

Financial Sector (Collection of Data) (reporting standard) determination No. 19 of 2017

EXPLANATORY STATEMENT

Prepared by the Australian Prudential Regulation Authority (APRA)

Financial Sector (Collection of Data) Act 2001, sections 13 and 15

Acts Interpretation Act 1901, section 33

Under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001* (the Act), APRA has the power to determine reporting standards, in writing, with which financial sector entities must comply. Such standards relate to reporting financial or accounting data and other information regarding the business or activities of the entities. Subsection 33(3) of the *Acts Interpretation Act 1901* provides that where an Act confers a power to issue an instrument the power shall, unless the contrary intention appears, be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to revoke any such instrument.

On 20 October 2017, APRA made Financial Sector (Collection of Data) (reporting standard) determination No. 19 of 2017, which revokes *Reporting Standard ARS 210.0 Liquidity* made under Financial Sector (Collection of Data) (reporting standard) determination No. 32 of 2014 and determines *Reporting Standard ARS 210.0 Liquidity* (ARS 210.0).

The instrument commences on 1 January 2018.

1. Background

APRA's mandate is to ensure the safety and soundness of prudentially regulated financial institutions so that they can meet their financial promises to depositors, policyholders and fund members within a stable, efficient and competitive financial system. APRA carries out this mandate through a multi-layered prudential framework and is empowered under the *Banking Act 1959* to issue legally binding prudential standards that set out specific prudential requirements with which ADIs must comply.

APRA's prudential framework for ADIs is based on the framework agreed by the Basel Committee on Banking Supervision (Basel Committee). In December 2010, the Basel Committee released *Basel III: International framework for liquidity risk measurement standards and monitoring*¹ (Basel III liquidity), which set out key measures designed to strengthen the liquidity risk profile of banks thereby promoting a more resilient global banking system. These measures include the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). APRA incorporated these measures in the revised *Prudential Standard APS 210 Liquidity* (APS 210).²

¹ The Basel Committee's Basel III liquidity document *Basel III: International framework for liquidity risk measurement, standards and monitoring*, December 2010 is available at: <http://www.bis.org/publ/bcbs188.htm>.

² APS 210 is available at: <https://www.legislation.gov.au/Details/F2017L00047>

ADIs are currently required to report liquidity data to APRA for the purpose of LCR monitoring and general supervision of liquidity risk. The revised APS 210, and in particular the introduction of the NSFR, necessitates changes to align APRA's liquidity reporting requirements with the revised prudential standard. The revised ARS 210.0 will allow APRA to monitor ADIs' NSFR and liquidity profiles as part of the adoption of the Basel III liquidity framework.

2. Purpose and operation of the instrument

The purpose of the instrument is to revoke the existing ARS 210.0 and replace it with a new version of ARS 210.0 that introduces a new reporting form, *Reporting Form ARF 210.6 Net Stable Funding Ratio* (ARF 210.6). In addition, the new version of ARS 210.0 also includes other revisions to the existing reporting forms and instructions including:

- the addition of reporting items to reflect the inclusion of HQLA2B within the LCR;
- the addition of the average and highest LCR ratios over the reporting period, as well as reporting of the LCR for other significant currencies;
- amendments to the reporting of deposit items on the minimum liquidity holdings ratio form;
- revision of the existing balance sheet forms in order to capture contractual cash inflows and outflows and better align with the Basel Committee's monitoring requirements;
- a division between domestic and offshore assets and liabilities and encumbered and unencumbered assets;
- removal of the off-balance sheet exposures form;
- the addition of a large liability exposures table and lowering the threshold for LCR ADIs to one per cent of liabilities to match the Basel Committee's monitoring requirements;
- revision of the existing balance sheet forecast form to align with the revised contractual maturity forms and the addition of more granular reporting of contingent liabilities;
- incorporation of additional reporting items on covered bonds;
- more granular reporting under the daily liquidity report in relation to funding outflows and maturities; and
- other minor amendments across the suite of reporting forms to clarify definitions and to streamline the prudential reporting requirements.

ARS 210.0 collects information from ADIs and the non-operating holding company (NOHC) of an ADI in certain circumstances. This information is used by APRA for

the purpose of prudential supervision, including assessing compliance with APS 210. This information may also be used by the Reserve Bank of Australia. Where ARS 210.0 incorporates by reference the requirements of another Act, Prudential Standard, Reporting Standard or other legislative instrument,³ this is a reference to the instrument as in force or existing from time to time, and is available on the Federal Register of Legislation at www.legislation.gov.au.

3. Consultation

APRA consulted publicly on the proposed amendments to ARS 210.0 from March 2017 to May 2017. A total of eight submissions were received in response to APRA's consultation, which resulted in further guidance and clarification being provided for certain items in the reporting instructions. In July 2017, APRA released a response letter 'Revised liquidity reporting requirements – response to submissions' and final revised ARS 210.0.⁴

4. Regulation Impact Statement

The reporting requirements for APRA's revised liquidity framework were addressed in 'Basel III liquidity: the net stable funding ratio and liquid assets requirement for foreign ADIs' Regulatory Impact Statement (RIS) (Office of Best Practice Regulation ID: 2015/19640).⁵ APRA noted in the RIS that changes to APS 210 would similarly necessitate revisions to the liquidity reporting requirements for ADIs.

5. Statement of compatibility prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

A Statement of compatibility prepared in accordance with Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011* is provided at Attachment A to this Explanatory Statement.

³ Including Accounting Standards made by the Australian Accounting Standards Board (AASB) under section 334 of the *Corporations Act 2001* and auditing standards issued by the Auditing and Assurance Standards Board (AUASB) under section 336 of the *Corporations Act 2001*, all of which are disallowable instruments.

⁴ APRA's response letter 'Revised liquidity reporting requirements – response to submissions' (July 2017) is available at: <http://www.apra.gov.au/adi/PrudentialFramework/Documents/Liquidity%20-%20response%20to%20submissions.pdf>

⁵ The RIS 'Basel III liquidity: the net stable funding ratio and the liquid assets requirement for foreign ADIs' is available at: <http://www.apra.gov.au/adi/Documents/RIS%20-%20NSFR.pdf>

Attachment A

Statement of Compatibility with Human Rights

Prepared in accordance with *Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011*

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This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011* (HRPS Act).

Overview of the Legislative Instruments

The purpose of this instrument is to revoke *Reporting Standard ARS 210.0 Liquidity* made under Financial Sector (Collection of Data) (reporting standard) determination No. 32 of 2014 and determine a new *Reporting Standard ARS 210.0 Liquidity* (ARS 210.0). ARS 210.0 aims to align the reporting requirements of authorised deposit-taking institutions with the revised prudential framework for liquidity and allow APRA to assess compliance with *Prudential Standard APS 210 Liquidity*.

Human rights implications

APRA has assessed the instrument and is of the view that it does not engage any of the applicable rights or freedoms recognised or declared in the international instruments listed in section 3 of the HRPS Act. Accordingly, in APRA's assessment the instrument is compatible with human rights.

Conclusion

The Legislative Instrument is compatible with human rights as it does not raise any human rights issues.