

Regulatory Update

Claire Scott, Grant Thornton Australia and James Corner, Cortell



Regulatory Reporting: APS 310 & RPG 702

RPG 702



EFS Reporting Standards

- ABS, RBA & APRA
- RPG 702 Data Quality for EFS Collection
- Supported by CPG235 Managing Data Risk
- Data Risk Management – risk appetite, controls, monitoring and managing data issues
- Development of quality metrics



Data Quality

- Priority categorisation (Standard, High and very high)
- Data quality benchmarks
- Reporting errors
- APRA notification
- Processes & controls
- Data validation – key control
- Documentation



APS 310 impact

- ARF 720 series
- ARF 210 Liquidity forms in scope
- Directors' responsibilities



Data Quality Benchmarks

Table 1b: Benchmarks for identifying reporting errors for a reporting entity that is not a large institution

Data item type	Priority	As percentage of institutional series (%)	As absolute dollar value (\$ million)
Stock	Very High	2.00	500
	High	10.00	
	Standard	Judgement	
Flow	Very High	10.00	100
	High	20.00	
	Standard	Judgement	

Extract:RPG 702
ABS/RBA Data Quality for
the EFS Collection, April
2018

Updates to Prudential Standard APS 310 Audit and Related Matters

Changes in reporting forms collected under Financial Sector (Collection of Data) Act 2001 (FSCODA) that are subject to audit testing per APS 310 from 1 July 2019 are shown below:

As a part of the EFS implementation, Reporting Form ARF 320.0 Statement of Financial Position (Domestic Books) (ARF 320.0) is revoked, and replaced with three new EFS reporting standards:

- Reporting Standard ARS 720.0 ABS/RBA Statement of Financial Position (ARS 720.0);
- Reporting Standard ARS 720.1 ABS/RBA Loans and Leases (ARS 720.1); and
- Reporting Standard ARS 720.2 ABS/RBA Deposits (ARS 720.2).

Limited Assurance that ADI has controls that are designed to ensure that the ADI Has complied with all applicable prudential requirements and provided reliable data to APRA (Part C of APS 310 opinion).

Data collected under ARS 210.0 for the purposes of the liquidity coverage ratio and net stable funding ratio respectively, are included in the requirements of APS 310.

APRA thus added the following reporting forms to the list of reporting forms subject to reasonable and/or limited assurance under APS 310. The following reporting forms are subject to reasonable and/or limited assurance under APS 310:

- Reporting Form ARF 210.1A Liquidity Coverage Ratio – all currencies;
- Reporting Form ARF 210.1B Liquidity Coverage Ratio – AUD only; and
- Reporting Form ARF 210.6 Net Stable Funding Ratio.



CoreBIS Data Quality – Grant Thornton 28th May 2020

Cortell



- Brisbane, Sydney, Melbourne, Canberra, New Zealand
- Largest solutions provider of IBM Business Analytics in Asia Pacific
 - Platinum and multi award winning partner
 - **2019 IBM Global Award winner for Analytics**
- 1,000 solutions to more than 500 clients over a 18 year period
- Senior consultants: 10+ years experience
- 50 Full time employees; core competencies covering
 - Solution design and delivery across IBM Analytics suite
 - Project management
 - Training
 - Service and support desk

Fantastic customer and reference base



86400



BT - Part of Westpac Banking Corporation **Westpac** GROUP



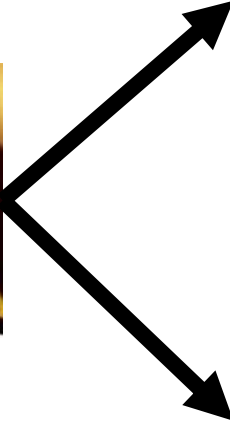
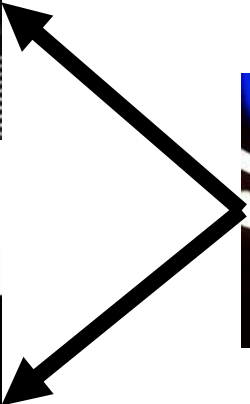
CommonwealthBank

