



17 June 2019

Senior Manager
Regulatory Reporting
Data and Analytics
Australian Prudential Regulation Authority
By email: ADIpolicy@apra.gov.au

Dear Sir/Madam

Re: APRA Consultation on Proposed ARS 722.0 ABS/RBA Derivatives Data Collection

The Australian Financial Markets Association (AFMA) welcomes the opportunity to make comment on APRA's proposals in relation to the draft *Reporting Standard 722.0 ABS/RBA Derivatives (ARS 722.0)*.

AFMA welcomes the work undertaken by APRA to improve the standard. AFMA also commends the decommissioning of Form 90 and supports the agencies efforts to work together to minimise the burden on industry.

While AFMA is supportive of work done, we do have some reservations in relation to the reporting threshold and the implementation timing that we outline in this submission.

AFMA's comments express the views of our foreign ADI membership. We are working on the basis that the Reporting Standard is designed to only capture transactions recorded on the domestic books of a regulated entity.

Reporting threshold

AFMA is of the view that the reporting threshold in ARS 722 may be set too low at \$1.5 billion and should be raised to a minimum of \$5 billion, and potentially higher.

There are a number of reasons why believe this to be the case.

To a reasonable extent a reporting threshold should give firms some predictability around whether they will be required to report each month. Firms that need to report will need to make substantial investments in systems that are capable of making the reports.

Unfortunately, the metric used in the threshold is volatile due to the accounting rules. While the ARF 722 is not designed to reconcile to accounting data, it does use

figures prepared in accordance with accounting standards in determining the threshold for reporting. This threshold can be volatile on a month-to-month basis due simply to counterparty changes or timing differences.

The items reported in 10.3 and 18.8 on AFR 720.0A or 720.0B can move significantly due to the netting principles articulated in the accounting standards which require that firms be able to demonstrate the intention to settle net before netting items on balance sheet. Typically, accounting firms require that derivative contracts have the same maturity date before they can be netted. As a result on a month-to-month basis an entity's balance sheet composition could move significantly simply because of a change in a counterparty or a timing difference.

A higher threshold will, therefore, decrease the number of firms that face uncertainty each month over the need to report. Some firms would bounce in and out of eligibility on a monthly basis at present. At a level of at least \$5 billion, and potentially higher, this is expected to be less of a reporting burden with fewer firms affected, and we anticipate without significantly impacting the quality of consolidated reporting.

AFMA would also request more discussion of the approach for a firm which is close to the threshold. If a firm is over at some points during a quarter and under at quarter end, or over one quarter in three or four, there is the question of whether these firms consider themselves captured by the threshold or not? An approach that allows for firms to predictably plan for inclusion in the threshold should be adopted.

Timing

AFMA would also request that the timeframe for the first submission be adjusted to 30 June 2020 to allow for a year from the close of submissions.

The derivative reporting which is being requested is complex and will require all firms likely to be affected to build reporting solutions directly from derivative systems, rather than relying on output from a general ledger.

As APRA will appreciate, many general ledgers will not contain the transactional data requested at a deal level by the agencies in this reporting, and this will require a large degree of technology work to be completed. Given the substantial development work involved allowing a year for implementation is appropriate.

Recommendations

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| 1. It is recommended that APRA consider raising the reporting threshold in ARS 722 to a minimum of \$5 billion and potentially higher; and |
| 2. It is recommended that APRA consider extending the timeframe for the first submission to 30 June 2020. |

AFMA foreign ADI members welcome the opportunity to provide further feedback on any of the above issues.

Please feel free to contact me should you have further questions at djeffree@afma.com.au.

Yours sincerely

A handwritten signature in black ink that reads "Damian Jeffree". The signature is written in a cursive, flowing style.

Damian Jeffree

Director of Policy and Professionalism