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Dear Alison

Economic and Financial Statistics: Proposed Changes to Reporting Consolidation for Securitisation Special Purpose Vehicles (SPVs)

We refer to APRA's attached letter dated 1 May 2019 and thank you in advance for inviting consultation on the proposed changes to reporting requirements for registered financial corporations (RFCs) that are not a related party of an authorised deposit-taking institution (ADI) in relation to the Economic and Financial Statistic (EFS) data collection, relating to the consolidation of securitisation SPVs. We greatly appreciate your time and interest in understanding more about our industry and how any proposed changes to the current data collection framework may impact market participants.

Background

APRA collects data on the domestic operations of RFCs on behalf of the Australian Bureau of Statistics (ABS) and the Reserve Bank of Australia (RBA). These data points are used extensively for policy analysis, and as inputs to Australia's monetary and credit aggregates and the national accounts. APRA also uses this data to monitor the financial stability impacts of RFCs which includes non-ADI lenders. To assist in improving the collection of RFC data, APRA is proposing changes to the treatment of SPVs in the EFS data collection.

Current treatment of securitisation SPVs

In January 2017, the ABS, the RBA and APRA (collectively '*the agencies*') commenced consultation on the modernised EFS data collection. The consultation package included 21 reporting standards. These included a common set of definitions in Reporting Standard ARS

701.0 ABS/RBA Definitions for the EFS Collection (ARS 701.0), accompanied by Reporting Practice Guide RPG 701.0 ABS/RBA Reporting Concepts for the EFS Collection (RPG 701.0). The EFS data collection relates to the 'domestic books' of reporting entities. This is defined in ARS 701.0 for RFCs as an unconsolidated report of transactions and positions with resident and non-resident counterparties, recorded on the Australian books of RFCs. RFCs over certain reporting thresholds, based on the size of domestic book assets held, are required to report under the various reporting standards.

Reporting under the EFS is dependent on the size of the entity. For example, the EFS reporting standards have thresholds which are based on the size of on-balance sheet assets. Larger entities are typically required to report both more data and more granular information while smaller entities report less detailed information, or do not report at all. SPVs often do not meet the reporting thresholds across various reporting standards on an individual entity basis despite being above the threshold if the related entities were to report as an aggregated group. This creates gaps in the agencies' published statistics and policy analysis.

The agencies are proposing changes to ARS 701.0 and consequential changes to RPG 701.0. These changes will require an RFC that is not a related party of an ADI to consolidate the positions and transactions of all securitisation SPVs in a single set of reporting for EFS. These changes will not apply to an RFC that is a related party to an ADI. The assets and liabilities of securitisation SPVs will therefore be consolidated on to the domestic books of the RFC. Assets originated into, or transferred to, an SPV will be included in the RFC's reporting.

The requirement for an external auditor's report as set out in Standard RRS 710.0 Audit requirements for Registered Financial Corporations – EFS collection will apply to the reporting RFC, and not the individual SPVs. The proposed changes are intended to take effect for reporting periods ending after 1 July 2019.

Relevance to the Australian Securitisation Forum (ASF)

The ASF is the preeminent industry association representing the securitisation industry in Australia. A large number of our members are non-bank lenders that meet the definition of an RFC and therefore this proposed change will have a significant impact on the reporting required from members. As a result, we believe clarity from APRA on a number of matters raised by the proposed changes would be pertinent and necessary.

Consolidation obligations

We understand that the proposed changes will require non-bank RFCs to consolidate the positions and transactions of all securitisation SPVs in a single set of reporting for RFCs. We understand and support the rationale behind this, to enable the agencies to better understand the extent of non-ADI lending and the entities that provide flexibility and alternative products to the Australian market through the non-ADI lending market.

The proposed rules are that the reporting would be for a RFC's consolidated report of positions, transactions and other information recorded on the Australian books of:

- The registered entity as per the *Financial Section (Collection of Data) Act 2001*; and

- *Resident SPVs that are controlled entities of the RFC.*

In general, the ARS 701.0 definitions require that an RFC does not consolidate positions, transaction and other information recorded on the books of other related parties (such as subsidiaries or parent entities) and of overseas-based entities. However, where an RFC elects to report on behalf of a group of RFCs, these entities are to be consolidated for reporting purposes.

Controlled entities as per Reporting Standard ARS 701.0 *ABS / RBA Definitions for the EFS Collection* defines control by reference to Australian Accounting Standards, specifically AASB 3 Business Combinations, AASB 10 Consolidated Financial Statements, AASB 127 Separate Financial Statements and AASB 128 Accounting for investments in Associates.

This would appear a sensible definition of control to align with data collection for financial statement reporting purposes and audit requirements already incurred by RFCs. However, there are still a number of complexities that we wish to raise:

The first is the question of the level of consolidation. For financial reporting (accounting) purposes, consolidation generally occurs at the level of the highest Australian parent entity for the purposes of filing with ASIC, and for users of securitisation SPVs, this would include the consolidation of those SPVs for which the parent entity or Group were determined to control the SPV under AASB 10. We note however that there may be a discrepancy between the parent entity for financial statement reporting purposes, and the legal entity registered as the RFC due to the definition of an RFC.

