Level 1 data.

The ABA recommends APRA only make non-confidential and publish Level 2 data.

Non-confidentiality of underlying data items

Many of the constructs to be published are made up of multiple underlying items from APRA forms. For APRA to publish the construct, all underlying items must be made non-confidential. This poses a risk for ADIs in that the more granular data is at risk of being shared or for APRA to choose to publish this data.

The ABA recommends APRA provide written reassurance that the specific items in the forms which are non-confidential but not proposed to be published, will not be published without further consultation.

Yours faithfully,

Michelle Jakubauskas

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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