Qualified

Opinion and Conclusions

PART C – Limited Assurance on **Internal Controls** addressing Compliance with Prudential Requirements and Reliability of Data included in ADI Reporting Forms

EFS Context





IMF says ASIC and APRA should lift their game on data and analysis

“The IMF says the data collection and analysis capabilities of our regulators are not up to scratch with their global peers..... Relative to international experience, the assessment identified shortfalls in the **granularity** and **consistency** of data”

Royal Commission

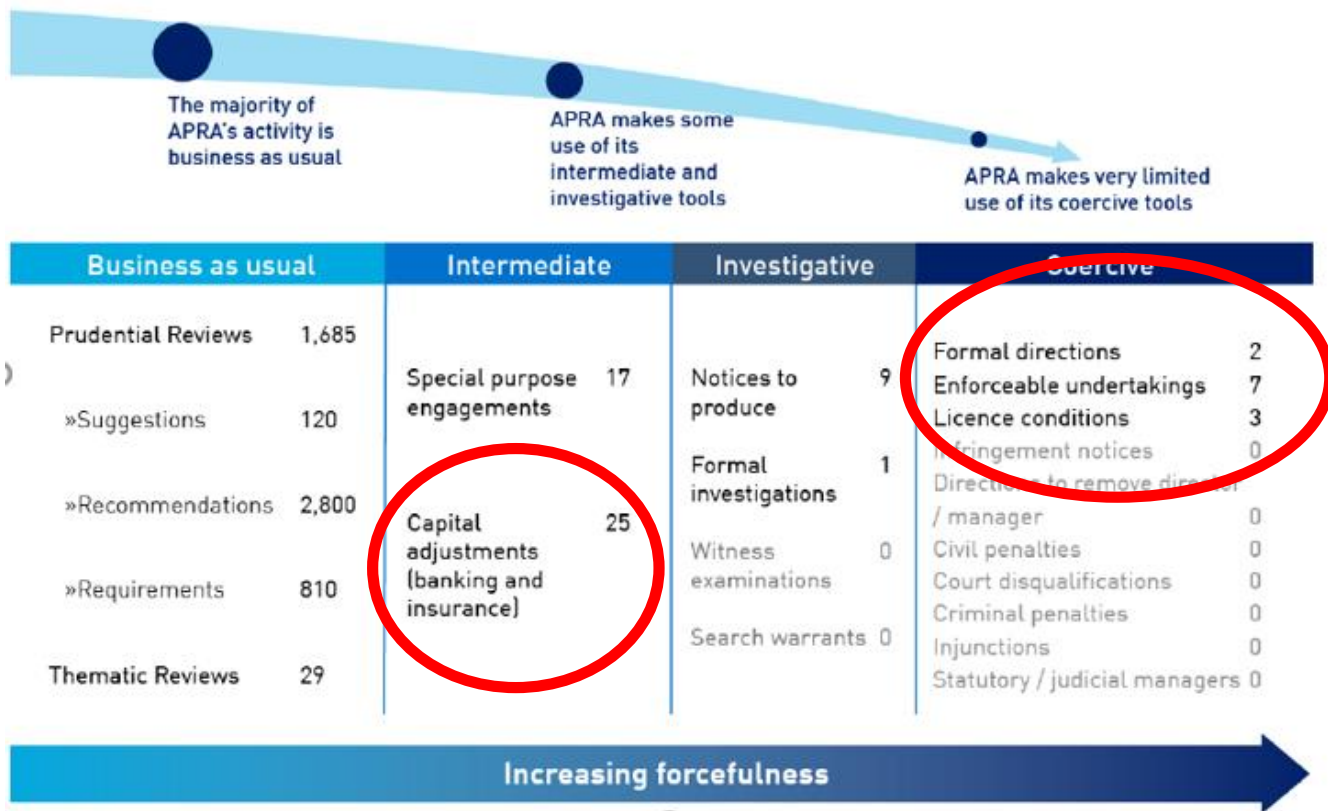


Royal Commission findings

24 individual impacts on APRA

- Culture was a significant cause of many of the findings
 - Hayne cautioned against “box ticking”
 - Changing culture requires “intellectual drive honesty and rigour”
 - APRA requires additional money to monitor culture
- Governance
 - Non financial risks are managed
 - Clear accountability maps
- Key question proposed to regulators – why not litigate?
- New Sweeping powers for the regulators of the financial services sector

APRA's use of the supervisory toolkit 2013 - 2018



Capital impacts – the big lever!