Under the *Financial Sector (Collection of Data) Act 2001*, a registrable corporation is one that engages in the provision of finance in the course of carrying on business in Australia. This does not necessarily equate to the same legal entity within a financial reporting group that is the parent or head entity for financial reporting purposes. For those RFCs where the RFC entity is not the head entity in a Group, and may instead be a trustee, or originating subsidiary entity, it does not necessarily follow that that specific legal entity will control (under the accounting standard definitions) the SPVs associated with the assets it controls. Therefore there is a concern that the application of the proposed rules as currently defined may create additional administration and burden as for some entities it may involve additional 'sub-consolidations' or 'regulatory consolidations' separate to those required for financial reporting purposes, or alternatively, application of the accounting rules to the registered RFC would not result in the reporting of the SPVs that APRA is aiming to capture, as the registered RFC legal entity may not own or control those SPVs.

Multiple RFCs and Completeness of Information

We note that for a number of non-bank lenders that are listed as RFCs, there is more than one registered RFC for that organisation, as different legal entities have been registered for different purposes. Additional clarification on approach would be beneficial for such entities to ensure that if data is collated on behalf of each RFC, there are clear guidelines to avoid double counting or inconsistency in application where an RFC may be included in multiple consolidations. This is particularly relevant where the existence of multiple RFCs further

indicates that reporting at an RFC reporting group level as per the 'RFC reporting as a group' guidance in RPG 701.0 may not align with the entity grouping used for financial reporting consolidation under the Australian Accounting Standards. Whilst we would assume that for ease of reporting, most organisations with multiple RFCs would apply the 'RFC reporting as a group' guidance, if they chose to still report individually, this may mean that the individual RFCs are not determined to control the SPVs that APRA is aiming to capture.

We additionally raise to APRA's attention that there are a number of SPVs established by RFCs in the market which do not meet the definition of controlled entities under the accounting standards. As these SPVs are not captured in the financial reporting of the relevant RFC, the SPVs may not be captured under the EFS data collation process. APRA should therefore be aware that its ability to obtain a complete holistic view of the non-ADI lender originated assets held in SPVs may be limited.

We would therefore suggest that where one or more RFCs are registered within a financial reporting group, the data collection for EFS is instead defined at a financial reporting group basis rather than at an RFC level. APRA should also be aware, that if this suggestion is implemented, certain off-balance sheet SPVs would not be captured. We would therefore recommend APRA consider how they will capture such SPVs with the current proposed reporting requirements if they do not meet the definition of related parties under ARS 701.0 and believe guidance with worked examples would be beneficial for RFCs to ensure there is completeness of industry oversight.

Auditing obligations

The ASF notes that the new *Reporting Standard RRS 710.0 ABS/RBA Audit Requirements for Registered Financial Corporations – EFS Collection* (RRS 710.0) will require the RFC to have aspects of its EFS reporting subject to audit and review by its external auditor. Under RRS 710.0, the 'relevant time for the RFC' is dependent on the size of the RFC and its reporting obligations within paragraph 9 of *Reporting Standard ARS 720.0 ABS/RBA Statement of Financial Position (ARS 720.0)*. RFCs with total assets greater than or equal to \$400m are required to have their information in the reporting standard audited or reviewed as at the year end of the RFC whilst RFCs with total assets less than \$400m, the audit report is in respect of reporting at the end of December.

The ASF questions the rationale behind the difference in approach based on the size of the RFC. Most Australian RFCs, though not all, have a 30 June year end reporting requirement, and therefore it is at this time that the consolidated data, and the processes for collation and reporting of this data for these entities is already well established and being subject to other statutory and non-statutory audit requirements. The additional requirements under RRS 710.0 are therefore most practically applied at the point in time when the entity is already preparing financial data and undergoing other audit procedures.


By contrast, the nature of the definitions in paragraph 9 of ARS 720.0 mean that those RFCs with total consolidated assets of less than \$400m will be more likely to be smaller RFCs, likely with less sophisticated reporting teams and less experience of being subject to detailed systems and control reviews. With this in mind, our interpretation of paragraph 17a of RRS

710.0 is that the relevant time for Auditor reporting obligations varies depending on whether the RFC meets the requirements of paragraph 9a (which defines relevant time with respect to financial year end) or 9b of ARS 720.0 (which references December). By requiring the Auditors report to assess information for these smaller entities as at the December month, for many RFCs this will not align to their financial reporting requirements and in essence require them to undergo a second audit each financial year at additional administrative burden and cost, whilst still also requiring the Auditor to report on systems, processes and internal controls with respect to the RFC's financial year in line with paragraph 16b (iii) of RRS 710.0. We respectfully question the rationale behind the decision to specify a December period end, and the additional benefit obtained by APRA if the EFS reporting does not align to financial reporting. We recommend that alignment with financial year end reporting requirements for all RFCs, regardless of size would be the most pragmatic means of implementation.

