



18 October 2017

Manager
Data Collection Design
Australian Prudential Regulation Authority
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SYDNEY NSW 2001

By email: DataAnalytics@apra.gov.au

Dear Sir/Madam

**Consultation on RPG 702.0 ABS/RBA Data Quality for the EFS Collection
and
Reporting Standard RRS 710.0 ABS/RBA Audit requirements for Registered Financial
Corporations**

The Australian Financial Markets Association (AFMA) welcomes the opportunity to make this submission commenting on the draft RPG 702.0 ABS/RBA Data Quality for the EFS Collection.

AFMA welcomes the revised approach adopted in the draft Reporting Practice Guide as part of the agencies' response to the consultation on the Economic and Financial Statistics collection. In particular, the adoption of qualitative guidance to replace the previously proposed quantitative standard provides a more workable framework within which to manage the assurance of data quality.

AFMA members seek clarity in relation to the following issues raised by the draft RPG. Ideally, these issues would be addressed in a formal written response to this consultation or through the publication of a FAQ document to accompany the release of the final version of RPG 702 and RRS 201.

1. Errors and Resubmissions

The guide refers to 'errors' as occurring 'when a data item is considered to be outside the agencies' expectations of data quality, in the context of the benchmarks.' The glossary further defines errors as 'a difference between the data reported to APRA and the data required to be reported to APRA as set out in the relevant reporting standards and guidance documents. An error may arise at any point in the data's life cycle, including, but

not limited to, data capture, processing, retention, preparation and submission of reports.'

AFMA members maintain that rather than characterising these differences as 'errors,' it would be more consistent with the qualitative nature of the overall data assurance framework to refer to these differences as 'variations' from the proposed data quality benchmarks.

An 'error' implies a difference between an observed or calculated value and a 'true' value, whereas the data quality framework is built around expectations and benchmarks that are meant to be indicative rather than absolute standards. The draft RPG is intended to describe forward-looking practices around the management of data quality risk rather than a description of operational practices. In this context, 'error' is not an accurate characterisation of data quality and is somewhat pejorative.

It is the understanding of AFMA members that 'errors' as defined above based on the draft thresholds will not require resubmission of data. Instead, the thresholds are intended to trigger a reassessment of the data governance and control environment, as well as notification to APRA. AFMA members would appreciate written clarification that this is the case.

2. Audit Materiality and Benchmarks

AFMA members also maintain that the proposed benchmarks will create a number of issues with the current audit framework that is applied to APS310 and request:

- (a) That the proposed benchmarks be adjusted or removed; and
- (b) Written clarification that any proposed benchmarks will not drive decisions around materiality for audit purposes.

Categorising items outside data quality benchmarks as 'errors' is inappropriate as the proposed benchmarks are too low and they do not appropriately consider the differences in information at form cell level, category (class) or total level, and whole form level.

Normal concepts of audited financial statements recognise the inherent difficulty and cost required to achieve equivalent levels of accuracy and audit assurance with component information (single lines, or in EFS terms, form cells) rather than grouped totals like classes of assets or liabilities, or for information as a whole (financial statement level, or whole form level). Materiality concepts are applied to the reporting of individual line items very differently to classes or totals, or to financial statements as a whole. Audit assurance is provided for information as a whole, and not separately on each of its component elements.

APRA already treats 'of which' lines in its other data collections in this way and preparers are allowed more latitude with the accuracy of micro-level component data (i.e. at the form cell level).

The proposed framework for categorisation of 'errors' draws a bright line for data in each form cell at a very low level, which is unlikely to be capable of being audited in practice to the level of accuracy and assurance expected by APRA.

It is recommended that APRA remove the benchmarks as they are currently constituted because their construction effectively dictates a different level of assurance than the reasonable assurance which is provided under existing audit frameworks. Auditors will not be able to conduct their work under their current standards and guidance without having regard to the very low level benchmarks set by APRA and so materiality as a concept at the financial statement level or whole form level may effectively become redundant. This would give rise to significant expense and reporting institutions would have difficulty in complying.

If benchmarks are not to be removed entirely, APRA should adopt accuracy concepts rather than 'error' thresholds that are capable of being audited at a whole form level, with appropriate consideration given to the level of accuracy and audit assurance applied to totals and form cells. This will enable audit firms to provide reasonable assurance audit opinions (consistent with APS 310) within the required time frames and at a cost that is manageable. It would also allow for developments in interpretation - for example as new products emerge - and improved data quality over time, given the non-financial nature of most of the EFS data collection.

3. Data Quality Benchmarks

The data quality benchmarks proposed under Tables 1 and 2 in Attachment A remain unchanged from ARS 702.0. As already noted, the benchmarks are set at a very low level and are significantly more stringent than the accuracy threshold used by external auditors for the statutory audit of financial statements or the APS 310 audit.