Commonwealth Bank hit with \$1b capital charge after scathing APRA report

The Australian Prudential Regulation Authority (APRA) report chastised CBA for a "slow, legalistic and reactive, at times dismissive, culture" and said "an overly collegial and collaborative working environment [had] lessened the opportunity for constructive criticism, timely decision-making and a focus on outcomes".



UPDATED BUSINESS BANKING & FINANCE HAYNE FALLOUT

Banks' new \$1.5b capital slug a drag on big four's profits

What are APRA going to do?

Constructively Forceful

For industry – and particularly for those entities and individuals failing to meet prudential obligations under legislation and standards – these recommendations mean APRA will:

- **act more quickly** – by being less patient about the time taken to remediate issues;
- **be more forceful** – by being firmer in clearly setting and following up on expectations, and more ready to hold to account; and
- **be willing to set public examples** – by being more transparent and sending strong public messages through enforcement action.

Press coverage



BUSINESS BANKING & FINANCE HAYNE FALLOUT

Westpac faces APRA inquiry as Frydenberg warns heads could roll



Apra also has the power to fine banks for its failings and can apply to the courts to issue fines of up to \$500m.

Westpac hit with a \$1.5m fine from APRA for being late with its paperwork

APRA deputy chair John Lonsdale said the regulator's reporting standards were legally binding in the same way as its prudential standards.

“Access to accurate and timely data is critical for APRA to monitor effectively the safety and stability of the banking, insurance and superannuation sectors,” Mr Lonsdale said.

More Headlines

ABC NEWS

[Just In](#) [Politics](#) [World](#) [Business](#) [Analysis](#) [Sport](#) [Science](#) [Health](#) [Arts](#) [Fact Check](#) [Other](#)

APRA asks ME Bank to explain why it took money from redraw accounts to pay down mortgages

ABC NEWS

[Just In](#) [Politics](#) [World](#) [Business](#) [Analysis](#) [Sport](#) [Science](#) [Health](#) [Arts](#) [Fact Check](#) [Other](#)

APRA puts banks, insurers and super funds on notice, considers extra capital requirements

it continues...



FINANCIAL REVIEW



APRA rejected CBA home loan data as inaccurate and incomplete



FINANCIAL REVIEW



[Companies](#) [Financial Services](#) [Regulation](#)

[Print article](#)

Allianz slapped with new capital requirements over risk governance

Broader impacts



Court actions against Deloitte, EY, KPMG and PwC

Edmund Tadros and **Hannah Wootton**

Updated Sep 21, 2019 — 3.10pm,
first published at May 7, 2019 —
11.28am



Save



Share

The big four consulting firms Deloitte, EY, KPMG and PwC have faced, or are facing, a range of court actions over their auditing and advisory work. A summary of the key cases is listed below (last updated October 15, 2019).



APRA's 2019 – 2023 Strategy

To fulfil our role

... we will build on our solid foundations ...

... and lift our capabilities in key areas ...

... to deliver four important community outcomes.

OUR MANDATE

We **protect the Australian community** by establishing and enforcing prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system

OUR VISION

To deliver a sound and resilient financial system, founded on excellence in prudential supervision.

OUR OPERATING MODEL



People and culture

Risk intelligence and frameworks

Organisational effectiveness and infrastructure

OUR VALUES



Improve and broaden our **risk-based supervision**

Improve our **resolution capability**

Improve our external **engagement and collaboration**

Transform our **data-enabled decision-making**

Transform our **leadership, people and culture**



Maintain financial system **resilience**



Improve **outcomes** for superannuation members



Transform **governance, culture, remuneration and accountability** across all regulated institutions