We hope that the information contained in this letter assists APRA in its understanding of the Australian securitisation market and the impact its proposed amendments may have on participants. We understand the desire of APRA to gain greater oversight and understanding of the level of finance provided outside the ADI market, and therefore believe that a focus on the desired outcome is a preferable approach, rather than focusing on reporting at an individual RFC level. We would be delighted to explore further with APRA on the matters raised in this letter if that would be of interest.

Thank you for considering the information contained herein. Please do not hesitate to contact us if further information about the Australian securitisation market and the reporting obligations of participants would be of assistance.

Yours sincerely



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1 May 2019

TO: ALL REGISTERED FINANCIAL CORPORATIONS (RFCs)

ECONOMIC AND FINANCIAL STATISTICS – PROPOSED CHANGES TO REPORTING CONSOLIDATION FOR SECURITISATION SPECIAL PURPOSE VEHICLES (SPVs)

The Australian Prudential Regulation Authority (APRA) has today released for consultation proposed changes to reporting requirements for RFCs that are not a related party of an authorised deposit-taking institution (ADI). APRA is proposing changes to the Economic and Financial Statistics (EFS) data collection, relating to the consolidation of securitisation SPVs.

Background

Non-ADI lenders make up an important segment of the Australian financial system. Recently, there has been an increase in the volume of lending originated by such lenders, notably through securitisation.

In March 2018, amendments to the *Financial Sector (Collection of Data) Act 2001* broadened the scope of entities that must report information to APRA. These amendments were made to allow APRA and the Council of Financial Regulators to better monitor the financial stability impacts of non-ADI lenders and to determine appropriate actions if needed to address a potential increase of risk in this sector.

APRA collects data on the domestic operations of RFCs on behalf of the Australian Bureau of Statistics (ABS) and the Reserve Bank of Australia (RBA). These data are used extensively for policy analysis, and as inputs to Australia's monetary and credit aggregates and the national accounts. APRA also uses these data to monitor the financial stability impacts of non-ADI lenders. To assist in improving the collection of RFC data, APRA is proposing changes to the treatment of SPVs in the EFS data collection.

Current treatment of securitisation SPVs

In January 2017, the ABS, the RBA and APRA (collectively 'the agencies') commenced consultation on the modernised EFS data collection.¹ The consultation package included 21 reporting standards. These included a common set of definitions in *Reporting Standard ARS 701.0 ABS/RBA Definitions for the EFS Collection (ARS 701.0)*, accompanied by *Reporting Practice Guide RPG 701.0 ABS/RBA Reporting Concepts for the EFS Collection (RPG 701.0)*.

The EFS data collection relates to the 'domestic books' of reporting entities. This is defined in ARS 701.0 for RFCs as an unconsolidated report of transactions and positions with resident and non-resident counterparties, recorded on the Australian books of RFCs. RFCs over certain reporting thresholds, based on the size of domestic book assets held, are required to report under the various reporting standards.

Reporting under the EFS is dependent on the size of the entity. The EFS reporting standards have thresholds, for example, based on the size of on-balance sheet assets. Larger entities

¹ <https://www.apra.gov.au/modernised-economic-and-financial-statistics-efs>

are required to report more detailed information while smaller entities report less detailed information, or do not report at all. SPVs are often individually smaller than the size thresholds in reporting standards despite being above the threshold if the related entities were to report as a group. This creates gaps in the agencies' published statistics and policy analysis.

To address this limitation, a number of RFCs have been granted exemptions from the deconsolidation requirement.

Proposed changes

The agencies are proposing changes to ARS 701.0 and consequential changes to RPG 701.0. These changes will require an RFC that is not a related party of an ADI to consolidate the positions and transactions of all securitisation SPVs in a single set of reporting for EFS. These changes will not apply to an RFC that is a related party to an ADI.

The assets and liabilities of securitisation SPVs will therefore be consolidated on to the domestic books of the RFC. Assets originated into, or transferred to, an SPV will be included in the RFC's reporting.

The requirement for an external auditor's report as set out in *Standard RRS 710 Audit requirements for Registered Financial Corporations – EFS collection* will apply to the reporting RFC, and not the individual SPVs.

The proposed changes are intended to take effect from the reporting period ending 31 July 2019. At this point, the existing individual reporting exemptions noted above will be revoked or amended as necessary.

Consultation period

Feedback is sought from RFCs and other interested parties on the proposed changes.

The proposed changes that form part of this consultation are marked up in documents available on the APRA website at <https://www.apra.gov.au/modernised-economic-and-financial-statistics-efs>.

Submissions on the proposed changes should be sent to DataAnalytics@apra.gov.au by 1 June 2019 and addressed to:

Senior Manager
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Yours sincerely,

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General Manager
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Important disclosure notice – publication of submissions

All information in submissions will be made available to the public on the APRA website unless a respondent expressly requests that all or part of the submission is to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain in confidence should provide this information marked as confidential in a separate attachment.

Submissions may be the subject of a request for access made under the *Freedom of Information Act 1982* (FOIA). APRA will determine such requests, if any, in accordance with the provisions of the FOIA. Information in the submission about any financial sector entity that is not in the public domain and that is identified as confidential will be protected by section 56 of the *Australian Prudential Regulation Authority Act 1998* and will therefore be exempt from production under the FOIA.