This significantly increases the investment and resource allocation required to support this reporting practice. While not all of the practices outlined in the draft RPG will be relevant for every EFS reporting entity and some aspects may vary depending upon their size, complexity and system configurations, the proposed data quality benchmark doesn't provide sufficient flexibility based on the size of entity. Medium and small ADIs and RFCs are categorised as 'an ADI and RFC that is not a large institution' and subjected to the same data quality benchmarks even though they may have minimal impact on industry aggregates.

The RPG could instead draw more closely on the principles-based approach of Prudential Practice Guide 235 Managing Data Risk (CPG 235) rather than using quantitative metrics for data accuracy benchmarks. This would be more consistent with the overall approach to data quality taken in draft RPG 702.

As currently presented, the RPG 702.0 data quality benchmarks are confusing. The definition preceding RPG 702.0 Table 1 states that a data item expressed as a dollar value, count or proportion is considered to be outside agency expectations of data quality if an error in that data item exceeds the benchmarks:

- in Table 1 specified in (1a) and (1b); or
- in Table 1 specified in (2)".

The definition preceding Table 1 then states:

'For data items reported as a dollar value, refer to the percentage and absolute dollar benchmarks. For data items reported as a count or as a proportion, refer only to the percentage benchmarks.'

While the earlier part of the definition requires considering (1a) and (1b), or (2), the latter guidance states that if the data item is a dollar value, the preparer must refer to the percentage and absolute dollar benchmarks, which would mean applying (1a) and (1b), and not (2) as that is only an absolute dollar value expression.

When looking to apply the earlier part of the definition to data items reported as a count or proportion, the latter guidance states that preparers must only refer to the percentage benchmarks, which means only (1b) – that is contradictory to the earlier part of the definition which requires considering part (1b) in conjunction with (1a).

Within Table 1, the description of section (1a) is '[b]enchmarks for errors that are within agency expectations.' This adds further confusion when looking to apply a 'within expectation' concept to that of errors which are 'considered to be outside agency expectations.'

This presentation needs to be revised to ensure that APRA's guidance is clear, unambiguous and accessible to avoid having to make interpretations about guidance before applying that guidance to actual data.

4. Reporting Standard RRS 710.0

The first sentence of paragraph 9 of the draft standard states that '[a]n RFC must ensure that the Auditor is fully informed of all reporting requirements applicable to the RFC.' This could be construed so as putting an obligation on the RFC to educate its auditors on the reporting standards, rather than simply management's view of what reports it needs to submit. AFMA members request that this be reworded.

5. Reporting Standard ARS 747

The draft ARS Reporting Standard ARS 747 states that '[t]his Reporting Standard applies for reporting periods ending on or after 31 October 2018.' This form appears not to have been updated for the revised implementation timetable. This should be clarified.

6. Taxonomy Availability

AFMA would welcome advice on when a taxonomy will be published for the EFS collection to facilitate planning for those intending on using a taxonomy-based approach to submissions.

7. Worked Proxy Examples

The RPG 702.0 guidance on use of proxy methodologies would benefit from worked examples to make it clear. As written it is not entirely clear how APRA will assess proxy-related errors in practice. Clarification of what is intended, with a worked example, will provide clearer industry guidance that is less likely to be misinterpreted, or inconsistently interpreted by different preparers, especially in the earlier stages of EFS submissions, when it is important to develop consistency across different submitters.

8. Reporting Thresholds

AFMA welcomes the upward revision of reporting thresholds so that ADIs with less than \$25 billion in deposits no longer need to submit cost/value of funds and margin data in the new reduced versions of the Stocks, Flows and Interest Rate Forms.

At the same time, AFMA notes that some smaller ADIs are either just above or close to this threshold, yet constitute a very small share of these aggregates. The reporting thresholds impose a significant compliance burden on these entities, but with little benefit to data quality.

While not within the scope of the consultation on draft RPG 702, AFMA recommends that reporting thresholds for these forms should be aligned to the \$100 billion threshold adopted by the Major Bank Levy, applied to total assets rather than liabilities.

9. Implementation Working Groups and Peer Workshops

AFMA welcomes the agencies' commitment to engage with members through implementation working groups and peer workshops to address issues that will inevitably arise through the implementation phase. However, there is some concern that there is not a clear process for identifying these issues and consulting on a timely basis.

AFMA seeks further clarification of how the proposed engagement framework will be implemented and utilised. We are happy to provide assistance in co-ordinating and convening the working group and workshops.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stephen Kirchner', with a long horizontal flourish extending to the right.

Dr Stephen Kirchner
Economist