Improve **cyber resilience** across the financial system

\$200
m

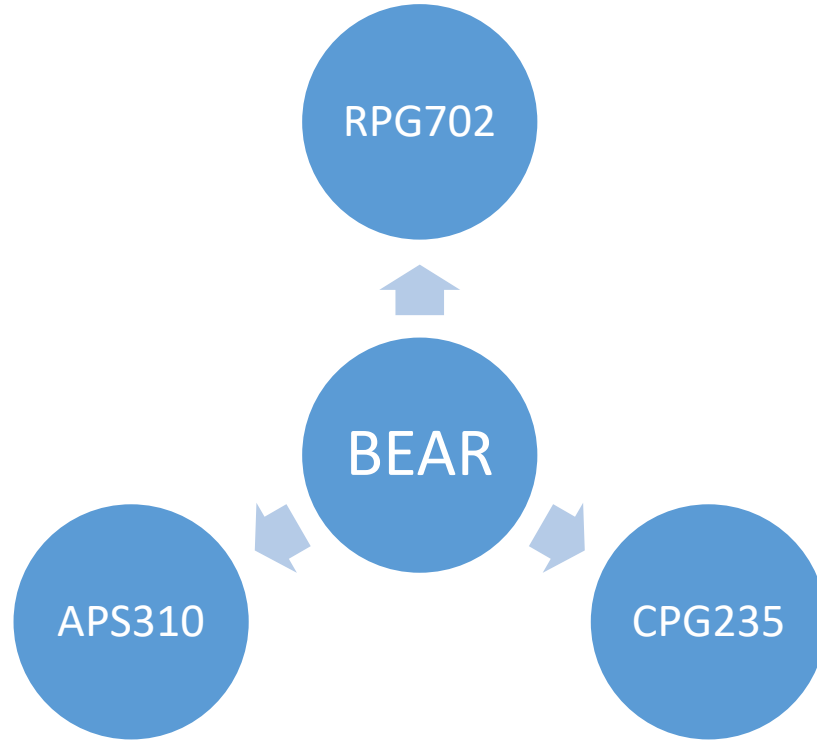
Supervisory Review process

PAIRS AND SOARS going

Supervisory and Risk Intensity

here

Your Accountabilities



BEAR Actionable phrases for CFO's

Your accountability map will most likely include the following specific action orientated words:

- ✓ Delivering
- ✓ Monitoring
- ✓ Approving
- ✓ Reviewing
- ✓ Recommending
- ✓ Challenging
- ✓ Escalating

RPG 702 – Data Quality for EFS Collection

What is RPG702:

- Identifies data elements across EFS Forms as:
 - Very high priority
 - High priority
 - Standard
- Provides benchmark tolerance levels based on:
 - data element priority
 - stock, flows, bps
 - Size of organisation

RPG 702 Benchmarks

Data item type	Priority	As percentage of institutional series (%)	As absolute dollar value (\$ million)		
Stock	Very High	2.00	500		
	High	10.00			
	Standard	Judgement			
Flow	Very High	10.00	100		
	High	20.00			
	Standard	Judgement		Priority	In basis points
				Very high	10
				Standard	20

Key Points on Data Quality

- Data Quality is across data life cycle management, including, but not limited to; data processing, retention, preparation and submission of reports
- APRA and the agencies also expect that entities escalate knowledge of frequent or large reporting errors.
- clients should still undertake thematic reviews of data items incorporating a deep data dive.
- for standard priority items, APRA suggests having a policy in place for the monitoring of these data points

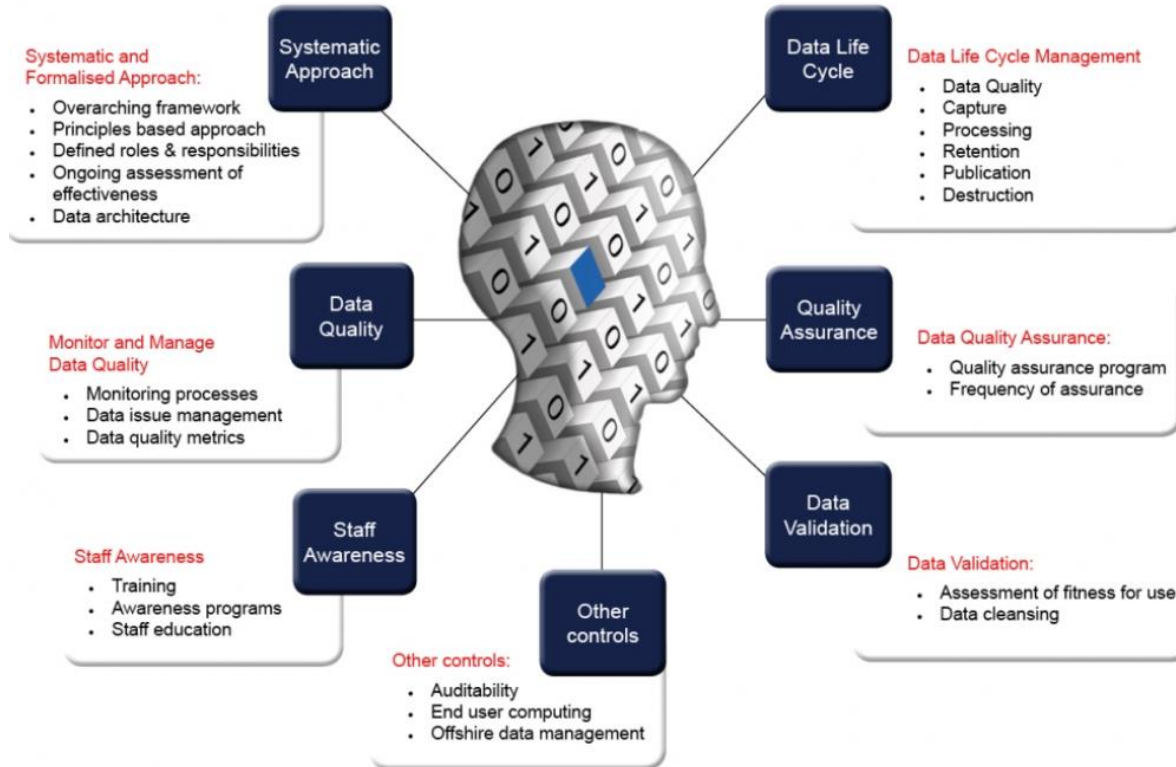
Why would we matter?

Benchmarks for other reporting entities are aimed at identifying reporting errors relevant to the internal consistency of the entity's series and reporting errors that could affect the

industry aggregate results if occurring across

several entities simultaneously”

CPG235 – Managing Data Risk



RPG702 and CPG235 interaction

- Taking a structured and principles-based approach
- Risk appetite and controls
- Data validation
- Monitoring and managing data issues
- Assurance

APS 310 Audit requirements

- EFS incorporated into APS310 requirements
- The intention is to provide a clear indication of the prioritisation of data items for data quality
- APRA expects that auditors will take account of RPG702.0 and CPG235 as part of its auditing of reporting entities
- qualifications are likely to increase with the introduction of the new collection

APRA Expectations

- regulated entities will implement processes that ensure compliance with data risk management requirements
- Typical this includes:
 - ongoing checks by the compliance function (or equivalent),
 - supported by reporting mechanisms (e.g. metrics, exceptions) and management reviews.

CoreBIS

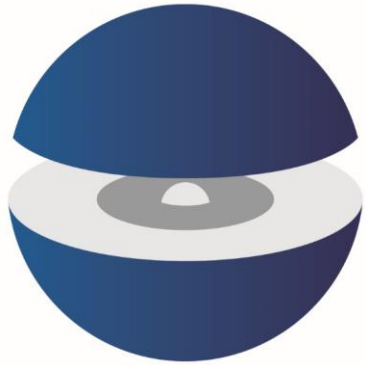


3 Points to get started

It's a journey:

1. Data risk framework
2. Data quality metrics
3. Start reporting





Cortell
Australia

Thank you

Questions

If you would like to find out more, please get in touch.



Claire Scott

Partner & Head of Banking

+61 2 8297 2469

claire.scott@au.gt.com



James Corner

Business and Product
Development Manager

james.corner@cortell.com.au



© 2018 Grant Thornton International Ltd. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.